

Form 51-102F1

MANAGEMENT DISCUSSION AND ANALYSIS

SONORO ENERGY LTD.

This Management's Discussion and Analysis ("MD&A") of operations and consolidated unaudited interim financial statements presented herein are provided to enable readers to assess the results of operations, liquidity and capital resources of Sonoro Energy Ltd. ("Sonoro" or the "Company") is based on information available to November 26, 2015 and was approved by the Board of Directors. This MD&A should be read in conjunction with the Company's consolidated unaudited interim financial statements and related notes for the three and six months ended June 30, 2015. The consolidated audited financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information and continuous disclosure materials relating to the Company can be found on SEDAR at www.sedar.com. Information is also available on the Company's website at www.sonoroenergy.com. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars, which is the Company's presentation currency.

HIGHLIGHTS

2015 Q3

- The Company continues to reduce costs while its License remains under Force Majeure
- The Company has been pursuing several projects:
 - a downhole oil stimulation technology which could bring early cashflow and an ability to leverage this towards acquiring oil and gas assets.
 - international oil and gas exploration and production opportunities where risks are viewed as low and the opportunity to develop into production and cashflow is within a short period of time.
 - Neither of the above should be construed as complete or a given that they will be completed and are subject to further financing of the Company.

OVERVIEW

Sonoro is a publicly traded international bitumen and heavy oil exploration company. Sonoro and its partners hold exclusive exploration rights to asphalts (defined in the license as hydrocarbons with an API gravity of less than 25 degrees) in Al-Salah ad Din Province (the "Province") pursuant to the Asphalt License (the "Asphalt License") among the Salah ad Din Provincial Government (the "Provincial Government"), Sonoro Iraq, Berkeley Petroleum Mesopotamia Ltd. (Berkeley) and Geopetrol International Holding Inc. ("Geopetrol").

The main business of the Company is the exploration, appraisal, development and production of unconventional resources. In 2010, the Company entered into the Asphalt License with the Provincial Government, which granted the Company exclusive rights under a 5 year exploration period and 30 year development and production of asphalt (also known as bitumen) and related organics in the Province. During 2013 the Company, with the Provincial Government has recognized that this Asphalt License will require further Federal Government approvals in order to commence on the ground exploration and production.

Sonoro's corporate strategy has been focused on exploring for and developing bitumen and other unconventional resource opportunities in Iraq through its strong international relationships and management team experience. Sonoro's team encompasses a unique combination of previous international heavy oil success and strong relationships with regional influence.

There has been no further correspondence regarding the Force Majeure in place with the Provincial Government from July 3, 2014 on behalf of the license partners, in order to defer the expiration of the exploration period while matters are resolved in Iraq including the security situation.

The Company's interim strategy while Iraq recovers to a stable, secure and attractive project is to seek re-development type oil and gas projects elsewhere where the Company knowledge, technical ability and ability to source the necessary funding can be successfully implemented. The Company is also considering new downhole technology it has identified in the oil services area where it can further leverage such technology into new opportunities.

Salah ad Din, Iraq - License

In 2010, Sonoro, through its wholly-owned subsidiary, Sonoro Iraq, and its partner, Berkeley, signed the Asphalt License with the Provincial Government securing the exclusive right to explore for asphalts in the Province. The area of the Asphalt License is approximately 24,000 km² (approximately six million acres) and is situated within the Tigris River Valley, between the Western Desert and the foothills of the Zagros fold and thrust belt.

The Province lies just to the north of Baghdad within a trend of known oilfields, and had produced roughly 30,000 barrels oil equivalent per day, prior to ISIS invading the Province. Independent estimates suggest that Iraq may hold the world's fourth largest heavy oil resources behind Canada, Venezuela and Russia.

