SONORO ENERGY LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

SONORO ENERGY LTD.

Consolidated Financial Statements
As at and for the years ended December 31, 2014 and 2013

April 30, 2015

Independent Auditor's Report

To the Shareholders Sonoro Energy Ltd.

We have audited the accompanying consolidated financial statements of Sonoro Energy Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of comprehensive loss, changes in equity and cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sonoro Energy Ltd. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Sonoro Energy Ltd.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers LLP
Suite 3100, 111 5th Avenue SW, Calgary, Alberta, Canada T2P 5L3
T: 403 509-7500 F:403 781-1825, www.pwc.com/ca

SONORO ENERGY LTD.
Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2014 and 2013
Canadian Dollars

	Note	Years Ended December 31, 2014	2013
Expenses			
General and administrative	8	**$ (1,950,320)**	$ (4,087,838)
Depreciation of property, plant and equipment	12	**(50,916)**	(73,313)
Amortization of patents and intellectual property	13	**(266)**	(418)
Operating loss		**(2,001,502)**	(4,161,569)
Net finance income (loss)	9	**(16,445)**	14,249
Loss before other items		**$ (2,017,947)**	(4,147,320)
Other Income and Expenses			
Bad debt expense	11	**(174,311)**	(592,410)
Net (loss)/gain on disposal of assets	13	**(1,722)**	6,236
Impairment of property, plant and equipment	12	**(47,454)**	-
Impairment of exploration and evaluation assets	14	**(13,624,134)**	-
Equity loss on joint venture investment	7	**(307,278)**	(444,012)
Net loss for the year		**$ (16,172,846)**	(5,177,506)
Other Comprehensive Loss			
Exchange differences on translation of foreign operations		**(636,785)**	1,012,341
Total comprehensive loss for the year		**$ (16,809,631)**	(4,165,165)
Net Loss Attributable to:			
Shareholders of Sonoro Energy Ltd.		**(16,172,846)**	(5,177,506)
		$ (16,172,846)	(5,177,506)
Total Comprehensive Loss Attributable to:			
Shareholders of Sonoro Energy Ltd.		**(16,809,631)**	(4,165,165)
		$ (16,809,631)	$ (4,165,165)
Per Share Information			
Net loss per share – basic and diluted		**$ (0.29)**	$ (0.18)
Weighted average number of common shares outstanding	15	**56,413,243**	28,257,700

Nature of Business and Going Concern *(Note 1)*

SONORO ENERGY LTD.
Consolidated Statements of Financial Position

Canadian Dollars

	Note	December 31, 2014	December 31, 2013
ASSETS			
Current			
Cash and cash equivalents		**$ 530,930**	$ 2,171,553
Accounts receivable	11	**185,986**	102,187
Prepayments and other		**91,257**	168,278
		808,173	2,442,018
Investment in joint venture	7	**-**	849,518
Property, plant and equipment	12	**87,698**	215,390
Patents and intellectual property	13	**-**	168,885
Exploration and evaluation assets	14	**-**	14,361,124
		$ 895,871	$ 18,036,935
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**$ 569,460**	$ 906,957
		569,460	906,957
SHAREHOLDERS' EQUITY			
Share capital	15	**63,749,872**	63,749,872
Contributed surplus		**10,791,458**	10,785,394
Accumulated other comprehensive income/(loss)		**216,152**	852,937
Accumulated deficit		**(74,431,071)**	(58,258,225)
		326,411	17,129,978
		895,871	$ 18,036,935

Nature of Business and Going Concern *(Note 1)*
Contingencies and Commitments *(Note 19)*

ON BEHALF OF THE BOARD:

"Richard Wadsworth", Director

"David Robinson", Director

The accompanying notes are an integral part of these consolidated financial statements

SONORO ENERGY LTD.
Consolidated Statements of Changes in Equity
Canadian Dollars

	Note	Common Shares Number	Common Shares Amount	Contributed Surplus	Accumulated Other Comprehensive Income/(loss) Foreign Currency Translation	Accumulated Deficit	Total
Balance at December 31, 2012		**26,451,805**	**$ 61,365,541**	**$ 10,675,806**	**$ (159,404)**	**$ (53,080,719)**	**$ 18,801,224**
Share based payments	16	-	-	**96,197**	-	-	**96,197**
Loss and comprehensive loss for the period		-	-	**-**	**525,276**	**(3,317,949)**	**(2,792,673)**
Private placement - December 9, 2013	15	**29,961,438**	**2,396,915**	-	-	-	**2,396,915**
Share issue costs	15	-	**(12,584)**	-	-	-	**(12,584)**
Share based payments	16	-	-	**13,391**	-	-	**13,391**
Loss and comprehensive loss for the period		-	-	**-**	**487,065**	**(1,859,557)**	**(1,372,492)**
Balance at December 31, 2013		**56,413,243**	**$ 63,749,872**	**$ 10,785,394**	**$ 852,937**	**$ (58,258,225)**	**$ 17,129,978**
Share based payments	16	-	-	**6,064**	-	-	**6,064**
Realized foreign currency translation	14	-	-	**-**	**(720,387)**	-	**(720,387)**
Loss and comprehensive loss for the period		-	-	**-**	**83,602**	**(16,172,846)**	**(16,089,244)**
Balance at December 31, 2014		**56,413,243**	**$ 63,749,872**	**$ 10,791,458**	**$ 216,152**	**$ (74,431,071)**	**$ 326,411**

Nature of Business and Going Concern *(Note 1)*

On December 9, 2013 the Company consolidated its issued and outstanding common shares on a ratio of ten (10) pre-consolidation common shares to one (1) post-consolidation shares, consolidating the Company's 264,518,053 issued and outstanding common shares to, 26,451,805 common shares following the consolidation. These financial statements reflect the post-consolidated changes.

