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SUNSHINE OILSANDS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2021

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("Sunshine" or the "Company") for the three and six months ended June 30, 2021 is dated August 12, 2021, and approved by the Company's Board of Directors. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three and six months period ended June 30, 2021 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2020. 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, 2020 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 June 30, 2021, the Company had invested approximately $1.29 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at June 30, 2021, the Company had $0.26 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 and six months ended June 30, 2021, the Company's average bitumen production was zero bbls/day. The bitumen is blended with diluent as part of the production process to create the marketable "Dilbit" blend product. For the six months ended June 30, 2021, no diluent blending was made due to temporary suspension of production, whereas diluent was blended at 19.8% volumetric rate for the six months ended June 30, 2020 reflecting the blending ratio in 1Q20. The average Dilbit sales volume was 0 bbls/day and 14 bbls/day for the three and six months ended June 30, 2021.

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 2021. 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 report, Muskwa has no production. Development of Muskwa area is expected to be reactivated in 2021 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)	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Bitumen sales (bbl/d)	-	22	-	-	-	871	1,657	2,130
Petroleum sales	-	144	78	266	-	3,840	9,192	12,691
Royalties	-	-	-	-	-	6	94	179
Diluent	-	-	-	560	46	1,236	3,133	3,345
Transportation	-	43	-	151	(4)	2,379	2,933	4,561
Operating costs	1,594	1,825	1,518	1,584	1,940	4,679	3,027	4,765
Finance cost	11,712	13,422	11,304	13,998	(6,501)	6,149	26,448	8,290
Net loss/(gain)	22,789	2,688	(41,190)	12,028	(14,591)	41,770	43,530	19,140
Per share - basic and diluted	0.14	0.02	(0.02)	0.09	0.16	0.32	0.64	0.33
Capital expenditures[1]	486	428	450	294	431	299	654	549
Total assets	753,425	756,209	761,660	766,750	771,561	773,605	760,658	775,818
Working capital deficiency[2]	535,469	513,103	509,044	538,179	260,532	262,004	515,555	488,052
Shareholders' equity	148,756	162,509	165,420	141,463	153,514	134,418	158,885	201,204

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

	For the three months ended June 30,		For the six months ended June 30,	
($ thousands, except $/bbl)	2021	2020	2021	2020
Realized bitumen revenue	$ -	$ (46)	$ 144	$ 2,558
Transportation	-	4	(43)	(2,375)
Royalties	(1)	-	(1)	(6)
Net bitumen revenues	$ (1)	$ (42)	$ 100	$ 177
Operating costs	(1,602)	(1,940)	(3,427)	(6,619)
Operating cash flow	$ (1,603)	$ (1,982)	$ (3,327)	$ (6,442)
Operating netback ($ / bbl)	N/A	N/A	(1,361.29)	(81.30)

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

The Operating cash flow for the three months ended June 30, 2021 was a net loss of $1.6 million compared to a net loss of $2.0 million for the three months ended June 30, 2020. There was no disclosure on operating netback per barrel for 2Q21 & 2Q20 as there was zero dilbit sales after the temporary suspension of production since 31 March 2020.

The Operating cash flow for the six months ended June 30, 2021 was a net loss of $3.3 million compared to a net loss of $6.4 million for the six months ended June 30, 2020. Operating netback loss per barrel basis increased by $1,279.99/bbl to $1,361.29/bbl from a loss of $81.30/bbl. The increase in the loss of operating cash flow per barrel is primarily due to significant decrease in dilbit sales volume.

Bitumen Production

	For the three months ended June 30,		For the six months ended June 30,	
(Barrels/day)	2021	2020	2021	2020
Bitumen production	-	-	-	497

Bitumen production at West Ells for the three and six months ended June 30, 2021 averaged 0 bbls/day compared to 0 bbls/day and 497 bbls/day for the three and six months ended June 30, 2020, respectively. No bitumen production for the three months ended June 30, 2021 and 2020. For the six months ended June 30, 2021, bitumen production decreased by 497 bbls/day compared to the same period in 2020 mainly due to temporary production suspension since 31 March 2020. The Company will continue to monitor the international oil market and the development of Covid-19 pandemic in North America closely.

