



阳光油砂

SUNSHINE OILSANDS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2023



Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("Sunshine" or the "Company") for the three and nine months ended September 30, 2023 is dated November 9, 2023 (Calgary time) / November 10, 2023 (Hong Kong time) and approved by the Company's Board of Directors. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three and nine months period ended September 30, 2023 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2022. All amounts and tabulated 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 0.91 billion barrels of risked best estimate contingent resources. The Company's un-risked best estimate contingent resources at December 31, 2022 was approximately 1.53 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 bbls/day Phase II to the Project. On March 1, 2017, the West Ells Phase I commenced commercial production.

As at September 30, 2023, the Company had invested approximately \$1.28 billion in oil sands leases, drilling operations, project engineering, procurement and construction, operation start-up, regulatory application processing and other assets. As at September 30, 2023, the Company had \$0.69 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 Project commenced commercial production. Hence, effective March 1, 2017, the Company started recording revenue, royalties, expenses and depletion of the West Ells Project. On March 31, 2020, the Board has decided to temporarily suspend production due to volatility in the international crude oil market, severe decline in crude oil prices, and having considered the fact that the Company's West Ells production equipment and road need repair, coupled with the outbreak of COVID-19 in Canada. On April 11, 2022, the Company announced that its West Ells project had fully resumed operation.

For the three and nine months ended September 30, 2023, the Company's average bitumen production was 2.0 bbls/day and 724.2 bbls/day respectively. The bitumen is blended with diluent as part of the production process to create the marketable "Dilbit" blend product. For the three and nine months ended September 30, 2023, the average Dilbit sales volume was 10.6 bbls/day and 918.6 bbls/day.

Thickwood and Legend

The Thickwood and Legend projects are each planned for initial phase I production of 10,000 barrels per day. Regulatory approval for Thickwood was received in the third quarter of 2013.



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 with the execution of the Amended Supplementary Agreement with 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)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Restated ³			
					Q3 2022	Q2 2022	Q1 2022	Q4 2021
Bitumen sales (bbl/d)	9	1,294	1,025	816	802	30	-	-
Petroleum sales	49	11,064	7,192	7,275	7,765	589	-	-
Royalties	(2)	298	13	266	676	20	-	-
Diluent	31	3,528	3,863	3,596	3,094	294	-	-
Transportation	106	3,468	2,521	2,050	1,779	91	6	-
Operating costs	3,581	4,472	4,487	6,506	4,030	5,002	3,404	2,456
Finance cost	2,668	2,237	2,536	(28,063)	13,003	12,166	11,631	9,392
Net loss (profit)	15,758	(5,671)	11,650	490,907	(322,871)	(46,099)	(56,232)	707
Net loss (profit) attributable to owners of the company	15,686	(5,745)	11,573	490,832	(322,945)	(46,173)	(56,311)	632
Per share - basic and diluted	0.06	(0.02)	0.05	2.02	(1.33)	(0.19)	(0.23)	0.00
Capital expenditures ¹	1,864	593	(54)	514	(185)	1,137	181	1,428
Total assets	739,708	744,484	747,557	747,719	1,240,853	877,108	812,323	755,724
Working capital deficiency ²	94,082	87,079	517,464	511,583	499,257	57,625	100,543	93,005
Shareholders' equity	88,272	104,030	98,359	110,009	601,569	278,698	232,599	176,367

1. Includes payments for exploration and evaluation, property, plant and equipment.
2. The working capital deficiency includes the foreign exchange gain from conversion of HKD/CNY denominated loans from related companies into CAD and the USD denominated Notes converted to CAD at each period end exchange rate.
3. The Q3 2022 comparative period in the table above have been restated. Please refer to "Restatement of the 3Q22 Comparative Periods" section of the restated Q3 2022 MD&A for full details.

Results of Operations

Bitumen Realization

(\$ thousands, except \$/bbl)	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Dilbit revenue	\$ 49	\$ 7,765	\$ 18,305	\$ 8,354
Diluent blended	(31)	(3,094)	(7,422)	(3,388)
Realized bitumen revenue ¹	\$ 18	\$ 4,671	\$ 10,883	\$ 4,966
(\$ / bbl)	18.41	51.30	43.39	51.77

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.



