



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)



2021 ANNUAL REPORT

**For identification purpose only*

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SUMMARY OF AUDITED FINANCIAL FIGURES

As at and for the year ended December 31	2021 (\$000s)	2020 (\$000s)	2019 (\$000s) (Restated)	2018 (\$000s)	2017 (\$000s)
Cash and cash equivalents	312	838	1,254	583	3,671
Current restricted cash and cash equivalents	—	—	—	—	—
Non-current restricted cash and cash equivalents	—	—	—	—	—
Exploration and evaluation assets	255,696	256,195	253,144	269,218	268,227
Property, plant and equipment	477,624	481,825	479,055	492,815	507,416
Total liabilities	579,357	596,240	601,773	527,328	428,787
Shareholders' equity	176,367	165,420	158,885	251,953	356,569
Net profit / (loss)	1,122	1,983	(97,585)	(126,996)	(281,852)
Net profit per share (CAD Cents per basic and diluted share)	0.69	1.72	(1.57)	(2.00)	(5.00)

Note

- (1) The Company implemented a Share Consolidation on the basis that every fifty (50) Existing Shares be consolidated into one (1) Consolidated Share, effective on February 26, 2020 (Hong Kong time)

MESSAGE TO SHAREHOLDERS

For three and twelve months ended December 31, 2021, the Company's average bitumen production was 0 bbls/day. The bitumen is blended with diluent as part of the production process to create the marketable "Dilbit" blend product. Diluent was blended at 19.6% volumetric rate for the twelve months ended December 31, 2020. The average Dilbit sales volume was 0 bbls/day and 7 bbls/day for the three and twelve months ended December 31, 2021.

Sunshine's Capital Raising Activities

In relation to the "Chairman CB" issued on June 15, 2020 (see "2020 activity" for details), Mr. Kwok Ping Sun made application to the Securities & Futures Commission of Hong Kong ("HKSF") for a Whitewash Waiver. The Whitewash Waiver was conditionally granted by HKSF on March 4, 2021. The Conversion and the Whitewash Waiver was approved by the independent shareholders at the Special General Meeting on March 5, 2021. On April 7, 2021, the Conversion was completed and 113,924,051 new shares were duly allotted and issued to the Subscriber.

Summary of Financial Figures

As at December 31, 2021 and December 31, 2020, the Corporation notes the following selected balance sheet figures.

<i>(Canadian \$000s)</i>	December 31, 2021	December 31, 2020
Cash	312	838
Trade and other receivables	2,290	1,636
Exploration and evaluation assets	255,696	256,195
Property, plant and equipment	477,624	481,825
Total liabilities	579,357	596,240
Shareholders' equity	176,367	165,420

Operating Netback

<i>(\$ thousands, except \$/bbl)</i>	For the three months ended December 31,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Realized bitumen revenue	\$ -	\$ 78	\$ 144	\$ 2,340
Transportation	-	-	(45)	(2,527)
Royalties	-	-	(1)	(5)
Net bitumen revenues	\$ -	\$ 78	\$ 98	\$ (192)
Operating costs	(2,456)	(1,518)	(7,724)	(9,722)
Operating cash flow ¹	\$ (2,456)	\$ (1,440)	\$ (7,626)	\$ (9,913)
Operating netback (\$ / bbl)	-	-	(3,119.41)	(115.01)

1. Operating cash flow is a non-GAAP measure which is defined in the Advisory section of the Management Discussion and Analysis.

The operating cash flow for the three months ended December 31, 2021 was a net loss of \$2.5 million compared to a net loss of \$1.4 million for the three months ended December 31, 2020. There was no disclosure on operating netback per barrel for 4Q21 as there was zero dilbit sales for 4Q21 after the temporary suspension of production since March 31, 2020.

The operating cash flow for the twelve months ended December 31, 2021 was a net loss of \$7.6 million compared to a net loss of \$9.9 million for the twelve months ended December 31, 2020. Operating netback loss per barrel basis increased by \$3,004.40/bbl to a loss of \$3,119.41/bbl from a loss of \$115.01/bbl for the year ended December 31, 2021. The increase in the loss of operating cash flow per barrel is primarily due to significant decrease in dilbit sales volume.

Reserves and Resources

Reserves and resources evaluations, dated December 31, 2021, were completed by independent evaluators, GLJ Ltd and Boury Global Energy Consultants Ltd. The following tables summarize the overall reserves information as well as contingent resource volumes.

	Reserves (Bitumen)					
	Proved (1P)		Proved Plus Probable (2P)		Proved Plus Probable Plus Possible (3P)	
	Gross (MMbbls)	PV10% (\$MM)	Gross (MMbbls)	PV10% (\$MM)	Gross (MMbbls)	PV10% (\$MM)
Total	24.563	24.286	115.146	315.424	172.183	598.358

In the 2021 GLJ report, the properties were evaluated with improved oil pricing compared to 2020. West Ells was assigned with reserve volumes in 2021. The assessment of Greater Legend Lake and Thickwood were still sub-economic and thus there were no reserves and contingent resources volumes reported for Thickwood. No exploratory or development wells were completed by the Corporation in 2021.

2022 Outlook

Sunshine will continue to focus on cost controls and carefully monitor developments in crude oil markets as well as the development of COVID-19 pandemic in North America. The Corporation's production resumption is on track. The Corporation is working with its joint venture partner for re-activation of the Muskwa and Godin Area activities.

Acknowledgements

We would like to thank our Board of Directors, our staff and our stakeholders for their continuing support in advancing our corporate initiatives during a challenging commodity price cycle. At the same time, we are continuing with efforts to secure capital to support existing operations and to fund our Phase II expansion plans in West Ells and in our other project areas.

"Kwok Ping Sun "
Chairman of the Board

"Gloria Ho "
Executive Director, CFO

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE CHAIRMAN AND DIRECTOR

Mr. Kwok Ping Sun (“**Mr. Sun**”), aged 57, is an Executive Chairman and Executive Director appointed by the Board on June 28, 2015. He was appointed as a Non-Executive Director by the Board on May 27, 2015. Mr. Sun is the founder of Nobao Renewable Energy Holdings Limited (“Nobao”) and has served as the Chairman of the Board, Director and Chief Executive Officer of Nobao since its inception in 2007. Prior to founding Nobao, Mr. Sun was the General Manager of Shanghai Nobao Electric Appliance Co., Ltd from 2005 to 2007. In 2003, Mr. Sun started his own research and development with respect to ground source heat pump (GSHP) systems and gained over 10 years of experience in this area. From 1999 to 2002, Mr. Sun served as the General Manager of Dynamic Co., Ltd of Denmark and was responsible for developing wind power projects in China in cooperation with Chinese local companies. From 1994 to 1998, Mr. Sun was the Chief Executive Officer of Wu Fong Investment Co., Ltd of Denmark. Between 1983 and 1990, Mr. Sun worked as an Official of the customs department, the publicity department and the foreign trade bureau of the City Government of Zhangjiagang, Jiangsu Province, People’s Republic of China. Mr. Sun has over 20 years of experience in automated control systems through his experiences described above as well as his experience as the General Manager of Jiangsu Zhongwang Electronics Co., Ltd. between 1990 and 1993 and as an Engineer of Zhangjiagang Radio Factory between 1979 and 1982. Mr. Sun graduated from Suzhou Transportation Vocational College in 1985 and received an EMBA degree from Tsinghua University in 2006.

NON-EXECUTIVE VICE CHAIRMAN AND DIRECTOR

Mr. Michael J. Hibberd (“**Mr. Hibberd**”), aged 66, has been a Non-Executive Vice-Chairman and a Non-Executive Director since June 28, 2015. He was Executive Vice-Chairman of the Corporation from November 28, 2014 to June 28, 2015. He was Executive Chairman from June 25, 2014 to November 28, 2014 and was Executive Co-Chairman of the Corporation from October 6, 2008 to June 25, 2014. Mr. Hibberd was a founder of the Corporation and held the title of Chairman and Co-CEO from May, 2007 to October 6, 2008. Mr. Hibberd is President and CEO of MJH Services Inc., a corporate finance advisory company established in January 1995. Mr. Hibberd has extensive international energy project planning and capital markets experience. Prior to January 1995, Mr. Hibberd spent 12 years with ScotiaMcLeod. Mr. Hibberd worked in corporate finance in Toronto and Calgary and held the position of Director and Senior Vice-President, Corporate Finance. Mr. Hibberd is currently Chairman of Canacol Energy Ltd. (TSX and Bolsa de Valores de Colombia) and Greenfields Petroleum Corporation (TSX Venture Exchange). He is a director of Pan Orient Energy and Petro Frontier Corp., the shares of which are listed on the TSX Venture Exchange. Mr. Hibberd was previously Chairman of Heritage Oil Plc and Heritage Oil Corporation. He was also director of Challenger Energy Corp., Deer Creek Energy Limited, Iteration Energy Ltd., Zapata Energy Corporation, Sagres Energy Inc., Rally Energy Corp and Montana Exploration Corp. Mr. Hibberd obtained his BA in 1976 and his MBA in 1978 from the University of Toronto. He obtained his LLB from University of Western Ontario in 1981, was called to the bar in 1983 and is a member of The Law Society of Upper Canada.

EXECUTIVE DIRECTOR

Ms. Gloria Pui Yun Ho (“**Ms. Ho**”), aged 41, became an Executive Director on June 27, 2017. She was appointed as Chief Financial Officer of the Corporation from November 2016. Ms. Ho has extensive experience in investment, risk management, corporate banking and finance. Prior to joining the Corporation, she worked in equity research, credit analysis, capital strategy, funds management and auditing in several international institutions and most recently as the Chief Executive of a reputable Chinese-based asset management firm.

Ms. Ho is a Chartered Accountant, Certified Public Accountant, Chartered Financial Analyst and Chartered Alternative Investment Analyst. Ms. Ho holds a postgraduate certificate in Financial Engineering at Stanford University and a M.Sc. in Finance at the University of Illinois at Urbana-Champaign.

NON-EXECUTIVE DIRECTORS (“NEDs”)

Ms. Linna Liu (“**Ms. Liu**”), aged 44, is a Non-Executive Director appointed by the Board on April 6, 2017. Ms. Liu is currently Head of Special Situation Investment Division of Bank of China Group Investment Limited (“BOCGI”). Prior to joining BOCGI, from 2000 to 2015, Ms. Liu held a number of positions in Bank of China Headquarters and in its New York Branch. Ms. Liu has over 18 years of experience in Banking and Financing. Ms. Liu graduated from Peking University and Columbia University and holds Bachelors and Master degrees.

Ms. Xijuan Jiang (“Ms. Jiang”) aged 56, became a Non-Executive Director on June 30, 2016. She was a senior engineer with 26 years of experience in industrial applications. Ms. Jiang is the recipient of numerous design awards, primarily in respect of heating and ventilation systems. Ms. Jiang has been the Vice President and Chief Engineer of Nuoxin Energy Technology (Shanghai) Co. Ltd. since November 2012. Prior thereto, she was the Chief Engineer (Water and Sewer) at the Architecture Branch of Shougang Design Institute. Ms. Jiang obtained a Bachelor degree from the Xi’an University of Architecture and Technology in 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS (“INEDS”)

Mr. Yi He (“Mr. He”), aged 49, is an Independent Non-Executive Director appointed on June 30, 2016. He has worked in the financial industry for more than 23 years and held various senior management roles in several global banks in China. In 2012, Mr. He was appointed as Chief Executive Officer of Nomura China Bank and led all China related banking businesses. From 2008 to 2012, he was in charge of China related banking business for Barclays Bank as the General Manager of the Shanghai Branch. Prior thereto, Mr. He led the global markets business for Australia and New Zealand Banking Corporations Limited and was the Deputy General Manager of ANZ China. Mr. He began his career with Credit Agricole China in 1994 and joined First Sino Bank as the Head of Treasury in 1997.

Mr. He has been an independent non-executive director of Kai Yuan Holdings Limited (SEHK code: 01215) since 2011 and is member of the Audit Committee, the remuneration committee, and the nomination committee of Kai Yuan Holding Limited Company.

Mr. He founded Yaoxin Asset Management Company in early 2015, which mainly focuses on financial related consulting. In addition, Mr. He holds a Master Degree in Economics from Fudan University of China and also is a Certified Professional Accountant in China.

Mr. Guangzhong Xing (“Mr. Xing”), aged 65, is an Independent Non-Executive Director appointed on June 25, 2019. He obtained his Doctor Degree from the University of Hull with Debeers Scholarship in July 1995. He further obtained postdoctoral from the same university in June 1996. Mr. Xing holds a master degree and a bachelor degree of Metallography from the Northeast Heavy Machinery Institute (renamed as Yanshan University in 1997) (“Yanshan University”) in August 1981 and August 1978 respectively. He started his career as university tutor in the Northeast Heavy Machinery Institute Metallography in September 1978 until August 1979 and during the period from September 1981 to September 1989. He was then acted for the position as dean for the school of materials science of Yanshan University during the period from August 1996 to October 1997. Thereafter, for the period from November 1997 to December 1999, he acted as a director of academic affairs of Yanshan University. During the period from January 2001 to October 2016, he was the vice principal of Yanshan University. He also had been the President of 燕山大學產業集團 (Yanda Industry Group Co., Ltd. *) and 燕山大學房地產公司 (Yanda Real Estate Company *) during the period from October 2004 to October 2009; and established 燕山大學國家大學科技園 National science area of Yanshan University.

Mr. Alfa Li (“Mr. Li”), aged 49, is an Independent Non-Executive Director appointed on July 29, 2019. He obtained the EMBA master degree from the Peking University and graduated from British Columbia Institute of Technology in the 90s. Mr. Li has over 17 years of experience in the financial services and investment banking industry, with extensive knowledge and experience in asset management, corporate finance and public company corporate governance. Mr. Li is currently the director and partner of Sow Capital and is in charge of SOW’s North American investment / projects. Prior to joining the SOW Fund, Mr. Li served as the managing director at the Sinopolaris Fund, and was the Chief Representative of Carret China opportunity fund, and the deputy general manager of Investment Division of CITIC International Assets Management Limited. He also has been the director of the ING Bank and the investment manager of Standard Bank. Mr. Li has been actively involved and engaged in many securities and corporate finance transactions, as well as being responsible for successfully setting up and running several international private equity funds.

CORPORATE GOVERNANCE REPORT

Sunshine Oilsands Ltd. (the “Company” or “Sunshine”) is a new differentiated oil sands energy company, with the aim of leveraging technology and cost-effective eco-innovation. The Company focused on the development of Athabasca region oil sands resources with approximately 0.95 billion barrels of risked best estimate contingent resources. It is a Calgary-based public company, listed on The Stock Exchange of Hong Kong Limited (“HKEX”), dedicated to delivering sustainable and predictable growth.

The Company and the Board recognize that high quality 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. All Board members are required to act with integrity, promote the desired Sunshine culture. The Company and the Board are committed to maintaining high standards of corporate governance.

During the financial year 2021, the Company has been in compliance with the Corporate Governance Code (the “Code”) under the Exchange Listing Rules save as discussed below.

- the Company has not entered into formal letters of appointment with its Directors. However, for consistence with the general market practice in Canada, each of the Company's Directors are appointed or re-appointed on an annual basis by the shareholders at each annual general meeting. The Board considered that this practice served the purpose of striking balance and safeguarding the interests of Shareholders, the Company and the Directors himself.
- the Company is still in course of identifying suitable insurers for appropriate insurance coverage for legal actions against the Company's Directors.

Board Committees

The Board has established (i) Audit Committee, (ii) Corporate Governance Committee, (iii) Compensation Committee and (iv) Reserves Committee for overseeing particular aspects of the Company's affairs. All Board committees are established with defined written terms of reference which are posted on the Company's website at www.sunshineoilsands.com and are available to shareholders upon request. Meetings of the Board committees generally follow the same procedures as for meetings of the Board.

The Company has, throughout the year ended December 31, 2021, applied the principles and complied with the requirements of its corporate governance code and practices as defined by the Board and the Exchange Listing Rules, save as disclosed above. During the financial year 2021, the Company's current practices were reviewed and would be updated regularly to ensure high quality corporate governance and proper compliance.

The Company received from each of the independent non-executive Directors (“INED”) an annual confirmation of independence for the financial year 2021 in accordance with Rule 3.13 of the Exchange Listing Rules. In view that all INEDs fulfill the independence requirements set out under the Exchange Listing Rules, that is, among others, all of them hold, whether legally or beneficially, less than 1% of the Company's issued shares or underlying shares; and are not connected with the other Directors, chief executive(s) or substantial shareholder(s) of the Company, the Board considers that all INEDs are independent. The Board has reviewed the independence of all INEDs.

Mr. David Yi He (one of the INEDs and Chair of Audit Committee) possesses the appropriate accounting professional qualifications. All INEDS have wide exposure on the related financial or management expertise in accordance with Rule 3.10 of the Exchange Listing Rules. As at the date of this annual report, no INED has served the Company for more than 9 years. Should the Company appoint INED(s) who served the Company for over 9 years (“Long Serving INED”) in future, the Company will include in its circular for general meeting the factors considered, the process and the discussion among Board members in arriving such decision that and the reason(s) why the Board believes such the Long Serving INED is still independent and should be re-elected.

There are no interrelationship, including financial, business, family or other materials/relevant relationship(s) among all Board members, and in particular, between the Chairman and the chief executive(s) of the Company.

The Board has established clear guidelines with respect to matters that must be approved or recommended by the Board, including, without limitation, the approval and adoption of the Company's operating budget and capital expenditure budget; the hiring or dismissal of the Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO"), the Board Secretary or certain other members of the Company's senior management team; the approving and recommending payment of dividend or significant transactions.

The day-to-day management administration and operation of the Company are delegated to the CEO and senior management. Mr. Kwok Ping Sun is Chairman of the Board whereas, Mr. Frank Chi Man Ng, Chief Technology Officer of the Company, assumed direct responsibility for all CEO tasks and functions during the year under review.

Currently, the management is in course of identifying suitable insurers for appropriate insurance coverage for legal actions against the Company's Directors.

As at the date of this annual report, the Board consists of the following members:

Executive Directors ("ED")

Mr. Kwok Ping Sun (Chairman)
Ms. Gloria Pui Yun Ho (Chief Financial Officer)

Non-Executive Directors ("NED")

Mr. Michael J. Hibberd (Vice-Chairman)
Ms. Xijuan Jiang
Ms. Linna Liu

Independent Non-Executive Directors ("INED")

Mr. David Yi He
Mr. Alfa Li
Mr. Guangzhong Xing

Practices and Conduct of Meetings

Usually, notice of regular Board meetings is given to all Directors at least fourteen days in advance and reasonable notice is generally given for other Board meetings, unless on an emergency case. Whenever short notice of meeting is given, all Directors must be noted and their consents are sought for such short notice. The fact that short notice of meeting and the Directors' consent must be duly recorded in minutes. Annual meeting schedules and draft agendas for each meeting are normally made available to Directors in advance. During the year under review, regular Board meetings were given at least fourteen days notices with meeting papers were sent at least two days in advance prior to the meetings. In addition, short notice of meetings and Directors' consent in relation thereof were duly recorded in minutes.

Arrangements are in place to allow Directors to include items in the agenda. Usually final agendas and board papers are sent to Directors at least three days or as early as possible before each regular Board meeting so that the Board can make informed decisions on matters placed before it. Each Director also has separate and independent access to senior management where necessary. During the year, all board papers were sent to Directors or committee members with reasonable period of time for review (and in any case, no later than two days) prior to the meetings.

The Company's By-Laws and all applicable rules and regulations allow the Directors to participate in Board meetings or any committee meetings or general meetings by means of telephone or other communication facilities which permit all persons participating in the meeting to hear each other. Given that, most of the Company's Directors were located in various cities in China or in Canada and travelled frequently, during the year under review, Board meetings or committee meetings were usually conducted via tele-conferencing.

Regular Board meetings will be held at least four times a year at approximately quarterly intervals. During the financial year 2021, the Board held quarterly Board meetings to consider, discuss and approve the quarterly results of the Company. Saved as the quarterly results, the Board also discussed and resolved other matters that required Board's consideration and/or approval, they included but not limited to, the operational updates, the conversion of convertible bonds by a company wholly owned by Chairman Sun and the transactions or matters contemplated

thereunder; the entering into the Royalty Agreement, the Interest Waiver Agreements as well as the Forbearance Reinstatement and Amending Agreement etc.

Minutes of the Board and committee meetings are kept by the Board Secretary and are open for inspection by Directors anytime. All Directors or committee members are properly briefed on issues arising at meetings. In addition to EDs, INEDs and other NEDs are encouraged to make positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments.

Upon reasonable request, Directors are enabled to seek independent professional advice at the expenses of the Company. During the financial year under review, the Company received no such request for independent professional advice from Directors or committee members. Nevertheless, the Company has engaged independent financial advisor, Donvex Capital Limited, to advise the Independent Board Committee and the Independent Shareholders on terms and matters about the conversion of convertible bonds by Chairman Sun's wholly owned company and the whitewash waiver; to provide advice and analysis relating to the impact of the Waiver of Interest on Conversion and the Whitewash Waiver.

If a Director and/or any of his associate has a material interest in a transaction, the matter must be dealt with by physical Board meeting and that Director is required to disclose his interest and to abstain from voting and not to be counted in the quorum at the meeting for approving the transaction. During the year, as mentioned, the Board considered and discussed the matters about conversion of convertible bonds by Chairman Sun's wholly owned company. Mr. Sun attended the said Board meetings, in which, he duly declared his interests in accordance with the applicable rules and regulations; and had abstained from voting on relevant resolutions in relation to the convertible bonds and the transactions contemplated thereunder.

Under the Code, the Chairman should hold meetings with the independent non-executive Directors at least annually without the presence of other Directors. During the financial year under review, the Chairman held a meeting with all INEDs without the presence of other Directors.

Appointment and Election of Directors, Board Diversity

The Company has a formal and transparent procedure for the identification of nominees for Directors and recommendation to the Board, which is led by the Corporate Governance Committee of the Company.

The Board believes that diversity of experience, professionally and geographically, enhances its decision-making ability. The Company has adopted a Board Diversity Policy (the "BD Policy") with the aim of enhancing the Board's effectiveness and corporate governance as well as achieving business objectives. The BD Policy is available on the Company's website for public information.

In designing the Board's composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, culture and educational background, ethnicity, professional experience, skills, knowledge and length of service and any other factors that the Board may consider relevant and applicable from time to time. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

The Corporate Governance Committee is responsible for monitoring the achievement of the measurable objectives set out in the BD Policy. It will review the Board's composition at least once annually taking into account the benefits of all relevant diversity aspects and adhere to the BD Policy when making recommendation on any Board appointments. During the financial year under review, the Corporate Governance Committee reviewed the current Board composition, its size and structure; assessed the independence of all INEDs; and the Board diversity.

The Board has all along achieved the gender diversity. Currently, the Board consists of five (5) male Directors and three (3) female Directors. The total eight (8) experts covering the areas of new energy, mechanical engineering, geology, investment, audit, accounting, corporate finance, banking, financial services and law. Having reviewed and considered the gender, age, culture and educational background, ethnicity, professional experience, skills, knowledge and length of service of all Board members, the Corporate Governance Committee considered the current composition of Board served the purpose of enhancing the quality of the Company's strategy and operation. No Director was nominated, identified or dismissed during the year. The Corporate Governance Committee will review the Board composition as well as the BD Policy from time to time so as to make sure that they are in line

with the business strategy of Sunshine, and if applicable and appropriate, to ensure its effectiveness. The Corporate Governance Committee will discuss any revisions to the BD Policy that may be required, and recommend any changes to the Board for consideration and approval.

In general, nominee Directors are elected to hold office until the next annual general meeting of the Company or until his successor is duly elected or appointed, unless his office is vacated earlier, in accordance with the Articles of Incorporation and By-laws of the Company.

The term of appointment of all Directors, including non-executive Directors, is from the time of election or re-election at the annual general meeting of shareholders to the following annual general meeting; at which point the Director must be re-elected. Biographical details of the Directors are set out in the "Directors and Senior Management" section of this annual report.

Induction and Ongoing Development

As a general practice, each newly appointed Director receives a comprehensive and tailored induction, including the full set of updated Exchange Listing Rules, to ensure his or her understanding of the business and operations of the Company as well as awareness of a director's responsibilities and obligations under applicable rules and regulations, especially under the Exchange Listing Rules. During the year under review, no Director was appointed or nominated.

