

Form 51-102F1

MANAGEMENT DISCUSSION AND ANALYSIS

SONORO ENERGY LTD.

This Management's Discussion and Analysis ("MD&A") of operations for the period ending June 30, 2017 unaudited consolidated financial statements presented herein are provided to enable readers to assess the results of operations, liquidity and capital resources of Sonoro Energy Ltd. ("Sonoro" or the "Company") is based on information available to August 21, 2017 and was approved by the Board of Directors. This MD&A should be read in conjunction with the Company's unaudited Q2 June 30, 2017 consolidated financial statements and related notes and the audited consolidated financial statements and related notes for the year ended December 31, 2016. The consolidated audited and unaudited financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information and continuous disclosure materials relating to the Company can be found on SEDAR at www.sedar.com. Information is also available on the Company's website at www.sonoroenergy.com. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars, which is the Company's presentation currency.

Sonoro is an international oil and gas resource, exploration, and development company with a focus on South East Asia. Based in Calgary, Alberta its only property is the Budong Budong Production Sharing Contract ("PSC") in Sulawesi Indonesia. The PSC is held through its 100% owned subsidiary Stockbridge Oil and Gas Ltd. BVI and Stockbridge Budong Budong BV (Netherlands).

FORWARD-LOOKING STATEMENTS

Certain statements made herein, other than statements of historical fact relating to Sonoro, are forward-looking statements. These include, but are not limited to, statements respecting anticipated business activities, the receipt of government approvals, permits and leases, planned expenditures, including those relating to the exploration, development and production of its petroleum assets, corporate strategies, participation in projects and financing operations, the outcome of development activities in the exploration for, appraisal of and development and operations relating to oil and gas in Indonesia, technical risks and resource potential of the Company's drilling prospects, including the current Budong Budong License prospects, the financing and timing of the drilling and testing of the appraisal well, total project costs for the appraisal well drilling and exploration/appraisal program, the potential for joint ventures, licensing or other arrangements and outcome of litigation matters, and other statements that are not historical facts.

When used in this MD&A, the words such as "could", "will", "anticipate", "believe", "seek", "propose", "plan", "estimate", "expect", "intend", "may", "potential", "should" and similar expressions, as they relate to the Company or an affiliate of the Company, are intended to identify forward-looking statements. Although the Company believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Forward-looking statements are based on the opinions and estimates of management as at the date of this MD&A, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements described in this MD&A. Important factors that could cause actual results to differ from these forward-looking statements include those described under the heading "Risk Factors" elsewhere in this MD&A. The reader is cautioned not to place undue reliance on forward-looking statements. The Company assumes no obligation to update forward looking statements except to the extent required by applicable securities laws.

All such forward-looking information is based on certain assumptions and analyses made by management in light of experience and perception of historical trends, current conditions and expected future

developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the risks associated with foreign operations; foreign exchange fluctuations; commodity prices; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the existence of operating risks; volatility of oil and natural gas prices; oil and natural gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us and other factors, many of which are beyond the Company's control.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

PETROLEUM and NATURAL GAS PROPERTIES and OPERATIONS

Indonesia

The Company owns and operates the Budong Budong PSC in Sulawesi, Indonesia through its subsidiary companies, Stockbridge Oil and Gas Ltd. BVI and Stockbridge Budong Budong BV ("Stockbridge"). The Concession is located onshore West Sulawesi and covers 1,095 square km.

- Key attributes of the Budong Buding PSC include:
 - 100% cost recovery with an unaudited cost pool of US\$80 million currently available in the Company.
 - 25% of contractor oil and gas share sold at 25% of benchmark price (holiday for 5 years)
 - Production split of 62.5% to contractor for oil and 71.4% for gas (before tax)
 - 10% flow through production to government.
 - Income and distribution tax of 44%
 - After cost recovery expended, and after taxes and FTP, contractor take is ~31.5%
 - 20 year production license with plan of development
 - Stockbridge is the project operator and holds a 71.5% working interest. It has the right to another 28% of the working interest, from a third party, to take its full working interest up to 99.5%, should the project partner choose not to participate. The outcome of such participation may be known prior to spudding the well.