For the three months ended September 30, 2023, the Company's realized bitumen revenue decreased by \$4.7 million to \$0.02 million from \$4.7 million for the same period in 2022. The decrease in realized bitumen revenue in Q3 2023 was primarily due to the loss of production as result of equipment maintenance at West Ells. Bitumen revenue for Q3 2023 was from sales of inventory. The bitumen realized price per barrel decreased by \$32.89/bbl from \$51.30/bbl to \$18.41/bbl for the three months ended September 30, 2023 primarily due to the fees charged by terminal for under-delivering the nominated dilbit quantity.

For the nine months ended September 30, 2023, the Company's realized bitumen revenue increased by \$5.9 million to \$10.9 million from \$5.0 million for the same period in 2022. The increase in realized bitumen revenue in 2023 was primarily due to higher bitumen production and dilbit sales at West Ells partially offset by higher blending expenses. Bitumen realized price per barrel decreased by \$8.38/bbl from \$51.77/bbl to \$43.39/bbl for the nine months ended September 30, 2023 primarily due to decreased oil price.

Operating Netback

(\$ thousands, except \$/bbl)	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Realized bitumen revenue	\$ 18	\$ 4,671	\$ 10,883	\$ 4,966
Transportation	(106)	(1,779)	(6,095)	(1,876)
Royalties	2	(676)	(309)	(696)
Net bitumen revenues	\$ (86)	\$ 2,216	\$ 4,479	\$ 2,394
Operating costs	(3,581)	(4,030)	(12,540)	(12,436)
Operating cash flow ¹	\$ (3,667)	\$ (1,814)	\$ (8,061)	\$ (10,042)
Operating netback (\$ / bbl)	(3,751.65)	(19.92)	(32.14)	(104.70)

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

For the three months ended September 30, 2023, operating cash flow was a net loss of \$3.7 million compared to a net loss of \$1.8 million for the same period in 2022. Operating netback loss on a per barrel basis increased \$3,731.73/bbl to a loss of \$3,751.65/bbl from the loss of \$19.92/bbl. The increase in operating cash flow deficiency for the three months ended September 30, 2023 was primarily due to the loss of revenue as a result of equipment maintenance at West Ells in Q3 2023.

For the nine months ended September 30, 2023, operating cash flow was a net loss of \$ 8.1 million compared to a net loss of \$10.0 million for the same period in 2022. Operating netback loss on a per barrel basis decreased \$72.56 /bbl to a loss of \$32.14/bbl from the loss of \$104.70/bbl. The decrease in operating cash flow deficiency for the nine months ended September 30, 2023 was primarily due to the increase in bitumen sales volume as a result of full resumption of production in Q1 and Q2 2023, partially offset by higher transportation costs.

Bitumen Production

(Barrels/day)	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Bitumen production	2	878	724	296

For the three months ended September 30, 2023, bitumen production averaged 2 bbls/day compared to 878 bbls/day for the same period in 2022. Low bitumen production in Q3 2023 was due to equipment maintenance at West Ells throughout the quarter.

For the nine months ended September 30, 2023, bitumen production averaged 724 bbls/day compared to 296 bbls/day for the same period in 2022. Bitumen production for the nine months ended September 30, 2023 was mainly from bitumen produced during the first six months because of the equipment maintenance at West Ells during Q3 2023. Bitumen production for the nine months ended September 30, 2022 was mainly from Q3 2022 as the Company fully resumed production during the third quarter of 2022 after the temporary production suspension since March 31, 2020.



Bitumen Sales

(Barrels/day)	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Bitumen Sales	9	802	772	280

Bitumen sales at West Ells for the three months ended September 30, 2023 averaged 9 bbls/day compared to 802 bbls/day for the same period in 2022. Bitumen sales decreased by 793 bbls/day for the three months ended September 30, 2023 primarily due to the loss of production caused by equipment maintenance at West Ells during the quarter. Q3 2023 bitumen sales were mainly inventory sales at West Ells.