Current directors are also continuously updated on statutory, regulatory and business developments and participate in continuous professional development in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities and to develop and refresh their knowledge and skills. The Company is open to arranging and funding suitable training to Directors. During the year under review, Directors were updated and kept abreast of the revised and newly adopted applicable rules and regulations, especially the Exchange Listing Rules, at Board meetings or via electronic mails. In addition, the Company received records of training from Directors.

COMMITTEES OF THE BOARD

The Board is responsible for leadership and promoting the success of the Company by directing and overseeing the Company's affairs. In addition, it is also responsible for overseeing the corporate governance and financial reporting of the Company, reviewing the effectiveness of the Company's system of risk management and internal controls. To assist it in fulfilling its duties, the Board has established four board committees: (1) the Audit Committee; (2) the Compensation Committee; (3) the Corporate Governance Committee and (4) the Reserves Committee.

Audit Committee

The Board established Audit Committee on January 9, 2008 and adopted written terms of reference that set out the authorities and duties of the committee, which have been revised from time to time since then. The Audit Committee currently consists of three members, namely Mr. David Yi He (Chair of the Audit Committee and an INED), Mr. Alfa Li (INED) and Mr. Guangzhong Xing (INED), all of them are independent non-executive Directors and financially literate. The Audit Committee is chaired by an INED and shall meet at least four times annually, or more frequently as circumstances dictate. It shall meet with the external and internal auditors without executive Board members present at least once a year.

In compliance with Rule 3.21 of the Exchange Listing Rules, at least one member of the Audit Committee possesses appropriate professional qualifications in accounting or related financial management expertise in discharging the responsibilities of the Audit Committee. Mr. David Yi He, the Chair of Audit Committee, possesses the required accounting professional qualifications and all Audit Committee members possessed the related financial and management expertise, and have the ability to read and understand a set of financial instruments that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Company. All members have sufficient experience in reviewing audited financial statements as aided by the independent external auditors of the Company whenever required. To assist in discharging its responsibilities, this Committee may at its discretion, in addition to the external auditors, at the expense of the Company, retain one or more persons

having special expertise, including independent counsel.

The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process, risk management and internal control systems, to monitor the integrity of the Company's financial statements and financial reporting, and to oversee the audit process.

The following is a summary of the work performed by the Audit Committee during the financial year 2021:

- a) In consultation with management and the external auditors, developed an annual work plan responsive to the committee's responsibilities. Participated in a process for review of important financial topics that had the potential to impact the Company's financial disclosure;
- b) reviewed the scope of audit of the consolidated financial statements of the Company for the year ended December 31, 2021, as well as, the terms of engagement and the audit fees proposal for such audit;
- c) reviewed, prior to public release, the condensed interim consolidated financial statements for the periods ended March 31, 2021, June 30, 2021 and September 30, 2021, respectively and for the year ended December 31, 2021 with management and, to the extent required, the external auditors, focusing in particular, major judgment areas, any changes in accounting policies and practices, significant adjustments resulting from the audit review, going concern assumption, etc.;
- d) reviewed the assessment of designing and testing the effectiveness of the Company's internal financial control systems and risk management as performed by the external consultant; and
- e) reported to the Board on the meetings of the Audit Committee.

Corporate Governance Committee

The Board established a Corporate Governance Committee, which served the same function of Nomination Committee as cited in the Code, on January 9, 2008. It adopted written terms of reference that set out the authorities and duties of the committee, which have been revised from time to time since then. The Corporate Governance Committee, as chaired by chairman of the Board, Mr. Sun, currently consists of five members (with majority of which are INEDs), namely Mr. Kwok Ping Sun (Chair of the Corporate Governance Committee and ED), Mr. Michael J. Hibberd (NED), Mr. Guangzhong Xing (INED), Mr. David Yi He (INED), and Mr. Alfa Li (INED).

The primary duties of the Corporate Governance Committee in respect of nominations include, but not limited to, (i) making recommendations to the Board relating to the structure, size and composition (including gender, age, skill, knowledge and experience) of the Board any proposed changes to complement the Company's corporate strategy; (ii) reviewing the appointment or re-appointment of Directors and senior officers, succession planning for Directors, in particular the Executive Chairman, the non-executive Vice-Chairman, Chief Executive Officer, Chief Technology Officer, Chief Financial Officer and assessing the independence of Independent Non-executive Directors, conduct enquiries into the backgrounds and qualifications of possible candidates. Further, the Corporate Governance Committee has other duties in respect of corporate governance matters, including, to consider, develop and review the Company's corporate governance principles, practices and processes and to make recommendations to the Board; to develop, review and monitor the training and continuous professional development of Directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to review and monitor the code of conduct and compliance manual applicable to employees and directors and to review the Company's compliance with the Code as set out in the Exchange Listing Rules; to recommend members and chairs of the Audit Committee, Reserves Committee and Compensation Committee.

The Corporate Governance Committee has to meet at least once a year to discharge its responsibilities. And, during the year under review, the Corporate Governance Committee held a meeting and considered (i) the current Board composition served the purpose of corporate strategy and no changed in needed at this moment and (ii) all INEDs remained their independence. They also reviewed the Board performance during the year.

Going forward, whenever a resolution to elect an individual as an independent non-executive director at the general meeting, details of the process used for identifying the individual and the reasons why the Board believes the

individual should be elected and considers him to be independent; the perspectives, skill and experience that the individual can bring to the Board; and how the individual contributes to the diversity of the Board would be set out in detail in the circular to the shareholders accompanying the notice of the relevant general meeting.

The Corporate Governance Committee is chaired by the Executive Chairman and is comprised of one non-executive Director and three independent non-executive Directors. The Company is of the view that the current members of the Corporate Governance Committee are influential and important in setting the key direction of the Company at this time. The Company also encourages all Board members to sit on at least one of the Company's committees. The expertise of the current members of this committee is important to the Company.

During the year under review, the Chief Technology Officer, Mr. Frank Chi Man Ng, assumed direct responsibility for all CEO tasks and functions. The Corporate Governance Committee is still in course of identifying suitable caliber to seat for the post of CEO.

Compensation Committee

The Company established a Compensation Committee which served the same function of Remuneration Committee as cited in the CG Code, on January 9, 2008 and adopted written terms of reference that set out the authorities and duties of the committee. The Compensation Committee, chaired by the Chairman of the Board, Mr. Sun, currently consists of three members, namely Mr. Kwok Ping Sun (Chair of the Compensation Committee and ED), Mr. Guangzhong Xing (INED) and Mr. Alfa Li (INED). The Compensation Committee currently consists of a majority of INEDs.

The primary duties of the Compensation Committee are (i) to determine the policy for the remuneration of the executive Directors; (ii) to assess performance of the executive Directors, to approve the terms of the executive Directors' service contracts; (iii) to make recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration as well as to determine the specific remuneration packages of all executive Directors and certain members of senior management of the Company.

During the year under view, the Compensation Committee members met once and resolved that having considered the general economic condition, the industry benchmark and the current financial position of the Company, no adjustment or amendment / revision is needed to the current remuneration policy of the Company.

Reserves Committee

The Company established a Reserves Committee on January 9, 2008 and adopted written terms of reference that set out the authorities and duties of the committee. The Reserves Committee currently consists of three members, namely Mr. David Yi He (Chair of the Reserves Committee and an INED), Mr. Guangzhong Xing (INED) and Mr. Kwok Ping Sun (ED).

The primary duties of the Reserves Committee include, but not limited to, reviewing and approving management's recommendation for the appointment of independent evaluators; reviewing procedures for providing information to the independent evaluators; meeting with management and the independent evaluators to review the reserves data and reports; recommending to the Board whether to accept the content of the independent evaluators' report; reviewing procedures for reporting on other information associated with oil sands producing activities and generally reviewing all public disclosure of estimates of reserves.

The Reserves Committee should meet at least once annually to review procedures relating to the disclosure of information with respect to oil and gas activities, including the review of its procedures for complying with its disclosure requirements and restrictions set forth under applicable securities requirements.

During the year under review, the Reserves Committee met and reviewed the reserves reports prepared by GLJ Ltd and Boury Global Energy Consultants Ltd. They held meeting with the two independent evaluators, discussed and reviewed the data and reports prepared by the evaluators and made recommendation to the Board to accept the content of the valuation reports.

All the aforesaid Board committees make available their terms of reference explaining its role and the authority

delegated to them by the Board on the websites of HKEX and the Company. All Board committees are provided sufficient resources to perform its duties. Where necessary, the committees members could seek independent professional advice, at the Company's expense, to perform their responsibilities.

MEETINGS OF THE BOARD AND COMMITTEES OF THE BOARD

The following is the attendance record of the Board meetings and committee meetings held during the year. As permitted by the Company's Bye-Laws and applicable rules and regulations, the Directors attended these meetings either in person or through electronic means of communication.

<i>Directors at December 31, 2021</i>	Board of Directors	Audit Committee	Compensation Committee	Corporate Governance Committee	Reserves Committee
Mr. Kwok Ping Sun ⁽¹⁾	10/10	N/A	1/1	1/1	0/1
Mr. Michael J Hibberd	10/10	N/A	N/A	1/1	N/A
Ms. Gloria Ho	10/10	N/A	N/A	N/A	N/A
Ms. Linna Liu ⁽²⁾	10/10	N/A	N/A	N/A	N/A
Ms. Xijuan Jiang	10/10	N/A	N/A	N/A	N/A
Mr. Guangzhou Xing	10/10	5/5	1/1	1/1	1/1
Mr. Alfa Li	10/10	5/5	1/1	1/1	N/A
Mr. Yi He	10/10	5/5	N/A	1/1	1/1

Notes

(1) Mr. Sun's attendance hereto includes reporting representative attendance.

(2) Ms. Liu's attendance hereto includes reporting representative attendance.

(3) During the year under review, no Director attended meetings or committee meetings by his/her alternate.

(4) As permitted and allowable by the Company's constitutional documents and the applicable laws and regulations, during the year, the Company held a Special General Meeting on March 5, 2021 (Hong Kong time) and an Annual General Meeting on June 23, 2021 (Hong Kong time), at which, all Directors attended the said general meetings by electronic means.

HEALTH, SAFETY AND ENVIRONMENT ("HSE")

Sunshine executives and management believe in the HSE principle of "Safety First" and the Company has a good safety record. In 2021, the Company continued to emphasize improvements in the field safety monitoring system for preventing workplace injuries. In view of the COVID-19, the management committed to protecting and promoting the safety and well beings of our employees, contractors, communities and the environment. We aim for safe and reliable operations where any risks which compromise the health and safety of workers are identified and addressed.

The Board reviews and assesses the Company's health, safety and environment processes and controls.

SHAREHOLDERS' COMMUNICATION POLICY

The Company introduced a shareholder communication policy on April 1, 2012 for proper compliance with the Code. During the year under review, the Board reviewed the Shareholders' Communication Policy and considered such policy served its purpose. The Board will review from time to time, and at least annually, this policy and make amendments thereof should the Board consider necessary.

REMUNERATION OF DIRECTORS

The following is a general description of the emolument policy of the Company, as well as the basis of determining the emoluments payable to the Directors.

The compensation of Directors is determined by the Board when it receives recommendations from the Compensation Committee of the Company.

Under current compensation arrangements, each of our EDs, NEDs, INEDs and senior management are eligible to receive compensation in the form of cash and/or bonuses and are eligible to receive option grants. The Company has never granted equity-based remuneration (e.g. share options or grants) with performance-related elements to INEDs.

As at the date of this annual report, the Company does not have any employee long-term incentive plans. If the Company decide to establish any such plans in future, recommendations from the Compensation Committee will be taken into account and such plans will comply applicable provisions of the Exchange Listing Rules.

Remuneration of the Directors (including retainers, fees, salaries, discretionary bonuses, and other benefits including share based payments) was approximately \$2.7 million for the year ended December 31, 2021 (2020 - \$3.2 million).

Please refer to the Audited Consolidated Financial Statements as included in this annual report for additional details on remuneration of Directors.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own policy (the "Corporate Disclosure and Trading Policy") for securities transactions by Directors and employees who are likely to be in possession of unpublished price-sensitive information of the Company. This policy is no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Exchange Listing Rules.

Having made specific enquiry of all Directors, the Board confirmed that all Directors had complied with the Corporate Disclosure and Trading Policy during the accounting period covered by this annual report.

The interests of Directors' and Chief Executive Officer(s) in the Company's Common Shares and underlying shares as at December 31, 2021 are set out in the "Directors' Report" section of this annual report.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The auditors' statement about their reporting responsibilities for the Company's consolidated financial statements is set out in the "Independent Auditor's Report" section included in this annual report.

The fees in relation to the audit related and non-audit related services for the year ended December 31, 2021 provided by UniTax Prism (HK) CPA Limited, the independent external auditor of the Company, is as follows:

Nature of services rendered	Fees paid/ payable
Audit fees	\$401,000
Non-Audit fees	\$21,000
Total	\$422,000

Audit fees were incurred in connection with the following services:

- Audit of the Company's annual financial statements;
- Audit of the financial statements of Sunshine Oilsands (Hong Kong) Ltd.;
- Reviews of the Company's interim financial statements;
- Audit of tax compliance, tax advice, and tax planning; and
- Additional audit procedures related to the 2021 audit.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges that it holds responsibility for:

- Overseeing the preparation of the financial statements of the Company with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Company; and
- Selecting suitable accounting policies and applying them consistently with the support of reasonable judgment and estimates.

The Board ensures the timely publication of the financial statements of the Company. Management provides explanations and information to the Board to enable it to make an informed assessment of the financial and other information to be approved. The Board is responsible for ensuring that the Company keeps proper accounting records, for safeguarding the Company's assets and for taking reasonable steps for the prevention of fraud and other irregularities.

The Board strives to ensure a balanced, clear and understandable assessment of the Company's financial reporting, including annual and interim reports, other price-sensitive announcements, and other financial disclosures required under the Exchange Listing Rules, and reports to regulators any information required to be disclosed pursuant to statutory requirements and applicable accounting standards.

The Board is fully aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. For the year ended December 31, 2021, the Company reported a net profit of approximately \$1.1 million (2020 – approximately of \$2.0 million). At December 31, 2021, the Company had a working capital deficiency of approximately \$93.0 million (2020 - \$509.0 million) and an accumulated deficit of approximately \$1,210 million (2020 - \$1,211 million). The Company's ability to continue as a going concern is dependent on continuing operation and development in West ELLs, marketing bitumen blends at favorable prices, achieving profitable operations and the ability to refinance current debt and access immediate additional financing. There can be no assurance that the steps management will take will be successful. As such there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board places great importance on evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring the Company establishes and maintains appropriate and effective risk management and internal controls systems. The Board would oversee management in the design, implementation and monitoring of the risk management and internal control systems.

The Company reviews and monitors the adequacy and effectiveness of risk management and internal control systems on an ongoing basis so as to ensure that Group's risk management and internal control systems has been conducted effectively. Since the Company does not have an internal audit function, the Company engaged an external consultant to complete testing of the design and effectiveness of its internal control systems for the year ended December 31, 2021. The audit plans are discussed and agreed to for each year with the Audit Committee of the Company.

Each year the Audit Committee and the Board reviews the overall effectiveness of the Company's risk management and internal control systems. The Board has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended December 31, 2021. In conducting such review, the Board has: (i) reviewed the Company's internal control activities during the year and discussed such activities and the results thereof with the Chief Executive Officer and Chief Financial Officer ; (ii) reviewed and discussed the scope and results of the annual audit with the Company's independent external auditors ; and (iii) reviewed with management the results of the Company's internal management representation process that was performed in connection with the preparation of the annual financial statements. Based on its review, the Board was not aware of any material defects in the effectiveness of risk management and internal control systems.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

ANNUAL ASSESSMENT

A review of the effectiveness of the Company's risk management and internal control systems covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2021 was conducted with reference to the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) internal control framework, which assesses the Company's internal control system against the five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. The Company has also conducted an annual review to assess the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions and their budget (for training and related programs). The approach, findings, analysis and results of this annual review have been reported to the Audit Committee and the Board.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company complies with the requirements of Securities and Futures Ordinance ("SFO") and the Exchange Listing Rules. The Group discloses insider information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbors as provided under the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Company believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Company would immediately disclose the information to the public. The Company is committed to ensure that information contained in announcements is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balance way, which requires equal disclosure of both positive and negative facts.

BOARD SECRETARY

During the year ended December 31, 2021, the Board Secretary, who is a full-time employee of the Company, has taken no less than 15 hours of relevant professional training and has complied with the relevant professional training requirement under Rule 3.29 of the Exchange Listing Rules.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company strives to maintain a high level of transparency in its communications with shareholders and investors. The Company keeps a constant dialogue with the investment community through Company visits, conference calls and information sessions to communicate the Company's business strategies, developments and goals.

The Company's annual and interim reports, stock exchange filings, press releases and other information and updates on the Company's operations and financial performance are available for public access on the Company's website, www.sunshineoilsands.com, and certain of these documents are also available on the website of the SEHK, www.hkexnews.hk.

INED's names are clearly identified in all corporate communications and an updated list of directors identifying their roles and functions are maintained on the websites of the HKEX and the Company.

The Company encourages its shareholders to attend the Company's general meetings to communicate their views and concerns to the Board directly so as to ensure a high level of accountability and also to stay informed of the Company's strategies, developments and goals. Detailed explanation about procedures for conducting a poll is provided in general meetings. Board members / committee members are welcome to answer questions at general meeting. During the year under review, the chair of the special general meeting and the annual general meeting explained the procedures for conducting a poll in detail and opportunities were given to shareholders to raise questions.

The next annual general meeting of the Company was tentatively scheduled to be held in June 2022 in Hong Kong.

The Company has adopted the “Dividend Policy” concerning the payment of dividends. Pursuant to which, the Board, when deciding whether to propose a dividend and in determining the dividend amount, it will take into account, among others, (a) the Group’s operations and earnings; (b) the general financial conditions of the Group; (c) cash requirements and capital expenditures; (d) any restrictions on payment of dividends; and (e) any other factors that the Board may consider relevant, etc.

The declaration and payment of dividends by the Company shall be determined at the sole discretion of the Board and shall be subject to the Company’s Articles of Incorporation and By-laws, Business Corporations Act (Alberta) and any other applicable laws, rules and regulations. The Dividend Policy will be reviewed by the Board from time to time. Details of the Dividend Policy are available on the websites of the HKEX and the Company.

SHAREHOLDERS’ RIGHTS

Under the Business Corporations Act (Alberta) (the “ABCA”), the directors of a company are authorized to call meetings of shareholders. The ABCA establishes two categories of meetings of shareholders: (i) annual meetings, and (ii) special meetings.

There are also specific circumstances in which shareholders may call special meetings where the directors fail to do so. Pursuant to the applicable provisions of the ABCA, registered or beneficial holders of not less than five per cent (5%) of the issued voting shares may requisition the directors to call a meeting of shareholders. If the directors do not call a meeting within 21 days after receiving the requisition, a shareholder who signed the requisition may call the meeting. The ABCA mandates that such shareholders be reimbursed for expenses incurred in requisitioning, calling, and holding the meeting unless the shareholders resolve otherwise at the meeting.

Shareholders are encouraged to consult their own tax advisors regarding the tax consequences to them for share transactions.

Shareholders can submit enquiries to the Board and the CEO by mail or by phone to the contact information set out in the “Corporate Information” section of this annual report.

The Board reviewed and considered the aforesaid policies or mechanism served the purpose of providing effective shareholders communication. The Board will review, at least annually, the effectiveness of the aforesaid mechanism.

The Company has not made any changes to its constitutional documents during the year ended December 31, 2021.

The management understands the importance of community development, health and wellness. And, it plans harmonize economic development with balanced long-term sustainability.

Sunshine has actively cultivated, established, and maintained positive relationships with First Nations and Metis peoples in the region who are proximate to or interested in its projects. The Company provides project updates and meets with the various aboriginal communities on a regular basis to discuss impacts of its operations and pro-actively deal with any issues. The Company also works closely with stakeholders at the municipal, provincial, and federal level to ensure that the regulatory authorities are aware of the Company’s alignment with their rules, regulations, and expectations.

DIRECTORS' REPORT

The Board of Directors of the Company is pleased to present their report together with the audited consolidated financial statements of the Company and its wholly-owned subsidiaries for the year ended December 31, 2021 together with comparative figures for the corresponding period in 2020.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

BUSINESS REVIEW

The business review for the year and further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Company and its subsidiaries (the "Group") and an indication of likely future developments in the Group's business, can be found in the section headed "Management Discussion and Analysis" of this Annual Report. The discussions in the Management Discussion and Analysis section form part of this Directors' Report. As it is a non-exhaustive list, there may be other risks and uncertainties further to the disclosures. Besides, this Annual Report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company. Investors are advised to make their own judgments or consult professionals before making any investment in the securities of the Company.

Discussion on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group will be provided in the Environmental, Social and Governance Report which will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.com and the Company's website at www.sunshineoilsands.com soonest as possible after the publication of this Annual Report.

KEY PERFORMANCE INDICATORS

The key performance indicators are detailed in the financial review set out in the Management's Discussion and Analysis on pages 27 to 42 of this Annual Report. This discussion constitutes a part of this Directors' Report.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's subsidiaries as at December 31, 2021, are set out in note 34 to the consolidated financial statements. The activities of these subsidiaries as at December 31, 2021 are summarized in the table below:

Name	Place of Incorporation	Principal country of operation	Issued and fully paid share capital	Principal activities
Sunshine Oilsands (Hong Kong) Ltd.	Hong Kong, China	Hong Kong	HK\$100	Management services
Boxian Investments Limited	British Virgin Islands	Hong Kong	US\$1	Pursuing new investment opportunities
Sang Xiang Petroleum & Chemical (Shanghai) Limited * 桑祥石油化工(上海)有限公司	PRC	PRC	RMB 100	Pursuing new investment opportunities
Sang Xiang (Hebei) * 桑祥石油化工(河北)有限公司	PRC	PRC	HK\$9,690,000	Inactive

* for identification purpose only

RESULTS AND DISTRIBUTIONS TO SHAREHOLDERS

The results of the Company for the financial year ended December 31, 2021 are set out in the Consolidated Statement of Profit and Loss and Other Comprehensive Income included in this Annual Report. The Board of Directors has not recommended, declared or paid any distributions for the financial year ended December 31, 2021.

PROPERTY AND EQUIPMENT

Details of movements in property and equipment of the Company during the year ended December 31, 2021 is set out in note 12 to the consolidated financial statements.

RESERVES

Details of movements in the Company's reserves during the year ended December 31, 2021 are set out in the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES

As at December 31, 2021, reserves available for distribution to shareholders amounted to approximately \$176 million (2020: \$165 million) as shown in the statutory accounts of the Company and calculated in accordance with the Company's Articles of Incorporation.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Incorporation, by-laws of the Company or the Business Corporations Act (Alberta).

SHARE CAPITAL

Details of movements in share capital of the Company during the year ended December 31, 2021 are set out in the Consolidated Statement of Changes in Equity in this Annual Report.

DIRECTORS

As at December 31, 2021 and up to the date of this Annual Report, the composition of the Board of Directors was as follows:

Executive Directors

Mr. Kwok Ping Sun (*Chairman*)
Ms. Gloria Pui Yun Ho (*Chief Financial Officer*)

Non-Executive Directors

Mr. Michael J. Hibberd (*Vice-Chairman*)
Ms. Xijuan Jiang
Ms. Linna Liu

Independent Non-Executive Directors

Mr. David Yi He
Mr. Guangzhong Xing
Mr. Alfa Li

Biographical details of the above Directors are included in this Annual Report under the section headed "Directors and Senior Management".

All Directors are eligible for being re-elected at the forthcoming annual general meeting of the Company and will offer themselves to stand for re-election at the forthcoming annual general meeting of the Company.

Changes to information in respect of Directors

Save as disclosed in the section headed “Directors and Senior Management” in this Annual Report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the date of the 2021 interim report of the Company.

Directors' Service Contracts

None of the Directors who are to be proposed for re-election at the forthcoming annual general meeting has or is proposed to have a service contract that is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts

Save for the related party transactions set out in note 31 to the consolidated financial statements, no Director or a director of any entity connected with a Director, has or had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Company and its subsidiaries for the year ended December 31, 2021.

