

**SONORO ENERGY LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2016 and 2015**



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## **Independent Auditor's Report**

To the Shareholders of 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, 2016 and the consolidated statements of comprehensive loss, statements of changes in equity and consolidated statements of cash flows for the year then ended, and 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 audit. We conducted our audit 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 audit 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, 2016, and its financial performance and its cash flows for the year 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 Sonoro Energy Ltd.'s ability to continue as a going concern.

**Other matter**

The financial statements of Sonoro Energy Ltd. for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on April 29, 2016.

*/s/ Deloitte LLP*

Chartered Professional Accountants  
April 28, 2017  
Calgary, Canada

**SONORO ENERGY LTD.**  
**Consolidated Statements of Comprehensive Loss**

For the years ended December 31, 2016 and 2015

Canadian Dollars

	Year ended December 31,	
	2016	2015
<b>Expenses</b>		
General and administrative	5 \$ (1,203,370)	\$ (734,119)
Depreciation of property, plant and equipment	8 (14,317)	(22,421)
Option agreement expense	9 (250,000)	-
Bad debt expense	-	(42,608)
Loss on disposal of assets	-	(26,240)
<b>Operating loss</b>	<b>(1,467,687)</b>	<b>(825,388)</b>
Foreign exchange gain on disposition	10 228,818	-
Net finance income (loss)	6 5,811	28,819
<b>Net loss for the year</b>	<b>\$ (1,233,058)</b>	<b>(796,569)</b>
<b>Other Comprehensive Loss</b>		
Exchange differences on translation of foreign operations	-	12,666
<b>Total comprehensive loss for the year</b>	<b>\$ (1,233,058)</b>	<b>(783,903)</b>
<b>Net Loss Attributable to:</b>		
Shareholders of Sonoro Energy Ltd.	(1,233,058)	(796,569)
	<b>\$ (1,233,058)</b>	<b>(796,569)</b>
<b>Total Comprehensive Loss Attributable to:</b>		
Shareholders of Sonoro Energy Ltd.	(1,233,058)	(783,903)
	<b>\$ (1,233,058)</b>	<b>\$ (783,903)</b>
<b>Per Share Information</b>		
Net loss per share – basic and diluted	\$ (0.03)	\$ (0.01)
Weighted average number of common shares outstanding (basic and diluted)	12 35,532,071	5,641,324
<b>Nature of Business and Going Concern (Note 1)</b>		

**SONORO ENERGY LTD.**  
**Consolidated Statements of Financial Position**

Canadian Dollars

		<b>December 31, 2016</b>	December 31, 2015
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 105,092	\$ 11,171
Accounts receivable	7	6,118	4,806
Prepayments and other		<u>13,112</u>	<u>19,232</u>
		<b>124,322</b>	<b>35,209</b>
<b>Property, plant and equipment</b>	8	<b>16,038</b>	<b>30,355</b>
<b>Exploration and evaluation assets</b>	10	<u>2,498,000</u>	<u>-</u>
		<b>\$ 2,638,360</b>	<b>\$ 65,564</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	11	<u>\$ 599,071</u>	<u>\$ 523,056</u>
		<b>599,071</b>	<b>523,056</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	12	<b>67,708,529</b>	<b>63,749,872</b>
Contributed surplus		<b>10,791,458</b>	<b>10,791,458</b>
Accumulated other comprehensive income/(loss)		<b>-</b>	<b>228,818</b>
Accumulated deficit		<u>(76,460,698)</u>	<u>(75,227,640)</u>
		<u>2,039,289</u>	<u>(457,492)</u>
		<b>2,638,360</b>	<b>\$ 65,564</b>

Nature of Business and Going Concern (Note 1)

ON BEHALF OF THE BOARD:

Richard Wadsworth , Director

David Robinson , Director

**SONORO ENERGY LTD.**  
**Consolidated Statements of Changes in Equity**

*Canadian Dollars*

	Note	Common Shares		Contributed Surplus	Accumulated Other Comprehensive Income/(loss)	Foreign Currency Translation	Accumulated Deficit	Total
		Number	Amount					
<b>Balance at December 31, 2014</b>		56,413,243	\$ 63,749,872	\$ 10,791,458	\$ 216,152	\$ (74,431,071)	\$ 326,411	
Loss and comprehensive loss for the year		-	-	-	12,666	(796,569)	(783,903)	
<b>Balance at December 31, 2015</b>		56,413,243	\$ 63,749,872	\$ 10,791,458	\$ 228,818	\$ (75,227,640)	\$ (457,492)	
Private Placement		241,731,400	1,208,657	-	-	-	1,208,657	
Acquisition of Stockbridge	10	250,000,000	2,500,000	-	-	-	2,500,000	
Acquisition of option	9	25,000,000	250,000	-	-	-	250,000	
Effect of share consolidation	12	(515,830,177)	-	-	-	-	-	
Foreign exchange gain on disposition	10	-	-	-	(228,818)	-	(228,818)	
<b>Loss and comprehensive loss for the year</b>		-	-	-	(228,818)	(1,233,058)	(1,233,058)	
<b>Balance at December 31, 2016</b>		57,314,466	\$ 67,708,529	\$ 10,791,458	\$ -	\$ (76,460,698)	\$ 2,039,289	

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

**SONORO ENERGY LTD.**  
**Consolidated Statements of Cash Flow**

For the years ended December 31, 2016 and 2015

Canadian Dollars

	2016	2015
<b>Operating Activities</b>		
Net loss for the year	\$ (1,233,058)	\$ (796,569)
Items not affecting cash and cash equivalents:		
Bad debt expense	-	42,608
Depreciation of property, plant and equipment	8 14,317	22,421
Option agreement expense	9 250,000	-
Finder fee shares, non cash	3,000	-
(Gain) loss on disposal of assets	10 (228,818)	26,240
Foreign exchange	(5,811)	(14,129)
	<u>(1,200,370)</u>	<u>(719,429)</u>
Net change in non-cash working capital related to operations	16 115,644	206,801
<b>Cash flows used in operating activities</b>	<u>(1,084,726)</u>	<u>(512,628)</u>
<b>Investing Activities</b>		
Cash acquired on acquisition	10 2,000	-
<b>Cash flows from investing activities</b>	<u>2,000</u>	<u>-</u>
<b>Financing Activities</b>		
Proceeds from the issuance of shares	12 1,205,657	-
<b>Cash flows from financing activities</b>	<u>1,205,657</u>	<u>-</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>122,931</b>	<b>(512,628)</b>
Cash and cash equivalents, beginning of year	11,171	530,930
Impact of foreign exchange on cash balances	(29,010)	(7,131)
<b>Cash and cash equivalents, end of year</b>	<u>\$ 105,092</u>	<u>\$ 11,171</u>
<b>Cash Flow Supplementary Information</b>		
Interest received	-	8
<b>Nature of Business and Going Concern (Note 1)</b>		

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# SONORO ENERGY LTD.

## Notes to the Consolidated Financial Statements As at and for the years ended December 31, 2016 and 2015 *Canadian Dollars*

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### 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 900, 520 – 5th 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 oil and resources sector focused in South East Asia.

The Company operates in jurisdictions that may be subject to changes in government practices and policies. While the Company believes that it has a valid license, and has legal opinions to support these assertions, there may be political or legal changes in the future that could impact the Company's title to these assets.

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 Company expects to incur expenditures in the future to explore, appraise and develop its oil and gas assets, subject to government approvals. The Company's Budong Budong Production Sharing Contract ("PSC") in Indonesia has an amended term expiration of January 15, 2018 however, the Company is required to drill one exploratory well prior to August 31, 2017 and failure to do so will immediately terminate the PSC. The Company's ability to continue as a going concern is dependent on obtaining additional financing necessary to explore, appraise and develop its oil and gas resource assets and generate profitable operations from the discovery of oil and gas resources in the future without significant adverse developments from potential country or regulatory risks.