Iraq

In December 2016, the Company sold 100% of its share holdings in Sonoro Energy Iraq B.V. which held the Salah ad Din Asphalt License Agreement which had been in Force Majeure since July 2014. Blue Sky Energy Ltd has acquired this interest for future consideration of \$4.0 million based on reaching certain production milestones. No value has been attributed to this future consideration on the Sonoro financial statements due to the uncertainty.

HIGHLIGHTS and OUTLOOK: Q2 2017

- On January 12, 2017 the Company received Indonesian Government approval for an extension to the Budong Budong exploration license to January 15, 2018. The approval is conditional upon Sonoro performing the drilling of one well on the property prior to August 31, 2017. The Company is in the process of mobilizing a drilling rig in Indonesia. An extension to September 30, 2017 has been requested with SKKMigas due to drilling delays. This extension is expected to be granted shortly.
- On May 19, 2017 the Company completed a non-brokered private placement financing for gross proceeds of CAD\$3,600,000. The funding was completed in two tranches with \$2,698,640 closing on April 27, 2017 and \$901,360 on May 19, 2017. The Company issued a total of 119,999,997 units (a "Unit") at a price of \$0.03 per Unit, whereby each Unit consists of one common share (a "Common Share") of the Company and one half of one common share purchase warrant (a "Warrant") of the Company, where each whole Warrant entitles the holder to purchase one Common Share within two years of each respective tranche closing date at a price of \$0.05 per Common Share.

The Offering was made pursuant to a waiver granted by the TSX Venture Exchange ("TSX Venture") which permits the Company to offer the Units at a price below the TSX Venture's \$0.05 minimum pricing requirement pursuant to the TSX Venture bulletin dated April 7, 2014. The Company has undertaken to the TSX Venture Exchange to conduct a consolidation of the Company's Common Shares within six months of the Closing Date in accordance with the requirements of the TSX Venture. All units are subject to a four month hold period.

The Company paid finders' fees in connection with the closing of both the first and second tranches in the aggregate amount of \$131,339 plus 4,284,945 Warrants, where each Warrant entitles the holder to purchase one Common Share by April 27, 2019 for the first tranche and by May 20, 2019 for the second tranche at \$0.05 per Common Share.

The use of proceeds from the financing is to drill an appraisal well on the Budong Budong License.

- During this quarter ended June 30, 2017, the Company progressed engineering, planning and established contracts for a drilling rig and services for a one well appraisal program for the Budong Budong project. A drilling program has been completed and is being implemented with the current mobilization of a rig. The Company plans to drill an appraisal well on the Budong Budong License offsetting the original LG-1 well which encountered bypassed oil and gas shows from shallower Pliocene horizons. The LG-1 well was drilled by the previous operator targeting deeper Eocene horizons which were unsuccessful resulting in the well being abandoned.
- Subsequent to the quarter end, the drilling contractor encountered significant delays in obtaining the necessary certifications required by Indonesian regulations and in mobilizing the rig as per the contract planned date of July 24, 2017. The Company therefore terminated the contract and has subsequently contracted a new drilling rig company which has its certifications in place for a similar drilling hydraulic coring rig and is preparing to mobilize to site from Balikpapan, as per the news release dated August 16, 2017.

FINANCIAL PERFORMANCE

Selected Financial Information

	For the six month period ended	
	June 30, 2017	June 30, 2016
Total revenue	nil	nil
Net (loss) for the period	(689,759)	(379,941)
Net (loss) per share	(0.01)	0.00
Total comprehensive (loss)	(710,083)	(379,941)
Total assets	4,889,121	2,638,360
Total long term financial liabilities	nil	nil
Working capital	1,992,199	(474,749)
Capital expenditures	268,528	nil

Results from Operations

The following paragraphs provide information about the results of Sonoro's on-going operations for the six months ended June 30, 2017 and 2016.

General and administrative expense

For the period ended June 30, 2017, general and administrative expense totaled \$689,759, compared to \$383,821 for the corresponding period in 2016. The increase in general and administrative costs relate primarily to increased activity at the Company as a result of the acquisition of Stockbridge, a team and office in place in Jakarta and for the preparation for drilling the well at Budong Budong.

