

Form 51-102F1

MANAGEMENT DISCUSSION AND ANALYSIS

SONORO ENERGY LTD.

This Management's Discussion and Analysis ("MD&A") of operations for the period ending December 31, 2018 audited consolidated financial statements presented herein are provided to enable readers to assess the results of operations, liquidity and capital resources of Sonoro Energy Ltd. ("Sonoro" or the "Company") is based on information available to April 29, 2018 and was approved by the Board of Directors. This MD&A should be read in conjunction with the Company's audited year-end December 31, 2018 consolidated financial statements and related notes and the audited consolidated financial statements. The consolidated audited and unaudited financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information and continuous disclosure materials relating to the Company can be found on SEDAR at www.sedar.com. Information is also available on the Company's website at www.sonoroenergy.com. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars, which is the Company's presentation currency.

Sonoro is an international oil and gas resource, exploration, and development company with a focus on South East Asia.

FORWARD-LOOKING STATEMENTS

Certain statements made herein, other than statements of historical fact relating to Sonoro, are forward-looking statements. These include, but are not limited to, statements respecting anticipated business activities, the receipt of government approvals, permits and leases, planned expenditures, including those relating to the exploration, development and production of its petroleum assets, corporate strategies, participation in projects and financing operations, the outcome of development activities in the exploration for, appraisal of and development and operations relating to oil and gas in Indonesia, technical risks and resource potential of the Company's drilling prospects.

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

All such forward-looking information is based on certain assumptions and analyses made by management in light of experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the risks associated with foreign operations; foreign exchange fluctuations; commodity prices; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital;

the existence of operating risks; volatility of oil and natural gas prices; oil and natural gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us and other factors, many of which are beyond the Company's control.

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

OPERATIONS

Indonesia and South-East Asia

The Company has an office in Jakarta, Indonesia where it conducts business for assessing and acquiring oil and gas projects in South East Asia. The Company is attempting to re-acquire the Budong Budong Production Sharing Contract ("PSC") in Sulawesi, Indonesia that it held through its subsidiary companies, Stockbridge Oil and Gas Ltd. BVI and Stockbridge Budong Budong BV ("Stockbridge"). The Concession is located onshore West Sulawesi and covers 1,095 square km.

In November 2017, the Company drilled a well at Budong Budong on Sulawesi. In January 2018, the PSC expired. Stockbridge expected to receive a further three year extension at the beginning of 2018 based on the completion of drilling of the well in November 2017. This expectation came from the advise the Company had received from SKKMIGAS, the energy regulator in Indonesia. In March of 2018, the Company received a letter from the Minister of Energy that the extension would not be granted.

A revised program and application was generated through discussions in March 2018 with the Ministry of Energy and SKKMIGAS. The Company submitted a new application based on these discussions. In July 2018, the Company received a brief letter from the Minister of Energy that they did not approve the program and hence the PSC.

In August 2018, the Company entered into a partnership agreement with a local Indonesian company. Under this partnership arrangement, the Company is actively working to re-instate the Budong Budong PSC and is also persuing other oil and gas concessions in Indonesia.

HIGHLIGHTS and OUTLOOK: 2018

- The Company commenced drilling the LG-1 Updip appraisal well in October 2017 with operations continuing for approximately 50 days. In November 2017, the Company as approved by SKKMIGAS, cased the well without completing a flow test which was a result of dangerous gas kicks on site and unstable sand formation. A flow-test was necessary to automatically extend the PSC, however SKKMIGAS's verbal approval to case the well and an extension would still be granted was thought to be indication for continued operations at Budong Budong.
- On January 11, 2018, the Company consolidated its common shares at a ratio of 1 common share for each 4 common shares held as per the TSXV bulletin. Subsequent to the share consolidation the Company had 44,328,616 common shares outstanding.
- On March 26, 2018 the Company announced the closing of a non-brokered private placement for total gross proceeds of \$1,451,602. The Company sold 29,032,039 units (a "Unit") at a price of \$0.05 per Unit where each Unit consists of one common share (a

“Common Share”) of the Company and 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 \$0.10 per Common Share. Proceeds will be used for general corporate purposes and pursuit of new business opportunities. The Common Shares and Warrants issued in connection with the financing are subject to a four-month hold period.

