阳光油砂
SUNSHINE OILSANDS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2022

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Sunshine Oilsands Ltd. ("Sunshine" or the "Company") for the three months ended March 31, 2022 is dated May 12, 2022, and approved by the Company's Board of Directors. This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes thereto for the three months period ended March 31, 2022 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2021. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.

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. On March 8, 2022, the Company announced that it has completed the preliminary preparatory work for resumption of production in the West Ells project. On April 11, 2022, the company has announced that its West Ells project has fully resumed production.

The Company has no further update on other Projects for the three months ended March 31, 2022.

Summary of Quarterly Results

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

($ thousands except per share & bbl/d)	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Bitumen sales (bbl/d)	-	-	-	-	22	-	-	-
Petroleum sales	-	-	-	-	144	78	266	-
Royalties	-	-	-	-	-	-	-	-
Diluent	-	-	-	-	-	-	560	46
Transportation	6	-	2	-	43	-	151	(4)
Operating costs	3,404	2,456	1,841	1,602	1,825	1,518	1,584	1,940
Finance cost	11,631	9,392	12,300	11,712	13,422	11,304	13,998	(6,501)
Net loss (profit)	(56,232)	707	(27,306)	22,789	2,688	(41,131)	12,083	(14,518)
Net loss (profit) attributable to equity holders	(56,311)	632	(27,514)	22,787	2,625	(41,190)	12,028	(14,591)
Per share - basic and diluted	(0.23)	0.00	(0.11)	0.12	0.02	(0.02)	0.09	(0.16)
Capital expenditures[1]	181	1,428	460	486	428	450	294	431
Total assets	812,323	755,724	762,847	753,425	756,209	761,660	766,750	771,561
Working capital deficiency[2]	100,543	93,005	97,147	535,469	513,103	509,044	538,179	260,532
Shareholders' equity	232,599	176,367	176,125	148,756	162,509	165,420	141,463	153,514

1. Included payments for exploration and evaluation, property, plant and equipment.
2. The working capital deficiency includes the foreign exchange loss from conversion of HKD/CNY denominated loans from related companies into CAD at each period end exchange rate.

Results of Operations

Operating Netback

($ thousands, except $/bbl)	For the three months ended March 31, 2022	2021
Realized bitumen revenue	$ -	$ 144
Transportation	(6)	(43)
Royalties	-	-
Net bitumen revenues	(6)	101
Operating costs	(3,404)	(1,825)

Operating cash flow[1]	$	(3,410)	$	(1,724)

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

The Operating cash flow for the three months ended March 31, 2022 was a loss of $3.4 million compared to a net loss of $1.7 million for the three months ended March 31, 2021. The decrease in operating cash flow was primarily due to higher operating costs in 1Q22 as a result of resumption of production in the West Ells project.

Bitumen Production

Bitumen production at West Ells for the three months ended March 31, 2022 and 2021 both averaged at 0 bbl/day due to temporary production suspension since March 31, 2020.

Bitumen Sales

Bitumen sales at West Ells for the three months ended March 31, 2022 averaged 0 bbl/day compared to 22 bbl/day for the three months ended March 31, 2021. Bitumen sales decreased by 22 bbl/day for the three months ended March 31, 2022 compared to the same period of 2021 due to temporary suspension of production since March 31, 2020.

Petroleum Sales, net of royalties

Petroleum sales are from the sales of dilbit. Petroleum sales, net of royalties for the three months ended March 31, 2022 was $0.0 million compared to $0.14 million for the three month ended March 31, 2021. The decrease of $0.1 million sales (net of royalties) is mainly due to temporary suspension of production since March 31, 2020.

There was no disclosure on the petroleum sales per barrel for 1Q22 as there was no dilbit sales after the temporary suspension of production since 31 March 2020. Petroleum sales per barrel was $58.75/bbl for the same period of 2021.

Bitumen Realization

Bitumen realization represents the Company's realized petroleum revenue ("Dilbit revenue"), net of diluent expenses. During the three months ended March 31, 2022, the Company's bitumen realization revenue was $0.0 million compared to $0.1 million for the three months ended March 31, 2021. Bitumen realization decreased by $0.1 million for the three months ended March 31, 2022 mainly due to temporary suspension of production since March 31, 2020. There was no disclosure on the bitumen realization per barrel for 1Q22 as there was zero dilbit sales for the first quarter of 2022. The bitumen realized price per barrel was $58.75/bbl for the same period of 2021.

