阳光油砂
SUNSHINE OILSANDS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months period ended September 30, 2017

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 nine months ended September 30, 2017 is dated November 6, 2017. 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 nine months period ended September 30, 2017 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2016. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.

Overview

Sunshine is a major holder and a developer of Athabasca region oil sands resources with approximately 1.35 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2016 was approximately 2.21 billion barrels, a 0.31 billion barrels decrease from the December 31, 2015 resource evaluation. The Company also has 276 million barrels of proved plus probable ("2P") reserves and 379 million barrels of proved plus probable plus possible ("3P") in the Cretaceous Sandstone formations as evaluated at December 31, 2016. The Company did not conduct an evaluation of its Carbonate assets given the current commodity price and the introduction of risk factors to the contingent resources, which would deem the Carbonates to be uneconomic. 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 on production and is ramping up to meet the designed plant capacity. 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, with an estimated 166 billion barrels of recoverable resource. 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 is planning to add an additional 5,000 barrels per day Phase II to the Project. On March 1, 2017, the West Ells Phase I commenced commercial production.

As at September 30, 2017, the Company had invested approximately $1.27 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at September 30, 2017, the Company had $1.7 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 will take will be successful. As such there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

On September 30, 2015, the Company completed a voluntary delisting from the TSX. The Company's shares continue to be listed for trading on the Stock Exchange of Hong Kong Limited ("SEHK").

Changes in Accounting Policies

For the three and nine months period ended September 30, 2017 there has been no change in accounting policy from the policies adopted by the Company in the Consolidated Financial Statements for the year ended December 31, 2016.

Critical Accounting Policies and Estimates

The Company's critical accounting estimates are those estimates having a significant impact on the Company'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 the Company's 2016 annual MD&A.

Risk Factors

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk management strategies are substantially unchanged from those disclosed in the Company's MD&A for the year ended December 31, 2016, which is available at www.sedar.com. The 2016 annual report of the Company is available at the Company's website at www.sunshineoilsands.com, and the website of the SEHK, www.hkexnews.hk. The Company's 2016 Annual Information Form is available at www.sedar.com.

Disclosure Controls and Procedures

Qiping Men, Executive Director of the Board and Interim Chief Executive Officer, and Gloria Ho, Executive Director of the Board and Chief Financial 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 Company is made known to the Company's CEO and 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 Company 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.

Internal Controls over Financial Reporting

Qiping Men, Executive Director of the Board and Interim Chief Executive Officer, and Gloria Ho, Executive Director of the Board and Chief Financial 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 Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Furthermore, the Company used the criteria established in "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework).

No material changes in the Company's ICFR were identified during the three and nine months period ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company'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

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.

Non-IFRS Financial Measures

This MD&A includes references to financial measures commonly used in the oil and natural gas industry, such as operating netback, cash flow used in operations, operating loss and operating cash flow are non-GAAP measures. The MD&A also includes disclosure required under the Hong Kong Listing Rules, such as debt to asset ratio. These financial measures are not defined by International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and, therefore, are referred to as non-IFRS measures. The non-IFRS measures used by the Company may not be comparable to similar measures presented by other companies. These non-IFRS measures should not be considered as an alternative to or more meaningful than net income or net cash used in operating activities, as determined in accordance with IFRS.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ thousands)	2017	2016	2017	2016
Net cash used in operating activities	1,484	1,610	3,658	(2,878)
Add (deduct)				
Net change in non-cash operating working capital items	(7,645)	(4,302)	(23,567)	(7,735)
Cash flow used in operations	(6,161)	(2,692)	(19,909)	(10,613)

Summary of Quarterly Results

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

($ thousands except per share)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Bitumen production (bbl/d)[1]	1,781	1,732	1,796	-	-	-	-	-
Petroleum sales	8,781	8,907	3,005	-	-	-	-	-
Royalties	36	86	20	-	-	-	-	-
Transportation	3,272	3,264	1,153	-	-	-	-	-
Operating costs	5,547	6,360	2,216	-	-	-	-	-
Finance cost	11,687	13,974	14,467	13,901	18,606	15,415	14,598	17,857
Cash flow from operations[2]	(6,161)	(7,948)	(5,800)	(2,959)	(2,692)	(3,464)	(4,457)	(4,644)
Net loss	12,761	19,479	21,169	23,237	26,564	20,736	2,773	325,761
Per share - basic and diluted	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.08
Capital expenditures[3]	1,815	1,862	4,679	8,690	12,038	6,939	9,822	28,823
Total assets	980,947	991,696	1,000,484	997,590	985,274	974,881	964,751	973,181
Working capital deficiency[4]	343,136	333,488	325,736	319,304	314,853	311,024	298,144	286,121
Shareholders' equity	581,687	593,820	603,580	607,455	603,348	595,286	601,577	604,098