Bitumen sales at West Ells for the nine months ended September 30, 2023 averaged 772 bbls/day compared to 280 bbls/day for the same period in 2022. Bitumen sales for the nine months ended September 30, 2023 was primarily from bitumen sold during the first six months because of the equipment maintenance at West Ells during Q3 2023. Bitumen sales for the nine months ended September 30, 2022 was primarily from Q3 2022 as the Company fully resumed production during the third quarter of 2022 after the temporary production suspension since March 31, 2020.

Petroleum Sales, net of royalties

(\$ thousands, except \$/bbl)	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Petroleum sales	\$ 49	\$ 7,765	\$ 18,305	\$ 8,354
Royalties	2	(676)	(309)	(696)
Petroleum sales, net of royalties	\$ 51	\$ 7,089	\$ 17,996	\$ 7,658
\$ / bbl	52.18	77.86	71.76	79.83

Petroleum sales are from the sales of Dilbit. For the three months ended September 30, 2023, petroleum sales, net of royalties was \$0.1 million compared to \$7.1 million for the same period in 2022. The decrease of petroleum sales (net of royalties) is mainly due to the loss of production and thus the loss of sales caused by equipment maintenance at West Ells in Q3 2023, partially offset by lower royalty expenses. Petroleum sales per barrel (net of royalties) decreased by \$25.68/bbl to \$52.18/bbl from \$77.86/bbl primarily due to the fees charged by terminal for under-delivering the nominated dilbit quantity.

For the nine months ended September 30, 2023, petroleum sales, net of royalties was \$18.0 million compared to \$7.7 million for the same period in 2022. Petroleum sales per barrel (net of royalties) was \$71.76/bbl compared to \$79.83/bbl. The increase of petroleum sales (net of royalties) is mainly due to higher bitumen production and thus higher sales volume. Petroleum sales for the nine months ended September 30, 2023 was primarily from petroleum sold during the first six months because of the equipment maintenance at West Ells during Q3 2023. Petroleum sales for the nine months ended September 30, 2022 was primarily from Q3 2022 as the Company fully resumed production during the third quarter of 2022 after the temporary production suspension 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. For the three months ended September 30, 2023, royalties decreased by \$0.68 million compared to the same period of 2022 primarily due to lower bitumen sales resulting from equipment maintenance at West Ells in Q3 2023. For nine months ended September 30, 2023, royalties decreased by \$0.39 million compared to the same period of 2022 primarily due to decreased oil price and therefore lower royalty expenses paid to Crown and Burgess Energy Holdings.



Diluent Costs

(\$ thousands, except \$/bbl and blend ratio)	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Diluent at CPF	\$ 10	\$ 2,753	\$ 4,382	\$ 3,047
Diluent at terminals	21	341	3,040	341
Total Diluent	\$ 31	\$ 3,094	\$ 7,422	\$ 3,388
\$/bbl	31.72	33.98	29.60	35.32
Blend ratio (CPF)	33.0%	19.0%	15.7%	20.2%
Blend ratio (terminals)	25.1%	13.4%	23.5%	12.9%

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.

Total diluent cost also include the diluent blended at terminals to adjust dilbit density for pipeline shipping purpose. For the three months ended September 30, 2023, total diluent costs was \$0.03 million compared to \$3.1 million for the same period in 2022. On a per barrel basis, diluent cost was \$31.72/bbl compared to \$33.98/bbl. Total diluent costs decreased by \$3.1 million primarily due to decline in production as a result of equipment maintenance at West Ells in Q3 2023.

For the nine months ended September 30, 2023, total diluent costs was \$7.4 million compared to \$3.4 million for the same period in 2022. On a per barrel basis, diluent cost was \$29.60/bbl compared to \$35.32/bbl. Total diluent costs increased by \$4.0 million primarily due to higher required amount of diluent as a result of fully resumed production at West Ells in 2023. Blending ratio for the nine months ended September 30, 2023 was 15.7% at CPF and 23.5% at terminal compared to 20.2% and 12.9% respectively for the same period in 2022.

