阳光油砂
SUNSHINE OILSANDS LTD.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the three and nine months ended September 30, 2018**

## 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, 2018 is dated November 8, 2018, 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 nine months period ended September 30, 2018 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2017. 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 1.24 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2017 was approximately 2.07 billion barrels. The Company also has 264 million barrels of proved plus probable ("2P") reserves and 373 million barrels of proved plus probable plus possible ("3P") in the Cretaceous Sandstone formations as evaluated at December 31, 2017. The Company did not conduct an evaluation of its Carbonate assets given the expected commodity prices 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 in 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 resources. Canadian oil sands represent the largest single source of supply of oil imported into the United States. The Company has one business and geographical segment. Accordingly, no business and geographical segment information is presented.

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

As at September 30, 2018, 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 September 30, 2018, the Company had $2.3 million in cash.

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

## Operational Update

### *West Ells*

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

For three and nine months ended September 30, 2018, the Company's average bitumen production was 1,796 bbls/day and 1,813 bbls/day respectively. Diluent was blended at a 17.6% volumetric rate for the same time periods with the bitumen as part of the production process to create the marketable "Dilbit" blend product. The average Dilbit sales volume was 2,132 bbls/day and 2,212 bbls/day for the three and nine months ended September 30, 2018. Both production and sales in the third quarter were impacted by the lower sales nominations resulting from temporarily constrained pipeline capacity.

## Operational Update (continued)

### *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 2018. Once the Thickwood and Legend Lake's projects are sanctioned for development and construction, significant additional financing will need to be secured to proceed.

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

A thermal single well pilot project application was submitted in July 2014, and approved on January 26, 2015. As at the date of this report, Muskwa has no production. Please refer the details of the expected reactivation of Muskwa and Godin area in the subsequent events.

## 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) | Q3 2018 | Q2 2018 | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 |
|---|---|---|---|---|---|---|---|---|
| Bitumen sales (bbl/d)[1] | 1,757 | 1,540 | 2,174 | 2,253 | 1,781 | 1,696 | 1,837 | - |
| Petroleum sales | 12,286 | 9,252 | 11,258 | 13,209 | 8,781 | 8,907 | 3,005 | - |
| Royalties | 270 | 149 | 114 | 126 | 36 | 86 | 20 | - |
| Diluent | 2,681 | 2,708 | 3,896 | 4,395 | 2,551 | 2,723 | 1,090 | - |
| Transportation | 4,047 | 3,086 | 4,527 | 4,391 | 3,272 | 3,264 | 1,153 | - |
| Operating costs | 5,030 | 5,392 | 5,671 | 5,733 | 5,547 | 6,360 | 2,216 | - |
| Finance cost | 13,824 | 16,791 | 15,348 | 21,095 | 11,687 | 13,974 | 14,467 | 13,901 |
| Net loss | 16,287 | 31,147 | 32,831 | 228,443 | 12,761 | 19,479 | 21,169 | 23,237 |
| Per share - basic and diluted | 0.00 | 0.01 | 0.01 | 0.04 | 0.00 | 0.00 | 0.00 | 0.01 |
| Capital expenditures[2] | 521 | 803 | 1,381 | 860 | 1,815 | 1,862 | 4,679 | 8,690 |
| Total assets | 774,885 | 781,130 | 781,639 | 785,356 | 980,947 | 991,696 | 1,000,484 | 997,590 |
| Working capital deficiency[3] | 423,360 | 412,067 | 385,244 | 368,593 | 343,136 | 333,488 | 325,736 | 319,304 |
| Shareholders' equity | 292,394 | 307,203 | 336,858 | 356,569 | 581,687 | 593,820 | 603,580 | 607,455 |

1. Bitumen sales volume for Q1 2017 only includes one month from March 1, 2017 to March 31, 2017.
2. Includes payments for exploration and evaluation, property, plant and equipment.
3. The working capital deficiency includes the USD current portion of the Notes converted to CAD at each period end exchange rate.

## Results of Operations

### Operating Netback

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| ($ thousands, except $/bbl) | 2018 | 2017 | 2018 | 2017 |
| Realized bitumen revenue | $ 9,605 | $ 6,230 | $ 23,511 | $ 14,329 |
| Transportation | (4,047) | (3,272) | (11,660) | (7,689) |
| Royalties | (270) | (36) | (533) | (142) |
| Net bitumen revenues | $ 5,288 | $ 2,922 | $ 11,318 | $ 6,498 |
| Operating costs | (5,030) | (5,547) | (16,093) | (14,123) |
| Operating cash flow | $ 258 | $ (2,625) | $ (4,775) | $ (7,625) |
| Operating netback ($ / bbl) | 1.59 | (16.03) | (9.61) | (20.33) |

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

**Operating Netback (continued)**

The Operating cash flow for the three months ended September 30, 2018 was a gain of $0.3 million compared to a net loss of $2.6 million for the three months ended September 30, 2017. Operating netback increased $17.62/bbl from the loss of $16.03/bbl to the gain of $1.59/bbl. The increase in the operating cash flow was primarily due to a 42% blending sales price increase quarter-over-quarter and 8% decrease of the operating cost, partially offset by 25% transportation expense increase and a 7% diluent expense increase due to an increase in condensate prices.