SONORO ENERGY LTD.
Consolidated Statements of Cash Flow

For the years ended December 31, 2014 and 2013

Canadian Dollars

		2014	2013
Operating Activities			
Net loss for the year		**$ (16,172,846)**	$ (5,177,506)
Items not affecting cash and cash equivalents:			
Write off of bad debts	11	**174,311**	592,410
Share based payments	16	**6,063**	83,579
Depreciation of property, plant and equipment	12	**50,916**	73,313
Amortization of patents and intellectual property	13	**266**	418
(Gain) loss on disposal of assets		**1,722**	(6,236)
Impairment of property, plant and equipment	12	**47,454**	-
Impairment of exploration and evaluation assets	14	**13,624,134**	-
Loss on joint venture investment	7	**307,278**	444,012
Foreign exchange		**21,022**	2,988
		(1,939,680)	(3,987,022)
Net change in non-cash working capital related to operations	19	**(342,288)**	169,701
Cash flows used in operating activities		**(2,281,968)**	(3,817,321)
Investing Activities			
Investment in joint venture	7	**(132,156)**	(241,353)
Proceeds received on disposal of joint venture	7	**731,896**	
Purchases of property, plant and equipment	12	**(3,915)**	(2,168)
Purchases and maintenance of patents and intellectual property	13	**(21,891)**	(27,801)
Purchases/reimbursements of exploration and evaluation expenditures	14	**25,083**	(372,586)
Proceeds received on disposal of patents	13	**127,208**	-
Proceeds received on disposal of equipment	12	**-**	10,327
Net change in non-cash working capital related to investing	19	**(10,026)**	357,208
Cash flows from/(used in) investing activities		**716,199**	(276,373)
Financing Activities			
Proceeds from the issuance of shares and warrants	15	**-**	2,396,915
Share issue costs	15	**-**	(12,584)
Proceeds from sale of convertible debentures		**-**	250,000
Cash flows from financing activities		**-**	2,634,331
Increase(decrease) in cash and cash equivalents		**(1,565,769)**	(1,459,363)
Cash and cash equivalents, beginning of year		**2,171,553**	3,582,920
Impact of foreign exchange on cash balances		**(74,854)**	47,996
Cash and cash equivalents, end of year		**$ 530,930**	$ 2,171,553
Cash Flow Supplementary Information			
Interest received		**4,577**	1,461

The accompanying notes are an integral part of these consolidated financial statements

1. Nature of business and going concern

Sonoro Energy Ltd. ("the Company") was incorporated February 4, 2000 in British Columbia, Canada and commenced trading on the TSX Venture Exchange ("the TSX-V") on November 29, 2000. Effective January 31, 2013, the Company's registered office is 666 Burrard Street, Suite 1700, Vancouver, British Columbia, Canada. The Company's corporate office is located at Suite 1000, 600 – 6th Avenue SW Calgary, Alberta, Canada.

These financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

The business of the Company consists of the exploration for, appraisal of and development and production of unconventional asphalt/bitumen resources in Iraq and the development of other technologies related to the energy and oil resource sector, including fly ash beneficiation, in Canada.

The Company operates in a jurisdiction that may be subject to frequent changes in government practices and policies. While the Company believes that it has a valid exploration license to explore Asphalt in the province of Salah ad Din, and has obtained an opinion from legal counsel to support this assertion, there may be political or legal changes in the future that could impact the Company's title to these assets. The Company is working with Iraqi Federal and Provincial Governments to obtain further regulatory approvals for their drilling activities and License. Additionally, the initial exploration period on the license, granting title to these assets, is five years, starting on April 14, 2011, which means that the initial exploration period, and title to these assets, will expire on April 14, 2016.

Oil and gas operations are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The political and security situation in Iraq is unsettled and volatile. The political issues of federalism and the autonomy of the regions and provinces of Iraq are matters about which there are major differences between the various political factions in Iraq. These differences could adversely impact the Company's interest in the Salah ad Din province. The Company expects to incur expenditures in the future to explore, appraise and develop asphalt/bitumen resource assets, subject to Iraqi Federal and Provincial Governments regulatory approvals. The Company's ability to continue as a going concern is dependent on obtaining additional financing necessary to develop its asphalt/bitumen resource assets and generate profitable operations from the discovery of asphalt/bitumen resources in the future without significant adverse developments in the political and security situation as described above.

As at December 31, 2014, the Company continues to be in the initial stages of exploration of its asphalt/bitumen resource assets which is now in Force Majeure. For the year ended December 31, 2014, the Company had no revenues, working capital of $238,713 (2013 - $1,535,061), negative cash flows from operations of $2,281,968 (2013 - $3,817,321), a loss from operations of $16,172,846 (2013 - $5,177,506) and an accumulated deficit of $74,431,071 (2013 - $58,258,225).

As Force Majeure was filed on July 3, 2014 on the Asphalt License Agreement this may have a significant impact on the Company's ability to seek additional sources of capital. In December 2013, the Company completed a private placement for aggregate gross proceeds of $2,396,915 in order to progress its program in Iraq, and has been directly engaged with federal and provincial authorities in Iraq to expedite the approvals required to do so. During the year the security situation in Iraq deteriorated with rebel forces claiming much of northern Iraq including areas within the License area and the city of Tikrit where the Provincial Government resides.

While these consolidated financial statements have been prepared on the assumption that the Company is a going concern, the above material uncertainties cast significant doubt on this assumption and accordingly, the appropriateness of the use of the accounting principles applicable to a going concern. Additionally, in order to meet its future commitments (see Note 18) regarding the Company's exploration, appraisal, development and production program in Iraq, the Company will need to raise additional funds (Note 14). The Company will continue to evaluate various strategic alternatives, including but not limited to, farm-out, additional equity financing, mergers, acquisitions, alternative financings, and/or liquidation of its assets and reduction of costs to enable the Company to meet its short term obligations and to provide resources for sustainable future growth and development.

The ability of the Company to continue as a going concern is dependent on the Company obtaining additional sources of capital, and no significant adverse legal, political and security developments in Iraq. Further, the Company is party to certain litigation matters, and notwithstanding the Company's belief that such matters will be decided in its favour, the results of litigation are inherently uncertain and may result in adverse rulings or decisions (Note 18). The Company may enter into settlements or be subject to judgments that may, individually or in the aggregate, have a material adverse effect on its business, financial condition, results of operations and prospects. Management of the Company continues to evaluate possible industry partnerships, equity and debt financing and regulatory approvals, but there is no assurance that these initiatives will be successful.

These financial statements do not reflect the adjustments, of which some could be material, to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption determined to be inappropriate.

2. Basis of preparation

a) Statement of compliance

These consolidated annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable as at December 31, 2014. As part of this preparation, management is required to make estimates and assumptions under IFRS. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent amounts and the reported amounts of revenues and expenses. Actual results could differ from these estimates. Refer to use of judgments and estimates below for further discussion.

These consolidated financial statements were authorized for issuance by the Board of Directors as of April 30, 2015.

b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries (collectively referred to as "Sonoro Group of Companies"). Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Investments, including joint ventures, where the Company exerts significant influence are recorded on the equity basis whereby the investment is originally recorded at cost and the carrying value is adjusted to include the pro-rata share of the investee's earnings, less dividends received. On a quarterly basis, management assesses the carrying value of investments for indications of impairment. An indication of impairment is a significant or prolonged decline in value. If an impairment indicator exists, the amount of the impairment loss is determined as the excess of the carrying value of the asset over its recoverable amount, where the recoverable amount is the higher of the fair value less costs to sell and value in use. Foreign exchange gains or losses arising from translation of the Company's investment are included in the cumulative translation adjustment account in other comprehensive income. Inter-company transactions, balances and unrealized gains on transactions between subsidiary companies are eliminated.

