阳光油砂
SUNSHINE OILSANDS LTD.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the three months ended March 31, 2020**

**Management's Discussion and Analysis**

*This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("*Sunshine*" or the "Company") for the three months ended March 31, 2020 is dated May 13, 2020, and approved by the Company's Board of Directors. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three months period ended March 31, 2020 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2019. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.*

**Overview**

Sunshine is a holder and a developer of Athabasca region oil sands resources with approximately 0.95 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2019 was approximately 1.63 billion barrels. With approximately 1 million acres of oil sands and petroleum and natural gas leases, the Company has significant commercial development potential. Phase I (5,000 barrels) of the West Ells 10,000 barrels thermal commercial project is in production. The Athabasca region is the most prolific oil sands region in the Province of Alberta, Canada. Canada's oil sands represent the largest oil resource found in a stable political environment located in the Western Hemisphere and the third largest oil resource in the world. Canadian oil sands represent the largest single source of supply of oil imported into the United States. The Company has one business and geographical segment. Accordingly, no business and geographical segment information is presented.

The Company's focus is on evaluating and developing its oil sands assets with the completion and operation of the 5,000 bbls/day Phase I commercial West Ells (the "Project"). When financing is available, the Company 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 March 31, 2020, 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 March 31, 2020, the Company had $0.39 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.

**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 months ended March 31, 2020, the Company's average bitumen production was 995 bbls/day. Diluent was blended at an 19.8% 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 1,085 bbls/day in the first quarter of 2020.

On March 31, 2020, the Board has decided to temporarily suspend production for 90 days due to volatility in the international crude oil market, severe decline in crude oil prices, and having considered the fact that the Company's West Ells production equipment and road need repair, coupled with the outbreak of COVID-19 in Canada.

The Company expects that the temporary suspension will not have a material adverse impact on its operations. Management of the Company will continue to closely monitor developments in the international crude oil market and intends to take appropriate actions accordingly in response to the actual situation, and act in the best interests of the Company and its shareholders as a whole.

***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 2020. 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)***

As at the date of this announcement, Muskwa has no production. Development of Muskwa area is expected to be reactivated in 2020 under new ownership of Renergy, at no cost to Sunshine.

**Summary of Quarterly Results**

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

| ($ thousands except per share & bbl/d) | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 | Q3 2018 | Q2 2018 |
|---|---|---|---|---|---|---|---|---|
| Bitumen sales (bbl/d) | 871 | 1,657 | 2,130 | 2,049 | 999 | 1,153 | 1,757 | 1,540 |
| Petroleum sales | 3,840 | 9,192 | 12,691 | 14,434 | 6,017 | 4,772 | 12,286 | 9,252 |
| Royalties | 6 | 94 | 179 | 277 | 68 | 28 | 270 | 149 |
| Diluent | 1,236 | 3,133 | 3,345 | 3,747 | 1,491 | 2,016 | 2,681 | 2,708 |
| Transportation | 2,379 | 2,933 | 4,561 | 4,140 | 2,321 | 3,757 | 4,047 | 3,086 |
| Operating costs | 4,679 | 3,027 | 4,765 | 5,616 | 4,581 | 4,609 | 5,030 | 5,392 |
| Finance cost | 6,149 | 26,448 | 8,290 | 9,433 | 22,734 | 9,386 | 13,824 | 16,791 |
| Net loss | 41,770 | 26,660 | 19,140 | 9,799 | 25,116 | 46,731 | 16,287 | 31,147 |
| Per share - basic and diluted restated at post share consolidation | 0.32 | 0.64 | 0.33 | 0.28 | 0.21 | 1.06 | 0.68 | 0.54 |
| Capital expenditures[1] | 299 | 654 | 549 | 1,095 | 342 | 195 | 521 | 803 |
| Total assets | 773,605 | 777,528 | 775,818 | 781,385 | 781,366 | 769,468 | 774,885 | 781,130 |
| Working capital deficiency[2] | 262,004 | 506,310 | 488,052 | 489,793 | 483,933 | 461,341 | 423,360 | 412,067 |
| Shareholders' equity | 134,418 | 175,755 | 201,204 | 217,723 | 227,171 | 251,953 | 292,394 | 307,203 |

