SONORO ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2021

SONORO ENERGY LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
Form 51-102F1

April 15, 2022

This Management's Discussion and Analysis ("MD&A") of operations for the year ending December 31, 2020 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 15, 2022 and was approved by the Board of Directors. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021 and 2020. The consolidated audited 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. On October 14, 2019, the Company and its partner, PT Sumatra Global Energi ("SGE") entered into agreements with the Government of Indonesia for the Selat Panjang PSC located in Sumatra, Indonesia. Sonoro has a 25% interest in the project with an option for up to an additional 24%. The partner holds the balance. At this time in 2019, SGE and Sonoro entered into financial agreements whereby SGE would advance Sonoro funds for its 25% interest which was used to fund Sonoro's interest for the Signing Bonus and Performance Bond required for the PSC. The expectation was for Sonoro to pay back the financing in a short-time as the project progressed.

On October 21, 2021, SGE advised Sonoro, via Asiavest Trust, Sonoro's Trustee representative company in Singapore, that Sonoro was in default of the Convertible Debenture and Loan for approximately $1.6 million and $300,000 respectively (the "Loan Agreements") and that SGE requests release of Sonoro's 25% interest in the PSC to SGE.

Since receiving this advice, Sonoro has adamantly objected to such relinquishment as SGE has had limited communication with Sonoro on the Salet Panjang project since mid-2020 including completion of the Joint Operating Agreement and most importantly advancing the Salet Panjang work program. Sonoro has attempted to communicate with SGE directly many times, has recently engaged lawyers in Singapore to assist and through SKKMIGAS, the oil and gas regulator in Indonesia. All methods for communicating and discussions have failed. SGE continues to not respond to Sonoro and has frustrated the project to a point that Sonoro believes that the project may not be be successfully completed under the current work program as required in the PSC. As a result, Sonoro as advised SGE that it will relinquish its interest in the project and that all Loan Agreements will be extinguished. Sonoro is interested in maintaining its interest should the project begin to advance and a SGE/Sonoro operating arrangement be agreed to.

Sonoro obstinately objects to the treatment it has received from its joint venture partner and believes it has exhausted all means to advance the project with the partner at this time and has been unfairly forced to relinquish its 25% interest in the project by the obstruction and maleficence by SGE.

Sonoro will continue communication with SKKMIGAS to object to the treatment it has received and will continue to seek compensation.

Sonoro will be seeking out other oil and gas opportunities in Asia and will update shareholders as soon as possible for any developments.

HIGHLIGHTS and OUTLOOK

- On December 31, 2021 the 26,207,247 options warrants expiring December 31, 2021, have been extended until December 31, 2022 and 22,237,821 of these options warrants have been repriced to an exercise price of $0.07 per share.On May 31, 2021, the Company completed a non-brokered private placement of common share/warrant unit financing to support ongoing activities in Indonesia. Sonoro issued 7,000,000 units for total proceeds of $350,000 Each unit consists of one $0.05 common share and one common share purchase 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.

- On March 9, 2021, Mr. David Kirk joined the Company as CEO and President and Mr. Chris Atkinson resigned as President and Director.

- On October 7, 2020, the company issued 5,147,921 shares on exercise of 7.5-cent warrants for gross proceeds of $386,094 under the incentive warrant exercise program announced on September 7, 2020. The program was open for one month to holders of the 10 cent warrants previously issued by the Corporation and whereby warrant holders were offered the right to purchase shares at 7.5-cents for the 30-day incentive exercise period. All warrants not exercised reverted back to the original terms and conditions of the 10 cent warrants. In addition to the exercise of the incentive warrants, 5,147,921 new 7.5 cent warrants were issued to holders who exercised.

- On February 6, 2020, the Company's five-cent warrants with an expiration of March 20, 2021 triggered an acceleration clause whereby the warrants expired within 30 days of February 6, 2020. All 4,233,334 five-cent warrants have been exercised resulting in gross proceeds of $211,667.

- On January 23, 2020, the Company amended the term of the warrants from the March 26, 2018 financing from March 26, 2020 to December 31, 2020. 26,457,247 ten-cent warrants were outstanding.

- **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.**

FINANCIAL PERFORMANCE

Selected Financial Information

	For the three months ended		For the year ended	
	December 31, 2021	December 31, 2020	**December 31, 2021**	December 31, 2020
Total Revenue	**nil**	nil	**nil**	nil
Net (loss) for the period	**(129,506)**	(250,875)	**(2,629,003)**	(1,344,196)
Net (loss) per share	**(0.001)**	(0.002)	**(0.022)**	(0.012)
Total comprehensive (loss)	**(130,557)**	(261,243)	**(2,620,344)**	(1,312,153)
Capital expenditures	**nil**	nil	**nil**	nil

As at	**December 31, 2021**	December 31, 2020
Total assets	**163,289**	2,079,690
Total long-term financial liabilities	**4,281,083**	4,124,830
Working capital	**(4,133,160)**	(3,965,758)

Results from Operations

The following paragraphs provide information about the results of Sonoro's on-going operations for the yeard end December 31, 2021 and 2020.

