阳光油砂
SUNSHINE OILSANDS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2023

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 months ended March 31, 2023 is dated May 12, 2023, and approved by the Company's Board of Directors. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three months period ended March 31, 2023 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2022. 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 0.91 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2022 was approximately 1.53 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 March 31, 2023, the Company had invested approximately $1.28 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at March 31, 2023, the Company had $0.06 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. On March 31, 2020, the Board has decided to temporarily suspend production due to volatility in the international crude oil market, severe decline in crude oil prices, and having considered the fact that the Company's West Ells production equipment and road need repair, coupled with the outbreak of COVID-19 in Canada. On March 8, 2022, the Company announced that it has completed the preliminary preparatory work for resumption of production in the West Ells project. On April 11, 2022, the West Ells project has fully resumed operation.

For the three months ended March 31, 2023, the Company's average bitumen production was 913 bbls/day. The bitumen is blended with diluent as part of the production process to create the marketable "Dilbit" blend product. The average Dilbit sales volume was 1,233.8 bbls/day for the first quarter of 2023.

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.

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 due course under new ownership of Renergy, at no cost to Sunshine.

Summary of Quarterly Results

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

($ thousands except per share & bbl/d)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Bitumen sales (bbl/d)	1,025	816	802	30	-	-	-	-
Petroleum sales	7,192	7,275	7,765	589	-	-	-	-
Royalties	13	266	676	20	-	-	-	1
Diluent	3,863	3,596	3,094	294	-	-	-	-
Transportation	2,521	2,050	1,779	91	6	-	2	-
Operating costs	4,487	6,506	4,030	5,002	3,404	2,456	1,841	1,602
Finance cost	2,536	(28,063)	13,003	12,166	11,631	9,392	12,300	11,712
Net loss (profit)	11,650	490,907	(322,871)	(46,099)	(56,232)	707	(27,306)	22,789
Net loss (profit) attributable to owners of the company	11,573	490,832	(322,945)	(46,173)	(56,311)	632	(27,514)	22,791
Per share - basic and diluted	0.05	2.02	(1.33)	(0.19)	(0.23)	0.00	(0.11)	0.12
Capital expenditures[1]	(54)	514	(185)	1,137	181	1,428	460	486
Total assets	747,557	747,719	1,240,853	877,108	812,323	755,724	762,847	753,425
Working capital deficiency[2]	517,464	511,583	499,257	57,625	100,543	93,005	97,147	535,469
Shareholders' equity	98,359	110,009	601,569	278,698	232,599	176,367	176,125	148,756

1. Included payments for exploration and evaluation, property, plant and equipment.
2. The working capital deficiency includes the foreign exchange gain from conversion of current portion of HKD/CNY denominated loans from related companies and a shareholder into CAD at each period end exchange rate and the USD of the Notes converted to CAD at each period end exchange rate.

Results of Operations

Bitumen Realization

($ thousands, except $/bbl)		For the three months ended March 31 , 2023		2022
Dilbit revenue	$	7,192	$	-
Diluent blended		(3,863)		-
Realized bitumen revenue[1]	$	3,329	$	-
($ / bbl)		29.98		N/A

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 March 31, 2023, the Company's bitumen realization revenue was $3.3 million compared to $0.0 million for the three months ended March 31, 2022. Bitumen realization increased by $3.3 million mainly due to higher bitumen production and dilbit sales at West Ells partially offset by higher diluent blending expenses. The bitumen realized price was $29.98/bbl for the three months ended March 31, 2023. There was no disclosure on the bitumen realization per barrel for 1Q2022 as there was zero dilbit sales before full resumption of production in April 2022.

Operating Netback

	For the three months ended March 31,	
($ thousands, except $/bbl)	2023	2022
Realized bitumen revenue	$ 3,329	$ -
Transportation	(2,521)	(6)
Royalties	(13)	-
Net bitumen revenues	795	(6)
Operating costs	(4,487)	(3,404)
Operating cash flow[1]	$ (3,692)	$ (3,410)
Operating netback ($ / bbl)	(33.25)	N/A

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

The Operating cash flow for the three months ended March 31, 2023 was a loss of $3.7 million compared to a net loss of $3.4 million for the three months ended March 31, 2022. The main contributing factors to the loss are the transportation and operating costs. The operating netback loss per barrel was $33.25/bbl for Q1 2023. There was no disclosure on operating netback per barrel for the first quarter of 2022 as there was no dilbit sales.