Transportation

(\$ thousands, except \$/bbl)	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Transportation	\$ 106	\$ 1,779	\$ 6,095	\$ 1,876
\$/ bbl	108.45	19.54	24.30	19.56

Transportation costs consist of trucking costs for Dilbit and pipeline terminals fees. The transportation expense for the three months ended September 30, 2023 were \$0.1 million compared to \$1.8 million for the same period in 2022. The decrease in the transportation cost was mainly due to decline in production as a result of equipment maintenance at West Ells in Q3 2023. The transportation expense per barrel for the three months ended September 30, 2023 were \$108.45/bbl compared to \$19.54/bbl for the same period in 2022. Higher transportation cost per barrel in Q3 2023 was primarily due to the fixed trucking costs averaged by lower sales volume.

The transportation expense for the nine months ended September 30, 2023 were \$6.1 million compared to \$1.9 million for the same period in 2022. Higher transportation costs in 2023 was primarily due to increased dilbit trucking and pipeline charges as a result of increased dilbit sales in 2023. The transportation expense per barrel for the nine months ended September 30, 2023 were \$24.30/bbl compared to \$19.56/bbl for the same period in 2022. The increase in the transportation cost per barrel was mainly due to increased rate charged by third party trucking companies especially during periods with regulated road ban.



Operating Costs

(\$ thousands, except \$/bbl)	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Energy operating costs	\$ 524	\$ 1,461	\$ 3,655	\$ 4,815
Non-energy operating costs	3,057	2,569	8,885	7,621
Operating costs	\$ 3,581	\$ 4,030	\$ 12,540	\$ 12,436

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.

For the three months ended September 30, 2023, the operating costs decreased by \$0.4 million to \$3.6 million from \$4.0 million for the same period in 2022. The decrease in operating costs from last year was primarily due to lower energy costs and lower variable non-energy costs as a result of decline in production at West Ells in Q3 2023.

For the nine months ended September 30, 2023, the operating costs increased by \$0.1 million to \$12.5 million from \$12.4 million for the same period in 2022. The increase in operating costs from last year was primarily due to higher non-energy costs as a result of resumed production at West Ells, partially offset by lower energy costs caused by lower as price. 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 continues to increase at West Ells.

General and Administrative Costs

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Salaries, consultants and benefits	\$ 1,328	\$ 1,001	\$ 4,635	\$ 3,733
Rent	24	214	40	322
Legal and audit	215	37	504	673
Other	1,467	1,276	4,491	3,945
Balance, end of period	\$ 3,034	\$ 2,528	\$ 9,670	\$ 8,673

The Company's general and administrative costs were \$3.0 million and \$9.7 million for the three and nine months ended September 30, 2023 compared to \$2.5 million and \$8.7 million for the same periods in 2022. General and administrative costs increased in 2023 primarily due to increased municipal charge, salaries and legal expenses partially offset by decreased office rent.

Finance Costs

(\$ thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Interest expense on senior notes, including yield maintenance premium (YMP)	\$ 292	\$ 10,806	\$ 875	\$ 31,510
Interest expense on other loans	77	218	381	480
Interest expense on loan from related companies and a shareholder	1,892	1,618	4,934	3,840
Other interest expense-lease and others	50	17	175	77
Accretion	357	344	1,076	893
Finance costs	\$ 2,668	\$ 13,003	\$ 7,441	\$ 36,800



The Company's finance costs were \$2.7 million and \$7.4 million for the three and nine months ended September 30, 2023 compared to \$13.0 million and \$36.8 million for the three and nine months ended September 30, 2022. Finance costs decreased by \$10.3 million and \$29.4 million for the three and nine months ended September 30, 2023 mainly attributed to interest waived on senior notes which was recorded as other income in Q3 2022 as opposed to finance cost reduction in Q3 2023.