			Effective Ownership Interest	
			December 31,	**December 31,**
Subsidiary Name		**Jurisdiction**	**2014**	**2013**
Sonoro Energy International Holdings B.V. ("SEIHBV")		The Netherlands	100.0%	100.0%
Sonoro Energy Iraq B.V. ("SEIBV")	(1)	The Netherlands	100.0%	100.0%
TIGRIS Energy Services B.V. ("TESBV")	(2)	The Netherlands	100.0%	100.0%
SonoAsh LLC. ("SonoAsh LLC")	(3)	Delaware, USA	0.0%	100.0%
PetroSonic Energy Systems Inc. ("PetroSonic Energy")	(4)	Delaware, USA	100.0%	100.0%
Sonic Environmental Solutions Corp. ("Sonic Corp.")	(4)	California, USA	100.0%	100.0%

(1) Holds a 40% participation interest in the license agreement signed with the Salah ad Din province of Iraq.
(2) Holds 40% equity interest in Stratton Drilling Co. FZC, a joint venture company.
(3) Sold in 2014 – see note 13.
(4) Inactive.

c) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis and have been prepared using the accrual basis of accounting. The comparative figures presented in the consolidated financial statements are in accordance with IFRS. The Company's functional and presentation currency is Canadian dollars.

d) Foreign currency translation

Functional and presentation currency

The financial statements of each entity in the Sonoro Group of Companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Sonoro Energy Ltd.'s functional currency.

The financial statements of entities that have a functional currency different from that of Sonoro Energy Ltd. ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities translated at the closing rate at the date of the statement of financial position, and income and expenses translated at the average rate of the period (which is considered a reasonable approximation to actual rates). All resulting exchange differences are recognized in other comprehensive income (loss) and accumulated in a separate component of equity referred to as accumulated other comprehensive income (loss).

When a foreign operation is disposed of, the cumulative amount of the exchange differences relating to that foreign operation accumulated in a separate component of equity is reclassified from equity to profit or loss in the statement of operations.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of operations.

e) Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

1. **Critical accounting estimates and assumptions**
   The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

   a. Impairment of financial assets
   A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss in the statement of operations. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss in the statement of operations.

   b. Impairment of non-financial assets
   The carrying amounts of the Company's non-financial assets, other than exploration and evaluation ("E&E") assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment ("PP&E"), and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

   For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

The goodwill acquired in an acquisition, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss in the statement of operations. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of PP&E and E&E assets, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

c. Taxation

The Company's subsidiaries are subject to taxation under the applicable tax laws in force in various jurisdictions. Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

d. Cost estimates

Costs for services performed but not billed are estimated based on quotes provided by vendors. Actual costs could differ from accrued amounts.

2. **Critical judgements in applying the Company's accounting policies**

a. Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. The board of directors monitors future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 1.

b. Joint arrangements

The classification of joint arrangements structured through separate vehicles as either joint ventures or joint operations requires significant judgment and depends on the legal form and contractual terms of the arrangement as well as other facts and circumstances.

These include whether there is exclusive dependence on the parties to the joint arrangement for cash flows through the sale of product and funding of operations, and to assess the rights of the economic benefits of the assets and obligation for funding the liabilities of the arrangements.

A joint arrangement whereby the parties take their share of substantially all of the output of the joint arrangement would be an indicator for classification as a joint operation, regardless of structure of the arrangement, and accounted for by recognizing the Company's share of assets and liabilities jointly owned and incurred, and the recognition of its share of revenue and expenses of the joint operation.

c. Share based payments

The Company measures the cost of its share based payments to directors, officers, employees and consultants by reference to the fair value of equity instruments. The fair value of each share option is measured at the date of grant using the Black-Scholes option-pricing model based upon the option exercise price, the share price at the date of grant, expected volatility, risk free interest rate for the life of the option, the estimated life of the share option and the dividend yield. Changes to assumptions may have a material impact on the amounts presented.

3. Significant accounting policies

a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, term deposits and short term highly liquid investments, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value.

b) Research and development costs

Product development costs and existing product enhancement costs are expensed until such time as the product or process is clearly defined, the technical feasibility has been established, management intends to market the product or process, a market exists for the product or process and adequate resources exist to complete the project. Research and development investment tax credits and government grants, if received, are applied against the costs, as applicable, in the period in which the investment tax credits and government grants are received.

c) Patent rights and intellectual property

Patent rights and intellectual property are recorded at cost and are capitalized and amortized over their estimated useful life of ten years, using the straight-line method from date of grant.

d) Exploration and evaluation assets

Pre-licence costs

Costs incurred prior to the legal award of petroleum and natural gas licences, concessions and other exploration rights are expensed in the statement of operations as incurred.

Exploration and evaluation

E&E costs, including the costs of acquiring licences and directly attributable general and administrative costs, initially are capitalized as E&E assets. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, intangible E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets within property, plant and equipment referred to as oil and gas interests.

Development and production

Items of PP&E, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into Cash Generating Units ("CGUs") for impairment testing. When significant parts of an item of PP&E, including oil and gas interests, have different useful lives, they are accounted for as separate items (major components). Gains and losses on disposal of an item of PP&E, including oil and gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in the statement of operations.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the statement of operations as incurred. Such capitalized oil and gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of PP&E are recognized in the statement of operations as incurred.

Decommissioning liabilities

Where a liability for the removal of production facilities and site restoration at the end of the production life of a field exists, a provision for decommissioning is recognized. The Company records a provision for the fair value of decommissioning at the time the provision is incurred, normally when an asset is purchased or developed. The amount recognized is the present value of estimated future expenditure, using a risk free rate, determined in accordance with local conditions and requirements. On recognition of the provision there is a corresponding increase in the carrying amount of the related fixed asset which is depleted on a unit of production basis based on the estimated quantity of commercial reserves. The provision is increased each reporting period due to the passage of time and the amount is charged to the statement of operations in the reporting period and is classified as finance costs. Changes in estimates are recognized prospectively with corresponding adjustments to the provision and the underlying fixed asset. The Company had no decommissioning obligations as at December 31, 2014 and December 31, 2013.

e) Depletion and depreciation

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

For other assets, depreciation is recognized in the statement of operations on a declining balance at rates of 20 to 30 percent for each part of an item of property, plant and equipment. Leasehold improvements are amortized over the remaining term of the lease. Equipment used in technology is amortized straight line over 5 to 10 years. Land is not depreciated.

f) Share capital

The proceeds from the exercise of share options and warrant and issuance of shares from treasury are recorded as share capital in the amount for which the option, warrant, or treasury share enabled the holder to purchase a share in the Company.
Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares issued, which is determined by the Board of Directors of the Company and is based on the trading price of the shares at the time an agreement to issue shares has been reached.