The key terms of the Asphalt License are the following:

- The exclusive rights to explore, develop and produce asphalts within the entire Province and to sell the asphalts produced (and/or the by-products after processing) domestically and/or internationally;
- Sonoro Iraq holds a 40% participating interest, and is the operator. Sonoro Iraq and Geopetrol will carry Berkeley's interest for an initial topping facility and through the exploration operations. Sonoro Iraq and Geopetrol have a preferential entitlement to recover their carried costs from the accumulated cost recovery pool expenses before Berkeley receives its share of cost recovery expenditures. Sonoro Iraq, Geopetrol and Berkeley are together referred to as the "Licensee";
- The Licensee is required to 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 making a commercial discovery. The initial \$1,500,000 investment amount has been met;
- An initial exploration period of five years commencing April 14, 2011, followed by a 30 year exploitation period with extensions for any carved out exploitation areas to develop asphalts/heavy oil; and
- The Licensee is entitled to 50% of the revenues from the sale of asphalts (and its by-products after processing), after tax and after cost recovery. A total of 80% of revenues are available for cost recovery.

On March 6, 2012, the Company, through its wholly-owned subsidiary, Sonoro Iraq, closed a farmout transaction with Geopetrol, whereby Sonoro Iraq assigned to Geopetrol a 30% participating interest in the Asphalt License, with Sonoro retaining a 40% participating interest and operatorship (the "Farmout"). Under the Farmout, Sonoro received US\$3,000,000 as partial reimbursement for past costs and Geopetrol agreed to fund the first US\$9,000,000 of the costs to be incurred in respect of the Asphalt License. Geopetrol is part of a privately held group having production from operations in Vietnam, Yemen, France, Tunisia, Canada and India.

Concurrent with the closing of the Farmout, the Company also closed a private placement with Geopetrol for 46,000,000 (pre-consolidation) shares in the capital of Sonoro at a price of \$0.09 per Share for aggregate gross proceeds of \$4,140,000.

The Asphalt License remains in place with the Provincial Government while the Company and Provincial Government worked to obtain Provincial and Federal approvals. However, the Company and the Provincial Government agree that the Asphalt License may require amendments or be replaced with a modified agreement, in order to receive approvals from the Federal Government to proceed. The current efforts of the Company have been focused on implementing such a solution.

The Company was proceeding with its plan to obtain the necessary Provincial and Federal approvals to resolve its Asphalt License delays in order to able to proceed with field operations until the security situation in Iraq deteriorated in June 2014. In June 2014 rebel forces (ISIS now referred to as IS or ISI) have taken large portions of Northern Iraq including areas within the License and displacing the Provincial Government in Tikrit. As a result the Company issued a Force Majeure Notice under the License on July 3, 2014. The Company held several meeting with the Salah ad Din Investment Commission during Q2, 2014 where their support to identify a solution towards obtaining Federal approval continued. The Company remains in contact with the official Salah ad Din Investment Commission and plans to meet, as per the License Agreement, once the security situation stabilizes. The Company can not predict when the security situation may stabilize, nor when we may be able to continue pursuing federal approvals and we believe that both could take significantly more time.

The status of the Asphalt License is that it remains under Force Majeure from July 3, 2014.

OPERATIONS REVIEW and OUTLOOK

Salah ad Din, Iraq – Operations

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 it is returned to power in its Provincial capital and meet as soon as the security situation and government is back in place. The Company does not have any indications as to how long this will take, but believes it could take significant time. From recent media reports it appears that much of ISIS presence in the Provincial capital of Tikrit has been removed by Federal Iraqi forces. It should be noted that Federal Iraqi approvals are still believed to be required after a return of the Provincial Government and the security situation being returned to normal after an ISIS exit. The Company has not pursued the Federal Government for further License approvals while its priorities remain on the Iraq ISIS security and economic situation.

As both Sonoro and Geopetrol pursue further federal approvals, each company will cover its own costs until such time as a new license is established and approved. A final reconciliation of costs and sharing of costs will only then occur. This has put significant financial strain on the Company.