1. Included payments for exploration and evaluation, property, plant and equipment.
2. 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 March 31, | |
|---|---|---|
| ($ thousands, except $/bbl) | 2020 | 2019 |
| Realized bitumen revenue | $ 2,604 | $ 4,526 |
| Transportation | (2,379) | (2,321) |
| Royalties | (6) | (68) |
| Net bitumen revenues | 219 | 2,137 |
| Operating costs | (4,679) | (4,581) |
| Operating cash flow | $ (4,460) | $ (2,444) |
| Operating netback ($ / bbl) | (56.29) | (27.18) |

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

The Operating cash flow for the three months ended March 31, 2020 was a loss of $4.5 million compared to a net loss of $2.4 million for the three months ended March 31, 2019. Operating netback loss per barrel increased by $29.11/bbl from a loss of $27.18/bbl to a loss of $56.29/bbl. The increase in the operating cash flow per barrel deficiency was primarily due to 16.3% increase of transportation cost per barrel, 15.9% increase of operating cost per barrel and 34.7% decrease of realized bitumen price per barrel.

**Bitumen Production**

| | For the three months ended March 31, | |
|---|---|---|
| (Barrels/day) | 2020 | 2019 |
| Bitumen production | 995 | 1,026 |

Bitumen production at West Ells for the three months ended March 31, 2020 averaged at 995 Bbls/day compared to 1,026 Bbls/day for the three months ended March 31, 2019. Bitumen production decreased by 31 Bbls/day for the three months ended March 31, 2020 compared to the same period in 2019. The Company will continue to focus on carefully improving production performance after the restart of production operations.

**Bitumen Sales**

| | For the three months ended March 31, | |
|---|---|---|
| (Barrels/day) | 2020 | 2019 |
| Bitumen sales | 871 | 999 |

Bitumen sales at West Ells for the three months ended March 31, 2020 averaged 871 Bbls/day compared to 999 Bbls/day for the three months ended March 31, 2019. Bitumen sales decreased by 128 Bbls/day for the three months ended March 31, 2020 compared to the same period of 2019, and it was due to bitumen production reductions and lower WTI crude oil prices.

**Petroleum Sales, net of royalties**

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| ($ thousands, except $/bbl) | | 2020 | | 2019 |
| Petroleum sales | $ | 3,840 | $ | 6,017 |
| Royalties | | (6) | | (68) |
| Petroleum sales, net of royalties | $ | 3,834 | $ | 5,949 |
| $ / bbl | | 48.37 | | 66.15 |

Petroleum sales are from the sales of dilbit. Petroleum sales, net of royalties for the three months ended March 31, 2020 was $3.83 million compared to $5.95 million for the three month ended March 31, 2019. Petroleum sales per barrel decreased by $17.78/bbl to $48.37/bbl compared to $66.15/bbl for the same period of 2019. The decrease of $2.1 million sales (net of royalties) is mainly due to 19.0% decrease of realized bitumen price and 13.0% decrease in the Bitumen sales volume.

The royalty rate applicable to pre-payout oil sands operations starts at 1% of bitumen sales and increases for every dollar that the WTI crude oil price in Canadian dollars is priced above $55 per barrel, to a maximum of 9% when the WTI crude oil price is $120 per barrel or higher. The West Ells project is currently in pre-payout. Royalties for the three months ended March 31, 2020 decreased by $0.06 million compared to the same period of 2019. The decrease was mainly due to bitumen production reductions and lower WTI crude oil prices.