Indemnity and Insurance

Each Directors of the Company has entered into an indemnity agreement with the Company. Pursuant to such indemnity agreements, among other things, the Company has agreed to indemnify such Directors in connection with costs and expenses arising from claims relating to such Director's service as a Director of the Company or actions or omissions performed in such Director's capacity as a director, provided that such director acted honestly and in good faith with a view to the best interests of the Company and, in the case of certain criminal or administrative actions, such Director had reasonable grounds for believing that his conduct was lawful.

Directors and Chief Executive's Interests in Common Shares and Share Options

As at December 31, 2021, the interests and short positions of the Directors and the chief executives of the Company in the Common Shares and underlying shares (set out in the section headed *A) Share Option Scheme* under “**EQUITY-LINKED AGREEMENT**”) of the Company and its associated companies (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”)) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the “SEHK”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules were as follows:

Common Shares

Name	Company	Nature of Interest	Number of Common Shares held ⁽¹⁾	Approximate % interest in the Common Shares ⁽¹⁾
Mr. Kwok Ping Sun	Sunshine Oilsands Ltd.	Direct/Indirect	150,232,591	61.70%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct/Indirect	2,165,981	0.89%
Ms. Gloria Ho	Sunshine Oilsands Ltd.	N/A	-	-
Mr. Yi He	Sunshine Oilsands Ltd.	Direct	139,682	0.06%
Ms. Xijuan Jiang	Sunshine Oilsands Ltd.	Direct	104,814	0.04%
Ms. Linna Liu	Sunshine Oilsands Ltd.	N/A	-	-
Mr. Guangzhong Xing	Sunshine Oilsands Ltd.	N/A	-	-
Mr. Alfa Li	Sunshine Oilsands Ltd.	N/A	-	-

Note

(1) As at December 31, 2021, the Company's issued share capital is 243,478,681 Class “A” Common Voting Shares.

Apart from the foregoing, none of the Directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the Shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreements entered into during the year or subsisting at the end of the financial year under review are set out below:-

- *Share Option Scheme*

Pre-IPO Stock Option Plan:

The Company's pre-IPO stock option plan is for Directors, officers, employees, consultants and advisors of the Company. 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 were issued under the Pre-IPO Stock Option Plan. As at December 31, 2021, all Pre-IPO Stock Option has expired.

Post-IPO Stock Option Plan:

On January 26, 2012, the Post-IPO Stock Option Plan (the "Scheme") was approved and adopted by shareholders at the Company's annual general meeting. The Post-IPO Stock Option Plan was effective immediately prior to the Company's IPO and listing on the SEHK, March 1, 2012. The maximum number of 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 Common Shares, less the maximum aggregate number of Common Shares underlying the options ("Options") already granted pursuant to the Pre-IPO Stock Option Plan. The Post-IPO Stock Option Plan was amended at the Annual and Special Meeting of Shareholders on May 7, 2013. As a result of the amendment, 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 on the Toronto Stock Exchange (the "TSX") or the SEHK (whichever is higher) on the option offer date, which must be a business day; the volume weighted average trading price (VWAP) of the Common Shares on the TSX or the SEHK (whichever is higher) for the five trading days immediately preceding the option offer date; and the average closing price of the Common Shares on the TSX or the SEHK (whichever is higher) for the five trading days immediately preceding the option offer date.

On September 30, 2015, the Company completed a voluntary delisting from the TSX. As a result, the Board Directors now determines the exercise price of the Options based solely on the trading date of the Common Shares of the Company from the SEHK only.

The aggregate number of shares that may be issued under the Scheme is 601,359,617 (pre-share consolidation figure) representing 10% of Shares outstanding when the Scheme Mandate Limit was refreshed on October 31, 2018 (and representing approximately 4.93% of the Shares Outstanding as at the date of this report.)

As a result of the Share Consolidation of the Company effective on February 26, 2020, adjustments were made to the exercise prices and the number of Consolidated Shares falling to be allotted and issued upon exercise of the outstanding Options in accordance with the terms and conditions of the Scheme, Rule 17.03 (13) of the Listing Rules and the supplementary guidance dated 5 September 2005 issued by the SEHK. The adjustments to the exercise prices and the number of Consolidated Shares falling to be issued upon exercise of the outstanding Options are detailed in the announcement issued by the Company dated February 26, 2020.

Details of the Post-IPO Stock Option Plan are listed below:

Purpose of the Post-IPO Stock Option Plan:	The purpose of the Post-IPO Stock Option Plan is to attract skilled and experienced personnel, to incentivize them to remain with the Company and to motivate them to strive for the future development and expansion of the Company by providing them with the opportunity to acquire equity interests in the Company.
Participants:	Any Directors, officers and employees of the Company, the Company's subsidiaries and any other persons selected by the Board in its discretion.
Total number of securities available for issue under the scheme	6,580,000 (representing 2.70% of the issued shares of the Company as at the date of the Annual Report)

Maximum entitlement of Participant:	The aggregate number of shares issued or to be issued to any one person under the Post-IPO Stock Option Plan at any time in any 12 month period (together with any shares underlying Options granted during such period under any other share option scheme) must not exceed 1% of shares issued and outstanding at the time, unless shareholder approval has been sought and obtained in accordance with the provisions of the Post-IPO Stock Option Plan (and with the person receiving such Option grant abstaining from voting).
Period within which the shares must be taken up under an Option:	The Option period shall not expire later than 10 years from the date of grant.
Minimum period, if any, for which an Option must be held before it can be exercised:	The minimum period can be in a range from immediately upon grant to two years.
The amount payable, if any, on application or acceptance of the Option and the period within which payments or calls must be made or loans for such purposes must be paid:	Not applicable.
Remaining life of the Post-IPO Stock Option Plan:	The Post-IPO Stock Option Plan shall be valid and effective for the period commencing from January 26, 2012. There is currently no expiration date for the Post-IPO Stock Option Plan.

During the year 2021, no Options were granted.

The accounting policy adopted for the granted Options above follows the policy adopted under the Post-IPO Stock Option Plan for calculating the exercise price.

As of December 31, 2021, the Options held by Directors and the chief executives of the Company was as follows:

Name	Corporation	Nature of Interest	Number of Stock Options held	Approximate % interest in the options
Mr. Kwok Ping Sun	Sunshine Oilsands Ltd.	Direct	6,000,000	91.88%
Mr. Michael Hibberd	Sunshine Oilsands Ltd.	Direct	-	0.00%
Ms. Gloria Ho	Sunshine Oilsands Ltd.	Direct	300,000	4.59%
Mr. Yi He	Sunshine Oilsands Ltd.	Direct	130,000	1.99%
Ms. Linna Liu	Sunshine Oilsands Ltd.	N/A	-	0.00%
Ms. Xijuan Jiang	Sunshine Oilsands Ltd.	Direct	-	0.00%
Mr. Guangzhong Xing	Sunshine Oilsands Ltd.	Direct	100,000	1.53%
Mr. Alfa Li	Sunshine Oilsands Ltd.	N/A	-	0.00%

Save as disclosed above, as at December 31, 2021, none of the Directors or the chief executives of the Company have or are deemed to have interests or short positions in the Common Shares, underlying shares of the Company and any of its associated companies (within the meaning of Part XV of the SFO) which were notifiable to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or recorded in the register required to be maintained by the Company under Section 352 of Part XV of the SFO, or as otherwise notifiable to the Company and the SEHK pursuant to the Model Code.

Movements in Stock Options

The table below presents the movements in stock options for Directors, the chief executives and other executive management of Company the during 2021.

1. Directors' options

Name of Directors	Date of grant	As at January 1, 2021	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the Period	As at December 31, 2021	Exercise price (HKD) ²	Market Closing price (HKD) ²	End of Vesting period ³	End of Exercise period ³
Gloria Ho	12/3/2016	100,000	-	-	100,000	-	-	20.5	19.75	12/4/2018	12/3/2021
	7/5/2018	300,000	-	-	-	-	300,000	11.8	11.5	7/6/2020	7/4/2023
Kwok Ping Sun	9/23/2016	933,580	-	-	933,580	-	-	29.6	29	9/24/2018	9/23/2021
	7/5/2018	6,000,000	-	-	-	-	6,000,000	11.8	11.5	7/6/2020	7/5/2023
Michael Hibberd	9/23/2016	933,580	-	-	933,580	-	-	29.6	29	9/24/2018	9/23/2021
Xijuan Jiang	8/17/2016	20,000	-	-	20,000	-	-	17.5	17.5	8/18/2018	8/17/2021
Yi He	8/17/2016	20,000	-	-	20,000	-	-	17.5	17.5	8/18/2018	8/17/2021
	4/3/2017	30,000	-	-	-	-	30,000	15.5	14.75	4/4/2019	4/3/2022
	9/9/2019	100,000	-	-	-	-	100,000	3.65	3.6	9/9/2021	9/9/2024
Guangzhong Xing	9/9/2019	100,000	-	-	-	-	100,000	3.65	3.6	9/9/2021	9/9/2024
	Subtotal	8,537,160	-	-	2,007,160	-	6,530,000				

2. Employees' options

Date of grant	As at January 1, 2021	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at December 31, 2021	Exercise price (HKD) ²	Market Closing price (HKD) ²	End of Vesting period ³	End of Exercise period ³
5/20/2016	3,208	-	-	3,208	-	-	19	18.25	5/21/2018	5/20/2021
8/17/2016	36,233	-	-	36,233	-	-	17.5	17.5	8/18/2018	8/17/2021
9/23/2016	429,400	-	-	429,400	-	-	29.6	29	9/24/2018	9/23/2021
4/3/2017	50,000	-	-	-	-	50,000	15.5	14.75	4/4/2019	4/3/2022
Subtotal	518,841	-	-	468,841	-	50,000				

Notes:

- The Company conducted a share consolidation on the basis that every fifty (50) the then shares be consolidated into one (1) consolidated share on February 26, 2020. All numbers of share options above are adjusted on a post share-consolidation basis.
- The exercise prices and the market closing price immediately before the date of grant of options are adjusted on a post share-consolidation basis.
- Under the Post-IPO share option scheme, the first 1/3 of the options granted are vested and exercisable on the date of grant, and each remaining 1/3 of the total options will become vested and exercisable in each subsequent two years immediately after the date of grant. And the options will expire in five years from the date of grant.

Other than disclosed in the tables above, none of the Directors or chief executives of the Company or their related parties had any interests or short positions in any Common Shares of the Company or its associated companies as at December 31, 2021. Please refer to our consolidated financial statements (note 29) included in this Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2021.

- **Convertible Bonds**

On April 1, 2020 (Hong Kong Time), the Company issued a fixed rate convertible bonds (“CB”) in an aggregate principal amount of HK\$ 72,000,000 to Prime Union Enterprises Limited (the “Subscriber”), a company wholly-owned by Mr. Kwok Ping Sun, the Chairman, Executive Director and a Substantial Shareholder of the Company. The entire principal amount of the CB is HK\$ 72,000,000 and based on the initial conversion price of HK\$0.632 per Share (subject to adjustment per the terms and conditions as stipulated in the Subscription Agreement), a maximum of 113,924,051 new Shares to be allotted and issued upon the full exercise of the CB.

Details are set out in the announcement dated April 1, 2020 issued by the Company.

The relevant resolutions in relation to the subscription of CB were then duly approved at the special general meeting of the Company held on May 25, 2020 (Hong Kong time).

On October 16, 2020 (Hong Kong time), the Subscriber served a notice of conversion stating that it intended to convert the CB in full and it has made application to the Securities and Futures Commission in Hong Kong (the “HKSF”) seeking for a whitewash waiver (the “Whitewash Waiver”) pursuant to Note 1 on dispensations from Rule 26 of The Codes on Takeovers and Mergers and Share Buy-backs (the “Takeovers Code”) in respect of the Shares to be allotted upon full conversion of the CB. The Subscriber also signed an irrevocable undertaking declaring that it will not sell the Conversion Shares within 12 months from the date that the CB is being converted.

The Whitewash Waiver, is subject to, among others, (i) the Conversion being approved by more than 50% of the votes cast by the independent shareholders; and (ii) the Whitewash Waiver the approval by at least 75% of the votes cast by the independent shareholders at general meeting of the Company by way of poll.

On March 4, 2021 (Hong Kong time), the HKSF granted the Whitewash Waiver subject to:-

- 甲、 (i) the Whitewash Waiver, and (ii) the Conversion being separately approved by at least 75% and more than 50% respectively of the independent vote (as defined in Note 1 on dispensations from Rule 26 of the Takeovers Code) that are cast either in person or by proxy at a general meeting of the Company, to be taken on a poll; and
- 乙、 unless the Executive gives prior consent, no acquisition or disposal of voting rights being made by the Subscriber and its concert parties between the announcement of the proposed Conversion and the completion of the Conversion.

The resolutions about the Conversion of CB and the Whitewash Waiver were then duly passed at the Special General Meeting of the Company held on March 5, 2021 (Hong Kong time).

The net proceeds received from CB was HK\$ 71,500,000 and it was intended to apply approximately 80% of the proceeds for general working capital and the remaining 20% for repayment of debts.

On April 7, 2021, all the Conversion Shares were issued and allotted to the Subscriber. As at the date hereof, the entire proceeds were fully utilized as intended.

SUBSTANTIAL SHAREHOLDER’S INTERESTS AND SHORT POSITION IN COMMON SHARES AND UNDERLYING SHARES

As at December 31, 2021, according to the register of interests kept by the Company under section 336 of the SFO, and so far as was known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the Shares which would require to be disclosed by the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company:-

Name	Nature of Interest	Common Shares Held	Approximately % in the Common Shares ⁽¹⁾
Zhang Jun	Direct/Indirect	20,131,519	8.27%

Note

(1) As at December 31, 2021, the Company’s issued share capital is 243,478,681 Class “A” Common Voting Shares.

EMOLUMENT POLICY

The emolument policy of executives of the Company is set up by the Compensation Committee on the basis of merit, qualifications and competence. The emolument policy for the rest of employees is determined on a department-by-department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the Directors of the Company is decided by the Compensation Committee and approved by the Board of Directors, having regard to comparable market statistics.

The Company also has a stock option plan for Directors, officers, employees, consultants and advisors (the "Stock Option Plan"). The options vest over a period ranging up to five years from the date of grant. Since March 1, 2012, Options granted under the Stock Option Plan follow the granting rules of the Company's Post-IPO Stock Option Plan as disclosed above under the section entitled "Share Option Scheme".

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at December 31, 2021, none of the Directors or their respective close associates had interests in business which compete or are likely to compete, either directly or indirectly, with the business of the Company or its subsidiaries.

PENSION SCHEMES

The Company does not have a pension scheme.

LOANS

As at December 31, 2021, the Corporation had senior secured notes that are considered non-current liabilities. On August 8, 2021, the Company and the Forbearing Holder (Noteholders representing 96% of the outstanding Notes) confirmed the signing of the Forbearance Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include (i) the FRAA covers the period from September 1, 2021 to August 31, 2023 ("Period of Forbearance"); and (ii) same as the Forbearance Reinstatement and Amending Agreement executed on April 24, 2020, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2023, and during the Period of Forbearance, there will not be any forbearance fee and yield maintenance premium based on the initial Forbearance Agreement executed on September 12, 2016. Details of the classification of the note as a non-current liability are set out in Note 15 of the consolidated financial statements.

In addition, as at December 31, 2021, the Company had loans from related companies which are unsecured, interest bearing at 10% per annum, and of which approximately CAD 41,717,000 can be roll over for a period of 2 to 3 years.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Protection and preservation of the environment is a fundamental operating principle of the Company. Its projects and operations adhere strictly to established Standard Operating Procedures and Practices (SOPs) for all situations and conditions which exist. Ongoing environmental monitoring, assessments, and audits ensure the Company's objectives are met with respect to environmental stewardship.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATION

For the year ended December 31, 2021, the Company was not aware of any non-compliance with any relevant laws and regulations that have a significant impact on it. The Company's operations have met regulatory requirements and corporate standards.

RELATIONSHIPS WITH STAKEHOLDERS

The Company has actively cultivated, established, and maintained positive relationships with First Nations and Metis peoples in the region who are proximate to or interested in its projects. The Company provides project updates and meets with the various aboriginal communities on a regular basis to discuss impacts of its operations and pro-actively deal with any issues. The Company also works closely with stakeholders at the municipal, provincial, and federal level to ensure that the regulatory authorities are aware of the Company's alignment with their rules, regulations, and expectations.

MAJOR CUSTOMERS AND SUPPLIERS

Customers

The West Ells nameplate capacity is 5,000 bbl/day. With the operations and production of West Ells Project, the Company will continuously look to expand its base of customers to obtain the best possible price for its product.

Suppliers

The largest supplier accounted for 19% of the Company's purchases. The five largest suppliers accounted for 65% of the Company's purchases for the year ended December 31, 2021.

To the knowledge of the Directors, none of the Directors, their close associates, or any shareholders (which, to the knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had a beneficial interest in the Company's five largest suppliers.

CONNECTED TRANSACTIONS

As mentioned earlier, under the section "EQUITY-LINKED AGREEMENTS" and sub-heading "B) Convertible Bonds", on April 1, 2020, the Company and a company wholly-owned by Mr. Kwok Ping Sun, the Executive Chairman and a substantial shareholder of the Company, entered into a Subscription Agreement for convertible bonds ("CB") in an aggregate principal amount of HK\$ 72,000,000. With an initial conversion price of HK\$ 0.632 per share, a maximum of 113,924,051 new Class "A" common shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on May 25, 2020. The subscription was completed on June 15, 2020. The entire proceeds was used for financing general working capital and repayment of debts. On October 1, 2020, the Company has received notice for conversion from the Subscriber. The Whitewash Waiver has been conditionally granted by HKSFC on March 4, 2021. The Conversion and the Whitewash Waiver has been approved by the independent shareholders at the Special General Meeting on March 5, 2021. On April 7, 2021, the Conversion was completed and 113,924,051 new shares were duly allotted and issued to the Subscriber.

For further details, please refer to the note 16 to the consolidated financial statements.

Save as disclosed above, during the year, the Company has not entered into any connected transaction (as defined under the Listing Rules).

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken by the Company during the year in the ordinary course of business are set out in note 31 to the consolidated financial statements. None of these transactions constitutes a disclosable connected transaction as defined under the Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained the prescribed public float of more than 25% of the issued share capital required under the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares during the year ended December 31, 2021.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on page 1 of this annual report.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2021, the Group did not have any other off-balance sheet arrangements.

SUBSEQUENT EVENT

On March 8, 2022, the Company has completed the preliminary preparatory work for resumption of production in the West Ells project which is in the steaming stage for pre-heating of the ground. The project is expected to resume production in due course.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

INDEPENDENT AUDITORS

The financial statements have been audited by UniTax Prism (HK) CPA Limited, who shall be eligible for re-appointment, and a resolution to this effect will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Kwok Ping Sun

Chairman of the Board

Hong Kong, March 25, 2022

Calgary, March 25, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("Sunshine" or the "Company") for the three and twelve months ended December 31, 2021 is dated March 25, 2022, and approved by the Company's Board of Directors. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2021. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.

Overview

Sunshine is a holder and a developer of Athabasca region oil sands resources with approximately 0.95 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2021 was approximately 1.63 billion barrels. With approximately 1 million acres of oil sands and petroleum and natural gas leases, the Company has significant commercial development potential. Phase I (5,000 barrels) of the West Ells 10,000 barrels thermal commercial project is in production. 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. Canadian oil sands represent the largest single source of supply of oil imported into the United States. The Company has one business and geographical segment. Accordingly, no business and geographical segment information is presented.

The Company's focus is on evaluating and developing its oil sands assets with the completion and operation of the 5,000 bbls/day Phase I commercial West Ells (the "Project"). When financing is available, the Company plans to add an additional 5,000 barrels per day of production capacity at Phase II to the Project. On March 1, 2017, the West Ells Phase I commenced commercial production.

As at December 31, 2021, the Company had invested approximately \$1.29 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at December 31, 2021, the Company had \$0.31 million in cash.

The Company relies on its ability to obtain various forms of financing and cash flow from operations to fund administration expenses and future exploration and development cost of its projects. The Company's ability to continue as a going concern is dependent on continuing operations and development in West Ells, marketing bitumen blends at favorable prices, achieving profitable operations and the ability to refinance current debt and access immediate additional financing. There can be no assurance that the steps management takes will be successful. As such, there is significant doubt and there can be no assurance that the Company will be able to continue as a going concern.

Operational Update

West Ells

On March 1, 2017, the Company achieved a key milestone. The Project commenced commercial production. Hence, effective March 1, 2017, the Company started recording revenue, royalties, expenses and depletion of the West Ells Project.

For three and twelve months ended December 31, 2021, the Company's average bitumen production was zero bbls/day. The bitumen is blended with diluent as part of the production process to create the marketable "Dilbit" blend product. For the twelve months ended December 31, 2021, no diluent blending was made due to temporary suspension of production, whereas diluent was blended at 19.6% volumetric rate for the twelve months ended December 31, 2020 reflecting the blending ratio in 1Q20. The average Dilbit sales volume was 0 bbls/day and 6.7 bbls/day for the three and twelve months ended December 31, 2021

Thickwood and Legend

The Thickwood and Legend projects are each planned for initial phase one production of 10,000 barrels per day. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is pending. Once the Thickwood and Legend Lake's projects are sanctioned for development and construction, significant additional financing will need to be secured to proceed.

Muskwa and Godin Clastics Operations (Non-Operated 50% working interest)

As at the date of this report, Muskwa has no production. Development of Muskwa area is expected to be reactivated in 2022 under new ownership of Renenergy, at no cost to Sunshine.

Summary of Quarterly Results

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

(\$ thousands except per share & bbl/d)	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Bitumen sales (bbl/d)	-	-	-	22	-	-	-	871
Petroleum sales	-	-	-	144	78	266	-	3,840
Royalties	-	-	-	-	-	-	-	5
Diluent	-	-	-	-	-	560	46	1,236
Transportation	-	2	-	43	-	151	(4)	2,379
Operating costs	2,456	1,841	1,602	1,825	1,518	1,584	1,940	4,679
Finance cost	9,392	12,300	11,712	13,422	11,304	13,998	(6,501)	6,149
Net loss/(profit)	707	(27,306)	22,789	2,688	(41,131)	12,083	(14,518)	41,770
Net loss/(profit) attributable to equity holders	632	(27,514)	22,787	2,629	(41,190)	12,028	(14,591)	41,771
Per share - basic and diluted	0.00	(0.11)	0.12	0.02	(0.02)	0.09	(0.16)	0.32
Capital expenditures ¹	1,428	460	486	428	450	294	431	299
Total assets	755,724	762,847	753,425	756,209	761,660	766,750	771,561	773,605
Working capital deficiency ²	93,005	97,147	535,469	513,103	509,044	538,179	260,532	262,004
Shareholders' equity	176,367	176,125	148,756	162,509	165,420	141,463	153,514	134,418

(b) Includes payments for exploration and evaluation, property, plant and equipment.

(c) The working capital deficiency includes the USD current portion of the Notes converted to CAD at each period end exchange rate.

Results of Operations

Operating Netback

(\$ thousands, except \$/bbl)	For the three months ended December 31,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Realized bitumen revenue	\$ -	\$ 78	\$ 144	\$ 2,340
Transportation	-	-	(45)	(2,527)
Royalties	-	-	(1)	(5)
Net bitumen revenues	\$ -	\$ 78	\$ 98	\$ (192)
Operating costs	(2,456)	(1,518)	(7,724)	(9,722)
Operating cash flow ¹	\$ (2,456)	\$ (1,440)	\$ (7,626)	\$ (9,913)
Operating netback (\$ / bbl)	-	-	(3,119.41)	(115.01)

1. Operating cash flow is a non-GAAP measure which is defined in the Advisory section of this MD&A.

The Operating cash flow for the three months ended December 31, 2021 was a net loss of \$2.5 million compared to a net loss of \$1.4 million for the three months ended December 31, 2020. There was no disclosure on operating netback per barrel for 4Q21 as there was zero dilbit sales for 4Q21 after the temporary suspension of production since March 31, 2020.