General and administrative expense

For the three months and year ended December 31, 2021, general and administrative expense totaled $56,805 and $219,794 respectively compared to $206,193 and $855,254 for the corresponding periods in 2020. General and administrative costs in 2021 decreased from 2020 mostly due to lower employee costs, lower professional fees and lower Jakarta office costs.

The following table provides a breakdown of general and administrative expense for the period end December 31, 2021 and 2020:

	For the three months ended		For the year ended	
	December 31, 2021	December 31, 2020	**December 31, 2021**	December 31, 2020
Employee salaries and benefits	**5,000**	75,347	**34,078**	275,961
Contractors and consultants	**-**	-	**12,500**	-
Travel and accommodation	**384**	433	**1,972**	5,962
Professional, legal and advisory	**9,190**	61,387	**55,667**	196,511
Office and administration	**7,435**	(7,620)	**29,960**	45,136
Jakarta office and administration	**34,796**	76,646	**85,617**	331,684
Total expenses	**56,805**	206,193	**219,794**	855,254

Depreciation and amortization expense

The Depreciation and amortization expense consists of the amortization of the Company's right of use (ROU) asset, which is their office lease in Canada.

The Company co-signed (50% commitment) an office lease for a 36-month term commencing January 1, 2020. The majority of the Company's lease liabilities have been reduced by subleasing arrangements. The Company's share of gross annual rent (excluding operating costs) is payable as follows: $26,628 in 2022. Lease liabilities are as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Balance, beginning of period	**49,702**	62,613
Liabilities settled	**(23,984)**	(12,911)
Balance, end of period	**25,718**	49,702
Current portion	**25,718**	23,984
Long-term portion	**-**	25,718
Lease liabilities	**25,718**	49,702

Net loss for the periods

For the three months and year ended December 31, 2021, the Company realized a net loss from operations of $129,506 and $2,629,003 respectively, compared to a net loss of $250,875 and $1,344,196 for the same periods in 2020. The net loss per share (basic and diluted) for the three months and year ended December 31, 2021 was $0.001 and $0.022 respectively as compared to $0.002 and $0.012 per share for the same periods in 2020.

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 loss of $1,051 and a gain of $8,659 for the three months and year ended December 31, 2021 respectively compared to a loss of $10,368 and a gain of $32,043 in the same periods of 2020.

Capital expenditures

During the year ended December 31, 2021 there were no capital expenditures related to drilling.

Exploration and evaluation costs relating to the Selat Panjang Production Sharing Contract ("PSC") are as follows:

Cost	
December 31, 2020	1,893,463
Impairment	**(1,893,463)**
December 31, 2021	**-**

The PSC was signed on October 14, 2019 and has a 20-year term with an initial signature bonus of US$5 million and a five-year work program commitment of US$74 million. Sonoro holds a 25% interest in the PSC with an option to acquire an additional 24% after completion of project milestones.

In the fourth quarter of 2021, PT Sumatra Global Energi ("SGE"), Sonoro's joint venture partner of the Selat Panjang Production Sharing Contract ("PSC") has advised Sonoro, via Asiavest Trust, Sonoro's Trustee representative company in Singapore, that Sonoro is in default of the Convertible Debenture and Loan and that SGE requests release of Sonoro's 25% interest in the PSC to SGE . As a result of the loss of support from the Company's joint venture partner and uncertainty surrounding the Company's ability to progress with the requirements of the PSC, the Company has decided to impair the exploration and evaluation assets relating the PSC. The project partners are currently in discussions to attempt to resolve this issue.

Quarterly Information

The following financial information is for each of the eight most recently completed quarters of the Company:

Quarter ended	Total Revenue	Net loss for the period	Net loss per share basic and diluted
	$	$	$
December 31, 2021	**nil**	**129,506**	**0.00**
September 30, 2021	nil	2,072,074	0.02
June 30, 2021	nil	196,208	0.00
March 31, 2021	nil	231,215	0.00
December 31, 2020	nil	250,875	0.00
September 30, 2020	nil	361,953	0.00
June 30, 2020	nil	341,440	0.00
March 31, 2020	nil	389,928	0.00

Liquidity and Capital Resources

Working capital

Sonoro had negative working capital of $4,133,160 on December 31, 2021 compared with negative working capital of $3,965,758 on December 31, 2020.

Cash

The Company had cash of $111,476 on December 31, 2021, up from $106,683 on December 31, 2020. The liquid portion of the working capital consists of cash in non-interest-bearing accounts held at banks.

