



阳光油砂

SUNSHINE OILSANDS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2024



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 six months ended June 30, 2024 is dated August 9, 2024, 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 and six months period ended June 30, 2024 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2023. 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, 2023 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/day Phase II to the Project. On March 1, 2017, the West Ells Phase I commenced commercial production.

As at June 30, 2024, 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 June 30, 2024, the Company had \$0.91 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 steps management takes 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.

Operational Update

West Ells

On March 1, 2017, 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 April 11, 2022, the West Ells project has fully resumed operation.

For the three and six months ended June 30, 2024, the Company's average bitumen production was 905.2 bbls/day and 1,045.5 bbls/day. The bitumen is blended with diluent as part of the production process to create the marketable "Dilbit" blend product. For the three and six months ended June 30, 2024, the average Dilbit sales volume was 1,302.8 bbls/day and 1,484.1 bbls/day.



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 with the execution of the Amended Supplementary Agreement with 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)	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Restated ³ Q3 2022
Bitumen sales (bbl/d)	884	1,227	1,550	9	1,294	1,025	816	802
Petroleum sales	10,674	11,437	11,932	49	11,064	7,192	7,275	7,765
Royalties	408	245	373	(2)	298	13	266	676
Diluent	4,668	4,942	5,040	31	3,528	3,863	3,596	3,094
Transportation	1,576	2,441	3,436	106	3,468	2,521	2,050	1,779
Operating costs	3,269	4,290	4,528	3,581	4,472	4,487	6,506	4,030
Finance costs	2,920	2,740	2,684	2,668	2,237	2,536	(28,063)	13,003
Net loss (profit)	11,048	22,217	(2,111)	15,758	(5,671)	11,650	490,907	(322,871)
Net loss (profit) attributable to owners of the company	10,974	22,144	(2,184)	15,686	(5,745)	11,573	490,832	(322,945)
Per share - basic and diluted	0.05	0.09	(0.01)	0.06	(0.02)	0.05	2.02	(1.33)
Capital expenditures ¹	672	171	378	1,864	593	(54)	514	(185)
Total assets	742,120	745,963	745,932	739,708	744,484	747,557	747,719	1,240,853
Working capital deficiency ²	83,772	84,242	79,458	94,082	87,079	517,464	511,583	499,257
Shareholders' equity	57,782	68,830	91,047	88,272	104,030	98,359	110,009	601,569

1. Included payments for exploration and evaluation, property, plant and equipment.
2. The working capital deficiency includes the foreign exchange loss from conversion of HKD/CNY denominated loans from related companies and shareholders into CAD and the USD denominated Notes converted to CAD at each period end exchange rate.
3. The Q3 2022 comparative period in the table above have been restated. Please refer to "Restatement of the 3Q22 Comparative Periods" section of the restated Q3 2022 MD&A for full details.

Results of Operations

Bitumen Realization

(\$ thousands, except \$/bbl)	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Dilbit revenue	\$ 10,674	\$ 11,064	\$ 22,111	\$ 18,256
Diluent blended	(4,668)	(3,528)	(9,610)	(7,391)
Realized bitumen revenue ¹	\$ 6,006	\$ 7,536	\$ 12,501	\$ 10,865
(\$ / bbl)	50.67	54.30	46.28	43.49

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.

For the three months ended June 30, 2024, the Company's realized bitumen revenue decreased by \$1.5 million to \$6.0 million from \$7.5 million for the same period in 2023. The decrease in realized bitumen revenue in Q2 2024 was primarily due to the decreased production volume as a result of equipment maintenance at West Ells and increased



diluent cost. The bitumen realized price per barrel decreased by \$3.63/bbl from \$54.30/bbl to \$50.67/bbl for the three months ended June 30, 2024 primarily due to higher diluent cost.

For the six months ended June 30, 2024, the Company's realized bitumen revenue increased by \$1.6 million to \$12.5 million from \$10.9 million for the same period in 2023. The increase in realized bitumen revenue in 2024 was primarily due to higher dilbit revenue at West Ells partially offset by higher blending expenses. Bitumen realized price per barrel increased by \$2.79/bbl from \$43.49/bbl to \$46.28/bbl for the six months ended June 30, 2024 primarily due to higher realized dilbit sales price.