The operating cash flow for the nine months ended September 30, 2018 was a net loss of $4.8 million compared to a net loss of $7.6 million for the nine months ended September 30, 2017. Operating netback loss per barrel basis decreased $10.72/bbl to a loss of $9.61/bbl from a loss of $20.33/bbl. The decrease in the operating cash flow deficiency was primarily due to a 20% blending sales price increase quarter-over-quarter and 14% decrease of the operating cost, partially offset by 14% transportation expense increase and a 10% diluent expense increase due to an increase in condensate prices.

**Bitumen Production**

| | For the three months ended September 30 , | | For the nine months ended September 30, | |
|---|---|---|---|---|
| (Barrels/day) | 2018 | 2017 | 2018 | 2017 |
| Bitumen production | 1,796 | 1,761 | 1,813 | 1,764 |

1. Bitumen production for nine months ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.

Bitumen production at West Ells for the three and nine months ended September 30, 2018 averaged 1,796 Bbls/day and 1,813 Bbls/day compared to 1,761 Bbls/day and 1,764 Bbls/day for the three and nine months ended September 30, 2017, respectively. Bitumen production increased by 35 Bbls/day and 49 Bbls/day for the three and nine months ended September 30, 2018 compared the same periods in 2017, respectively. The Company is continuing to focus on carefully improving production performance as the SAGD chambers mature.

**Bitumen Sales**

| | For the three months ended September 30 , | | For the nine months ended September 30, | |
|---|---|---|---|---|
| (Barrels/day) | 2018 | 2017 | 2018 | 2017 |
| Bitumen Sales | 1,757 | 1,781 | 1,822 | 1,753 |

1. Bitumen sales for nine months ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.

Bitumen sales at West Ells for the three and nine months ended September 30, 2018 averaged 1,757 Bbls/day and 1,822 Bbls/day compared to 1,781 Bbls/day and 1,753 Bbls/day for the three and nine months ended September 30, 2017, respectively. Bitumen sales remains consistent for the three months ended September 30, 2018 compared to the same period of 2017. For the nine months ended September 30, 2018, bitumen sales increased 69 Bbls/day compared to the same period last year. For the three and nine month ended September 30, 2018, bitumen sales were constrained by lower sales nominations resulting from temporarily constrained pipeline capacity.

**Petroleum Sales, net of royalties**

| | For the three months ended September 30 , | | For the nine months ended September 30, | |
|---|---|---|---|---|
| ($ thousands, except $/bbl) | 2018 | 2017 | 2018 | 2017 |
| Petroleum sales | $ 12,286 | $ 8,781 | $ 32,796 | $ 20,693 |
| Royalties | (270) | (36) | (533) | (142) |
| Balance, end of period | $ 12,016 | $ 8,745 | $ 32,263 | $ 20,551 |
| $ / bbl | 74.35 | 53.36 | 64.86 | 54.78 |

1. Petroleum sales, net of royalties for nine months ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.

Petroleum sales are from the sales of Dilbit. Petroleum sales, net of royalties for the three months ended September 30, 2018 increased $3.3 million to $12.0 million from $8.8 million for the same period of 2017. Petroleum sales per barrel, net of royalties increased $20.99/bbl to $74.35/bbl from $53.36/bbl for the same period of 2017. The $3.3 million

**Petroleum Sales, net of royalties (continued)**

sales net of royalties increase is mainly due to the 42% increase of realized Dilbit price because of the quarter-over-quarter increase in the average petroleum benchmarking prices, partially offset by the higher royalties cost .

Petroleum sales, net of royalties for the nine months ended September 30, 2018 increased $11.7 million to $32.3 million from $20.6 million for the nine months ended September 30, 2017. Petroleum sales per barrel, net of royalties increased $10.08/bbl to $64.86 from $54.78/bbl for the same period of 2017. Petroleum sales net of royalties increased by $11.7 million primarily due to having nine months of production ended September 30, 2018 compared to the seven months of production ended September 30, 2017, and a 20% increase of realized Dilbit price because of the quarter-over-quarter increase in average petroleum benchmarking prices.

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. Royalties for the three and nine months ended September 30, 2018 increased $0.2 million and $0.4 million compared to the same period of 2017. The increases are mainly due to higher WTI crude oil prices.

**Bitumen Realization**

| | For the three months ended September 30 , | | For the nine months ended September 30, | |
|---|---|---|---|---|
| ($ thousands, except $/bbl) | 2018 | 2017 | 2018 | 2017 |
| Dilbit revenue | $ 12,286 | $ 8,781 | $ 32,796 | $ 20,693 |
| Diluent blended[1] | (2,681) | (2,551) | (9,285) | (6,364) |
| Realized bitumen revenue[2] | $ 9,605 | $ 6,230 | $ 23,511 | $ 14,329 |
| ($ / bbl) | 59.43 | 38.01 | 47.26 | 38.20 |

1. Bitumen realization calculation for nine months 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 months ended September 30, 2018, the Company's bitumen realization revenue increased by $3.4 million to $9.6 million from $6.2 million for the three months ended September 30, 2017. The bitumen realized price per barrel increased $21.42/bbl to $59.43/bbl from $38.01/bbl. The increase in bitumen realization per barrel was primarily the result of a 42% quarter-over-quarter realized Dilbit price increase linked to average crude oil benchmark pricing, which is partially offset by an increase in diluent prices.