Bitumen Sales

	For the three months ended June 30,		For the six months ended June 30,	
(Barrels/day)	2021	2020	2021	2020
Bitumen Sales	-	-	11	435

Bitumen sales at West Ells for the three and six months ended June 30, 2021 averaged 0 bbls/day and 11 bbls/day compared to 0 bbls/day and 435 bbls/day for the three and six months ended June 30, 2020, respectively. Bitumen sales decreased by 424 bbls/day for the six months ended June 30, 2021 compared to the same period in 2020 due to temporary suspension of production since 31 March 2020.

Petroleum Sales, net of royalties

	For the three months ended June 30,		For the six months ended June 30,	
($ thousands, except $/bbl)	2021	2020	2021	2020
Petroleum sales	$ -	$ -	$ 144	$ 3,840
Royalties	-	-	(1)	(6)
Petroleum sales, net of royalties	$ -	$ -	$ 143	$ 3,834
$ / bbl	N/A	N/A	58.75	48.37

Petroleum sales are from the sales of Dilbit. There was no disclosure on the petroleum sales per barrel for 2Q21& 2Q20 as there was zero dilbit sales after the temporary suspension of production since 31 March 2020.

Petroleum sales, net of royalties for the six months ended June 30, 2021 decreased by $3.7 million to $0.1 million from $3.8 million for the six months ended June 30, 2020. Petroleum sales per barrel increased by $10.38/bbl to $58.75/bbl from $48.37/bbl for the same period of 2020 due to year on year increase in oil price. Petroleum sales decreased by $3.7 million primarily due to temporary suspension of production since March 31, 2020.

The royalty rate applicable to pre-payout oil sands operations starts at 1% of bitumen sales and increases for every dollar that the WTI crude oil price in Canadian dollars is priced above $55 per barrel, to a maximum of 9% when the WTI crude oil price is $120 per barrel or higher. The West Ells project is currently at pre-payout. Royalties for the six months ended June 30, 2021 decreased by $0.005 million compared to the same period of 2020. The decreases are mainly due to significant decrease of Dilbit sales resulting from temporary suspension of production since 31 March 2020.

Bitumen Realization

	For the three months ended June 30,		For the six months ended June 30,	
($ thousands, except $/bbl)	2021	2020	2021	2020
Dilbit revenue	$ -	$ -	$ 144	$ 3,840
Diluent blended	-	(46)	-	(1,282)
Realized bitumen revenue[1]	$ -	$ (46)	$ 144	$ 2,558
($ / bbl)	N/A	N/A	58.75	32.27

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.

There was no disclosure on the bitumen realization per barrel for 2Q21 & 2Q20 as there was zero dilbit sales after the temporary suspension of production since 31 March 2020.

During the six months ended June 30, 2021, the Company's bitumen realization revenue decreased by $2.4 million to $0.1 million from $2.6 million for the same period in 2020. The bitumen realized price per barrel increased by $26.65/bbl to $58.92 /bbl from $32.27/bbl.

Diluent Costs

($ thousands, except $/bbl and blend ratio)	For the three months ended June 30, 2021	For the three months ended June 30, 2020	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Diluent	$ -	$ 46	$ -	$ 1,282
$/bbl	N/A	N/A	-	16.18
Blend ratio	N/A	N/A	N/A	19.8%

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.

There was no disclosure on the diluent cost per barrel for 2Q21 as there was zero dilbit sales after the temporary suspension of production since 31 March 2020. Diluent costs decreased by $1.3 million for the six months ended June 30, 2021 and 2020 was mainly due to temporary suspension of production since 31 March 2020.