The operating cash flow for the twelve months ended December 31, 2021 was a net loss of \$7.6 million compared to a net loss of \$9.9 million for the twelve months ended December 31, 2020. Operating netback loss per barrel basis increased by \$3,004.40/bbl to a loss of \$3,119.41/bbl from a loss of \$115.01/bbl for the year ended December 31, 2021. The increase in the loss of operating cash flow per barrel is primarily due to significant decrease in dilbit sales volume.

Bitumen Production

(Barrels/day)	For the three months ended December 31 ,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Bitumen production	-	-	-	247

Bitumen production at West Ells for the three and twelve months ended December 31, 2021 averaged 0 Bbls/day compared to 0 Bbls/day and 247 Bbls/day for the three and twelve months ended December 31, 2020, respectively. Bitumen production decreased by 0 Bbls/day and 247 Bbls/day for the three and twelve months ended December 31, 2021 compared to the same periods in 2020 due to temporary production suspension since March 31, 2020. The Company will continue to monitor the international oil market and the development of Covid-19 pandemic in North America closely.

On March 8, 2022, the Company announced that it has completed the preliminary preparatory work for resumption of production in the West Ells project. It is now in the steaming stage for pre-heating of the ground. The project is expected to resume production in due course.

Bitumen Sales

(Barrels/day)	For the three months ended December 31 ,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Bitumen Sales	-	-	7	236

Bitumen sales at West Ells for the three and twelve months ended December 31, 2021 averaged 0 Bbls/day and 7 Bbls/day compared to 0 Bbls/day and 236 Bbls/day for the three and twelve months ended December 31, 2020, respectively. For the twelve months ended December 31, 2021, bitumen sales decreased by 229 Bbls/day compared to the same period of 2020 due to temporary suspension of production since March 31, 2020.

Petroleum Sales, net of royalties

(\$ thousands, except \$/bbl)	For the three months ended December 31 ,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Petroleum sales	\$ -	\$ 78	\$ 144	\$ 4,184
Royalties	-	-	(1)	(5)
Balance, end of period	\$ -	\$ 78	\$ 143	\$ 4,179
\$ / bbl	-	-	58.75	48.45

Petroleum sales are from the sales of Dilbit. Petroleum sales, net of royalties for the three months ended December 31, 2021 decreased by \$78,000 to \$0 million from \$78,000 for the same period of 2020. The decrease of \$78,000 sales (net of royalties) is mainly due to temporary suspension of production since March 31, 2020. No sales occurred in Q4 2021.

Petroleum sales, net of royalties for the twelve months ended December 31, 2021 decreased by \$4.1 million to \$0.1 million from \$4.2 million for the twelve months ended December 31, 2020. Petroleum sales per barrel, net of royalties increased by \$10.30/bbl to \$58.75/bbl from \$48.45/bbl for the same period of 2020. Petroleum sales net of royalties decreased by \$4.1 million primarily due to temporary suspension of production since March 31, 2020.

The royalty rate applicable to pre-payout oil sands operations starts at 1% of bitumen sales and increases for every dollar that the WTI crude oil price in Canadian dollars is priced above \$55 per barrel, to a maximum of 9% when the WTI crude oil price is \$120 per barrel or higher. The West Ells project is currently in pre-payout. Royalties for the three and twelve months ended December 31, 2021 decreased by \$0 and \$4 thousand compared to the same period of 2020. The decreases in 2021 are mainly due to significant decrease of Dilbit sales resulting from temporary suspension of production since March 31, 2020.

Bitumen Realization

(\$ thousands, except \$/bbl)	For the three months ended December 31 ,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Dilbit revenue	\$ -	\$ 78	\$ 144	\$ 4,184
Diluent blended	-	-	-	(1,842)
Realized bitumen revenue ¹	\$ -	\$ 78	\$ 144	\$ 2,342
(\$ / bbl)	-	-	58.75	27.14

1. Realized bitumen revenue is used to calculate operating netbacks.

Bitumen realization represents the Company's realized petroleum revenue ("Dilbit revenue"), net of diluent expenses. Dilbit revenue represents the Company's revenue from its bitumen produced at West Ells project blended with purchased diluent. The cost of blending is impacted by the amount of diluent required and the Company's cost of purchasing and transporting the diluent. A portion of the diluent expense is effectively recovered in the sales price of the blended product.

During the three months ended December 31, 2021, the Company's bitumen realization revenue decreased by \$0.078 million to \$0 million from \$0.078 million for the three months ended December 31, 2020. The decrease in bitumen realization revenue was primarily due to temporary suspension of production since March 31, 2020. No sales occurred in 4Q2021.

During the twelve months ended December 31, 2021, the Company's bitumen realization revenue decreased by \$2.2 million to \$0.1 million from \$2.3 million for the same period in 2020. The bitumen realized price per barrel increased by \$31.61/bbl to \$58.75 /bbl from \$27.14 /bbl.

Diluent Costs

(\$ thousands, except \$/bbl and blend ratio)	For the three months ended December 31,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Diluent	\$ -	\$ -	\$ -	\$ 1,842
\$/bbl	-	-	-	21.38
Blend ratio	-	-	-	19.6%

At West Ells, diluent is blended with the bitumen as part of the production process to create a marketable Dilbit blend product at West Ells. Diluent expense is mainly impacted by the required amount, cost of purchasing and transporting diluent, Canadian and U.S. benchmark pricing, the timing of diluent inventory purchases and changes in value of the Canadian dollar relative to the U.S. dollar.

Diluent costs per barrel for the twelve months ended December 31, 2021 was \$0/bbl compared to \$21.38/bbl for the twelve months ended December 31, 2020. Diluent costs decreased by \$0 million and \$1.8 million for the three and twelve months ended December 31, 2021 and 2020 respectively were mainly due to temporary suspension of production since March 31, 2020.

Transportation

(\$ thousands, except \$/bbl)	For the three months ended December 31,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Transportation	\$ -	\$ -	\$ 45	\$ 2,526
\$/ bbl	-	-	18.37	29.31

Transportation costs consist of trucking costs for Dilbit and pipeline terminals fees. The transportation expense per barrel for the three months ended December 31, 2021 was \$0/bbl compared to \$0/bbl for the three months ended December 31, 2020. The zero transportation cost per barrel for the three months ended December 31, 2021 and 2020 was due to temporary suspension of production since 31 March 2020. The transportation expense per barrel for the twelve months ended December 31, 2021 was \$18.37/bbl compared to \$29.31/bbl for the twelve months ended December 31, 2020. The decrease in the transportation cost per barrel for the twelve months ended December 31, 2021 and 2020 was mainly due to decreased rates charged by the third party trucking.

Operating Costs

(\$ thousands, except \$/bbl)	For the three months ended December 31,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Energy operating costs	\$ 781	\$ 364	\$ 2,551	\$ 2,268
Non-energy operating costs	1,675	1,155	5,173	7,453
Operating costs	\$ 2,456	\$ 1,519	\$ 7,724	\$ 9,721
\$ / bbl	-	-	3,159.29	112.77

Operating costs are comprised of the sum of non-energy operating costs and energy costs. Non-energy operating costs represent production-related operating activities, excluding energy operating costs. Energy operating costs represent the cost of natural gas for the production of steam and power at the West Ells facilities.

The operating expense per barrel for the twelve months ended December 31, 2021 was \$3,159.29/bbl compared to \$112.77/bbl for the twelve months ended December 31, 2020. For the twelve months ended December 31, 2021, the operating costs per barrel increase by \$3,046.52/bbl compared to the same period in 2020 primarily due to no production since March 31, 2020. Since the majority of the operating costs at West Ells are fixed in nature, the operating costs per barrel of production is expected to reduce as production resumes at West Ells.

General and Administrative Costs

(\$ thousands)	2021			For the three months ended December 31 , 2020		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 897	\$ -	897	\$ 1,092	\$ -	1,092
Rent	41	-	41	142	-	142
Legal and audit	306	-	306	136	-	136
Other	2,907	-	2,907	1,242	-	1,242
Total	\$ 4,151	\$ -	4,151	\$ 2,612	\$ -	2,612

(\$ thousands)	2021			For the twelve months ended December 31, 2020		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Salaries, consulting and benefits	\$ 4,315	\$ -	4,315	\$ 5,044	\$ -	5,044
Rent	234	-	234	169	-	169
Legal and audit	630	-	630	455	-	455
Other	3,933	-	3,933	2,641	-	2,641
Total	\$ 9,112	\$ -	9,112	\$ 8,309	\$ -	8,309

The Company's general and administrative costs were \$4.2 million and \$9.1 million for the three and twelve months ended December 31, 2021 compared to \$2.6 million and \$8.3 million for the three and twelve months ended December 31, 2020. General and administrative costs increased by \$1.6 million for the three and increased by \$0.8 million for the twelve months ended December 31, 2021 compared to the same periods in 2020 mainly due to increase in municipal charges.

Finance Costs

(\$ thousands)	For the three months ended December 31,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Interest expense on senior notes, including yield maintenance premium ("YMP")	\$ 10,430	\$ 13,407	\$ 41,130	\$ 20,084
Interest expense on other loans	(2,288)	(825)	979	3,039
Loan from related companies	958	(127)	3,718	1,143
Other interest expense –lease	47	67	123	182
Unwinding of discounts on provisions	245	(1,218)	876	502
Finance costs	\$ 9,392	\$ 11,304	\$ 46,826	\$ 24,950

The Company's finance costs were \$9.4 million and \$46.8 million for the three and twelve months ended December 31, 2021 compared to \$11.3 million and \$25.0 million for the three and twelve months ended December 31, 2020. For the three months ended December 31, 2021, finance costs decreased by \$1.9 million compared to the same period in 2020 was mainly attributed to interest adjustment. For the twelve months ended December 31, 2021, finance costs increased by \$21.8 million compared to the same period in 2020 was mainly due to prior year's interest adjustment on senior notes including YMP in 3Q20.

Share-based Compensation

(\$ thousands)	For the three months ended December 31 ,					
	2021			2020		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Share-based compensation	\$ 1	-	1	\$ 253	-	253

(\$ thousands)	For the twelve months ended December 31,					
	2021			2020		
	Total	Capitalized	Expensed	Total	Capitalized	Expensed
Share-based compensation	\$ 5	-	5	\$ 507	-	507

Share-based compensation expense for the three and twelve months ended December 31, 2021 was \$0 thousand and \$0 thousand compared to \$300 thousand and \$500 thousand for the same periods in 2020. The fair value of share-based compensation associated with the granting of stock options is recognized by the Company in its audited consolidated financial statements . Fair value is determined using the Black-Scholes option pricing model.

Depletion, Depreciation and Impairment

(\$ thousands, except \$/bbl)	For the three months ended December 31,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Depletion	\$ -	\$ 62	\$ -	\$ 2,120
Depreciation	379	297	1,283	1,434
Impairment	-	-	-	-
Depletion and depreciation	\$ 379	\$ 359	\$ 1,283	\$ 3,554
Depletion (\$ / bbl)	-	-	-	24.89

The Company commenced commercial production at West Ells Project I on March 1, 2017. As at that time, the Company started recording depletion of West Ells Project I assets in the statement of comprehensive income (loss) for the three months ended March 31, 2017. The depletion rate is based on unit-of-production.

Depletion and depreciation expense was \$0.4 million and \$1.3 million for the three and twelve months ended December 31, 2021 compared to \$0.4 million and \$3.6 million for the three and twelve months ended December 31, 2020, respectively. Depletion and depreciation expense decreased by \$0 and \$2.3 million for the three and twelve months ended December 31, 2021 compared to the same periods in 2020 mainly due to no depletion in 2021 resulting from temporary suspension of production and no impairment in 2021.

As of December 31, 2021, the company did not identify any indicators of further impairment of the E&E Assets or the West Ells CGU.

Exploration & Evaluation (“E&E”) Asset Impairment E&E assets are assessed for the indicators of impairment at the end of each reporting period. The assessment for impairment is completed on a CGU basis. After impairment is assessed, any carrying amounts which exceed recoverable amounts, by CGU, on the E&E assets are written down to the recoverable amount through the consolidated statement of profit or loss and other comprehensive income.

For the years ended December 31, 2021 and 2020, the Group assessed E&E assets for any indicators of impairment due to industry pricing fundamentals. Based on recent crude oil prices forecast, there were no impairment recognised for the years ended December 31, 2021 and 2020.

Property, Plant & Equipment (“PP&E”) Asset Impairment

Recoverable amounts for each CGU were estimated based on FVLCD methodology which is calculated using the present value of the CGUs’ expected future cash flows (after-tax). The cash flow information was derived from a report on the Group’s oil and gas reserves which was prepared by an independent qualified reserve evaluator, GLJ Petroleum Consultants (“GLJ”). The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on GLJ’s evaluation of the Group’s reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The pretax discount rates applied in the impairment calculation as at December 31, 2021 was 10% (2020: 10%) based on the specific risk to the assets.

For the year ended December 31, 2021 and 2020, the Group did not recognize an impairment loss based on its assessment that the estimated recoverable amount exceeded the carrying value.

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @Cushing \$/bbl	WCS @ Hardisty \$/bbl	Heavy Oil 12 API @Hardisty \$/bbl	AECO Spot (\$/MMbtu)
2022	0	0.79	73.00	75.63	69.41	3.40
2023	3	0.79	69.01	70.90	65.34	3.10
2024	2	0.79	67.24	68.32	62.66	3.15
2025	2	0.79	68.58	69.68	63.94	3.21
2026	2	0.79	69.96	71.09	65.25	3.28
2027	2	0.79	71.35	72.49	66.56	3.34
2028	2	0.79	72.78	73.95	67.91	3.41
2029	2	0.79	74.24	75.43	69.30	3.48
2030	2	0.79	75.72	76.22	69.76	3.55
2031	2	0.79	77.24	77.75	71.18	3.62
2031+	escalate oil, gas and product prices at 2% per year thereafter					

Income Taxes

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three and twelve months ended December 31, 2021 and 2020. Recognition of tax losses is based on the Company’s consideration of its internal development plan for its asset base and the assumption as to whether or not these tax losses will be utilized before their expiry dates. At December 31, 2021, the Company had total available tax deductions of approximately \$1.66 billion, with unrecognized tax losses that expire between 2030 and 2041.

Liquidity and Capital Resources

	December 31, 2021		December 31, 2020	
Working capital deficiency	\$	93,005	\$	509,044
Shareholders' equity		176,367		165,420
	\$	269,372	\$	674,464

On August 8, 2014, the Company completed an offering of USD 200 million senior secured notes (the "Notes") at an offering price of USD 938.01 per USD 1,000 principal amount. The Notes bear interest at a rate of 10% per annum and had a potential maturity date of August 1, 2017, if certain conditions were met as explained below.

The conditions were if by February 1, 2016, the Company had not: (1) received at least USD 50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield premium, then the final maturity date of the Notes would have been August 1, 2016. The Company did not meet these conditions by February 1, 2016, and as a result the final maturity date of the Notes was August 1, 2016 at which time the Company was negotiating forbearance with the noteholders.

On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a long-term forbearance agreement in respect of the Notes (the "Agreement"). The principal terms of the Agreement included: (a) payment on October 17, 2016 of the yield maintenance premium payment of USD 19.1 million due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes and repurchase of USD 22.5 million in principal amount of the Notes on February 1, 2017; (c) payment of the principal of the Notes and the coupon interest on the Notes on August 1, 2017; (d) payment of forbearance fees accruing at 2.50% on the principal amount of the Notes held by the Forbearing Holders; (e) payment of a fee equal to 7.298% of the outstanding principal amount of the Notes held by the Forbearing Holders on August 1, 2017 and proportionately smaller fees if the Notes are repurchased or redeemed prior to that date; (f) covenants relating to minimum liquidity to be maintained by the Company for specified periods; (g) board of director observation rights for certain significant noteholders; (h) use of proceeds restrictions for the proceeds of any asset sales completed by the Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement (the "NEA") with the Forbearing Holders. The Forbearing Holders agreed to waive the liability of the Company in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made the following payments on or before March 27, 2017:

- (a) Payment of USD 2.8 million representing 20% of the YMP originally due on August 1, 2016;
- (b) Payment of USD 2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment USD 5.2 million was paid;
- (c) Sunshine agreed to repurchase and the Forbearing Holders agreed to sell up to USD 11.2 million of Senior Notes in exchange for Common Shares of Sunshine, pending on conditions.

Other payments contemplated in the FRA included:

- (d) Payment of all legal professional fees by March 21, 2017, which was paid on March 21, 2017;
- (e) 80% of the YMP to be repaid on August 1, 2017 in cash;
- (f) 80% of the accrued interest and forbearance fee of USD 9.6 million to be repaid on August 1, 2017 in cash;
- (g) Make principal repayments to the Forbearing Holders of USD 5.0 million on April 30, 2017, USD 10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On September 26, 2017, the Company and the Forbearing Holders confirmed the signing of the Amended and Restated Forbearance Agreement (the "Amended FA"). The principal terms of the Amended FA include:

- (a) The Forbearance would be extended to August 1, 2018 (New York time), provided that;
- (b) Repayment of USD 0.2 million upon signing the Amended FA, which was paid on September 26, 2017;
- (c) Repayment of USD 1.8 million by October 30, 2017;
- (d) Repayment of USD 5.0 million and USD 15.0 million on February 1, 2018 and May 1, 2018 respectively, if repayment is made prior to December 31, 2017, all accrued and unpaid interests incurred on the corresponding amount will be waived;
- (e) The Company was to obtain financing of USD 5.0 million within 45 days after signing the Amended FA;
- (f) The Company was to obtain financing of USD 5.0 million every quarter.

Some of the Company's loan agreements are subjected to covenant clauses, whereby the Company is required to meet certain criteria. The Company did not fulfil the minimum liquidity, quarterly financings and capital raise covenants as required in the Amended and Restated Forbearance Agreement. Furthermore, Sunshine did not fulfill repayment requirements of USD 1.8 million on October 30, 2017, USD 5.0 million on February 1, 2018 and USD 15.0 million on May 1, 2018.

On August 1, 2018, the Company was required, amongst other matters, repay notes principal, and any previous outstanding payment commitments. Sunshine did not fulfill the repayment requirements. On October 31, 2018 (Calgary time), the Company and the Noteholders signed a Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

1. The Forbearance was extended to August 1, 2019 (New York time);
2. An interest of 10% per annum is incurred from the date hereof until August 1, 2019 (New York time);
3. The Company is to obtain financing of at least USD 5.0 million by April 30, 2019 to maintain sufficient liquidity.

On April 24, 2020, the Company and the Forbearing Holders confirmed the signing of the Forbearance Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

1. The FRAA covers the period from December 31, 2019 to August 31, 2021 ("Period of Forbearance");
2. Same as the Forbearance Reinstatement and Amending Agreement executed on November 1, 2018, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2021, and during the Period of Forbearance, there will not be any forbearance fee and yield maintenance premium based on the initial Forbearance Agreement executed on September 12, 2016.

On February 5, 2021 (Calgary time), the Company and the Forbearing Holder entered into an interest waiver agreement (the "Interest Waiver Agreement I") pursuant to which the Forbearing Holder agree to unconditionally and irrevocably waive the interest accrued between January 1, 2020 to December 31, 2020 at 10.0% per annum on the outstanding amounts (principal and interests) under the FRAA dated April 24, 2020 (the "Waiver of Interest") which amounted to US\$31.5 million. Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.

During the year ended December 31, 2021, the independent note holders ("Transferee Holders") entered into note assignment and transfer agreements with the ultimate controlling party, Mr. Sun (the "Note transferee"), and agreed to assign the initial nominal principal amount of notes from the transferee Holders of approximately US\$188,658,000 (equivalent to approximately CAD\$240,200,000) to the Note transferee.

On August 8, 2021, the Company and the Forbearing Holder confirmed the signing of the Forbearance Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

1. The FRAA covers the period from September 1, 2021 to August 31, 2023 ("Period of Forbearance");
2. Same as the Forbearance Reinstatement and Amending Agreement executed on April 24, 2020, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2023, and during the Period of Forbearance, there will not be any forbearance fee and yield maintenance premium based on the initial Forbearance Agreement executed on September 12, 2016.

On September 28, 2021 (Calgary time), the Company and the Forbearing Holder entered into another interest waiver agreement (the "Interest Waiver Agreement II") pursuant to which the Forbearing Holder agree to unconditionally and irrevocably waive the interest accrued between January 1, 2021 to December 31, 2021 at 10.0% per annum on the outstanding amounts (principal and interests) under the FRAA dated April 24, 2020 (the "Waiver of Interest") which amounted to US\$31.5 million. Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.

The Board believes the entering into of the FRAA is in the interests of the Company and its shareholders as a whole in view that the FRAA will provide the Company with additional time to repay or refinance the indebtedness owned by the Company to the Noteholders under the Notes, whilst at the same time the financing cost has been substantially lowered to reasonable market level.

The Notes contain various non-financial covenants, which among other things, restrict the Company with respect to certain capital expenditures and payments, making investments and loans, incurrence of additional debt and issuance of certain preferred stock, paying dividends, altering the nature of the business, reporting status and undertaking certain corporate transactions.

The Note Indenture allows the Company to incur additional indebtedness in an aggregate principal amount not to exceed USD 5.0 million (the "Permitted Debt"). The Company had asked for consent from a majority note holders, effective as of April 14, 2016, to amend the Note Indenture to increase the amount of Permitted Debt from USD 5.0 million to USD 15.0 million. A majority of the Note holders agreed to this amendment as of May 11, 2016. As of December 31, 2021, the Company had incurred unsecured third party debt for a total of USD 32.9 million (CDN 41.7 million equivalent). (Permitted Debt limit is USD 15.0 million.)

The Group has presented the Notes and Loans as a non-current liability on the Audited consolidated financial statements of Financial Position as at December 31, 2021.

The Group received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016-2021 municipal property taxes of CAD 12.37 million. The Group was also charged with overdue penalties of CAD 7.97 million. Since then the Group was in active negotiation with RMWB for a settlement plan with proposals to waive overdue penalties. As at the date of this report, the Group believes that notices issued by RMWB relating to property taxes did not comply with relevant legislation and the Company has sought judicial review to determine the effect of non-compliant tax notices on RMWB's property tax claim.

The Company is involved in various claims including claims described above and actions arising in the course of operations and is subject to various legal actions, pending claims and exposures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Unfavorable outcome were to occur against such claims or pending claims, there exists the possibility of a material adverse impact on the Company's consolidated net income or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such claims. While fully supportable in the Company's view, some of these positions, if challenged may not be fully sustained on review. From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At December 31, 2021, the Company had incurred \$0.82 million (USD \$1.02 million equivalent using the period end exchange rate) in Builders' liens (not related mineral leases) against them during the ordinary course of business.

The Notes are translated into Canadian dollars at the year ended exchange rate of \$1USD = \$1.2678 CAD.

The Group's strategy is to access sufficient capital, through equity issuances, monetization, joint ventures and the utilization of debt, in order to maintain a capital base that properly supports the objectives of maintaining financial flexibility and of sustaining future development of the business. The Group manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Group's risk profile. In order to manage risk, the Group may from time to time issue shares and adjust its capital spending to manage current working capital deficiency levels. The Group's liquidity may be adversely affected if the Group's access to the capital markets is hindered because of financial market conditions generally, or as a result of conditions specific to the Group.

For the twelve months ended December 31, 2021, the Company reported a net gain attributable to equity holders of \$1.5 million. At December 31, 2021, the Company had a working capital deficiency of \$93.0 million

The Group's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 77% as at December 31, 2021, compared to 78% as at December 31, 2020.

The Group is exposed to currency risks primarily through loan receivables, loans from related companies, other loans, senior notes and convertible bonds and bank balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The foreign currencies giving rise to this risk are primarily Hong Kong dollar ("HK\$"), United States dollar ("US\$") and Renminbi ("RMB").

The following table details the Group's exposure as at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2021			2020		
	HK\$ CAD'000	US\$ CAD'000	RMB CAD'000	HK\$ CAD'000	US\$ CAD'000	RMB CAD'000
Asset						
Bank balances and cash	181	1	11	440	1	379
Loan receivables	12,286	-	-	12,882	-	-
Liabilities						
Convertible bonds	-	-	-	(9,306)	-	-
Loan from related companies	(20,533)	-	(21,089)	(16,764)	-	(16,148)
Other loans	(13,564)	-	-	(13,204)	-	-
Senior notes	-	(251,838)	-	-	(252,911)	-
	<u>(21,630)</u>	<u>(251,837)</u>	<u>(21,078)</u>	<u>(25,952)</u>	<u>(252,910)</u>	<u>(15,769)</u>

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging of significant foreign currency exposure should the need arise.