Operating Netback

(\$ thousands, except \$/bbl)	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Realized bitumen revenue	\$ 6,006	\$ 7,536	\$ 12,501	\$ 10,865
Transportation	(1,576)	(3,468)	(4,017)	(5,989)
Royalties	(408)	(298)	(653)	(311)
Net bitumen revenues	\$ 4,022	\$ 3,770	\$ 7,831	\$ 4,565
Operating costs	(3,269)	(4,472)	(7,559)	(8,959)
Operating cash flow ¹	\$ 753	\$ (702)	\$ 272	\$ (4,394)
Operating netback (\$ / bbl)	6.37	(5.07)	1.00	(17.58)

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 June 30, 2024 was a net gain of \$0.8 million compared to a net loss of \$0.7 million for the three months ended June 30, 2023. Operating netback on a per barrel basis increased by \$11.44 /bbl to a gain of \$6.37/bbl from a loss of \$5.07/bbl. The increase in the operating cash flow was primarily due to increase in dilbit sales price and decrease in transportation and operating costs, partially offset by the increased diluent and royalty costs.

The Operating cash flow for the six months ended June 30, 2024 was a net gain of \$0.3 million compared to a net loss of \$4.4 million for the six ended June 30, 2023. Operating netback per barrel increased by \$18.58/bbl to a gain of \$1.0/bbl from a loss of \$17.58/bbl. The increase in the operating cash flow for the six months ended June 30, 2024 was primarily due to the increase in dilbit sales price and decrease in transportation and operating costs, partially offset by increased diluent and royalty costs.

Bitumen Production

(Barrels/day)	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Bitumen production	905	1,267	1,046	1,091

Bitumen production at West Ells for the three and six months ended June 30, 2024 averaged 905 Bbls/day and 1,046 Bbls/day compared to 1,267 Bbls/day and 1,091 Bbls/day for the same period in 2023, respectively. Bitumen production decreased by 362 bbls/day for 2Q and 45 bbls/day for the six months ended June 30, 2024, which was primarily due to equipment maintenance at West Ells in 2Q 2024.

Bitumen Sales

(Barrels/day)	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Bitumen Sales	884	1,294	1,055	1,160

Bitumen sales at West Ells for the three and six months ended June 30, 2024 averaged 884 bbls/day and 1,055 bbls/day compared to 1,294 bbls/day and 1,160 bbls/day for the three and six months ended June 30, 2023, respectively. Bitumen sales decreased by 410 bbls/day and 105 bbls/day for the three and six months ended June 30, 2024 compared to the same period in 2023 primarily attributable to lower bitumen production and thus sales at West Ells in 2024.



Petroleum Sales, net of royalties

(\$ thousands, except \$/bbl)	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Petroleum sales	\$ 10,674	\$ 11,064	\$ 22,111	\$ 18,256
Royalties	(408)	(298)	(653)	(311)
Petroleum sales, net of royalties	\$ 10,266	\$ 10,766	\$ 21,458	\$ 17,945
\$ / bbl	86.60	77.58	79.44	71.84

Petroleum sales are from the sales of dilbit. Petroleum sales, net of royalties for the three and six months ended June 30, 2024 were \$10.3 million and \$21.5 million compared to \$10.8 million and \$17.9 million for the three and six months ended June 30, 2023 respectively. The decrease of petroleum sales (net of royalties) for the three months ended June 30, 2024 is mainly due to lower bitumen production and thus lower sales volume, along with higher royalty expenses. The increase of petroleum sales (net of royalties) for the six months ended June 30, 2024 is mainly due to higher dilbit sales price partially offset by higher royalty expenses. Petroleum sales per barrel (net of royalties) were \$86.60/bbl and \$79.44/bbl compared to \$77.58/bbl and \$71.84/bbl for the same period in 2023. The increase of \$9.02/bbl and \$7.60/bbl for the three and six months ended June 30, 2024 was primarily due to the increase in dilbit sales price, partially offset by higher royalty costs per barrel as a result of the rising WTI price and therefore increasing applicable royalty rate.

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 at pre-payout. For the three and six months ended June 30, 2024, royalties increased by \$0.1 million and \$0.3 million compared to the same period of 2023 primarily due to higher Crown royalty rates resulting from the rising WTI benchmark oil prices in 2024.

Diluent Costs

(\$ thousands, except \$/bbl and blend ratio)	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Diluent at CPF	4,668	2,320	9,016	4,372
Diluent at terminals	-	1,208	594	3,019
Total Diluent	\$ 4,668	\$ 3,528	\$ 9,610	\$ 7,391
\$/bbl	39.37	25.43	35.58	29.59
Blend ratio (CPF)	32.2%	15.1%	28.9%	15.9%
Blend ratio (terminals)	-	23.3%	10.9%	23.5%

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.