During 2014, the Company continued to market the sale or lease of the drilling rig stacked in the United Arab Emirates on behalf of Stratton Drilling FZC ("Stratton") of which it holds a 40% minority interest. Several offers were received but Stratton was unable to close this sale in Q3 2014. As a result of Stratton's default on its loan for the drilling rig to with Geopetrol International Holding Inc. ("Lender"), continuing costs to maintain and store the rig, and overdue accounts to other creditors, Stratton agreed to accept an offer from the lender based on the best competitive offer previously received and has now executed a sales agreement with the Lender to be able to discharge creditors and allow for an orderly wind-up of Stratton. In order to improve the Company's balance sheet, avoid having Stratton lose the rig as a result of the Lender potentially enforcing its security interest, and to pay its creditors, Stratton executed a sales agreement for the drilling rig and related equipment to the Lender on the same terms as the best competitive offer it had previously received (the "Rig Sale"). The Rig Sale and transfer closed in December 2014. Completion of the Rig Sale has allowed Stratton to pay the amounts outstanding under its loan with the Lender, pay its creditors and subsequently pursue winding-up Stratton.

With the Company's risk of being a going concern, it continues reviewing all options and its strategy with its remaining assets (the Asphalt License) to improve its balance sheet, including such options as mergers, acquisition, debt and further financing. The Board and Management continue to seek changes to reflect the Company as a non-operating company while its License is in Force Majeure. In this regard the CEO and COO have voluntarily agreed that their contracts will cease as of December 31, 2014 and have agreed to replace their employment contracts with part time, short term retainer consulting contracts to assist the Company in seeking strategic alternatives. In addition, the Company and Board have agreed to reduce the size of the Company's Board by two with Mr. Jesse Meidl and Richard Monbaillard voluntarily stepping down. During 2015, Mr. Thierry Lenoir resigned from the Board of Directors, Mr. Dick ter Avest resigned from Sonoro as COO and Board Member and Mr. David Robinson joined the Board of Directors. During Q2, Mr. ter Avest resigned from his consulting contract to take on other full time opportunities.

Technology

On September 16, 2014, the Company closed an Asset Purchase Agreement ("APA") with a third party for the sale of all remaining rights of the Sonicator technology and other related assets ("Technology"), excluding solvent de-asphalting of heavy oils as previously sold to Petrosonic Energy in July 2012.

The following are the key terms under the APA:

- USD\$200,000 to be paid in two equal installments before Dec.31, 2014 and Sept.15, 2015 (both tranches received).
- All Company assets at the Richmond B.C. site will become the property of Purchaser.
- All Company patents and applications related to the Technology have been sold to Purchaser.
- The shares of SonoAsh LLC (a wholly owned subsidiary of the Company) have been sold to Purchaser.
- All staff at the Richmond B.C. site have agreed to be transferred to Purchaser with no remaining obligations to the Company.

- Purchaser will pay royalties of 1% of revenues on the Technology for the earlier of ten years or of 8 years from first commissioning of a Sonicator
- Purchaser will pay royalties of USD\$10,000 for each Sonicator commissioned with the first to be pre-paid upon closing (which was received on closing).
- Purchaser has the option to buy-out all royalty obligations for USD\$1 million prior to Dec 31, 2015, or USD\$2 million prior to Dec 31, 2016.
- The Petrosonic Agreement remains with the Company.

The APA contains other customary covenants, representations, warrants and indemnities.

The Company's decision to sell its remaining technology assets is consistent with the Company's focus on international unconventional resource exploration and to minimize its expenditures outside of its core focus. The Company believes that with third party expertise and focus on technology development, the sonic platform of technologies may be developed more rapidly and create revenue earlier than would otherwise be possible. If this occurs, the Company would be able benefit from a future royalty stream or the exercise of the payout options on the royalty streams as above.

FINANCIAL PERFORMANCE

Selected Financial Information

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Total revenue	-	-	-	-
Net loss for the period	206,989	628,142	722,983	15,216,400
Net loss per share – basic and diluted*	0.00	0.01	0.01	0.27
Total comprehensive loss	190,312	509,217	695,832	16,365,768
Total assets	88,400	1,392,490	88,400	1,638,381
Total long term financial liabilities	-	-	-	-
Working capital	(404,519)	(160,259)	(404,519)	(160,259)
Capital expenditures	-	18,595	-	84,393
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 and nine months ended September 30, 2015 and 2014.