Royalty Agreement

On August 31, 2021 (Calgary time), the Company entered into a Royalty Agreement (together with its ancillary documents, the "Royalty Agreement") with Burgess Energy Holdings, L.L.C. ("BEH"), pursuant to which, the Corporation has granted to BEH a royalty interest in the bitumen within, upon, under or produced from the royalty lands owned by the Corporation and/or its affiliates, free and clear of any and all encumbrances for an aggregate consideration of CAD 20,000,000 (the "Aggregate Consideration"), subject to the terms and conditions stipulated therein. The arrangement under the Royalty Agreement is perpetual.

Commitments and Contingencies

Management estimated the contractual maturities of the Group's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. For a detailed discussion regarding to the Group's commitments and contingencies, please refer to the Group's Audited Consolidated Financial Statements and notes thereto for the three and twelve months period ended December 31, 2021 and with the Audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2020.

Transactions with Related Parties

For the twelve months ended December 31, 2021, a consulting Group, to which a director of Sunshine is related, charged the Group CAD 0.5 million (December 31, 2020 – CAD 0.5 million) for management and advisory services.

As at December 31, 2021, Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 150,232,591 common shares of the Company, which represents approximately 61.70% of the Company's outstanding common shares.

On March 25, 2019, the Group signed a supplementary agreement with Renegy Petroleum (Canada) Co., Ltd, owned by Mr. Kwok Ping Sun, regarding the proposed Amendment of the Joint Operating Agreements on Muskwa and Godin area oil sands leases.

On April 1, 2020, the Company and a company wholly owned by Mr. Kwok Ping Sun entered into a Subscription Agreement for convertible bonds ("CB") in an aggregate principal amount of HK\$ 72,000,000. With an initial conversion price of HK\$ 0.632 per share, a maximum of 113,924,051 new Class "A" common shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on May 25, 2020. The subscription was completed on June 15, 2020. The entire proceeds was used for financing general working capital and repayment of debts. On October 1, 2020, the Company has received notice for conversion from the Subscriber. The Whitewash Waiver has been conditionally granted by HKSFC on March 4, 2021. The Conversion and the Whitewash Waiver has been approved by the independent shareholders at the Special General Meeting on March 5, 2021. On April 7, 2021, the Conversion was completed and 113,924,051 new shares were duly allotted and issued to the Subscriber

As at December 31, 2021, the Company had loans from related companies which are unsecured, interest bearing at 10% per annum, and of which approximately CAD 41,717,000 can be roll over for a period of 2 to 3 years.

Off-balance Sheet Arrangements

As at December 31, 2021, the Group did not have any other off-balance sheet arrangements.

Subsequent Event

On March 8, 2022, the Company has completed the preliminary preparatory work for resumption of production in the West Ells project which is in the steaming stage for pre-heating of the ground. The project is expected to resume production in due course.

Critical Accounting Policies and Estimates

The Group's critical accounting estimates are those estimates having a significant impact on the Group's financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgements, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgements, assumptions and estimates may be subject to change.

For a detailed discussion regarding to the Group's critical accounting policies and estimates, please refer to Note 5 to the consolidated annual financial statements for the year ended December 31, 2021

Risk Factors

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Group, their potential impact and the Group's principal risk management strategies are substantially unchanged from those disclosed in the Group's MD&A for the year ended December 31, 2021. The 2021 annual report of the Group will be available at the Group's website at www.sunshineoilsands.com, and the website of the SEHK, www.hkexnews.hk.

Disclosure Controls and Procedures

Gloria Ho, Executive Director of the Board and Chief Financial Officer and Mr. Frank Ng, who temporarily assumes direct responsibility for all CEO tasks and functions, have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Group is made known to the Group's CFO by others, particularly during the period in which the annual and quarterly filings are being prepared; and (ii) information required to be disclosed by the Group in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at December 31, 2021, the Chief Financial Officer and the interim Chief Executive Officer evaluated the design and operation of the Group's DC&P. Based on that evaluation, the Executive Director of the Board and the Chief Financial Officer and the interim Chief Executive Officer concluded that the Group's DC&P were effective as at December 31, 2021.

Internal Controls over Financial Reporting

Gloria Ho, Executive Director of the Board and Chief Financial Officer and Mr. Frank Ng, who temporarily assumes direct responsibility for all CEO tasks and functions, have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Group's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Furthermore, the Group used the criteria established in "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework); they have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Group's ICFR at December 31, 2021, and concluded that the Group's ICFR are effective at December 31, 2021 for the foregoing purpose.

No material changes in the Group's ICFR were identified during the three months and year ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Group's ICFR. It should be noted that a control system, including the Group'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.

ADVISORY SECTION

Non-GAAP Measures

This MD&A includes references to certain measures which do not have a standardized meaning as prescribed by IFRS, such as "operating netbacks" and "Cash flow used in operations", and therefore are considered non-GAAP measures. These non-GAAP measures are commonly used in the oil and gas industry and the Group believes including such measures is useful to investors. Investors are cautioned that these non-GAAP measures should not be construed as an alternative to measures calculated in accordance with IFRS as, given the non-standardized meanings, these measures may not be comparable to similar measures presented by other issuers.

Cash Flow Used in Operations

Cash flow used in operations is non-GAAP measure utilized by the Group to analyze operating performance and liquidity. Cash flow used in operations excludes the net change in non-cash operating working capital and decommissioning expenditures while the IFRS measurement "Net cash used in operating activities" includes these items. Cash flow used in operations is reconciled to Net cash used in operating activities in the table below:

(\$ thousands)	For the three months ended December 31,		For the twelve months ended December 31,	
	2021	2020	2021	2020
Net cash used in operating activities	\$ (12,070)	\$ 2,299	\$ (9,893)	\$ (11,341)
Add				
Net change in non-cash operating working capital items	7,037	(5,452)	(5,266)	(5,265)
Cash flow used in operations	\$ (5,033)	\$ (3,153)	\$ (15,159)	\$ (16,606)

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 Group hereby cautions investors about important factors that could cause the Group'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 Group'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 Group 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 Group 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.

Additional Stock Exchange Information

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

Code of Corporate Governance Practice (the “Code”)

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

The Company confirms that the Code, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the “Hong Kong Listing Rules”), has been complied with following its public listing, save that

(i) the Company has not entered into formal letters of appointment with its directors. Nevertheless, each of the Directors will be appointed on an annual basis by the shareholders of the Company at each annual general meeting, which is consistent with the market practice in Canada.

(ii) The Company is in course of identifying suitable insurers for appropriate insurance coverage for legal actions against the Company's Directors.

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

The Group confirms that it has adopted the Model Code, as set out in Appendix 10 to the Hong Kong Listing Rules, following its public listing. Having made specific enquiries with all directors, the directors have confirmed and complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

Movements in Stock Options

The table below presents the movements in stock options for Directors, the chief executive and other executive management of the Group during the year ended December 31, 2021.

Name	December 31, 2020	Granted	Exercised	Forfeited	Expired	December 31, 2021
Kwok Ping Sun	6,933,580	-	-	-	(933,580)	6,000,000
Michael Hibberd	933,580	-	-	-	(933,580)	-
Gloria Ho	400,000	-	-	-	(100,000)	300,000
Yi He	150,000	-	-	-	(20,000)	130,000
Xijuan Jiang	20,000	-	-	-	(20,000)	-
Guangzhong Xing	100,000	-	-	-	-	100,000
Sub-total for Directors	8,537,160	-	-	-	(2,007,160)	6,530,000
Sub-total for other share option holders	518,841	-	-	-	(468,841)	50,000
Total	9,056,001	-	-	-	(2,476,001)	6,580,000

Please refer to our consolidated financial statements included in the 2021 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2021.

Fair Value of Share Options Granted

The weighted average fair value of the share options in previous years was CAD 0.012 (2020 – CAD 0.6). Options were valued using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility of the Group during 2021 and 2020.

The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted in previous years.

Input variables	2021	2020
Grant date share price (\$)	0.012-0.04	0.60-2.00
Exercise price (\$)	0.012-0.04	0.60-2.00
Expected volatility (%)	61.88-63.91	61.88-63.91
Option life (years)	2.50-2.68	1.32-2.50
Risk-free interest rate (%)	0.93-1.95	1.48-1.95
Expected forfeitures (%)	14.76-15.39	15.39-15.39

Purchase, Sale or Redemption of Sunshine's Listed Securities

Class "A" Common Shares

General mandate

2021 activity

In relation to the "Chairman CB" issued on June 15, 2020 (see "2020 activity" for details), Mr. Kwok Ping Sun has made application to the Securities & Futures Commission of Hong Kong ("HKSF") for a Whitewash Waiver. The Whitewash Waiver was conditionally granted by HKSF on March 4, 2021. The Conversion and the Whitewash Waiver has been approved by the independent shareholders at the Special General Meeting on March 5, 2021. On April 7, 2021, the Conversion was completed and 113,924,051 new shares were duly allotted and issued to the Subscriber.

2020

On January 3, 2020, the Board proposed to implement a Share Consolidation on the basis that every fifty (50) Existing Shares will be consolidated into one (1) Consolidated Share. The total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation was rounded down to a whole number by cancelling any fractional Shares of the Company arising from the Share Consolidation. The Share Consolidation was conditional upon, among other things, the approval of the Shareholders at the SGM. The Board proposed to change the board lot size for trading on the Stock Exchange from 500 Existing Shares to 1,000 Consolidated Shares conditional upon the Share Consolidation becoming effective.

On February 24, 2020, a Special General Meeting approved the Share Consolidation and the Change in Board Lot Size became effective on February 26, 2020.

On February 27, 2020, the Company entered into a settlement agreement for a total of 1,443,000 consolidated Class "A" common shares at a price of HK\$ 1.31 per share (post-consolidation) for gross proceeds of HK\$ 1,896,000 (CDN 324,000). On March 5, 2020, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party.

On April 1, 2020, the Company and a company wholly owned by Mr. Kwok Ping Sun entered into a Subscription Agreement for convertible bonds ("CB") in an aggregate principal amount of HK\$ 72,000,000. With an initial conversion price of HK\$ 0.632 per share, a maximum of 113,924,051 new Class "A" common shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on May 25, 2020. The subscription was completed on June 15, 2020. The entire proceeds will be used for financing general working capital and repayment of debts.

Shares Outstanding

As at December 31, 2021 the Group has 243,478,681 Class "A" common shares issued and outstanding.

Employees

As at December 31, 2021, the Group has 24 full-time employees. For the three and twelve months ended December 31, 2021, total staff costs amounted to \$1 million and \$4 million, respectively.

Dividends

The Group has not declared or paid any dividends in respect of the year ended December 31, 2021 (year ended December 31, 2020 - \$Nil).

Review of Annual Results

The audited consolidated financial statements for the Group for the three and twelve months ended December 31, 2021, were reviewed by the Audit Committee of the Group and approved by the Board.

Publication of Information

This annual results report is published on the websites of the SEHK (www.hkexnews.hk) and the Group's website at www.sunshineoilsands.com.

This report is prepared in both English and Chinese and in the event of inconsistency, the English text of this report shall prevail over the Chinese text.

Outlook

Sunshine will continue to focus on cost controls and carefully monitor developments in crude oil markets as well as the development of COVID-19 pandemic in North America. As at the date hereof, the Corporation's production resumption is on track. The Corporation is working with its joint venture partner for re-activation of the Muskwa and Godin Area activities.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF SUNSHINE OILSANDS LTD.**
(Incorporated in the Province of Alberta, Canada with limited liability)

Opinion

We have audited the consolidated financial statements of Sunshine Oilsands Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 48 to 113, which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board (the "IAASB"). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to the Going Concern

We draw attention to Note 2 to the consolidated financial statements, which indicates that the Group's total current liabilities exceeded its total current assets by approximately CAD93,005,000 as at December 31, 2021. This conditions, along with other matters as set forth in Note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Key audit matters (Continued)

Impairment assessment of Exploration and Evaluation ("E&E") Assets

Refer to note 11 to the consolidated financial statements and the accounting policies on pages 64 and 65.

The key audit matter

As at December 31, 2021, the carrying amount of the Group's E&E assets was approximately CAD255,696,000.

The management of the Company reviewed petroleum properties, which comprise different cash generating units ("CGUs"), for indicators of possible impairment or reversal of impairment by considering events or changes in circumstances. Such events and changes in circumstances included the economic impact on these CGUs resulting from fluctuation of crude oil prices, production costs and change in production and oil reserve volumes.

The management of the Company compared the carrying amount of each CGU with its recoverable amount, which was estimated by calculating the fair value less costs of disposal using a discounted cash flow forecast, to determine the amount of impairment or reversal of impairment, if any. In determining fair value less costs of disposal, the estimated future cash flows of contingent resources were discounted to their present value using a post-tax discount rate. The management of the Company applied critical judgment in determining the recoverable amount.

The preparation of discounted cash flow forecast involves the exercise of significant management judgement, particularly in estimating for the quantity of contingent resources, future commodity prices, production rates, operating expenses and development costs, as well as a discount rate. The management of the Company engages independent qualified reserves evaluators to evaluate the contingent resources associated with the E&E assets.

We have identified the impairment assessment of the E&E assets as a key audit matter because the amount is significant to the consolidated financial statements as a whole and involve the exercise of significant management judgement in estimating the inputs in the impairment assessment models, which a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the significant assumptions.

How the matter was addressed in our audit

Our audit procedures were designed to perform, amongst others:

- Understanding the process and testing the design and implementation of the key controls over management's review on impairment assessment of E&E assets.
- Examining and challenging management's assessment of impairment indicators, specifically on status of the evaluation and development activities.
- Examining the methodology adopted by management in the impairment assessments with reference to the requirements of the prevailing accounting standards.
- Evaluating the competence, capabilities, and objectivity of the independent qualified reserves evaluators engaged by the management, and the methodology used by the independent qualified reserves evaluators.
- Examining the impairment assessment prepared by the management of the Company, with involving our expert to assist us in assessing whether the management's discount rate and future commodity prices, by comparing it against market data and other external data.
- Considering the disclosures in the consolidated financial statements in respect of the impairment assessment of petroleum properties and the key assumptions adopted with reference to the requirements of the prevailing accounting standards.

Based on the above procedures we have performed, we found management's impairment assessments of exploration and evaluation are supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Key audit matters (Continued)

Impairment assessment of property, plant and equipment

Refer to note 12 to the consolidated financial statements and the accounting policies on pages 65 to 66.

The key audit matter

As at December 31, 2021, the carrying amount of the Group's property, plant and equipment was approximately CAD 477,624,000.

The management of the Company performed impairment assessment of the property, plant and equipment by determining recoverable amount with reference to the value-in-use calculations. The value-in-use calculations were based on discounted cash flows forecast, with the use of estimates on future selling prices for crude oil, future production profiles and in determining appropriate discount rates.

We have identified the impairment assessment of the property, plant and equipment as a key audit matter because the amount is significant to the consolidated financial statements as a whole and there is involvement of a significant degree of judgements and estimates made by the management of the Company.

How the matter was addressed in our audit

The audit procedures that we performed, amongst others, included:

- Understanding the process and testing the design and implementation of the key controls over management's review on impairment assessment of property, plant and equipment.
- Examining and challenging management's assessment of impairment indicators and the methodology adopted by management in the impairment assessments with reference to the requirements of the prevailing accounting standards.
- Evaluating the competence, capabilities, and objectivity of the independent qualified reserves evaluators engaged by the Group, and the methodology used by the independent qualified reserves evaluators.
- Comparing the forecasted commodity prices used in the estimate of proved and probable reserves to those published by other reserve engineering companies.
- Comparing estimates of forecasted production, forecasted operating, royalty and capital cost assumptions used in the estimate of proved and probable reserves to historical results.
- Examining the impairment assessment prepared by the management of the Company, with involving our expert to assist us in assessing whether the management's discount rate, by comparing it against market data and other external data.
- Evaluating the disclosures in the financial statements in respect of the impairment assessment of the CGUs and the key assumptions adopted with reference to the requirements of the prevailing accounting standards.

Based on the above procedures we have performed, we found management's impairment assessments of property, plant and equipment are supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors of the Company and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body and our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Fung Shing Bun, Spencer.

UniTax Prism (HK) CPA Limited
Certified Public Accountants
Fung Shing Bun, Spencer
Practising Certificate Number: P07451

Hong Kong, March 25, 2022

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at December 31, 2021	As at December 31, 2020
		CAD'000	CAD'000
Assets			
<i>Current assets</i>			
Other receivables	8	2,290	1,636
Loan receivables	9	10,758	-
Cash and cash equivalents	10	312	838
		13,360	2,474
 <i>Non-current assets</i>			
Exploration and evaluation assets	11	255,696	256,195
Property, plant and equipment	12	477,624	481,825
Right-of-use assets	13	5,515	1,722
Other receivables	8	2,001	6,562
Loan receivables	9	1,528	12,882
		742,364	759,186
Total assets		755,724	761,660
 Liabilities and shareholders' equity			
<i>Current liabilities</i>			
Trade payables and accrued liabilities	14	52,148	223,711
Lease liabilities	13	562	993
Loans from related companies	17	41,717	32,745
Other loans	15	11,938	1,158
Senior notes	15	-	252,911
		106,365	511,518
 <i>Non-current liabilities</i>			
Interest payables	14	164,525	-
Convertible bonds	16	-	9,306
Lease liabilities	13	233	801
Loans from related companies	17	-	263
Other loans	15	1,626	13,204
Senior notes	15	251,838	-
Provisions	18	54,770	61,148
		472,992	84,722
Total liabilities		579,357	596,240

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(CONTINUED)

	Notes	As at December 31, 2021	As at December 31, 2020
		CAD'000	CAD'000
Shareholders' equity			
Share capital	19	1,315,265	1,296,814
Reserve for share-based compensation		76,416	76,411
Convertible bonds equity reserve	16	-	4,170
Capital reserve		(4,453)	-
Exchange fluctuation reserve		(403)	(412)
Accumulated deficit		(1,209,775)	(1,211,241)
Equity attributable to owners of the Company		177,050	165,742
Non-controlling interests		(683)	(322)
Total shareholders' equity		176,367	165,420
Total liabilities and shareholders' equity		755,724	761,660
Going concern	2		
Commitments and contingencies	32		
Subsequent events	37		

The consolidated financial statements on pages 48 to 113 were approved and authorised for issue by the board of directors on March 25, 2022 and are signed on its behalf by:

David Yi He,
Independent Non-Executive Director

Kwok Ping Sun,
Executive Director

The accompanying notes form part of these annual consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2021

	Notes	<u>2021</u>	<u>2020</u>
		CAD'000	CAD'000
Revenue	20	143	4,179
Other income	22	65,936	50,201
		<u>66,079</u>	<u>54,380</u>
Expenses			
Diluent costs		-	(1,842)
Transportation costs		(45)	(2,526)
Operating costs		(7,724)	(9,721)
Depletion and depreciation	12	(1,283)	(3,554)
Impairment loss on financial assets, net of reversal		38	(988)
General and administrative costs		(9,112)	(8,309)
Finance costs	23	(46,826)	(24,950)
Share-based compensation	28	(5)	(507)
		<u>(64,957)</u>	<u>(52,397)</u>
Profit before income tax		1,122	1,983
Income tax expenses	29	-	-
Profit for the year	24	<u>1,122</u>	<u>1,983</u>
Profit (loss) for the year attributable to:			
Owners of the Company		1,466	2,228
Non-controlling interests		(344)	(245)
		<u>1,122</u>	<u>1,983</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2021

	Notes	<u>2021</u> CAD'000	<u>2020</u> CAD'000
Other comprehensive expense			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translation of financial statements from functional currency to presentation currency		<u>(8)</u>	<u>(416)</u>
Other comprehensive expense for the year		<u>(8)</u>	<u>(416)</u>
Total comprehensive income for the year		<u>1,114</u>	<u>1,567</u>
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		1,475	1,816
Non-controlling interests		<u>(361)</u>	<u>(249)</u>
		<u>1,114</u>	<u>1,567</u>
Earnings per share			
Basic and diluted (CAD cents)	25	<u>0.69</u>	<u>1.72</u>

The accompanying notes form part of these annual consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2021

Notes	Attributable to owners of the Company						Total	Non-controlling interests	Total equity
	Share capital	Reserve for share-based compensation	Convertible bonds equity reserve	Capital reserve	Exchange fluctuation reserve	Accumulated deficit			
	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000
Balance as at January 1, 2021	1,296,814	76,411	4,170	-	(412)	(1,211,241)	165,742	(322)	165,420
Profit (loss) for the year	-	-	-	-	-	1,466	1,466	(344)	1,122
Other comprehensive income (expense)									
Items that will not be reclassified subsequently to profit or loss									
- Exchange differences arising on translation of financial statements from functional currency to presentation currency	-	-	-	-	9	-	9	(17)	(8)
Total comprehensive income (expense) for the year	-	-	-	-	9	1,466	1,475	(361)	1,114
Conversion of convertible bond	16	18,467	-	(4,170)	(4,453)	-	9,844	-	9,844
Recognition of equity-settled share-based payments	28	-	5	-	-	-	5	-	5
Share issue costs, net of deferred tax	19	(16)	-	-	-	-	(16)	-	(16)
Balance as at December 31, 2021	<u>1,315,265</u>	<u>76,416</u>	<u>-</u>	<u>(4,453)</u>	<u>(403)</u>	<u>(1,209,775)</u>	<u>177,050</u>	<u>(683)</u>	<u>176,367</u>

The accompanying notes form part of these annual consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2021

(CONTINUED)

	Notes	Attributable to owners of the Company					Total	Non-controlling interests	Total equity
		Share capital	Reserve for share-based compensation	Convertible bonds equity reserve	Exchange fluctuation reserve	Accumulated deficit			
		CAD'000	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000
Balance as at January 1, 2020		1,296,523	75,904	-	-	(1,213,469)	158,958	(73)	158,885
Profit (loss) for the year		-	-	-	-	2,228	2,228	(245)	1,983
Other comprehensive income (expense)									
Items that will not be reclassified subsequently to profit or loss									
- Exchange differences arising on translation of financial statements from functional currency to presentation currency		-	-	-	(412)	-	(412)	(4)	(416)
Total comprehensive (expense) income for the year		-	-	-	(412)	2,228	1,816	(249)	1,567
Issue of common shares	19	324	-	-	-	-	324	-	324
Issue of convertible bonds	16	-	-	4,170	-	-	4,170	-	4,170
Recognition of equity-settled share-based payments	28	-	507	-	-	-	507	-	507
Share issue costs, net of deferred tax	19	(33)	-	-	-	-	(33)	-	(33)
Balance as at December 31, 2020		<u>1,296,814</u>	<u>76,411</u>	<u>4,170</u>	<u>(412)</u>	<u>(1,211,241)</u>	<u>165,742</u>	<u>(322)</u>	<u>165,420</u>

The accompanying notes form part of these annual consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2021

	2021	2020
	<u>CAD'000</u>	<u>CAD'000</u>
Operating activities		
Profit before income tax	1,122	1,983
Adjustments for:		
Depletion, depreciation and impairment	1,283	3,554
Loss on disposal and written-off of property, plant and equipment	29	1,026
Gain on derecognition of right-of-use and lease liabilities	-	(82)
Unrealised foreign exchange gain	(18,902)	(6,209)
Income from over-provision of trade payables	-	(326)
Income from waived of interest expense on senior notes, including yield maintenance premium	(39,528)	(42,992)
Income from over-provision of interest arising from other loans	(1,567)	-
Income recognised in relation to the bitumen royalty agreement	(4,385)	-
Interest income	(4)	(5)
(Reversal of) impairment loss on financial assets	(38)	988
Finance costs	46,826	24,950
Share-based compensation	5	507
	<u>(15,159)</u>	<u>(16,606)</u>
Operating cash flows before movements in working capital	(15,159)	(16,606)
(Increase) decrease in other receivables	(204)	1,983
(Increase) decrease in prepaid expenses and deposits	(805)	1,542
Increase in trade payables and accrued liabilities	6,275	1,740
	<u>(9,893)</u>	<u>(11,341)</u>
Net cash used in operating activities	<u>(9,893)</u>	<u>(11,341)</u>
Investing activities		
Payments for property, plant and equipment	(1,536)	(397)
Payments for exploration and evaluation assets	(1,276)	(1,077)
Interest received	4	5
Proceeds from sale of property, plant and equipment	-	3,762
	<u>(2,808)</u>	<u>2,293</u>
Net cash (used in) generated from investing activities	<u>(2,808)</u>	<u>2,293</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2021

(CONTINUED)

	2021	2020
	CAD'000	CAD'000
Financing activities		
Payments for share issue costs	(16)	(33)
Payment for finance costs	(208)	(2,412)
Proceeds from bitumen royalty agreement (note 14(c))	6,000	-
Proceeds from other loans	492	104
Repayment of other loans	(1,229)	(3,678)
Proceeds from related companies' loans	15,300	17,605
Repayment of related companies' loans	(7,074)	(1,972)
Repayment of lease liabilities	(1,134)	(963)
	<hr/>	<hr/>
Net cash generated from financing activities	12,131	8,651
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(570)	(397)
	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	838	1,254
Effect of foreign exchange rate changes	44	(19)
	<hr/>	<hr/>
Cash and cash equivalents, end of year	312	838
	<hr/>	<hr/>

The accompanying notes form part of these annual consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

1. CORPORATE INFORMATION

Sunshine Oilsands Ltd. (the “Company”) was incorporated under the laws of the Province of Alberta on February 22, 2007. Its ultimate controlling party is Mr. Sun Kwok Ping (“Mr. Sun”). The address of its principal place of business is 1100, 700 – 6th Avenue S.W., Calgary, Alberta, Canada T2P 0T8. The Company’s shares were listed on the Stock Exchange of Hong Kong Limited (“SEHK”) on March 1, 2012 pursuant to an initial public offering (“IPO”) and trades under the stock code symbol of “2012”. On November 16, 2012, the Company completed a listing of its common shares on the Toronto Stock Exchange (“TSX”) and traded under the symbol of “SUO”. On September 30, 2015, the Company completed a voluntary delisting from the TSX. The Company continues to be a reporting issuer in Canada.