1. Bitumen production volume for 2017 Q1 only for the one month ended March 31, 2017.
2. Cash flow from operations is a non-GAAP measure, which is defined in the Advisory section of the MD&A.
3. Included payments for exploration and evaluation, property, plant and equipment.
4. The working capital deficiency includes the USD current portion of the Notes converted to CAD at each period end exchange rate.

Bitumen Realization

($ thousands)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Dilbit revenue	8,781	-	20,693	-
Diluent blended[1]	(2,551)	-	(6,364)	-
Realized bitumen revenue[2]	6,230	-	14,329	-

1. Bitumen realization calculation for nine month ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.
2. 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 and nine months ended September 30, 2017, the Company's bitumen realization revenue was $6.2 million and $14.3 million, respectively. This is the third quarter in which the Company recorded realized bitumen revenue from West Ells Phase I project.

Operating Netbacks

($ thousands)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Realized bitumen revenue	6,230	-	14,329	-
Transportation	(3,272)	-	(7,689)	-
Royalties	(36)	-	(142)	-
Net bitumen revenues	2,922	-	6,498	-
Operating costs	(5,547)	-	(14,123)	-
Operating netback	(2,625)	-	(7,625)	-

1. Operating netback calculation for nine month ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.
2. Operating netback is a non-GAAP measure which is defined in the Advisory section of the MD&A.

The Operating netback for the three and nine months ended September 30, 2017 was a net loss of $2.6 million and $7.6 million respectively. The main contributing factor to the loss are the operating costs. The majority of the operating costs at West Ells are fixed in nature, as a result, the operating costs per barrel of production should be reduced as production continues to ramp up at West Ells.

Cash Flows Summary

($ thousands)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Cash provided (used) in operating activities	1,484	1,610	3,658	(2,878)
Cash provided (used) in investing activities	(432)	(14,179)	(21,226)	(11,962)
Cash provided by financing activities	691	9,983	11,224	10,316
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(4,584)	(1,305)	(5,588)	(1,406)
Net (decrease) / increase in cash	(2,841)	(3,891)	(11,932)	(5,930)
Cash and cash equivalents, beginning of period	4,544	4,506	13,635	6,545
Cash and cash equivalents, end of period	1,703	615	1,703	615

Operating Activities

Net cash provided by operating activities for the three month period ended September 30, 2017 was $1.5 million compared to cash provided of $1.6 million in 2016, a decrease of $0.1 million. Net cash used for operating activities included an increase in non-cash working capital of $7.6 million for the three months period ended September 30, 2017 compared to an increase in non-cash working capital of $4.3 million for the same period in 2016.

Net cash provided by operating activities for the nine month period ended September 30, 2017 was $3.7 million compared to cash used of $2.9 million in 2016, an increase of $6.6 million. Net cash provided by operating activities included an increase in non-cash working capital of $23.6 million for the nine months period ended September 30, 2017 compared to an increase in non-cash working capital of $7.7 million for the same period in 2016.

Investing Activities

Net cash used in investing activities for the three months period ended September 30, 2017 primarily consisted of $1.8 million in capital investment and a $1.4 million increase in the net change in non-cash investing working capital. Net cash used in investing activities for the three months period ended September 30, 2016 primarily consisted of the payments for property, plant and equipment of $12.0 million, and an $2.2 million decrease in the net change in non-cash investing working capital.

Net cash used in investing activities for the nine months period ended September 30, 2017 primarily consisted of $8.4 million in capital investment and a $12.9 million decrease in the net change in non-cash investing working capital. Net cash used in investing activities for the nine months period ended September 30, 2016 primarily consisted of the release of restricted cash of $14.4 million, offset by payments for property, plant and equipment of $28.8 million, and an $2.4 million increase in the net change in non-cash investing working capital.

