

## Form 51-102F1

### MANAGEMENT DISCUSSION AND ANALYSIS

#### SONORO ENERGY LTD.

This Management's Discussion and Analysis ("MD&A") of operations and audited annual consolidated financial statements presented herein are provide 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 May 30, 2016 and was approved by the Board of Directors. This MD&A should be read in conjunction with the Company's unaudited interim financial statements and related notes for the three months ended March 31, 2016. The unaudited interim 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](http://www.sedar.com). Information is also available on the Company's website at [www.sonoroenergy.com](http://www.sonoroenergy.com). Unless otherwise stated, all dollar amounts are expressed in Canadian dollars, which is the Company's presentation currency.

#### HIGHLIGHTS

##### 2016

- On March 7, 2016 the Company entered into an agreement with Stockbridge Oil and Gas Ltd. ("Stockbridge") to purchase all of the outstanding shares (see Outlook information for further details). The Transactions are expected to close by about May 31, 2016.
- On April 28, 2016 the Company closed the first tranche (the "First Tranche") of the non-brokered private placement ("the Offering") as announced on March 8, 2016 and further updated on April 26, 2016. Pursuant to the First Tranche, Sonoro issued 48,000,000 common shares (the "Common Shares") at a price of \$0.005 per share for gross proceeds of Cdn \$240,000. The Common Shares will be subject to a holding period of four months plus one day. The Offering is made pursuant to a waiver granted by the TSX Venture Exchange ("TSX Venture") which permits the Company to offer the Common Shares at a price below the TSX Venture's \$0.05 minimum pricing requirement.

#### OVERVIEW

Sonoro is an international oil and gas resource exploration and development company. The Company is refocusing its efforts to SE Asia where it recently announce (see Outlook) Transactions to acquire all the outstanding share of Stockbridge Oil and Gas Ltd which holds a License for Budong Budon in Sulawesi. This Transaction is expected to close on or about May 31, 2016. The Company's asphalt license agreement in the Salah ad Din Province of Iraq remains under Force Majeure since July 3, 2014 and requiring additional federal approval.

## OUTLOOK

### Budong Budong PSC

On March 8, 2016 the Company announced it had entered into an agreement with Stockbridge, and on April 25, 2016 an Amending Agreement extending the closing to May 30, 2016, for the purchase of its outstanding shares and the purchase of an option to acquire a future cash payment. In conjunction with this the Company announced a non-brokered private placement for up to \$1,500,000 (the "Offering"). As of the date of this report the transactions have not closed but expect to be closed by May 31, 2016; however a portion of the private placement for \$240,000 was closed on April 28, 2016.

The Company also clarified that Chris Atkinson, a director of the Company, is a non-arm's length party to the Transaction, as he is also a director of Mercia Investment Ltd., one of the Stockbridge Shareholders selling its Stockbridge Shares to the Company pursuant to the SPA. As a result, the Transaction is a "Related-Party Transaction" under Multilateral Instrument ("MI") 61-101. However, the Company is exempt from having to obtain minority Company shareholder approval for the Transaction pursuant to the financial hardship exemption under MI 61-101.

The Budong Budong PSC is located onshore in the province of West Sulawesi, Indonesia and lies across from the Makassar Strait and to the south and east of Kalimantan, where several oil and gas fields are in production and produce products that are refined locally.

Highlights and key terms of the PSC are:

- 1,094.73 km<sup>2</sup> area after final relinquishments, representing 20% of the original area
- Stockbridge is operator with a 71.5% WI with a further 28% waiting on approval from SKKMIGAS
- Exploration period ends Jan 15, 2017
- 100% cost recovery (unaudited and estimated accumulation of over US\$70mm to date)
  - Newly acquired 600 km of 2D seismic completed in 2008/09
  - 2 wells drilled to date were plugged and abandoned to deeper depths however shallow prospects were bypassed which had oil and gas shows
- 25% of contractor oil and gas share sold at 25% of benchmark price (holiday for 5 years)
- Production split of 62.5% to contractor for oil and 71.4% for gas (before tax)
- 10% FTP to government
- Income and distribution tax of 44%
- After cost recovery expended, and after taxes and FTP, contractor take is ~31.5%
- 20 Year production license with plan of development