The following table provides a breakdown of general and administrative expense for the six months ended June 30, 2017 and 2016:

	For the six month period ended	
	June 30, 2017	June 30, 2016
Employee salaries and benefits	45,999	150,301
Share based compensation	-	-
Contractors and consultants	231,672	26,310
Travel	10,739	18,996
Professional legal & advisory	351,148	148,855
Office administration	57,480	66,702
Other	(101,482)	(151,428)
Jakarta office & administration	94,203	57,926
Depreciation		66,159
Total expenses	689,759	383,821

Depreciation and amortization expense

The carrying value of office assets on June 30, 2016 was Nil and for the period ended June 30, 2016 was \$26,696. The Company assessed the value of this equipment in quarter one of 2017 and determined that it would write down the value to zero due to the realizable or market value of such assets.

Net loss for the quarter

For the period ended June 30, 2017, the Company realized a net loss of \$689,759 compared to a net loss of \$317,662 for the same period in 2016. The net loss per share (basic and diluted) for both periods was \$0.01 in 2017 and \$0.00 in 2016.

Other comprehensive loss

The Company is required to translate activities of foreign operations from their functional currency into the Company's reporting currency being Canadian dollars. Assets and liabilities are translated at period end rates and revenues and expenses are translated at the average rate for the period. Foreign exchange effects were immaterial for the period in 2016 and a net loss of \$20,325 in 2017.

Capital expenditures

During the period ended June 30, 2017 the Company incurred capital expenditures related to the well program of \$268,528. During the period ended June 30, 2016 the Company had no capital expenditures relating to fixed assets.

Quarterly Information

The following financial information is for each of the eight most recently completed quarters of the Company and has been adjusted to reflect the discontinued operations.

	Total revenues	Loss for the period before discontinued operations	Loss per share - basic and diluted*
	\$	\$	\$
June 30, 2017	-	710,083	0.01
March 31, 2017	-	128,824	0.00
December 31, 2016	-	140,788	0.00
September 30, 2016	-	712,330	0.01
June 30, 2016	-	168,391	0.01
March 31, 2016	-	211,550	0.03
December 31, 2015	-	73,586	0.01
September 30, 2015	-	206,989	0.04

Liquidity and Capital Resources

Working capital

Sonoro had working capital of \$1,992,199 at June 30, 2017 compared with negative working capital of \$487,847 at December 31, 2016.

Cash

The Company had cash of \$2,056,148 at June 30, 2017, compared to cash of \$105,092 at December 31, 2016. The liquid portion of the working capital consists of cash in non-interest bearing accounts held at banks and highly liquid investments, which are readily convertible to known amounts of cash.

Management of this cash is conducted in-house based on investment guidelines approved by the Board of Directors, which generally specify that investments be made in conservative money market instruments that carry a low degree of risk. The objective of these investments is to preserve funds for use in the Company's strategy of exploration and development.

Cash Used in Operating Activities

For the period ended June 30, 2017, cash used for continuing operating activities was \$1,209,938 as compared to \$492,084 for the same period in 2016. Cash used in operating activities was used for general operating activities and well preparation activities.

Outstanding Share Data

On April 28, 2016 Sonoro issued 4,800,000 common shares (post consolidation) at a price of \$0.05 per share for gross proceeds of CAD\$240,000.

On June 7, 2016 Sonoro issued 19,373,140 common shares (post consolidation) at a price of \$0.05 per share for gross proceeds of CAD\$965,657

On June 7, 2016 Sonoro issued 27,500,000 common shares (post consolidation) in connection with the Stockbridge acquisition (25,000,000) and Option Agreement (2,500,000).

On September 12, 2016 the Company consolidated its shares on a ten for one basis. The total number of common shares outstanding post consolidation was 57,314,466.

On May 19, 2017 Sonoro completed a non-brokered private placement for total gross proceeds of CAD\$3,600,000. The financing was completed in two tranches, the first tranche for \$2,698,640 (April 27, 2017) and second tranche for \$901,360 (May 20, 2017).

In total, the Company sold 119,999,997 units (a "Unit") at a price of \$0.03 per Unit, where each Unit consists of one common share (a "Common Share") of the Company and one half of one common share purchase warrant (a "Warrant") of the Company, where each whole Warrant entitles the holder to purchase one Common Share within two years at a price of \$0.05 per Common Share.