During the nine months ended September 30, 2018, the Company's bitumen realization revenue increased $9.2 million to $23.5 million from $14.3 million for the same period in 2017. The bitumen realized price per barrel increased $9.06/bbl to $47.26 /bbl from $38.20/bbl. The increase in bitumen realization per barrel was primarily the result of a 20% quarter-over-quarter realized Dilbit price increase, which is partially offset by an increase in diluent prices.

**Diluent Costs**

| ($ thousands, except $/bbl and blend ratio) | For the three months ended September 30 , 2018 | 2017 | For the nine months ended September 30, 2018 | 2017 |
|---|---|---|---|---|
| Diluent | $ 2,681 | $ 2,551 | $ 9,285 | $ 6,364 |
| $/bbl | 16.59 | 15.57 | 18.67 | 16.96 |
| Blend ratio | 17.6% | 18.8% | 17.6% | 19.0% |

1. Diluent purchased for nine months ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.

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 Costs (continued)**

diluent, Canadian and U.S. benchmark pricing, the timing of diluent inventory purchases and changes in value of the Canadian dollar relative to the U.S. dollar.

Diluent costs per barrel for the three and nine months ended September 30, 2018 was $16.59 and $18.67 compared to $15.57 and $16.96 for the three and nine months ended September 30, 2017. The increase in the diluent expense per barrel was primarily the result of a quarter-over-quarter increase in the average condensate benchmark pricing, which was partially offset by the lower blending ratio.

**Transportation**

| | For the three months ended September 30 , | | For the nine months ended September 30, | |
|---|---|---|---|---|
| ($ thousands, except $/bbl) | 2018 | 2017 | 2018 | 2017 |
| Transportation | $ 4,047 | $ 3,272 | $ 11,660 | $ 7,689 |
| $ / bbl | 25.04 | 19.97 | 23.44 | 20.50 |

1. Transportation costs for nine months ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.

Transportation costs consist of trucking costs for Dilbit and pipeline terminals fees. The transportation expense per barrel for the three and nine months ended September 30, 2018 was $25.04/bbl and $23.44/bbl compared to $19.97/bbl and $20.50/bbl for the three and nine months ended September 30, 2017, respectively. The increase in the transportation cost per barrel was mainly due to higher pipeline terminal costs and increased transportation rates charged by the third party trucking companies.

**Operating Costs**

| | For the three months ended September 30 , | | For the nine months ended September 30, | |
|---|---|---|---|---|
| ($ thousands, except $/bbl) | 2018 | 2017 | 2018 | 2017 |
| Energy operating costs | $ 689 | $ 2,038 | $ 2,963 | $ 4,375 |
| Non-energy operating costs | 4,341 | 3,509 | 13,130 | 9,748 |
| Operating costs | $ 5,030 | $ 5,547 | $ 16,093 | $ 14,123 |
| $ / bbl | 31.13 | 33.85 | 32.36 | 37.65 |

1. Operating costs for nine months ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.

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

The operating expense per barrel for the three and nine months ended September 30, 2018 was $31.13/bbl and $32.36/bbl compared to $33.85/bbl and $37.65/bbl for the three and nine months ended September 30, 2017, respectively. The operating costs decrease per barrel from the prior periods is primarily due to the lower natural gas costs and the Company's continue efforts on the cost control in the field. Since the majority of the operating costs at West Ells are fixed in nature, the operating costs per barrel of production should be reduced as production ramps up at West Ells.

**General and Administrative Costs**

| | For the three months ended September 30 , | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| ($ thousands) | Total | Capitalized | Expensed | Total | Capitalized | Expensed |
| Salaries, consulting and benefits | $ 1,421 | $ - | $ 1,421 | $ 2,144 | $ - | $ 2,144 |
| Rent | 413 | - | 413 | 547 | - | 547 |
| Legal and audit | 371 | - | 371 | 79 | - | 79 |
| Other | 599 | - | 599 | 773 | - | 773 |
| Total | $ 2,803 | $ - | $ 2,803 | $ 3,543 | $ - | $ 3,543 |

### General and Administrative Costs (continued)

| | For the nine months ended September 30, 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| ($ thousands) | Total | Capitalized | Expensed | Total | Capitalized | Expensed |
| Salaries, consulting and benefits | $ 4,540 | $ - | $ 4,540 | $ 6,572 | $ 232 | $ 6,340 |
| Rent | 1,485 | - | 1,485 | 1,733 | 151 | 1,582 |
| Legal and audit | 725 | - | 725 | 936 | - | 936 |
| Other | 2,056 | - | 2,056 | 2,858 | 17 | 2,841 |
| Total | $ 8,806 | $ - | $ 8,806 | $ 12,099 | $ 400 | $ 11,699 |

Effective March 1, 2017, the Company ceased the capitalization of portions of general and administrative costs. The Company capitalized a portion of general and administrative costs related to capital investment for the first two months of 2017. For the three and nine months ended September 30, 2018, the amount of $Nil was capitalized compared $Nil and $0.4 million for the same periods in 2017.

