



**SONORO ENERGY LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

## Independent Auditor's Report

To the Shareholders of Sonoro Energy Ltd.

### Opinion

We have audited the consolidated financial statements of Sonoro Energy Ltd. ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020 and the consolidated statements of comprehensive loss, changes in shareholders' deficit and cash flows for the years ended December 31, 2021 and December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the other information prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business

activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Todd Freer.

*Crowe MacKay LLP*

**Chartered Professional Accountants  
Calgary, Canada  
April 15, 2022**

**SONORO ENERGY LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

<i>(Canadian dollars)</i>	notes	As at December 31, 2021	As at December 31, 2020
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		111,476	106,683
Accounts receivable	6	4,284	808
		<b>115,760</b>	107,491
<b>Non-Current</b>			
Prepays		27,709	40,203
Property and equipment	7	19,820	38,533
Exploration and evaluation	8	-	1,893,463
<b>Total Assets</b>		<b>163,289</b>	2,079,690
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	9	2,269,185	2,304,428
Current portion of lease liability	10	25,718	23,984
Current portion of long-term debt	11	338,635	294,632
Current portion of convertible debenture	11	1,615,382	1,450,205
		<b>4,248,920</b>	4,073,249
<b>Non-Current</b>			
Canada Emergency Business Account (CEBA)	11	32,163	25,863
Lease liability	10	-	25,718
<b>Total Liabilities</b>		<b>4,281,083</b>	4,124,830
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	12	74,258,710	74,030,253
Share subscriptions receivable		(17,488)	-
Convertible debenture	11	357,409	357,409
Warrants	12	843,729	703,480
Contributed surplus		11,993,275	11,827,248
Accumulated other comprehensive income		346,561	307,457
Accumulated deficit		(91,899,990)	(89,270,987)
<b>Total Shareholders' Deficit</b>		<b>(4,117,794)</b>	(2,045,140)
<b>Total Liabilities and Shareholders' Deficit</b>		<b>163,289</b>	2,079,690

*Nature of Business and Going Concern (Note 1)*  
*Subsequent Event (Note 16)*

See accompanying notes to the Consolidated Financial Statements.

ON BEHALF OF THE BOARD OF DIRECTORS:

*"signed"*  
 \_\_\_\_\_  
 Richard Wadsworth, Director

*"signed"*  
 \_\_\_\_\_  
 Bill Marpe, Director

**SONORO ENERGY LTD.  
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

<i>(Canadian dollars)</i>	Notes	Year Ended December 31,	
		2021	2020
<b>Expenses</b>			
General and administrative	5	219,794	855,254
Interest expense	10,11	323,155	336,947
Depreciation of property, plant, and equipment	7	18,713	19,792
Share-based compensation	12	176,481	208,656
		<b>738,143</b>	1,420,649
Impairment	8	1,893,463	-
Foreign exchange (income) expense		17,922	(10,606)
Other income	5	(20,525)	(65,847)
<b>Net loss for the year</b>		<b>(2,629,003)</b>	<b>(1,344,196)</b>
<b>Other Comprehensive Loss</b>			
Exchange differences on translation of foreign operations		8,659	32,043
<b>Total comprehensive loss</b>		<b>(2,620,344)</b>	<b>(1,312,153)</b>
<b>Per Share Information</b>			
Net loss per share - basic and diluted		\$(0.022)	\$(0.012)
Weighted average number of common shares outstanding		118,598,384	109,656,428

*See accompanying notes to the Consolidated Financial Statements.*

**SONORO ENERGY LTD.  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT**

<i>(Canadian Dollars)</i>	Note	Common Shares Number	Common Shares Amount	Convertible Debentures	Warrants	Contributed Surplus	Share Subscriptions Receivable	Accumulated Other Comprehensive Income/(loss)	Accumulated Deficit	Deficit Total
Balance at December 31, 2019		104,629,229	73,222,952	357,409	880,941	11,619,755	-	275,414	(87,926,791)	(1,570,320)
Warrants exercised	12	9,731,255	805,221	-	(177,461)	-	-	-	-	627,760
Options exercised	12	16,667	2,080	-	-	(1,163)	-	-	-	917
Share based compensation	12	-	-	-	-	208,656	-	-	-	208,656
Net loss		-	-	-	-	-	-	-	(1,344,196)	(1,344,196)
Currency translation adjustment		-	-	-	-	-	-	32,043	-	32,043
Balance at December 31, 2020		114,377,151	74,030,253	357,409	703,480	11,827,248	-	307,457	(89,270,987)	(2,045,140)
<b>Private placement</b>	<b>12</b>	<b>3,084,760</b>	<b>92,434</b>	<b>-</b>	<b>61,805</b>	<b>-</b>	<b>(17,488)</b>	<b>-</b>	<b>-</b>	<b>136,751</b>
<b>Settlement of liabilities</b>	<b>12</b>	<b>3,915,240</b>	<b>117,318</b>	<b>-</b>	<b>78,444</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>195,762</b>
<b>Options exercised</b>	<b>12</b>	<b>150,000</b>	<b>18,705</b>	<b>-</b>	<b>-</b>	<b>(10,454)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,251</b>
<b>Share based compensation</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>176,481</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>176,481</b>
<b>Net loss from continuing operations</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,629,003)</b>	<b>(2,629,003)</b>
<b>Currency translation adjustment</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,104</b>	<b>-</b>	<b>39,104</b>
<b>Balance at December 31, 2021</b>		<b>121,527,151</b>	<b>74,258,710</b>	<b>357,409</b>	<b>843,729</b>	<b>11,993,275</b>	<b>(17,488)</b>	<b>346,561</b>	<b>(91,899,990)</b>	<b>(4,117,794)</b>

