阳光油砂
SUNSHINE OILSANDS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and twelve months ended December 31, 2018 and 2019

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 twelve months ended December 31, 2019 is dated March 30, 2020, and approved by the Company's Board of Directors. This MD&A should be read in conjunction with the Company's 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 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 December 31, 2019, 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 December 31, 2019, the Company had $1.25 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 twelve months ended December 31, 2019, the Company's average bitumen production was 1,589 bbls/day and 1,702 bbls/day respectively. Diluent was blended at a 17.8% and 18.3% volumetric rate for the three and twelve month ended December 31, 2019 with the bitumen as part of the production process to create the marketable "Dilbit" blend product. The average Dilbit sales volume was 2,015 bbls/day and 2,080 bbls/day for the three and twelve months ended December 31, 2019.

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, significant additional financing will need to be secured to proceed.

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

As at the date of this report, Muskwa has no production. Development of Godin areas 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 financial information for the Company for the last eight quarters:

($ thousands except per share & bbl/d)	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Bitumen sales (bbl/d)	1,657	2,130	2,049	999	1,153	1,757	1,540	2,174
Petroleum sales	9,192	12,691	14,434	6,017	4,772	12,286	9,252	11,258
Royalties	94	179	277	68	28	270	149	114
Diluent	3,133	3,345	3,747	1,491	2,016	2,681	2,708	3,896
Transportation	2,933	4,561	4,140	2,321	3,757	4,047	3,086	4,527
Operating costs	3,027	4,765	5,616	4,581	4,609	5,030	5,392	5,671
Finance cost	26,448	8,290	9,433	22,734	9,386	13,824	16,791	15,348
Net loss	26,660	19,140	9,799	25,116	46,731	16,287	31,147	32,831
Per share - basic and diluted	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.01
Capital expenditures[1]	654	549	1,095	342	195	521	803	1,381
Total assets	777,528	775,818	781,385	781,366	769,468	774,885	781,130	781,639
Working capital deficiency[2]	506,310	488,052	489,793	483,933	461,341	423,360	412,067	385,244
Shareholders' equity	175,755	201,204	217,723	227,171	251,953	292,394	307,203	336,858

1. Includes 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

($ thousands, except $/bbl)	For the three months ended December 31, 2019	2018	For the twelve months ended December 31, 2019	2018
Realized bitumen revenue	$ 6,059	$ 2,756	$ 30,618	$ 26,267
Transportation	(2,933)	(3,757)	(13,955)	(15,417)
Royalties	(94)	(28)	(618)	(561)
Net bitumen revenues	$ 3,032	$ (1,029)	$ 16,045	$ 10,289
Operating costs	(3,027)	(4,609)	(17,989)	(20,702)
Operating cash flow[1]	$ 5	$ (5,638)	$ (1,944)	$ (10,413)
Operating netback ($ / bbl)	0.03	(53.14)	(3.14)	(17.26)

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

The Operating cash flow for the three months ended December 31, 2019 was a net gain of $0.01 million compared to a net loss of $5.6 million for the three months ended December 31, 2018. Operating netback increased $53.17/bbl from the loss of $53.14/bbl to the gain of $0.03/bbl. The increase in the operating cash flow per barrel was primarily due to a 52.94% increase in realized sales price per barrel (net of diluent), a 54.29% decrease in operating costs per barrel and a 45.68% decrease in transportation cost per barrel, which were partially offset by 138.46% increase of Royalties per barrel.

The operating cash flow for the twelve months ended December 31, 2019 was a net loss of $1.9 million compared to a net loss of $10.4 million for the twelve months ended December 31, 2018. Operating netback loss per barrel basis decreased by $14.12/bbl to a loss of $3.14/bbl from a loss of $17.26/bbl for the year ended December 31, 2018. The decrease in the operating cash flow deficiency was primarily due to a 13.37% increase in realized sales price per barrel (net of diluent), a 15.48% decrease in operating costs per barrel and a 11.98% decrease in transportation cost per barrel, which were partially offset by 7.53% increase of Royalties per barrel.