Total diluent cost also include the diluent blended at terminals to adjust dilbit density for pipeline shipping purpose. Total diluent costs for the three and six months ended June 30, 2024 were \$4.7 million and \$9.6 million compared to \$3.5 million and \$7.4 million for the same period in 2023. Total diluent costs increased by \$1.2 million and \$2.2 million primarily due to increased diluent volume blended at CPF partially offset by decreased diluent price in 2024. For the three and six months ended June 30, 2024, diluent cost per barrel was \$39.37/bbl and \$35.58/bbl, compared to \$25.43/bbl and \$29.59/bbl for the same period in 2023. For the three and six months ended June 30, 2024, blending ratio at CPF was 32.2% and 28.9% and blend ratio at terminals was 0% and 10.9% respectively. The average blending ratio at CPF and the terminal shifted in 2024 as the Company blended more diluent on-site to meet the specific pipeline requirements of the new terminal.



Transportation

(\$ thousands, except \$/bbl)	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Transportation	\$ 1,576	\$ 3,468	\$ 4,017	\$ 5,989
\$ / bbl	13.29	24.99	14.87	23.97

Transportation costs consist of trucking costs for dilbit and pipeline terminals fees. The transportation expense for the three and six months ended June 30, 2024 were \$1.6 million and \$4.0 million respectively compared to \$3.5 million and \$6.0 million for the same periods in 2023. Transportation costs lowered in 2024 primarily due to reduced dilbit trucking expenses, dilbit trucking expense decreased because the Company began delivering dilbit to a new terminal in February 2024, which is much closer to the production site. The transportation expense per barrel for the three and six months ended June 30, 2024 were \$13.29/bbl and \$14.87/bbl respectively compared to \$24.99/bbl and \$23.97 for the same periods in 2023. The significant decrease in the transportation cost per barrel was mainly due to the shorter transportation distance, which resulted in lower rate charged by the trucking company.

Operating Costs

(\$ thousands, except \$/bbl)	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Energy operating costs	\$ 766	\$ 1,293	\$ 2,282	\$ 3,131
Non-energy operating costs	2,503	3,179	5,277	5,828
Operating costs	\$ 3,269	\$ 4,472	\$ 7,559	\$ 8,959

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.

For the three months ended June 30, 2024, the operating costs decreased by \$1.2 million to \$3.3 million from \$4.5 million for the same period in 2023. The decrease in operating costs from last year was primarily due to lower energy costs as a result of reduced gas price, along with lower non-energy costs (chemical, treating, trucking, etc) at West Ells.

For the six months ended June 30, 2024, the operating costs decreased by \$1.4 million to \$7.6 million from \$9.0 million for the same period in 2023. The decrease in operating costs from last year was primarily due to lower energy costs as a result of reduced gas price, along with lower non-energy costs (chemical, treating, trucking, etc) at West Ells. 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 continues to increase at West Ells.

General and Administrative Costs

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Salaries, consultants and benefits	\$ 1,373	\$ 1,539	\$ 2,819	\$ 3,307
Rent	10	5	16	16
Legal and audit	26	95	88	289
Other	448	459	3,538	3,024
Balance, end of period	\$ 1,857	\$ 2,098	\$ 6,461	\$ 6,636

The Company's general and administrative costs were \$1.9 million and \$6.5 million for the three and six months ended June 30, 2024 compared to \$2.1 million and \$6.6 million for the same periods in 2023. General and administrative costs decreased by \$0.2 million for the three months ended June 30, 2024 compared to the same periods in 2023 primarily due to lower salaries expenses and legal fees in Q2 2024. For the six months ended June 30, 2024, General and administrative costs decreased by \$0.1 million compared to the same period in 2023 primarily due to lower salaries expense and legal fees, partially offset by higher municipal charges.