See accompanying notes to the Consolidated Financial Statements.

**SONORO ENERGY LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(Canadian Dollars)</i>	Notes	Year Ended December 31,	
		2021	2020
<b>Operating Activities</b>			
Net loss from continuing operations		(2,629,003)	(1,344,196)
Items not affecting cash and cash equivalents:			
Share based compensation	12	176,481	208,656
Depreciation of Property, Plant and Equipment	7	18,713	19,792
Impairment	8	1,893,463	-
Interest expense	10,11	323,155	336,947
Gain on disposition of right-of-use asset		-	(6,475)
Government grants	11	6,300	(14,137)
Unrealized foreign exchange (gains) loss		17,398	(5,779)
		<b>(193,493)</b>	<b>(805,192)</b>
Net change in non-cash working capital related to operations	14	79,411	434,212
<b>Cash flows used in continuing operating activities</b>		<b>(114,082)</b>	<b>(370,980)</b>
<b>Financing Activities</b>			
Proceeds from the issuance of shares	12	136,751	-
Proceeds from warrant exercises	12	-	268,130
Proceeds from option exercises	12	8,250	917
Lease liabilities settled	10	(23,984)	(6,437)
Proceeds from Canada Emergency Business Account (CEBA)	11	-	40,000
Interest expense		(2,644)	(4,112)
<b>Cash flows from financing activities</b>		<b>118,373</b>	<b>298,498</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>4,291</b>	<b>(72,482)</b>
Cash and cash equivalents, beginning of year		106,683	180,243
Impact of foreign exchange on cash balances		502	(1,078)
<b>Cash and cash equivalents, end of year</b>		<b>111,476</b>	<b>106,683</b>

*Non-cash flow information (Note 12)*

*See accompanying notes to the Consolidated Financial Statements.*



**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**1. Nature of Business and Going Concern**

**a) Nature of business**

Sonoro Energy Ltd. ("Sonoro" or "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 August 7, 2013, the Company was continued from British Columbia to Alberta with the registered office at 4300, 888 3<sup>rd</sup> Street S.W. Calgary, Alberta, Canada T2P 5C5. The Company's corporate office is located at Suite 600, 520 – 5th Avenue SW Calgary, Alberta, Canada. The Common Shares trade on the TSX Venture Exchange under the symbol SNV.

The business of the Company, either directly or through its wholly owned subsidiaries, consists of the exploration for, appraisal of and development and production of oil and gas resources, focused in South East Asia. The Company operates in jurisdictions that may be subject to changes in government practices and policies.

**b) Going concern**

These consolidated 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 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. The impact of COVID-19 (note 2(f)) and the war in Ukraine creates additional uncertainties, which include, but are not limited to, the volatility of and access to capital markets combined with fluctuating global demand and commodity pricing for energy products that may impact the Company's ability to execute on its business plans.

Details of deficit and working capital (current assets less current liabilities) of the Company are as follows:

	<b>December 31, 2021</b>	December 31, 2020
Deficit	<b>(91,899,990)</b>	(89,270,987)
Working Capital	<b>(4,133,160)</b>	(3,965,758)

While these consolidated financial statements have been prepared on the assumption that the Company is a going concern, the above material uncertainties may 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 regarding the Company's exploration and appraisal programs, the Company will need to raise additional funds and will depend on the continued support of various creditors and lenders. 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.

These consolidated 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.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**2. Basis of Preparation**

**a) Statement of compliance**

These consolidated annual financial statements for the year ended December 31, 2021 were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Reporting Interpretation Committee (“IFRIC”) effective as of December 31, 2021. 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. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement and complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in notes 2(f).

These consolidated financial statements were authorized for issuance by the Board of Directors as of April 11, 2022.