Bitumen Production

	For the three months ended March 31,	
(Barrels/day)	2023	2022
Bitumen production	913	-

Bitumen production at West Ells for the three months ended March 31, 2023 averaged 913 Bbls/day compared to 0 Bbls/day for the three months ended March 31, 2022. Bitumen production was zero in Q1 2022 due to temporary production suspension since March 31, 2020. On April 11, 2022, West Ells project has fully resumed operation.

Bitumen Sales

	For the three months ended March 31,	
(Barrels/day)	2023	2022
Bitumen sales	1,025	-

Bitumen sales at West Ells for the three months ended March 31, 2023 averaged 1,025 bbl/day compared to 0 bbl/day for the three months ended March 31, 2022. There was no bitumen sales in 1Q22 before full resumption of production in April 2022.

Petroleum Sales, net of royalties

	For the three months ended March 31,	
($ thousands, except $/bbl)	2023	2022
Petroleum sales	$ 7,192	$ -
Royalties	(13)	-
Petroleum sales, net of royalties	$ 7,179	$ -
$ / bbl	64.65	N/A

Petroleum sales are from the sales of dilbit. Petroleum sales, net of royalties for the three months ended March 31, 2023 was $7.2 million compared to $0.0 million for the three month ended March 31, 2022 with increased production and thus higher sales volume at West Ells in 2023. There was no disclosure on the petroleum sales per barrel for Q1 2022 as there was no dilbit sales.

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 months ended March 31, 2023 increased by $0.01 million compared to the same period of 2022 primarily due to higher bitumen sales.

Diluent Costs

($ thousands, except $/bbl and blend ratio)		For the three months ended March 31, 2023		2022
Diluent	$	3,863	$	-
$ / bbl		34.79		N/A
Blend ratio		17.0%		N/A

At West Ells, diluent is blended with the bitumen as part of the production process to create a marketable dilbit blend product. 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 for the three months ended March 31, 2023 and March 31, 2022 were $3.9 million and $0.0 million respectively. Diluent costs increased by $ 3.9 million in Q1 2023 mainly due to higher required amount of diluent as a result of production resumption at West Ells. For the three months ended March 31, 2023, diluent cost per barrel was $34.79/bbl and the blending ratio was 17.0%. There is no disclosure for the diluent cost per barrel and blend ratio for the same period in 2022 as there was no dilbit sales.

Transportation

($ thousands, except $/bbl)		For the three months ended March 31, 2023		2022
Transportation	$	2,521	$	6
$ / bbl		22.70		N/A

Transportation cost includes trucking costs for dilbit from 3rd parties and Sunshine fleets and pipeline terminals fees. The transportation expense in the three months ended March 31, 2023 and March 31, 2022 was $2.5 million and $0.0 million, respectively. Transportation costs increased by $2.5 million in Q1 2023 mainly due to higher bitumen sales and increased rate charged by third party trucking companies. For the three months ended March 31, 2023, transportation cost per barrel was $22.70/bbl. There is no disclosure for the transportation cost per barrel for 1Q2022 as there was no dilbit sales.

Operating Costs

($ thousands, except $/bbl)		For the three months ended March 31, 2023		2022
Energy operating costs	$	1,838	$	897
Non-energy operating costs		2,649		2,507
Operating costs	$	4,487	$	3,404
$ / bbl		40.41		N/A

Operating costs are comprised of the sum of non-energy operating costs and energy cost. Non-energy operating cost represents 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.

For the three months ended March 31, 2023, the operating costs increased by $1.1 million to $4.5 million from $ 3.4 million for the same period in 2022. The increase in operating costs from last year was primarily due to increased energy costs and waste disposal trucking costs as a result of production resumption since Q2 2022, partially offset by lower parts and maintenance costs. The increased energy costs was primarily due to higher energy consumption offset partially by lower natural gas price in Q1 2023.