Bitumen Production

	For the three months ended December 31 ,		For the twelve months ended December 31,	
(Barrels/day)	2019	2018	2019	2018
Bitumen production	1,589	1,059	1,702	1,623

Bitumen production at West Ells for the three and twelve months ended December 31, 2019 averaged 1,589 Bbls/day and 1,702 Bbls/day compared to 1,059 Bbls/day and 1,623 Bbls/day for the three and twelve months ended December 31, 2018, respectively. Bitumen production increased by 530 Bbls/day and 79 Bbls/day for the three and twelve months ended December 31, 2019 compared to the same periods in 2018, respectively. The Company will continue to focus on carefully improving production performance.

Bitumen Sales

	For the three months ended December 31,		For the twelve months ended December 31,	
(Barrels/day)	2019	2018	2019	2018
Bitumen Sales	1,657	1,153	1,700	1,653

Bitumen sales at West Ells for the three and twelve months ended December 31, 2019 averaged 1,657 Bbls/day and 1,700 Bbls/day compared to 1,153 Bbls/day and 1,653 Bbls/day for the three and twelve months ended December 31, 2018, respectively. Bitumen sales increased by 504 Bbls/day for the three months ended December 31, 2019 compared to the same period of 2018 due to higher bitumen production. For the twelve months ended December 31, 2019, bitumen sales increased by 47 Bbls/day compared to the same period of last year.

Petroleum Sales, net of royalties

	For the three months ended December 31 ,		For the twelve months ended December 31,	
($ thousands, except $/bbl)	2019	2018	2019	2018
Petroleum sales	$ 9,192	$ 4,772	$ 42,334	$ 37,568
Royalties	(94)	(28)	(618)	(561)
Balance, end of period	$ 9,098	$ 4,744	$ 41,716	$ 37,007
$ / bbl	59.69	44.73	67.22	61.32

Petroleum sales are from the sales of Dilbit. Petroleum sales, net of royalties for the three months ended December 31, 2019 increased by $4.4 million to $9.1 million from $4.7 million for the same period of 2018. Petroleum sales per barrel, net of royalties increased by $14.96/bbl to $59.69/bbl from $44.73/bbl for the same period of 2018. The increase of $4.4 million sales (net of royalties) is mainly due to higher bitumen production, thus sales volumes and the 52.94% increase of realized bitumen price per barrel.

Petroleum sales, net of royalties for the twelve months ended December 31, 2019 increased by $4.7 million to $41.7 million from $37.0 million for the twelve months ended December 31, 2018. Petroleum sales per barrel, net of royalties increased by $5.90/bbl to $67.22/bbl from $61.32/bbl for the same period of 2018. Petroleum sales net of royalties increased by $4.7 million primarily due to highter bitumen production and 13.37% higher realized bitumen price per barrel.

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 and twelve months ended December 31, 2019 increased by $0.07 million and $0.06 million compared to the same period of 2018. The increases in 2019 are mainly due to higher bitumen sales and thus higher royalty expenses.

Bitumen Realization

	For the three months ended December 31 ,		For the twelve months ended December 31,	

($ thousands, except $/bbl)		2019		2018		2019		2018
Dilbit revenue	$	9,192	$	4,772	$	42,334	$	37,568
Diluent blended		(3,133)		(2,016)		(11,716)		(11,301)
Realized bitumen revenue[1]	$	6,059	$	2,756	$	30,618	$	26,267
($ / bbl)		39.75		25.99		49.34		43.52

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 December 31, 2019, the Company's bitumen realization revenue increased by $3.3 million to $6.1 million from $2.8 million for the three months ended December 31, 2018. The bitumen realized price per barrel increased by $13.76/bbl to $39.75/bbl from $25.99/bbl. The increase in bitumen realization per barrel was primarily due to 34% increase in dilbit revenue per barrel, which was partially offset by 8% increase in blending cost per barrel.

During the twelve months ended December 31, 2019, the Company's bitumen realization revenue increased $4.3 million to $30.6 million from $26.3 million for the same period in 2018. The bitumen realized price per barrel increased $5.82/bbl to $49.34 /bbl from $43.52 /bbl. The increase in bitumen realization per barrel was primarily the result of a 10% increase in dibit revenue per barrel, which was partially offset by 1% increase in blending cost per barrel.