The offering is made pursuant to a waiver granted by the TSX Venture Exchange ("TSX-V") which permits the Company to offer the Units at a price below the TSX-V's \$0.05 minimum pricing

requirement pursuant to the TSX Venture bulletin dated April 7, 2014. The Company has undertaken to the TSX-V to conduct a consolidation of the Company's Common Shares within six months of the Closing Date in accordance with the requirements of the TSX-V.

The Company paid finders' fees in connection with the closing of both the first and second tranches in the aggregate amount of \$131,339 plus 4,284,945 Warrants, where each Warrant entitles the holder to purchase one Common Share by April 27, 2019 for the first tranche and by May 20, 2019 for the second tranche at \$0.05 per Common Share.

The Company has 177,314,463 common shares outstanding as at June 30, 2017.

Commitments

The Company co-signed (50% commitment) an office lease for a 36-month term commencing March 1, 2017. Gross rent is equal to \$10,088 per month (net \$5,044 per month) plus operating costs.

The gross annual rent of \$100,879 is payable through 2017, \$121,056 in 2018, \$121,056 in 2019 and \$20,176 in 2020.

Under the Company's Budong-Budong PSC, the Company has completed all of the firm commitments. The Budong-Budong PSC has been extended to January 15, 2018 with a requirement to perform the drilling of one well prior to August 31, 2017 of which the Company is seeking an extension to September 30, 2017 due to drilling delays. If the performing of drilling the well is not executed by this date the PSC may be terminated.

The Company has executed an office lease in Jakarta for a term ended March 1, 2018. Monthly rent is approximately \$3,000.

Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet transactions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies are outlined in Note 2 to the audited consolidated financial statements of the Company for the period ended December 31, 2016. These accounting policies have been applied consistently for the period ended June 30, 2017 and there have been no changes.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Uncertainties about these assumptions and estimates could result in material adjustments to the Company's financial statements and financial position. A description of the Company's significant areas of estimation uncertainty and critical judgments are contained in Note 2(e) to the consolidated audited financial statements of the Company for the year ended December 31, 2016.

There were no changes to the Company's critical accounting estimates during the period ended June 30, 2017.

Internal Controls Over Financial Reporting and Disclosure Controls

As a reporting issuer listed on the TSX Venture Exchange, Sonoro is exempted from certifying as to disclosure controls and procedures (“DC&P”), as well as Internal Control over Financial Reporting (“ICFR”). The Company’s Chief Executive Officer and Chief Financial Officer file a “basic” certificate under National Instrument 52-109 – *Certificates* (“NI 52-109”). Accordingly, the Company has made no assessment relating to establishment and maintenance of disclosure controls and procedures or internal controls over financial reporting as defined under NI 52-109 as of December 31, 2016.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported on the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss:

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position date, which is classified as non-current.

The Company does not have any financial assets or liabilities at fair value through profit or loss.

(ii) Available-for-sale investments:

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income.

Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months. Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of operations as part of finance income. Dividends on available-for-sale equity instruments are recognized in the statement of operations as part of other gains and losses when the company’s right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and are included in other gains and losses.

The Company does not have any available-for-sale investments.

(iii) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

The Company's loans and receivables comprise trade receivables, convertible debenture, cash and cash equivalents, and are included in current assets due to their short-term nature.

(iv) Financial liabilities at amortized cost:

Financial liabilities at amortized cost include trade payables, bank debt and long-term debt.

Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Bank debt and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The Company's financial liabilities at amortized cost include trade payables.

BUSINESS RISKS

The oil and gas industry is very competitive and is subject to many risks, many of which are outside of the Company's control. The risks described below are not the only ones facing the Company. Additional risks not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations. If any of the following risks actually occur, Sonoro's business, financial condition and operating results could be materially and adversely affected. The risks associated with the Company's business include:

Licenses and Permits

On the basis of the current legal and regulatory framework in Indonesia and the extension granted by the Indonesian Government for the Budong Budong License to January 15, 2018 management of the Company believes that the Budong Budong License is valid and enforceable in accordance with applicable laws. However, there can be no assurance that the Budong Budong License in its current Exploration Phase can be converted into a Development License with a successful commercial discovery by drilling a further 1-2 appraisal wells on the License. Without either a further extension or a Development License this could have a material adverse effect on the Company's business, financial condition and prospects.