Share-based Compensation

	Three months ended September 30, 2023			Three months ended September 30, 2022		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

	Nine months ended September 30, 2023			Nine months ended September 30, 2022		
	Expensed	Capitalized	Total	Expensed	Capitalized	Total
Stock options	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Share-based compensation expense for the three and nine months ended September 30, 2023 and 2022 were \$0 million. The fair value of share-based compensation associated with the granting of stock options is recognized by the Company in its condensed consolidated interim financial statements. Fair value is determined using the Black-Scholes option pricing model.

Depletion and Depreciation

(\$ thousands, except \$/bbl)	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Depletion	\$ 4	\$ 1,843	\$ 4,426	\$ 1,843
Depreciation	224	136	662	603
Depletion and depreciation	\$ 228	\$ 1,979	\$ 5,088	\$ 2,446
Depletion (\$/bbl)	4.09	20.24	17.65	19.21

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.

For the three months ended September 30, 2023, depletion expense was \$4 thousand compared to \$1.8 million for the three months ended September 30, 2022. Depletion expense was lower in Q3 2023 due to decline in production as a result of equipment maintenance at West Ells. Depreciation expense was \$0.2 million for the three months ended September 30, 2023 compared to \$0.1 million for the same period in 2022. Depreciation expenses increased in 2023 primarily attributable to a new truck lease.

For the nine months ended September 30, 2023, depletion expense was \$4.4 million compared to \$1.8 million for the nine months ended September 30, 2022. Depletion expense increased by \$2.6 million in 2023 mainly due to higher bitumen production since the resumption of production in April 2022. Depreciation expense was \$0.7 million for the nine months ended September 30, 2023 compared to \$0.6 million for the same period in 2022. Depreciation expenses increased in 2023 primarily due to a new truck lease.

Impairment / (Reversal)

(\$ thousands, except \$/bbl)	For the three months ended September 30,		For the nine month ended September 30,	
	2023	Restated ¹ 2022	2023	Restated ¹ 2022
Impairment (reversal)	\$ -	\$ (361,159)	\$ -	\$ (488,106)

1. The Q3 2022 comparative period in the table above have been restated. Please refer to "Restatement of the 3Q22 Comparative Periods" section of the restated Q3 2022 MD&A for full details.



The Company assesses at each reporting date whether there is an indication that its E&E (exploration and evaluation assets) and PP&E assets may be impaired or that historical impairment may be reversed. The Company's assets are aggregated into cash-generating units for the purpose of calculating impairment/impairment reversal. Cash generating units ("CGU"s) are based on an assessment of the units' ability to generate independent cash inflows. The company recognized impairment loss or reversal based on CGU which is identified with respect to geographical proximity, shared infrastructure and similarity of market risk exposure and materiality. The recoverable amount of the E&E and PP&E assets were determined using judgment 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 (cash-generating unit) 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.

For the purpose of impairment (reversal) testing, 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") and its latest oil price forecasts. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions, including management forecast of long-term 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.

The reversal is recognized in profit or loss only to the extent that it reverses an impairment loss that was previously recognized in profit or loss. Any additional increase is accounted for as a revaluation and is recognized in other comprehensive income.

A reversal of an impairment loss shall be recognized immediately in profit or loss. In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset shall not be increased above the lower of: (a) Its recoverable amount; and (b) The carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods.

Future depletion expenses are adjusted to allocate the CGU's revised carrying amount over its remaining useful life.

As of September 30, 2023, the Group did not identify any indicators of further impairment loss (reversal) of the above E&E or West Ells CGU. For the three and nine months ended September 30, 2022, the Company recognized an impairment reversal of \$361.2 million and \$488.1 million in its Exploration and Evaluation (E&E) and West Ells CGU primarily attributable to the increase in third party expert (GLJ) oil prices estimate as in the company's reserve evaluation. Future cash flows were discounted at a pre-tax risk-adjusted discount rates of 11.8% for E&E and West Ells CGU in Q3 2022.