Operating Costs

	For the three months ended March 31,			
($ thousands, except $/bbl)		2022		2021
Energy operating costs	$	897	$	661
Non-energy operating costs		2,507		1,164
Operating costs	$	3,404	$	1,825

Operating costs are comprised of the sum of non-energy operating costs and energy cost. Non-energy operating cost represents production-related operating activities, excluding energy operating costs. Energy operating costs represent the cost of natural gas for the production of steam and power at the West Ells facilities. Non-energy operating costs increased by $1.3 million for the three months ended March 31, 2022 compared to the same periods in 2021 primarily due to the cost for resumption of production in the West Ells project.

General and Administrative Costs

	For the three months ended March 31,	
($ thousands)	2022	2021
Salaries, consultants and benefits	$ 1,239	$ 967
Rent	78	54
Legal and audit	54	271
Other	2,279	287
Balance, end of year	$ 3,650	$ 1,579

The Company's general and administrative costs were $3.7 million and $1.6 million for the three months ended March 31, 2022 and March 31, 2021 respectively. General and administrative costs increased by $2.1 million for the three months ended March 31, 2022 compared to the same periods in 2021 primarily due to the increase in municipal charges.

Finance Costs

The Company's finance costs were $11.6 million for the three months ended March 31, 2022 compared to $13.4 million for the three months ended March 31, 2021. Finance cost decreased by $1.8 million for the three months ended March 31, 2022 compared to the same period in 2021 mainly due to the decrease in other interest expense.

Depletion and Depreciation

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 expense was zero for the three months ended March 31, 2022 and 2021 due to temporary suspension of production since March 31, 2020. Depreciation expense was $0.2 million for the three months ended March 31, 2022 compared to $0.3 million for the three months ended March 31, 2021.

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

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. To determine the extent of any impairment or its reversal, estimates are made regarding the future before-tax cash flows generated from each CGU based on Sunshine's Year End reserve report as prepared by a third party – independent reserve engineer.

For Q1 2022, the management determined that the recoverable amounts for the CGUs that were tested had significantly exceeded their carrying amounts and therefore impairment reversals were made. The impairment reversals were primarily attributable to the increase in oil prices as used in the reserve evaluation.

Liquidity and Capital Resources

	March 31, 2022	December 31, 2021
Working capital deficiency	$ 100,543	$ 93,005
Shareholders' equity	232,599	176,367
	$ 333,142	$ 269,372

On May 12, 2022, the Company and the Forbearing Holder entered into another 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, 2022 to December 31, 2022 at 10.0% per annum on the outstanding amounts (principal and interests) under the FRAA dated August 8, 2021 (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.

As of March 31, 2022, the Company had incurred unsecured Permitted Debt for a total of US$37.1 million (CAD$46.3 million equivalent).

The Group received a demand notice from the Regional Municipality of Wood Buffalo ("RMWB") in relation to the 2016-2022 municipal property taxes of CAD $12.72 million. The Group was also charged with overdue penalties of CAD $9.82 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 Company has sought judicial review to determine the effect of non-compliant tax notices on RMWB's property tax claim.

The Company is involved in various claims including claims described above and actions arising in the course of operations and is subject to various legal actions, pending claims and exposures. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. If unfavorable outcome were to occur against such claims or pending claims, there exists the possibility of a material adverse impact on the Company's consolidated net income or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such claims. While fully supportable in the Company's view, some of these positions, if challenged may not be fully sustained on review. From time to time, the Company receives liens or claims on accounts payable balances, and the Company continues to work toward resolution of any liens or claims. At March 31, 2022, the Company had incurred $0.82 million (USD $1.03 million equivalent using the period end exchange rate) 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 $1USD = $1.2496 CAD.

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

For the three months ended March 31, 2022, the Company reported a net gain including non-controlling interest of $56.2 million. At March 31, 2022, the Company had a working capital deficiency of $100.5 million.

The Group's debt-to-asset ratio, measured based on total liabilities divided by total assets was 71% as at March 31, 2022, compared to 77% as at December 31, 2021.

The Group is exposed to risks arising from fluctuations in foreign currency exchange rates. Thus, exchange rate fluctuations can affect the fair value of future cash flows. This exposure primarily relates to certain expenditure commitments, deposits, accounts payable and long term debt which are denominated in United States dollars ("USD") and Hong Kong dollars ("HKD"). The Group manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. The Group had no forward exchange rate contracts in place as at or during the three months ended March 31, 2022.

If exchange rate to convert from USD to CAD had been one percent higher or lower with all other variables held constant, foreign cash held at March 31, 2022 would have been impacted by $Nil (2021: $Nil) and the carrying value of the debt at March 31, 2022 would have been impacted by $2.5 million (2021: $2.5 million).