Financing Activities

Net cash provided by financing activities for the three month period ended September 30, 2017 totalled $0.7 million, which consisted of proceeds from the loan of $3.7 million, offset by the finance costs of $11.4 million and an increase $8.4 million in the net change in non-cash financing activities. Net cash provided by financing activities for the nine months period ended September 30, 2017 totalled $11.2 million, which consisted of proceeds from the issuance of common shares of $25.3 million less the payment of $0.5 million in share issue cost, proceeds from the loan of $5.5 million, offset by the principal repayment of $1.9 million and the finance costs of $39.3 million and an increase $22.2 million in the net change in non-cash financing activities.

Net cash generated for financing activities for the three month periods ended September 30, 2016 totalled $10.0 million, which consisted of proceeds from issue of common shares of $31.3 million, partially offset by finance costs of $15.3 million and the repayment of $6.9 million of the shareholder's loan and an increase $0.9 million in the net change in non-cash financing activities. Financing activities for the nine month periods ended September 30, 2016 generated $10.3 million, which consisted of proceeds from issue of common shares of $46.2 million, partially offset by finance costs of $37.7 million and an increase $2.0 million in the net change in non-cash financing activities.

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 the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three and nine months period ended September 30, 2017 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2016.

Income Taxes

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three and nine month periods ended September 30, 2017 and 2016. 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 September 30, 2017, the Company had total available tax deductions of approximately $1.34 billion, with unrecognized tax losses that expire between 2028 and 2035.

Capital Expenditures

($ thousands)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Exploration and evaluation	549	348	1,377	1,157
Property, plant and equipment				
West Ells	1,150	11,666	6,577	27,619
Company	116	24	402	23
	1,815	12,038	8,356	28,799

Capital expenditures made on exploration and evaluation assets and property, plant and equipment for three and nine months ended September 30, 2017 are $1.8 million and $8.4 million in total, respectively.

On March 1 2017, the Company commenced commercial production and ceased the capitalization. Hence, the capital expenditure for the three and nine month ended September 30, 2017 included Nil and $0.4 million of the total capitalized general and administration, respectively. For the three and nine month ended September 30, 2016, the $0.7 million and $2.5 million of general and administration were capitalized into capital expenditures, respectively.

Liquidity and Capital Resources

($ thousands)	September 30, 2017	December 31, 2016
Working capital deficiency[1]	343,136	319,304
Shareholders' equity	581,687	607,455
	924,823	926,759

1. Senior secured notes are considered current as at September 30, 2017 and have been included in the working capital deficit as the maturity date is August 1, 2018.

On August 8, 2014, the Company completed an offering of USD $200 million senior secured notes (the "Notes") at an offering price of USD $938.01 per USD $1,000 principal amount. The Notes bear interest at a rate of 10% per annum and had a maturity date of August 1, 2016, if certain conditions were met as explained below.

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

On September 9, 2016, the Company and noteholders representing 96% of the outstanding Notes (the "Forbearing Holders") entered into a long-term forbearance agreement in respect of the Notes (the "Agreement"). The principal terms of the Agreement included: (a) payment on October 17, 2016 of the yield maintenance premium payment of $19.1 million (Note 10) due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes ("YMP") and repurchase of USD $22.5 million in principal amount of the Notes on February 1, 2017; (c) payment of the principal of the Notes and the coupon interest on the Notes on August 1, 2017; (d) payment of forbearance fees accruing at 2.50% on the principal amount of the Notes held by the Forbearing Holders; (e) payment of a fee equal to 7.298% of the outstanding principal amount of the Notes held by the Forbearing Holders on August 1, 2017 and proportionately smaller fees if the Notes are repurchased or redeemed prior to that date; (f) covenants relating to minimum liquidity to be maintained by the Company for specified periods; (g) board of director observation rights for certain significant noteholders; (h) use of proceeds restrictions for the proceeds of any asset sales completed by the Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

On January 31, 2017, the Company updated the Forbearance Agreement and Sunshine was required to make a payment of coupon interest accruing on the Senior Notes and repurchase USD $25 million in principal amount on February 1, 2017. These payments were not made.

On March 21, 2017, the Company entered into the Forbearance Reinstatement Agreement ("FRA") and a Note Exchange Agreement (the "NEA") with the Bondholders. The Bondholders agreed to waive the liability of the Company

Liquidity and Capital Resources (continued)

in relation to previous violations listed above and fully reinstate the Forbearance Agreement, provided that Sunshine made the following payments on or before March 27, 2017:

- Payment of USD $2.8 million representing 20% of the YMP originally due on August 1, 2016;
- Payment of USD $2.4 million representing 20% accrued interest and forbearance fee originally due on February 1, 2017. As of March 27, 2017, all the above USD $5.2 million was paid.
- Sunshine agreed to repurchase and the Bondholders agreed to sell up to USD $8.9 million of Senior Notes in exchange for Common Shares of Sunshine.

Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which was paid on March 21, 2017;
- 80% of the YMP to be repaid on August 1, 2017 in cash;
- 80% of the accrued interest and forbearance fee of USD $9.6 million to be repaid on August 1, 2017 in cash;
- The Company agreed to repay bond principal of an amount equal to 80% of the YMP by issuance of shares;
- Make principal repayments to the Bondholders of USD $5.0 million on April 30, 2017, USD $10.0 million on June 30, 2017 and the remaining amount on or before the maturity date of the bond on August 1, 2017.

On July 28, 2017, the Company engaged in discussions with the bondholders to re-enter forbearance with respect to the senior notes.

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

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

As of November 6, 2017, only USD $1.4 million was applied to the principal repayment, and the repayment of USD $1.8 million by October 30, 2017 is yet to be paid.

The Notes contain various non-financial covenants which, among other things, restrict the Company with respect to certain capital expenditures and payments, making investments and loans, incurrence of additional debt and issuance of certain preferred stock, paying dividends, altering the nature of the business and undertaking certain corporate transactions. A reporting covenant also exists which requires reporting in line with a reporting issuer under Canadian Securities Legislation and includes timely reporting of material changes.

The Note Indenture allows the Company to incur additional indebtedness in an aggregate principal amount not to exceed US$5.0 million (the “Permitted Debt”). The Company had asked for consent from a majority note holders, effective as of April 14, 2016, to amend the Note Indenture to increase the amount of Permitted Debt from US$5.0 million to US$15.0 million. A majority of the Note holders agreed to this amendment as of May 11, 2016. As of September 30, 2017, the Company had incurred unsecured third party debt for a total of US$2.5 million (CDN$3.1 million equivalent) and incurred related party debt for a total of US$1.8 million (CDN$2.2 million equivalent) which are considered Permitted Debt.

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 September 30, 2017, the Company had incurred $8.1 million (USD $6.5 million equivalent using the period end exchange rate) in liens during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of $1USD = $1.2480 CAD.

Liquidity and Capital Resources (continued)

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.

There is a material risk that the Company will be unable to meet its financing obligations including payments of outstanding interest and principal balances on its Senior Notes. Management continually monitors the Company's financing requirements and is pursuing negotiations to refinance current debt and access immediate additional financing to fund its ongoing operations. Management is engaged in discussions with existing shareholders, creditors, and prospective investors on proposed transactions and agreements which would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the twelve months following September 30, 2017.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at September 30, 2017, the availability of additional financing, and the timing and extent of capital and operating expenditures.

The Company's ability to continue as a going concern is dependent on its ability to realize forecasted revenues, achieve profitable operations, restructure projected cash outflows arising from existing arrangements, control the timing and extent of projected expenditures, and refinance current debt, access immediate additional financing and maintain compliance with all terms in debt and forbearance agreements. These uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

For the three and nine months ended September 30, 2017, the Company reported a net loss of $12.8 million and $53.4 million. At September 30, 2017, the Company had a working capital deficiency of $343.1 million including senior notes of $247.9 million and an accumulated deficit of $760.5 million.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 41% as at September 30, 2017, compared to 39% as at December 31, 2016.

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. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long-term debt, which is denominated in US and Hong Kong dollars.

For the three and nine month periods ended September 30, 2017, the Company had a foreign exchange gain of $9.8 million and $18.4 million compared to a $2.0 million loss and $12.1 million gain in the same period in 2016 respectively. The increase of $11.7 million in foreign exchange for three month periods ended September 30, 2017, was primarily due to an increase of $10.4 million unrealized gain on translation of the US denominated senior secured notes. The $6.3 million of increase in foreign exchange gain for nine month periods ended September 30, 2017, was primarily due to $4.7 million increase in unrealized gain on translation of the US denominated senior secured notes, and $1.0 million increase in unrealized foreign cash and accounts payable.

The Company manages foreign exchange 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 three and nine months ended September 30, 2017. If exchange rates to convert from US dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash and restricted cash held at September 30, 2017 would have been impacted by Nil and the carrying value of the senior notes and loans at September 30, 2017 would have been impacted by $2.5 million. At September 30, 2017 the Company held approximately USD $0.01 million or $0.02 million of cash, using the September 30, 2017 exchange rate of $1USD = $1.2480 CAD, as cash and cash equivalents in the Company's US bank account.