The proceeds from the issue of units consisting of a common share and a share purchase warrant is allocated between common shares and common share purchase warrants on a pro-rata basis on a relative fair value basis, wherein, the fair value of the common shares is based on the market closing price on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

g) Share issuance costs

Commissions paid to underwriters, and other related share issue costs, such as legal, auditing and printing, on the issue of the Company's shares are charged to share capital.

h) Share based payments

The Company's share option plan allows directors, officers, employees and consultants to receive remuneration in the form of share based payment transactions, whereby they render services as consideration for equity instruments of the Company ("equity-settled transactions"). The fair value of options granted is measured at the date of the grant and is determined using the Black-Scholes option pricing model.
Share based payments expense is accrued and charged to operations or capitalized, with an offsetting credit to contributed surplus, on a graded-vesting basis over the period during which the options vest. Share based payments expense is capitalized to exploration and evaluation assets or development and production assets to the extent that the activities are directly related to the exploration for or development of petroleum and natural gas reserves. Share based payments expense is capitalized to tangible property, plant and equipment to the extent that the activities are directly related to the bringing the property, plant or equipment to the location and condition necessary to be capable of operating in the manner intended by management.

When share options are exercised, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase in share capital. No expense is recognized for options that ultimately do not vest.

i) Revenue recognition

Petroleum and natural gas revenue

Petroleum and natural gas revenues are recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the purchaser, and payment is reasonably assured.

Technology

Revenue attributable to technology is recorded once there is persuasive evidence that an arrangement exists, service is provided, the selling price is fixed and determinable, and collectability is reasonably assured.

Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

j) Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise outstanding options and warrants and their equivalents.

k) Income taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statement of operations except to the extent it relates to items recognized in other comprehensive income or directly in equity. Tax on income in interim periods accrued using the tax rate that would be applicable to expected total annual earnings.

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in all subsidiaries, except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and

- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

l) Farm outs

The Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm out arrangements, but any consideration received directly from the farmee is credited against the total costs previously capitalized.

m) 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.

(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 accounts receivable, convertible debenture, cash and cash equivalents and note receivable, and are included in current assets due to their short-term nature.

(iv) Financial liabilities at amortized cost:
Financial liabilities at amortized cost include accounts payable and accrued liabilities.

Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured 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 accounts payable and accrued liabilities.

o) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost:
The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets:
The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is

reclassified to net income. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

p) Policies adopted during the year

In May 2013, the IASB issued International Financial Reporting Interpretation Committee (IFRIC) 21 Levies. This clarifies that an entity recognizes a liability for a levy when the activity that triggers payment occurs. This policy was adopted as of January 1, 2014. The Company is not currently subjected to significant levies so the impact on the Company is not material.

q) Future accounting changes

The following new IFRS pronouncement has been issued but is not yet effective and may have an impact on the Company in the future:

IFRS 9 Financial instruments
IFRS 9 was issued in November 2009. The standard revises and limits the classification and measurement models available for financial assets and liabilities to amortized cost or fair value. It also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment. However, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 15 Revenue from contracts
Revenue from contracts with customers (“IFRS 15”), has been issued as a new standard on revenue recognition and will supersede IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

4. Financial risk management

The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are discussed below:

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company’s financial assets and liabilities are not exposed to significant interest rate risk due to either being short-term in nature or not bearing any interest.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to fulfill an obligation and cause the other party to incur a financial loss. The Company evaluates the collectability of amounts receivable and records an allowance for doubtful accounts which reduces receivables to the amount management reasonably believes will be collected. For the year ended December 31, 2014, the Company recorded bad debt expense of $250,204 (2013 - $592,410).

The maximum exposure to credit risk is represented by the carrying amount of cash and cash equivalents and accounts receivable in the statement of financial position. All receivables are current as at December 31, 2014.

Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Such movements could materially impact the reported results of the Company. Currency risk arises when future commercial transactions and recognized assets and liabilities of the Company or its foreign operations are denominated in a currency that is not the functional currency of those entities. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Canadian Dollar, Euro and United States Dollar. The Company does not use currency derivative instruments to manage the Company's exposure to foreign currency fluctuations.

At December 31, 2014, the carrying amounts of the Company's foreign currency denominated monetary assets and liabilities subject to foreign exchange risk were net monetary assets of €5,224 denominated in Euros (December 31, 2013 - €9,952), 8,689 denominated in UAE Dirham (December 31, 2013 – 111,849) and $108,762 denominated in US dollars (December 31, 2013 - $245,102). A change of 10 per cent in the exchange rate to foreign currencies would result in a change in pre-tax earnings of approximately $13,564 (December 31, 2013 - $25,318). This analysis assumes that all other variables, in particular interest rates, remain constant.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company ensures that it has sufficient capital to meet short-term financial obligations when they become due. The Company prepares cash flow forecasts to ensure it has sufficient funds to fulfill its obligations. At December 31, 2014, there existed working capital of $238,713 (December 31, 2013 - $1,535,061) available to fund operations. Additional information regarding liquidity risk is disclosed in Note 1 – Nature of Business and Going Concern***.***

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration for, appraisal of, and development and production of unconventional asphalt/bitumen resources in Iraq and to maintain flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company includes the components of shareholders' equity as well as cash, receivables and current liabilities.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, enter into joint venture arrangements, acquire or dispose of assets or adjust the amount of cash. Management reviews the capital structure on a regular basis to ensure that the above-noted objectives are met. The Company has no external covenants. The Company's overall strategy remains unchanged from the prior year. Additional information regarding capital risk management is disclosed in Note 1 – Nature of Business and Going Concern.

5. Segmented information

During 2014 (and 2013), the Company had one reportable segment, being the exploration, appraisal and the development and production of asphalt/bitumen resources in Iraq. The Chief Executive Officer and the Chief Operating Officer are the chief decision makers with respect to this segment.

i) Operating information - unconventional asphalt/bitumen resources – Iraq

On October 3, 2010, the Company, through its wholly owned subsidiary Sonoro Energy Iraq B.V. ("Sonoro Iraq"), and its partner Berkeley Petroleum Mesopotamia Asphalts Limited ("Berkeley Asphalts"), together the "Licensee", entered into an Asphalt License Agreement ("the License") with the Salah ad Din Provincial Government of Iraq ("the Provincial Government") covering the entire Salah ad Din Province.