Income Taxes

The Company did not recognize any deferred income tax assets, which relate primarily to unrecognized tax losses for the three and nine months ended September 30, 2023 and 2022. Recognition of tax losses is based on the Company's consideration of its internal development plan for its asset base and the assumption as to whether or not these tax losses will be utilized before their expiry dates. At September 30, 2023, the Company had total available tax deductions of approximately \$1.47 billion, with unrecognized tax losses that expire between 2029 and 2043.

Liquidity and Capital Resources

	September 30, 2023		December 31, 2022	
Working capital deficiency	\$	94,082	\$	511,583
Shareholders' equity		88,272		110,009
	\$	182,354	\$	621,592

On February 16, 2023, the Corporation and the Forbearing Holder entered into an interest waiver agreement (the "Interest Waiver Agreement") pursuant to which the Forbearing Holder agrees to unconditionally and irrevocably waive the interest accrued between January 1, 2023 and December 31, 2023 (the "Waiver of Interest"). Based on the Forbearance Reinstatement and Amending Agreement ("FRAA") dated August 8, 2021, the waived interest calculated at 10.0% per annum on the outstanding amounts (principal and interests) amounted to US\$31.5 million. Save as the Waiver of Interest, all other terms and conditions as stipulated in the FRAA remain unchanged.



As of September 30, 2023, the Company had incurred unsecured Permitted Debt for a total of US\$52.6 million (CAD\$71.1 million equivalent).

The Group has presented the Forbearing part of Notes as a non-current liability on the unaudited condensed consolidated interim financial statements as at September 30, 2023.

The Company received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016-2023 municipal property taxes of CAD \$14.7 million. The Group was also charged with overdue penalties of CAD \$14.8 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 September 30, 2023, the Company had incurred \$0.82 million (US \$0.61 million equivalent using the period end exchange rate) in Builders' liens (not related mineral leases) against them during the ordinary course of business.

The Company received a judgment from the Court of the State of New York, New York County (the "Judgment") that the Company shall pay the Non-forbearing holder all the amounts due and owing on the Senior Notes issued under the notes indenture dated 8 August 2014 (including principal and interests) in an aggregate amount of approximately US\$15,481,000.00. On May 25, 2023, the group received notice from Supreme Court of the State of New York that the Judgment is vacated. On 27 July 2023 (New York time), the Non-forbearing holder has filed a renewed motion for summary judgment in lieu of complaint. The Company has filed an opposition in response of the Non-forbearing holder's renewed motion on 31 August 2023. A hearing is expected to be held in the New York Court in due course.

The Notes are translated into Canadian dollars at the period end exchange rate of \$1USD = \$1.3520 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 nine months ended September 30, 2023, the Company reported a net loss and comprehensive loss attributable to owners of the Company of CAD \$21.5 million. At September 30, 2023, the Company had a working capital deficiency of \$94.1 million.

The Company's debt-to-asset ratio, measured based on total liabilities divided by total assets was 88% as at September 30, 2023, compared to 85% as at December 31, 2022.

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. The Group is exposed to currency risks primarily through senior notes, loans from related companies and a shareholder, other loans, accounts payables and bank balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The foreign currencies giving rise to this risk are primarily Hong Kong dollar ("HK\$"), United States dollar ("US\$") and Renminbi ("RMB").

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 nine months ended September 30, 2023.



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 September 30, 2023 would have been impacted by \$Nil (September 30, 2022: \$Nil) and the carrying value of the debt at September 30, 2023 would have been impacted by \$2.7 million (September 30, 2022: \$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 September 30, 2023 would have been impacted by \$0.01 million (September 30, 2022: \$Nil) and the carrying value of the debt at September 30, 2023 would have been impacted by \$0.5 million (September 30, 2022: \$0.4 million).

Royalty Agreement

On August 31, 2021 (Calgary time), the Company entered into a Royalty Agreement (together with its ancillary documents, the "Royalty Agreement") with Burgess Energy Holdings, L.L.C. ("BEH"), pursuant to which, the Corporation has granted to BEH a royalty interest in the bitumen within, upon, under or produced from the royalty lands owned by the Corporation and/or its affiliates, free and clear of any and all encumbrances for an aggregate consideration of CAD 20,000,000 (the "Aggregate Consideration"), subject to the terms and conditions stipulated therein. The arrangement under the Royalty Agreement is perpetual.