For Hong Kong dollar amounts, exchange rates to convert from HK dollars to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at September 30, 2017 would have been impacted by approximately $0.01 million and the carrying value of the loans at September 30, 2017 would have been impacted by $0.04 million. At September 30, 2017, the Company held, after recent equity closings, approximately HKD

Liquidity and Capital Resources (continued)

$8.3 million or $1.3 million using the September 30, 2017 exchange rate of $1CAD = $6.2593 HKD, as cash in the Company's HKD bank account.

Transactions with Related Parties

For the nine months ended September 30, 2017, a consulting company, to which a director of Sunshine is related, charged the Company $0.4 million (the nine months ended September 30, 2016 – Nil) for management and advisory services.

During the nine months ended September 30, 2017 and year 2016, the Company's Executive Chairman, Mr. Kwok Ping Sun, has purchased securities of the Company and he has also loaned the Company funds on an unsecured basis.

On August 24, 2017 the Company signed an unsecured loan agreement (the "Loan") with Prime Union Enterprises Limited ("Prime Union"). Prime Union is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan amount is HKD $ 14,058,885 (approximately CAD $2.27 million), and had an interest rate of 6.0% per annum and required repayment in full within three months from the date of the receipt of the Loan.

On January 19, 2016 the Company signed an unsecured loan agreement (the "Loan") with Tai Feng Investments Limited ("Tai Feng"). Tai Feng is 100% owned by Mr. Kwok Ping Sun, the Company's Executive Chairman. The Loan was considered Permitted Debt under the Company's Notes as long as it did not exceed USD $5.0 million. The Loan had an interest rate of 6.0% per annum, could be drawn up to HKD $38.0 million and required repayment in full within nine months from the date of the receipt of the Loan.

A second loan agreement ("Second Loan") was signed effective April 14, 2016 with Tai Feng. This Second Loan had the same interest rate and repayment terms as the Loan, except it required repayment in full within three months from the date of the receipt of the Loan.

On July 31, 2016, the Loan and Second loan, (principle and interest) were converted into the equity through private placements (Note 13).

Off-balance Sheet Arrangements

The Company has certain lease agreements which are reflected in the table included under the heading "Commitments and contingences" in the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 and 2016. No asset or liability value was assigned to these agreements on the Company's balance sheet. As at September 30, 2017, the Company did not have any other off-balance sheet arrangements.

Subsequent Events

On October 18, 2017, the Company entered into a Debt Settlement Agreement with a creditor for CAD $405,530 of which CAD $369,032, being partial debt, would be settled by the issuance and the remaining balance would be settled by cash. On October 18, 2017 the Company completed the closing a total of 8,934,755 shares to the Creditor at the issue price of HKD $0.255 per Common Shares (approximately CAD $0.041 per Common Share) pursuant to the terms and conditions of the Debt Settlement Agreement. The Common Shares are subject to a four-month holding period.

On October 18, 2017, the Company gave the notice to Deloitte LLP to terminate their appointment as auditor of the Company for the purpose of maintaining good corporate governance. The Board of Directors (the "Board") was resolved, with the recommendation from audit committee of the Board, to appoint Pricewaterhouse Coopers LLP as the new auditor of the Company with effect from October 18, 2017 and to hold office until the conclusion of the next annual general meeting of the Company. On October 20, 2017, Deloitte LLP has confirmed that there are no circumstances connected with its resignation that need to be brought to the attention of Shareholders and creditors of the Company. The board and audit committee of the Company have confirmed that there are no disagreement or unresolved matters between the Company and Deloitte LLP, and that they are not aware of any matter in connection with the resignation of Deloitte LLP that needs to be brought to the attention of the Shareholders or creditors of the Company.

Movements in Stock Options

The table below presents the movements in stock options for Directors, the chief executive and other executive management of the Company during the period ended September 30, 2017.