Transportation

($ thousands, except $/bbl)	For the three months ended June 30, 2021	For the three months ended June 30, 2020	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Transportation	$ -	$ (4)	$ 43	$ 2,375
$ / bbl	N/A	N/A	17.56	29.97

Transportation costs consist of trucking costs for Dilbit and pipeline terminals fees. The transportation expense per barrel for the six months ended June 30, 2021 was $17.56/bbl compared to $29.97/bbl for the six months ended June 30, 2020, respectively. There was no disclosure on the transportation cost per barrel for 2Q21& 2Q20 as there was zero dilbit sales after the temporary suspension of production since 31 March 2020. The decrease in the transportation cost per barrel for the six months ended June 30, 2021 and 2020 was mainly due to decreased rates charged by the third party trucking companies.

Operating Costs

($ thousands, except $/bbl)	For the three months ended June 30, 2021	For the three months ended June 30, 2020	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Energy operating costs	$ 575	$ 327	$ 1,236	$ 1,312
Non-energy operating costs	1,027	1,613	2,191	5,307
Operating costs	$ 1,602	$ 1,940	$ 3,427	$ 6,619
$ / bbl	N/A	N/A	1,402.21	83.52

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.

There was no disclosure on the operating expense per barrel for 2Q21 & 2Q20 as there was zero dilbit sales after the temporary suspension of production since 31 March 2020. For the six months ended June 30, 2021, the operating costs per barrel increase by $1,318.69/bbl compared to the same period in 2020 primarily due to the no production since March 31, 2020. 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 resumes at West Ells.

General and Administrative Costs

	Three months ended June 30, 2021		Six months ended June 30, 2021	2020
	2021	2020	2021	2020
Salaries, consultants and benefits	$ 816	$ 1,224	$ 1,783	$ 2.758
Rent	53	69	107	78
Legal and audit	174	117	443	245
Other	238	582	525	1,283
Balance, end of period	$ 1,279	$ 1,992	$ 2,858	$ 4,364

The Company's general and administrative costs were $1.2 million and $2.9 million for the three and six months ended June 30, 2021 compared to $2.0 million and $4.4 million for the same periods in 2020. General and administrative costs decreased by $0.7 million and $1.5 million for the three and six months ended June 30, 2021 compared to the same periods in 2020 primarily due to workforce reductions as a result of temporary suspension of production since March31, 2020 and the Company's continued focus on cost management.

Finance Costs

	For the three months ended June 30,		For the six months ended June 30,	
($ thousands)	2021	2020	2021	2020
Interest expense on senior notes, including yield maintenance premium (YMP)	$ 10,053	$ (7,992)	$ 20,312	$ (3,122)
Interest expense on other loans	1,387	831	2,866	1,767
Financing related costs	-	32	-	34
Other interest expense	33	14	1,515	29
Other interest expense-leases	11	35	51	77
Unwinding of discounts on provisions	228	579	390	863
Finance costs	$ 11,712	$ (6,501)	$ 25,134	$ (352)

The Company's finance costs were 11.7 million and 25.1 million for the three and six months ended June 30, 2021 compared to ($6.5) million and ($0.4) million for the three and six months ended June 30, 2020. The increases for both periods were mainly attributed to interest expense on senior notes including YMP.

Share-based Compensation

			Three months ended June 30, 2021			**Three months ended June 30, 2020**
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	$ 1	$ -	$ 1	$ 127	$ -	$ 127

			Six months ended June 30, 2021			**Six months ended June 30, 2020**
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	$ 2	$ -	$ 2	$ 254	$ -	$ 254

Share-based compensation expense for the three and six months ended June 30, 2021 was $0 million and $0 million compared to $0.1 million and $0.3 million for the same periods in 2020. 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, Depreciation and Impairment

	For the three months ended June 30,		For the six months ended June 30,	
($ thousands, except $/bbl)	2021	2020	2021	2020