**b) Subsidiaries**

The following sets out the subsidiaries of the Company and the Company’s ownership interest in those subsidiaries:

<b>Subsidiary Name</b>	<b>Jurisdiction</b>	<b>Ownership</b>	<b>Functional Currency</b>
Sonoro Energy International Holdings B.V. (“SEIHBV”)	The Netherlands	100.0%	USD
Stockbridge Oil and Gas Ltd B.V.I.	British Virgin Islands	100.0%	USD
Zamatra Bakau Straits Ltd. B.V.I.	British Virgin Islands	100.0%	USD
Stockbridge Budong Budong B.V.	The Netherlands	100.0%	IDR
Sonic Environmental Solutions Corp. (“Sonic Corp.”)	California, USA	100.0%	USD

**c) 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 can 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.

The financial statements of the subsidiaries are prepared for the same period as the parent company, using consistent accounting policies. The Company has consolidated the assets, liabilities, revenues, and expenses of its subsidiaries after the elimination of inter-company transactions.

**d) Basis of measurement**

These consolidated financial statements have been prepared on a going concern basis and a historical cost convention except for share-based payment transactions which are measured at fair value.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**2. Basis of Preparation continued**

**e) 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 different functional currency 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 year-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.

**f) Critical accounting estimates, judgements, and assumptions**

The preparation of Consolidated Financial Statements in conformity with International Financial Reporting Standards (“IFRS”) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The COVID-19 pandemic has resulted in actions taken around the world including restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. These measures have caused and will continue to cause significant disruption to business operations and a significant increase in economic uncertainty, with reduced demand for commodities leading to volatile prices and currency exchange rates, and a decline in long-term interest rates. The Company’s operations are particularly sensitive to a reduction in the demand for, and prices of, crude oil, natural gas and natural gas liquids which are closely linked to the Company’s financial performance. In addition to the impact on commodity prices and commodity sales from production amounts, COVID-19 and the war in Ukraine have created many uncertainties in the crude oil and natural gas industry with respect to increased counterparty credit risk and valuation of long-lived petroleum and natural gas assets. The potential direct and indirect impacts of the economic downturn have been considered in management’s estimates, and assumptions at period end have been reflected in our results.

The COVID-19 pandemic and the war in Ukraine are evolving situations that will continue to have widespread implications for our business environment, operations and financial condition. Management cannot reasonably estimate the length or severity of the pandemic or the war, or the extent to which the disruption may materially impact our financial results in 2022.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**2. Basis of Preparation continued**

**f) Critical accounting estimates, judgements, and assumptions continued**

Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

**i. 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 of disposal. 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 the consolidated statements of comprehensive loss. 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. Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in consolidated statement of loss and comprehensive loss.

**ii. 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. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant estimates are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

**iii. Share-based Compensation**

The Company measures the cost of share-based compensation transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, forfeiture rate, volatility and dividend yield of the share option. The Company measures the cost of share-based compensation transactions with consultants by reference to the fair value of the services to be performed.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**2. Basis of Preparation continued**

**g) Reclassification**

Certain comparative figures have been reclassified to conform to the current year presentation. There has been no impact on the results of operations.

**h) Critical judgements in applying the Company's accounting policies**

**i. 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.

**ii. Joint arrangements**

The classification of joint arrangements structured through separate vehicles as either joint ventures or joint operations requires significant judgment and depends on the legal form and contractual terms of the arrangement as well as other facts and circumstances. These include whether there is exclusive dependence on the parties to the joint arrangement for cash flows through the sale of product and funding of operations, and to assess the rights of the economic benefits of the assets and obligation for funding the liabilities of the arrangements.

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

**iii. 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.

**iv. 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.

**v. 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.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**2. Basis of Preparation continued**

**h) Critical judgements in applying the Company's accounting policies continued**

**vi. Fair value of financial instruments**

The fair value of financial instruments is determined wherever possible based on observable market data. If not available, the Company uses third-party models, independent price publications, market exchanges, investment dealer quotes and valuation methodologies that utilize observable data. Actual values may significantly differ from these estimates.

**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 with original maturities of these months or less, which are readily convertible to known amounts of cash.

**b) Exploration and evaluation assets ("E&E")**

***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 consolidated statement of loss and comprehensive loss.

***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.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**3. Significant Accounting Policies continued**

**b) Exploration and evaluation assets (“E&E”) continued**

***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 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 consolidated statement of loss and comprehensive loss.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statement of loss and comprehensive loss 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 consolidated statement of loss and comprehensive loss 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 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.

**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.



**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**3. Significant Accounting Policies continued**

**d) Lease arrangements**

When the Company is party to a lease arrangement as the lessee, it recognizes a right-of use asset ("ROU asset") and a corresponding lease liability on the consolidated statement of financial position on the date that a leased asset becomes available for use. Interest associated with the lease liability is recognized over the lease period with a corresponding increase to the underlying lease liability. ROU assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Depreciation on ROU assets is recognized as depreciation in the consolidated statement of loss and comprehensive loss.