Name	December 31, 2016	Granted	Exercised	Forfeited	Expired	September 30, 2017
Mr. Kwok Ping Sun	46,679,000	-	-	-	-	46,679,000
Mr. Michael Hibberd	58,439,000	-	-	-	(7,150,000)	51,289,000
Mr. Hong Luo	23,000,000	-	-	-	-	23,000,000
Ms. Gloria Ho(1)	5,000,000	-	-	-	-	5,000,000
Mr. Qiping Men	22,555,556	-	-	-	-	22,555,556
Mr. Raymond Fong	1,510,000	1,500,000	-	-	(150,000)	2,860,000
Mr. Yi He	1,000,000	1,500,000	-	-	-	2,500,000
Ms. Joanne Yan	1,000,000	1,500,000	-	-	-	2,500,000
Ms. Linna Liu(2)	-	-	-	-	-	-
Mr. Jingfang Liu(3)	-	-	-	-	-	-
Ms. Xijuan Jiang	1,000,000	-	-	-	-	1,000,000
Mr. Jianzhong Chen(4)	1,000,000	-	-	-	-	1,000,000
Dr. Qi Jiang(5)	30,000,000	-	-	(30,000,000)	-	-
Mr. Gerald Stevenson(6)	1,510,000	1,500,000	-	-	(150,000)	2,860,000
Sub-total for Directors	192,693,556	6,000,000	-	(30,000,000)	(7,450,000)	161,243,556
Sub-total for other share option holders	66,046,913	8,069,058	-	(25,733,676)	(1,330,888)	47,051,407
Total	258,740,469	14,069,058	-	(55,733,676)	(8,780,888)	208,294,963

1. Ms. Ho commenced as an executive director on June 27, 2017.
2. Ms. Liu commenced as a non-executive director on April 6, 2017.
3. Mr. Liu commenced as a non-executive director on June 27, 2017.
4. Mr. Chen ceased as director on April 6, 2017.
5. Mr. Jiang ceased as director on June 27, 2017.
6. Mr. Stevenson ceased as director on June 27, 2017.

Please refer to our consolidated financial statements included in the 2016 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2016.

Fair Value of Share Options Granted

The weighted average fair value of the share options granted for the period ended September 30, 2017 was $0.11 (year ended December 31, 2016 - $0.13). Options were priced using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility of the Company during 2017 and 2016. It was assumed that option holders will exercise the options on average three years from the grant date, with an expected forfeiture rate of 14.64% to 14.76% for the nine months ended September 30, 2017.

The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted for the nine month ended September 30, 2017 and year ended December 31, 2016.

Input Variables	Period ended September 30, 2017	Year ended December 31, 2016
Grant date share price ($)	0.044-0.05	0.058-0.10
Exercise Price ($)	0.044-0.05	0.058-0.10
Expected volatility (%)	73.23-74.72	66.40-70.70
Option life (years)	3.76-3.79	3.76-4.07
Risk-free interest rate (%)	0.93-1.23	0.56-0.88
Expected forfeitures (%)	14.64-14.76	13.39-14.65

Purchase, Sale or Redemption of Sunshine's Listed Securities

On January 17, 2017 the Company entered into a subscription agreement for a total of 60,000,000 class "A" common shares at a price of HKD $0.262 per share (approximately CAD $0.045 per common share), for gross proceeds of HKD $15.7 million (approximately CAD $2.7 million). On January 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD $117,900 (approximately CAD $0.02 million), was incurred in relation to the Closing.

On March 16, 2017 the Company entered into a subscription agreement for a total of 247,350,000 class "A" common shares at a price of HKD $0.283 per share (approximately CAD $0.050 per common share), for gross proceeds of HKD $70 million (approximately CAD $12.1 million). On March 24, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD $525,000 (approximately CAD $0.09 million), was incurred in relation to the Closing.

On December 28, 2016, the Company entered into a subscription agreement with Zhengwei International Investment and Management Co., Limited ("Zhengwei") under which Zhengwei agreed to subscribe for a total of up to 150,000,000 Class "A" Common Voting Shares of the Company ("Common Shares") at a price of HKD $0.29 per Common Share or approximately CAD $0.048 per Common Share, which in the aggregate amounts to gross proceeds of HKD $43.5 million (approximately CAD $7.6 million). On March 28, 2017, the Company completed the closing of 40,000,000 Common Shares at a price of HKD $0.29 (approximately CAD $0.050 per Common Share). The Company received total gross proceeds of HKD $11.6 million (approximately CAD $2.0 million). The subscription agreement expired on the date of this announcement and hence the time for the completion of the remaining 110,000,000 Common Shares has lapsed.