General and administrative expense

For the nine months ended September 30, 2015, general and administrative expense totaled \$658,432, compared to \$1,730,875 for the corresponding period in 2014.

For the three months ended September 30, 2015, general and administrative expense totaled \$194,743, compared to \$348,748 for the corresponding period in 2014.

The following table provides a breakdown of general and administrative expense for the three and nine months ended September 30, 2015 and 2014:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Employee salaries and benefits	104,132	263,819	296,630	1,023,872
Share based compensation	-	77	-	6,064
Contractors and consultants	4,319	9,800	65,392	64,179
Travel and accommodation	16,153	7,890	30,803	111,892
Professional, legal and advisory	20,941	18,410	123,690	279,475
Office accommodation and administration	48,837	46,177	141,916	238,594
Research	-	2,575	-	6,799
	194,743	348,748	658,432	1,730,875

During the nine months ended September 30, 2015, general and administrative costs decreased when compared to the corresponding period in 2014. The decrease is the result of continued efforts to cut back on headcount, office and contracting costs. Go forward expenses are consistent with the results to date of 2015.

Depreciation and amortization expense

Depreciation and amortization expense the nine months ended September 30, 2015 totaled \$27,683 compared to \$43,928 for the same period in 2014.

Depreciation and amortization expense the three months ended September 30, 2015 totaled \$14,151 compared to \$14,101 for the same period in 2014.

Net Finance (loss)/income

For the nine months ended September 30, 2015, the Company incurred net finance income of \$31,502, compared to a loss of \$45,497, for the same period in 2014.

For the three months ended September 30, 2015, the Company incurred net finance income of \$7,708, compared to a loss of \$25,756, for the same period in 2014.

Impairment of exploration and evaluation assets

On July 3, 2014, the Company provided notice of force majeure on its license in Iraq (refer to earlier discussion for more information). Due to the uncertainty of future operations, and under IFRS rules, the Company has recorded an impairment on its exploration and evaluation assets of \$13,087,776 for the nine months ended September 30, 2014. There were no capitalized amounts or impairment charges in the current year.

Bad debt expense

During the three and nine months ended September 30, 2015, the Company recorded bad debt expense of \$5,803 and \$41,254 related to its receivable balance due from Geopetrol for outstanding cash call balances owed to Sonoro. During the three and nine months ended September 30, 2014 there were no bad debt expenses recorded.

Sale of technology assets

In September 2014, the Company closed an Asset Purchase Agreement (“APA”) with a third party, the sale of all remaining rights of the Sonicator technology and other related assets (“Technology”), excluding solvent de-asphalting of heavy oils as previously sold to Petrosonic Energy in July 2012.

Under the terms of the APA, the Company received closing costs of \$15,930 (G&A costs between effective date and closing date), and USD\$10,000 as an advance payment for the first Sonicator sale. On each December 31, 2014 and September 15, 2015, the Company will receive additions proceeds of USD\$100,000 (both tranches received). In addition, the Company will receive an additional USD\$10,000 for each subsequent Sonicator sale and a royalty of 1% of revenues related to the Technology for the earlier of ten years or eight years from first commissioning of a Sonicator.

Net loss for the year

For the nine months ended September 30, 2015, the Company realized a net loss of \$722,983 compared to a net loss of \$15,216,400 for the same period in 2014. The net loss per share (basic and diluted) for the nine months ended September 30, 2015 was \$0.01 as compared to \$0.27 per share for the comparable period in 2014.

For the three months ended September 30, 2015, the Company realized a net loss of \$206,989 compared to a net loss of \$628,142 for the same period in 2014. The net loss per share (basic and diluted) for the three months ended September 30, 2015 was \$0.00 as compared to \$0.01 per share for the comparable period in 2014.

