

**SUNSHINE OILSANDS LTD.
TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

I The Board of Directors' Mandate for the Audit Committee

A. Purpose

The Audit Committee (the “**Audit Committee**”) is a committee of non-executive directors appointed by the Board of Directors of the Corporation (the “**Board of Directors**”). The Audit committee’s mandate is, inter alia, to provide assistance to the Board of Directors in fulfilling its financial reporting and control responsibility to the shareholders and the investment community. The committee is, however, independent of the Board of Directors and the Corporation and in carrying out their role shall have the ability to determine its own agenda and any additional activities that the Audit Committee shall carry out.

B. Composition of Committee

1. The Committee will be comprised of at least three non-executive directors of the Corporation, all of whom will be financially literate. In addition, at least one member of the Audit Committee shall have accounting or related financial expertise as such qualifications are interpreted by the Board of Directors in accordance with rule 3.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). A majority of the members of the Committee must also be “independent” in accordance with the Listing Rules. A “financially literate” director is a director who has 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 Corporation.
2. Unless otherwise designated by the Board, the members of the Committee shall elect a Chairperson (the “**Chair**”) from among the independent non-executive directors present and the Chair shall preside at all meetings of the Committee.

C. Reliance on Experts

In contributing to the Committee’s discharging of its duties under this mandate, each member of the Committee shall be entitled to rely in good faith upon:

- (a) financial statements of the Corporation represented to him or her by an officer of the Corporation or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with GAAP consistently applied; and
- (b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

D. Limitations on Committee’s Duties

In contributing to the Committee’s discharging of its duties under the Terms of Reference (defined at II below), each member of the Corporation shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in the Terms of Reference is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee’s duties is monitoring and reviewing to *endeavour* to gain reasonable assurance (but not to ensure) that the relevant activities are being conducted effectively and that the objectives of the Corporation’s financial

reporting are being met and to enable the Committee to report thereon to the Board.

II Audit Committee Terms of Reference

The Audit Committee's Terms of Reference (the "**Terms of Reference**") outline how the Committee will satisfy the requirements set forth by the Board in its mandate. Terms of Reference reflect the following:

- operating principles;
- operating procedures; and
- specific responsibilities and duties.

A. Operating Principles

The Committee shall fulfill its responsibilities within the context of the following principles:

1. Committee Values

The Committee expects the management of the Corporation to operate in compliance with corporate policies, reflecting laws and regulations governing the Corporation and to maintain strong financial reporting and control processes.

2. Communications

The Committee and members of the Committee expect to have direct, open and frank communications throughout the year with management, other Committee Chairpersons, the external auditors, and other key Committee advisors or Corporation staff members as applicable.

3. Financial Literacy

All Committee members should be sufficiently versed in financial matters to read and understand the Corporation's financial statements and also to understand the Corporation's accounting practices and policies and the major judgments involved in preparing the financial statements.

4. Annual Audit Committee Work Plan

The Committee, in consultation with management and the external auditors, shall develop an annual Committee work plan responsive to the Committee's responsibilities as set out in these Terms of Reference. In addition, the Committee, in consultation with management and the external auditors, shall participate in a process for review of important financial topics that have the potential to impact the Corporation's financial disclosure.

The work plan will be focused primarily on the annual and interim financial statements of the Corporation. However, the Committee may at its sole discretion, or the discretion of the Board, review such other matters as may be necessary to satisfy the Committee's Terms of Reference.

5. Meeting Agenda

Committee meeting agendas shall be the responsibility of the Chair in consultation with Committee members, senior management and the external auditors and shall be circulated on a timely basis prior to the Committee meetings.

6. Committee Expectations and Information Needs

The Committee shall communicate its expectations to management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that written materials will be received from management and the external auditors at a reasonable time in advance of meeting dates.

7. External Resources

To assist the Committee in discharging its responsibilities, the Committee may at its discretion, in addition to the external auditors, at the expense of the Corporation, retain one or more persons having special expertise, including independent counsel.