On April 5, 2017 the Company entered into a subscription agreement for a total of 140,874,000 class "A" common shares at a price of HKD $0.241 per share (approximately CAD $0.041 per common share), for gross proceeds of HKD $33.95 million (approximately CAD $5.8 million). On April 13, 2017 the Company completed the closing of this subscription agreement.

On May 31, 2017 the Company entered into a subscription agreement for a total of 67,511,000 class "A" common shares at a price of HKD $0.237 per share (approximately CAD $0.041 per common share), for gross proceeds of HKD $15.88 million (approximately CAD $2.74 million). On June 7, 2017 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD $122,314 (approximately CAD $0.02 million), was incurred in relation to the Closing.

On June 5, 2017, the Company entered into a Subscription Agreement with Prime Union at the issue price of HKD $0.234 per Common Shares (approximately CAD $0.041 per Common Share) for an aggregate cash consideration of HK $106.5 million (approximately CAD $18.5 million). Prime Union is a company directly wholly owned by Mr. Kwok Ping Sun who is a substantial shareholder and the Executive Chairman of the Company. The subscription would be issued pursuant to the Special mandate to be sought from the Independent Shareholders at Special General Meeting ("SGM"). On August 4, the SGM was held in Sunshine Hong Kong office, and the subscription agreement resolution was duly passed as an ordinary resolution. The subscription agreement lapsed on August 28, 2017.

On October 18, 2017, the Company entered into a Debt Settlement Agreement with a creditor for CAD $405,530 of which CAD $369,032, being partial debt, would be settled by the issuance and the remaining balance would be settled by cash. On October 18, 2017 the Company completed the closing a total of 8,934,755 shares to the Creditor at the issue price of HKD $0.255 per Common Shares (approximately CAD $0.041 per Common Share) pursuant to the terms and conditions of the Debt Settlement Agreement. The Common Shares are subject to a four-month holding period.

The proceeds from the above placements were mainly used (i) for general working capital of the Company and (ii) as funds for future development of the existing business of the Company, including funding the operation costs of the West Ells project.

During the nine months ended September 30 2017, the Company has not purchased or redeemed any of its listed securities.

Employees

As at September 30, 2017, the Company has a total of 51 full-time employees. For the three and nine months ended September 30, 2017, the total staff costs amounted to CAD$ 2.1 million and CAD $6.3 million, respectively.

Shares Outstanding

As at November 6, 2017, the Company had 5,567,271,113 Common Shares and 208,294,963 stocks options issued and outstanding.

Dividends

The Company has not declared or paid any dividends in respect of the nine months period ended September 30, 2017 (nine months period ended September 30, 2016 - $Nil).

Operational Update

West Ells

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

For nine month ended September 30, 2017, the average bitumen production was 1,752 bbls/day. Diluent is blended at a 19.1% volumetric rate with the bitumen as part of the production process to create the marketable "Dilbit" blend product, and the average dilbit sales volume was 2,164 bbls/day.

Thickwood and Legend

The Thickwood and Legend projects are each planned for initial phase one production of 10,000 barrels per day. Regulatory approval for Thickwood was received in the third quarter of 2013 while Legend approval is expected in 2017. Once the Thickwood and Legend Lake's projects are sanctioned for development and construction, additional significant financing will need to be secured to proceed.

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

A thermal single well pilot project application was submitted in July 2014, and approved on January 26, 2015. During the final quarter of 2014, Muskwa cold production wells were suspended by the joint venture partner due to low oil prices.

Additional Stock Exchange Information

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

Code of Corporate Governance Practice (the "Code")

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

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 has not entered into formal letters of appointment with its directors and therefore will deviate from Code Provision D.1.4 of the Code. The Company will deviate from Code Provision D.1.4 of the Code since each of the Directors will be appointed on an annual basis by the shareholders of the Company at each annual general meeting, which is consistent with the market practice in Canada.

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 enquiry with all directors, the directors have confirmed and complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

Review of interim results

The condensed consolidated interim financial statements for the Company for the three and nine month periods ended September 30, 2017, were reviewed by the Audit Committee of the Company and approved by the Board.

Publication of Information

This annual results announcement is published on the websites of SEDAR (www.sedar.com), the SEHK (www.hkexnews.hk) and the Company'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.

Outlook

Sunshine sees a brightening outlook as international oil prices stabilize and steadily increase, The Company will continue to focus on cost controls and on carefully improving production performance as SAGD chambers mature, which will increase production at West Ells.