The Group is engaged in the evaluation and the development of oil properties for the future production of crude oil products in the Athabasca oilsands region in Alberta, Canada. Details of the subsidiaries are set out in note 34.

The consolidated financial statements are presented in Canadian Dollars (“CAD”) which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 effects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5.

As at December 31, 2021, the Group’s total current liabilities exceeded its total current assets by approximately CAD93,005,000. Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of the going concern basis is dependent upon the success of the Group’s future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements.

Also, the directors of the Company are of the opinion that the Group will be able to finance its future financing requirements and working capital based on the following considerations:

- The ultimate controlling party, Mr. Sun, has agreed to provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due for the foreseeable future;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

- The related companies have agreed to provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due for the foreseeable future and not call for any principal and accrued interest amounting approximately CAD41,717,000, until the Group is in a financial position to do so;
- On March 8, 2022, the Company has completed the preliminary preparatory work for resumption of production in the West Ells project which is in the steaming stage for pre-heating of the ground. The project is expected to resume production in due course and thus the Group is expected to generate adequate cash flows to maintain its operations; and
- The directors have reviewed the Group's cash flow projections which cover a period of not less than twelve months for the twelve months ending December 31, 2021.

In view of the above, the directors of the Company are of the opinion that there will be sufficient financial resources available to the Group to enable it to meet its liabilities as and when they fall due and to continue as a going concern. Accordingly, the directors of the Company have prepared the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the directors of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows in the near future and obtain the continuous financial support from its ultimate controlling parties and senior note holders.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in these financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied, for its first time, the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") which are effective for the Group's financial year beginning January 1, 2021.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2
Amendment to IFRS 16	Covid-19 - Related Rent Concessions

The application of other new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs and interpretation that have been issued but are not yet effective:

IFRS 17	Insurance Contracts ³
Amendments to IFRS 3	Reference to the Conceptual Framework ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture ⁴
Amendments to IAS 1	Classification of liabilities as Current or Non-current ³
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to IAS 8	Definition of Accounting Estimates ³

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

Amendments to IAS12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to IAS 16	Property, Plant and Equipment - Proceeds before Intended Use ²
Amendments to IAS 37	Onerous contracts: Cost of fulfilling a contract ²
Amendments to IFRS 16	COVID-19 - Related Rent Concessions beyond June 30 2021 ¹
Amendments to IFRSs	Annual Improvements to IFRS 2018 - 2020 cycle ²

¹ Effective for annual periods beginning on or after April 1, 2021

² Effective for annual periods beginning on or after January 1, 2022

³ Effective for annual periods beginning on or after January 1, 2023

⁴ Effective date not yet been determined

The directors of the Company anticipate that, the application of the new and amendments to IFRSs will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Company Ordinance.

The consolidated financial statements have been prepared on historical cost basis, except for financial instruments that are measured at fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

Control is achieved where the Group has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the Group's returns.

When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control stated above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

Revenue from contracts with customers

Revenue from the sale of crude oil products is recognised based on the consideration specified in contracts with customers and when control of the product transfers to the customer and collection is reasonably assured. The crude oil products revenue is based on floating prices specified in the contract and the revenue is recognised when it transfers control of the product to a customer. The sales or transaction price of the Group's crude oil products to customers are made pursuant to contracts based on prevailing commodity pricing and adjusted by quality and equalisation adjustments. The revenue is collected on the 25th day of the month following sales.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Leasing

Definition of a lease

Under IFRS 16 *Leases*, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract or modification date or acquisition date, as appropriate. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

- or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 *Provision, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

When the Group obtains ownership of the underlying leased assets at the end of the lease term upon exercising purchase options, the carrying amount of the relevant right-of-use asset is transferred to property, plant and equipment.

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient for all leases.

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. CAD) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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 capitalisation.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs and termination benefits

Payments to the defined contribution plans, state-managed retirement benefit schemes, the Mandatory Provident Fund Scheme (the "MPF scheme") and the Employee Provident Fund (the "EPF scheme") and Canada Pension Plan ("CPP") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit (loss) before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements 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 difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition 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 Group 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 utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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 is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each 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 on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Current and deferred tax are recognised in profit or loss.

Oil and natural gas exploration and development expenditures

Exploration and evaluation ("E&E") assets

E&E assets are those expenditures for an area where technical feasibility and commercial viability have not yet been determined. These costs include unproved property acquisition costs, geological and geophysical costs, E&E 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 capitalised as E&E assets until the drilling of the well is complete and the results have been evaluated.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

The decision to transfer assets from E&E to development and producing assets (included in property, plant and equipment occurs when the technical feasibility and commercial viability of the project is determined, based on proved and probable reserves being assigned to the project. If commercial reserves are found, exploration and evaluation intangible assets are tested for impairment and transferred to appraisal and development tangible assets as part of property, plant and equipment. No depreciation and/or amortisation is charged during the E&E phase.

Impairment

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

E&E assets are assessed for the indicators of impairment at the end of each reporting period. The assessment for impairment is completed on a CGU basis. After impairment is assessed, any carrying amounts which exceed recoverable amounts, by CGU, on the E&E assets are written down to the recoverable amount through the consolidated statement of profit or loss and other comprehensive income.

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

Property, plant and equipment

Property, plant and equipment comprises mainly computers and office equipment and development and production assets (includes crude oil products assets), The initial cost of a property, plant 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. Property, plant and equipment are carried at cost less the total of accumulated depletion, depreciation and impairment losses.

Turnaround costs

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

Maintenance and repairs

Major repairs and maintenance consist 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 Group, the expenditure is capitalised and

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depreciated the decreasing charge over the remaining life of the asset. The net carrying value of the asset or substantial part being replaced is derecognised at the time the replacement is capitalised. All other maintenance costs are expensed as incurred.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depletion and depreciation

Depletion of development and production costs (crude oil products assets), included in property, plant and equipment, and production equipment are measured on the unit-of-production method based upon estimated proved plus probable recoverable oil and natural gas reserves before royalties in each CGU as determined by independent engineers.

Depreciation of office furniture, equipment, computers and vehicles included in property, plant and equipment are depreciated on a declining balance basis between 20% to 30% per year.

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

Impairment losses on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing 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 risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGUs, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the cost of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss ("FVTPL") are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVTOCI").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including ECL, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 22).

Impairment of financial assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost as well as financial guarantee. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

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- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 30 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 12 months past due, whichever occurs sooner. Financial assets written-off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

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Derecognition of financial assets

The Group 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 party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

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Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Modification of financial liabilities

A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Convertible bonds

Convertible bonds contain liability and equity components

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity ("convertible bonds equity reserve").

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in "convertible bonds equity reserve" until the embedded option is exercised (in which case the balance stated in "convertible bonds equity reserve" will be transferred to share capital. Where the option remains unexercised at the expiry date, the balance stated in "convertible bonds equity reserve" will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

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Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bond using the effective interest method.

Provisions

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

Provisions including decommissioning costs are measured at 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. When 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 (where the effect of the time value of money is material).

Decommissioning costs and liabilities for statutory, contractual, constructive or legal obligations associated with site restoration and abandonment of tangible long-lived assets are initially measured at a fair value which approximates the cost the Group 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 using the unit-of-production method over the estimated remaining proved plus probable oil and gas reserves before royalties 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.

Equity-settled share-based payment transactions

Share options and preferred shares issued to employees

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

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

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

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

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

Share options and preferred shares issued to non-employees

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

Fair value measurement

When measuring fair value except value in use of exploration and evaluation assets, property, plant and equipment and right-of-use assets for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. 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 on-going 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.

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Critical judgements in applying the entity's accounting policies

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

Going concern

In the process of applying the Group's accounting policies, apart from those involving estimations, management has prepared the consolidated financial statements on the assumption that the Group will be able to operate as a going concern in the coming year, which is a critical judgement that has the most significant effect on the amounts recognised in the financial statements. The assessment of the going concern assumption involves making a judgement by the Directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors consider that the Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption are set out in note 2 to the consolidated financial statements.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Oil and gas reserves

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

Reserve estimates are critical to many accounting estimates including:

- determining whether or not an exploratory well has found economically recoverable reserves. Such determinations involve the commitment of additional capital to develop the field based on current estimates of production, prices and other economic conditions;
- calculating unit-of-production depletion rates. Proved plus probable reserves are used to determine rates that are applied to each unit-of-production in calculating depletion expense; and
- assessing development and production assets for impairment. Estimated future net cash flows used to assess impairment of the Group's development and production assets are determined using proved plus probable reserves.

Depletion and impairment of property, plant and equipment

The amounts recorded for depletion and impairment of property, plant and equipment are based on estimates. These estimates include proved and probable reserves, production rates, future oil prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

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The Group's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under the Canadian Oil and Gas Evaluation Handbook ("COGEH"). Changes in reserve estimates impact the financial results of the Group as reserves and estimated future development costs are used to calculate depletion and are also used in impairment calculations.

The decision to transfer exploration and evaluation assets to property, plant and equipment is based on the estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

For impairment testing, property, plant and equipment and exploration and evaluation assets are aggregated into CGUs, based on management's judgment in defining the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The discount rate used to calculate the net present value of cash flows for impairment testing is based on estimates of market conditions, recent asset sales and an approximate company and industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involve management estimates and judgements such as future prices of oil and production profile. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future oil prices and production profile.

Decommissioning costs

A provision is required to be recognised for the future retirement obligations associated with the Group's assets. The decommissioning provision is based on estimated costs, taking into account of 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.

Allowance recognised in respect of other receivables and loan receivables

The impairment provisions for other receivables and loan receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income.

As at December 31, 2021, the carrying amounts of other receivables and loan receivables are approximately CAD2,279,000 (2020: CAD2,426,000) and CAD12,286,000 (2020: CAD12,882,000) respectively, with accumulated loss allowance on other receivables and loan receivables of approximately CAD163,000 (2020: CAD176,000) and CAD787,000 (2020: CAD812,000) respectively.

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Share-based compensation

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

Income taxes

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

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group’s overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes other loans and senior notes in note 15, convertible bonds disclosed in note 16, loans from related companies in note 17, net of cash and cash equivalents disclosed in note 10 and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and issue of new debt.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<u>2021</u>	<u>2020</u>
	CAD’000	CAD’000
Financial assets		
Financial assets at amortised cost (including cash and cash equivalents)	<u>16,377</u>	<u>21,474</u>
Financial liabilities		
Financial liabilities at amortised cost	<u>524,587</u>	<u>535,092</u>

Financial risk management objectives and policies

The Group’s major financial instruments include other receivables, loan receivables, cash and cash equivalents, trade payables and accrued liabilities, lease liabilities, loans from related companies, other loans, senior notes, interest payables and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management

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manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Market risk is the risk that changes in market prices will affect the Group'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 Group's objectives, policies or processes to manage market risks.

(a) Price risk

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 crude oil products are impacted by world economic events that dictate the levels of supply and demand. The Group has not attempted to mitigate commodity price risk through the use of various financial derivative or physical delivery sales contracts.

(b) Currency risk

The Group is exposed to currency risks primarily through loan receivables, loans from related companies, other loans, senior notes and convertible bonds and bank balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The foreign currencies giving rise to this risk are primarily Hong Kong dollar ("HK\$"), United States dollar ("US\$") and Renminbi ("RMB").

The following table details the Group's exposure as at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2021			2020		
	HK\$ CAD'000	US\$ CAD'000	RMB CAD'000	HK\$ CAD'000	US\$ CAD'000	RMB CAD'000
Assets						
Bank balances and cash	181	1	11	440	1	379
Loan receivables	12,286	-	-	12,882	-	-
Liabilities						
Convertible bonds	-	-	-	(9,306)	-	-
Loan from related companies	(20,533)	-	(21,089)	(16,764)	-	(16,148)
Other loans	(13,564)	-	-	(13,204)	-	-
Senior notes	-	(251,838)	-	-	(252,911)	-
	<u>(21,630)</u>	<u>(251,837)</u>	<u>(21,078)</u>	<u>(25,952)</u>	<u>(252,910)</u>	<u>(15,769)</u>

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging of significant foreign currency exposure should the need arise.

Sensitivity Analysis

The following table details the Group's sensitivity to a 5% (2020: 5%) increase or decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% (2020: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the

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reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2020: 5%) change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A negative number below indicates a decrease (2020: an decrease) in pre-tax profit (2020: pre-tax profit) where respective functional currency weakened 5% (2020: 5%) against the relevant foreign currency. For a 5% (2020: 5%) strengthening of respective functional currency against the relevant foreign currency, there would be an equal and opposite impact on the pre-tax profit (2020: pre-tax profit) and the balances below would be negative.

	Effect on profit or loss	
	2021	2020
	CAD'000	CAD'000
HK\$	(789)	(947)
US\$	(9,229)	(9,231)
RMB	(769)	(576)

(b) Interest risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances carried at prevailing market rates. The Group also exposed to fair value interest rate risk in relation to fixed-rate restricted bank balance and obligation under a finance lease. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group's exposure to interest rate risk in relation to variable-rate bank balances is minimal due to short-term maturities, hence, no sensitivity analysis is prepared.

Credit risk

As at December 31, 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge all obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of the Group mainly arises from trade and other receivables, loan receivables, and cash and cash equivalents. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Company has delegated a team responsible for determination of monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For trade receivables, the Group has applied the simplified approach in IFRS 9 *Financial Instruments* to measure the loss allowance at lifetime ECL. The Group determines the ECL on an collectively basis by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other non-trade related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

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The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase the Group compares the risk of a default occurring on the asset as at the reporting date with the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating result of the borrower;
- significant increase in credit risk on other financial instruments of the borrower; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written-off

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The tables below detail the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

Notes	Internal credit rating	12-month or lifetime ECL	2021			2020			
			Gross carrying amount	Loss allowance	Net carrying amount	Gross carrying amount	Loss allowance	Net carrying amount	
			CAD'000	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000	
Other receivables	8	Performing	12-month ECL	2,442	(163)	2,279	2,602	(176)	2,426
Loan receivables	9	Performing	12-month ECL	13,073	(787)	12,286	13,694	(812)	12,882
					(950)			(988)	

The Group has concentration of credit risk as 100% (2020: 100%) and 100% (2020: 100%) of the total trade receivables was due from the Group's largest external customer and the top five largest external customers respectively as at December 31, 2021 and December 31, 2020.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they become due. The Group'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 maturity analysis of the Group's financial liabilities is as follows:

	Weighted average effective interest rate	Within one year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flows	Carrying value
		CAD'000	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000
As at December 31, 2021							
Trade payables and accrued liabilities	N/A	52,148	-	-	-	52,148	52,148
Interest payables	N/A	-	-	164,525	-	164,525	164,525
Lease liabilities	10%	606	242	-	-	848	795
Loans from related companies	10%	55,444	-	-	-	55,444	41,717
Other loans	3%	11,951	1,626	-	-	13,577	13,564
Senior notes	10%	-	-	293,235	-	293,235	251,838
		<u>120,149</u>	<u>1,868</u>	<u>457,760</u>	<u>-</u>	<u>579,777</u>	<u>524,587</u>

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As at December 31, 2020

Trade payables and accrued liabilities	N/A	223,711	-	-	-	223,711	223,711
Convertible bonds	8%	-	12,066	-	-	12,066	9,306
Lease liabilities	10%	1,101	606	240	-	1,947	1,794
Loans from related companies	10%	35,387	88	222	-	35,697	33,008
Other loans	2%	1,436	13,204	-	-	14,640	14,362
Senior notes	10%	269,751	-	-	-	269,751	252,911
		<u>531,386</u>	<u>25,964</u>	<u>462</u>	<u>-</u>	<u>557,812</u>	<u>535,092</u>

Fair value measurement objective and policies

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost using the effective interest rate method in the consolidated financial statements approximate their fair values.

8. OTHER RECEIVABLES

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Other receivables (note a)	2,442	2,602
Deposits (note b)	1,500	5,328
Prepayments	512	444
	<u>4,454</u>	<u>8,374</u>
Less: loss allowance (notes c and d)	(163)	(176)
	<u>4,291</u>	<u>8,198</u>
Analysed as:		
Current assets	2,290	1,636
Non-current assets	2,001	6,562
	<u>4,291</u>	<u>8,198</u>

Notes:

- (a) As at December 31, 2021, included in other receivables, amount of approximately CAD2,001,000 (net of allowance of approximately CAD143,000) (2020: CAD1,999,000 (net of allowance of approximately CAD145,000)) represented the amount due from Renergy Petroleum (Canada) Co., Ltd., which Mr. Kwok Ping Sun and Nobao Energy Holding (China) Company Limited* 挪寶能源控股(中國)有限公司 ("Nobao Energy (China)"), a company under the control of Mr. Sun, has conditionally acquired Changjiang's interest in. The amount is unsecured, interest-free and repayment on demand.

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- (b) As at December 31, 2020, included in deposits, amount of approximately CAD4,563,000 represented the deposits paid for the land use right on a land situated in the People's Republic of China (the "PRC"). On September 2, 2021, the Group obtained the land use right certificate of certain land at cost of CAD4,866,000. The payment of land use right fall into the scope of IFRS 16 "Leases" as it meets the definition of right-of-use assets as at December 31, 2021.
- (c) The Group measures the loss allowance for other receivables at an amount equal to 12-month ECL. The Group recognised 12-month ECL for other receivables based on the internal credit rating of receivables as follows:

	<u>Expected loss rate</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>
	%	CAD'000	CAD'000
As at December 31, 2021			
Performing	6.68%	<u>2,442</u>	<u>163</u>
As at December 31, 2020			
Performing	6.76%	<u>2,602</u>	<u>176</u>

* For identification purpose only

- (d) The movement in the loss allowance for other receivables is set out below:

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
As at January 1	176	-
(Reversal of) loss allowance recognised in profit or loss during the year	<u>(13)</u>	<u>176</u>
As at December 31	<u>163</u>	<u>176</u>

9. LOAN RECEIVABLES

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Analysed as:		
Current	11,447	-
Non-current	<u>1,626</u>	<u>13,694</u>
	13,073	13,694
Less: loss allowance (notes d and e)	<u>(787)</u>	<u>(812)</u>
	<u>12,286</u>	<u>12,882</u>

Notes:

- (a) As at December 31, 2021 and 2020, the loans provided to the independent third parties were interest-free and were repayable on June 1, 2022, October 18, 2022, August 11, 2022 and June 7, 2023 respectively. As at December 31, 2021 and 2020, the loan receivables have been pledged as security for the borrowing.
- (b) During the years ended December 31, 2021 and 2020, in determining the 12-month ECL for the loan receivables, the directors of the Company have taken into account the historical default experience, the financial position of the counterparties, value of collaterals as well as

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the future prospects of the industries in which the debtors operate, various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets individually occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

There has been no change in the estimation techniques or significant assumptions made during both years.

- (c) An aging analysis of the loan receivables as at the end of the reporting periods, based on the draw down dates and net of loss allowance, is as follow:

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
181-365 days	10,758	-
Over 1 year	<u>1,528</u>	<u>12,882</u>
As at December 31	<u>12,286</u>	<u>12,882</u>

- (d) The following is the analysis of the gross carrying amount and loss allowance of the loan receivables as at December 31, 2021 and 2020.

	<u>Expected loss rate</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>
	%	CAD'000	CAD'000
As at December 31, 2021			
Performing	6.02%	<u>13,073</u>	<u>787</u>
As at December 31, 2020			
Performing	5.93%	<u>13,694</u>	<u>812</u>

- (e) The movement in the loss allowance for loan receivables is set out below:

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
As at 1 January	812	-
(Reversal of) loss allowance recognised in profit or loss during the year	<u>(25)</u>	<u>812</u>
As at 31 December	<u>787</u>	<u>812</u>

10. CASH AND CASH EQUIVALENTS

Bank balances and cash

Bank balances carry interest at market rates which range from 0% to 0.5% (2020: 0% to 0.5%) per annum.

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11. EXPLORATION AND EVALUATION ASSETS

	<u>CAD'000</u>
Balance as at January 1, 2020	253,144
Capital expenditures	1,077
Non-cash expenditures (note a)	<u>1,974</u>
Balance as at December 31, 2020 and January 1, 2021	256,195
Capital expenditures	1,276
Non-cash expenditures (note a)	<u>(1,775)</u>
Balance as at December 31, 2021	<u><u>255,696</u></u>

Note:

(a) Non-cash expenditures include changes in decommissioning obligations.

At the end of the reporting period, the Group assessed impairment for its E&E assets. For the purpose of impairment assessment, the recoverable amount of E&E assets was determined using judgement and internal estimates. The recoverable amount is the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). FVLCD is the amount obtainable from the sale of an asset or CGU in an arms-length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from the disposal at the end of its useful life. Recoverable amount was based on the FVLCD model with reference to cash flow forecast provided by management of Company. Key assumptions for the FVLCD calculations relate to the estimation of cash flows which include forecasted crude oil prices, sales and gross margin, such estimation is based on the past performance of each cash generating units and management's expectations. The post-tax discount rate in measuring the FVLCD was 10% in relation to E&E assets.

For the years ended December 31, 2021 and 2020, the Group assessed E&E assets for any indicators of impairment due to industry pricing fundamentals. Based on recent crude oil prices forecast, there were no impairment recognised for the years ended December 31, 2021 and 2020.