Finance Costs

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Interest expense on senior notes, including yield maintenance premium	\$ 294	\$ 289	\$ 588	\$ 583
Interest expense on other loans	71	177	133	304
Interest expense on loan from related companies and a shareholder	2,030	1,346	3,908	3,042
Other Interest expenses-leases and others	84	64	159	125
Unwinding of discounts on provisions	441	361	872	719
Balance, end of period	\$ 2,920	\$ 2,237	\$ 5,660	\$ 4,773

For the three and six months ended June 30, 2024, the Company's finance costs increased by \$0.7 million and \$0.9 million to \$2.9 million and \$5.7 million from \$2.2 million and \$4.8 million for the same period in 2023, respectively. The increase in finance costs was primarily attributed to interest expenses on loans from related companies and shareholders, partially offset by lower Interest expense on other loans.

Share-based Compensation

	Three months ended June 30, 2024			Three months ended June 30, 2023		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

	Six months ended June 30, 2024			Six months ended June 30, 2023		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Share-based compensation expense for the three and six months ended June 30, 2024 and 2023 were \$0 million. 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 June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Depletion	\$ 1,788	\$ 2,582	\$ 4,201	\$ 4,422
Depreciation	196	227	402	438
Depletion and depreciation	\$ 1,984	\$ 2,809	\$ 4,603	\$ 4,860
Depletion (\$/bbl)	15.08	18.61	15.55	17.70

The Company commenced commercial production at West Ells Phase 1 Project 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 \$4.2 million for the three and six months ended June 30, 2024 compared to \$2.6 million and \$4.4 million for the same period in 2023. The decrease in depletion expenses in 2024 mainly due to lower production volume. Depreciation expense was \$0.2 million and \$0.4 million for the three and six months ended June 30, 2024 compared to \$0.2 million and \$0.4 million for the same period in 2023. The depletion per barrel for the three and six months ended June 30, 2024 were \$15.08/bbl and \$18.61/bbl respectively compared to \$15.55/bbl and \$17.70 for the same periods in 2023. The decrease in the depletion per barrel was mainly due to lower depletion base and lower depletion rate.



Impairment / (Reversal)

(\$ thousands, except \$/bbl)	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Impairment / (Reversal)	\$ -	\$ -	\$ -	\$ -

The Company assesses at each reporting date whether there is an indication that its 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.

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:

- Its recoverable amount; and
- 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 Jun 30, 2024 and 2023, the Group did not identify any indicators of further impairment loss (reversal) of the above E&E or West Ells CGU. As a result, nil impairment (reversal) was recognized in profit and loss.

Income Taxes

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses for the three and six months ended June 30, 2024 and 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 June 30, 2024, the Company had total available tax deductions of approximately \$1.43 billion, with unrecognized tax losses that expire between 2029 and 2044.

Liquidity and Capital Resources

	June 30, 2024		December 31, 2023	
Working capital deficiency	\$	83,772	\$	79,458
Shareholders' equity		57,782		91,047
	\$	141,554	\$	170,505

On February 16, 2023, the Company and the Forbearing Holder entered into an interest waiver agreement (the "2023 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 ("2021 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 in relation to the Senior Note and its subsequent forbearance remain unchanged.



On August 8, 2023, the Company and Mr. Sun confirmed the signing of the Forbearance Reinstatement and Amending Agreement (“2023 FRAA”). The principal terms of the 2023 FRAA include:

- The 2023 FRAA covers the period from September 1, 2023 to August 31, 2025 (“Period of Forbearance 3”);
- Same as the 2023 FRAA executed on August 8, 2021, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2025, unless otherwise waived in separate interest waiver agreements. During the Period of Forbearance 3, there will not be any forbearance fee and yield maintenance premium based on the initial 2016 Forbearing Agreement executed on September 12, 2016.

The directors of the Company believe the entering into of the 2023 FRAA is in the interests of the Company and its shareholders as a whole in view that the 2023 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.

On April 11, 2024, the Company and the Forbearing Holder entered into an interest waiver agreement (the “2024 Interest Waiver Agreement”) pursuant to which the Forbearing Holder agrees to unconditionally and irrevocably waive the interest accrued between January 1, 2024 and December 31, 2024 (the “Waiver of Interest”). Based on the Forbearance Reinstatement and Amending Agreement (“2023 FRAA”) dated August 8, 2023, 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 in relation to the Senior Note and its subsequent forbearance remain unchanged.

The Group has presented the portion held by Non-Forbearing holder as current liabilities and the portion held by Forbearing holder as non-current liabilities on the unaudited condensed consolidated interim financial statements as at June 30, 2024.

The Notes are translated into Canadian dollars at the period end exchange rate of \$1USD = \$1.3687 CAD.