ROU assets and lease liabilities are initially measured on a present value basis. Lease liabilities are measured as the net present value of the lease payments. ROU assets are measured at cost, which is composed of the amount the initial measurement of the lease liabilities, less any incentives received, plus any lease payments made at, or before, the commencement date. The rate implicit in the lease issued to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

Short-term leases and leases of low-value are not recognized on the statement of financial position and lease payments are instead recognized in the financial statements as incurred.

When the Company acts as a lessor, it determines at the inception of each lease whether it is a finance or an operating lease. The classification is dependent on whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying assets. The Company's lessor arrangements are classified as operating leases and lease payments received are recognized in other income.

**e) 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.

In the event there is a change to the warrant terms (price or exercise date), no change is made to the initial value recognized for the warrant.

**f) 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.



**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**3. Significant Accounting Policies continued**

**g) 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.

**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 year, adjusted for own shares held. Diluted loss per share is determined by dividing 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. The effects of anti-dilutive potential units are ignored in calculating diluted income per common share. All share purchase options are considered anti-dilutive when the Company is in a loss position or the average exercise price of the options exceeds the average trading price of the Company's common shares.

**i) Taxes**

Tax expense comprises current and deferred tax. Taxes are recognized in the consolidated statement of loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

***Current tax***

Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**3. Significant Accounting Policies continued**

**i) Taxes continued**

***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 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 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) 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.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**3. Significant Accounting Policies continued**

**j) Financial instruments continued**

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.

***Impairment***

The Company makes use of a simplified approach in accounting for receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Company assess impairment of receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

**k) Government grants**

Government grants are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as an expense reduction in the period in which the costs are incurred. Where the grant relates to an asset, it is recognized as a reduction to the net book value of the related asset and then subsequently in net loss over the expected useful life of the related asset through lower charges to depletion, depreciation and impairment.

**l) Changes in accounting policies**

**Future accounting standards and pronouncements**

**Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)**

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

These amendments are effective for reporting period beginning on or after January 1, 2022.

**Classification of Liabilities as Current or Non-current (Amendments to IAS 1)**

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**4. Financial Instruments and Risk Management**

Set out below is a comparison, by category, of the carrying amounts and fair values of all of the Company financial instruments that are carried in the consolidated financial statements and how the fair value of financial instruments is measured.

***Other financial liabilities***

Other financial liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method, with interest expense recognized on an effective yield basis. Liabilities in this category include accounts payables, accrued liabilities and long-term debt.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Fair values***

The fair values of cash and cash equivalents and accounts receivables and accounts payable and accrued liabilities approximate their carrying values due to the relatively short periods to maturity of these instruments.

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1. Prices in level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The Company doesn't have financial instruments included categorized as Level 2.

Level 3 – Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market data. The Company doesn't have financial instruments included categorized as Level 3.

There were no transfers between level 1, 2 and 3 inputs during the reporting period.

The valuation methods used to determine the fair value of each financial instrument and its associated level in the fair value hierarchy is described below:

Financial Instrument	Fair Value Method
Cash, cash equivalents, accounts receivable, accounts payable and accrued liabilities	Measured initially at fair value, then at amortized cost after initial recognition. Fair value approximates carrying value due to their short-term nature.
Long-term debt, Canada Emergency Business Account, and convertible debenture	Measured initially at fair value, then at amortized cost after initial recognition using the effective interest method.  Fair value is determined using discounted cash flows at the current market interest rate. (Level 2)

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**4. Financial Instruments and Risk Management continued**

**a) Financial instruments**

The carrying value and fair value of the Company's financial instruments as at December 31, 2021 are as follows:

	<b>Carrying Value</b>	Fair Value
Cash and cash equivalents	<b>111,476</b>	111,476
Account payables and accrued liabilities	<b>2,269,185</b>	2,269,185
Long-term Loan	<b>338,635</b>	338,635
CEBA Loan	<b>32,163</b>	25,863
Convertible debenture	<b>1,615,382</b>	1,615,382

There were no transfers between level 1, 2 and 3 inputs during the reporting period. 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:

**b) 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, or the interest rate is fixed.

***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 expected credit loss which reduces receivables to the amount management reasonably believes will be collected.

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, 2021 and 2020.

***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 the Company. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Canadian Dollar (CAD), Euro, Indonesian Rupiah (IDR) and United States Dollar (USD). The Company does not use currency derivative instruments to manage the Company's exposure to foreign currency fluctuations.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**4. Financial Instruments and Risk Management continued**

**b) Risk Management continued**

As at December 31, the following balances are denominated in foreign currencies:

		<b>December 31, 2021</b>	December 31, 2020
Cash and cash equivalents	IDR	<b>764</b>	3,556
Cash and cash equivalents	USD	<b>69,054</b>	54,165
Trade and other payables	IDR	<b>1,724,791</b>	1,788,095
Trade and other payables	USD	<b>13,800</b>	13,537
Trade and other payables	EUR	<b>75,429</b>	75,541
Long-term debt	IDR	<b>30,576</b>	24,121
Long-term debt	USD	<b>308,059</b>	270,512