**Bitumen Realization**

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| ($ thousands, except $/bbl) | | 2020 | | 2019 |
| Dilbit revenue | $ | 3,840 | $ | 6,017 |
| Diluent blended | | (1,236) | | (1,491) |
| Realized bitumen revenue[1] | $ | 2,604 | $ | 4,526 |
| $ / bbl | | 32.85 | | 50.33 |

1. Realized bitumen revenue is used to calculate operating netbacks.

Bitumen realization represents the Company's realized petroleum revenue ("Dilbit revenue"), net of diluent expenses. Dilbit revenue represents the Company's revenue from its bitumen produced at West Ells project blended with purchased diluent. The cost of blending is impacted by the amount of diluent required and the Company's cost of purchasing and transporting the diluent. A portion of the diluent expense is effectively recovered in the sales price of the blended product.

During the three months ended March 31, 2020, the Company's bitumen realization revenue was $2.6 million compared to $4.5 million for the three months ended March 31, 2019. Bitumen realization decreased by $1.9 million for the three months ended March 31, 2020 mainly due to the bitumen production reductions coupled with lower WTI oil price. For the three months ended March 31, 2020, the bitumen realized price per barrel decreased by $17.48/bbl to $32.85/bbl compared to $50.33/bbl for the three months ended March 31, 2019. It was due to 28% decrease in bitumen price per barrel that was partially offset by 6% decrease in blending cost per barrel

**Diluent Costs**

| ($ thousands, except $/bbl and blend ratio) | For the three months ended March 31, 2020 | 2019 |
|---|---|---|
| Diluent | $ 1,236 | $ 1,491 |
| $ / bbl | 15.60 | 16.58 |
| Blend ratio | 19.8% | 16.9% |

At West Ells, diluent is blended with the bitumen as part of the production process to create a marketable dilbit blend product at the West Ells. Diluent expense is mainly impacted by the required amount, cost of purchasing and transporting diluent, Canadian and U.S. benchmark pricing, the timing of diluent inventory purchases and changes in value of the Canadian dollar relative to the U.S. dollar.

Diluent costs for the three months ended March 31, 2020 and March 31, 2019 were $1.2 million and $1.5 million respectively. Diluent costs decreased by $0.3 million for the three months ended March 31, 2020 mainly due to lower bitumen production. For the three months ended March 31, 2020, the diluent cost per barrel was reduced by $0.98/bbl to $15.60/bbl from $16.58/bbl for the same period in 2019.

**Transportation**

| ($ thousands, except $/bbl) | For the three months ended March 31, 2020 | 2019 |
|---|---|---|
| Transportation | $ 2,379 | $ 2,321 |
| $ / bbl | 30.02 | 25.81 |

Transportation cost includes trucking costs for dilbit from 3rd parties and Sunshine fleets and pipeline terminals fees. The transportation expense in the three months ended March 31, 2020 and March 31, 2019 was $2.4 million and $2.3 million, respectively. Transportation costs increased by $0.1 million for the three months ended March 31, 2020 mainly due to increased transportation rates charged by the third party trucking companies. For the three months ended March 31, 2020, transportation cost per barrel increased by $4.21/bbl to $30.02/bbl due to lower bitumen production and sales compared to $25.81/bbl for the three months ended March 31, 2019.

**Operating Costs**

| ($ thousands, except $/bbl) | For the three months ended March 31, 2020 | 2019 |
|---|---|---|
| Energy operating costs | $ 985 | $ 1,351 |
| Non-energy operating costs | 3,694 | 3,230 |
| Operating costs | $ 4,679 | $ 4,581 |
| $ / bbl | 59.04 | 50.94 |

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

The operating expense per barrel for the three months ended March 31, 2020 was $59.04/bbl compared to $50.94/bbl for the three months ended March 31, 2019. For the three months ended March 31, 2020, the operating costs per barrel increased by $8.10 compared to the same period in 2019 primarily due to the lower bitumen production. 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 March 31, | |
|---|---|---|
| ($ thousands) | 2020 | 2019 |
| Salaries, consultants and benefits | $ 1,534 | $ 1,536 |
| Rent | 9 | 251 |
| Legal and audit | 130 | 296 |
| Other | 699 | 539 |
| Balance, end of year | $ 2,372 | $ 2,622 |

The Company's general and administrative costs were $2.4 million and $2.6 million for the three months ended March 31, 2020 and March 31, 3019 respectively. General and administrative costs decreased by $0.2 million for the three months ended March 31, 2020 primarily due to reduction in rent subsequent to office relocation in 2019, workforce reductions and the Company's continued focus on cost management.