On June 8, 2023, the Corporation entered into an amended Royalty Agreement (together with its ancillary documents, the "Amended Royalty Agreement") with BEH, pursuant to which, the Corporation will receive an accelerated payment of CAD \$5 million from the aggregate consideration of CAD \$20 million, subject to the terms and conditions stipulated therein. In accordance with the Amended Royalty Agreement, the royalty rate calculation for WCS prices above USD \$80/bbl is amended as follows: When average daily WCS price of the month is US\$80/bbl, the royalty rate is 8.75% and proportionally increases up to a maximum of 25.00% when the WCS price rises to USD \$113/bbl (based on the original Royalty Agreement, the royalty rate increases from 8.75% up to a maximum of 15.00% when the WCS price rises to USD \$100/bbl).

Commitments and Contingencies

Management estimated the contractual maturities of the Company's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. For a detailed discussion regarding to the Company's commitments and contingencies, please refer to the Company's Unaudited Condensed Consolidated interim Financial Statements and notes thereto for the three and nine months period ended September 30, 2023 and with the Audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2022.

Transactions with Related Parties

For the nine months ended September 30, 2023, a consulting Company, to which a director of Sunshine is related, charged the Company \$0.4 million (December 31, 2022: \$0.5 million) for management and advisory services.

As at September 30, 2023, 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.

As at September 30, 2023, the Company had loans from related companies and a shareholder, which are unsecured, interest bearing at 10% per annum. Loans from related companies totaling approximately CAD \$57,610,000 can be rolled over for a period of 2 to 3 years (December 31, 2022: CAD 53,944,000). Total loans from a shareholder are approximately CAD \$12,267,000 which are expected to be settled in 2025 (December 31, 2022: CAD \$12,342,000).

Off-balance Sheet Arrangements

As at September 30, 2023, the Company did not have any other off-balance sheet arrangements.

Subsequent Event

On October 10, 2023, Sunshine entered into the Amended Supplementary Agreement (the "Amended Supplementary Agreement") with Renergy, pursuant to which, the Outside Date of the joint operating agreement ("JOA"), its supplementary agreement as well as other supporting agreements (collectively, the "Agreements") is further extended from October 20, 2023 to October 20, 2025 (the "New Outside Date"). Prior to the New Outside Date, Renergy continues to be responsible for all expenditures in Muskwa and Godin. The JOA will not set a capital expenditure target or



commitment cap. If Renergy fails to fulfill the production level of 500 barrels per day for any consecutive 20 days on or before the New Outside Date, Renergy's working interest will be forfeited on the New Outside Date.

Changes in Accounting Policies

Our significant accounting policies have remained unchanged since December 31, 2022. A summary of our significant accounting policies is included in our 2022 Annual Report.

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. Judgments, 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 judgments, 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 Note 4 to the consolidated annual financial statements for the year ended December 31, 2022.

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, 2022, which is available at www.hkexnews.hk. The 2022 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

Ms. Gloria Ho, Executive Director of the Board and Chief Financial Officer and Mr. Jiangping Sun, Chief Executive 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 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 September 30, 2023, the Chief Financial Officer and the 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 Chief Executive Officer concluded that the Group's DC&P were effective as at September 30, 2023.

Internal Controls over Financial Reporting

Gloria Ho, Executive Director of the Board and Chief Financial Officer and Mr. Jiangping Sun, Chief Executive 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 September 30, 2023, and concluded that the Group's ICFR are effective at September 30, 2023 for the foregoing purpose.

No material changes in the Group's ICFR were identified during the three months period ended September 30, 2023 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 “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:

(\$ thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Net cash used in operating activities	\$ (1,714)	\$ (5,522)	\$ (5,203)	\$ (16,094)
Deduct (add):				
Net change in non-cash operating working capital	3,965	(1,536)	10,324	1,524
Cash flow used in operations	\$ (5,679)	\$ (3,986)	\$ (15,527)	\$ (17,618)

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 Hong Kong Stock Exchange (“SEHK” or “Stock Exchange”) Information

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

Compliance of Corporate Governance Code (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.