Key terms of the Transaction are:

- Completion of the transaction is contingent on Sonoro completing the Offering.
- At the closing of the transaction, the Company will issue 250 million shares to the Stockbridge shareholders, representing a total value of \$2.5 million at a per share value of \$0.01 per share (this represents a 100% premium to the closing price of Sonoro shares as of March 7, 2016).

- Certain changes and additions to the board of directors of Sonoro (the “Board”) will be made when the Transaction is completed:
  - Stockbridge will have the right to appoint two Board members, one of which will be Bill Marpe.
  - Chris Atkinson will be appointed Chair of the Board.
- All existing members of the Board will continue to serve as directors.
- In order to complete the Transaction, at the time of Closing:
  - The Budong Budong PSC will be in good standing.
  - Certain other typical terms and conditions must be satisfied for the benefit of both parties.
- Sonoro agrees to seek approval from its shareholders to complete a share consolidation on a ten for one basis within six months following the Transaction (the “Consolidation”).

### **Option Agreement**

The Company has also agreed to enter into an Option Agreement (the “Option Agreement”) with Transition Resources Limited (“Transition”) and Merdeka Energy Holdings Limited (“Merdeka”), whereby Transition and Merdeka will grant the Company an option (the “Option”) to acquire the benefit of a future contingent payment from ConocoPhillips Petroleum Holdings B.V. (“CPP”) of US\$15 million (the “Benefit Payment”). The Option Agreement is expected to be executed concurrently with the closing of the First Tranche and the Transaction.

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

Pursuant to the Option Agreement, on or before the 30th day after the execution of the Option Agreement, the Company will pay a non-refundable fee of C\$250,000 (the “Non-Refundable Fee”), to be satisfied through the issuance of 25 million Common Shares to the shareholders of Transition and Merdeka, subject to the approval of the TSX Venture Exchange. The Option may be exercised by the Company until September 30, 2016 at an exercise price of US\$1 million. If the Option is exercised, the Non-Refundable Fee will be credited towards the exercise price.

Completion of these transactions are subject to final approval by the TSX Venture.

### **Salah ad Din, Iraq**

The situation in Salah ad Din and ISIS remains challenged and there is no change in the Force Majeure of the Asphalt License Agreement. The Company hopes to re-establish regular contact once the security situation has stabilised and the government is functioning and back in place. The Company does not have any indications as to how long this will take, but believes it could take significant time.

## FINANCIAL PERFORMANCE

### Selected Financial Information

	Three months ended March 31,	
	2016	2015
	\$	\$
Total revenue	-	-
Net loss for the period	211,549	253,720
Net loss per share – basic and diluted	0.00	0.00
Total comprehensive loss	211,549	252,651
Total assets	53,912	561,136
Total long term financial liabilities	-	-
Working capital	(697,564)	(8,847)
Capital expenditures	-	-
Cash dividend declared per share	-	-

### Results from Operations

The following paragraphs provide information about the results of Sonoro's on-going operations for the three months ended March 31, 2016 and 2015.

#### *General and administrative expense*

For the three months ended March 31, 2016, general and administrative expense totaled \$212,389, compared to \$250,335 for the corresponding period in 2015.

The following table provides a breakdown of general and administrative expense for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,	
	2016	2015
	\$	\$
Employee salaries and benefits	<b>75,096</b>	<b>91,392</b>
Share based compensation	-	-
Contractors and consultants	<b>12,500</b>	<b>44,026</b>
Travel and accommodation	<b>8,690</b>	<b>5,110</b>
Professional, legal and advisory	<b>70,502</b>	<b>58,560</b>

Office accommodation and administration	<u>45,600</u>	<u>51,247</u>
	<u>212,389</u>	250,335

During the three months ended March 31, 2016, general and administrative costs decreased when compared to the corresponding period in 2015. The decrease is the result of continued efforts to cut back on headcount, office and contracting costs. Go forward expenses are expected to remain consistent with the results noted above for 2016, until such time that the announced Transaction closes.