Other comprehensive loss

For the nine months ended September 30, 2015, the Company realized an exchange gain on translation of foreign operations of \$27,151 compared to a loss of \$1,149,368 in the comparable period in 2014.

For the three months ended September 30, 2015, the Company realized an exchange gain on translation of foreign operations of \$16,677 compared to a gain of \$118,925 in the comparable period in 2014.

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 nine months ended September 30, 2015, key management personnel compensation and director fees of \$172,190 were paid or accrued, compared with \$555,093 for the comparable period in 2014.

During the nine months ended September 30, 2015, Geopetrol Iraq Corp. reimbursed US\$Nil (2014 - \$436,845) as part of the carry that was agreed to in the Farmout. During 2015 shared costs of \$41,254 were charged to the Geopetrol account, however, these amounts have been impaired due to collection and Iraq Force Majeure recovery uncertainty.

As at September 30, 2015, no amounts (December 31, 2014 - \$Nil) 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 nine months ended September 30, 2015, the Company did not make expenditures related to exploration and evaluation of assets, compared to net proceeds received in the comparable period in 2014 of \$26,297.

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*
	\$	\$	\$
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
March 31, 2014	-	849,466	0.02
December 31, 2013	-	1,859,557	0.05

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 \$404,519 at September 30, 2015 compared with working capital of \$238,713 at December 31, 2014. 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 \$22,768 at September 30, 2015, compared to cash of \$530,930 at December 31, 2014. 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 nine months ended September 30, 2015, cash used for continuing operating activities was \$543,670 as compared to \$1,808,955 for the same period in 2014. Cash used in operating activities decreased as a result of a reduction of salaries, consultants and general office costs.

Cash From/Used in Investing Activities

For the nine months ended September 30, 2015, cash used from continuing investing activities was \$10,975 as compared to a use of cash \$293,383 for the same period in 2014. 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 nine months ended September 30, 2015, the Company generated \$Nil through financing activities, as compared to \$Nil for 2014.

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 nine months ended September 30, 2015, the Company had no revenues, negative working capital of \$404,519, negative cash flows from operations of \$543,670 a loss from operations of \$722,983 and an accumulated deficit of \$75,154,052. 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). 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 interim financial statements for the three and six months ended June 30, 2015 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 September 30, 2015, 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. The terms and conditions are subject to the acceptance of the TSX Venture Exchange.

Subsequent Event

Subsequent to the period ended September 30, 2015, the Company announced that it intends 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. The

Offering is being 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.

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 was expected to close on or about November 27, 2015.

The maximum offering is 100,000,000 Common Shares for gross proceeds of \$500,000. The offering is not subject to any minimum aggregate subscription. The proceeds of the Offering will be used primarily for corporate transactions that may include asset acquisitions, mergers and take overs, and for general corporate working 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.

Outstanding Share Data

Set out below is the outstanding share data of the Company as at November 26, 2015.

At November 26, 2015	Number Outstanding
Common Shares	56,413,243
Options	-
Warrants	-

Commitments

In September 2010, the Company entered into a lease agreement for its Calgary corporate offices. The term of the lease agreement is five years beginning January 1, 2011 and the future lease obligations as at December 31, 2014 are as follows:

	\$
2015	29,331
2016	-
2017	-
2018	-
2019	-
	29,331

On October 3, 2010, the Company entered into the Asphalt License with the Provincial Government. 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. As of the date of these consolidated financial statements, discovery sessions are completed, with a pre-trial scheduled for December 5-6, 2015 and full trial in February 2015 subject to any settlements prior to this time.

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.

On November 28, 2014 Mr. Jesse Meidl and Mr. Richard Monbaillard stepped down from the Board as part of the Company's ongoing efforts to right size the Company.

Management

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

Also in May 2014, Mr. Darren Moulds was appointed interim Chief Financial Officer, replacing Mr. Alan Beaulieu who had previously served as interim Chief Financial Officer.

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, 2014. These accounting policies have been applied consistently for the year ended December 31, 2014.

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

Cost of New Technologies

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

Operating Hazards

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