8. In Camera Meetings

At the discretion of the Committee, the members of the Committee shall meet in private sessions with the external auditors.

9. Reporting to the Board

The Committee, through its Chair, shall report after each Committee meeting to the Board at the Board's next regular meeting.

10. Committee Self Assessment

The Committee shall annually review, discuss and assess its own performance. In addition, the Committee shall periodically review its role and responsibilities.

11. The External Auditors

The Committee expects that, in discharging their responsibilities to the shareholders, the external auditors shall report directly to and be accountable to the Board through the Committee. The external auditors shall report all material issues or potentially material issues, either specific to the Corporation or to the financial reporting environment in general, to the Committee.

B Operating Procedures

1. The Committee shall meet at least four times annually, or more frequently as circumstances dictate. At least once a year the Committee shall meet with the external and internal auditors without executive Board members present.
2. Meetings shall be held at the call of the Chair, upon the request of two members of the Committee or at the request of the external auditors.
3. A quorum shall be a majority of the Committee members and the rules for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those governing the Board unless otherwise determined by the Committee or the Board.
4. At all meetings of the Committee every question shall be decided by a majority of the votes cast, with each member of the Committee, including the Chair, having one vote, and with the Chair having no tie breaker vote.

5. The Chair shall preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee present shall designate from among the independent non-executive directors the Chair for the purposes of the meeting.
6. A member or members of the Committee may participate in Committee meetings by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.
7. Unless the Committee otherwise specifies, the secretary of the Corporation (or his or her deputy), or such other person as designated by the Committee shall act as the secretary (the “**Secretary**”) of all meetings of the Committee.
8. Minutes of the Committee will be maintained by the Secretary and made available to each director of the Corporation as soon as practicable following a Committee meeting.

C. Specific Responsibilities and Duties

The specific responsibilities and duties of the Committee include:

1 Financial Reporting:

- (a) review, prior to public release, the Corporation’s annual and quarterly financial statements with management and, to the extent required, the external auditors. In its review of such financial statements the Committee shall focus in particular on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgemental areas;
 - (iii) significant adjustments resulting from the audit or review;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards; and
 - (vi) compliance with stock exchange and legal requirements.

The Committee shall report thereon to the Board before such financial statements are approved by the Board;

- (b) receive from the external auditors reports of their audit of the annual financial statements and if the auditors are engaged, their reviews of the quarterly financial statements;
- (c) review, prior to public release, and, if appropriate, recommend approval to the Board, of news releases and reports to shareholders issued by the Corporation with respect to the Corporation’s annual and quarterly financial statements;
- (d) review and, if appropriate, recommend approval to the Board of prospectuses, material change disclosures of a financial nature, management discussion and analyses, annual information forms and similar disclosure documents to be issued by the Corporation;
- (e) assess whether the Corporation’s accounting policies are being adequately disclosed

in the Corporation's financial reporting;

- (f) review and validate procedures for the receipt, retention and resolution of complaints received by the Corporation from any party regarding accounting, auditing or internal controls. For greater certainty, the Committee's responsibilities in this area will not include complaints about minor operational issues. Examples of minor operational issues include late payment of invoices, minor disputes over accounts owing or receivable, revenue and expense allocations and other similar items characteristic of the normal daily operations of the accounting department of an oil and gas corporation;

2 Accounting Policies:

- (a) review with management and the external auditors the appropriateness of the Corporation's financial and accounting policies and practices, disclosures, reserves, key estimates and judgments, including changes or variations thereto;
- (b) obtain reasonable assurance that the Corporation's accounting policies are in compliance with GAAP consistently applied from management and external auditors and report thereon to the Board;
- (c) review with management and the external auditors the apparent degree of conservatism of the Corporation's underlying accounting policies, key estimates and judgments and provisions along with quality of financial reporting; and
- (d) participate, if requested, in the resolution of disagreements, between management and the external auditors;