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12. PROPERTY, PLANT AND EQUIPMENT

	Crude oil assets	Corporate assets	Total
	CAD'000	CAD'000	CAD'000
Cost			
Balance as at January 1, 2020	894,515	5,487	900,002
Additions	-	397	397
Disposal and written-off	(4,850)	-	(4,850)
Non-cash expenditures (note a)	9,762	-	9,762
Exchange alignment	-	(2)	(2)
	<hr/>	<hr/>	<hr/>
Balance as at December 31, 2020 and January 1, 2021	899,427	5,882	905,309
Additions	1,536	-	1,536
Disposal and written-off	-	(100)	(100)
Non-cash expenditures (note a)	(5,479)	-	(5,479)
Exchange alignment	-	(7)	(7)
	<hr/>	<hr/>	<hr/>
Balance as at December 31, 2021	<u>895,484</u>	<u>5,775</u>	<u>901,259</u>
Accumulated depletion, depreciation and impairment			
Balance as at January 1, 2020	416,520	4,427	420,947
Depletion and depreciation charge for the year	2,120	481	2,601
Elimination on disposal and written-off	(62)	-	(62)
Exchange alignment	-	(2)	(2)
	<hr/>	<hr/>	<hr/>
Balance as at December 31, 2020 and January 1, 2021	418,578	4,906	423,484
Depletion and depreciation charge for the year	-	228	228
Elimination on disposal and written-off	-	(71)	(71)
Exchange alignment	-	(6)	(6)
	<hr/>	<hr/>	<hr/>
Balance as at December 31, 2021	<u>418,578</u>	<u>5,057</u>	<u>423,635</u>
Carrying values			
As at December 31, 2021	<u>476,906</u>	<u>718</u>	<u>477,624</u>
As at December 31, 2020	<u>480,849</u>	<u>976</u>	<u>481,825</u>

Note:

(a) Non-cash expenditures include changes in decommissioning obligations.

Recoverable amounts for each CGU were estimated based on FVLCD methodology which is calculated using the present value of the CGUs' expected future cash flows (after-tax). The cash

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flow information was derived from a report on the Group's oil and gas reserves which was prepared by an independent qualified reserve evaluator, GLJ Petroleum Consultants ("GLJ"). As at December 31, 2021 and 2020, the projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on GLJ's evaluation of the Group's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The after-tax discount rates applied in the impairment calculation as at December 31, 2021 was 10% (2020: 10%) based on the specific risk to the assets.

For the years ended December 31, 2021 and 2020, the Group did not recognise an impairment loss based on its assessment that the estimated recoverable amount exceeded the carrying value.

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(a) Right-of-use assets

	Leasehold land	Offices	Trucks and Trailers	Total
	CAD'000	CAD'000	CAD'000	CAD'000
Balance as at January 1, 2020	-	1,436	648	2,084
Additions	-	1,198	-	1,198
Termination of lease	-	-	(591)	(591)
Depreciation	-	(896)	(57)	(953)
Exchange alignment	-	(16)	-	(16)
Balance as at December 31, 2020 and January 1, 2021	-	1,722	-	1,722
Additions	4,866	-	-	4,866
Depreciation	(118)	(937)	-	(1,055)
Exchange alignment	(4)	(14)	-	(18)
Balance as at December 31, 2021	<u>4,744</u>	<u>771</u>	<u>-</u>	<u>5,515</u>

The right-of-use assets represented leases leasehold land and office premises (2020: office premises).

The leases of office typically run for an initial period of 2 to 3 years.

Additions to the right-of-use assets for the year ended December 31, 2021 amounted to approximately CAD4,866,000 due to new lease of leasehold land over 40 years (2020: CAD1,198,000 due to new leases of office premises).

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(b) Lease liabilities

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Analysed as:		
Current	562	993
Non-current	233	801
	<u>795</u>	<u>1,794</u>
	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Amounts payable under lease liabilities		
Within one year	562	993
After one year but within two years	233	566
After two years but within five years	-	235
	<u>795</u>	<u>1,794</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(562)</u>	<u>(993)</u>
Amount due for settlement after 12 months	<u>233</u>	<u>801</u>

During the year ended December 31, 2021, the Group did not have lease agreement in respect of renting office and recognised lease liabilities (2020: CAD1,198,000).

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, which is 8.3% for the office premises.

(c) Amount recognised in profit or loss

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Depreciation of right-of-use assets	1,055	953
Interests on lease liabilities	123	182
Expense relating to short-term leases	<u>7</u>	<u>78</u>

(d) Others

During the year ended December 31, 2021, the total cash outflow for lease amount to approximately CAD1,141,000 (2020: CAD1,041,000).

As at December 31, 2021 and 2020, no lease agreement which not yet commenced is committed by the Group.

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14. TRADE PAYABLES AND ACCRUED LIABILITIES

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Trade payables	16,130	15,493
Interest payables (note a)	169,886	184,972
Other payables (notes b and c)	19,863	15,884
Accrued liabilities	10,794	7,362
	<u>216,673</u>	<u>223,711</u>
Analysed as:		
Current liabilities	52,148	223,711
Non-current liabilities	164,525	-
	<u>216,673</u>	<u>223,711</u>

Note:

- (a) The interest payables as at December 31, 2021 is including the interest payable relating to senior notes of approximately CAD164,525,000 (2020: CAD182,422,000), loan from related companies of approximately CAD5,347,000 (2020: CAD981,000), and other loans of approximately CAD14,000 (2020: CAD1,569,000) respectively.
- (b) Included in the amount of other payables as at December 31, 2021, approximately CAD1,279,000 (2020: CAD 849,000) represented the amounts due to directors. The amounts are unsecured, interest-free and repayment on demand.
- (c) Included in other payables as at December 31, 2021 of approximately CAD1,615,000 (2020: nil) represented the amount received in advance from an independent third party with aggregate amount of CAD6,000,000 in support of the development of the Group's production activities.

The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Within 90 days	709	554
91 – 180 days	393	180
181 – 365 days	1,029	295
Over 365 days	13,999	14,464
	<u>16,130</u>	<u>15,493</u>

The average credit period granted by its suppliers of 30 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

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15. DEBT

(a) Other loans

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Analysed as:		
Current	11,938	1,158
Non-current	<u>1,626</u>	<u>13,204</u>
	<u>13,564</u>	<u>14,362</u>

As at December 31, 2021, the balances are unsecured interest bearing of 0%-3% (2020: 0%-2%) per annum, and of which approximately CAD11,938,000 (2020: CAD1,158,000) have a maturity date by December 31, 2021 and approximately CAD1,626,000 (2020: CAD13,204,000) have a maturity date of June 7, 2023.

Included in the above balance is approximately CAD13,073,000 (2020: CAD13,204,000) for which the Group and an independent Hong Kong-based investment holding company entered into loan agreements and under which the Group provided Renminbi ("RMB") loan and received Hong Kong dollar ("HK\$") loan from the investment holding company. The Group has to repay HK\$ to receive RMB from the investment holding company.

(b) Senior notes

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Balance as at January 1	252,911	257,999
Exchange difference	<u>(1,073)</u>	<u>(5,088)</u>
Balance as at December 31	<u>251,838</u>	<u>252,911</u>

On August 8, 2014, the Company completed an offering of US\$200 million senior secured notes (the "Notes") at an offering price of US\$938.01 per US\$1,000 principal amount. The Notes bear interest at a rate of 10% per annum and had a potential maturity date of August 1, 2017, if certain conditions were met as explained below.

The conditions were if by February 1, 2016, the Company had not: (1) received at least US\$50 million of net cash proceeds from one or more equity offerings; and (2) deposited, or caused to be deposited, cash in an amount sufficient to pay: (a) one year of interest payments on the aggregate principal amount of Notes outstanding on February 1, 2016; and (b) the yield premium, then the final maturity date of the Notes would have been August 1, 2016. The Company did not meet these conditions by February 1, 2016, and as a result the final maturity date of the Notes was August 1, 2016 at which time the Company was negotiating forbearance with the noteholders.

On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a long-term forbearance agreement in respect of the Notes (the "Agreement"). On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement (the "NEA") with the Forbearing Holders. The Forbearing Holders agreed to waive the liability of the Company in relation to previous violations of terms listed on the Agreement and fully reinstate the Agreement, provided that the Company made the following payments on or before March 27, 2017:

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- Payment of US\$2.8 million representing 20% of the yield maintenance premium originally due on August 1, 2016;
- Payment of US\$2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above cash commitment US\$5.2 million was paid;
- the Company agreed to repurchase and the Forbearing Holders agreed to sell up to US\$11.2 million of Senior Notes in exchange for common shares of the Company, pending on conditions.

Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which was paid on March 21, 2017;
- 80% of the yield maintenance premium to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of US\$9.6 million to be repaid on August 1, 2017 in cash;

Make principal repayments to the Forbearing Holders of US\$5.0 million on April 30, 2017, US\$10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On September 26, 2017, the Company and the Forbearing Holders confirmed the signing of the Amended and Restated Forbearance Agreement (the "Amended FA"). The principal terms of the Amended FA include:

- The Forbearance would be extended to August 1, 2018 (New York time), provided that;
- Repayment of US\$0.2 million upon signing the Amended FA, which was paid on September 26, 2017;
- Repayment of US\$1.8 million by October 30, 2017;
- Repayment of US\$5.0 million and US\$15.0 million on February 1, 2018 and May 1, 2018 respectively, if repayment is made prior to December 31, 2017, all accrued and unpaid interests incurred on the corresponding amount will be waived;
- The Company was to obtain financing of US\$5.0 million within 45 days after signing the Amended FA;
- The Company was to obtain financing of US\$5.0 million every quarter.

Some of the Company's loan agreements are subject to covenant clauses, whereby the Company is required to meet certain criteria. The Company did not fulfill the minimum liquidity, quarterly financings and capital raise covenants as required in the Amended FA. Furthermore, Sunshine did not fulfill repayment requirements of US\$1.8 million on October 30, 2017, US\$5.0 million on February 1, 2018 and US\$15.0 million on May 1, 2018.

On August 1, 2018, the Company was required, amongst other matters, to repay notes principal, and any previous outstanding payment commitments. The Company did not fulfill the repayment requirements. On October 31, 2018 (Calgary time), the Company and the noteholders signed a Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

- The Forbearance was extended to August 1, 2019 (New York time);
- An interest of 10% per annum is incurred from the date hereof until August 1, 2019 (New York time);
- The Company is to obtain financing of at least US\$5.0 million by April 30, 2019 to maintain sufficient liquidity.

On April 24, 2020, the Company and the Forbearing Holders confirmed the signing of the Forbearance Reinstatement and Amending Agreement (the "FRAA"). The principal terms of the FRAA include:

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- The FRAA covers the period from December 31, 2019 to August 31, 2021 (“Period of Forbearance”);
- Same as the Forbearance Reinstatement and Amending Agreement executed on November 1, 2018, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2021, and during the Period of Forbearance, there will not be any forbearance fee and yield maintenance premium based on the initial Forbearance Agreement executed on September 12, 2016.

During the year ended December 31, 2021, the independent note holders (“Transferee Holders”) entered into note assignment and transfer agreements with the ultimate controlling party, Mr. Sun (the “Note transferee”), and agreed to assign the initial nominal principal amount of notes from the transferee Holders of approximately US\$188,658,000 (equivalent to approximately CAD240,200,000) to the Note transferee.

On August 8, 2021, the Company and the Forbearing Holder confirmed the signing of the Forbearance Reinstatement and Amending Agreement (the “FRAA”). The principal terms of the FRAA include:

- The FRAA covers the period from September 1, 2021 to August 31, 2023 (“Period of Forbearance”);
- Same as the Forbearance Reinstatement and Amending Agreement executed on April 24, 2020, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2023, and during the Period of Forbearance, there will not be any forbearance fee and yield maintenance premium based on the initial Forbearance Agreement executed on September 12, 2016.

The directors of the Company believe the entering into of the FRAA is in the interests of the Company and its shareholders as a whole in view that the FRAA will provide the Company with additional time to repay or refinance the indebtedness owned by the Company to the Noteholders under the Notes, whilst at the same time the financing cost has been substantially lowered to a reasonable market level.

16. CONVERTIBLE BOND

On April 1, 2020, the Company and Prime Union Enterprises Limited (“Prime Union”), a company wholly-owned by Mr. Sun, entered into a Subscription Agreement (“Subscription Agreement”) for a convertible bond (“2020 CB”) with a principal amount of HK\$72,000,000 (equivalent to approximately CAD12,660,000 at the issuance date). The 2020 CB will mature on March 31, 2022. The coupon interest of 2020 CB is 8% per annum and payable at maturity. The 2020 CB is convertible into 113,924,051 conversion shares at any time between the date of issue of the convertible bonds and the maturity date at the bondholder’s option at initial conversion price of HK\$0.632 per conversion share. The Subscription Agreement has been approved by the independent shareholders at the Special General Meeting on May 25, 2020. The subscription was completed on June 15, 2020. The entire proceeds used for financing general working capital and repayment of debts.

The fair value of the 2020 CB were valued by an independent professional valuer, as at their respective issue dates and were calculated by using the Binomial Model. The inputs into the model were as follows:

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	<u>2020</u>
Share price	HK\$2.62
Conversion price	HK\$0.632
Effective interest rate	37.38%
Expected volatility	0.60
Expected life since the completion of the subscription	1.79 years
Risk free rate	0.35%
Expected dividend yield	<u>Nil</u>

The effective interest rate was determined with reference to the average of the bond yields of the comparable companies with similar businesses and credit rating of the Company. Risk free rate was determined with reference to yield of 3 years Hong Kong government bonds near the valuation dates of June 15, 2020. Expected volatility was determined using the historical volatility of the Company's share price over the previous 3 years as at the valuation dates of June 15, 2020.

The 2020 CB comprise a liability component and equity conversion component. The residual amount, representing the value of the equity component, is included in the convertible bonds reserve under equity attributable to the owners of the Company.

On February 3, 2021, the Company announced that Prime Union proposed for converting all the convertible bonds of 2020 CB into a total of 113,924,051 new Class "A" common shares at the conversion price of HK\$0.632 per share ("Proposed Conversion"). The Proposed Conversion was passed by the ordinary resolution at the extraordinary general meeting of the Company held on March 5, 2021. The new shares rank pari passu with the existing shares in all respects.

The Proposed Conversion and the Whitewash Waiver has been approved by the independent shareholders at the Special General Meeting on March 5, 2021. On April 7, 2021, the conversion was completed and 113,924,051 new shares were duly allotted and issued to the Subscriber.

The movement of liability component and equity component of the 2020 CB is as follows:

	<u>Liability component</u>	<u>Equity component</u>
	CAD'000	CAD'000
Balance as at January 1, 2020	-	-
Fair value on initial recognition at issue date	8,194	4,466
Effective interest expenses	1,654	-
Exchange difference	(542)	(296)
	<u> </u>	<u> </u>
Liability component as at December 31, 2020 and January 1, 2021	9,306	4,170
Conversion of convertible bond	(9,844)	(4,170)
Effective interest expenses	757	-
Exchange difference	(219)	-
	<u> </u>	<u> </u>
Balance as at December 31, 2021	<u> </u>	<u> </u>

The liability component of the 2020 CB is classified under non-current liabilities.

As at December 31, 2021, there was CAD4,453,000 included in capital reserve which represented the difference between the consideration of conversion 2020 CB for 113,924,051 new Class "A" common shares approximately CAD18,467,000 and liabilities component and equity component of 2020 CB of approximately CAD9,844,000 and CAD4,170,000 respectively.

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17. LOAN FROM RELATED COMPANIES

<u>Related companies</u>	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Prime Union Enterprises Limited (note b)	23,120	15,837
Jiangxi Nobao Electrical Company Limited* 江西挪寶電器有限公司 (note b)	8,855	10,194
Others (note b)	9,742	6,977
	<u>41,717</u>	<u>33,008</u>
Analysed as:		
Current	41,717	32,745
Non-current	-	263
	<u>41,717</u>	<u>33,008</u>

Notes:

- (a) As at December 31, 2021, the Company had loans from related companies which are unsecured, interest bearing at 10% per annum, and of which approximately CAD41,717,000 are due on demand (2020: CAD32,745,000 are due within one year and CAD263,000 is repayable in 2 years.).
- (b) The director of the Company, Mr. Sun is also the common director of related companies.

* For identification purpose only

18. PROVISIONS

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
<u>Decommissioning obligations, non-current</u>		
Balance, as at January 1	61,148	48,910
Effect of changes in discount rate	(7,254)	11,736
Unwinding of discount rate	876	502
	<u>54,770</u>	<u>61,148</u>
Balance, as at December 31	<u>54,770</u>	<u>61,148</u>

As at December 31, 2021, the Group's estimated total undiscounted cash flows required to settle asset decommissioning obligations was approximately CAD74,840,000 (2020: CAD73,900,000). Expenditures to settle asset decommissioning obligations were estimated to be incurred up to 2112. Decommissioning costs are based on estimated costs to reclaim and abandon crude oil products properties and the estimated timing of the costs to be incurred in future years, discounted using an annual risk-free rate from 0.99% to 1.89% (2020: 0.22% to 1.33%) per annum and inflated using an inflation rate of 2.0% (2020: 2.0%) per annum.

19. SHARE CAPITAL

The Company's authorised share capital is as follows:

- an unlimited number of Class "A" and Class "B" voting common shares without par value; and
- an unlimited number of Class "C", Class "D", Class "E" and Class "F" non-voting common shares without par value; and
- an unlimited number of Class "G" and Class "H" non-voting preferred shares.

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	<u>Number of shares</u>	<u>Issued amount</u> CAD '000
<u>Issued and fully paid</u>		
As at January 1, 2020	6,405,581,506	1,296,523
Issue of new shares under private placement (note b)	1,443,000	324
Share consolidation (note c)	(6,277,469,876)	-
Share issue costs, net of deferred tax	-	(33)
	<hr/>	<hr/>
As at December 31, 2020 and January 1, 2021	129,554,630	1,296,814
Issue of shares upon conversion of convertible bond (note 16)	113,924,051	18,467
Share issue costs, net of deferred tax	-	(16)
	<hr/>	<hr/>
As at December 31, 2021	<u>243,478,681</u>	<u>1,315,265</u>

Notes:

- (a) Common shares consist of fully paid Class "A" common shares, which have no par value, carry one vote per share and carry a right to dividends.
- (b) Private placement during the year ended December 31, 2020

On February 27, 2020, the Company entered into a settlement agreement for a total of 1,443,000 consolidated Class "A" common shares at a price of HK\$1.31 per share (post-consolidation) for gross proceeds of approximately HK\$1,896,000 (equivalent to approximately CAD324,000). On March 10, 2020, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party.

- (c) Share consolidation

The Company has implemented the share consolidation of every fifty issued Class "A" common shares in the share capital of the Company into one consolidated Class "A" common shares on February 26, 2020.

20. REVENUE

Revenue represents revenue arising on sales of crude oil products. An analysis of the Group's revenue for the year is as follows:

	<u>2021</u> CAD'000	<u>2020</u> CAD'000
Revenue from contracts with customers within the scope of IFRS 15		
- Crude oil products sales	144	4,184
- Royalties	(1)	(5)
	<hr/>	<hr/>
	<u>143</u>	<u>4,179</u>

All revenue from contracts with customers is derived from Canada and recognised at a point in time.

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FOR THE YEAR ENDED DECEMBER 31, 2021

Revenue from the sale of crude oil products is recognised when consideration is due when title has transferred and is generally collected in the month following the month of delivery. Revenues associated with the sale of crude oil products are recognised at a point in time when control of goods have transferred, which is generally when title passes from the Group to the customer. Revenues are recorded net of crown royalties. Crown royalties are recognised at the time of production. The royalty rate at West Ells is based on price sensitive royalty rates set by the Government of Alberta. The applicable royalty rates change dependent upon whether a project is pre-payout or post-payout, with payout being defined as the point in time when a project has generated enough net revenues to recover its cumulative costs. The royalty rate applicable to pre-payout oil sands operations starts at 1% of crude oil products sales and increases for every dollar that the WTI crude oil products price in Canadian dollars is priced above CAD55 per barrel, to a maximum of 9% when the WTI crude oil products price is CAD120 per barrel or higher. The West Ells project is currently in pre-payout.

Revenue is allocated to each performance obligation on the basis of its standalone selling price and measured at the transaction price, which is the fair value of the consideration and represents amounts receivable for goods or services provided in the normal course of business. The price is allocated to each unit in the series as each unit is substantially the same and depicts the same pattern of transfer to the customer.

21. SEGMENT INFORMATION

Information reported to the directors of the Company, being the chief operating decision maker (the "CODM"), for the purpose of resource allocation and assessment of segment performance focuses on types of goods provided. No operating segments identified by the CODM has been aggregated in arriving at the reportable segments of the Group.

For management purpose, the Group operates in one business unit based on their products, and has one reportable and operating segment: mining, production and sales of crude oil products. The directors of the Company monitor the revenue of its business unit as a whole based on the monthly sales and delivery reports for the purpose of making decisions about resource allocation and performance assessment.

Information about geographical area

As all of the Group's revenue is derived from the customers based in the Canada (country of domicile) and majority of the Group's non-current assets are located in Canada, no geographical information is presented.

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Customer A	<u>144</u>	<u>4,184</u>

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22. OTHER INCOME

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Income from waived of interest expense on senior notes, including yield maintenance premium (note)	39,528	42,992
Foreign exchange gain, net	20,122	6,476
Income from over-provision of interest arising from other loan	1,567	-
Income recognised in relation to the bitumen royalty agreement (note 32(c))	4,715	-
Bank interest income	4	5
Income from over-provision of trade payable	-	326
Others	-	320
Gain on derecognition of right-of-use asset and lease liabilities	-	82
	<u>65,936</u>	<u>50,201</u>

Note: During the year ended December 31, 2021, the Company and the Forbearing Holders entered into an interest waiver agreement pursuant to which the Forbearing Holders agree to unconditionally and irrevocably waive the accrued interest for 2021 on the outstanding amounts (principal and interests) under the Forbearance Reinstatement and Amending which amounted to CAD39,528,000 (equivalent to US\$31.5 million) (2020: CAD42,992,000 (equivalent to US\$31.5 million)). Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.

23. FINANCE COSTS

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Interest on:		
- Senior notes, including yield maintenance premium	41,130	20,084
- Other loans	222	1,385
- Leases liabilities	123	182
- Convertible bonds	757	1,654
Loans from related companies	3,718	1,143
Unwinding of discounts on provisions	876	502
	<u>46,826</u>	<u>24,950</u>

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24. PROFIT FOR THE YEAR

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Profit for the year has been arrived at after charging (crediting):		
Directors' and chief executive's emoluments	2,658	3,157
Salaries, wages, allowances and other benefits	1,570	2,266
Contributions to retirement benefits scheme (excluding directors', chief executive's and supervisors' emoluments)	<u>92</u>	<u>128</u>
Total staff costs (note 26)	<u>4,320</u>	<u>5,551</u>
Auditor's remuneration	423	247
Depletion and depreciation of property, plant and equipment	228	2,601
Depreciation of right-of-use assets	1,055	953
(Reversal of) impairment loss on other receivables	(13)	176
(Reversal of) impairment loss on loan receivables	(25)	812
Loss on disposal and written-off of property, plant and equipment	29	1,026
Lease rental for office premises (note)	<u>7</u>	<u>78</u>

Note: The amounts represent lease rentals related to short-term leases under IFRS16.

25. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
<u>Earnings</u>		
Profit attributable to owners of the Company for the purpose of basic and diluted earnings per share for the year	<u>1,466</u>	<u>2,228</u>
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>213,515,095</u>	<u>129,298,630</u>

For the years ended December 31, 2021 and 2020, the computation of diluted earnings per share has assumed the conversion of the Company's outstanding convertible bonds since the exercise would result in an increase in earnings per share.

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26. DIRECTORS' EMOLUMENTS AND OTHER STAFF COSTS

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

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
<u>Directors' emoluments (note a)</u>		
Director's fees	387	393
Salaries and allowances	2,260	2,251
Contribution to retirement benefits scheme	6	6
Share-based compensation	5	507
	<u>2,658</u>	<u>3,157</u>
<u>Other staff costs</u>		
Salaries and other benefits	1,570	2,266
Contribution to retirement benefits scheme	92	128
	<u>1,662</u>	<u>2,394</u>
Total staff costs, including directors' emoluments	<u>4,320</u>	<u>5,551</u>

(a) Directors' emoluments

Details of the directors' emoluments are as follows:

For the year ended December 31, 2021

<u>Name of Director</u>	<u>Director's Fees</u>	<u>Salaries and allowances</u>	<u>Contribution to retirement benefits scheme</u>	<u>Share-based payments</u>	<u>Total</u>
	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000
<i>Executive directors</i>					
Mr. Sun	50	855	3	-	908
Gloria Ho	45	600	3	-	648
<i>Non-Executive Directors:</i>					
Michael Hibberd	49	805	-	-	854
Xijuan Jiang	45	-	-	-	45
Linna Liu	37	-	-	-	37
<i>Independent Non-Executive Directors:</i>					
Yi He	60	-	-	3	63
Guangzhong Xing	50	-	-	2	52
Alfa Li	51	-	-	-	51
	<u>387</u>	<u>2,260</u>	<u>6</u>	<u>5</u>	<u>2,658</u>

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For the year ended December 31, 2020

Name of Director	Director's Fees	Salaries and allowances	Contribution to retirement benefits scheme	Share-based payments	Total
	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000
<i>Executive directors</i>					
Mr. Sun	53	859	3	470	1,385
Gloria Ho	46	583	3	23	655
<i>Non-Executive Directors:</i>					
Michael Hibberd	50	809	-	-	859
Xijuan Jiang	46	-	-	-	46
Linna Liu	38	-	-	-	38
<i>Independent Non-Executive Directors:</i>					
Yi He	59	-	-	7	66
Guangzhong Xing	51	-	-	7	58
Alfa Li	50	-	-	-	50
	393	2,251	6	507	3,157

Note:

The remuneration includes remuneration received from the Group by directors in his/her capacity as an employee of the subsidiaries.