***Depreciation and amortization expense***

Depreciation and amortization expense the three months ended March 31, 2016 totaled a recovery of \$1,833 compared to expense \$7,156 for the same period in 2015.

***Net Finance (loss)/income***

For the three months ended March 31, 2016, the Company incurred net finance income of \$2,672, compared to income of \$20,868, for the same period in 2015.

***Bad debt expense***

During the three months ended March 31, 2016, the Company recorded bad debt expense of \$nil, compared to \$17,097 for the same period of 2015. These amounts related to its receivable balance due from Geopetrol for outstanding cash call balances owed to Sonoro.

***Net loss for the year***

For the three months ended March 31, 2016, the Company realized a net loss of \$211,549 compared to a net loss of \$247,652 for the same period in 2015. The net loss per share (basic and diluted) for the three months ended March 31, 2016 was \$0.00 as compared to \$0.00 per share for the comparable period in 2015.

***Other comprehensive loss***

For the three months ended March 31, 2016, the Company realized an exchange loss on translation of foreign operations of \$Nil compared to a gain of \$1,069 in the comparable period in 2015.

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. With the addition of the License Agreement in Q4 of 2010, the Company established foreign operations where the functional currencies differ from the Company's reporting currency.

***Related party transactions***

During the three months ended March 31, 2016, key management personnel compensation and director fees of \$68,388 were paid or accrued, compared with \$46,055 for the comparable period in 2015.

As at March 31, 2016, \$132,981 (December 31, 2015 - \$76,729) were owing to directors, officers, with respect to salaries, benefits and consulting fees. These amounts are non-interest bearing, have no specific terms of repayment, were incurred in the normal course of operations and are included in accrued liabilities.

### **Capital Expenditures**

During the three months ended March 31, 2016 and 2015, the Company did not make expenditures related to exploration and evaluation of assets.

### **Quarterly Information**

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

	Total revenues	Loss for the period before discontinued operations	Loss per share - basic and diluted*
	\$	\$	\$
March 31, 2016	-	211,549	0.00
December 31, 2015	-	73,586	0.01
September 30, 2015	-	206,989	0.00
June 30, 2015	-	262,274	0.00
March 31, 2015	-	253,720	0.00
December 31, 2014	-	956,446	0.02
September 30, 2014	-	628,142	0.01
June 30, 2014	-	13,738,792	0.24

The quarterly loss in June, 2014 was increased as a result of the impairment charge for exploration and evaluation assets.

### **Liquidity and Capital Resources**

#### **Working capital**

Sonoro had negative working capital of \$697,564 at March 31, 2016 compared with working capital of \$478,847 at December 31, 2015. Working capital decreased primarily as a result of use of cash to pay down outstanding current accounts payables and to fund ongoing general and operating costs.

For further information on the private placement, see “Cash Generated by Financing Activities” and “Requirement for Additional Financing” below. The Company has performed analysis on working capital requirements for the following twelve months and expects to be able to meet its requirements for the year, subject to certain cost cutting initiatives and disposal of non-core assets.

#### **Cash**

The Company had cash of \$2,993 at March 31, 2016, compared to cash of \$11,171 at December 31, 2015. The liquid portion of the working capital consists of cash in non-interest

bearing accounts held at banks and highly liquid investments, which are readily convertible to known amounts of cash.

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

### ***Cash Used in Operating Activities***

For the three months ended March 31, 2016, cash used for continuing operating activities was \$8,177 as compared to \$301,478 for the same period in 2015. Cash used in operating activities decreased as a result of having limited cash to pay current working capital (See subsequent event below).