The Company obtained its participating interest in the License through Berkeley Asphalts. The Company paid Berkeley Asphalts a US$250,000 signing bonus and issued Berkeley Asphalts 23,750,000 (pre-consolidation see Note 13(ii) shares at a deemed price of $0.38 per share being the closing price on the date of the transaction for a total value of $9,025,000.

On March 6, 2012, the Company, through its wholly-owned subsidiary, Sonoro Iraq, closed a Farmout Agreement ("the Farmout") with Geopetrol International Holding Inc. and its subsidiary, Geopetrol Iraq Corp. (collectively, "Geopetrol").

Under the Farmout, the Company assigned to Geopetrol a thirty percent (30%) participating interest in the License, with Berkeley Asphalts retaining a thirty percent (30%) participating interest in the License and the Company retaining a forty percent (40%) participating interest in the License and operatorship.

Effective January 5, 2012, the License was amended as follows:

- The Company assigned a 30% participating interest to Geopetrol, in accordance with the Farmout.
- Berkeley Asphalts assigned a 10% participating interest to Geopetrol.
- Berkeley Asphalts assigned its remaining 20% participating interest to Berkeley Petroleum Mesopotamia Limited ("Berkeley").

Pursuant to the Farmout, Geopetrol paid Sonoro Iraq an initial cash payment of US$3,000,000 as partial reimbursement of past costs and agreed to fund the first US$9,000,000 of the costs to be incurred by Sonoro Iraq and Geopetrol in respect of the License.

The License provides for an initial exploration period of 5 years followed by a 30 year exploitation period with extensions for any carved out exploitation areas to develop asphalts (bitumen/heavy oil). The Licensee (collectively, the Company, Geopetrol and Berkeley) is committed to a minimum initial investment commitment of US$1,500,000 and the construction of a 1,000 barrel per day topping facility. The Company is required to carry its proportionate share of Berkeley's costs (i.e. one-half of Berkeley's 20% interest) for the topping facility and through exploration operations.

The Licensee has the exclusive rights to explore, develop and produce asphalts and related organics within the entire Salah ad Din Province and to sell the asphalts and its related organics produced (and/or the by-products after processing) domestically and/or internationally. The Licensee is entitled to 50 percent of the revenues from the sales of asphalts and related organics (and its by-products after processing), after tax and after cost recovery. A total of 80 percent of the revenues are available for cost recovery.

During 2012, the Company entered into a subscription and shareholders agreement with subsidiaries or affiliates of Berkeley and Geopetrol to establish Stratton Drilling Co. FZC ("Stratton"), and purchase a 750 HP drilling rig, to be used for completion of the Company's current drilling program. During 2013, the Company and its partners in Stratton decided to start a sales process for the rig (see Note 6).

The Company was proceeding with its plan to obtain the necessary Provincial and Federal approvals to resolve its Asphalt License delays in order to able to proceed with field operations, until the security situation in Iraq deteriorated during the year. In addition, rebel forces had taken large portions of Northern Iraq including areas within the License and displacing the Provincial Government in Tikrit.

Operating segment financial information

	As at and for the year ended December 31, 2014		
	Iraq	**Corporate**	**Consolidated**
	$	**$**	**$**
Total assets	**130,170**	**765,701**	**895,871**
Total liabilities	**32,462**	**536,998**	**569,460**
Interest income	**-**	**4,688**	**4,688**
Loss attributable to shareholders of Sonoro Energy Ltd.	**(1,440,540)**	**(14,195,682)**	**(15,636,222)**
Depreciation and amortization	**28,999**	**22,183**	**51,182**
Impairment of E&E assets	**(15,101,452)**	**-**	**(15,101,452)**
Capital expenditures	**(694,882)**	**20,379**	**(674,503)**

	As at and for the year ended December 30, 2013		
	Iraq	Corporate	Consolidated
	$	$	$
Total assets	15,536,078	2,500,857	18,036,935
Total liabilities	151,627	755,330	906,957
Interest income	-	684	684
Loss attributable to shareholders of Sonoro Energy Ltd.	(2,364,266)	(2,813,240)	(5,177,506)
Depreciation and amortization	42,515	31,216	73,731
Impairment of investments in joint venture	215,552	-	215,552
Capital expenditures	616,107	27,801	643,908

6. Non-controlling interest

On February 2, 2010, the Company entered into an agreement with AlbNafta, an Albanian registered entity, to build and operate a 1,000 barrel per day PetroSonic heavy oil upgrading facility in Albania. Sonoro provided the license for operating Sonic generators and the process for the upgrading of heavy crude oil and also provided, under a lease agreement, a sonic generator to process 1,000 barrels per day of heavy crude oil for 83.33 percent of the project ("PetroSonic Albania SHA"). AlbNafta provided an existing lease and facility which has been utilized in the past for crude blending operations and contributed $300,000 towards construction costs for 16.67 percent of PetroSonic Albania SHA.

During the fourth quarter of 2011, the Company fully impaired the existing assets in its Albanian operations. A review by the Company of the assets, determined that the carrying amounts of the Plant and Equipment assets located in Albania were in excess of their recoverable amounts. Determining factors included an unfavorable excise tax that would affect profitability, ongoing disputes with the partner with regard to their capital contributions and the focus of the Company's personnel and cash resources on developing its asphalt/bitumen resource opportunities in Iraq.

On July 29, 2012, the Company closed an agreement with PetroSonic Energy Inc. ("Petrosonic") to sell its interest in its de-asphalting technology including all assets in Albania and one of its two Sonic generators in Richmond B.C.

In exchange for selling these rights and assets, Sonoro Energy Ltd. received an initial payment of $250,000 and a $250,000 convertible debenture, and is entitled to a 10% royalty on Petrosonic's net revenues for 10 years from commencement of commercial operations using the de-asphalting technology. The convertible debenture is non-interest bearing, matures in 2014 and may be converted into common shares of Petrosonic at the option of the Company at a price equal to the price per common share of a subsequent equity offering.

The Company elected to receive payment of the full principal amount of the $250,000 convertible debenture it held with Petrosonic. The payment was received in March, 2013.