General and Administrative Costs

($ thousands)	For the three months ended March 31, 2023		2022	
Salaries, consultants and benefits	$	1,768	$	1,239
Rent		11		78
Legal and audit		194		54
Other		2,565		2,279
Total	$	4,538	$	3,650

The Company's general and administrative costs were $4.5 million and $3.7 million for the three months ended March 31, 2023 and March 31, 2022 respectively. General and administrative costs increased by $ 0.8 million for the three months ended March 31, 2023 compared to the same periods in 2022 primarily due to higher salary expenses and increased municipal charges.

Finance Costs

($ thousands)	For the three months ended March 31, 2023		2022	
Interest expense on senior notes, including yield maintenance premium ("YMP")	$	294	$	10,256
Interest expense on other loans		127		69
Interest expense on loan from related companies and a shareholder		1,696		1,031
Other interest-lease and others		61		19
Accretion		358		256
Finance costs	$	2,536	$	11,631

The Company's finance costs were $2.5 million for the three months ended March 31, 2023 compared to $11.6 million for the three months ended March 31, 2022. Finance cost decreased by $9.1 million for the three months ended March 31, 2023 compared to the same period in 2022 primarily attributed to interest waived on senior notes which was recorded as other income in Q1 2022 as opposed to finance cost reduction in Q1 2023.

Share-based Compensation

	For the three months ended March 31, 2023				2022			
($ thousands)		Total	Capitalized	Expensed		Total	Capitalized	Expensed
Share-based compensation	$	-	-	-	$	-	-	-

Share-based compensation expense for the three months ended March 31, 2023 and 2022 were both zero. The fair value of share-based compensation associated with the granting of stock options is recognized by the Company in its condensed consolidated interim financial statements. Fair value is determined using the Black-Scholes option pricing model.

Depletion and Depreciation

($ thousands, except $/bbl)	For the three months ended March 31, 2023		2022	
Depletion	$	1,840	$	-
Depreciation		211		249
Depletion and depreciation	$	2,051	$	249
Depletion ($ / bbl)		16.57		N/A

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 expense was $1.8 million and $0.0 million for the three months ended March 31, 2023 and 2022 respectively. Depletion expense increased by $1.8 million for Q1 2023 mainly due to higher bitumen production since the resumption of production in April 2022. For the three months ended March 31, 2023, depletion per barrel was $16.57/bbl. There is no disclosure for the depletion per barrel for Q1 2022 as there was zero dilbit sales.

Impairment / (Reversal)

	For the three months ended March 31,	
($ thousands, except $/bbl)	2023	2022
Impairment / (Reversal)	$ -	$ (58,295)

The Company assesses at each reporting date whether there is an indication that it's E&E (exploration and evaluation assets) and PP&E assets may be impaired or that historical impairment may be reversed. The Company's assets are aggregated into cash-generating units for the purpose of calculating impairment/impairment reversal. Cash generating units ("CGU"s) are based on an assessment of the units' ability to generate independent cash inflows. The company recognized impairment loss or reversal based on CGU which is identified with respect to geographical proximity, shared infrastructure and similarity of market risk exposure and materiality. The recoverable amount of the E&E and PP&E assets were 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 (cash-generating unit) 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.

For the purpose of impairment (reversal) testing, 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") and its latest oil price forecasts. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions, including management forecast of long-term 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.

The reversal is recognized in profit or loss only to the extent that it reverses an impairment loss that was previously recognized in profit or loss. Any additional increase is accounted for as a revaluation and is recognized in other comprehensive income.

A reversal of an impairment loss shall be recognized immediately in profit or loss. In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset shall not be increased above the lower of:
(a) Its recoverable amount; and
(b) The carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods.

Future depletion expenses are adjusted to allocate the CGU's revised carrying amount over its remaining useful life.