The Company's general and administrative costs were $2.8 million and $8.8 million for the three and nine months ended September 30, 2018 compared to $3.5 million and $11.7 million for the three and nine months ended September 30, 2017. General and administrative costs decreased by $0.7 million and $2.9 million for the three and nine months ended September 30, 2018 compared to the same periods in 2017 primarily due to workforce reductions and the Company's continued focus on cost management.

### Finance Costs

| | For the three months ended September 30 , | | For the nine months ended September 30, | |
|---|---|---|---|---|
| ($ thousands) | 2018 | 2017 | 2018 | 2017 |
| Interest expense on senior notes | $ 9,307 | $ 8,899 | $ 29,336 | $ 26,493 |
| Interest expense on other loans | - | 4 | 176 | 8 |
| Redemption/yield maintenance premium | 3,560 | 2,181 | 13,315 | 11,882 |
| Financing related costs | 684 | 344 | 2,312 | 940 |
| Unwinding of discounts on provisions | 273 | 259 | 824 | 805 |
| Finance costs | $ 13,824 | $ 11,687 | $ 45,963 | $ 40,128 |

The Company's finance costs were $13.8 million and $46.0 million for the three and nine months ended September 30, 2018 compared to $11.7 million and $40.1 million for the three and nine months ended September 30, 2017. Finance cost increased $2.1 million and $5.8 million for the three and nine months ended September 30, 2018 compared to the same periods in 2017. The increases are the mainly results of the interest and redemption cost increase of the senior notes.

### Share-based Compensation

| | For the three months ended September 30 , 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| ($ thousands) | Total | Capitalized | Expensed | Total | Capitalized | Expensed |
| Share-based compensation | $ 497 | - | 497 | $ 628 | - | 628 |

| | For the nine months ended September 30, 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| ($ thousands) | Total | Capitalized | Expensed | Total | Capitalized | Expensed |
| Share-based compensation | $ 1,269 | - | 1,269 | $ 2,853 | 17 | 2,836 |

**Share-based Compensation (continued)**

Share-based compensation expense for the three and nine months ended September 30, 2018 was $0.5 million and $1.3 million compared to $0.6 million and $2.9 million for the same periods in 2017. 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.

Effective March 1, 2017, the Company ceased the capitalization of portions of the share-based compensation costs. The Company capitalized a portion of the share-based compensation using the same methodology associated with capitalized salaries and benefits. For the three and nine months ended September 30, 2018, the Company capitalized $Nil compared to $Nil and $0.02 million of share-based compensation for the same periods in 2017.

**Depletion, Depreciation and Impairment**

| | For the three months ended September 30 , | | For the nine months ended September 30, | |
|---|---|---|---|---|
| ($ thousands, except $/bbl) | 2018 | 2017 | 2018 | 2017 |
| Depletion | $ 3,637 | $ 3,922 | $ 10,900 | $ 9,133 |
| Depreciation | 127 | 118 | 389 | 371 |
| Depletion and depreciation | $ 3,764 | $ 4,040 | $ 11,289 | $ 9,504 |
| Depletion ($ / bbl) | 19.96 | 21.93 | 21.91 | 24.35 |

1. Depletion for nine months ended September 30, 2017 only includes seven months from March 1, 2017 to September 30, 2017.

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

Depletion and depreciation expense was $3.7 million and $11.3 for the three and nine months ended September 30, 2018 compared to $4.0 million and $9.5 million for the three and nine months ended September 30, 2017, respectively. Depletion and depreciation expense decreased by $0.3 million for the three months ended September 30, 2018 compared to the same period in 2017 due to lower future development costs. Depletion and depreciation expense increased by $1.8 million for the nine months ended September 30, 2018 mainly due to having nine months of production ended September 30, 2018 compared to the seven months of production ended September 30, 2017, and partially offset by the lower future development costs.

As at September 30, 2018, the Company did not identify any indicators of further impairment (or reversal of the previous impairments recorded in previous years) of the E&E Assets or the West Ells CGU.

**Income Taxes**

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three and nine months ended September 30, 2018 and 2017. 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, 2018, the Company had total available tax deductions of approximately $1.54 billion, with unrecognized tax losses that expire between 2029 and 2038.

**Liquidity and Capital Resources**

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Working capital deficiency | $ 423,360 | $ 368,593 |
| Shareholders' equity | 292,394 | 356,569 |
| | $ 715,754 | $ 725,162 |

1. Senior secured notes in the amount of $257.2 million, plus accrued interest and unpaid amounts are considered current as at September 30, 2018 and have been included in the working capital deficit based on the November 1, 2018 conditions to extend the maturity date to August 1, 2019.

