



**SONORO ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023

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

August 11, 2023

This Management's Discussion and Analysis ("MD&A") of operations for the period ending June 30, 2023 unaudited consolidated financial statements presented herein are provided to enable readers to assess the results of operations, liquidity and capital resources of Sonoro Energy Ltd. ("Sonoro" or the "Company") and is based on information available to August 11 2023 and was approved by the Board of Directors. This MD&A should be read in conjunction with the Company's audited year end December 31, 2022 and 2021 consolidated financial statements and unaudited condensed consolidated interim financial statements dated June 30, 2023. The consolidated audited and unaudited financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information and continuous disclosure materials relating to the Company can be found on SEDAR at www.sedar.com. Information is also available on the Company's website at www.sonoroenergy.com. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars, which is the Company's presentation currency.

Sonoro is an oil and gas resource, exploration, and development company.

FORWARD-LOOKING STATEMENTS

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

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

All such forward-looking information is based on certain assumptions and analyses made by management in light of experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, including, without limitation: the risks associated with foreign operations; foreign exchange fluctuations; commodity prices; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the existence of operating risks; volatility of oil and natural gas prices; oil and natural gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us and other factors, many of which are beyond the Company's control.

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

OPERATIONS

New Direction

In June 2023, Sonoro Energy Ltd. (“Sonoro” or the “Company”) (TSXV: SNV.H) entered into a Farm-In Agreement (the “Agreement”), with an arms-length third party operating in the Western Canadian Sedimentary Basin (“WCSB”). The transaction is the first step of the Company’s strategy to build a solid base of production and cash flow in the WCSB.

Under the terms of the Agreement, Sonoro will be the operator and earn a 70% working interest in a proven Waseca channel heavy oil resource fairway. In consideration for acquiring the 70% working interest in this 1,840-acre contiguous land block (the “Asset”), Sonoro has committed to fund up to CAD\$5 million dollars (on a gross basis) and drill up to 5 wells (the “Carry”) with the first well scheduled to spud no later than September 30, 2023. Upon completion of the Carry, Sonoro will earn a 70% working interest in the Asset which contains numerous follow up drilling locations given the pervasiveness of the channel sands. After the Carry, further development will be at a 70%/30% working interest split between Sonoro and the counterparty, an Operating Agreement has also been executed between the parties which govern the joint operating procedures.

This Asset directly offsets an established field which is currently producing over 1,850 bbl/d; having recovered 11 million barrels to date within the same Waseca channel trend. With our team’s heavy oil experience and established cold heavy oil production systems (“CHOPs”) which are proven in this area, Sonoro believes it can drill low risk, low-cost wells and bring on production quickly with area vertical CHOPs type wells IP90 rates of between 60-90 bbl/d. A typical newly drilled, completed and equipped heavy oil well is expected to cost less than CAD\$750,000 each with payouts estimated to be less than 1 year under prevailing oil prices and heavy oil differentials. Sonoro has identified the potential for 30 wells to be drilled on 40 acre spacing. Furthermore, given the average 17 meters of net pay within this Waseca channel, there is further upside to down space to 20 acre spacing. The Asset will produce heavy oil which is receiving favorable differentials due to various market conditions and is expected to remain as such with new egress and refining options being made available. In combination with lower-than-average operational costs, the Company expects robust netbacks for the Asset. The Company is also in the process of commissioning a third-party resource report for the Asset that would be NI 51-101 compliant.

Pursuant to the Agreement, the counterparty, which holds green technology patents (carbon sequestration and hydrogen generation), upon termination of production, may take over the wellbores and associated liabilities for their patented processes. Hence, Sonoro may not incur any abandonment or reclamation costs associated with the Asset.

The team is also pursuing several other WCSB opportunities and is optimistic that there will be additional assets that the Company will have access to and be able to expand our WCSB base. With the establishment of the Company resource and operating base in the WCSB it will be better positioned to continue to pursue high impact transformation opportunities internationally as per the strategy announced previously.

The Company has applied to the TSXV to graduate from the NEX board, where the common shares presently trade, to the TSXV.

The Company also announced the addition of two new Board members in June, Ms. Sara Akbar and Mr. Henry Legarre. Mr. Bill Marpe, current Board member, has decided to step off of the board at this time. Mr. Marpe has provided valuable board and management services for over 8 years at Sonoro, with a key contribution in Indonesia.