As of March 31, 2023, the Group did not identify any indicators of further impairment loss (reversal) of the above E&E or West Ells CGU. For Q1 2022, the Company recognized an impairment reversal of $58.3 million in its Exploration and Evaluation (E&E) and West Ells CGU primarily attributable to higher commodity price sensitivity and changing interest rate expectations, future cash flows were discounted at an after-tax rate of 10% for E&E and West Ells CGU in Q1 2022.

Income Taxes

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three March 31, 2023. 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 March 31, 2023, the Company had total available tax deductions of approximately $1.60 billion, with unrecognized tax losses that expire between 2029 and 2043.

Liquidity and Capital Resources

	March 31, 2023	December 31, 2022
Working capital deficiency	$ 517,464	$ 511,583
Shareholders' equity	98,359	110,009
	$ 615,823	$ 621,592

On February 16, 2023, the Corporation and the Forbearing Holder entered into an interest waiver agreement (the "Interest Waiver Agreement") pursuant to which the Forbearing Holder agrees to unconditionally and irrevocably waive the interest accrued between January 1, 2023 and December 31, 2023 (the "Waiver of Interest"). Based on the Forbearance Reinstatement and Amending Agreement ("FRAA") dated August 8, 2021, the waived interest calculated at 10.0% per annum on the outstanding amounts (principal and interests) amounted to US$31.5 million. Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.

As of March 31, 2023, the Company had incurred unsecured debt for a total of US$52.6 million (CAD$71.2 million equivalent).

The Group has presented the Notes as a current liability on the unaudited condensed consolidated interim financial statements as at March 31, 2023.

The Group received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016-2023 municipal property taxes of CAD $14.06 million. The Group was also charged with overdue penalties of CAD $13.61 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. If 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 March 31, 2023, the Company had incurred $0.82 million (USD $0.61 million equivalent using the period end exchange rate) in Builders' liens (not related mineral leases) against them during the ordinary course of business.

The Company received a judgment from the Court of the State of New York, New York County (the "Judgment") that the Company shall pay the Non-forbearing holder all the amounts due and owing on the Senior Notes issued under the notes indenture dated 8 August 2014 (including principal and interests) in an aggregate amount of approximately US$15,481,000.00. As at the date of this report, the Company has filed a motion to vacate the default judgment.

The Notes are translated into Canadian dollars at the period end exchange rate of $1USD = $1.3533 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 three months ended March 31, 2023, the Company reported a net loss and comprehensive loss attributable to owners of the Company of CAD $11.6 million. At March 31, 2023, the Company had a working capital deficiency of $517.5 million.

The Group's debt-to-asset ratio, measured based on total liabilities divided by total assets was 87% as at March 31, 2023, compared to 85% as at December 31, 2022.

The Group is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. The Group is exposed to currency risks primarily through senior notes, loans from related companies and a shareholder, other loans, accounts payables 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 Group manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Group had no forward exchange rate contracts in place as at or during the three months ended March 31, 2023.

If exchange rate to convert from USD to CAD had been one percent higher or lower with all other variables held constant, foreign cash held at March 31, 2023 would have been impacted by $Nil (December 31, 2022: $Nil) and the carrying value of the debt at March 31, 2023 would have been impacted by $2.7 million (December 31, 2022: $2.7 million).

If exchange rate to convert from HKD to CAD had been one percent higher or lower with all other variables held constant, foreign cash held at March 31, 2023 would have been impacted by $Nil (December 31, 2022: $Nil) and the carrying value of the debt at March 31, 2023 would have been impacted by $0.5 million (December 31, 2022: $0.5 million).

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 the Group's unaudited condensed consolidated interim financial statements and notes thereto for the three months ended March 31, 2023 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2022.

Transactions with Related Parties

For the three months ended March 31, 2023, a consulting Group, to which a director of Sunshine is related, charged the Group $0.13 million (March 31, 2022- $0.13 million) for management and advisory services.

As at 31 March 2023, 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.