***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, 2021, there existed negative working capital of \$4,133,160 (2020 – \$3,965,758). The Company is looking to finance future exploration and remedy the negative working capital through equity raises. There is no assurance that this will be completed. 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 projects for the benefit of its stakeholders. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents, accounts 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. There were no changes to the Company's approach to capital management during the years ended December 31, 2021 and 2020. The Company is not subject to any external capital requirements.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**5. General and Administrative and Other Income**

General and administrative expenses are comprised of the following:

	<b>For the Year ended</b>	
	<b>December 31, 2021</b>	December 31, 2020
Employee salaries and benefits	<b>34,078</b>	275,961
Contractors and consultants	<b>12,500</b>	-
Travel and accommodation	<b>1,972</b>	5,962
Professional, legal and advisory	<b>55,667</b>	196,511
Office and administration	<b>29,960</b>	45,136
Jakarta office and administration	<b>85,617</b>	331,684
<b>Total expenses</b>	<b>219,794</b>	855,254

Employee salaries and benefits are comprised of personnel in Calgary and Jakarta offices. Professional fees include legal, accounting, investor relations and board fees.

Other income/expense is comprised of the following:

		<b>For the Year ended</b>	
	Note	<b>December 31, 2021</b>	December 31, 2020
Rental revenue		<b>26,825</b>	25,235
Gain on disposition of right-of-use asset	10	-	6,475
CEBA loan accretion	11	<b>(6,300)</b>	34,137
<b>Other income</b>		<b>20,525</b>	65,847

**6. Accounts Receivable**

Accounts receivable consist of Goods and Services Tax ("GST") recoverable by the Company on expenditures made. All amounts are current and are expected to be recovered.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**7. Property, Plant and Equipment**

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

<b>Cost</b>	
December 31, 2020	318,692
<b>December 31, 2021</b>	<b>318,692</b>
<b>Accumulated depreciation, depletion, and amortization</b>	
December 31, 2020	280,159
<b>Depletion, depreciation and amortization</b>	<b>18,713</b>
<b>December 31, 2021</b>	<b>298,872</b>
<b>Net book value</b>	
December 31, 2020	38,533
<b>December 31, 2021</b>	<b>19,820</b>

The company received rent relief under the Canada Emergency Commercial Rent Assistance (CECRA) program. Which was partially applied to the leased assets.

**8. Exploration and Evaluation**

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

<b>Cost</b>	
December 31, 2020	1,893,463
<b>Impairment</b>	<b>(1,893,463)</b>
<b>December 31, 2021</b>	<b>-</b>

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, 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 for approximately \$1.6 million and \$300,000 respectively and that SGE requests release of Sonoro's 25% interest in the PSC to SGE.

SGE has provided no advance notice, as required under the Loan Agreement nor communication on its intention for the Convertible Debenture and Loan. SGE's notice to Asiavest Trust regarding the notice is the first time SGE has initiated contact (indirect) with Sonoro since mid-2020. Sonoro will object to this action by SGE as SGE has not fulfilled its requirements under the Loan Agreement to enter into a mutually agreed Joint Operating Agreement ("JOA"), it has obstructed all efforts to complete the JOA and SGE has not responded to the Company's repeated requests to come to a mutually acceptable resolution of the issues preventing the ventures' ability to move forward with its operations under the PSC.

SKKMIGAS, the Indonesian oil and gas regulator, is aware of the situation with SGE and has formally advised SGE of their obligations to fulfill the PSC terms and to provide quarterly reports of their activities on the project. SKKMIGAS is aware of Sonoro's frustration with the lack of engagement from SGE and Sonoro's commitment to fulfilling the terms of the PSC.

The project partners are currently in discussions to attempt to resolve this issue.



**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**9. Accounts Payable and Accrued Liabilities**

As at December 31, 2021, the Company has total accounts payable and accrued liabilities of \$2,269,185 (2020 - \$2,304,428). Such costs relate mainly to the drilling activities in 2017 in West Sulawesi, accrued salaries owing and standard accounts payable.

**10. Lease Liabilities**

The changes in lease liabilities are as follows:

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

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.

**11. Long-Term Debt and Convertible Debenture**

Sonoro Energy Ltd., through its wholly owned subsidiary, Zamatra Bakau Straits Ltd. BVI ("Zamatra") executed a Loan Agreement on October 19, 2019 with PT Menara Global Energi ("Menara"), a company incorporated in the Republic of Indonesia. Under the terms of the Loan Agreement, Zamatra may borrow up to US\$4 million from Menara at an interest rate of 8% for US dollar borrowings and 16% for IDR borrowings. Within the Loan Agreement, Zamatra via Sonoro Energy Ltd as the Borrower, issued a convertible debenture for CAD\$1,615,382, convertible into Sonoro Energy Ltd. Common shares at CAD\$0.085 per share. At the time of issuance (October 10, 2019), the convertible debenture represented approximately 19.9% ownership position in Sonoro. TSXV requirements do not allow for share issuance or potential share issuance if converted, representing above 20% ownership in a company without shareholder approval.