Ms. Akbar has over 30 years of experience leading and building oil and gas companies, services and projects in the Middle East and North Africa. Sara is currently the Chairman and CEO of Oil Serv Kuwait, a leading integrated oilfield services company in the Middle East and North Africa region. Sara is an independent non-executive Board member of Petrofac since 2018, a leading engineering and services

provider in energy internationally. She is the Chairperson of the Advisory Board of the business school at the American University of Kuwait, a prior member of the Kuwait Supreme Council for Planning and Development and a former member of the Board of Trustees of Kuwait's Silk Territory project. Sara also serves on the board of directors of the merchant fund established by ICC. Previously, Sara was a Chief Executive Officer of Kuwait Energy KSC, which she co-founded in 2005 to leverage the opportunity for an independent oil and gas company in the Middle East, North Africa and Eurasia regions. Sarah holds a BSc in Chemical Engineering.

Mr. Legarre has over 30 years of experience in the oil and gas sector. Henry has a unique and wide blend of technical, operational, business development, strategic planning, and executive management experience. Seed stage startup to multi-billion-dollar company leadership, technology development and implementation with emphasis in modeling and Heavy Oil. Currently Henry is with Trindade Reservoir Services Inc. where he is part of the executive team developing a new clean energy from oil process, combining EOR and geothermal process in mature fields to increase recovery and creating net zero electricity with no CO2 emissions. Henry is COO and VP of Operations for Quantum Reservoir Impact in Houston (QRI) where QRI brings value creation to its clients through the development of AI & Machine Learning driven technologies. Previously Henry was the COO & MD for Oryx Petroleum Services and Addax Petroleum Services from 2007-2015 where he was responsible for the exploration to development and operations of several fields in Iraq, Nigeria, and the Republic of the Congo. Henry started his career with Chevron from 1990 in Bakersfield, California working on heavy oilfields which led him with Chevron to Nigeria, Angola, Kuwait, Bahrain, Saudi Arabia, South America and numerous other countries worldwide. Henry holds a MSc and BSc in Geological Sciences.

Our strategy will be to focus on building a diversified portfolio of oil and gas resources through the evaluation, acquisition and development of proven oil and gas resources. Assessment of both domestic Canada and international opportunities is being pursued. Our current focus includes the assessment of opportunities in the WCSB where we believe we can build a solid base of production and cashflow which can then be leveraged to qualify for international transformational opportunities. Furthermore, we will only venture where we have the experience and team to manage the technical and commercial risks.

The Company is reviewing a number of opportunities in MENA, South-East Asia and South-East Europe where energy transportation/corridors to Europe are well established. Establishing a solid resource base, production and cashflow as outlined above will improve our chances of capturing these international opportunities. The Company cannot provide any assurances that it will be able to close any of the opportunities described above.

Indonesia

Sonoro also advises that the Selat Panjang PSC in Indonesia has been released to its former partner and all obligations/liabilities and assets associated with the project have been extinguished. This is reflected in the financial statements at the period ended June 30, 2023.

HIGHLIGHTS and OUTLOOK

- In June 2023, the Company submitted an application for graduation from the NEX to the TSXV. The application is currently being reviewed.
- In June 2023, the Company announced the addition of two new Board members; Ms. Sara Akbar and Mr. Henry Legarre and the resignation of current Board member Mr. Bill Marpe.
- In June 2023, the Company entered into a Farm-In Agreement with an arms-length third party operating in the Western Canadian Sedimentary Basin.
- In May 2023, 24,457,247 warrants expired and 7,000,000 warrants, priced at 10 cents, were extended from May 31, 2023, to May 31, 2024.
- In April 2023, the Company announced a Common share unit financing comprised of one \$0.015 common share and one common share purchase warrant of the Company, where each whole Warrant entitles the holder to purchase one Common Share within 12 months at a price of \$0.05 per Common Share. The Company intends to raise up to \$500,000 with this financing.
- In February 2023, Sonoro announced that the Company has not satisfied the continued listing requirements policy of the TSX Venture Exchange (the "TSXV") to maintain its listing as a Tier 2 issuer on the TSXV. The Company transferred to the NEX board of the TSXV effective February 14, 2023.

The trading symbol for the Company changed from SNV to SNV.H. There is no change in the Company's name, no change in its CUSIP number and no consolidation of capital. The symbol extension differentiates NEX symbols from Tier 1 or Tier 2 symbols within the TSXV. The NEX board has been designed to provide a forum for the trading of publicly listed companies while they seek and undertake transactions in furtherance of their operations and affairs to meet TSXV or TSX continued listing requirements.

- In December 2022, MGE informed Sonoro that it no longer would attempt to engage Sonoro in the Selat Panjang project. The Company is considering its legal recourse and compensation potential. In May 2023, the Company executed a Deed of transfer to release its 25% interest in Selat Panjang and all liabilities and obligations relating to the project.
- **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 and achieving profitable operations through the discovery of oil and gas resource. Management of the Company continues to evaluate possible industry partnerships, equity and debt financing and regulatory approvals, but there is no assurance that these initiatives will be successful.**

FINANCIAL PERFORMANCE

Selected Financial Information

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Total Revenue	nil	nil	nil	nil
Net income (loss) for the period	5,112,756	(81,436)	4,840,983	(118,125)
Net income (loss) per share	0.037	(0.001)	0.037	(0.001)
Total comprehensive (loss)	5,110,318	(62,365)	4,751,471	(89,606)
Capital expenditures	nil	nil	nil	nil

As at	June 30, 2023	December 31, 2022
Total assets	459,767	126,486
Total long-term financial liabilities	597,396	5,380,242
Working capital	(105,174)	(5,226,334)

Results from Operations

The following paragraphs provide information about the results of Sonoro's on-going operations for the period end June 30, 2023.