Diluent Costs

($ thousands, except $/bbl and blend ratio)		For the three months ended December 31, 2019		2018		For the twelve months ended December 31, 2019		2018
Diluent	$	3,133	$	2,016	$	11,716	$	11,301
$/bbl		20.56		19.00		18.88		18.73
Blend ratio		17.8%		20.0%		18.3%		18.1%

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

Diluent costs per barrel for the three and twelve months ended December 31, 2019 was $20.56/bbl and $18.88/bbl compared to $19.00/bbl and $18.73/bbl for the three and twelve months ended December 31, 2018, respectively. For the three month ended December 31, 2019, the increase in the diluent expense per barrel was primarily the result of the increase of the average condensate benchmark pricing.

Blend ratio for the three and twelve months ended December 31, 2019 was 17.8% and 18.3% compared to 20.0% and 18.1% for the three and twelve months ended December 31, 2018. The decrease was due to the control of the usage of the diluent to make the operation more efficient.

Transportation

($ thousands, except $/bbl)		For the three months ended December 31, 2019		2018		For the twelve months ended December 31, 2019		2018
Transportation	$	2,933	$	3,757	$	13,955	$	15,417
$ / bbl		19.24		35.42		22.49		25.55

Transportation costs consist of trucking costs for Dilbit and pipeline terminals fees. The transportation expense per barrel for the three and twelve months ended December 31, 2019 was $19.24/bbl and $22.49/bbl compared to

$35.42/bbl and $25.55/bbl for the three and twelve months ended December 31, 2018, respectively. The decrease in the transportation cost per barrel was mainly due to higher bitumen sales and thus lower average terminal fees.

Operating Costs

	For the three months ended December 31,		For the twelve months ended December 31,	
($ thousands, except $/bbl)	2019	2018	2019	2018
Energy operating costs	$ 138	$ 1,035	$ 4,141	$ 3,998
Non-energy operating costs	2,889	3,574	13,848	16,704
Operating costs	$ 3,027	$ 4,609	$ 17,898	$ 20,702
$ / bbl	19.86	43.45	28.99	34.30

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. Energy operating costs for the three months and twelve months ended December 31, 2019 are lower compared to the same period of 2018 mainly due to the costs adjustment for prior period.

The operating expense per barrel for the three and twelve months ended December 31, 2019 was $19.86/bbl and $28.99/bbl compared to $43.45/bbl and $34.30/bbl for the three and twelve months ended December 31, 2018, respectively. The operating costs decrease per barrel from the prior periods is primarily due to the higher 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 December 31 ,					
	2019			2018		
($ thousands)	**Total**	**Capitalized**	**Expensed**	**Total**	**Capitalized**	**Expensed**
Salaries, consulting and benefits	$ 1,298	$ -	1,298	$ 2,318	$ -	2,318
Rent	13	-	13	589	-	589
Legal and audit	92	-	92	239	-	239
Other	352	-	352	650	-	650
Total	$ 1,755	$ -	1,755	$ 3,796	$ -	3,796

	For the twelve months ended December 31,					
	2019			2018		
($ thousands)	**Total**	**Capitalized**	**Expensed**	**Total**	**Capitalized**	**Expensed**
Salaries, consulting and benefits	$ 6,045	$ -	6,045	$ 6,858	$ -	$ 6,858
Rent	297	-	297	2,074	-	2,074
Legal and audit	777	-	777	964	-	964
Other	1,931	-	1,931	2,706	-	2,706
Total	$ 9,050	$ -	9,050	$ 12,602	$ -	$ 12,602

The Company's general and administrative costs were $1.8 million and $9.1 million for the three and twelve months ended December 31, 2019 compared to $3.8 million and $12.6 million for the three and twelve months ended December 31, 2018. General and administrative costs decreased by $2.0 million and $3.5 million for the three and twelve months ended December 31, 2019 compared to the same periods in 2018 primarily due to workforce reductions and the Company's continued focus on cost management.