The changes in long-term debt are as follows:

	<b>December 31, 2021</b>	December 31, 2020
Balance, beginning of the year	<b>294,632</b>	275,992
Interest expense	<b>26,103</b>	25,498
Effects of unrealized foreign exchange gain on translation	<b>17,900</b>	(6,858)
<b>Balance, end of the year</b>	<b>338,635</b>	294,632

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**11. Long-Term Debt and Convertible Debenture continued**

As at December 31, 2021 and 2020, the Company had the following outstanding long-term debt:

	Interest rate	Maturity	December 31, 2021	December 31, 2020
USD denominated debt	8.0%	Oct-21	308,059	270,512
IDR denominated debt	16.0%	Oct-21	30,576	24,121
<b>Long-term debt</b>			<b>338,635</b>	294,632
			<b>December 31, 2021</b>	December 31, 2020
Current portion			338,635	294,632
Long-term portion			-	-
<b>Long-term debt</b>			<b>338,635</b>	294,632

The changes in convertible debenture are as follows:

	December 31, 2021	December 31, 2020
Balance, beginning of the year	1,450,205	1,272,452
Amortization of deferred financing costs	5,451	7,268
Accretion on convertible debentures	159,726	170,485
<b>Balance, end of the year</b>	<b>1,615,382</b>	1,450,205

Convertible debenture bifurcated into equity and debt components:

	Maturity	December 31, 2021	December 31, 2020
Debt component	Oct-21	1,615,382	1,450,205
Equity component	Oct-21	357,409	357,409

**Canada Emergency Business Account (CEBA)**

During 2020, the Company received an interest free loan of \$60,000 through the Canada Emergency Business Account (CEBA). Effective January 1, 2023, any outstanding balance on the term loan shall bear interest at a rate of 5% per annum. The term loan matures on December 31, 2025. Repaying the balance of the loan on or before December 31, 2022 will result in loan forgiveness of \$20,000, this was reported in other income on receipt of the loan.

Pursuant to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the benefit of a government loan at below-market rate is treated as a government grant and measured in accordance with IFRS 9 *Financial Instruments*: the benefit of below-market rate shall be measured as the difference between the initial carrying value of the loan (being the present value of a similar loan at market rates) and the proceeds received. The Company has estimated the initial carrying value of the CEBA Loan at \$23,085, using a discount rate of 22%, which was the estimated rate for a similar loan without the interest-free component. The difference of \$16,915 will be accreted to the loan liability over the term of the CEBA Loan and offset to other income on the statements of loss and comprehensive loss.

Subsequent to year-end, the repayment of the CEBA loan resulting in loan forgiveness of \$20,000 has been extended to December 31, 2023.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**12. Share Capital**

**(i) Authorized**

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

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

A summary of the Company's common share transactions is presented below:

<b>Common share activity</b>	<b>2021</b>	<b>2020</b>
Balance, beginning of period	<b>114,377,151</b>	104,629,229
Private Placement (net of issuance costs)	<b>3,084,760</b>	-
Settlement of liabilities	<b>3,915,240</b>	-
Warrants exercised	-	9,731,255
Options exercised	<b>150,000</b>	16,667
Balance, end of period	<b>121,527,151</b>	114,377,151

On February 6, 2020, the Company's five-cent warrants with an expiration of March 20, 2021, triggered an acceleration clause whereby the warrants expire within 30 days of February 6, 2020. All 4,333,334 five-cent warrants were exercised resulting in cash proceeds of \$108,333 and settlement of debt of \$108,333. In addition, 250,000 ten-cent warrants were exercised resulting in cash proceeds of \$25,000.

On October 7, 2020, the company issued 5,147,921 shares on exercise of 7.5-cent warrants for cash proceeds of \$134,800 and settlement of debt of \$251,294 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 November 20, 2020, the exercise period of all the warrants has been extended to December 31, 2021. The warrants, as amended, include an accelerated expiry provision such that the exercise period of each of the warrants will be reduced to 30 days if for any 10 consecutive trading days during the unexpired term of such warrants, the closing price of the Corporation's common shares exceeds a trading price of \$0.15 per common share or higher, for the 7.5 cent warrants and \$0.20 per common share or higher, for the 10-cent warrants, with the 30-day expiry period commencing on the day the Issuer either (i) disseminates a press release or (ii) sends a written notice to the holders of the Warrants, advising of the commencement of the Exercise Period.

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. The consideration received consisted of \$136,750 of cash proceeds and the settlement of \$195,762 in outstanding accounts payable and accrued liabilities. As at December 31, 2021, \$17,488 of share subscriptions remain receivable and have been presented as a reduction of share capital in the Statement of Financial Position.