Depletion	$ -	$ -	$ -	$ 2,058
Depreciation	282	354	580	778
Depletion and depreciation	$ 282	$ 354	$ 580	$ 2,836
Depletion ($ / bbl)	N/A	N/A	N/A	25.97

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 $0.3 million and $0.6 million for the three and six months ended June 30, 2021 compared to $0.4 million and $2.8 million for the three and six months ended June 30, 2020, respectively. Depletion and depreciation expense decreased by $2.3 million for six months ended June 30, 2021 and 2020 was mainly due to no depletion in 2021 YTD & 2Q 2020 resulting from temporary suspension of production since March 31, 2020.

As at June 30, 2021, the Company did not identify any indicators of further impairment (or reversal of the previous impairments recorded in previous years) of the E&E Assets or the West Ells CGU.

Income Taxes

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses, for the three and six months ended June 30, 2021 and 2020. Recognition of tax losses is based on the Company's consideration of its internal development plan for its asset base and the assumption as to whether or not these tax losses will be utilized before their expiry dates. At June 30, 2021, the Company had total available tax deductions of approximately $1.72 billion, with unrecognized tax losses that expire between 2030 and 2039.

Liquidity and Capital Resources

	June 30, 2021	December 31, 2020
Working capital deficiency	$ 535,469	$ 509,044
Shareholders' equity	148,756	165,420
	$ 684,225	$ 674,464

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.

On February 5, 2021 (Calgary time), the Company and the Forbearing Holders entered into an interest waiver agreement (the “Interest Waiver Agreement”) pursuant to which the Forbearing Holders agree to unconditionally and irrevocably waive the interest accrued between January 1, 2020 to December 31, 2020 at 10.0% per annum on the outstanding amounts (principal and interests) under the FRAA dated April 24, 2020 (the “Waiver of Interest”) which amounted to US$31.5 million. Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.

On August 8, 2021, the Company and the Forbearing Holder 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 September 1, 2021 to August 31, 2023 (“Period of Forbearance);
- Same as the Forbearance Reinstatement and Amending Agreement executed on April 24, 2020, all outstanding amounts (principal and interests) will continue to be accrued at an interest of 10% per annum until August 31, 2023, 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 June 30, 2021, the Company has incurred unsecured third party Debt for a total of US$36.9 million (CAD$46.4 million equivalent).

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 June 30, 2021. 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 2016-2021 municipal property taxes of $11.7 million. The Group was also charged with overdue penalties of $6.7 million. Since then the Group was in active negotiation with RMWB for a settlement plan with proposals to waive overdue penalties. As at the date of this report, the Group believes that notices issued by RMWB relating to property taxes did not comply with relevant legislation and the Group has sought judicial review to determine the effect of non-compliant tax notices on RMWB’s property tax claim.

The Company is involved in various claims including claims described above and actions arising in the course of operations and is subject to various legal actions, pending claims and exposures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. Unfavorable outcome were to occur against such claims or pending claims, there exists the possibility of a material adverse impact on the Company’s consolidated net income or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such claims. While fully supportable in the Company’s view, some of these positions, if challenged may not be fully sustained on review. From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At June 30, 2021, the Company had incurred $0.82 million in Builders’ liens (not related mineral leases) against them during the ordinary course of business.

The Notes are translated into Canadian dollars at the period end exchange rate of $1 USD = $1.2394 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 six months ended June 30, 2021, the Company reported a net loss including non-controlling interest of $22.8 million. At June 30, 2021, the Company had a working capital deficiency of $535.5 million.

The Company’s debt-to-asset ratio, measured based on total liabilities divided by total assets was 80% as at June 30, 2021, compared to 78% as at December 31, 2020.

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 six months ended June 30, 2021.