Finance Costs

($ thousands)	For the three months ended December 31, 2019	2018	For the twelve months ended December 31, 2019	2018
Interest expense on senior notes, including yield maintenance premium	$ 24,865	$ 7,655	$ 61,200	$ 50,307
Interest expense on other loans	644	555	1,832	731
Financing related costs	223	766	544	1,019
Other interest expense	366	122	1,922	2,180
Other interest expense –lease	64	-	261	-
Unwinding of discounts on provisions	286	288	1,146	1,112
Finance costs	$ 26,448	$ 9,386	$ 66,905	$ 55,349

The Company's finance costs were $26.4 million and $66.9 million for the three and twelve months ended December 31, 2019 compared to $9.4 million and $55.3 million for the three and twelve months ended December 31, 2018. For the three months ended December 31, 2019, finance costs increased by $17.1 million compared to the same period in 2018 as a result of an increase of $17.1 million attributed to interest expense on senior notes, including the yield maintenance premium. For the twelve months ended December 31, 2019, finance costs increased by $11.6 million compared to the same period in 2018 as a result of an increase of $10.9 million attributed to interest expense on senior notes, including the yield maintenance premium and an increase of $1.1 million attributed to interest expense on other loans offset by a decrease of $0.5 million in financing related costs.

Share-based Compensation

	For the three months ended December 31 , 2019			2018		
($ thousands)	**Total**	**Capitalized**	**Expensed**	**Total**	**Capitalized**	**Expensed**
Share-based compensation	$ 345	-	345	$ 2,740	-	2,740

	For the twelve months ended December 31, 2019			2018		
($ thousands)	**Total**	**Capitalized**	**Expensed**	**Total**	**Capitalized**	**Expensed**
Share-based compensation	$ 1,373	-	1,373	$ 4,009	-	4,009

Share-based compensation expense for the three and twelve months ended December 31, 2019 was $0.3 million and $1.4 million compared to $2.7 million and $4.0 million for the same periods in 2018. The fair value of share-based compensation associated with the granting of stock options is recognized by the Company in its audited consolidated financial statements . Fair value is determined using the Black-Scholes option pricing model.

Depletion, Depreciation and Impairment

($ thousands, except $/bbl)	For the three months ended December 31, 2019	2018	For the twelve months ended December 31, 2019	2018
Depletion	$ 3,311	$ 2,234	$ 14,204	$ 13,134
Depreciation	365	133	1,503	522
Impairment	-	-	-	-
Depletion and depreciation	$ 3,676	$ 2,367	$ 15,707	$ 13,656
Depletion ($ / bbl)	21.73	21.06	22.89	21.76

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 $15.7 million for the three and twelve months ended December 31, 2019 compared to $2.4 million and $13.7 million for the three and twelve months ended December 31, 2018, respectively. Depletion and depreciation expense increased by $1.3 million and $2.1 million for the three and twelve months ended December 31, 2019 compared to the same periods in 2018 mainly due to higher bitumen production and additional long-term office, trucks and trailer leases.

Starting January 1, 2019, the company started to record depreciation for long-term leases calculated on a straight-line basis over the lease term, so depreciation for the three and twelver months ended December 31, 2019 has increased by 0.2 million and 1.0 million compared to the same periods in 2018.

As of December 31, 2019, 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.

Exploration & Evaluation ("E&E") Asset Impairment

As at December 31, 2019, the Company determined that indicators of impairment existed with respect to its E&E Assets and an impairment analysis was performed. The significant indicator of impairment was the Company's inability to make any material capital expenditures other than on the West Ells property under the debt agreement, and the significant decline in market capitalization.

At the end of the reporting period, the Group assessed impairment for its E&E Assets. For the purpose of impairment testing, the recoverable amount of E&E Assets was determined using judgement and internal estimates. The recoverable amount is the higher of fair value less costs of disposal ("FVLCD") and value in use ("VIU"). FVLCD is the amount obtainable from the sale of an asset or CGU in an arms-length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is the present value of estimated future cash flows expected to arise from the continuing use of an asset or CGU and from the disposal at the end of its useful life. Recoverable amount was based on the FVLCD model using the land sale price observed in Northern Alberta for similar properties.

For the year ended December 31, 2019 and 2018, the Group did not recognize an impairment loss based on its assessment the estimated recoverable amount exceeded the carrying value.

Property, Plant & Equipment ("PP&E") Asset Impairment

Recoverable amounts for each CGU were estimated based on FVLCD methodology which is calculated using the present value of the CGUs' expected future cash flows (after-tax). The cash flow information was derived from a report on the Group's oil and gas reserves which was prepared by an independent qualified reserve evaluator, GLJ Petroleum Consultants ("GLJ"). The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on GLJ's evaluation of the Group's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The after-tax discount rates applied in the impairment calculation as at December 31, 2019 was 8.25% (2018: 8.25%) based on the specific risk to the assets.