### ***Cash From/Used in Investing Activities***

For the three months ended March 31, 2016, cash used from continuing investing activities was \$Nil as compared to cash from investing of \$10,975 for the same period in 2015. The decrease is related to the sale of both the technology and drilling rig in the prior year and the stoppage of operations in Iraq (see above).

### ***Cash Generated by Financing Activities***

During the three months ended March 31, 2016, the Company generated \$Nil through financing activities, as compared to \$Nil for 2015.

### ***Requirement of Additional Financing***

The Company has relied on equity financings for substantially all funds raised to date for its operations. The Company is presently focusing on seeking potential mergers or acquiring and developing oil and gas resources, which will require additional funding to execute its business plan. As at and for the three months ended March 31, 2016, the Company had no revenues, negative working capital of \$697,564, negative cash flows from operations of \$8,177 a loss from operations of \$211,549 and an accumulated deficit of \$75,439,189. The Company intends to rely upon the issuance of securities, debt, farm-in partners and project financing to provide required funding (refer to subsequent event disclosure below and Outlook above). 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. While the Company's unaudited consolidated financial statements for the three months ended March 31, 2016 have been prepared on the assumption that the Company is a going concern, the above material uncertainties cast significant doubt on this assumption and accordingly, the appropriateness of the use of the accounting principles applicable to a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining additional sources of capital, and no significant adverse legal, political and security developments in Iraq. 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.

At March 31, 2016, the Company had no remaining options outstanding. During 2015, the Company cancelled all issued and outstanding options that had been granted on the stock option plan.

### **Subsequent Event**

During the quarter ended December 31, 2015, the Company announced that it intended to raise up to \$500,000 by way of a non-brokered private placement (the "Offering") of common shares ("Common Shares") of the Company at a price of \$0.005 per Common Share. This Offering was subsequently terminated on March 8, 2016 and replaced with a new Offering as described below. In conjunction with this new Offering the Company also announced the acquisition of Stockbridge Oil and Gas Ltd. and an option for a future payment as described above.

Subject to certain limitations discussed below, the Offering is open to all existing shareholders of the Company, and any existing shareholders interested in participating in the Offering should contact the Company pursuant to the contact information set forth below. The Offering will also be made to certain investors pursuant to other available prospectus exemptions.

The First Tranche of \$240,000 closed on April 28, 2016 and the Final Tranche up to a total of \$1.5 million, and a minimum of \$1.1 million is expected to close by May 30, 2016.

Pursuant to the terms of the Offering, a maximum of 300,000,000 Common Shares will be issued for gross proceeds of up to \$1,500,000. The Offering is subject to a minimum aggregate subscription of 220,000,000 Common Shares for gross proceeds of \$1,100,000. The proceeds of the Offering will be used primarily to fund exploration activities relating to the Budong Budong PSC, the exercise of the Option (as defined above), and for general corporate purposes.

The securities issued in connection with the Offering will be subject to a four month and one day hold period from the date of issuance of such securities. All persons who participate in the Offering will be required to agree to vote in favor of the Consolidation.

Completion of the Offering is subject to final approval by the TSX Venture Exchange.

### **Existing Shareholder Exemption**

A portion of the Offering will be made pursuant to the existing shareholder exemption (the "Existing Shareholder Exemption") contained in Multilateral CSA Notice 45-314 and the various corresponding blanket orders and rules of participating jurisdictions (the Existing Shareholder Exemption, as described herein, is not available in Ontario due to the level of dilution that will result from the Offering). In addition to conducting the Offering pursuant to the Existing Shareholder Exemption, the Offering will also be conducted pursuant to other available prospectus exemptions, including sales to accredited investors and close personal friends and business associates of directors and officers of the Company.

The Company has set the day before the date of this press release as the record date for the purpose of determining existing shareholders entitled to purchase Common Shares pursuant to the Existing Shareholder Exemption. Subscribers purchasing Common Shares under the Existing Shareholder Exemption will need to represent in writing that they meet certain requirements of the Existing Shareholder Exemption, including that they were, on or before the record date, a shareholder of the Company (and still are a shareholder). The aggregate acquisition cost to a subscriber under the Existing Shareholder Exemption cannot exceed

\$15,000 unless that subscriber has obtained advice obtained from a registered investment dealer regarding the suitability of the investment.