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

The conditions were that 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

**Liquidity and Capital Resources (continued)**

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 due on August 1, 2016; (b) payment of the coupon interest accruing on the Notes and repurchase of USD $22.5 million in principal amount of the Notes on February 1, 2017; (c) payment of the principal of the Notes and the coupon interest on the Notes on August 1, 2017; (d) payment of forbearance fees accruing at 2.50% on the principal amount of the Notes held by the Forbearing Holders; (e) payment of a fee equal to 7.298% of the outstanding principal amount of the Notes held by the Forbearing Holders on August 1, 2017 and proportionately smaller fees if the Notes are repurchased or redeemed prior to that date; (f) covenants relating to minimum liquidity to be maintained by the Company for specified periods; (g) board of director observation rights for certain significant noteholders; (h) use of proceeds restrictions for the proceeds of any asset sales completed by the Company; (i) budget approval rights; and (j) requirements that the Company raise additional capital and provide additional security for the Notes.

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

- 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 cash commitment USD $5.2 million was paid;
- Sunshine agreed to repurchase and the Forbearing Holders agreed to sell up to approximately USD $11.2 million Senior Notes principal in exchange for Common Shares of Sunshine, pending on conditions.

Other payments contemplated in the FRA included:

- Payment of all legal professional fees by March 21, 2017, which was paid on March 21, 2017;
- 80% of the 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;
- Make principal repayments to the Forbearing Holders of USD $5.0 million on April 30, 2017, USD $10.0 million on June 30, 2017, and the remaining amount on or before the maturity date of the notes on August 1, 2017.

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

- The Forbearance would be extended to August 1, 2018 (New York time), provided that:
- Repayment of 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; and 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;
- The Company is to obtain financing of USD $5.0 million every quarter.

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

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

- The Forbearance was extended to August 1, 2019 (New York time);
- An interest of 10% per annum is incurred from the date hereof until August 1, 2019 (New York time);
- The Company was to obtain financing of at least US $5 million from the date of signing until April 30, 2019 to maintain sufficient liquidity.

**Liquidity and Capital Resources (continued)**

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 to be 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 of 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, 2018, the Company had incurred unsecured Permitted Debt for a total of US$6.6 million (CAD$8.5 million equivalent). As at September 30, 2018, a related party debt of US$5.5 million (CAD$7.7million equivalent) and interest and a loan of US$2.8 million (CAD$3.6 million) and interest were paid in full.

The Company has presented the Notes, Loans and Bonds as a current liability on the Condensed Consolidated Interim Statements of Financial Position as at September 30, 2018.

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, 2018, the Company had incurred CAD $13.6 million (US $10.5 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 = $1.2945 CAD.

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 three and nine months ended September 30, 2018, the Company reported a net loss of $16.3 million and $80.3 million, respectively. At September 30, 2018, the Company had a working capital deficiency of $423.4 million including senior notes of $257.2 million and an accumulated deficit of $1,069.2 million.

The Company's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 62% as at September 30, 2018, compared to 55% as at December 31, 2017.

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 are denominated in US dollars, HK dollars and/or Chinese Renmibi. For the three and nine months ended September 30, 2018, the Company has a foreign gain of $4.1 million and a loss of 8.2 million compared to a $9.8 million and $18.4 million gain in the same periods in 2017. The changes in foreign exchange for the three and nine months ended September 30, 2018 are primarily due to the unrealized gain or loss on the translation of the US denominated Notes.

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, 2018. 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 held at September 30, 2018 would have been impacted by Nil and the carrying value of the debt at September 30, 2018 would have been impacted by $2.6 million. At September 30, 2018, the Company held approximately US $0.01 million or $0.014 million of cash, using the September 30, 2018 exchange rate of 1.2945, as cash in the Company's USD bank accounts.

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, 2018 would have been impacted by Nil and the carrying value of the debt at September 30, 2018 would have been impacted by $0.10 million.

**Liquidity and Capital Resources (continued)**

At September 30, 2018, the Company held, after recent equity and bond closings, approximately HKD $0.8 million or $0.13 million using the September 30, 2018 exchange rate of 6.0459, as cash in the Company's HKD bank accounts.

For Chinese renminbi ("CNY") amounts, exchange rates to convert from Chinese renminbi to Canadian dollars had been one percent higher or lower with all other variables held constant, foreign cash held at September 30, 2018 would have been impacted by approximately Nil. At September 30, 2018, the Company held approximately CNY $0.19 million or $0.04 million using the September 30, 2018 exchange rate of 5.3079, as cash in the Company's CNY bank accounts.

**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 nine months period ended September 30, 2018 and with the Audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2017.

**Transactions with Related Parties**

For the nine months ended September 30, 2018, a consulting company, to which a director of Sunshine is related, charged the Company $0.45 million (September 30, 2017 – $0.45 million) for management and advisory services.

Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 1,682,407,000 common shares of the Company which represents approximately 27.98% of the Company's outstanding common shares.

On August 24, 2017, November 16, 2017 and November 28, 2017, the Company signed loan agreements with Prime Union. The Loan interest rate was 6.0% per annum and required repayment in full within three months from the date of the receipt of the loan, the total loans amount were HKD $33.3 million (approximately CAD $5.4 million). As at September 30, 2018, all the loans and interests were paid in full.

On June 1, 2018, the Company signed a loan agreement with Prime Union with the loan interest rate being 10.0% per annum and required repayment in full within three months from the date of the receipt of the loan. The total loan amount was HKD $14.2 million (approximately CAD $2.4 million). As at September 30, 2018, the loan and interests were paid in full.