The Company received an expert legal opinion stating that the Budong Budong License is a valid contract, enforceable with its terms, but there is a risk that the Budong Budong License may be subject to revocation, challenge or amendments. There can be no assurance that claims by third parties against the Company or its related properties will not be asserted at a future date.

Sonoro's operations also require licenses and permits from various governmental authorities. There can be no assurance that Sonoro will be able to obtain or maintain all necessary licenses and permits that may be required to carry out exploration, development and/or operations of its projects. In addition, requirements applicable to sustain existing permits and licenses may change or become more stringent over time and there is no assurance Sonoro will have the resources or expertise to meet its obligations under such licenses and permits.

Capital Requirements

The Company has recently completed a financing for CAD\$3.6 million to fund operations which include drilling the Budong Budong well in West Sulawesi, Indonesia. The Company has no cash flow from operations, and current cash resources are insufficient to fund its entire business plans. The Company will require substantial additional cash resources prior to achieving sufficient free cash flow to fund its operations. Sonoro expects to fund these cash requirements through future financings involving the sale of equity or debt securities, through joint venture or farm-out arrangements, or by other means. There is no assurance that the Company will be able to secure financing or that such financing will be obtained on favorable terms. Failure to obtain adequate financing could: (i) have a material adverse effect on Sonoro's financial condition, results of operations and prospects; and (ii) result in substantial dilution to Sonoro's existing shareholders. The Company cannot provide any assurance that it will be profitable in the future or that the Company will be able to generate cash from operations or financings to fund working capital deficits.

Exploration, Development and Production Risks

Sonoro's exploration, appraisal, development and production of oil and gas on the Budong Budong License and its present stage of development are speculative.

Oil and gas exploration involves a high degree of risk and is frequently unsuccessful. There is no assurance that expenditures made on future exploration by Sonoro will result in new discoveries of oil and gas in commercial quantities. It is difficult to project the costs of implementing any exploratory and appraisal drilling programs due to the Company's intention to initially drill a limited number of wells on the Budong Budong License and inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. The long-term commercial success of the Company's oil and gas activities depends on its ability to acquire, develop and commercially produce oil and gas reserves. No assurance can be given that Sonoro will be able to locate satisfactory reserves or resources on an economic basis.

Future exploration and development may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals, permits, licenses, authorizations or consents, unusual or unexpected geological formations, formation pressures, geotechnical and seismic factors, occupational and health hazards, technical failures, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity, labour disputes, fires, explosions, power outages, rock falls, landslides, acts of God, or other geological and mechanical conditions. While close well supervision and effective maintenance operations can

contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas activities are subject to the risks of exploration, appraisal, development and production of oil and gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills, all of which could result in personal injuries, loss of life and damage to the property of Sonoro and others. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on the future results of operations, prospects, business, liquidity and financial condition of Sonoro.

In addition, there can be no assurance that the Company will be able to manage effectively the expansion of its operations or that the Company's current personnel, systems, procedures and controls will be adequate to support the Company's operations. Any failure of the Board to effectively manage the Company's growth and development could have a material adverse effect on the Company's business, financial condition and results of operations. There is no certainty that all or any of the elements of the Company's current strategy will develop as anticipated and that the Company will be profitable.

Resource Estimates

There are numerous uncertainties inherent in estimating quantities of prospective and contingent oil and gas resources. All such estimates, including those in the Company's prospective resource reports, are to some degree speculative, and classifications of prospective resources are only attempts to define the degree of speculation involved. For these reasons, estimates of the prospective resources attributable to the Company's prospects and the classification of such resources based on risk of recovery associated with resource estimates prepared by different engineers, or by the same engineers at different times may vary. Further, there is no certainty that any portion of the prospective resources will be discovered. If a discovery is made, there is no certainty that it will be developed or, if it is developed, there is no certainty as to timing of such development or that it will be commercially viable to produce any portion of the prospective or contingent resources.