Mr. Sun is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

No directors and chief executive of the Company waived or agreed to waive the emolument paid by the Group during the years ended December 31, 2021 and 2020.

No emoluments were paid by the Group to the directors as an inducement for joining the Group or as compensation for loss of office during the years end December 31, 2021 and 2020.

(a) Five highest paid individuals

The five highest paid individuals include three (2020: three) directors of the Company for the year ended December 31, 2021. The emoluments of the remaining two (2020: two) non-director individuals are as follows:

	2021	2020
	CAD'000	CAD'000
Salaries and other emoluments	478	700
Contribution to retirement benefit scheme	6	11
	484	711

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The emoluments fell within the following bands:

	<u>2021</u>	<u>2020</u>
	Number of individuals	Number of individuals
HK\$nil to HK\$1,000,000 (equivalent to approximately CAD172,000)	-	-
HK\$1,000,001 (equivalent to approximately CAD172,000) to HK\$1,500,000 (equivalent to approximately CAD259,000)	1	-
HK\$1,500,001 (equivalent to approximately CAD259,000) to HK\$2,000,000 (equivalent to approximately CAD345,000)	1	1
HK\$2,000,001 (equivalent to approximately CAD345,000) to HK\$2,500,000 (equivalent to approximately CAD432,000)	-	1
HK\$2,500,001 (equivalent to approximately CAD432,000) to HK\$3,500,000 (equivalent to approximately CAD604,000)	-	-
HK\$3,500,001 (equivalent to approximately CAD604,000) to HK\$4,000,000 (equivalent to approximately CAD691,000)	-	-

27. RETIREMENT BENEFIT SCHEME

The Group operates the MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK\$1,500 (equivalent to CAD250) per month, to the MPF Scheme, in which the contribution is matched by employees.

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

The Group operates the CPP Scheme for all qualifying employees in Canada. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5.25% of relevant payroll costs, capped at CAD292 per annually, to the CPP Scheme, in which the contribution is matched by employees.

During the year ended December 31, 2021, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately CAD98,000 (2020: CAD134,000) represents contributions payable to these schemes by the Group in respect of the respective accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

28. SHARE-BASED COMPENSATION

(a) Employee stock option plan

Post-IPO Stock Option Plan

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

There was no share options granted for the years ended December 31, 2021 and 2020.

(b) Movements in stock options

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

	2021		2020*	
	Number of options	Weighted average exercise prices CAD	Number of options	Weighted average exercise prices CAD
Balance, as at January 1	9,056,001	2.70	9,165,687	2.67
Forfeited	-	-	(109,686)	2.84
Expired	(2,476,001)	4.87	-	-
Balance, as at December 31	<u>6,580,000</u>	<u>1.85</u>	<u>9,056,001</u>	<u>2.70</u>
Exercisable, as at December 31	<u>6,580,000</u>	<u>1.85</u>	<u>8,989,336</u>	<u>2.71</u>

*The numbers and amounts had been adjusted for share consolidation (note 19(c)).

As at December 31, 2021, stock options outstanding had a weighted average remaining contractual life of 1.85 years (2020: 2.68 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

(c) Share-based compensation

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

	2021			2020		
	Expensed CAD'000	Capitalised CAD'000	Total CAD'000	Expensed CAD'000	Capitalised CAD'000	Total CAD'000
Stock options	<u>5</u>	<u>-</u>	<u>5</u>	<u>507</u>	<u>-</u>	<u>507</u>

29. INCOME TAX EXPENSES

(a) Current income tax

No provision for income tax was made for the years ended December 31, 2021 and 2020 as the Group had no assessable profits for both years.

Reconciliation between income tax expenses and accounting loss at combined federal and provincial income tax rate:

	2021 CAD'000	2020 CAD'000
Profit before income tax	<u>1,122</u>	<u>1,983</u>
Tax at the domestic income tax rate	258	535
Tax effect of expenses not deductible for tax purposes	333	794
Tax effect of income not taxable for tax purposes	(9,453)	(11,697)
Tax effect of utilisation of deductible temporary differences previously not recognised	278	1,093
Tax effect of tax losses not recognised	8,471	9,116
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>113</u>	<u>159</u>
Income tax	<u>-</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

(b) Deferred income tax

At the end of the reporting period, the Group has not recognised deferred income tax due to the unpredictability of future profit streams of the respective group entities. The components of the net deferred income tax asset not recognised are as follows:

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
<u>Deferred tax assets (liabilities)</u>		
E&E assets and property, plant and equipment	(92,923)	(92,861)
Decommissioning liabilities	13,806	13,605
Share issue costs	62	85
Tax losses	<u>334,917</u>	<u>326,446</u>
	<u>255,862</u>	<u>247,275</u>

Unrecognised tax losses will expire in 20 years from the year of origination.

30. DIVIDENDS

The Directors did not recommend or declare the payment of any dividend in respect of the years ended December 31, 2021 and 2020.

31. RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed elsewhere in these consolidated financial statements, during the year, the Group entered into the following material related party transactions.

(a) Trading transactions

- (i) For the year ended December 31, 2021, a consulting company, to which a director of the Company is related, charged the Group CAD500,000 (2020: CAD500,000) for management and advisory services.
- (ii) On April 1, 2020, the Company and a company wholly owned by Mr. Kwok Ping Sun entered into a Subscription Agreement for convertible bonds ("CB") in an aggregate principal amount of HK\$ 72,000,000. With an initial conversion price of HK\$0.632 per share, a maximum of 113,924,051 new Class "A" common shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on May 25, 2020. The subscription was completed on June 15, 2020. The entire proceeds was used for financing general working capital and repayment of debts.

On October 1, 2020, the Company has received notice for conversion from the Subscriber. The Conversion and the Whitewash Waiver has been approved by the independent shareholders at the Special General Meeting on March 5, 2021. The Whitewash Waiver has been conditionally granted by Hong Kong Securities and Futures Commission on March 5, 2021. On April 7, 2021, the Conversion was completed and 113,924,051 new shares were duly allotted and issued to the Subscriber.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

- (iii) During the year ended December 31, 2021, the independent note holders (“Transferee Holders”) entered into note assignment and transfer agreements with the ultimate controlling party, Mr. Sun (the “Note transferee”), and agreed to assign the initial nominal principal amount of notes from the transferee Holders of approximately US\$188,658,000 (equivalent to approximately CAD240,200,000) to the Note transferee.

(b) Compensation of key management personnel

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

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Directors' fees	387	393
Salaries and allowances	2,738	2,962
Contribution to retirement benefit scheme	12	12
Share-based compensation	5	507
	<u>3,142</u>	<u>3,874</u>

32. COMMITMENTS AND CONTINGENCIES

(a) Commitments

	<u>2021</u>	<u>2020</u>
	CAD'000	CAD'000
Capital expenditure in respect of the acquisition of drilling machinery contracted for but not provided in the consolidated financial statements	251	380
Rental commitment in relation to exploration and evaluation assets (note)	<u>2,082</u>	<u>3,482</u>

Note: The Group has an annual obligation for oil sands mineral lease rentals and surface lease rentals.

(b) Litigations

The Group has been named as a defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the “Claimant”) by Statement of Claim (the “Action”) filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require the Company to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for CAD40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. As at December 31, 2021, no amounts have been accrued in the Consolidated Financial Statements as the ultimate resolution is undeterminable at this time. The Group will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

The Group received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016-2021 municipal property taxes of CAD12.37 million. The Group was also charged with overdue penalties of CAD7.97 million. Since then the Group was in active negotiation with RMWB for a settlement plan with proposals to waive overdue penalties. As at the date of this report, the Group believes that notices issued by RMWB relating to property taxes did not comply with relevant legislation and the Group has sought judicial review to determine the effect of non-compliant tax notices on RMWB's property tax claim. The Group has also been served with a Statement of Claim on the demand notice in which RMWB claims approximately CAD15.9 million plus costs for allegedly unpaid municipal property taxes for 2016-2020. The Group has not been required to file a Statement of Defence in the Action, and is continuing its judicial review application with respect to the validity of tax notices issued by RMWB.

The Group is involved in various claims including claims described above and actions arising in the course of operations and is subject to various legal actions, pending claims and exposures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Unfavorable outcome were to occur against such claims or pending claims, there exists the possibility of a material adverse impact on the Group's consolidated net income or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognised if the Group determines that the loss is probable and the amount can be reasonably estimated. The Group believes it has made adequate provision for such claims. While fully supportable in the Group's view, some of these positions, if challenged may not be fully sustained on review. From time to time, the Group receives liens or claims on accounts payable balances, and the Group continues to work toward resolution of any liens or claims. As at December 31, 2021, the Group had incurred \$0.82 million (US \$1.02 million equivalent using the period end exchange rate) in Builders' liens (not related to mineral leases) against them during the ordinary course of business.

(b) Bitumen Royalty Agreement

On August 31, 2021 (Calgary time), the Company entered into a royalty agreement with Burgess Energy Holdings L.L.C. ("Burgess"), pursuant to which, the Company has granted to Burgess a royalty interest in the bitumen within, upon, under or produced from the royalty lands owned by the Company and/or its affiliates ("Bitumen Royalty Agreement"), free and clear of any and all encumbrances for an aggregate consideration of CAD20,000,000. For the year ended December 31, 2021, an aggregate amount of approximately CAD6,333,000 has been settled.

During the year ended December 31, 2021, an aggregate amount of approximately CAD4,715,000 was recognised in other income (note 22) in accordance with terms set out in the Bitumen Royalty Agreement.

Pursuant to Royalty Agreement, the royalty interest entitled Burgess to share a percentage of the Company's produced oil of that month (the "royalty share of bitumen") when average daily WCS of the month rise to US\$60/bbl or above. The percentage that Burgess can share from the Company's produced oil of the month is calculated based on the following:

- a) When the WCS price is below US\$60/bbl, the royalty rate is 0%;
- b) When the WCS price is US\$60/bbl, the royalty rate is 2.5% and thereafter proportionally increases up to a maximum of 15%, when the WCS price rises to US\$100/bbl or above.

The bitumen involved under the Royalty Agreement covered all Royalty Lands owned by the Company. Thus far, West Ells is the only project that has been put into operation.

Burgess has the option of either receiving the Royalty in cash or in kind.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

During the year ended December 31, 2021, no royalty amounts were payable by the Company in accordance with Royalty Agreement as the Company has no any production of oils incurred during the year.

The directors of the Company considered that the possibility of outflow in royalty interest expenses was remote. No provision for potential liabilities in respect of the royalty interest expense has been made in the consolidated financial statements.

33. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	<u>2021</u>	<u>2020</u>
		CAD'000	CAD'000
Assets			
<i>Current assets</i>			
Other receivables	(a)	277	427
Prepaid expenses and deposits		1,772	926
Loan receivables		10,758	-
Cash and cash equivalents		295	442
		<u>13,102</u>	<u>1,795</u>
<i>Non-current assets</i>			
Exploration and evaluation assets		255,696	256,189
Property, plant and equipment		477,542	481,708
Right-of-use assets		740	1,331
Other receivables		2,001	1,999
Loan receivables		1,528	12,882
Amounts due from subsidiaries	(d)	12,116	11,499
		<u>749,623</u>	<u>765,608</u>
Total assets		<u><u>762,725</u></u>	<u><u>767,403</u></u>
Liabilities and shareholders' equity			
<i>Current liabilities</i>			
Trade payables and accrued liabilities	(b),(c)	50,354	223,037
Lease liabilities		526	590
Loans from related companies		32,458	24,325
Other loans		11,938	1,158
Senior notes		-	252,911
Amount due to subsidiaries	(d)	2,577	3,456
		<u>97,853</u>	<u>505,477</u>
<i>Non-current liabilities</i>			
Interest payables		164,525	-
Convertible bonds		-	9,306
Lease liabilities		233	766
Other loans		1,626	13,204
Senior notes		251,838	-
Provisions		54,770	61,148
		<u>472,992</u>	<u>84,424</u>
Total liabilities		<u><u>570,845</u></u>	<u><u>589,901</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

	Notes	<u>2021</u>	<u>2020</u>
		CAD'000	CAD'000
Shareholders' equity			
Share capital		1,315,265	1,296,814
Reserve for share-based compensation	(e)	76,416	76,411
Convertible bonds equity reserve	(e)	-	4,170
Capital reserve	(e)	(4,453)	-
Accumulated deficit	(e)	<u>(1,195,348)</u>	<u>(1,199,893)</u>
Total shareholders' equity		<u>191,880</u>	<u>177,502</u>
Total liabilities and shareholders' equity		<u>762,725</u>	<u>767,403</u>

Notes:

- (a) Included in the other receivables as at December 31, 2021, approximately CAD2,001,000 (net of allowance of approximately CAD143,000) (2020: CAD1,999,000 (net of allowance of approximately CAD145,000)) represented the amount due from Renergy Petroleum (Canada) Co., Ltd. which Mr. Sun and Nobao Energy Holding (China) (a company under the control of Mr. Sun) has conditionally acquired Changjiang's interest in. The amount is unsecured, interest-free and repayment on demand.
- (b) Included in the amount of other payables as at December 31, 2021, approximately CAD1,279,000 (2020: CAD849,000) represented the amounts due to directors. The amounts are unsecured, interest-free and repayment on demand.
- (c) Included in other payables as at December 31, 2021 of approximately CAD1,615,000 (2020: nil) represented the amount received in advance from an independent third party with aggregate amount of CAD6,000,000 in support of the development of the Group's production activities. During the year ended December 31, 2021, the Group recognised approximately CAD4,385,000 (2020: nil) in the consolidated statement of profit or loss and other comprehensive income in relation to the bitumen royalty agreement.
- (d) The amounts due from (to) subsidiaries are unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

(e) Reserves movement of the Company is as follows:

	Convertible bonds equity reserve	Reserve for share-based compensation	Capital reserve	Accumulated deficit	Total
	CAD'000	CAD'000	CAD'000	CAD'000	CAD'000
As at January 1, 2020	-	75,904	-	(1,204,345)	(1,128,441)
Profit and total comprehensive income for the year	-	-	-	4,452	4,452
Issue of convertible bonds (note 16)	4,170	-	-	-	4,170
Recognition of share- based payments (note 28(c))	-	507	-	-	507
As at December 31, 2020 and January 1, 2021	4,170	76,411	-	(1,199,893)	(1,119,312)
Profit and total comprehensive expense for the year	-	-	-	4,545	4,545
Conversion of convertible bond (note 16)	(4,170)	-	(4,453)	-	(8,623)
Recognition of share- based payments (note 28(c))	-	5	-	-	5
As at December 31, 2021	-	76,416	(4,453)	(1,195,348)	(1,123,385)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at December 31, 2021 and 2020 are as follows:

Name of subsidiaries	Place of incorporation / establishment / operation	Class of shares held	Issued and fully paid ordinary share capital / registered capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
				Direct		Indirect		
				2021	2020	2021	2020	
Sunshine Oilsands (Hong Kong) Ltd.	Hong Kong	Ordinary	HK\$100	100 %	100 %	-	-	Provision of corporate management services and act as holding investment
Boxian Investments Limited	BVI	Ordinary	US\$1	100 %	100 %	-	-	Pursuing new investment opportunities
Sang Xiang Petroleum & Chemical (Shanghai) Limited * 桑祥石油化工(上海)有限公司 (note a)	PRC	Registered capital	RMB100	-	-	100%	100%	Pursuing new investment opportunities
Sang Xiang Petroleum & Chemical (Hebei) Limited * 桑祥石油化工(河北)有限公司 (note a and b)	PRC	Registered capital	HK\$9,690,000	-	-	51%	51%	Inactive

* For identification purpose only

Notes:

- (a) The nature of legal entity established in PRC is limited liability company.
- (b) On November 9, 2018, the Board approved the formation of a joint venture company (the "JV Company") in China between Sunshine and a company affiliated (the "Affiliate") with the Executive Chairman, Mr. Kwok Ping Sun, where Sunshine and the Affiliate will own 51% and 49% interests in the JV Company respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

On February 28, 2019, the Company and the Affiliate entered into a project cooperation agreement (the "Project Cooperation Agreement") with Chengde City People's Government ("Chengde City Government"), Hebei Province, China, pursuant to which the formation of a joint venture project company (the "JV Project Company") by the Corporation and the Affiliate was approved by the Chengde City Government (the "Transaction"). The Project Cooperation Agreement also approved the establishment of 50 high-end multi-functional petrol stations (the "Multi-functional Petrol Stations") in Chengde City in the next 3 years. The Multifunctional Petrol Stations will provide integrated services including petrol refueling, gas refueling, electric vehicle charging, smart operator-less car washing, convenience stores, business and casual catering, etc. Sunshine and the Affiliate will own 51% and 49% interests in the JV Project Company respectively.

Per the announcement dated March 4, 2019, both the Company and the Affiliate expected to initially invest up to a total of HK\$19,000,000 into the JV Project Company by contributing to its registered capital. The JV Project Company is established in Chengde City, Hebei Province. The contribution amount will be HK\$9,690,000 by Sunshine and HK\$9,310,000 by the Affiliate, representing their proportionate interests held in the JV Project Company, i.e. 51% and 49% respectively.

None of the subsidiaries has issued any debt securities outstanding at the end of both years or at any time during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash change. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payable	Lease liabilities	Senior notes	Other loans	Convertible bonds	Loans from related companies	Total
	CAD'000 (note 14)	CAD'000 (note 13)	CAD'000 (note 15)	CAD'000 (note 15)	CAD'000 (note 16)	CAD'000 (note 17)	CAD'000
Balance as at January 1, 2021	184,972	1,794	252,911	14,362	9,306	33,008	496,353
<i>Changes in cash items:</i>							
Addition	-	-	-	492	-	15,300	15,792
Repayment	(208)	(1,134)	-	(1,229)	-	(7,074)	(9,645)
<i>Changes in non-cash items:</i>							
Waive of interest on senior note	(39,528)	-	-	-	-	-	(39,528)
Accrued interest	45,070	123	-	-	757	-	45,950
Over-provision of interest in previous year	(1,567)	-	-	-	-	-	(1,567)
Conversion of convertible bond	-	-	-	-	(9,844)	-	(9,844)
Unrealised exchange (gain) loss	(18,853)	-	(1,073)	(61)	(219)	683	(19,523)
Exchange realignment	-	12	-	-	-	(200)	(188)
Balance as at December 31, 2021	<u>169,886</u>	<u>795</u>	<u>251,838</u>	<u>13,564</u>	<u>-</u>	<u>41,717</u>	<u>477,800</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	<u>Interest payable</u>	<u>Lease liabilities</u>	<u>Senior notes</u>	<u>Other loans</u>	<u>Convertible bonds</u>	<u>Loans from related companies</u>	<u>Total</u>
	CAD'000 (note 14)	CAD'000 (note 13)	CAD'000 (note 15)	CAD'000 (note 15)	CAD'000 (note 16)	CAD'000 (note 17)	CAD'000
Balance as at January 1, 2020	211,116	2,223	257,999	14,461	13,572	17,005	516,376
<i>Changes in cash items:</i>							
Addition	-	-	-	104	-	17,605	17,709
Repayment	(2,412)	(963)	-	(3,678)	-	(1,972)	(9,025)
<i>Changes in non-cash items:</i>							
Waive of interest on senior note	(42,992)	-	-	-	-	-	(42,992)
Accrued interest	20,084	182	-	1,385	1,654	1,144	24,449
Increase in other payables	(824)	(142)	-	-	-	-	(966)
Derecognition of lease	-	(673)	-	-	-	-	(673)
Additional of lease	-	1,198	-	-	-	-	1,198
Repayment of convertible bonds from other loans	-	-	-	13,677	(13,677)	-	-
Issue of convertible bonds	-	-	-	-	8,194	(12,660)	(4,466)
Reallocation of accounts	-	-	-	(11,870)	-	11,870	-
Unrealised exchange (gain) loss	-	-	(5,088)	283	(437)	16	(5,226)
Exchange realignment	-	(31)	-	-	-	-	(31)
Balance as at December 31, 2020	<u>184,972</u>	<u>1,794</u>	<u>252,911</u>	<u>14,362</u>	<u>9,306</u>	<u>33,008</u>	<u>496,353</u>

36. MAJOR NON-CASH TRANSACTIONS

During the year ended December 31, 2021, the 2020 CB was converted and 113,924,051 new shares were duly allotted and issued to the Subscriber (see note 16).

During the year ended December 31, 2021, the Company and the Forbearing Holders entered into an interest waiver agreement pursuant to which the Forbearing Holders agree to unconditionally and irrevocably waive the accrued interest for 2021 on the outstanding amounts (principal and interests) under the Forbearance Reinstatement and Amending which amounted to CAD39,528,000 (equivalent to US\$31.5 million) (2020: CAD42,992,000 (equivalent to US\$31.5 million)). Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.

37. SUBSEQUENT EVENT

On March 8, 2022, the Company has completed the preliminary preparatory work for resumption of production in the West Ells project which is in the steaming stage for pre-heating of the ground. The project is expected to resume production in due course.

CORPORATE INFORMATION

BOARD OF DIRECTORS:

Executive Directors:

Mr. Kwok Ping Sun (*Chairman*)

Ms. Gloria Pui Yun Ho

Non-Executive Directors:

Mr. Michael John Hibberd (*Vice Chairman*)

Ms. Linna Liu

Ms. Xijuan Jiang

Independent Non-Executive Directors:

Mr. Yi He

Mr. Guangzhong Xing

Mr. Alfa Li

AUTHORIZED REPRESENTATIVES:

Mr. Kwok Ping Sun

Ms. Man Ngan Chow

AUDITORS:

UniTax Prism (HK) CPA Limited

LEGAL ADVISERS:

Robertson Solicitors

COMPETENT PERSONS:

GLJ Ltd.

Boury Global Energy Consultants Ltd.

PRINCIPAL BANKERS:

Bank of China (Hong Kong) Limited

Bank of China (Canada)

ATB Financial

PLACE OF SHARE LISTING AND STOCK CODE:

The Stock Exchange of Hong Kong Limited:
2012

WEBSITE:

www.sunshineoilsands.com

AUDIT COMMITTEE:

Mr. Yi He (*Chairman*)

Mr. Guangzhong Xing

Mr. Alfa Li

COMPENSATION COMMITTEE:

Mr. Kwok Ping Sun (*Chairman*)

Mr. Guangzhong Xing

Mr. Alfa Li

RESERVES COMMITTEE:

Mr. Yi He (*Chairman*)

Mr. Guangzhong Xing

Mr. Kwok Ping Sun

CORPORATE GOVERNANCE COMMITTEE:

Mr. Kwok Ping Sun (*Chairman*)

Mr. Michael John Hibberd

Mr. Yi He

Mr. Guangzhong Xing

Mr. Alfa Li

CORPORATE HEADQUARTERS:

Suite 1100, 700 - 6th Ave SW, Calgary, AB, T2P 0T8,
Canada

REGISTERED OFFICE IN ALBERTA:

Suite 4000, 421 Seventh Avenue SW Calgary, Alberta
T2P 4K9 Canada

PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

20/F, Two Chinachem Central,
No. 26 Des Voeux Road Central,
Central, Hong Kong

SHARE REGISTRAR IN ALBERTA:

Alliance Trust Company

SHARE REGISTRAR IN HONG KONG:

Computershare Hong Kong Investor Services Limited