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

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**12. Share Capital continued**

**(iii) Share-based compensation**

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 shares that may be reserved for issuance under the Company's stock option plan is 10 percent of the number of common shares outstanding. Options vest one-third immediately, one-third after 12 months and one-third after 24 months.

Share based compensation expense is determined using the fair value method. The fair value of options granted is measured the date of the grant and is determined using the Black-Scholes option pricing model.

A summary of the Company's stock option transactions is presented below:

	<b>December 31, 2021</b>		December 31, 2020	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	Number of options	Weighted average exercise price
<b>Options outstanding, beginning of period</b>	<b>10,750,833</b>	<b>0.115</b>	7,967,500	0.134
Granted	<b>2,150,000</b>	<b>0.050</b>	2,800,000	0.060
Cancelled and forfeited	<b>(2,372,500)</b>	<b>0.320</b>	-	-
Exercised	<b>(150,000)</b>	<b>0.055</b>	(16,667)	0.055
<b>Options outstanding, end of period</b>	<b>10,378,333</b>	<b>0.060</b>	10,750,833	0.115

The share options outstanding and exercisable as at December 31, 2021:

Grant date	Number of Options outstanding	Exercise price	Expiry date	Number of Options exercisable
May 1, 2018	2,258,333	0.055	June 27, 2023	2,258,333
November 8, 2019	3,170,000	0.070	November 7, 2024	3,170,000
December 31, 2020	2,800,000	0.060	October 1, 2025	1,866,667
March 25, 2021	2,150,000	0.050	March 25, 2026	716,667
	<b>10,378,333</b>	<b>0.060</b>		<b>8,011,667</b>

The weighted average life of options outstanding is 3.1 years (2020 - 3.3 years).

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**12. Share Capital continued**

**(iii) Share-based compensation continued**

The fair value of options was estimated using the Black-Scholes option pricing model based on the date of grant and using the following assumptions:

	March 25, 2021	September 30, 2020	November 8, 2019
Risk-free interest rate	0.68%	0.31%	1.6%
Expected stock price volatility	207%	238%	271%
Expected life	5 year	5 years	5 years
Expected dividend yield	-	-	-
Share price on grant date	0.060	0.065	0.095
Fair Value Option Price	0.050	0.060	0.095
Forfeiture rate	24%	4%	18%

During the year ended December 31, 2021, the Company recorded \$176,481 (2020 - \$208,656) in share-based compensation expense for the options granted and vested during the year.

***Share Purchase Warrants***

On January 23, 2020, the Company amended the term of the ten cent warrants from the March 26, 2018 financing from March 26, 2020 to December 30, 2020.

On February 6, 2020, the Company's five-cent warrants with an expiration of March 20, 2021 triggered an acceleration clause whereby the warrants expire within 30 days of February 6, 2020. All 4,333,334 five-cent warrants were exercised resulting in cash proceeds of \$108,333 and settlement of debt of \$108,333. In addition, 250,000 ten-cent warrants were exercised resulting in cash proceeds of \$25,000.

On September 7, 2020, the Company announced the incentive warrant exercise program. The program was open for one month to holders of the 10 cent warrants 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. Under this incentive program 5,147,921 warrants were exercised for cash proceeds of \$134,800 and settlement of debt of \$251,294.

On May 31, 2021 the Company issued 7,000,000 warrants, 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.

On December 31, 2021 the 26,207,247 warrants expiring December 31, 2021, have been extended until December 31, 2022 and 22,237,821 of these warrants have been repriced to an exercise price of \$0.07 per share.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**12. Share Capital continued**

**(iii) Share-based compensation continued**

The issuances of the share purchase warrants are summarized as follows:

	December 31, 2021		December 31, 2020	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
<b>Warrants, beginning of period</b>	<b>26,207,247</b>	<b>\$0.073</b>	30,790,581	\$0.093
Issued October 7, 2020	-	-	5,147,921	\$0.072
Issued May 31, 2021	<b>7,000,000</b>	<b>\$0.100</b>	-	-
Exercised	-	-	(9,731,255)	\$0.065
<b>Warrants, end of period</b>	<b>33,207,247</b>	<b>\$0.078</b>	26,207,247	\$0.073

The share purchase warrants outstanding and exercisable as at December 31, 2021:

	Number of Share Purchase Warrants outstanding	Exercise price	Expiry date	Number of Share Purchase Warrants exercisable
March 26, 2018	1,903,907	\$ 0.100	December 31, 2022	1,903,907
March 26, 2018	19,155,419	0.070	December 31, 2022	19,155,419
October 7, 2020	2,065,519	0.075	December 31, 2022	2,065,519
October 7, 2020	3,082,402	0.070	December 31, 2022	3,082,402
May 31, 2021	7,000,000	0.100	May 31, 2023	7,000,000
	<b>33,207,247</b>	<b>\$ 0.078</b>		<b>33,207,247</b>

The fair value of warrants was estimated using the Black-Scholes pricing model based on the date of grant and using the following assumptions:

	May 31, 2021	October 7, 2020	March 29 2019
Risk-free interest rate	0.31%	0.23%	1.6%
Expected stock price volatility	166%	114%	178%
Share price on grant date	0.050	0.060	0.025
Term	2 years	0.23 years	2 years

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**13. 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.