For the year ended December 31, 2019 and 2018, the Group did not recognize an impairment loss based on its assessment that the estimated recoverable amount exceeded the carrying value.

Year	Oilfield Costs Inflation %	Exchange 1 CAD = x USD	WTI @Cushing $US/bbl	WCS @ Hardisty $/bbl	Heavy Oil 12 API @Hardisty $/bbl	AECO Spot ($/MMbtu)
2020	2	0.76	61.00	57.89	50.92	2.08
2021	2	0.77	63.00	61.04	54.58	2.35
2022	2	0.78	66.00	64.10	57.33	2.55
2023	2	0.78	68.00	66.67	59.71	2.65
2024	2	0.78	70.00	69.23	62.27	2.75
2025	2	0.78	72.00	71.79	64.83	2.85
2026	2	0.78	74.00	74.36	67.40	2.91
2027	2	0.78	75.81	76.68	69.72	2.97
2028	2	0.78	77.33	78.63	71.67	3.03
2029	2	0.78	78.88	80.62	73.65	3.09
2029+	escalate oil, gas and product prices at 2% per year thereafter					

Income Taxes

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three and twelve months ended December 31, 2019 and 2018. 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 December 31, 2019, the Company had total available tax deductions of approximately $1.21 billion, with unrecognized tax losses that expire between 2029 and 2038.

Liquidity and Capital Resources

	December 31, 2019	December 31, 2018
Working capital deficiency	$ 506,310	$ 461,341
Shareholders' equity	175,755	251,953
	$ 682,065	$ 713,294

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"). 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 USD $11.2 million of Senior Notes 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 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 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 is to obtain financing of at least USD $5.0 million by April 30, 2019 to maintain sufficient liquidity.

As at the date of this report, the Company is in negotiation with the noteholders on further forbearance.

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

The Note Indenture allows the Company to incur additional indebtedness in an aggregate principal amount not to exceed US$5.0 million (the "Permitted Debt"). The Company had asked for consent from a majority note holders, effective as of April 14, 2016, to amend the Note Indenture to increase the amount of Permitted Debt from US$5.0 million to US$15.0 million. A majority of the Note holders agreed to this amendment as of May 11, 2016. As of December 31, 2019, the Company had incurred unsecured third party debt for a total of US$24.3 million (CDN$31.6 million equivalent). (Permitted Debt limit is US$15.0 million.)

The Group has presented the Notes, Loans and Bonds as a current liability on the Audited consolidated financial statements of Financial Position as at December 31, 2019.

On or around February 27, 2019, Company was required to pay CAD$0.7M into the Alberta Court of Queen's Bench and which amount was subsequently released from Court on or about October 15, 2019 in satisfaction of the creditor's judgment. The judgment is under appeal by the Company. On June 19, 2019, the Company received another notice from the Alberta Court of Queen's Bench. As a result, CAD$0.54 million of cash was to be put aside for creditor repayment subsequent to the year end. The court case was then dismissed.

The Group received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016-2019 municipal property taxes of $9.45 million. The Group was also charged with overdue penalties of $3.74 million. Since then the Group was in active negotiation with RMWB for a settlement plan with proposals to waive overdue penalties. As at the date of this report, the Group believes that notices issued by RMWB relating to property taxes did not comply with relevant legislation and the Group has sought judicial review to determine the effect of non-compliant tax notices on RMWB's property tax claim.

The Group 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 Group'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 Group determines that the loss is probable and the amount can be reasonably estimated. The Group believes it has made adequate provision for such claims. While fully supportable in the Group's view, some of these positions, if challenged may not be fully sustained on review. From time to time, the Group receives liens or claims on accounts payable balances, and the Group continues to work toward resolution of any liens or claims, as noted in note 8. At December 31, 2019, the Group had incurred $4.46 million (US $3.37 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 = $1.2988 CAD.