Unless the Company determines to increase the gross proceeds of the Offering and receives TSX Venture Exchange approval for such increase, if subscriptions received for the Offering based on all available exemptions exceed the maximum Offering amount of \$1,500,000, Common Shares will be allocated pro rata amongst all subscribers qualifying under all available exemptions. No offering document will be provided by the Company in connection with the Offering.

### **Outstanding Share Data**

Set out below is the outstanding share data of the Company as at May 30, 2016.

At May 27, 2016	Number Outstanding
Common Shares	104,413,243
Options	-
Warrants	-

### **Commitments**

In December 2015, the Company entered into an office lease agreement. Under the terms of the lease, the Company will responsible to pay \$3,270 per month until February, 2017. For 2016, the Company anticipates paying gross rent under the lease of \$29,437 and \$6,541 in 2017.

On October 3, 2010, the Company entered into the Asphalt License with the Provincial Government of Salah ad Din. The terms of the Asphalt License require that the Licensee make an investment of US\$1,500,000 on exploration activities and construct a topping facility having a minimum 1,000 barrel per day capacity within 18 months from the effective date of April 14, 2011. The Provincial Government has agreed to extend the time limit prescribed in the Asphalt License for construction of the topping facility. As a result, the previous deadline of October, 2012 has changed to a deadline of eighteen months following a commercial discovery. As a result of the Force Majeure declaration in Q2 2014, all commitments and work programs have been deferred. Once full operations are restored, the forward work program and commitment timeline will be reviewed with the Government.

### **Contingencies**

In 2007 the Company filed a construction lien and claim for payment against Hazco Environmental Services Ltd. ("Hazco"), a division of CCA Income Trust Inc., CCS Inc. and ABB Inc. ("ABB") in respect of Sonoro's supply of labour, services and materials related to the treatment and remediation of contaminated soil at a site owned by ABB Inc. located at 2401 Dixie Road in Mississauga, Ontario. Subsequently XCG Consultants Ltd. ("XCG") and Hazco also filed lien claims against ABB. Hazco and ABB have defended themselves against Sonoro's claims and ABB have filed counterclaims against XCG, Hazco, Sonoro and Church and Trout ("CTI") that certain work was performed improperly and/or that deficiencies existed in said work. Sonoro is defending the ABB counterclaims in respect of Sonoro and Sonoro's insurers at the time, Zurich Insurance, are paying a majority of the costs related to this defence. Sonoro

believes that there is no reliable estimate of the potential outcome of the case, therefore no provision is made in the financial statements for the claim.

ABB also claimed against Sonoro for the removal of contaminated filters allegedly left at the site. ABB is seeking \$550,000 from the Company in relation to the identification of the problem and the removal of the filters and the material contained therein. Management estimates the cost to remove the filters to be \$151,428, which has been accrued as a liability. The Company does not expect to incur any further expenditure related to this lawsuit. On May 20, final releases were issued between ABB and Sonoro with final settlements having been reached. Sonoro expects that limited further costs will be incurred and will account for this outcome in the next interim financial statements. .

### **Off-Balance Sheet Arrangements**

The Company does not utilize off-balance sheet transactions.

### **Key Personnel Additions/Changes**

#### ***Directors***

Mr. Thierry Lenoir and Mr. Dick ter Avest resigned from the Board of Directors in 2015 and were replaced by Mr. David Robinson.

#### ***Management***

In January 2015, Mr. Dick ter Avest resigned from Sonoro as COO and Board Member.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The significant accounting policies are outlined in Note 3 to the consolidated audited financial statements of the Company for the year ended December 31, 2015. These accounting policies have been applied consistently for the year ended December 31, 2015.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Uncertainties about these assumptions and estimates could result in material adjustments to the Company's financial statements and financial position. A description of the Company's significant areas of estimation uncertainty and critical judgments are contained in Note 2(e) to the consolidated audited financial statements of the Company for the year ended December 31, 2014.