Key management personnel are persons responsible for planning, directing and controlling activities of an entity and include the CEO, CFO, executive officers and senior managers.

During the year ended December 31, 2021 key management personnel compensation and director fees of \$50,000 (2020- \$498,173) were paid or accrued. The Company incurred \$106,605 (2020 – \$156,494) in share-based compensation to directors and/or officers for the year ended December 31, 2021.

As at December 31, 2021, salaries and fees amounting to \$584,456 (2020 - \$641,172) were owing to directors, officers or shareholders, 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.

**14. Supplemental cash flow information**

Non-cash working capital components:

	<b>2021</b>	2020
Net change in non-cash working capital related to operations:		
Accounts receivable	<b>(3,477)</b>	4,627
Prepaid expenses	<b>12,494</b>	(12,470)
Accounts payable and accrued liabilities	<b>160,521</b>	539,593
Accrued interest payable	<b>(129,231)</b>	(129,585)
Effects of foreign currency	<b>39,104</b>	32,047
Total expenses	<b>79,411</b>	434,212

**15. Income Tax**

A reconciliation of income tax expense (recovery) at statutory rates with the reported income taxes (recovered) is as follows:

	<b>2021</b>	2020
Loss before income taxes	<b>(2,629,003)</b>	(1,344,196)
Combined statutory tax rate	<b>23.00%</b>	24.00%
Expected tax recovery at statutory rate	<b>(604,671)</b>	(322,607)
Non-deductible items	<b>489,517</b>	145,177
Change in unrecognized deferred tax asset	<b>110,890</b>	168,739
Other	<b>4,264</b>	8,691
Actual income tax recovery	<b>-</b>	-

The statutory tax rate decreased from 24% in 2020 to 23.0% in 2021 due to a decrease in the Alberta provincial tax rate on July 1, 2020, from 10% to 8%.

**SONORO ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)**  
**For the year ended December 31, 2021**

**15. Income Tax continued**

The components of the net deferred tax asset (liability) at December 31, are as follows:

	<b>2021</b>	2020
Property, plant and equipment	<b>52,876</b>	61,455
Non-capital losses	<b>9,834,444</b>	9,748,230
Capital losses	<b>2,343,441</b>	2,343,441
Lease liability	<b>5,915</b>	11,431
Convertible debenture and debt issuance costs	<b>1,334</b>	(35,989)
CEBA	<b>(1,803)</b>	(3,252)
Total deferred tax assets	<b>12,236,207</b>	12,125,317
Unrecognized deferred tax asset	<b>(12,236,207)</b>	(12,125,317)
Deferred taxes	-	-

Estimated unrecognized deductible temporary (taxable) differences (tax pools) at December 31, are as follows:

	<b>2021</b>	2020
Canadian undepreciated capital cost	<b>249,714</b>	305,731
Canadian non-capital losses	<b>42,770,152</b>	42,238,300
Canadian capital losses	<b>20,377,747</b>	20,377,747
Canada Emergency Business Account (CEBA)	<b>(7,838)</b>	(14,137)
	<b>63,389,775</b>	62,907,641

As at December 31, 2021, the Company had accumulated Canadian non-capital losses of approximately \$42.8 million expiring between 2026 and 2041. Historical losses incurred in Indonesia are ringfenced to the discontinued PSA, and are not recoverable.

**16. Subsequent Event**

Subsequent to quarter end, 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 for approximately \$1.6 million and \$300,000 respectively and that SGE requests release of Sonoro's 25% interest in the PSC to SGE.

SGE has provided no advance notice, as required under the Loan Agreement nor communication on its intention for the Convertible Debenture and Loan. SGE's notice to Asiavest Trust regarding the notice is the first time SGE has initiated contact (indirect) with Sonoro since mid-2020. Sonoro will object to this action by SGE as SGE has not fulfilled its requirements under the Loan Agreement to enter into a mutually agreed Joint Operating Agreement ("JOA"), it has obstructed all efforts to complete the JOA and SGE has not responded to the Company's repeated requests to come to a mutually acceptable resolution of the issues preventing the ventures' ability to move forward with its operations under the PSC.

SKKMIGAS, the Indonesian oil and gas regulator, is aware of the situation with SGE and has formally advised SGE of their obligations to fulfill the PSC terms and to provide quarterly reports of their activities on the project. SKKMIGAS is aware of Sonoro's frustration with the lack of engagement from SGE and Sonoro's commitment to fulfilling the terms of the PSC.

The project partners are currently in discussions to attempt to resolve this issue.