On August 11, 2018, the Company signed a loan agreement with Prime Union with the loan interest rate being 10.0% per annum and required repayment in full within three months from the date of the receipt of the loan. The total loan amount was about HKD $9.0 million (approximately CAD $1.5 million).

**Off-balance Sheet Arrangements**

The Company has certain lease agreements which are reflected in the table under the heading "Commitments and Contingences". No asset or liability value was assigned to these agreements on the Company's balance sheet. As at September 30, 2018, the Company did not have any other off-balance sheet arrangements.

**Subsequent Events**

On September 28, 2018, the Company entered into a subscription agreement for convertible bonds in the principal amount up to HKD $11 million (approximately CAD $1.81 million) with independent third parties. With an initial conversion price of HKD $0.210 per share (approximately CAD $0.035 per share), a maximum of 52,380,952 Class "A" common shares will be allotted and issued upon the full conversion of the placing convertible bonds. The convertible bonds interest rate was 13.7% per annum and required repayment in full within two months from the maturity date. On October 5, 2018, the Company completed the placing of convertible bonds.

**Subsequent Events (continued)**

On July 5, 2018, the Company granted share options to acquire an aggregate total of 315,000,000 Class “A” common shares in the capital of the Company to certain directors of the Company under its Share Option Scheme at a price of HKD $0.236 per share (approximately CAD $0.040 per common share). The grant of the 300,000,000 Class “A” common shares to Mr. Kwok Ping Sun was conditional upon the approval by the independent shareholders of the Company at its next general meeting. The stock options vest over a two year period and expire five years after the date of the grant. On October 31, 2018, The Special General Meeting (SGM) was held in Hong Kong and the grant of the 300,000,000 Class “A” common shares to Mr. Kwok Ping Sun was duly passed as an ordinary resolution.

On July 27, 2018, the Company announced that a company affiliated (the “Affiliate”) with Kwok Ping Sun (“Mr. Sun”), the Executive Chairman and a Substantial Shareholder of the Corporation and Nobao Energy Holding (China) Company Limited(“Nobao”) (a company under the control of Mr. Sun) had conditionally acquired Changjiang’s interest in Renergy. The Affiliate received the Board’s conditional approval for this acquisition and requested amendments to certain terms in the Agreements with an aim to simplify the working relationship between contracting parties in the Agreements, subject to satisfying all legal and consent requirements, receiving Independent Shareholders’ approval and complying with the provisions of Chapter 14A of the HKEX Listing Rules. On October 31, 2018, SGM was held and the proposed amendment to the terms of the Joint Operating Agreement and other supporting agreements were approved and duly passed by an ordinary resolution.

On October 31, 2018 (Calgary time), the Company and the Noteholders signed a Reinstatement and Amending Agreement (the “FRAA”). The principal terms of the FRAA include: the Forbearance was extended to August 1, 2019 (New York time); an interest of 10% per annum was incurred from the date hereof until August 1, 2019 (New York time); and the Company was to obtain financing of at least US $5 million from the date hereof until April 30, 2019 to maintain sufficient liquidity.

On November 2, 2018, the Company entered into a settlement agreement for a total of 32,832,000 class “A” common shares at a price of HKD $0.146 per share (approximately CAD $0.024 per common share), for gross proceeds of HKD $4.79 million (approximately CAD $0.80 million). This settlement agreement was entered into for settlement of indebtedness with an independent third party.

**Changes in Accounting Policies**

On June 20, 2016, the IASB issued amendments to IFRS 2, relating to classification and measurement of particular share-based payment transactions. The amendments are effective for periods beginning on or after January 1, 2018. The Company adopted IFRS 2 on January 1, 2018 and did not have a material impact on the Company’s Condensed Consolidated Interim Financial Statements.

In May 2014, the IASB published IFRS 15, “Revenue From Contracts With Customers” (“IFRS 15”) replacing IAS 11, “Construction Contracts”, IAS 18, “Revenue” and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard on January 1, 2018 using the modified retrospective approach. There were no changes to reported net earnings or retained earnings as a result of adopting IFRS 15. The Company requires additional disclosures to disclose disaggregated revenue by product type which is presented in the Condensed Consolidated Interim Financial Statements in Note 14.

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

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments". In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. In November 2013, the IASB issued the third phase of IFRS 9 "Financial Instruments", which details the new general hedge accounting model. On February 20, 2014 there was an update on the mandatory adoption date for IFRS 9 which changed the effective date from January 1, 2017 to January 1, 2018. The Company adopted IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 has three principal classification

**Changes in Accounting Policies (continued)**

categories for financial assets being measured at amortized costs, fair value through other comprehensive income (“FVOCI”), and fair value through profit or loss (“FVTPL”).