For the year ended December 31, 2016, the Company had no revenues, negative working capital of \$474,749 (December 31, 2015 – negative \$487,847), negative cash flows from operations of \$1,084,726 (2015 - \$512,628), a loss from operations of \$1,233,058 (2015 - \$796,569) and an accumulated deficit of \$76,460,698 (December 31, 2015 - \$75,227,640).

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 15) regarding the Company's exploration and, appraisal programs, the Company will need to raise additional funds. 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, continuing to receive support and cooperation from its creditors, achieving profitable operations in Indonesia, and no significant adverse legal, political and security developments in Indonesia. 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.

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# SONORO ENERGY LTD.

## Notes to the Consolidated Financial Statements As at and for the years ended December 31, 2016 and 2015 Canadian Dollars

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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). 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 28, 2017.

#### 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.

Subsidiary Name	Jurisdiction	Effective Ownership Interest	
		December 31, 2016	December 31, 2015
Sonoro Energy International Holdings B.V. ("SEIHBV")	The Netherlands	100.0%	100.0%
Stockbridge Oil and Gas Ltd B.V.I.	British Virgin Islands	100.0%	0.0%
Stockbridge Capital B.V.I.	British Virgin Islands	100.0%	0.0%
Stockbridge Cambodia Ltd. B.V.I.	British Virgin Islands	50.0%	0.0%
Stockbridge Budong Budong B.V.	The Netherlands	100.0%	0.0%
Sonoro Energy Iraq B.V. ("SEIBV")	The Netherlands	0.0%	100.0%

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## SONORO ENERGY LTD.

### Notes to the Consolidated Financial Statements As at and for the years ended December 31, 2016 and 2015 Canadian Dollars

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TIGRIS Energy Services B.V. ("TESBV")	The Netherlands	100.0%	100.0%
PetroSonic Energy Systems Inc. ("PetroSonic Energy")	Delaware, USA	100.0%	100.0%
Sonic Environmental Solutions Corp. ("Sonic Corp.")	California, USA	100.0%	100.0%

#### 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.

#### 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.

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## SONORO ENERGY LTD.

### Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2016 and 2015

Canadian Dollars

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#### **a. Impairment of non-financial assets**

Exploration and evaluation ("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.

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.

#### **b. 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.

#### **c. 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.

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## SONORO ENERGY LTD.

### Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2016 and 2015

Canadian Dollars

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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. CGU determination**

The recoverability of development and production asset carrying values are assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgment of the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets or properties. The factors used by the Company to determine CGUs may vary by country due to unique operating and geographic circumstances in each country. However, in general, the Company assesses each production sharing contract as a CGU.

#### **d. Business combinations**

Acquisitions are assessed to determine if they meet the definition of a business combination based on having inputs, process and outputs. To the extent that an acquisition is a business combination, it is accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant, and equipment, and exploration and evaluation assets acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices, and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities in the purchase price allocation, and any resulting gain or goodwill.

#### **e. Asset retirement obligations**

The provision for site restoration and abandonment is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Future abandonment and reclamation costs have been assessed a zero value in Indonesia as there are no current existing abandonment obligations.

#### **f. Functional currency**

The Company conducts a portion of its operations through foreign subsidiaries, which record transactions in their respective functional currency. The determination of the functional currencies of the Company and its subsidiaries is based on management's judgement which is centered on determining the primary economic environment in which an entity operates. IAS 21, The Effects of Changes in Foreign Exchange Rates, sets out a number of factors that are used in the determination of functional currencies. Where the indicators are mixed and the functional currency is not obvious, management used judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions of its operating entities.

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## SONORO ENERGY LTD.

### Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2016 and 2015

Canadian Dollars

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### 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) 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.

E&E Impairment indicators are evaluated at a CGU level. Indications of impairment include:

1. Expiry or impending expiry of lease with no expectation of renewal;
2. Lack of budget or plans for substantive expenditures on further E&E;
3. Discontinuance of E&E activities due to a lack of commercially viable discoveries; and
4. Carrying amount of E&E asset is unlikely to be recovered in full from a successful development project.