As of June 30, 2024, the Company had incurred unsecured Permitted Debt for a total of US\$56.0 million (CAD76.6 million equivalent).

The Company received a demand notice from the Regional Municipality of Wood Buffalo (“RMWB”) in relation to the 2016-2024 municipal property taxes of CAD15.8 million. The Group was also charged with overdue penalties of CAD17.6 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 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 June 30, 2024, the Company had incurred \$0.82 million (US\$0.60 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 (equivalent to approximately CAD20,967,000). The judgment was vacated on May 25, 2023. On December 13, 2023, the Company received a judgment from the Court of the State of New York, New York County that the Group should pay the Non-forbearing Holder all the amounts due and owing on the Notes (including principal and interests) in an aggregate amount of approximately US\$19,694,000 (equivalent to approximately CAD26,048,000). On January 2, 2024 and February 20, 2024, the Group lodged an appeal against the Judgment to the New York court of appeal. On February 27, 2024, the Non-forbearing Holder tried to execute the judgement by serving notice in the State of New York.



The Company'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 Company manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to manage risk, the Company may from time to time issue shares and adjust its capital spending to manage current working capital deficiency levels. The Company's liquidity may be adversely affected if the Company's access to the capital markets is hindered because of financial market conditions generally, or as a result of conditions specific to the Company.

For the six months ended June 30, 2024, the Company reported a net loss and comprehensive loss attributable to owners of the Company of CAD33.1 million. At June 30, 2024, the Company had a working capital deficiency of CAD83.8 million.

The Company's debt-to-asset ratio, measured based on total liabilities divided by total assets was 92% as at June 30, 2024, compared to 88% as at December 31, 2023.

The Company 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 Company 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 Company had no forward exchange rate contracts in place as at or during the six months ended June 30, 2024.

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 June 30, 2024 would have been impacted by \$Nil (June 30, 2023: \$Nil) and the carrying value of the debt at June 30, 2024 would have been impacted by \$2.7 million (June 30, 2023: \$2.6 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 June 30, 2024 would have been impacted by Nil (June 30, 2023: \$Nil) and the carrying value of the debt at June 30, 2024 would have been impacted by \$0.7 million (June 30, 2023: \$0.6 million).

If exchange rate to convert from RMB to CAD had been one percent higher or lower with all other variables held constant, foreign cash held at June 30, 2024 would have been impacted by \$Nil (2023: \$Nil) and the carrying value of the debt at June 30, 2024 would have been impacted by \$0.1 million (June 30, 2023: \$0.1 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 Company has granted to BEH a royalty interest in the bitumen within, upon, under or produced from the royalty lands owned by the Company and/or its affiliates, free and clear of any and all encumbrances for an aggregate consideration of CAD20,000,000 (the "Aggregate Consideration"), subject to the terms and conditions stipulated therein. The arrangement under the Royalty Agreement is perpetual.

On June 8, 2023, the Company entered into an amended Royalty Agreement (together with its ancillary documents, the "Amended Royalty Agreement") with BEH, pursuant to which, the Company would receive an accelerated payment of CAD5 million from the aggregate consideration of CAD20 million, subject to the terms and conditions stipulated therein. In accordance with the Amended Royalty Agreement, the royalty rate calculation for WCS prices above US\$80/bbl is amended as follows: When average daily WCS price of the month is US\$80/bbl, the royalty rate is 8.75% and proportionally increases up to a maximum of 25.00% when the WCS price rises to US\$113/bbl (based on the original Royalty Agreement, the royalty rate increases from 8.75% up to a maximum of 15.00% when the WCS price rises to US\$100/bbl).

Commitments and Contingencies

Management estimated the contractual maturities of the Company's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. For a detailed discussion regarding to the Company's commitments and contingencies, please refer to the Company's Unaudited Condensed Consolidated Interim Financial



Statements and notes thereto for the three and six months period ended June 30, 2024 and with the Audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2023.

Transactions with Related Parties

For the six months ended June 30, 2024, a consulting Company, to which a director of Sunshine is related, charged the Company \$0.25 million (December 31, 2023 – \$0.5 million) for management and advisory services.

As at 30 June 2024, 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 June 30, 2024, the Company had loans from related companies and shareholders, which are unsecured, interest bearing at 10% per annum. Loans from related companies totaling approximately CAD53,375,000 can be rolled over for a period of 2 to 3 years (December 31, 2023: CAD51,933,000). Total loans from shareholders are approximately CAD21,190,000 are due from 1 to 3 years (December 31, 2023: CAD19,021,000).