**Finance Costs**

| | For the three months ended March 31, | |
|---|---|---|
| ($ thousands) | 2020 | 2019 |
| Interest expense on senior notes, including yield maintenance premium (YMP) | $ 4,870 | $ 21,077 |
| Interest expense on other loans | 936 | 446 |
| Financing related costs | 2 | 4 |
| Other interest expense | 15 | 867 |
| Other interest expense - leases | 42 | 56 |
| Unwinding of discounts on provisions | 284 | 284 |
| | $ 6,149 | $ 22,734 |

The Company's finance costs were $6.1 million for the three months ended March 31, 2020 compared to $22.7 million for the three months ended March 31, 2019. Finance cost decreased by $16.6 million for the three months ended March 31, 2020 compared to the same period in 2019. The decreases are mainly due to the adjustment for prior year interests including YMP on senior notes.

**Share-based Compensation**

| | For the three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| ($ thousands) | Total | Capitalized | Expensed | Total | Capitalized | Expensed |
| Share-based compensation | $ 127 | - | 127 | $ 334 | - | 334 |

Share-based compensation expense for the three months ended March 31, 2020 was $0.1 compared to $0.3 million for the same period in 2019. The fair value of share-based compensation associated with the granting of stock options is recognized by the Company in its condensed consolidated interim financial statements. Fair value is determined using the Black-Scholes option pricing model.

**Depletion and Depreciation**

| | For the three months ended March 31, | |
|---|---|---|
| ($ thousands, except $/bbl) | 2020 | 2019 |
| Depletion | $ 2,058 | $ 2,117 |
| Depreciation | 424 | 349 |
| Depletion and depreciation | $ 2,482 | $ 2,466 |
| Depletion ($ / bbl) | 25.97 | 27.42 |

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 $2.5 million for the three months ended March 31, 2020 compared to $2.5 million for the three months ended March 31, 2019, respectively.

As of March 31, 2020, 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 months ended March 31, 2020 and 2019. Recognition of tax losses is based on the Company's consideration of its internal development plan for its asset base and the assumption as to whether or not these tax losses will be utilized before their expiry dates. At March 31, 2020, the Company had total available tax deductions of approximately $1.6 billion, with unrecognized tax losses that expire between 2029 and 2038.

**Liquidity and Capital Resources**

| | | March 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Working capital deficiency | $ | 262,004 | $ | 506,310 |
| Shareholders' equity | | 134,418 | | 175,755 |
| | $ | 396,422 | $ | 682,065 |

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 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"). 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 of terms listed on the Agreement and fully reinstate the Agreement, provided that the Company made the following payments on or before March 27, 2017:

- Payment of USD $2.8 million representing 20% of the yield maintenance premium 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;
- the Company agreed to repurchase and the Forbearing Holders agreed to sell up to USD $11.2 million of Senior Notes in exchange for common shares of the Company, 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 yield maintenance premium 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 bond 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, if repayment is made prior to December 31, 2017, all accrued and unpaid interests incurred on the corresponding amount will be waived;
- The Company was to obtain financing of USD $5.0 million within 45 days after signing the Amended FA;
- The Company was to obtain financing of USD $5.0 million every quarter.

Some of the Company's loan agreements are subject to covenant clauses, whereby the Company is required to meet certain criteria. The Company did not fulfill the minimum liquidity, quarterly financings and capital raise covenants as required in the Amended FA. 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, to repay notes principal, and any previous outstanding payment commitments. The Company 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 is to obtain financing of at least USD $5.0 million by April 30, 2019 to maintain sufficient liquidity.