If exchange rate to convert from USD to CAD had been one percent higher or lower with all other variables held constant, foreign cash held at June 30, 2021 would have been impacted by $Nil (2020: $Nil) and the carrying value of the debt at June 30, 2021 would have been impacted by $2.46 million (2020: $2.9 million).

If exchange rate to convert from HKD to CAD had been one percent higher or lower with all other variables held constant, foreign cash held at June 30, 2021 would have been impacted by $Nil (2020: $Nil) and the carrying value of the debt at June 30, 2021 would have been impacted by $0.33 million (2020: $0.23 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 to the Company's Unaudited Condensed Consolidated interim Financial Statements and notes thereto for the three and six months period ended June 30, 2021 and with the Audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2020.

Transactions with Related Parties

For the six months ended June 30, 2021, a consulting Company, to which a director of Sunshine is related, charged the Company $0.25 million (December 31, 2020 – $0.5 million) for management and advisory services*.*

As at 30 June 2021, Mr. Kwok Ping Sun, the Company’s Executive Chairman, has beneficial ownership of, or control or direction of 150,232,591 common shares of the Company, which represents approximately 61.70% of the Company’s outstanding common shares.

On April 1, 2020, the Company and a company wholly owned by Mr. Kwok Ping Sun 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 were to be allotted and issued upon the full conversion of the CB. The CB interest rate was 8% per annum and matures in two years. The Subscription has been approved by the independent shareholders at the Special General Meeting on 25 May 2020. The subscription was completed on 15 June 2020. The entire proceeds were used for financing general working capital and repayment of debts. On October 1, 2020, the Company has received notice for conversion from the Subscriber. The Whitewash Waiver has been conditionally granted by HKSFC on 4 March 2021. The Conversion and the Whitewash Waiver was then approved by the independent shareholders at the Special General Meeting on 5 March 2021. On April 7, 2021, the Conversion was completed and 113,924,051 new shares were duly allotted and issued to the Subscriber.

As at June 30, 2021, the Company had loans from related companies, which are unsecured, interest bearing at 10% per annum, and of which approximately CAD $38,227,000 can be rollover for a period of 3 to 12 months.

Off-balance Sheet Arrangements

No asset or liability value was assigned to these agreements on the Company’s balance sheet. As at June 30, 2021, the Company did not have any other off-balance sheet arrangements.

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, 2020, 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, 2020.

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 2020 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, 2020, which is available at www.hkexnews.hk. The 2020 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.

Disclosure Controls and Procedures

Gloria Ho, Executive Director of the Board and Chief Financial Officer and Mr. Frank Ng, who temporarily assumes direct responsibility for all CEO tasks and functions, have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Group is made known to the Group's CFO by others, particularly during the period in which the annual and quarterly filings are being prepared; and (ii) information required to be disclosed by the Group in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at June 30, 2021, the Chief Financial Officer and the interim Chief Executive Officer evaluated the design and operation of the Group's DC&P. Based on that evaluation, the Executive Director of the Board and the Chief Financial Officer and the interim Chief Executive Officer concluded that the Group's DC&P were effective as at June 30, 2021.

Internal Controls over Financial Reporting

Gloria Ho, Executive Director of the Board and Chief Financial Officer and Mr. Frank Ng, who temporarily assumes direct responsibility for all CEO tasks and functions, have designed, or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Group's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Furthermore, the Group used the criteria established in "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework); they have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Group's ICFR at June 30, 2021, and concluded that the Group's ICFR are effective at June 30, 2021 for the foregoing purpose.

No material changes in the Company's ICFR were identified during the six months period ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

ADVISORY SECTION

Non-GAAP Measures

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

Cash Flow Used in Operations

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

	For the three months ended June 30,		For the six months ended June 30,	
($ thousands)	2021	2020	2021	2020
Net cash used in operating activities	$ (2,054)	$ (3,188)	$ (4,874)	$ (9,094)
Deduct (add) Net change in non-cash operating working capital items	830	1,221	1,313	1,736
Cash flow used in operations	$ (2,884)	$ (4,409)	$ (6,187)	$ (10,830)

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

(i) 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. Nevertheless, 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.