##### *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

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## **SONORO ENERGY LTD.**

### **Notes to the Consolidated Financial Statements As at and for the years ended December 31, 2016 and 2015**

*Canadian Dollars*

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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, 2016 and December 31, 2015.

#### **c) 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.

#### **d) 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 on the date the shares are issued.

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.

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## **SONORO ENERGY LTD.**

### **Notes to the Consolidated Financial Statements As at and for the years ended December 31, 2016 and 2015**

*Canadian Dollars*

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#### **e) 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.

#### **f) 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.

#### **g) Revenue recognition**

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, payment is reasonably assured, the Company retains no continuing managerial involvement to the degree usually associated with ownership or effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **h) 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.

#### **i) 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.

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## SONORO ENERGY LTD.

### Notes to the Consolidated Financial Statements

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#### **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.

#### **j) 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.

#### **k) 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:

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## **SONORO ENERGY LTD.**

### **Notes to the Consolidated Financial Statements**

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(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 cash and cash equivalents and accounts 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.

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## SONORO ENERGY LTD.

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#### **o) Impairment of financial assets**

At each reporting date, the Company assesses whether there is objective evidence that financial assets carried at amortized cost are impaired. If such evidence exists, the Company recognizes an impairment loss as 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.

#### **p) Future accounting changes**

New accounting standards, amendments to accounting standards and interpretations effective for annual periods beginning on or after January 1, 2016 are as follows:

##### **(i) IFRS 9 (revised) "Financial Instruments: Classification and Measurement"**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management.

The Company does not currently apply hedge accounting. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company does not expect the adoption of IFRS 9 amendments to have a material effect on its Consolidated Financial Statements.

##### **(ii) IFRS 15 "Revenue from Contracts with Customers"**

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, replacing IAS 11 Construction Contracts, IAS 18 Revenue, and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company does not expect the adoption of IFRS 9 amendments to have a material effect on its Consolidated Financial Statements.

##### **(iii) IFRS 16 "Leases"**

In January 2016, the IASB issued IFRS 16 Leases, replacing IAS 17 Leases. IFRS 16 establishes a set of principles that both parties to a contract apply to provide relevant information about leases in a manner that faithfully represents those transactions. The current standard (IAS 17) requires lessees and lessors to classify their leases as either finance leases or operating leases, with separate accounting treatment depending on the classification of the lease. Under the new standard, the accounting treatment associated with an operating lease will no longer exist, and lessees be required to recognize assets and liabilities associated with all leased items. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact these amendments may have on its Consolidated Financial Statements.

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## SONORO ENERGY LTD.

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#### 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. During the year ended December 31, 2016, the Company did not record bad debt expense (2015 - \$42,608).

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. Cash balances are maintained with reputable banking institutions. All receivables are current as at December 31, 2016.

##### **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, Indonesian Rupiah 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, 2016, the carrying amounts of the Company's foreign currency denominated monetary assets and liabilities subject to foreign exchange risk were net assets of \$14,469 denominated in US dollars, net liabilities of EUR 17,752 (December 31, 2015 – EUR 41,191) and net assets of Indonesia Rupiah of 52,065,000 (December 31, 2015 - Nil). A change of 10 per cent in the exchange rate to foreign currencies would result in a change in pre-tax earnings of approximately \$4,138 (December 31, 2015 - \$5,709). 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, 2016, there existed negative working capital of \$474,749 (December 31, 2015 – negative \$487,847) 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 oil and gas resources in Indonesia and to maintain flexible capital structure for its

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## SONORO ENERGY LTD.

### Notes to the Consolidated Financial Statements

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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 has embarked on a new strategy to focus and acquire oil and gas assets in SE Asia and completed a related financing offering (Note 11). Additional information regarding capital risk management is disclosed in Note 1 – Nature of Business and Going Concern.

#### 5. General & administrative

General and administrative expenses for the years ended December 31, 2016 and 2015 are comprised of the following:

	Years ended December 31,	
	2016	2015
	\$	\$
Employee salaries and benefits	368,064	390,801
Contractors and consultants	110,075	48,970
Travel and accommodation	29,858	52,362
Professional, legal and advisory	248,581	83,418
Office and administration	143,351	158,568
Other gain	(151,428)	-
Jakarta office and admin	454,869	-
	<u>1,203,370</u>	<u>734,119</u>

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 was defending the ABB counterclaims in respect of Sonoro and Sonoro's insurers at the time, Zurich Insurance, were paying a majority of the costs related to this defence.