As Mr. Alfa Li (“Mr. Li”) did not offer himself for re-election at the Annual General Meeting of the Company (the “AGM”) held on June 28, 2023 (Hong Kong time) / June 27, 2023 (Calgary time), upon conclusion of the AGM, Mr. Li retired as independent non-executive director and all his offices in the Company ceased accordingly.

Following Li’s departure, the Company has two independent non-executive directors and two members of Audit Committee. The Board is fully aware of the requirements: (i) under Rule 3.10(1) of the Hong Kong Listing Rules that an listed issuer should have at least three independent non-executive directors; (ii) Rule 3.21, the audit committee should comprise of a minimum of three members.

Given the great difficulties in identifying suitable candidates and the impending expiry of the 3-month period under Rule 3.11 on September 28, 2023, the Company submitted an application to the Stock Exchange applying for a waiver from strict compliance of Rules 3.10(1), 3.10A, 3.11 and 3.21 under the Hong Kong Listing Rules for a period of 3 months to December 29, 2023 (the “Waiver”). The Waiver was granted on October 10, 2023.

The Company will use its best endeavor to identify suitable candidate(s) to fill up the vacancy of independent non-executive director and the vacancy of audit committee soonest as practicable for proper compliance with the Hong Kong Listing Rules. The Company will make further announcement(s) as and when appropriate.

The Company confirms that the Code, as set out in Appendix 14 to the Hong Kong Listing Rules, has been complied with save that 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 complied 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 September 30, 2023.

Name	December 31, 2022	Granted	Exercised	Forfeited	Expired	September 30, 2023
Kwok Ping Sun	6,000,000	-	-	-	6,000,000	-
Gloria Ho	300,000	-	-	-	300,000	-
Yi He	100,000	-	-	-	-	100,000
Guangzhong Xing	100,000	-	-	-	-	100,000
Sub-total for Directors	6,500,000	-	-	-	6,300,000	200,000
Sub-total for other share option holders	-	-	-	-	-	-
Total	6,500,000	-	-	-	6,300,000	200,000

Please refer to our consolidated financial statements included in the 2022 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2022.

**Fair Value of Share Options Granted**

The weighted average fair value of the share options granted in previous years was 0.60 (2022 - \$0.60). The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted for the nine months ended September 30, 2023 and year ended December 31, 2022.

Input Variables	Nine months ended September 30, 2023	Year ended December 31, 2022
Grant date share price (\$) after consolidation	0.60	0.60-2.00
Exercise Price (\$) after consolidation	0.60	0.60-2.00
Expected volatility (%)	63.91	61.88-63.91
Weighted Average Option life (years)	0.94	0.55
Risk-free interest rate (%)	1.48	1.48-1.95
Expected forfeitures (%)	0-15.39	0-15.39

Purchase, Sale or Redemption of Sunshine's Listed Securities

Class "A" Common Shares

General mandate**2023 activity**

There was not any purchase, sale or redemption of Sunshine's listed securities as of September 30, 2023.

Shares Outstanding

As at September 30, 2023, the Company had 243,478,681 Class "A" common shares issued and outstanding.

Employees

As at September 30, 2023, the Group has 23 full-time employees. For the nine months ended September 30, 2023, total staff costs amounted to \$4.6 million.

Dividends

The Company has not declared or paid any dividends in respect of the nine months period ended September 30, 2023 (nine months period ended September 30, 2022 - \$Nil).

Review of Interim Results

The condensed consolidated interim financial statements for the Company for the three and nine months ended September 30, 2023, 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.

2023 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. As at the date hereof, the Corporation's West Ells project has fully resumed production and the current production has exceeded 1,500 bbls/d. The Corporation will continue to work with its joint venture partner for re-activation of the Muskwa and Godin Area activities.