The Group's strategy is to access sufficient capital, through equity issuances, monetization, joint ventures and the utilization of debt, in order to maintain a capital base that properly supports the objectives of maintaining financial flexibility and of sustaining future development of the business. The Group manages its capital structure in order to continue as a going concern and makes adjustments relative to changes in economic conditions and the Group's risk profile. In order to manage risk, the Group may from time to time issue shares and adjust its capital spending to manage current working capital deficiency levels. The Group's liquidity may be adversely affected if the Group's access to the capital markets is hindered because of financial market conditions generally, or as a result of conditions specific to the Group.

For the three and twelve months ended December 31, 2019, the Group reported a net loss of $26.6 million and $80.6 million, respectively. At December 31, 2019, the Group had a working capital deficiency of $506.3 million including senior notes of $258.0 million and an accumulated deficit of $1,196.6 million.

The Group's debt-to-asset ratio, measured on the basis of total liabilities divided by total assets was 77% as at December 31, 2019, compared to 68% as at December 31, 2018.

The Group is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, other receivables, trade payables and long term debt which are denominated in United States dollars ("USD") and Hong Kong dollars ("HKD"). The Group manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or United States vendors as well as timing of transactions. The Group had no forward exchange rate contracts in place as at or during the year ended December 31, 2019 (2018: Nil).

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 December 31, 2019 would have been impacted by $Nil (2018: $Nil) and the carrying value of the debt at December 31, 2019 would have been impacted by $2.7 million (2018: $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 December 31, 2019 would have been impacted by $Nil (2018: $Nil) and the carrying value of the debt at December 31, 2019 would have been impacted by $0.17 million (2018: $0.05 million).

Commitments and Contingencies

Management estimated the contractual maturities of the Group's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. For a detailed discussion regarding to the Group's commitments and contingencies, please refer to the Group's Audited consolidated financial statements and notes thereto for the three and twelve months period ended December 31, 2019 and with the Audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2018.

Transactions with Related Parties

For the twelve months ended December 31, 2019, a consulting Group, to which a director of Sunshine is related, charged the Group $0.5 million (December 31, 2018 – $0.6 million) for management and advisory services.

On March 25, 2019, the Group 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 of December 31, 2019, Mr. Kwok Ping Sun, the Group's Executive Chairman, has beneficial ownership of, or control or direction of 1,790,427,000 common shares of the Group that represents approximately 27.95% of the Group's outstanding common shares.

As at December 31, 2019, the Company had loans from shareholders which are unsecured, interest bearing at 10% per annum, and of which approximately CAD $12,622,000 can be rollover for a period of 3 to 6 months and approximately CAD $4,383,000 is repayable in 2 years..

Off-balance Sheet Arrangements

The Group 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 Group's balance sheet. As at December 31, 2019, the Group did not have any other off-balance sheet arrangements.

Subsequent Events

On January 3, 2020, the Board proposed to implement the 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 Corporation immediately following the Share Consolidation was rounded down to a whole number by cancelling any fractional Shares of the Corporation 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 10, 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.

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 Group adopted IFRS 2 on January 1, 2018 and did not have a material impact on the Group's Audited consolidated 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 Group 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 Group requires additional disclosures to disclose disaggregated revenue by product type which is presented in the Audited consolidated financial statements in Note 15.

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 Group'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 Group adopted IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 has three principal classification 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 Group’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 Group’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 Group’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 Group’s Audited consolidated financial statements .

In January 2016, the IASB issued IFRS 16 Leases (“IFRS 16”), which replaces the existing IFRS guidance on leases: IAS 17 Leases (“IAS 17”). Under IAS 17, lessees were required to determine if the lease is a finance or operating lease, based on specified criteria of whether the lease transferred significantly all the risks and rewards associated with ownership of the underlying asset. Finance leases are recognized on the balance sheet while operating leases are recognized in the Consolidated Statements of Income when the expense is incurred. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for most lease contracts. The recognition of the present value of minimum lease payments for certain contracts previously classified as operating leases resulted in increases to assets, liabilities, depreciation and amortization, and interest expense.

The Group adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Group’s financial statements are not restated.

On adoption, lease liabilities were measured at the present value of the remaining lease payments discounted using the Group’s incremental borrowing rate on January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability. For leases previously classified as operating leases, the Group 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 Group’s critical accounting estimates are those estimates having a significant impact on the Group’s financial position and operations and that require management to make judgments, assumptions and estimates in the application of IFRS. Judgements, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgements, assumptions and estimates may be subject to change.