There were no changes to the Company's critical accounting estimates during 2014.

### **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, 2014.

## Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported on the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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

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

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

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

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

*(ii) Available-for-sale investments:*

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

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

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

*(iii) Loans and receivables:*

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

Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans

and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

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

*(iv) Financial liabilities at amortized cost:*

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

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

The Company's financial liabilities at amortized cost include trade payables.

## **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 the basis of the current legal and regulatory framework federally in Iraq and in the Province, management of the Company believes that the Asphalt License is valid and enforceable in accordance with applicable laws. However, there can be no assurance that the Asphalt License will not be adversely affected in the future by actions of the Iraqi federal government or the government of the Province, including by the enactment of any new federal Iraqi oil and gas law, and the validity, effectiveness and enforceability of the Asphalt License in the future in Iraq cannot be assured. Any such actions could have a material adverse effect on the Company's business, financial condition and prospects.

The Company has received an expert legal opinion stating that the Asphalt License is a valid contract, enforceable with its terms, but there is a risk that the Asphalt License may be subject to revocation, challenge or amendments. There can be no assurance that claims by third parties against the Company or its related properties will not be asserted at a future date.

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 no cash flow from operations, and current cash resources are insufficient to fund its 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, development and production of heavy oil and future sales of heavy oil produced and/or products derived from asphalt and its present stage of development of the NSD and Sherqad prospects are 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 heavy oil and/or products derived from asphalt in commercial quantities. It is difficult to project the costs of implementing any exploratory drilling programs due to the Company's intention to initially drill a limited number of exploration wells in Iraq and inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. The long-term commercial success of the Company's heavy oil activities depends on its ability to acquire, develop and commercially produce oil 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, heavy oil activities are subject to the risks of exploration, development and production of oil and gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills, all of which could result in personal injuries, loss of life and damage to the property of

Sonoro and others. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on the future results of operations, prospects, business, liquidity and financial condition of Sonoro.

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

#### *Resource Estimates*

There are numerous uncertainties inherent in estimating quantities of prospective and contingent oil resources. All such estimates, including those in both the Company's prospective and contingent 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 or contingent 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 Iraq*

The Company's principal assets are located in Iraq, which has historically experienced periods of civil unrest, terrorism, violence and war, as well as political and economic instability. Heavy oil activities in Iraq 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 in respect of Iraq. 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, carried interest for Iraq, 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 Iraq 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 Iraq is limited, which may affect the Company's ability to explore and develop its properties and to store and transport potential future oil 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 topping facilities or other facilities to process its entire production. In addition, the Company may be required to establish camps for all of its field operations.

Iraq has a history of security problems and the Company and its personnel are subject to associated risks to their personal safety and the security of assets and properties. Key personnel may be robbed, kidnapped and/or murdered. Security may be difficult, or impossible, to obtain, and if obtained, may be ineffective and costly. It may be difficult or impossible to obtain insurance coverage to protect against terrorist and other security incidents and as a result, the Company's insurance program may exclude this coverage. Consequently, such security incidents could have a material adverse impact on the Company's reputation, operations and prospects. Currently, military forces from the United States and other allied countries have largely withdrawn but may continue to provide training and advice to the federal government of the Republic of Iraq to assist the government in maintaining peace, order, stability and security. There can be no assurances to the commitment of these foreign nations to continue to maintain their military presence nor can there be assurances that the government of Iraq can assert the ability themselves to provide the necessary degree of peace, order, stability and security. Accordingly, the Company's ability to maintain effective security over its assets may be adversely impacted by any withdrawal of foreign military presence and aid.