If exchange rate to convert from HKD to CAD had been one percent higher or lower with all other variables held constant, foreign cash held at March 31, 2022 would have been impacted by $Nil (2021: $Nil) and the carrying value of the debt at March 31, 2022 would have been impacted by $0.32 million (2021: $0.34 million).

Commitments and Contingencies

Management estimated the contractual maturities of the Group's obligations. These estimated maturities may differ significantly from the actual maturities of these obligations. For a detailed discussion regarding to the Group's commitments and contingencies, please refer the Group's unaudited condensed consolidated interim financial statements and notes thereto for the three months period ended March 31, 2022 and with the audited consolidated financial statements and notes thereto for the year ended December 31, 2021.

Transactions with Related Parties

For the three months ended March 31, 2022, a consulting Group, to which a director of Sunshine is related, charged the Group $0.13 million (March 31, 2021- $0.13 million) for management and advisory services.

As at 31 March 2022, 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 March 31, 2022, the Group had loans from related companies, which are unsecured, interest bearing at 10% per annum, and of which approximately CAD $44,863,000 can be rollover for a period of 2 to 3 years.

Off-balance Sheet Arrangements

As at March 31, 2022, the Group did not have any other off-balance sheet arrangements.

Changes in Accounting Policies

Our significant accounting policies have remained unchanged since December 31, 2021. A summary of our significant accounting policies is included in our 2021 Annual Report.

Critical Accounting Policies and Estimates

For a detailed discussion regarding to the Group's critical accounting policies and estimates, please refer to Note 5 to the consolidated annual financial statements for the year ended December 31, 2021.

Risk Factors

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Group, their potential impact and the Group's principal risk management strategies are substantially unchanged from those disclosed in the Group's MD&A for the year ended December 31, 2021, which is available at www.hkexnews.hk. The 2021 annual report of the Group is available at the Group'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 March 31, 2022, 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 March 31, 2022.

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 March 31, 2022, and concluded that the Group's ICFR are effective at March 31, 2022 for the foregoing purpose.

No material changes in the Group's ICFR were identified during the three months period ended March 31, 2022 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 Group believes including such measures is useful to investors. Investors are cautioned that these non-GAAP measures should not be construed as an alternative to measures calculated in accordance with IFRS as, given the non-standardized meanings, these measures may not be comparable to similar measures presented by other issuers.

Cash Flow Used in Operations

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

($ thousands)		Three Month Ended March 31 2022		2021
Net cash (used) in operating activities	$	(4,414)	$	(2,820)
Add (deduct)				
Net change in non-cash operating working capital items		(2,440)		(483)
Cash flow (used in) operations	$	(6,854)	$	(3,303)

Forward-Looking Information

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

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

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

Movements in Stock Options

There is no movements in stock options for Directors, the chief executive and other executive management of the Group during the three months ended March 31, 2022.

Please refer to our consolidated financial statements included in the 2021 Annual Report for additional details on our stock option plans and movements for the year ended December 31, 2021.

Fair Value of Share Options Granted

The weighted average fair value of the share options granted in previous years was CAD 0.60 (2021 - $0.012). The table below details the input variables used in the Black-Scholes model to determine the fair value of options granted for the three months ended March 31, 2022 and year ended December 31, 2021.

Input Variables	Three month period ended March 31, 2022	Year ended December 31, 2021

Grant date share price ($)	0.6-2.50	0.012-0.04
Exercise Price ($)	0.6-2.50	0.012-0.04
Expected volatility (%)	61.88-63.91	61.88-63.91
Option life (years)	2.50-2.68	2.50-2.68
Risk-free interest rate (%)	0.93-1.95	0.93-1.95
Expected forfeitures (%)	14.76-15.39	14.76-15.39

Purchase, Sale or Redemption of Sunshine's Listed Securities

Class "A" Common Shares

General mandate

There was not any purchase, sale or redemption of Sunshine's listed securities in Q1 2022.

Shares Outstanding

As at March 31, 2022, the Group had 243,478,681 Class "A" common shares issued and outstanding.

Dividends

The Group has not declared or paid any dividends in respect of the three months period ended March 31, 2022 (three months period ended March 31, 2021 - $Nil).

Review of Interim Results

The condensed consolidated interim financial statements for the Group for the three months ended March 31, 2022, were reviewed by the Audit Committee of the Group 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 Group's website at www.sunshineoilsands.com.

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

2022 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. For details, please refer to the Corporation's announcement dated April 11, 2022. The Corporation is also continuing with its joint venture for re-activation of the Muskwa and Godin Area activities as international oil price recovers.