On April 24, 2020, the Company and the Forbearing Holders confirmed the signing of the Forbearance Reinstatement and Amending Agreement (the "**FRAA**"). The principal terms of the FRAA include:

- The FRAA covers the period from December 31, 2019 to August 31, 2021 ("Period of Forbearance);
- Same as the Forbearance Reinstatement and Amending Agreement executed on November 1, 2018, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2021, and during the Period of Forbearance, there will not be any forbearance fee and yield maintenance premium based on the initial Forbearance Agreement executed on September 12, 2016.

The Board believes the entering into of the FRAA is in the interests of the Company and its shareholders as a whole in view that the FRAA will provide the Company with additional time to repay or refinance the indebtedness owned by the Company to the Noteholders under the Notes, whilst at the same time the financing cost has been substantially lowered to reasonable market level.

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, reporting status and undertaking certain corporate transactions.

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 March 31, 2020, the Company had incurred unsecured Permitted Debt for a total of US$22.7 million (CAD$32.3 million equivalent).

On February 27, 2019, the Company received the notice from the Alberta Court of Queen's Bench. As a result, a creditor's judgment was satisfied by payment of $0.7M that was held in Court pending the outcome of an appeal. The Company has filed a further appeal of the judgment that seeks to overturn the judgment and recover the $0.7M recovered by the creditor.

The Company has been named as a Defendant in Court of Queen's Bench of Alberta Judicial District of Calgary, commenced by a shareholder of the Company (the "Claimant") by Statement of Claim (the "Action") filed January 2, 2014. The Claimant alleges that, pursuant to a share subscription agreement entered into in January 2011, it is entitled to require the Company to repurchase 4,132,232 shares (prior to the 20:1 share split that occurred prior to the Company's IPO) of the Company that the Claimant acquired pursuant to the Share Subscription Agreement. This constitutes a claim for $40 million plus interest at 15% per annum since the date of the share subscription agreement. The Company's Statement of Defence was filed on April 2, 2014. The Claimant's application for summary judgment was heard on February 2 and 3, 2016. The summary judgment application was dismissed on February 3, 2016. As at March 31, 2020. no amounts have been accrued in the Condensed Consolidated Interim Financial Statements as the ultimate resolution is undeterminable at this time. The Company will record a provision if it believes that the outcome of the contingency becomes probable and can be reasonably estimated.

The Company received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016-2020 municipal property taxes of $9.45 million. The Company was also charged with overdue penalties of $3.74 million. Since then the Company was in active negotiation with RMWB for a settlement plan with proposals to waive overdue penalties. As at the date of this announcement, the Company believes that notices issued by RMWB relating to property taxes did not comply with relevant legislation and the Company has sought judicial review to determine the effect of non-compliant tax notices on RMWB's property tax claim.

The Company is involved in various claims including claims described above and actions arising in the course of operations and is subject to various legal actions, pending claims and exposures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Unfavorable outcome were to occur against such claims or pending claims, there exists the possibility of a material adverse impact on the

Company's consolidated net income or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such claims. While fully supportable in the Company's view, some of these positions, if challenged may not be fully sustained on review. From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At March 31, 2020, the Company had incurred $1.48 million (US $1.04 million equivalent using the period end exchange rate) in liens against them during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of $1USD = $1.4187 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 months ended March 31, 2020, the Company reported a net loss including non-controlling interest of $41.8 million. At March 31, 2020, the Company had a working capital deficiency of $262.0 million.

The Company's debt-to-asset ratio, measured based on total liabilities divided by total assets was 83% as at March 31, 2020, compared to 77% as at December 31, 2019.

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 United States dollars ("USD") and Hong Kong dollars ("HKD"). The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Company had no forward exchange rate contracts in place as at or during the three months ended March 31, 2020.