For a detailed discussion regarding to the Group’s critical accounting policies and estimates, please refer to the Group’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 Group, their potential impact and the Group's principal risk management strategies are substantially unchanged from those disclosed in the Group's MD&A for the year ended December 31, 2019, which is available at www.sedar.com. The 2019 annual report of the Group will be available at the Group's website at www.sunshineoilsands.com, and the website of the SEHK, www.hkexnews.hk. The Group'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 Group is made known to the Group'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 Group in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at December 31, 2019, the Chief Executive Officer and the Chief Financial Officer evaluated the design and operation of the Group's DC&P. Based on that evaluation, the Executive Director of the Board and Chief Executive Officer and the Chief Financial Officer concluded that the Group's DC&P were effective as at December 31, 2019.

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 Group's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Furthermore, the Group used the criteria established in "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework); they have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Group's ICFR at December 31, 2019, and concluded that the Group's ICFR are effective at December 31, 2019 for the foregoing purpose.

No material changes in the Group's ICFR were identified during the three months and year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Group's ICFR. It should be noted that a control system, including the Group's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

ADVISORY SECTION

Non-GAAP Measures

This MD&A includes references to certain measures which do not have a standardized meaning as prescribed by IFRS, such as "operating netbacks" and "Cash flow used in operations", and therefore are considered non-GAAP measures. These non-GAAP measures are commonly used in the oil and gas industry and the Group believes including such measures is useful to investors. Investors are cautioned that these non-GAAP measures should not be construed as an alternative to measures calculated in accordance with IFRS as, given the non-standardized meanings, these measures may not be comparable to similar measures presented by other issuers.

Cash Flow Used in Operations

Cash flow used in operations is non-GAAP measure utilized by the Group to analyze operating performance and liquidity. Cash flow used in operations excludes the net change in non-cash operating working capital and decommissioning expenditures while the IFRS measurement "Net cash used in operating activities" includes these items. Cash flow used in operations is reconciled to Net cash used in operating activities in the table below:

	For the three months ended December 31,		For the twelve months ended December 31,	
($ thousands)	2019	2018	2019	2018

Net cash used in operating activities	$	(8,917)	$	(8,107)	$	(18,350)	$	(21,934)
Add (deduct)								
Net change in non-cash operating working capital items		7,451		(1,374)		7,660		(946)
Cash flow used in operations	$	(1,466)	$	(9,481)	$	(10,690)	$	(22,880)

Forward-Looking Information

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

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

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

Additional Stock Exchange Information

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

Code of Corporate Governance Practice (the "Code")

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

The Group 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 Group has not entered into formal letters of appointment with its Directors. Consistent with the market practice in Canada, each of the Group's Directors are appointed on an annual basis by the shareholders of the Group at each annual general meeting. This is a deviation from D.1.4 of the Code.

- The Group has established the Corporate Governance Committee ("CG Committee") which perform the same functions as a nomination committee as quoted in the Code. During the period under review, following the retirement of Ms. Joanne Yan's after the annual general meeting held on June 24, 2019 (Hong Kong time) and the passing away of Mr. Raymond Shengti Fong per the announcement dated June 23, 2019 (Hong Kong time), the Group deviated from the Code A.5.1 and the CG Committee's terms of reference that requires its membership should be comprised of a majority of independent non-executive directors. The Group re-complied with this Code through the appointment of Mr. Guangzhong Xing and Mr. Alfa Li as members of the CG Committee on June 25, 2019 and July 29, 2019 respectively.

The Group received a notification from PricewaterhouseCoopers LLP on September 17, 2019 confirming that the cessation of its client-auditor relationship with the Group due to recent regulatory change in Hong Kong with respect to auditors of overseas entities listed in Hong Kong. PricewaterhouseCoopers LLP advised that it believed that it would be appropriate for a Hong Kong based auditor to take up the engagement. PricewaterhouseCoopers LLP has confirmed that it has no disagreement with the Board and there are no other matters connected with its resignation that need to be brought to the attention of the shareholders and the creditors of the Group. The Board and its audit committee also confirmed the same. On February 21, 2020, The Group has subsequently appointed ZhongHui Anda CPA Limited as its auditor to fill the casual vacancy and to hold office until the conclusion of the next annual general meeting of the Group.