General and administrative expense

For the three and six months ended June 30, 2023, general and administrative expense totaled \$174,189 and \$183,539 respectively up from \$24,180 and \$34,120 in corresponding periods of 2022, the increase is mostly due to increased professional and legal fees in the second quarter of 2023 as the company transitions from its Indonesian operations to Canadian operations.

The following table provides a breakdown of general and administrative expenses:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Employee salaries and benefits	30,000	-	30,000	-
Contractors and consultants	-	1,125	-	1,125
Travel and accommodation	9,337	-	9,337	-
Professional, legal and advisory	102,107	14,873	105,526	18,187
Office and administration	9,783	3,161	15,566	9,521
Jakarta office and administration	22,962	5,021	23,110	5,287
Total expenses	174,189	24,180	183,539	34,120

Net income and loss for the periods

For the three and six months ending June 30, 2023, the Company realized net income from operations of \$5,112,756 and \$4,840,983 respectively compared to a net loss of \$81,436 and \$118,125 for the corresponding periods of 2022. The net income in 2023 is mostly due to the gain on disposition of Indonesian assets of \$5,390,002.

Other comprehensive loss

The Company is required to translate activities of foreign operations from their functional currency into the Company's reporting currency being Canadian dollars. Assets and liabilities are translated at period end rates and revenues and expenses are translated at the average rate for the period. Foreign exchange effects resulted in a loss of \$2,438 and \$89,512 respectively for the three and six months ended June 30, 2023, compared to a gain of \$19,071 and \$28,519 in the corresponding periods of 2022.

Capital expenditures

During the period ended June 30, 2023, there were no capital expenditures.

Quarterly Information

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

Quarter ended	Total Revenue	Net income loss for the period	Net loss per share basic and diluted
	\$	\$	\$
June 30, 2023	nil	5,112,756	0.04
March 31, 2023	nil	(271,773)	(0.00)
December 31, 2022	nil	(1,107,931)	(0.01)
September 30, 2022	nil	(128,554)	(0.00)
June 30, 2022	nil	(81,436)	(0.00)
June 30, 2022	nil	(36,689)	(0.00)
December 31, 2021	nil	(129,506)	(0.00)
September 30, 2021	nil	(2,072,074)	(0.02)

Liquidity and Capital Resources

Working capital

Sonoro had negative working capital of \$105,174 on June 30, 2023, compared with negative working capital of \$5,226,334 on December 31, 2022.

Cash

The Company had cash of \$447,600 on June 30, 2023, up from \$117,118 on December 31, 2022. The liquid portion of the working capital consists of cash in non-interest-bearing accounts held at banks.

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

Cash Used in Operating Activities

For the six months ended June 30, 2023, cash used in operating activities was \$178,711 as compared to cash from operating activities of \$25,414 in the same period of 2022.

Outstanding Share Data

As at June 30, 2023 Sonoro Energy has 157,943,815 Common Shares outstanding

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

Common share activity	2023	2022
Balance, beginning of period	123,277,151	121,527,151
Private placement	33,333,331	-
Option exercised	1,333,333	-
Warrants exercised	-	1,750,000
Balance, end of period	157,943,815	123,277,151

The Common Shares trade on the NEX board of the TSX Venture Exchange under the symbol SNV.H.

During the three and six months ended June 30, 2023, the Company recorded \$104,690 and \$108,368 in share-based compensation expense for the options granted and vested during the period, for the respective periods. As compared to \$11,208 and \$29,646 in the comparative periods of 2022.

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

	June 30, 2023		December 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	9,183,333	0.060	10,378,333	0.060
Granted	6,400,000	0.050	-	-
Cancelled and forfeited	(1,400,000)	0.052	(1,195,000)	0.062
Exercised	(1,333,333)	0.055	-	-
Options outstanding, end of period	12,850,000	0.056	9,183,333	0.060

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

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

	June 30, 2023		December 31, 2022	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants, beginning of period	31,457,247	0.079	33,207,247	0.078
Issued May 25, 2023	33,333,331	0.050	-	-
Expired	(24,457,247)	0.073	-	-
Exercised	-	-	(1,750,000)	0.070
Warrants, end of period	40,333,331	0.059	31,457,247	0.079

Off-Balance Sheet Arrangements

The Company does not utilize off-balance sheet transactions.