- **The ability of the Company to continue as a going concern is dependent on the Company obtaining additional sources of capital to explore, appraise and develop its oil and gas resource assets, continuing to receive support and cooperation from its creditors, achieving profitable operations in Indonesia through the discovery of oil and gas resources, maintaining production sharing contracts in good standing 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.**
- Given the status of the PSC at Budong Budong, the Company has impaired the exploration and evaluation capitalized cost on the balance sheet to zero.

FINANCIAL PERFORMANCE

Selected Financial Information

	For the Period-ended	
	December 31, 2018	December 31, 2017
Total revenue	nil	nil
Net (loss) for the period	(2,149,352)	(7,570,089)
Net (loss) per share	(0.03)	(0.21)
Total comprehensive (loss)	(2,207,612)	(7,285,819)
Total assets	52,061	138,090
Total long term financial liabilities	nil	nil
Working capital	(1,853,151)	(1,515,144)
Capital expenditures	nil	nil

Results from Operations

The following paragraphs provide information about the results of Sonoro’s on-going operations for the year-end December 31, 2018 and 2017.

General and administrative expense

For the period ended December 31, 2018, general and administrative expense totaled \$1,917,648 compared to \$1,479,368 for the corresponding period in 2017. General and administrative costs were flat as activity at the company was minimal during the year

The following table provides a breakdown of general and administrative expense for the year end period December 31, 2018 and 2017 :

	For the Period-ended	
	December 31, 2018	December 31, 2017
Employee salaries and benefits	\$306,742	\$308,353
Contractors and consultants	642,121	373,490
Travel and accommodation	34,515	25,709
Professional, legal and advisory	252,005	564,719
Office and administration	96,449	113,717
Other gain	-	(106,555)
Jakarta office and administration	585,816	199,935
Total expenses	\$1,917,648	\$1,479,368

Impairment of Assets

An impairment of \$5.7 million was recorded based on the January 15, 2018 expiry of the Budong Budong PSC and this subsequent event confirming a condition that existed at December 31, 2017.

Depreciation and amortization expense

The carrying value of office assets on December 31, 2018 and 2017 was Nil.

Net loss for the years

For the year-end December 31, 2018, the Company realized a net loss of \$2,149,352 compared to a net loss of \$7,570,089 for the same period in 2017. The net loss per share (basic and diluted) for both periods was \$0.03 in 2018 and \$0.21 in 2017.

Other comprehensive loss

The Company is required to translate activities of foreign operations from their functional currency into the Company's reporting currency being Canadian dollars. Assets and liabilities are translated at period end rates and revenues and expenses are translated at the average rate for the period. Foreign exchange effects resulted in a gain of \$58,260 for the year ended December 31, 2018 and a net loss of \$284,269 in the corresponding period 2017.

Capital expenditures

During the year ended December 31, 2018 there were no capital expenditures related to drilling. During the period ended December 31, 2017 the Company had capital expenditures of \$2,897,651 relating to exploration and evaluation of assets.

Quarterly Information

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

	Total revenues	Loss for the period before discontinued operations	Loss per share - basic and diluted*
	\$	\$	\$
December 31, 2018	-	400,028	0.00
September 30, 2018	-	233,657	0.00
June 30, 2018	-	1,023,642	0.02
March 31, 2018	-	400,029	0.01
December 31, 2017	-	7,078,583	0.04
September 30, 2017	-	545,862	0.00
June 30, 2017	-	710,083	0.01
March 31, 2017	-	128,824	0.00

Liquidity and Capital Resources

Working capital

Sonoro had working capital of negative \$1,853,151 at December 31, 2018 compared with negative working capital of \$1,515,144 at December 31, 2017. The Company expects to fund this deficit based on a financing plan that is underpinned with an extension of the Budong Budong PSC or other asset acquisition strategy.

Cash

The Company had cash of \$26,366 at December 31, 2018, compared to cash of \$89,874 at December 31, 2017. The liquid portion of the working capital consists of cash in non-interest bearing accounts held at banks and highly liquid investments, which are readily convertible to known amounts of cash.

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

Cash Used in Operating Activities

For the year ended December 31, 2018, cash used for continuing operating activities was \$220,781 as compared to \$1,025,177 for the same period in 2017. Cash used in operating activities was used for general operating activities and well drilling activities.