3 Risk and Uncertainty:

- (a) acknowledging that it is the responsibility of the Board, in consultation with management, to identify the principal business risks facing the Corporation, determine the Corporation's tolerance for risk and approve risk management policies, the Committee shall focus on financial risk and gain reasonable assurance that financial risk is being effectively managed or controlled;
- (b) review policies and compliance therewith that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board in a timely fashion;
- (c) review foreign currency, interest rate and commodity price risk mitigation strategies, including the use of derivative financial instruments;
- (d) review the adequacy of insurance coverages maintained by the Corporation; and
- (e) review regularly with management, the external auditors and the Corporation's legal counsel, any legal claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these matters have been disclosed in the financial statements;

4 Financial Controls and Control Deviations:

- (a) review the plans of the external auditors to gain reasonable assurance that applicable internal financial controls are comprehensive, coordinated and cost effective;

- (b) receive regular reports from management and the external auditors on all significant deviations or indications/detection of fraud and the corrective activity undertaken in respect thereto;
- (c) institute a procedure that will permit any employee, including management employees, to bring to the attention of the Board, under conditions of confidentiality, concerns relating to financial controls and reporting which are material in scope and which cannot be addressed, in the employee's judgment, through existing reporting structures in the Corporation;
- (d) review and periodically assess the adequacy of controls over financial information disclosed to the public, which is extracted or derived from the Corporation's financial statements;
- (e) to review the Corporation's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
- (f) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Corporation's accounting and financial reporting function;
- (g) (where an internal audit function is in operation) to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Corporation; and
- (h) to consider the major findings of internal investigations and management's response;

5 Compliance with Laws and Regulations:

- (a) review regular reports from management and others (e.g. external auditors) with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements including:
 - (i) tax and financial reporting laws and regulations;
 - (ii) legal withholding requirements; and
 - (iii) other laws and regulations which expose directors to liability; and
- (b) review the filing status of the Corporation's tax returns;

6 Relationship with External Auditors:

- (a) recommend to the Board the appointment, re-appointment and, if necessary, dismissal, of the external auditors;
- (b) to review and monitor the external auditor's independence and objectivity and the

effectiveness of the audit process in accordance with applicable standards;

- (c) approve the remuneration and the terms of engagement of the external auditors as set forth in the engagement letter and receive a copy of the finalized version of the engagement letter;
- (d) to review the external auditors management letter and management's response;
- (e) to ensure that the Board will provide a timely response to the issues raised in the external auditors management letter;
- (f) review the performance of the external auditors annually or more frequently as required;
- (g) receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services to the Corporation;
- (h) review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, and the materiality levels which the external auditors propose to employ;
- (i) meet with the external auditors in the absence of management to determine, inter alia, that no management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the Committee;
- (j) establish effective communication processes with management and the Corporation's external auditors to assist the Committee to monitor objectively the quality and effectiveness of the relationship among the external auditors, management and the Committee; and
- (k) establish a reporting relationship between the external auditors and the Committee such that the external auditors can bring directly to the Committee matters that, in the judgment of the external auditors, merit the Committee's attention. In particular, the external auditors will advise the Committee as to disagreements between management and the external auditors regarding financial reporting and how such disagreements were resolved; and

7 Other Responsibilities:

- (a) approve annually the reasonableness of the expenses of the Co-Chairpersons of the Board and the Chief Executive Officer;
- (b) after consulting with the Chief Financial Officer and the external auditors, to consider at least annually the quality and sufficiency of the Corporation's accounting and financial personnel and other resources;
- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services, including tax advisory and compliance services provided by the external auditors;
- (d) ensure that an effective "whistle blowing" procedure exists to permit stakeholders to express any concerns regarding accounting or financial matters to an appropriately independent individual;

- (e) investigate any matters that, in the Committee's discretion, fall within the Committee's duties;
- (f) perform such other functions as may from time to time be assigned to the Committee by the Board;
- (g) review and update the Terms of Reference on a regular basis for approval by the Board;
- (h) review disclosures regarding the organization and duties of the Committee to be included in any public document, including quarterly and annual reports to shareholders, information circulars and annual information forms; and
- (i) ensure that an appropriate code of conduct is in place and understood by employees and directors of the Corporation.

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