As at March 31, 2023, the Group had loans from related companies and a shareholder, which are unsecured, interest bearing at 10% per annum. Loans from related companies totaling approximately CAD $56,678,000 can be rolled over for a period of 2 to 3 years (December 31, 2022: CAD 53,944,000). Total loans from a shareholder are approximately CAD $12,250,000 which are expected to be settled in 2025 (December 31, 2022: CAD $12,342,000).

Off-balance Sheet Arrangements

As at March 31, 2023, the Group did not have any other off-balance sheet arrangements.

Changes in Accounting Policies

Our significant accounting policies have remained unchanged since December 31, 2022. A summary of our significant accounting policies is included in our 2022 Annual Report.

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 4 to the consolidated annual financial statements for the year ended December 31, 2022.

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, 2022, which is available at www.hkexnews.hk. The 2022 annual report of the Group is 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.Jiangping Sun, Chief Executive Officer, 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 March 31, 2023, the Chief Financial Officer and the 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 Chief Executive Officer concluded that the Group's DC&P were effective as at March 31, 2023.

Internal Controls over Financial Reporting

Gloria Ho, Executive Director of the Board and Chief Financial Officer and Mr. Jiangping Sun, Chief Executive Officer, 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 March 31, 2023, and concluded that the Group's ICFR are effective at March 31, 2023 for the foregoing purpose.

No material changes in the Group's ICFR were identified during the three months period ended March 31, 2023 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 "funds from 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:

	For the three months ended March 31,			
($ thousands)		2023		2022
Net cash (used) in operating activities	$	(3,062)	$	(4,414)
Add (deduct)				
Net change in non-cash operating working capital items		(4,844)		(2,440)
Cash flow (used in) operations	$	(7,906)	$	(6,854)

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 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 compiled 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 quarter ended March 31, 2023.

Name	December 31, 2022	Granted	Exercised	Forfeited	Expired	March 31, 2023
Kwok Ping Sun	6,000,000	-	-	-	-	6,000,000
Gloria Ho	300,000	-	-	-	-	300,000
Yi He	100,000	-	-	-	-	100,000
Guangzhong Xing	100,000	-	-	-	-	100,000
Sub-total for Directors	6,500,000	-	-	-	-	6,500,000
Sub-total for other share option holders	-	-	-	-	-	-
Total	6,500,000	-	-	-	-	6,500,000

Please refer to our consolidated financial statements included in the 2022 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2022.

Fair Value of Share Options Granted

The weighted average fair value of the share options granted in previous years was CAD 0.60 (2022 - $0.60). 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.

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	Three month ended March 31, 2023	Year ended December 31, 2022
Grant date share price ($)	0.60-2.00	0.60-2.00
Exercise Price ($)	0.60-2.00	0.60-2.00
Expected volatility (%)	61.88-63.91	61.88-63.91
Option life (years)	0.26-1.45	0.76-1.95
Risk-free interest rate (%)	1.48-1.95	1.48-1.95
Expected forfeitures (%)	0-15.39	0-15.39

Purchase, Sale or Redemption of Sunshine's Listed Securities

Class "A" Common Shares

General mandate

There was not any purchase, sale or redemption of Sunshine's listed securities in Q1 2023.

Shares Outstanding

As at March 31, 2023, the Group had 243,478,681 Class "A" common shares issued and outstanding.

Employees

As at March 31, 2023, the Group has 34 full-time employees. For the three months ended March 31, 2023, total staff costs amounted to $1.8 million.

Dividends

The Group has not declared or paid any dividends in respect of the three months ended March 31, 2023 (three months ended March 31, 2022 - $Nil).

Review of Interim Results

The condensed consolidated interim financial statements for the Group for the three months ended March 31, 2023, were reviewed by the Audit Committee of the Group and approved by the Board.

Publication of Information

This Quarterly results announcement is published on the websites of SEDAR (www.sedar.com), the SEHK (www.hkexnews.hk) and the Group's website at www.sunshineoilsands.com.

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

2023 Outlook

Sunshine will continue to focus on cost controls and carefully monitor developments in crude oil markets. During 2022, the Corporation's West Ells project has fully resumed production. The Corporation is working with its joint venture partners for re-activation of the Muskwa and Godin Area activities.