Outstanding Share Data

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

The Company paid finders' fees in connection with the closing of both the first and second tranches in the aggregate amount of \$131,339 plus 1,071,236 Warrants, where each Warrant entitles the holder to purchase one Common Share by April 27, 2019 for the first tranche and by May 20, 2019 for the second tranche at \$0.05 per Common Share.

In total, the Company sold 30,000,000 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.

On January 12, 2018, the Company consolidated its common shares at a ratio of 1 common share for each 4 common shares held as required by the TSXV as a result of the share issuance above being at a price of less than \$0.05.

On March 26, 2018 the Company announced the closing of a non-brokered private placement for total gross proceeds of \$1,455,404. The Company sold 29,032,039 units (a "Unit") at a price of \$0.05 per Unit where each Unit consists of one common share (a "Common Share") of the Company and 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 \$0.10 per Common Share.

Sonoro Energy Ltd. now has 74,288,320 Common Shares outstanding, 44,175,614 warrants outstanding, and the Common Shares trade on the TSX Venture Exchange under the symbol SNV.

Commitments

The Company co-signed (50% commitment) an office lease for a 36-month term commencing March 1, 2017. Gross rent is equal to \$10,088 per month (net \$5,044 per month) plus operating costs. The Company has sub-leased >90% of this lease amount to the end of the term. The gross annual rent of \$100,879 is payable through 2017, \$121,056 in 2018, \$121,056 in 2019 and \$20,176 in 2020.

The Company has a month to month office lease in Jakarta, monthly rent is approximately \$2,800.

Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet transactions.

Subsequent Events

- On March 29, 2019 the Company completed a private placement financing for \$312,000. The financing is for the issuance of Units comprised of one common share priced at \$0.03 and one two-year warrant priced at \$0.05. Proceeds will be used for general corporate purposes and pursuit of new business opportunities. The Common Shares and Warrants issued in connection with the financing are subject to a four-month hold period.
- On March 29, 2019 a total of 14,219,000 common share purchase warrants issued by the Corporation in connection with a non-brokered Private Placement of the Corporation that closed on April 27, 2017 and May 19, 2017 respectively, were repriced from \$0.20 to \$0.05 and the term extended to December 31, 2019.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies are outlined in Note 2 to the audited consolidated financial statements of the Company for the period ended December 31, 2018. These accounting policies have been applied consistently for the period ended December 31, 2018 and there have been no changes.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Uncertainties about these assumptions and estimates could result in material adjustments to the Company's financial statements and financial position. A description of the Company's significant areas of estimation uncertainty and critical judgments are contained in Note 2(e) to the consolidated audited financial statements of the Company for the year ended December 31, 2018.

The Company analyzed accounting pronouncement IFRS-16 and the effect on the financial statements. The adaptation of these standards is not expected to have a material impact on the Company's financial statements. As a result, there were no changes to the Company's critical accounting estimates during the period ended December 31, 2018.

Internal Controls Over Financial Reporting and Disclosure Controls

As a reporting issuer listed on the TSX Venture Exchange, Sonoro is exempted from certifying as to disclosure controls and procedures ("DC&P"), as well as Internal Control over Financial Reporting ("ICFR"). The Company's Chief Executive Officer and Chief Financial Officer file a "basic" certificate under National Instrument 52-109 – *Certificates* ("NI 52-109"). Accordingly, the Company has made no assessment relating to establishment and maintenance of disclosure controls and procedures or internal controls over financial reporting as defined under NI 52-109 as of December 31, 2017.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported on the statement of financial position when there is a legally

enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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

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

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

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

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

(ii) Available-for-sale investments:

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

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

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

(iii) Loans and receivables:

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

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

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

(iv) Financial liabilities at amortized cost:

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

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

BUSINESS RISKS

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

Licenses and Permits

The Company no longer has a current PSC at Budong Budong and therefore has no right to the project. The Company is in discussions with the government of Indonesia, as highlighted above, to re-establish itself at Budong Budong. There can be no assurance that the Budong Budong License will be recovered or if it is that in its current form as an Exploration Phase project can be converted into a Development License with a successful commercial discovery. Without either a further extension or a Development License this could have a material adverse effect on the Company's business, financial condition and prospects.