The unsettling political status of Iraq may make it more difficult for the Company to obtain any required project financing from senior lending institutions because such lending institutions may not be willing to finance projects in Iraq due to the perception of investment risk. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or the more stringent enforcement thereof, could have a material adverse impact on the Company by increasing exploration expenses, future capital expenditures or future production costs or by reducing the future level of production, or cause the abandonment or delays in development of the Company's projects, any of which would have a material adverse effect on Sonoro's business, financial condition, results of operations and prospects.

No federal Iraq legislation has yet been agreed to or enacted by the Iraq Council of Ministers and Council of Representatives to address the future organization of Iraq's petroleum industry, the sharing of petroleum and other revenues within Iraq or the sale of petroleum and related products. Failure to enact legislation or the enactment of federal legislation contradictory to legislation of the Province could materially adversely impact Sonoro's interest in the Province.

#### *Political Issues in Iraq*

The political situation in Iraq is unsettled and volatile. Kurdistan is the only region that is constitutionally established pursuant to the Iraq Constitution. The political issues of federalism and the autonomy of regions in Iraq are matters about which there are major differences between the various political factions in Iraq.

Aside from the risks inherent in the oil and gas industry, the Company's exploration for oil and gas in Iraq is subject to additional risks. These additional risks may involve issues arising from the lack of federal Iraq oil and gas legislation discussed below, issues arising from any other potential legislation, political turmoil and unrest, the obligation of any special taxes or similar charges, oil export or pipeline restrictions, foreign exchange fluctuations and currency controls, the restriction of contractual rights or the taking of property without fair compensation, limitations on the use of expatriates in the operations and other matters.

There is also a potential risk that if a change in government in the Province and/or Iraq occurs resulting in a new ruling government, the new government may void the current agreements or change laws and regulations that the Company is currently relying on to make operating decisions.

#### *Legislative Issues in Iraq*

No federal Iraq legislation has yet been agreed to or enacted by the Iraq Council of Ministers and Council of Representatives to address the future organization of Iraq's petroleum industry or the sharing of petroleum and other revenues within Iraq. Failure to enact legislation or the enactment of federal legislation contradictory to Sonoro's interests could materially adversely impact Sonoro.

#### *Reliance on and Security of Key Personnel*

The Company's success depends in large measure on certain key personnel. In particular, the Company relies heavily on the expertise, operational knowledge and the personal and professional relationships its management team has built in the jurisdiction in which it currently operates. The loss of the services of such key personnel could have a material adverse effect on the Company. The Company does not have key person insurance in effect for management. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

Iraq has a history of security problems and the Company and its personnel are subject to associated risks to their personal safety and to the security of assets and properties. Consequently, such security issues could have a material adverse impact on the Company's reputation, operations and prospects; however, the Company has engaged a reputable security firm to ensure that risks are mitigated to the extent possible.

### *Management of Key Relationships in the Salah ad Din Province*

Failure to manage relationships with local communities, government and non-government organizations could adversely impact Sonoro's business in the Province. 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 the Province. 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;
- the continued participation of its partners in respect of the NSD and Sherqad prospects and Asphalt License;
- 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. During 2012, 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 heavy oil 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 Euros. Where there are fluctuations in the United States dollar exchange rate, Sonoro's revenue margins may be materially affected.

## *Farmout and Joint Venture Partners*

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

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

#### *Canadian and Foreign Tax Considerations*

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

#### *Litigation*

The Company is party to certain litigation matters, and notwithstanding the Company's belief that such matters will be decided in its favour, the results of litigation are inherently uncertain and may result in adverse rulings or decisions. The Company may enter into settlements or be subject to judgments that may, individually or in the aggregate, have a material adverse effect on its business, financial condition, results of operations and prospects.

## **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 heavy oil in the Province, technical risks and resource potential of the Company's drilling prospects, including the NSD and Sherqad prospects, the financing and timing of construction of a topping facility, the conclusions of the preliminary analysis of the well and seismic data of the NSD prospect, total project costs for the three well drilling and exploration program, in the development and commercialization of technology, the potential for joint ventures, licensing or other arrangements and outcome of litigation matters, and other statements that are not historical facts.

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.