7. Investment in joint venture

During 2012, the Company entered into a subscription and shareholders agreement with subsidiaries of Berkeley and Geopetrol to establish Stratton Drilling Co. FZC ("Stratton"), and purchase a 750 HP drilling rig, to be used for completion of the Company's current drilling program.

Pursuant to the purchase of the drilling rig, Stratton entered into a loan agreement with Marakei, an affiliate of Geopetrol, for the amount of US$4,003,200. The outstanding portion of the Principal Amount will bear interest at the rate of six per cent (6%) per annum, compounded annually from July 5, 2012. For the year ended December 31, 2014 Stratton recorded interest expense of US$220,176 (2013 – US$360,288) on the outstanding Principal Amount.

In the fourth quarter of 2013, the Company and its partners in Stratton decided to sell the drilling rig. The Company estimated a selling price of approximately USD $6.0 million, and therefore booked an impairment of $215,552 on its investment in the joint venture in 2013. There are no considerations for Discontinued Operations, since the rig was not deployed for use during the time of ownership.

During 2014, Stratton executed a sales agreement for the rig and certain related equipment. As a result of the sale, Sonoro received net proceeds of $731,896 and recorded an equity loss and loss on sale of the rig of $307,278. The Company is now in the process of winding up Stratton with its partners.

Carrying Amount	$
At December 31, 2012	985,340
Additions	241,353
Equity loss on joint venture investment	(444,012)
Effect of movement in exchange rates	66,837
At December 31, 2013	849,518
Additions	**132,156**
Proceeds on disposal of assets	**(731,896)**
Equity loss and loss on disposal of joint venture investment	**(307,278)**
Effect of movement in exchange rates	**57,500**
At December 31, 2014	**-**

8. General & administrative

General and administrative expenses for 2014 and 2013 are comprised of the following:

	2014	2013
	$	$
Employee salaries and benefits	**1,222,450**	1,901,734
Share based payments	**6,064**	83,579
Contractors and consultants	**107,912**	382,021
Travel and accommodation	**92,359**	303,281
Professional, legal and advisory	**260,159**	875,129
Office and administration	**254,577**	519,463
Research	**6,799**	22,631
	1,950,320	4,087,838

9. Net finance income (loss)

Net finance income (loss) for 2014 and 2013 is comprised of the following:

	2014	2013
	$	$
Interest on funds in banks/short-term deposits	**4,577**	1,461
Interest on note receivable	**-**	15,776
Foreign exchange gain/(loss)	**(21,022)**	(2,988)
	(16,445)	14,249

10. Income tax

The Company did not record a provision or benefit for income taxes for the years ended December 31, 2014 and 2013 due to the availability of non-capital loss carry forwards and the uncertainty of their future realization.

		2014		**2013**
Loss from continuing operations before income taxes	$	(16,172,845)	$	(5,177,506)
Statutory tax rate		25%		25%
Provision for recovery of taxes at statutory rates		(4,043,211)		(1,294,377)
Non-deductible and other items for tax purposes		9,428		73,374
Foreign rate tax differences		755,849		111,988
Expiry of capital losses		-		147,429
Change in unrecognized deferred tax assets and prior year adjustments		3,277,934		961,586
		0		**0**

The significant components of deferred income tax assets and liabilities are as follows:

Deferred income tax assets (liabilities)	**2014**	**2013**
Non-capital loss carry forwards	$ 11,504,967	$ 10,724,127
Property, plant and equipment	382,897	497,233
Patents and other intangible assets	3,162,109	135,915
Share issuance/finance costs and other	263,029	376,558
Deferred tax assets (liabilities)	15,313,003	11,733,833
Unrecognized deferred tax asset	(15,313,003)	(11,733,833)
Net Deferred tax asset (liability)	**0**	**0**

The tax benefit of the above noted net tax assets has not been recognized in the financial statements as there is uncertainty regarding the realization of these net deferred tax assets.

The Company has income tax loss carry forwards of approximately $41,591,000 (2013 - $39,539,000) in Canada, available to be carried forward and used to reduce future taxable income in taxation years between 2015 and 2034 depending on the year in which the loss was incurred.

The Company has net operating losses of approximately $607,000 (2013 - $605,000) in the United States, available to be carried forward and used to reduce future taxable income in taxation years between 2015 and 2033 depending on the year in which the loss was incurred.

The Company has tax losses of approximately $4,474,000 (2013 - $3,107,000) in the Netherlands, available to be carried forward and used to reduce future taxable income in taxation years between 2015 and 2023 depending on the year in which the loss was incurred.

11. Accounts receivable

	December 31, 2014	December 31, 2013
	$	$
Amounts receivable – Stratton Drilling Co.	**-**	59,466
Proceeds receiavble - Patent sale	**116,270**	0
GST/VAT and other receivables	**69,716**	42,721
	185,986	102,187

The Company considers that the carrying amounts of accounts receivable approximate their fair values. Included in accounts receivable as at December 31, 2014, are foreign denominated balances of USD$22,226 denominated in USD (December 31, 2013 – USD$55,910) which are subject to exchange rate fluctuations.

During the year ended December 31, 2014, the Company recorded net bad debt expense of $174,311. Due to the sale of the drilling rig in Stratton (Note 7), the Company collected proceeds related to previously allocated to bad debt expense in 2013 in the amount of $75,893 resulting in a reversal of previous expense charges. In addition, the Company recorded a bad debt allowance of $250,204, related to its receivable balance due from Geopetrol for outstanding cash call balances owed to Sonoro. The Company does not consider these balances to be collectible as at December 31, 2014, but will continue to pursue alternatives for closing out the arrears.

12. Property, plant and equipment

	Office Assets	Machinery and Equipment	Plant	Total
	$	$	$	$
Cost				
At January 1, 2013	355,783	298,254	238,874	892,911
Additions	2,168	-	-	2,168
Disposals	(4,788)	-	-	(4,788)
Effect of movement in exchange rates	6,955	11,896	-	18,851
At December 31, 2013	360,118	310,150	238,874	909,142
Additions	**3,915**	**-**	**-**	**3,915**
Disposals	**-**	**(280,466)**	**-**	**(280,466)**
Effect of movement in exchange rates	**(1,583)**	**(10,400)**	**-**	**(11,983)**
At December 31, 2014	**362,451**	**19,283**	**238,874**	**620,608**
Accumulated depreciation				
At January 1, 2013	218,087	156,210	238,874	613,171
Additions	34,842	38,471	-	73,313
Disposals	(923)	-	-	(923)
Effect of movement in exchange rates	2,801	5,390	-	8,191
At December 31, 2013	254,807	200,071	238,874	693,752
Additions	**28,985**	**21,931**	**-**	**50,916**
Disposals	**-**	**(206,964)**	**-**	**(206,964)**
Effect of movement in exchange rates	**4,679**	**(9,474)**	**-**	**(4,795)**
At December 31, 2014	**288,471**	**5,565**	**238,874**	**532,910**
Carrying amount				
At December 31, 2013	105,311	110,080	-	215,390
At December 31, 2014	**73,979**	**13,719**	**-**	**87,698**

13. Patents and intellectual property

In September 2014, the Company closed an Asset Purchase Agreement ("APA") with a third party, the sale of all remaining rights of the Sonicator technology and other related assets ("Technology"), excluding solvent de-asphalting of heavy oils as previously sold to Petrsonic Energy in July 2012.