Joint Ventures

The Company carries out a portion of its business through joint ventures and similar arrangements with third parties. These arrangements involve a number of risks, including:

- disputes with partners in connection with the performance of their obligations under the relevant joint operating agreements;
- disputes as to the scope of each party's responsibilities under such arrangements;
- financial difficulties encountered by partners affecting their ability to perform their obligations under the relevant joint operating agreement; and
- conflicts between the policies or objectives adopted by partners and those adopted by the Company.

In the event that the Company encounters any of the foregoing issues with respect to its joint operating partners, the Company's business, prospects, financial condition and results of operation may be materially and adversely affected.

Foreign Activities in Indonesia

The Company's principal assets are located in Sulawesi Indonesia, which may experience periods of civil unrest, terrorism, violence and war, as well as political and economic instability. Oil and Gas activities in Indonesia may be affected in varying degrees by: (i) civil unrest, terrorism, violence and war, as well as political and economic instability; (ii) government regulations and intervention relating to the mining and oil and gas industries and foreign investors therein; and (iii) policies of other countries in respect of Iraq. Any changes in regulations or shifts in political conditions are beyond the control of Sonoro and may adversely affect its business, results of operation, prospects, liquidity and financial condition.

Operations may be affected in varying degrees by government regulations, policies, rulings or directives with respect to restrictions on production or sales, price controls, export controls, repatriation of income, income taxes, carried interest for Iraq, expropriation of property, environmental legislation and obtaining visas for Sonoro personnel and contractors. Operations may also be affected in varying degrees by political and economic instability, including economic or other sanctions imposed by other countries, expropriation of assets without fair compensation, adverse legislation in Indonesia and/or the Province, a change in crude oil or natural gas pricing policy, availability of oil transport trucks, finding acceptable gas conservation solutions, terrorism, civil strife, acts of war, guerrilla activities, military repression, crime, material fluctuations in currency exchange rates, high inflation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, the imposition of specific drilling obligations, and the development and abandonment of fields.

Infrastructure development in Sulawesi Indonesia is limited, which may affect the Company's ability to explore and develop its properties and to store and transport potential future oil and gas production. The lack of suitable infrastructure or lack of access to existing infrastructure may impede the production activities as the ability to implement the plan of operations is dependent upon the ability to access existing infrastructure or procure the construction and development of suitable infrastructure and any delays or failures in this regard could adversely affect the business. There may also be no available refining capacity in the region and the Company may be required to build additional topping facilities or other facilities to process its entire production. In addition, the Company may be required to establish camps for all of its field operations.

Management of Key Relationships in Indonesia

Failure to manage relationships with local communities, government and non-government organizations could adversely impact Sonoro's business in Indonesia. Negative community reaction to operations could have an adverse impact on operations, profitability, and the ability to finance or even the viability of Sonoro in Indonesia. This reaction could lead to disputes that may damage the Company's reputation and could lead to potential disruption to projects or operations.

Prices, Markets and Marketing

The marketability and ultimate commerciality of end product sales that may be acquired, discovered or produced by Sonoro is, and will continue to be, affected by numerous factors beyond the complete control of the Company, including:

- the impact that the various levels of government may have on the ultimate price received for its products, the export of products and other aspects of the oil and gas industry;
- reservoir characteristics;

- the proximity and capacity of oil and gas pipelines and processing facilities and equipment;
- the availability and proximity of pipeline capacity and sales markets;
- security issues;
- the local supply of and demand for oil;
- the effects of inclement weather;
- the availability of drilling, production and related equipment and supplies, as well as services, all of which may be disrupted for a number of reasons;
- the hazards related to drilling and associated operations;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- the availability and productivity of skilled labour; and
- adverse legislation in the regions in which it operates.

Prices for oil and gas, as well as prices underlying end product sales, are unstable and are subject to fluctuation and subject to various factors beyond Sonoro's control. Over the past couple years, both oil and gas prices remained volatile. Any material decline in prices could have a material adverse effect on Sonoro's business by making development and/or operations uneconomic, restricting the ability to obtain further financing and other factors.

Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Restrictions on the ability to market the Company's production could have a material adverse effect on the Company's revenues and financial position. Because of the above-mentioned factors, the Company could be unable to execute projects on time, on budget, or at all, and may not be able to effectively market the oil and natural gas that it may produce.