Compliance with the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”)

The Group confirms that it has adopted the Model Code, as set out in Appendix 10 to the Hong Kong Listing Rules, following its public listing. Having made specific enquiries with all directors, the directors have confirmed and compiled with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions.

Movements in Stock Options

The table below presents the movements in stock options for Directors, the chief executive and other executive management of the Group during the period ended December 31, 2019.

Name	December 31, 2018	Granted	Exercised	Forfeited	Expired	December 31, 2019
Kwok Ping Sun	346,679,000	-	-	-	-	346,679,000
Michael Hibberd	46,679,000	-	-	-	-	46,679,000
Hong Luo(1)	23,000,000	-	-	(23,000,000)	-	-
Gloria Ho	20,000,000	-	-	-	-	20,000,000
Raymond Fong(2)	2,500,000	-	-	(2,500,000)	-	-
Yi He	2,500,000	5,000,000	-	-	-	7,500,000
Joanne Yan(3)	2,500,000	-	-	(2,500,000)	-	-
Linna Liu	-	-	-	-	-	-
Jeff Jingfeng Liu(4)	-	-	-	-	-	-
Xijuan Jiang	1,000,000	-	-	-	-	1,000,000
Guangzhong Xing (5)	-	5,000,000	-	-	-	5,000,000
Alfa Li (6)	-	-	-	-	-	-
Sub-total for Directors	444,858,000	10,000,000	-	(28,000,000)	-	426,858,000
Sub-total for other share option holders	46,147,881	-	-	(7,918,107)	(6,803,332)	31,426,442
Total	491,005,881	10,000,000	-	(35,918,107)	(6,803,332)	458,284,442

1. Mr. Hong Luo ceased to be the non-executive Director of the Group on June 3, 2019.
2. Per the Group’ 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 Group at the AGM held on June 24, 2019.
4. Mr. Jeff Jingfeng Liu ceased to be independent non-executive Director of the Group on March 7, 2019.
5. Mr. Guangzhong Xing was appointed to be independent non-executive Director of the Group on June 25, 2019.
6. Mr. Alfa Li was appointed to be independent non-executive Director of the Group on July 29, 2019.

Please refer to our consolidated financial statements included in the 2019 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2019.

Fair Value of Share Options Granted

The weighted average fair value of the share options granted for the period ended December 31, 2019 was $0.012 (year ended December 31, 2018 - $0.04). Options were valued using the Black-Scholes model. Where relevant, the expected life used in the model has been adjusted based on management’s best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioral considerations. Expected volatility is based on the historical share price volatility of the Group during 2019 and 2018.

The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted for the year ended December 31, 2019 and December 31, 2018.

Input Variables	December 31, 2019	December 31, 2018
Grant date share price ($)	0.012	0.04
Exercise Price ($)	0.012	0.04
Expected volatility (%)	63.91	61.87
Option life (years)	2.84	2.88
Risk-free interest rate (%)	1.48	1.95
Expected forfeitures (%)	15.39	15.39

Purchase, Sale or Redemption of Sunshine's Listed Securities

Class "A" Common Shares

General mandate

On May 15, 2019, the Board of the Group 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 Group 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 were used to financing general working capital and capital expenditures for West Ells.

On August 9, 2019 the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 December 31, 2019 the Group has 6,405,581,506 Class "A" common shares issued and outstanding.

Employees

As at December 31, 2019, the Group has 52 full-time employees. For the three and twelve months ended December 31, 2019, total staff costs amounted to $1.4 million and $6.2 million, respectively.

Dividends

The Group has not declared or paid any dividends in respect of the year ended December 31, 2019 (year ended December 31, 2018 - $Nil).

Review of Annual Results

The audited consolidated financial statements for the Group for the three and twelve months ended December 31, 2019, were reviewed by the Audit Committee of the Group 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 Group's website at www.sunshineoilsands.com.

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

Outlook

Sunshine intends to continue to focus on cost controls and on carefully improving production at West Ells. The Group intends to ramp up production when the heavy oil pricing environment improves. 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 Group sees potential significant benefits resulting from re-activation of the Muskwa and Godin Area activities.