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

Capital Requirements

The Company completed a financing for CAD\$1,451,602 in March 2018 and CAD\$312,000 in March 2019 to fund operations. These funds have been spent as at April 2019.

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

Exploration, Development and Production Risks

Sonoro's exploration, appraisal, development and production of oil and gas in Indonesia and South-East Asia is speculative.

Oil and gas exploration involves a high degree of risk and is frequently unsuccessful. There is no assurance that expenditures made on future exploration by Sonoro will result in new discoveries of oil and gas in commercial quantities. The long-term commercial success of the Company's oil and gas activities depends on its ability to acquire, develop and commercially produce oil and gas reserves. No assurance can be given that Sonoro will be able to locate satisfactory reserves or resources on an economic basis.

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

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

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

Resource Estimates

There are numerous uncertainties inherent in estimating quantities of prospective and contingent oil and gas resources. All such estimates, including those in the Company's prospective resource reports, are to some degree speculative, and classifications of prospective resources are only attempts to define the degree of speculation involved. For these reasons, estimates of the prospective resources attributable to the Company's prospects and the classification of such resources based on risk of recovery associated with resource estimates prepared by different

engineers, or by the same engineers at different times may vary. Further, there is no certainty that any portion of the prospective resources will be discovered. If a discovery is made, there is no certainty that it will be developed or, if it is developed, there is no certainty as to timing of such development or that it will be commercially viable to produce any portion of the prospective or contingent resources.

Joint Ventures

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

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

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

Foreign Activities in Indonesia

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

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

Infrastructure development in Indonesia is limited, which may affect the Company's ability to explore and develop its properties and to store and transport potential future oil and gas production. The lack of suitable infrastructure or lack of access to existing infrastructure may impede the production activities as the ability to implement the plan of operations is dependent

upon the ability to access existing infrastructure or procure the construction and development of suitable infrastructure and any delays or failures in this regard could adversely affect the business. There may also be no available refining capacity in the region and the Company may be required to build additional facilities to process its entire production. In addition, the Company may be required to establish camps for all of its field operations.

Management of Key Relationships in Indonesia

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

Prices, Markets and Marketing

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

- the impact that the various levels of government may have on the ultimate price received for its products, the export of products and other aspects of the oil and gas industry;
- reservoir characteristics;
- the proximity and capacity of oil and gas pipelines and processing facilities and equipment;
- the availability and proximity of pipeline capacity and sales markets;
- security issues;
- the local supply of and demand for oil;
- the effects of inclement weather;
- the availability of drilling, production and related equipment and supplies, as well as services, all of which may be disrupted for a number of reasons;
- the hazards related to drilling and associated operations;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- the availability and productivity of skilled labour; and
- adverse legislation in the regions in which it operates.

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

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

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

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

Cost of New Technologies

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Company does. There can be no assurance that the Company will be able to respond to any such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Company or implemented in the future may become obsolete. In such case, the Company's business, financial condition and results of operations could be materially adversely affected. If the Company is unable to utilize the most advanced commercially available technology, the Company's business, financial condition and results of operations could be materially adversely affected.

Operating Hazards

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

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

Environmental

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

Foreign Legal and Judicial Systems

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

Foreign Exchange

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

Farm-out and Joint Venture Partners

The Company may enter into further farm-out agreements to fund a portion of the exploration and development costs associated with its assets. Moreover, other companies may from time to time operate some of the other assets in which the Company has an ownership interest. Liquidity and cash flow problems encountered by the partners and co-owners of any assets in which Sonoro has an interest, and any non-compliance by the partners and co-owners may lead to a delay in the pace of drilling or project development that may be detrimental to a project or may otherwise

have adverse consequences for the Company. In addition, any farmout partners and working interest owners may be unwilling or unable to pay their share of the costs, including project costs as they become due. In the case of a farmout partner, the Company may have to obtain alternative funding in order to complete the exploration and development of the assets subject to such farmout agreement. In the case of a working interest owner, the Company may be required to pay the working interest owner's share of the project costs. The Company cannot assure investors that it would be able to obtain the capital necessary in order to fund either of these contingencies. It is also possible that the interests of the Company and those of its joint venture partners are not aligned resulting in project delays or additional costs or losses.

Canadian and Foreign Tax Considerations

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

Litigation

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