Risks Associated With the Need to Maintain an Effective System of Internal Controls

The Company faces risks frequently encountered by developing companies such as under-capitalization, cash shortages and limited resources. In particular, its future growth and prospects will depend on its ability to manage growth and to continue to maintain, expand and improve operational, financial and management information systems on a timely basis, while at the same time maintaining effective cost controls. Any damage to, failure of or inability to maintain, expand and upgrade effective operational, financial and management information systems and internal controls in line with the Company's growth could have a material adverse effect on the Company's business, financial condition and results of operations.

Cost of New Technologies

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before

the Company does. There can be no assurance that the Company will be able to respond to any such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Company or implemented in the future may become obsolete. In such case, the Company's business, financial condition and results of operations could be materially adversely affected. If the Company is unable to utilize the most advanced commercially available technology, the Company's business, financial condition and results of operations could be materially adversely affected.

Operating Hazards

Oil exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as pollution, cratering, fire, explosion, environmental damage, blowouts and oil spills, each of which could result in substantial damage to oil wells, production facilities, other property and the environment or in personal injury or death. Sonoro's involvement in heavy oil activities may result in such risks and hazards and its subsequent liability.

Although Sonoro plans to carry insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances Sonoro may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The nature of these risks is such that liabilities could exceed policy limits, in which event Sonoro could incur significant costs that could have a material adverse effect upon its financial condition. The payment of such uninsured liabilities would reduce the funds available to Sonoro. The occurrence of a significant event that Sonoro is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Sonoro's financial position, business, and results of operations or prospects.

Environmental

All phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur significant costs to remedy such discharge. No assurance can be given that changes in environmental laws or their application to the Company's operations will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Foreign Legal and Judicial Systems

The jurisdictions in which Sonoro operates have less developed legal systems than more established economies which may result in risks such as (i) ineffective legal redress in the courts

of such jurisdictions, whether in respect of a breach of law or regulation, or, in an ownership dispute, being difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; (v) relative inexperience of the judiciary and courts in such matters; or (vi) in certain jurisdictions the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, farm-in agreements, licenses, license applications or other legal arrangements will not be adversely affected by the actions of government authorities and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

Foreign Exchange

The Company has historically conducted its financings in Canadian dollars and a significant amount of its operating expenditures and financial commitments are denominated in United States dollars and Indonesian Rupiah. Where there are fluctuations in the United States dollar exchange rate, Sonoro's revenue margins may be materially affected.

Farm-out and Joint Venture Partners

The Company may enter into further farm-out agreements to fund a portion of the exploration and development costs associated with its assets. Moreover, other companies may from time to time operate some of the other assets in which the Company has an ownership interest. Liquidity and cash flow problems encountered by the partners and co-owners of any assets in which Sonoro has an interest, and any non-compliance by the partners and co-owners may lead to a delay in the pace of drilling or project development that may be detrimental to a project or may otherwise have adverse consequences for the Company. In addition, any farmout partners and working interest owners may be unwilling or unable to pay their share of the costs, including project costs as they become due. In the case of a farmout partner, the Company may have to obtain alternative funding in order to complete the exploration and development of the assets subject to such farmout agreement. In the case of a working interest owner, the Company may be required to pay the working interest owner's share of the project costs. The Company cannot assure investors that it would be able to obtain the capital necessary in order to fund either of these contingencies. It is also possible that the interests of the Company and those of its joint venture partners are not aligned resulting in project delays or additional costs or losses.

Canadian and Foreign Tax Considerations

The Company is subject to the provisions of the *Income Tax Act* (Canada) and the applicable provincial and foreign income tax legislation. The Company is in the business of exploring for oil and gas and its operations are subject to the unique provisions of the tax legislation. The Company has filed all of its tax returns and believes that it is in full compliance with the regulations. The tax returns can be reassessed by either government and if a reassessment were successful, the Company may be subject to a higher than expected past or future tax liability, as well as potential interest or penalties.

Litigation

The Company has been party to certain litigation matters, and notwithstanding that the Company's was able to settle this litigation with all claims removed by all parties involved. The settlement contains various provisions which inherently could result in some uncertainty and may result in further damages being brought forward not anticipated in the settlement. This could have a material adverse effect on its business, financial condition, results of operations and prospects.