If exchange rate to convert from USD to CAD had been one percent higher or lower with all other variables held constant, foreign cash held at March 31, 2020 would have been impacted by $Nil (2019: $Nil) and the carrying value of the debt at March 31, 2020 would have been impacted by $3.0 million (2019: $2.7 million).

If exchange rate to convert from HKD to CAD had been one percent higher or lower with all other variables held constant, foreign cash held at March 31, 2020 would have been impacted by $Nil (2019: $Nil) and the carrying value of the debt at March 31, 2020 would have been impacted by $0.18 million (2019: $0.11 million).

**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 months period ended March 31, 2020 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2019.

**Transactions with Related Parties**

For the three months ended March 31, 2020, a consulting Company, to which a director of Sunshine is related, charged the Company $0.13 million (December 31, 2019 – $0.5 million) for management and advisory services.

As at 31 March 2020, Mr. Kwok Ping Sun, the Company's Executive Chairman, has beneficial ownership of, or control or direction of 36,308,540 common shares of the Company, which represents approximately 28.03% of the Company's outstanding common shares.

On March 25, 2019, the Company signed a supplementary agreement with Renergy Petroleum (Canada) Co., Ltd, owned by Mr. Kwok Ping Sun, regarding the proposed Amendment of the Joint Operating Agreements on Muskwa and Godin area oil sands leases.

As at March 31, 2020, the Company had loans from shareholders, which are unsecured, interest bearing at 10% per annum, and of which approximately CAD $13,999,000 can be rollover for a period of 3 to 6 months and approximately CAD $4,705,000 is repayable in 2 years.

**Off-balance Sheet Arrangements**

The Company has certain lease agreements which are reflected in the table above under the heading "Commitments and Contingences". No asset or liability value was assigned to these agreements on the Company's balance sheet. As at March 31, 2020, the Company did not have any other off-balance sheet arrangements.

**Subsequent Events**

On April 1, 2020, the Company and a wholly owned company by Mr. Sun, the Chairman, Executive Director and Substantial Shareholder of the Company entered into a Subscription Agreement for convertible bonds ("CB") in an aggregate principal amount of HK$ 72,000,000. With an initial conversion price of HK$0.632 per share, a maximum of 113,924,051 new Class "A" common shares will be allotted and issued upon the full conversion of the CB. The CB interest rate is 8% per annum and matures in two years. The Subscription was conditional upon, among other things, the approval of the Shareholders at the SGM on 25 May 2020 (HK time).

**Changes in Accounting Policies**

These Condensed Consolidated Interim Financial Statements have been prepared using the same accounting policies and methods of computation as the annual audited consolidated financial statements of the Company for the year ended December 31, 2019, with the exception of the adoption of IFRS 16 described below. These Condensed Consolidated Interim Financial Statements do not include all of the information and disclosures required in the Corporation's annual consolidated financial statements, and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2019.

*IFRS 16 -Leases*
On adoption of IFRS 16, the Company recognized right-of-use assets and lease liabilities in relation to leases which had previously been classified as "operating leases" under IAS 17 "Leases."

On adoption, lease liabilities were measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate (7.9% for trucks and trailers and 10% for the offices) on January 1, 2019. The nature of the Company's long-term leasing activities includes trucks, trailers and the offices in Calgary, Shanghai and Hong Kong. Right-of-use assets were measured at an amount equal to the lease liability. For leases previously classified as operating leases, the Company applied the exemption not to recognize right-of-use assets and liabilities for leases with a lease term of less than 12 months, excluded initial direct costs from measuring the right-of-use asset at the date of initial application, and applied a single discount rate to a portfolio of leases with similar characteristics.