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 three months ended December 31, 2021 cash from operating activities was $6,476 and for the year ended December 31, 2021, cash used in operating activities was $114,082, as compared to cash used in operating activities of $32,487 and $370,980 for the same periods in 2020.

Outstanding Share Data

On February 6, 2020 4,333,334 five cent warrants were exercised for gross proceeds of $215,667.

On February 12, 2020 16,667 options were exercised for proceeds of $917.

On October 7, 2020, the company issued 5,147,921 shares on exercise of 7.5-cent warrants for gross proceeds of $386,094 under the incentive warrant exercise program announced on September 7, 2020. The program was open for one month to holders of the 10 cent warrants previously issued by the Corporation and whereby warrant holders were offered the right to purchase shares at 7.5-cents for the 30-day incentive exercise period. All warrants not exercised reverted back to the original terms and conditions of the 10 cent warrants. In addition to the exercise of the incentive warrants, 5,147,921 new 7.5 cent warrants were issued to holders who exercised.

On May 31, 2021 the Company closed its non-brokered private placement for total gross proceeds of $350,000. The Company issued 7,000,000 units at a price of $0.05 per unit, where each unit consisted of one common share of the company and one common share purchase 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 $0.10 per common share.

As at December 31, 2021 Sonoro Energy has 121,527,151 Common Shares outstanding.

The Common Shares trade on the TSX Venture Exchange under the symbol SNV.

Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet transactions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies are outlined in Note 3 to the audited consolidated financial statements of the Company for the years ended December 31, 2021 and 2020. These accounting policies have been applied consistently for the year ended December 31, 2021 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(f) to the audited consolidated financial statements of the Company for years ended December 31, 2021 and 2020.

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, 2021.

Financial Instruments

Financial instruments are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are classified in one of the following categories: subsequently measured at amortized cost, fair value through other comprehensive income ("FVTOCI"), or fair value through profit or loss ("FVTPL"). Financial liabilities are initially recognized at fair value, and subsequently measured based on classification in one of the following categories: subsequently measured at amortized cost and FVTPL. Financial assets and liabilities are not offset unless there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Financial assets and liabilities subsequently measured at amortized costs are measured using the effective interest method. The effective interest method is a method of calculating the amortized costs of a financial liability and of allocating interest expense over the relevant period. Transaction costs that are directly attributable to the acquisition or issue of a financial instrument are measured at amortized cost and added to the fair value initially recognized.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Unrealized gains and losses on FVTPL financial instruments related to trading activities are recognized in marketing and other in the consolidated statements of income (loss), and unrealized gains and losses on all other FVTPL financial instruments are recognized in other – net. Transaction costs directly attributable to the acquisition of financial assets or liabilities at FVTPL are recognized immediately in profit or loss.
Financial instruments at FVTOCI are stated at fair value, with any gains or losses arising on remeasurement recognized in OCI except for impairment gains or losses and foreign exchange gains and losses.

Financial instruments subsequently revalued at fair value are further categorized using a three-level hierarchy that reflects the significance of the inputs used in determining fair value. Level 1 fair value is determined by reference to quoted prices in active markets for identical assets and liabilities. Level 2 fair value is based on inputs that are independently observable for similar assets or liabilities. Level 3 fair value is not based on independently observable market data. The disclosure of the fair value hierarchy excludes financial assets and liabilities where book value approximates fair value.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset have expired, or it transfers the contractual rights to receive the cash flows of the financial assets and the Company has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when the liability is extinguished, discharged, cancelled or expires.

BUSINESS RISKS

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

Licenses and Permits

On October 14, 2019, the Company, its partner and the Government of Indonesia executed final documentation for the Selat Panjang PSC. Sonoro has a 25% interest in the project with an option for up to an additional 24%. The partner holds the balance. Ownership is in dispute as outlined in this MD&A.

The 940 sq. km Selat Panjang PSC area is situated in Riau province, Central Sumatra and is approximately 925 km from Jakarta and 110 km from Pekanbaru (capital city of Riau Province). The block has produced oil and gas in prior years. In 2014, the Indonesian Ministry of Energy approved a plan of development for further production however, in 2018, the block PSC was terminated by the Indonesian Ministry of Energy and as a result the Plan of Development was not implemented.

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

Capital Requirements

The Company has financed itself through shareholders exercising warrants throughout 2020. The majority of these funds have been spent and the Company has a substantial negative working capital balance.

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

Cost of New Technologies

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

Operating Hazards

Oil exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as pollution, cratering, fire, explosion, environmental damage, blowouts and oil spills, each of which could result in substantial damage to oil wells, production facilities, other property and the environment or in personal injury or death. Sonoro's involvement in 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 not filed all of its tax returns as certain companies are considered idle and not yet closed and de-registered. 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 is not aware of any legal claims against the Company.