Under the terms of the APA, the Company received closing costs (G&A costs between effective date and closing date), and USD$10,000 as an advance payment for the first Sonicator sale. On each December 31, 2014 and September 15, 2015, the Company will receive additions proceeds of USD$100,000 (first tranche was received prior to year-end). In addition, the Company will receive an additional USD$10,000 for each subsequent Sonicator sale and a royalty of 1% of revenues related to the Technology for the earlier of ten years or eight years from first commissioning of a Sonicator.

As a result of the disposition, the Company recorded a reduction of G&A for closing cost receipts and a gain of $1,722. Prior to the disposition, the Company had an assigned carrying value of $190,510 to the Technology and $32,525 to related assets. The outstanding future payment due in September, 2015, has been recorded on the Balance Sheet as deferred disposition proceeds receivable as a short term asset. No amounts have been recorded with relation to future royalty or future proceeds related to Sonicator sales, due to uncertainty of future sales.

14. Exploration and evaluation assets

E&E assets consist of the Company's intangible exploration projects which are pending the determination of proven or probable reserves and represent the Company's share of costs incurred on E&E assets outside of the farmout with Geopetrol. E&E assets are not depreciated or depleted and are assessed for impairment on a quarterly basis.

On July 3, 2014, the Company provided notice of force majeure on its license in Iraq (see Note 1). Due to the uncertainty of future operations, the Company has recorded an impairment charge on its exploration and evaluation assets of $13,624,134 during 2014. Upon future operation viability, the Company may be able to recapture some or all of the impaired asset costs.

On October 3, 2010, the Company entered into the License with the Provincial Government. On January 5, 2012, the Company, through its wholly-owned subsidiary, Sonoro Iraq entered into a Farmout with Geopetrol. Subsequent to the Farmout, the Company holds a 40 percent participating interest in the License and is operator. Berkeley holds a 20 percent participating interest and Geopetrol holds a 40 percent participating interest. The License provides for an initial exploration period of 5 years followed by a 30 year exploitation period with extensions for any carved out exploitation areas to develop asphalts and related organics. The Licensee is committed to a minimum initial investment commitment of US$1,500,000 and the construction of a 1,000 barrel per day topping facility. During the exploration period, including the construction of the initial topping facility, the Company and Geopetrol have agreed to carry Berkeley's 20 percent participating interest pertaining to exploration operations.

All costs from the date of signing the Farmout associated with License activities have been capitalized to E&E assets (see below). Costs incurred prior to signing the License have been expensed.

Carrying Amount	$
At December 31, 2012	13,103,500
Additions	
E&E assets	372,586
Capitalized share based compensation	26,010
Effect of movement in exchange rates	859,028
At December 31, 2013	14,361,124
Additions	
E&E Assets	**(25,083)**
Capitalized share based compensation	**1,369**
Effect of movement in exchange rates	**(713,276)**
Impairment	**(13,624,134)**
At December 31, 2014	**0**

15. Share capital

(i) Authorized

The authorized share capital of the Company consists of unlimited common shares without par value.

(ii) Issued and outstanding common share activity

There were no transactions for the year ended December 31, 2014.

Transactions for the year ended December 31, 2013:

In December 2013, the Company completed a consolidation of its common shares on a 10 for one basis, in furtherance of a subsequent private placement (the “Private Placement”) of 29,961,438 post-consolidation common shares, as approved at a special meeting of shareholders held December 5, 2013.

The Company received subscriptions for a total of 29,961,438 shares (after consolidation) for aggregate gross proceeds of $2,396,915. In connection with the Private Placement, the Company incurred share issue costs of $12,584.

(iii) Per share information

At December 31, 2014 and 2013, all share options and warrants were excluded from the calculation of diluted average shares outstanding as they were anti-dilutive.

	2014	2013
Basic common shares outstanding	**56,413,243**	26,451,805
Dilutive effect of :		
Share options outstanding	**672,500**	1,264,000
Total possible common shares outstanding	**57,085,743**	27,715,805

	2014	2013
Weighted average shares outstanding	**56,413,243**	28,257,700
Diluted weighted average shares outstanding	**56,413,243**	28,257,700

16. Share based payments

(i) Share options

The Company amended its share purchase option plan on June 29, 2010, whereby the Board of Directors may grant options to directors, officers, employees or consultants. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the Board of Directors. The exercise price of an option is not less than the closing price on the TSX-V on the last trading day preceding the grant date. The maximum aggregate number of Plan Shares that may be reserved for issuance under the Company's Plan is 10 percent of the number of Common Shares outstanding.

Options vest according to the length of service as follows:

Service greater than six months	Service less than six months
33.3% of options vest after six months	33.3% of options vest after twelve months
33.3% of options vest after twelve months	33.3% of options vest after eighteen months
33.4% of options vest after eighteen months	33.4% of options vest after twenty-four months

Movements in the number of stock options outstanding and their related weighted average exercise prices for the year ended December 31, 2014 and the year ended December 31, 2013 are summarized as follows:

	December 31, 2014		December 31, 2013	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding - beginning of year	**1,264,000**	**$ 1.85**	1,872,167	$ 1.88
Granted	**-**	**-**	-	-
Forfeited	**(406,500)**	**2.08**	(578,167)	1.89
Expired	**(185,000)**	**1.88**	(30,000)	3.00
Outstanding - end of period/year	**672,500**	**$ 1.70**	1,264,000	$ 1.85

The following table summarizes the options outstanding and exercisable at December 31, 2014:

	Outstanding		**Exercisable at December 31, 2014**
Exercise Price	**Number of Options**	**Weighted average remaining life (years)**	**Number of options**
1.00	**2,500**	**2.02**	**2,500**
1.00	**25,000**	**2.07**	**25,000**
1.00	**50,000**	**2.26**	**50,000**
1.00	**215,000**	**2.58**	**215,000**
1.15	**40,000**	**0.49**	**40,000**
1.50	**50,000**	**0.06**	**50,000**
2.10	**100,000**	**1.48**	**100,000**
2.70	**140,000**	**1.34**	**140,000**
2.90	**50,000**	**0.72**	**50,000**
	672,500	**1.66**	**672,500**

(ii) Share based payments

Share based payments expense is determined using the fair value method. The fair value of options granted is measured at the date of the grant and is determined using the Black-Scholes option pricing model. There were no options granted in the years ended December 31, 2014 or 2014 during the year.