ABB also claimed against Sonoro for the removal of contaminated filters allegedly left at the site. ABB was 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 estimated the cost to remove the filters to be \$151,428, which had been accrued as a liability. Final releases were issued between ABB and Sonoro with final settlements having been reached for both lawsuits noted above, with no further claims outstanding. Sonoro expects that limited further costs will be incurred, and as a result has reversed the previously accrued \$151,428 in the second quarter of 2016.

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**SONORO ENERGY LTD.****Notes to the Consolidated Financial Statements****As at and for the years ended December 31, 2016 and 2015***Canadian Dollars*

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**6. Net finance income (loss)**

Net finance income (loss) for the years ended December 31, 2016 and 2015 is comprised of the foreign exchange gain/(losses) on monetary assets and liabilities.

**7. Accounts receivable**

The Company considers that the carrying amounts of accounts receivable approximate their fair values. Current accounts receivable relate mainly to GST/VAT receivables from government agencies.

During the year ended December 31, 2016, the Company did not record any bad debt expense (2015 - \$42,608).

**8. Property, plant and equipment**

	Office Assets	Machinery and Equipment	Total
	\$	\$	\$
<b>Cost</b>			
At January 1, 2015	362,450	19,284	381,734
Additions	-	-	-
Disposals	(91,984)	(19,284)	(111,268)
Effect of movement in exchange rates	1,651	-	1,651
At December 31, 2015	272,117	-	272,117
<b>Additions</b>	-	-	-
<b>Disposals</b>	-	-	-
<b>At December 31, 2016</b>	<b>272,117</b>	<b>-</b>	<b>272,117</b>
<b>Accumulated depreciation</b>			
At January 1, 2015	288,471	5,565	294,036
Additions	22,421	-	22,421
Disposals	(67,343)	(5,565)	(72,908)
Effect of movement in exchange rates	(1,787)	-	(1,787)
At December 31, 2015	241,762	-	241,762
<b>Additions</b>	<b>6,687</b>	<b>-</b>	<b>6,687</b>
<b>Disposals</b>	<b>7,630</b>	<b>-</b>	<b>7,630</b>
<b>At December 31, 2016</b>	<b>256,079</b>	<b>-</b>	<b>256,079</b>
<b>Carrying amount</b>			
At December 31, 2015	30,355	-	30,355
<b>At December 31, 2016</b>	<b>16,038</b>	<b>-</b>	<b>16,038</b>

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## **SONORO ENERGY LTD.**

### **Notes to the Consolidated Financial Statements**

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#### **9. Option Agreement**

The Company entered into an Option Agreement (the "Option Agreement") with Transition Resources Limited ("Transition") and Merdeka Energy Holdings Limited ("Merdeka"), whereby Transition and Merdeka have granted the Company an option (the "Option") to acquire the benefit of a future contingent payment from ConocoPhillips Petroleum Holdings B.V. ("CPP") of US\$15 million (the "Benefit Payment").

The Benefit Payment is payable to Transition and Merdeka if CPP receives approval from the Government of Indonesia for a plan of development for the Kuala Kurun PSC, pursuant to a purchase and sale agreement dated November 20, 2013 among CPP, Transition and Merdeka, as amended on July 11, 2014. Under the Option Agreement, Transition and Merdeka will seek to obtain written consent from CPP to assign entitlement to the Benefit Payment to the Company, and if such consent cannot be obtained, Transition and Merdeka agree to hold the Benefit Payment in trust for the benefit of the Company.

Pursuant to the Option Agreement, the Company owed a non-refundable fee of C\$250,000 (the "Non-Refundable Fee"), to be satisfied through the issuance of 2,500,000 Common Shares to the shareholders of Transition and Merdeka.