(ii) The Company is in course of identifying suitable insurers for appropriate insurance coverage for legal actions against the Company's Directors.

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

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

Movements in Stock Options

The table below presents the movements in stock options for Directors, the chief executive and other executive management of the Company during the period ended June 30, 2021.

Name	December 31, 2020	Granted	Exercised	Forfeited	Expired	June 30, 2021
Kwok Ping Sun	6,933,580	-	-	-	-	6,933,580
Michael Hibberd	933,580	-	-	-	-	933,580

Gloria Ho	400,000	-	-	-	-	400,000
Yi He	150,000	-	-	-	-	150,000
Linna Liu	-	-	-	-	-	-
Xijuan Jiang	20,000	-	-	-	-	20,000
Guangzhong Xing	100,000	-	-	-	-	100,000
Alfa Li	-	-	-	-	-	-
Sub-total for Directors	8,537,160	-	-	-	-	8,537,160
Sub-total for other share option holders	518,841	-	-	(3,208)	-	515,633
Total	9,056,001	-	-	(3,208)	-	9,052,793

Please refer to our consolidated financial statements included in the 2020 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2020.

Fair Value of Share Options Granted

The weighted average fair value of the share options granted for the period ended June 30, 2021 was 0.60-2.00 (year ended December 31, 2020 - $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 2021 and 2020.

The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted for the six months ended June 30, 2021 and year ended December 31, 2020.

Input Variables	**Six month period ended June 30, 2021**	**Year ended December 31, 2020**
Grant date share price ($)	0.60-2.00	0.60-2.00
Exercise Price ($)	0.60-2.00	0.60-2.00
Expected volatility (%)	61.88-63.91	61.88-63.91
Option life (years)	1.88-2.47	1.32-2.50
Risk-free interest rate (%)	1.48-1.95	1.48-1.95
Expected forfeitures (%)	15.39-15.39	15.39-15.39

Purchase, Sale or Redemption of Sunshine's Listed Securities

Class "A" Common Shares

General mandate

2021 activity

In relation to the "Chairman CB" issued on June 15, 2020 (see "2020 activity" for details), Mr. Kwok Ping Sun has made application to the Securities & Futures Commission of Hong Kong ("HKSFC") for a Whitewash Waiver. The Whitewash Waiver was conditionally granted by HKSFC on March 4, 2021. The Conversion and the Whitewash Waiver was then approved by the independent shareholders at the Special General Meeting on March 5, 2021. On April 7, 2021, the Conversion was completed and 113,924,051 new shares were duly allotted and issued to the Subscriber.

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.

On April 1, 2020, the Company and a wholly owned company held by Mr. Kwok Ping Sun entered into a Subscription Agreement for convertible bonds ("Chairman 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 has been approved by the independent shareholders at the Special General Meeting on 25 May 2020. The subscription was subsequently completed on 15 June 2020. The entire proceeds will be used for financing its general working capital and repayment of debts. On October 1, 2020, the Company has received notice for conversion from the Subscriber.

Shares Outstanding

As at June 30, 2021, the Company had 243,478,681 Class "A" common shares issued and outstanding.

Employees

As at June 30, 2021, the Company has 22 full-time employees. For the three and six months ended June 30, 2021, total staff costs amounted to $1.0 million and $1.9 million, respectively.

Dividends

The Company has not declared or paid any dividends in respect of the six months period ended June 30, 2021 (six months period ended June 30, 2020 - $Nil).

Review of Interim Results

The condensed consolidated interim financial statements for the Company for the three and six months ended June 30, 2021, 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 as well as the development of COVID-19 pandemic in North America. The Corporation is also continuing with its joint venture for re-activation of the Muskwa and Godin Area activities as international oil price recovers.