During the year, share based payments expense totaled $6,064 (2013 - $109,588) of which $1,369 (2013 - $26,009) was capitalized.

17. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As a result of the Private Placement in December 2013, Geopetrol International Holding Inc. became the holder of 54.77% of the Company's common shares.

During the year ended December 31, 2014, key management personnel compensation and director fees of $658,355 were paid or accrued, compared with $965,237 for the comparable period in 2013. In addition, for the year ended December 31, 2014, a share based payments expense of $5,023 was recognized for options issued to directors and officers compared with $77,875 for the same period in 2013.

On November 10, 2011, the Company signed a Promissory Note with Berkeley in favour of the Company, for the amount of $500,000 in United States currency. The outstanding portion of the Principal Amount will bear interest at the rate of six per cent (6%) per annum, compounded monthly from and including the Commencement Date to and including the Maturity Date of June 30, 2013. This Maturity Date had been granted an extension by the Company from the previous Maturity Date of July 31, 2012, as disclosed in the financial statement for the period ending June 30, 2012. A further extension was granted by the Company to June 30, 2013. Total interest in the amount of $43,346 USD was accrued to June 30, 2013 (2012 - $11,780) and this interest was deducted from May 2013 consulting fees paid to the AMIRA Management BV, a related company.

At June 30, 2013 Berkeley had not made payment on the note. As a result, the Company issued a Notice of Default and Request for Payment to Berkeley in July 2013. Under IAS 39 – Financial Instruments, the Company is required to recognize a financial asset as impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. One of these events is "a breach of contract, such as default or delinquency in interest or principal payments". Given the issuance by the Company of the aforementioned Notice of Default, this asset requires a review for impairment.

Further, IFRS 7 – Financial Instruments: Disclosure requires "an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired." The factors for the impairment are indicated above. As a result, a charge to income of $592,410 was recorded against Bad debt expense in 2013.

The Company retains a valid and legally-binding contract with Berkeley regarding this loan. The Company will continue to pursue Berkeley for full payment of the principal and outstanding interest.

During the year, consulting fees in the amount of US$Nil (2013 – US$350,000) were paid to Amira Management BV, a related party to Berkeley.

During the year, Geopetrol Iraq Corp. reimbursed US$436,846 (2013 - $780,925) as part of the carry that was agreed to in the Farmout. At December 31, 2014 there was an amount receivable owing by Geopetrol for US$215,675 (2013 – amount owed to Geopetrol USD$58,282), however, these amounts have been impaired due to collection uncertainty (see note 11).

As at December 31, 2014, no amounts (December 31, 2013 - $2,186) were owing to directors or officers, with respect to salaries, benefits and consulting fees. These amounts are non-interest bearing, have no specific terms of repayment and are included in accrued liabilities.

As at December 31, 2014, there is a $788,500 (2013 - $788,500) commitment relating to change of control or termination of employment without cause of the key management personnel.

18. Contingencies and commitments

i) In September 2010, the Company entered into a lease agreement for the Calgary corporate offices. The term of the lease agreement is five years beginning January 1, 2011 and as at December 31, 2014, the future lease obligations are as follows:

	$
2015	117,323
2016	-
2017	-
2018	-
2019	-
	117,323

i) On October 3, 2010, the Company entered into a License with the provincial government. The terms of the license require that the licensee make an investment of US$1,500,000 on exploration activities and construct a 1,000 barrel per day topping facility within the first 18 months from the effective date. The effective date license has been determined to be April 14, 2011. The provincial government has agreed to extend the time limit prescribed in the license for construction of the topping facility. The previous deadline of October, 2012 has been extended to eighteen months following a commercial discovery. As a result of the Force Majeure declaration, all commitments and work programs have been deferred. Once full operations are restored, the forward work program and commitment timeline will be reviewed with the Government (Note 1).

ii) In 2007 the Company filed a construction lien and claim for payment against Hazco Environmental Services Ltd. (“Hazco”), a division of CCA Income Trust Inc., CCS Inc. and ABB Inc. (“ABB”) in respect of Sonoro’s supply of labour, services and materials related to the treatment and remediation of contaminated soil at a site owned by ABB Inc. located at 2401 Dixie Road in Mississauga, Ontario. Subsequently XCG Consultants Ltd. (“XCG”) and Hazco also filed lien claims against ABB. Hazco and ABB have defended themselves against Sonoro’s claims and ABB have filed counterclaims against XCG, Hazco, Sonoro and Church and Trout (“CTI”) that certain work was performed improperly and/or that deficiencies existed in said work. Sonoro is defending the ABB counterclaims in respect of Sonoro and Sonoro’s insurers at the time, Zurich Insurance, are paying a majority of the costs related to this defence. Sonoro believes that there is no reliable estimate of the potential outcome of the case, therefore no provision is made in the financial statements for the claim.

ABB also claimed against Sonoro for the removal of contaminated filters allegedly left at the site. ABB is seeking $550,000 from the Company in relation to the identification of the problem and the removal of the filters and the material contained therein. Management estimates the cost to remove the filters to be $151,428, which has been accrued as a liability. The Company does not expect to incur any further expenditure related to this lawsuit. As of the date of these consolidated financial statements, discovery sessions are completed, with mediation being delayed and is now expected in Q2 or Q3 2015.

19. Supplemental cash flow information

Non-cash working capital components

	For the years ended December 31, 2014 $	2013 $
Net change in non-cash working capital related to operations:		
Accounts receivable	**(58,560)**	32,706
Prepaid expenses	**40,460**	(59,156)
Note Receivable	**-**	28,618
Accounts payable and accrued liabilities	**(329,576)**	86,719
	(347,676)	88,887
Net change in non-cash working capital related to investing:		
Accounts receivable	**(795)**	(151,109)
Prepaid expenses	**39,342**	(53,800)
Accounts payable and accrued liabilities	**(50,402)**	(9,429)
	(11,855)	(214,338)
Net change in non-cash working capital related to financing:		
Accounts receivable	**-**	-
Prepaid expenses	**-**	-
Accounts payable and accrued liabilities	**-**	-
	-	-