**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 2019 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, 2019, which is available at www.sedar.com. The 2019 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 2019 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 months period ended March 31, 2020 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:

| | Three Month Ended March 31 | |
|---|---|---|
| ($ thousands) | 2020 | 2019 |
| Net cash used in operating activities | $ (5,905) | $ (5,187) |
| Add (deduct) | | |
| Net change in non-cash operating working capital items | (516) | 109 |
| Cash flow used in operations | $ (6,421) | $ (5,078) |

**Forward-Looking Information**

Certain statements in this MD&A are forward-looking statements that are, by their nature, subject to significant risks and uncertainties and the Company hereby cautions investors about important factors that could cause the Company's actual results to differ materially from those projected in a forward-looking statement. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will", "expect", "anticipate", "estimate", "believe", "going forward", "ought to", "may", "seek", "should", "intend", "plan", "projection", "could", "vision", "goals", "objective", "target", "schedules" and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including the risk factors detailed in this MD&A), uncertainties and other factors some of which are beyond the Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, the Company strongly cautions investors against placing undue reliance on any such forward-looking statements. Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on estimates and assumptions that the resources and reserves described can be profitably produced in the future. Further, any forward-looking statement speaks only as of the date on which such statement is made and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

All forward-looking statements in this MD&A are expressly qualified by reference to this cautionary statement.

**Additional 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 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 March 31, 2020.

| Name | December 31, 2019 Restated[(6)] | Granted | Exercised | Forfeited | Expired | March 31, 2020 |
|---|---|---|---|---|---|---|
| Kwok Ping Sun | 6,933,580 | - | - | - | - | 6,933,580 |
| Michael Hibberd | 933,580 | - | - | - | - | 933,580 |
| Hong Luo[(1)] | - | - | - | - | - | - |
| Gloria Ho | 400,000 | - | - | - | - | 400,000 |
| Raymond Fong[(2)] | - | - | - | - | - | - |
| Yi He | 150,000 | - | - | - | - | 150,000 |
| Joanne Yan[(3)] | - | - | - | - | - | - |
| Linna Liu | - | - | - | - | - | - |
| Jingfeng Liu[(4)] | - | - | - | - | - | - |
| Xijuan Jiang | 20,000 | - | - | - | - | 20,000 |
| Guangzhong Xing [(5)] | 100,000 | - | - | - | - | 100,000 |
| Sub-total for Directors | 8,537,160 | - | - | - | - | 8,537,160 |
| Sub-total for other share option holders | 628,527 | - | - | (33,933) | - | 594,594 |
| **Total** | 9,165,687 | - | - | (33,933) | - | 9,131,754 |

1. Mr. Hong Luo ceased to be the non-executive Director of the Company on June 3, 2019.
2. Per the Company' s announcement dated June 23, 2019, Mr. Raymond Fong passed away.
3. Ms. Joanne Yan retired and ceased to be independent non-executive Director of the Company at the AGM held on June 24, 2019.
4. Mr. Jingfeng Liu ceased to be independent non-executive Director of the Company on March 7, 2019.
5. Mr. Guangzhong Xing was appointed to be independent non-executive Director of the Company on June 25, 2019.
6. Number of options for 2019 have been adjusted on a post share consolidation basis.

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

The weighted average fair value of the share options granted for the period ended March 31, 2020 was 0.60-2.00 (year ended December 31, 2019 - $0.60). 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 three months ended March 31, 2020 and year ended December 31, 2019. The Grant date share price and Exercise price for the year of 2019 have been restated on a post share consolidation basis.

| **Input Variables** | **Three month period ended March 31, 2020** | **Year ended December 31, 2019 Restated** |
|---|---|---|
| Grant date share price ($) | 0.60-2.00 | 0.60 |
| Exercise Price ($) | 0.60-2.00 | 0.60 |
| Expected volatility (%) | 61.88-63.91 | 63.91 |
| Option life (years) | 2.13-2.72 | 2.84 |
| Risk-free interest rate (%) | 1.48-1.95 | 1.48 |
| Expected forfeitures (%) | 15.39-15.39 | 15.39 |

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

*Class "A" Common Shares*

***General mandate***

***2020 activity***

On January 3, 2020, the Board proposed to implement a Share Consolidation on the basis that every fifty (50) Existing Shares will be consolidated into one (1) Consolidated Share. The total number of Consolidated Shares in the issued share capital of the Company immediately following the Share Consolidation was rounded down to a whole number by cancelling any fractional Shares of the Company arising from the Share Consolidation. The Share Consolidation was conditional upon, among other things, the approval of the Shareholders at the SGM. The Board proposed to change the board lot size for trading on the Stock Exchange from 500 Existing Shares to 1,000 Consolidated Shares conditional upon the Share Consolidation becoming effective.