Off-balance Sheet Arrangements

As at June 30, 2024, the Company did not have any other off-balance sheet arrangements.

Changes in Accounting Policies

Our significant accounting policies have remained unchanged since December 31, 2023. A summary of our significant accounting policies is included in our 2023 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 Company's critical accounting policies and estimates, please refer to Note 4 to the consolidated annual financial statements for the year ended December 31, 2023.

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, 2023, which is available at www.hkexnews.hk. The 2023 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

Ms. Gloria Ho, Executive Director of the Board and Chief Financial Officer and Mr. Jianping 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 June 30, 2024, 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 June 30, 2024.



Internal Controls over Financial Reporting

Ms. Gloria Ho, Executive Director of the Board and Chief Financial Officer and Mr. Jianping 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 June 30, 2024, and concluded that the Group’s ICFR are effective at June 30, 2024 for the foregoing purpose.

No material changes in the Group’s ICFR were identified during the three months period ended June 30, 2024 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 Company 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 Company 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 June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Net cash used in operating activities	\$ (211)	\$ 1,072	\$ (1,127)	\$ (1,990)
Deduct (add):				
Net change in non-cash operating working capital	514	1,515	4,149	6,359
Cash flow used in operations	\$ (725)	\$ (443)	\$ (5,276)	\$ (8,349)

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 Company hereby cautions investors about important factors that could cause the Company’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 Company’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 Company 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 Company 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 Hong Kong Stock Exchange (“SEHK” or “Stock Exchange”) Information

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

Compliance of Corporate Governance Code (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 during the period from January 1, 2024 to June 30, 2024, the Code as set out in Appendix 14 to the Hong Kong Listing Rules, has been complied with 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 Company 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 period ended June 30, 2024.

Name	December 31, 2023	Granted	Exercised	Forfeited	Expired	June 30, 2024
Yi He	100,000	-	-	-	-	100,000
Guangzhong Xing	100,000	-	-	-	-	100,000
Sub-total for Directors	200,000	-	-	-	-	200,000
Sub-total for other share option holders	-	-	-	-	-	-
Total	200,000	-	-	-	-	200,000

Please refer to our consolidated financial statements included in the 2023 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2023.

Fair Value of Share Options Granted

The weighted average fair value of the share options granted in previous years was CAD0.60 (2023 - CAD0.60). 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	Six month period ended June 30, 2024	Year ended December 31, 2023
Grant date share price (\$)	0.60	0.60
Exercise Price (\$)	0.60	0.60
Expected volatility (%)	63.91	63.91
Option life (years)	0.19	0.69
Risk-free interest rate (%)	1.48	1.48
Expected forfeitures (%)	0-15.39	0-15.39

Purchase, Sale or Redemption of Sunshine's Listed Securities

Class "A" Common Shares

General mandate

2024 activity

On May 10, 2024 (Hong Kong time), the Company entered into a settlement agreement for a total of 48,695,736 Class "A" common shares at a price of HKD \$0.38 per share (post-consolidation) for gross proceeds of HKD \$ 18,504,380. This settlement agreement was entered into for settlement of trade payables with an independent third party. On June 7, 2024, the Company and the Creditor agreed to extend the closing date from June 7, 2024 to July 31, 2024 (or such later date as may be agreed between the Company and the Creditor). On July 31, 2024, the Company and the Creditor entered into a second supplemental agreement to extend the closing date from July 31, 2024 to August 31, 2024 (or such later date as may be agreed between the Company and the Creditor).

Shares Outstanding

As at June 30, 2024, the Company had 243,478,681 Class "A" common shares issued and outstanding.

Employees

As at June 30, 2024, the Group has 31 full-time employees. For the six months ended June 30, 2024, total staff costs amounted to \$2.8 million.

Dividends

The Company has not declared or paid any dividends in respect of the six months period ended June 30, 2024 (six months period ended June 30, 2023 - \$Nil).

Review of Interim Results

The condensed consolidated interim financial statements for the Company for the three and six months ended June 30, 2024, were reviewed by the Audit Committee of the Company 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.

2024 Outlook

Sunshine will continue to focus on cost controls and carefully monitor developments in crude oil markets. As at the date hereof, the Company's West Eils project has fully resumed production. The Company will continue to work with its joint venture partner for re-activation of the Muskwa and Godin Area activities.