Under IFRS 9, financial assets such as cash and cash equivalents and trade and other receivables are classified and measured at amortized cost; financial assets such as financial instrument commodity contracts and financial instrument contracts are classified and measured at FVOCI as the assets are held with the objective to both collect contractual cash flows and sell the financial instrument; and all other financial assets are classified and measured at FVTPL. Financial liabilities are classified and measured at amortized costs or FVTPL. The Company’s trade payables, accrued liabilities, loans and senior notes are classified and measured at amortized costs. There were no adjustments to the carrying values of the Company’s financial instruments with the change in classification to IFRS 9. The classification and measurement of financial instruments did not have an impact on the Company’s retained earnings as at January 1, 2018.

On December 8, 2016, the IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration which is a new interpretation and clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. The adoption of IFRIC 22 did not have a material impact on the Company’s Condensed Consolidated Interim Financial Statements.

*Future accounting policy changes*

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the Company’s financial statements.

**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 2017 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, 2017, which is available at www.sedar.com. The 2017 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 2017 Annual Information Form is available at www.sedar.com.

**Disclosure Controls and Procedures**

Horst Wunschelmeier, 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**

Horst Wunschelmeier, 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, 2018 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**

**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:

| | | For the three months ended September 30 , | | | | For the nine months ended September 30, | | |
|---|---|---|---|---|---|---|---|---|
| ($ thousands) | | 2018 | | 2017 | | 2018 | | 2017 |
| Net cash used in operating activities | $ | 851 | $ | (4,497) | $ | (13,827) | $ | (15,840) |
| Add (deduct) | | | | | | | | |
| Net change in non-cash operating working capital items | | (3,384) | | (1,664) | | (428) | | 3,488 |
| Cash flow used in operations | $ | (2,532) | $ | (6,161) | $ | (13,399) | $ | (19,328) |

**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.

**Forward-Looking Information (continued)**

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 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.
- Mr. Hong Luo (non-executive Director), Ms. Linna Liu (non-executive Director) and Mr. Raymond Shengti Fong (independent non-executive Director) were unable to attend the annual general meeting of the Company held on June 25, 2018 due to another important engagement at the relevant time. This deviates from Code provision A.6.7 which stipulates that independent non-executive directors and other non-executive directors, as equal board members, should attend general meetings of the company and develop a balanced understanding of the views of shareholders. Notwithstanding, Chairman of the Board and members of other Board committees of the Company attended the said annual general meeting.

**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 Company during the period ended September 30, 2018.

| Name | December 31, 2017 | Granted | Exercised | Forfeited | Expired | September 30, 2018 |
|---|---|---|---|---|---|---|
| Kwok Ping Sun | 46,679,000 | - | - | - | - | 46,679,000 |
| Michael Hibberd | 46,679,000 | - | - | - | - | 46,679,000 |
| Hong Luo | 23,000,000 | - | - | - | - | 23,000,000 |
| Gloria Ho | 5,000,000 | 15,000,000 | - | - | - | 20,000,000 |
| Raymond Fong | 2,500,000 | - | - | - | - | 2,500,000 |
| Yi He | 2,500,000 | - | - | - | - | 2,500,000 |
| Joanne Yan | 2,500,000 | - | - | - | - | 2,500,000 |
| Linna Liu | - | - | - | - | - | - |
| Jingfang Liu | - | - | - | - | - | - |
| Xijuan Jiang | 1,000,000 | - | - | - | - | 1,000,000 |
| Qiping Men(1) | 22,555,556 | - | - | - | - | 22,555,556 |
| Sub-total for Directors | 152,413,556 | 15,000,000 | - | - | - | 167,413,556 |
| Sub-total for other share option holders | 43,021,969 | - | - | (9,169,740) | (48,954) | 33,803,275 |
| **Total** | 195,435,525 | 15,000,000 | - | (9,169,740) | (48,954) | 201,216,831 |

Note 1: Mr. Men resigned as CEO and Executive Director of the Company on May 7, 2018.

Please refer to our consolidated financial statements included in the 2017 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2017.

***Fair Value of Share Options Granted***

The weighted average fair value of the share options granted for the period ended September 30, 2018 was $0.04 (year ended December 31, 2017 - $0.05). 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 2018 and 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 months ended September 30, 2018 and year ended December 31, 2017.

| Input Variables | Nine months period ended September 30, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Grant date share price ($) | 0.04 | 0.044-0.05 |
| Exercise price ($) | 0.04 | 0.044-0.05 |
| Expected volatility (%) | 15.39% | 73.22-74.72 |
| Option life (years) | 3.72 | 3.76-3.79 |
| Risk-free interest rate (%) | 1.99 | 0.93-1.23 |
| Expected forfeitures (%) | 15.39% | 14.64-14.76 |

**Purchase, Sale or Redemption of Sunshine's Listed Securities**

*Class "A" Common Shares*

***General mandate***

On January 16, 2018 the Company entered into a subscription agreement for a total of 80,882,500 class "A" common shares at a price of HKD $0.272 per share (approximately CAD $0.043 per common share), for gross proceeds of HKD $22.0 million (approximately CAD $3.5 million). On January 22, 2018 the Company completed the closing of this subscription agreement. In addition, a placing commission of HKD $0.7 million (approximately CAD $0.1 million), was incurred in relation to the Closing.