The Company had until September 30, 2016 to execute the Option Agreement at USD\$1 Million. The Company did not execute the Option and therefore this agreement has expired.

The Company had recorded a short term asset related to the Option Agreement for \$250,000 and amortized the balance over the remaining term of the Option (4 months). The balance at December 31, 2016 is \$Nil.

#### **10. Exploration and evaluation**

##### ***Indonesia***

On March 7, 2016 the Company entered into a share purchase agreement (the "SPA") among Stockbridge Oil and Gas Ltd ("Stockbridge") and the shareholders of Stockbridge (the "Stockbridge Shareholders") to purchase all of the issued and outstanding shares of Stockbridge (the "Stockbridge Shares"). The SPA closed in the second quarter of 2016.

Stockbridge is a private British Virgin Island Corporation which indirectly wholly owns Stockbridge Budong-Budong BV, a Netherlands corporation, whose sole holding is a Production Sharing Contract ("PSC") for oil and gas exploration and production rights covering 1,094 km<sup>2</sup> onshore, located in the Budong Budong sub-district in the province of West Sulawesi, Indonesia.

The Company acquired Stockbridge in exchange for the issuance of 25,000,000 shares valued at \$0.10/per share. As a part of the acquisition, the Company recorded \$2,000 in cash, \$2,498,000 related to the PSC (as exploration and evaluation assets) and liabilities of \$34,821 (and general and administrative expenses).

##### ***Iraq***

In December 2016, the Company announced that it 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 \$4mm based on reaching certain production milestones. No contingent future consideration payments have been accounted for in these financial statements.

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## **SONORO ENERGY LTD.**

### **Notes to the Consolidated Financial Statements As at and for the years ended December 31, 2016 and 2015** *Canadian Dollars*

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All prior period foreign exchange conversion gains/losses related to this entity had been classified as Accumulated Other Comprehensive Income. As a result of the sale of Sonoro Energy Iraq B.V., \$228.818 of prior net exchange differences reported in equity have been reclassified to the Consolidated Statements of Comprehensive Loss.

Refer to Note 15 for additional disclosure

#### **11. Accounts payable and accrued liabilities**

As at December 31, 2016, the Company has total accounts payable and accrued liabilities of \$599,071 (December 31, 2015 - \$523,056). The December 31, 2015 balance consisted of \$151,428 related to a contingent accrual, which was removed in 2016 (See note 5). The remaining balance relates to normal accounts payable and accrued liabilities. As at December 31, 2016, approximately \$240,290 of the accounts payable is over 90 days (December 31, 2015 - \$218,850).

#### **12. Share capital**

The Company completed a stock consolidation (or reverse-split) of 10 (old) common shares for 1 (new) common share of its outstanding share capital at September 12, 2016. All shares disclosed throughout have been restated to reflect the consolidation.

##### **(i) Authorized**

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

##### **(ii) Issued and outstanding common share activity**

On April 28, 2016 the Company closed the first tranche (the "First Tranche") of the non-brokered private placement ("the Offering"). Pursuant to the First Tranche, the Company issued 4,800,000 common shares at a price of \$0.05 per share for gross proceeds of \$240,000. The common shares were subject to a holding period of four months plus one day.

The Company completed a second tranche (the "Second Tranche") of the Offering on June 7, 2016. Pursuant to the Second Tranche, the Company issued 19,373,140 common shares got gross proceeds of \$965,657. The common shares will be subject to a holding period of four months plus one day.

In addition, the Company issued 27,500,000 shares in connection with the Option Agreement and the Stockbridge acquisition. Refer to Note 10 and 11 for additional information.

There were no transactions for the year ended December 31, 2015. During the year ended December 31, 2015, all stock options were cancelled.

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**SONORO ENERGY LTD.****Notes to the Consolidated Financial Statements**  
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**(iii) Per share information**

	<u>2016</u>	<u>2015</u>
Basic common shares outstanding	57,314,466	5,641,324
Dilutive effect of :		
Share options outstanding	-	-
Total possible common shares outstanding	<u>57,314,466</u>	<u>5,641,324</u>
	<u>2016</u>	<u>2015</u>
Weighted average shares outstanding	35,532,071	5,641,324
Diluted weighted average shares outstanding	<u>35,532,071</u>	<u>5,641,324</u>

**13. Share based payments****(i) Share options**

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:

<u>Service greater than six months</u>	<u>Service less than six months</u>
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

During the year ended December 31, 2015, the Company cancelled all issued and outstanding options that had been granted on the stock option plan.