On February 24, 2020, a Special General Meeting approved the Share Consolidation and the Change in Board Lot Size became effective on February 26, 2020.

On February 27, 2020, the Company entered into a settlement agreement for a total of 1,443,000 consolidated Class "A" common shares at a price of HKD $1.31 per share (post-consolidation) for gross proceeds of HKD $1,896,134.68. On March 5, 2020, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party.

***2019 activity***

On May 15, 2019, the Board of the Company approved the payment of the director fees of certain directors (the "Connected Directors") for the period from October 1, 2017 to April 30, 2019 in shares in lieu of cash, subject to Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. On June 24, 2019, the proposed issuance of 21,779,902 new Shares to the Connected Directors as payment of director fee has been approved by the independent shareholders at the Special General Meeting. The completion took place on July 11, 2019. An aggregate of 21,779,902 new Shares were allotted and issued to the Connected Directors at an Issue Price of HK$0.092 (approximately CAD $0.015 per share) per Share.

On June 17, 2019, the Company entered into a subscription agreement for convertible bonds in the principal amount of USD 10.45 million (approximately CAD $13.68 million) with an independent third party. With an initial conversion price of HKD $0.0822 per share (approximately CAD $0.014 per share), a maximum of 990,347,263 Class "A" common shares will be allotted and issued upon the full conversion of the convertible bonds. The convertible bonds interest rate is 10.0% per annum and required repayment in full within two years from the issuance date. All the subscription proceeds were subsequently received on 29 July 2019. The entire proceeds will be used to financing its general working capital and capital expenditure for its West Ells project.

On August 9, 2019 the Company entered into a settlement agreement for a total of 57,690,480 class "A" common shares at a price of HKD $0.077 per share for gross proceeds of HKD $4,442,166.93. On August 16, 2019 the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of debt with an independent third party.

On August 16, 2019, the Company entered into a settlement agreement for a total of 100,900,000 class "A" common shares at a price of HKD $0.070 per share for gross proceeds of HKD $7,062,978.22. On August 22, 2019, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party.

On October 11, 2019, the Company entered into a settlement agreement for a total of 37,728,000 class "A" common shares at a price of HKD $0.063 per share for gross proceeds of HKD $2,376,846.73. On October 17, 2019, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party.

On December 5, 2019, the Company entered into a settlement agreement for a total of 51,636,500 class "A" common shares at a price of HKD $0.0524 per share for gross proceeds of HKD $2,705,752.60. On December 16, 2019, the Company completed the closing of this settlement agreement. This settlement agreement was entered into for settlement of trade payables with an independent third party.

**Shares Outstanding**

As at March 31, 2020, the Company had 129,554,630 Class "A" common shares issued and outstanding.

**Employees**

As at March 31, 2020, the Company has 44 full-time employees. For the three months ended March 31, 2020, total staff costs amounted to $1.5 million.

**Dividends**

The Company has not declared or paid any dividends in respect of the three months period ended March 31, 2020 (three months period ended March 31, 2019 - $Nil).

**Review of Interim Results**

The condensed consolidated interim financial statements for the Company for the three months ended March 31, 2020, were reviewed by the Audit Committee of the Company and approved by the Board.

**Publication of Information**

This Quarterly results announcement is published on the websites of SEDAR (www.sedar.com), the SEHK (www.hkexnews.hk) and the 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 will continue to focus on cost controls and carefully monitor developments in crude oil markets. The Company is also continuing with its joint venture for re-activation of the Muskwa and Godin Area activities as international oil price recovers.