On February 5, 2018 the Company entered into a subscription agreement for a total of 122,951,000 class "A" common shares at a price of HKD $0.244 per share (approximately CAD $0.039 per common share), for gross proceeds of HKD $30.0 million (approximately CAD $4.75 million). On February 13, 2018 the Company completed the closing of 116,803,500 class "A" common shares at a price of HKD $0.244 per share for gross proceeds of HKD $28.3 million (approximately CAD $4.6 million) of this subscription agreement. In addition, a placing commission of HKD $0.9 million (approximately CAD $0.14 million) was incurred in relation to the Closing. The subscription agreement expired on February 13, 2018 and consequently the time to close the remaining 6,147,500 class "A" common shares lapsed.

On February 28, 2018 the Company entered into a settlement agreement for a total of 102,436,500 class "A" common shares at a price of HKD $0.245 per share (approximately CAD $0.040 per common share), for gross proceeds of HKD $25.1 million (approximately CAD $4.1 million). On March 14, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with two independent third parties.

On March 2, 2018 the Company entered into a settlement agreement for a total of 20,393,059 class "A" common shares at a price of HKD $0.245 per share (approximately CAD $0.040 per common share), for gross proceeds of HKD $5.0 million (approximately CAD $0.8 million). On March 14, 2018 the Company completed the closing of this settlement agreement. This agreement was entered into for settlement of indebtedness with independent third parties.

On June 7, 2018 the Company entered into a settlement agreement for a total of 30,765,000 class "A" common shares at a price of HKD $0.214 per share (approximately CAD $0.035 per common share), for gross proceeds of HKD $6.6 million (approximately CAD $1.1 million). On June 15, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with an independent third party.

On July 6, 2018, the Company entered into a settlement agreement for a total of 14,322,500 class "A" common shares at a price of HKD $0.192 per share (approximately CAD $0.032 per common share), for gross proceeds of HKD $2.75 million (approximately CAD $0.46 million). A payment of CAD $51,117 cash is to be made. This agreement was entered into for settlement of indebtedness with an independent third party. The entire gross proceeds were used to set off the indebtedness.

On September 11, 2018, the Company entered into a settlement agreement for a total of 11,868,000 class "A" common shares at a price of HKD $0.159 per share (approximately CAD $0.026 per common share), for gross proceeds of HKD $1.89 million (approximately CAD $0.31 million). On September 20, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with an independent third party.

On September 17, 2018, the Company entered into a settlement agreement for a total of 8,247,500 class "A" common shares at a price of HKD $0.166 per share (approximately CAD $0.028 per common share), for gross proceeds of HKD $1.38 million (approximately CAD $0.23 million). On September 21, 2018 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of indebtedness with an independent third party.

On June 25, 2018, the Company entered into a subscription agreement for convertible bonds in the principal amount up to HKD $11 million (approximately CAD $1.87 million) with independent third parties. With an initial conversion price of HKD $0.207 per share (approximately CAD $0.035 per share), a maximum of 53,140,097 Class "A" common shares will be allotted and issued upon the full conversion of the placing convertible bonds. The convertible bonds interest rate was 5.0% per annum and required repayment in full within three months from the maturity date. On July 5, 2018, the Company completed the placing of convertible bonds. The Conversion Period expired on September 30, 2018 and no conversion right attached to the Placing CB has been exercised. As such, all Placing CB were redeemed by the Corporation and will forthwith be cancelled.

**Purchase, Sale or Redemption of Sunshine's Listed Securities (continued)**

On September 28, 2018, the Company entered into a subscription agreement for convertible bonds in the principal amount up to HKD $11 million (approximately CAD $1.81 million) with independent third parties. With an initial conversion price of HKD $0.210 per share (approximately CAD $0.035 per share), a maximum of 52,380,952 Class "A" common shares will be allotted and issued upon the full conversion of the placing convertible bonds. The convertible bonds interest rate was 13.7% per annum and required repayment in full within two months from the maturity date. On October 5, 2018, the Company completed the placing of convertible bonds.

On November 2, 2018, the Company entered into a settlement agreement for a total of 32,832,000 class "A" common shares at a price of HKD $0.146 per share (approximately CAD $0.024 per common share), for gross proceeds of HKD $4.79 million (approximately CAD $0.80 million). This settlement agreement was entered into for settlement of indebtedness with an independent third party.

**Shares Outstanding**

As at November 8, 2018, the Company has 6,013,596,172 Class "A" common shares issued and outstanding.

**Employees**

As at September 30, 2018, the Company has 65 full-time employees. For the three and nine months ended September 30, 2018, total staff costs amounted to $1.9 million and $5.8 million, respectively.

**Dividends**

The Company has not declared or paid any dividends in respect of the nine months period ended September 30, 2018 (nine months period ended September 30, 2017 - $Nil).

**Review of Interim Results**

The condensed consolidated interim financial statements for the Company for the three and nine months ended September 30, 2018, 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 intends to continue to focus on cost controls and on carefully improving production at West Ells. The Company intends to ramp up production when the heavy oil pricing environment improves from currently high differentials from WTI oil prices. In addition, with the receipt of Shareholder's approval for changes to the joint venture agreement and supporting agreements for the Muskwa and Godin area, the Company sees potential significant benefits resulting from re-activation of the Muskwa and Godin Area activities.