**(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 or vested for the year ended December 31, 2016 or 2015.

**14. 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.

During the year ended December 31, 2016, key management personnel compensation and director fees of \$365,438 were paid or accrued, compared with \$256,212 for the comparable period in 2015.

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## **SONORO ENERGY LTD.**

### **Notes to the Consolidated Financial Statements**

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As at December 31, 2016, salaries and fees amounting to \$183,000 (December 31, 2015 - \$76,729) 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.

#### **15. Contingencies and commitments**

- a. Subsequent to year ended, 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.

- b. Under the Company's Budong-Budong PSC, the Company has completed all of the firm commitments. The Budong-Budong PSC terminates in accordance with its amended term on January 15, 2018 (formerly January 17, 2017). Upon commercial discovery, the Budong-BudongPSC will move into development stage.

- c. Jakarta Lease

The Company has signed a lease in Jakarta on February 27, 2015 starting from March 2, 2016 ending on March 1, 2017. Monthly rent is approximately \$2,800.

- d. The Company is not aware of any material provisions or other contingent liabilities as at December 31, 2016.

#### **16. Supplemental cash flow information**

Non-cash working capital components:

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**SONORO ENERGY LTD.****Notes to the Consolidated Financial Statements  
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	For the years ended 31, 2016 \$	December 2015 \$
Net change in non-cash working capital related to operations:		
Accounts receivable	(1,312)	140,503
Prepaid expenses	6,120	7,537
Accounts payable and accrued liabilities	110,836	(15,564)
	<u>115,644</u>	<u>132,476</u>
Net change in non-cash working capital related to investing:		
Accounts receivable	-	-
Prepaid expenses	-	44,862
Accounts payable and accrued liabilities	-	(69,874)
	<u>-</u>	<u>(25,012)</u>
Net change in non-cash working capital related to financing:		
Accounts receivable	-	-
Prepaid expenses	-	-
Accounts payable and accrued liabilities	-	-
	<u>-</u>	<u>-</u>

Note: Balances exclude non-cash working capital acquired on acquisition, see note 10

**17. Subsequent events****Private Placement**

A non-brokered private placement was initiated subsequent to year end. The offering consists of one common share and one half warrant of the Company, where each warrant entitles the holder to purchase one common share within two years of the closing date at a price of \$0.05 per common share.

The offering is being 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.

On April 27, 2017, the Company closed the first tranche (the "First Tranche") of the non-brokered private placement for total gross proceeds of \$2,698,640, further to its April 4, 2017 private placement offering ("the Offering") news release. Pursuant to the First Tranche, the Company sold 89,954,664 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.

Closing of the First Tranche is subject to final TSX-V's approval. The Common Shares and Warrants issued in connection with the First Tranche are subject to a four-month hold period.

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## **SONORO ENERGY LTD.**

### **Notes to the Consolidated Financial Statements** **As at and for the years ended December 31, 2016 and 2015** *Canadian Dollars*

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The Company paid finders' fees in connection with the closing of the First Tranche in the aggregate amount of \$103,513 plus 3,357,445 Warrants, where each Warrant entitles the holder to purchase one Common Share by April 27, 2019 at \$0.05 per Common Share.

The Company will work to close on a final tranche (the "Final Tranche") for additional gross proceeds of about \$600,000, representing an additional issuance of about 18,000,000 Units, May, 2017.

#### **Budong Budong PSC**

On January 11, 2017, the Company received formal notification of a one-year extension to the expiry of its Budong Budong PSC from the Indonesian Government authority. The Budong Budong PSC is now valid to January 15, 2018, however the Company is required to drill one exploration well prior to 31 August 2017 or the PSC will immediately terminate.