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 period ended June 30, 2023, key management personnel compensation and director fees of \$60,000 (2022-\$Nil) were paid or accrued. The Company incurred \$67,831 (2022 - \$15,981) in share-based compensation to directors and/or officers for the period ended June 30, 2023.

As at June 30, 2023, outstanding amounts of \$439,550 (December 31, 2022 - \$535,462) 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies are outlined in Note 3 to the audited consolidated financial statements of the Company for the year ended December 31, 2022 and 2021. These accounting policies have been applied consistently for the period ended June 30, 2023 and there have been no changes.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Uncertainties about these assumptions and estimates could result in material adjustments to the Company's financial statements and financial position. A description of the Company's significant areas of estimation uncertainty and critical judgments are contained in Note 2(f) to the audited consolidated financial statements of the Company for years ended December 31, 2022 and 2021.

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 June 30, 2023.

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 unaudited condensed interim consolidated statements of income (loss), and unrealized gains and losses on all other FVTPL financial instruments are recognized in other – net. Transaction costs directly attributable to the acquisition of financial assets or liabilities at FVTPL are recognized immediately in profit or loss.

Financial instruments at FVTOCI are stated at fair value, with any gains or losses arising on remeasurement recognized in OCI except for impairment gains or losses and foreign exchange gains and losses.

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

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

BUSINESS RISKS

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

Licenses and Permits

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

Exploration, Development and Production Risks

Sonoro's exploration, appraisal, development and production of oil and gas internationally is speculative.

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

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

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

In addition, there can be no assurance that the Company will be able to manage effectively the expansion of its operations or that the Company's current personnel, systems, procedures and controls will be adequate to support the

Company's operations. Any failure of the Board of Directors to effectively manage the Company's growth and development could have a material adverse effect on the Company's business, financial condition and results of operations. There is no certainty that all or any of the elements of the Company's current strategy will develop as anticipated and that the Company will be profitable.

Resource Estimates

There are numerous uncertainties inherent in estimating quantities of prospective and contingent oil and gas resources. All such estimates, including those in the Company's prospective resource reports, are to some degree speculative, and classifications of prospective resources are only attempts to define the degree of speculation involved. For these reasons, estimates of the prospective resources attributable to the Company's prospects and the classification of such resources based on risk of recovery associated with resource estimates prepared by different engineers, or by the same engineers at different times may vary. Further, there is no certainty that any portion of the prospective resources will be discovered. If a discovery is made, there is no certainty that it will be developed or, if it is developed, there is no certainty as to timing of such development or that it will be commercially viable to produce any portion of the prospective or contingent resources.

Joint Ventures

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

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

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

Foreign Activities

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

Operations may be affected in varying degrees by government regulations, policies, rulings or directives with respect to restrictions on production or sales, price controls, export controls, repatriation of income, income taxes, expropriation of property, environmental legislation and obtaining visas for Sonoro personnel and contractors. Operations may also be affected in varying degrees by political and economic instability, including economic or other sanctions imposed by other countries, expropriation of assets without fair compensation, adverse legislation, 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.

Management of Key Relationships

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

Prices, Markets and Marketing

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

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

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

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

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

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

Cost of New Technologies

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

Operating Hazards

Oil exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as pollution, cratering, fire, explosion, environmental damage, blowouts

and oil spills, each of which could result in substantial damage to oil wells, production facilities, other property and the environment or in personal injury or death. Sonoro's involvement in oil and gas activities may result in such risks and hazards and its subsequent liability.

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

Environmental

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

Foreign Legal and Judicial Systems

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

Foreign Exchange

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

The Company may enter into further farm-out agreements to fund a portion of the exploration and development costs associated with its assets. Moreover, other companies may from time to time operate some of the other assets in which the Company has an ownership interest. Liquidity and cash flow problems encountered by the partners and co-owners of any assets in which Sonoro has an interest, and any non-compliance by the partners and co-owners may lead to a delay in the pace of drilling or project development that may be detrimental to a project or may otherwise have adverse consequences for the Company. In addition, any farmout partners and working interest owners may be unwilling or unable to pay their share of the costs, including project costs as they become due. In the case of a farmout partner, the

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

Canadian and Foreign Tax Considerations

The Company is subject to the provisions of the *Income Tax Act* (Canada) and the applicable provincial and foreign income tax legislation. The Company is in the business of exploring for oil and gas and its operations are subject to the unique provisions of the tax legislation. The Company has not filed all of its tax returns as certain companies are considered idle and not yet closed and de-registered. The tax returns can be reassessed by either government and if a reassessment were successful, the Company may be subject to a higher than expected past or future tax liability, as well as potential interest or penalties.

Litigation

The Company is not aware of any legal claims against the Company.