

SONORO ENERGY LTD.

(TSXV: SNV)

Price: August 18 **\$0.05**
52-Week Range: **\$0.20-\$0.035**
Shares O/S: **177.31 million**
Market Cap: **\$8.87 million**

Average Share Volume
50-day: **49,600**
200-day: **29,400**

Year-End: **December 31**

Symbol: **TSX-V: SNV**

Website: www.sonoroenergy.com

Financial Data:

Balance Sheet	Year End	3 Months
	Dec 31/2015	Mar 31/2017
Cash	\$105,092	\$14,193
Current Assets	\$19,230	\$16,433
Total Assets	\$2,638,360	\$2,528,626
Current Liabilities	\$599,071	\$618,161
Working Capital	-\$579,841	-\$601,728
Working Capital Ratio	0.03	0.03
Total Equity	\$2,039,289	\$1,910,465
Actual Shares O/S	57,314,466	57,314,466
Weighted Average Shares O/S	35,532,071	57,314,466

Statement of Net Profit/(Loss)	12 Months	3 Months
	Mar 31/2017	Mar 31/2017
Non-discretionary OpEx ("Burn")	-\$1,120,007	-\$129,026
Average Monthly Burn	-\$93,334	-\$43,009
Equity Financing	\$1,205,657	\$0
Debt Financing/(Repayment)	\$0	\$0
Net Profit/(Loss)	-\$1,150,736	-\$129,228

Source: Company and eResearch

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eResearch Analyst (on this report):

Bob Weir, B.Sc., B.Comm., CFA



THE COMPANY

Sonoro Energy Ltd. ("Sonoro Energy" or the "Company") is a junior oil and gas exploration and development company. Its focus is on southeast Asia and, in particular, on its Budong Budong Production Sharing Contract ("PSC") (71.5% working interest) in West Sulawesi, Indonesia. See Map 1 and 2.

BUDONG BUDONG PSC

The Budong Budong PSC ("BB PSC") block is located onshore in Sulawesi and comprises some 1,099 sq. km. The region is estimated to have about 16 million barrels of prospective recoverable resources on the first structure targeted.

DRILLING ACTIVITY

In January 2017, Sonoro Energy received a one-year extension to its drilling licence on the BB PSC block. Recently, the Company obtained a drilling rig and associated equipment and services as part of its planned drilling of one well that off-sets the Tately & Harvest LG-1 well which was shallow-drilled in 2011 but later abandoned. Spudding of the LG-1 Up-Dip well, which is located 674 metres to the west of LG-1, commenced this month (in August). (In oil drilling, "spudding" means the very start of drilling on a new well.) The Company has also received environmental approval from Indonesia's upstream oil and gas regulator (SKK Migas) for its plan to drill an additional up to seven wells in BB PSC, also offsetting the original LG-1 well.

SIGNIFICANCE OF THE LG-1 UP-DIP WELL

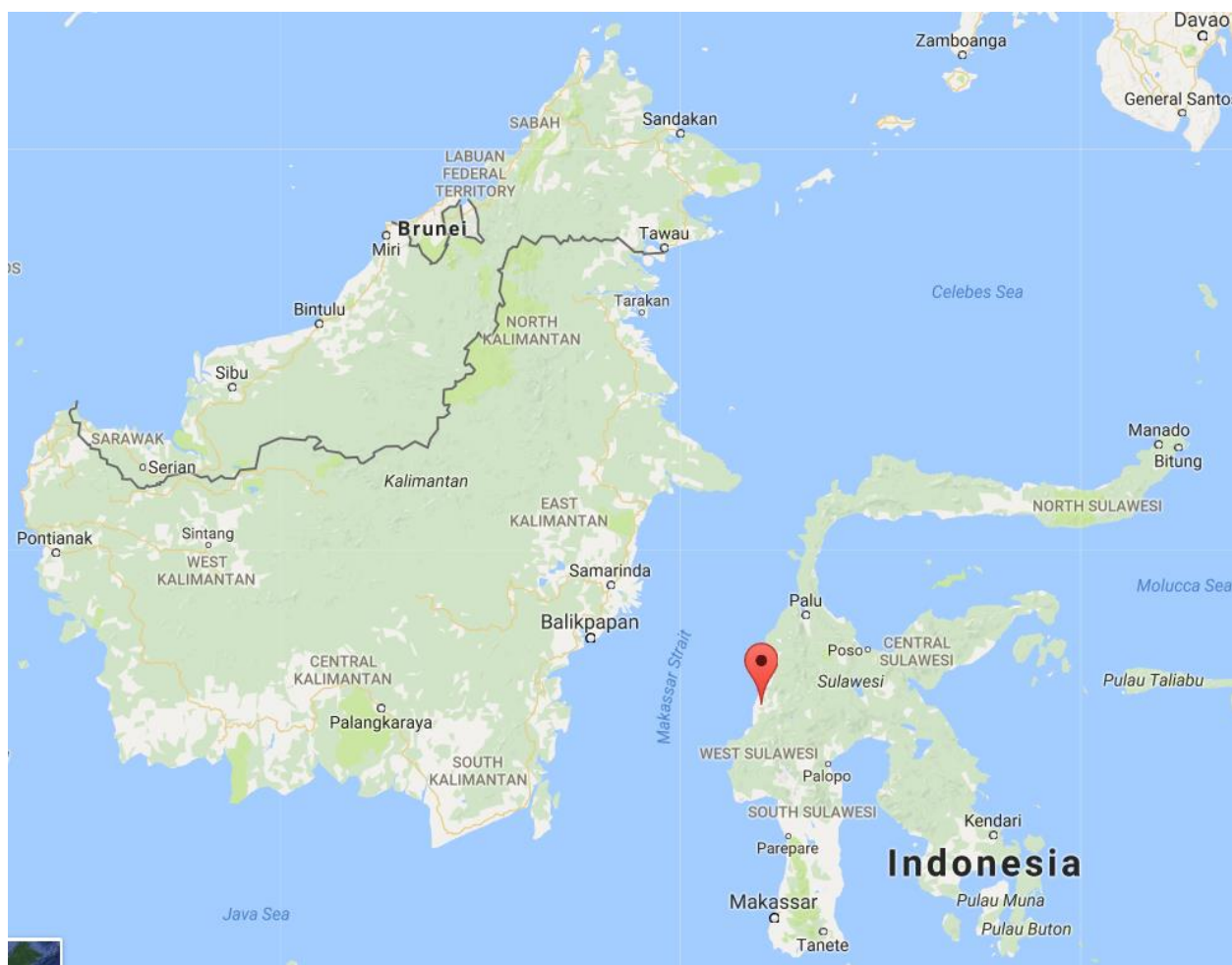
The following quotation is taken from the Company's website, citing CEO, Richard Wadsworth, on July 20, 2017: "We have targeted the Budong Budong lease because the LG-1 Up-Dip site is a simple, low-risk appraisal well with shallow drilling targets, great potential, and a history of success."

See, also, "History", beginning on Page 5.

LOCATION MAPS

Map 1: Location of Budong Budong PSC (Big Picture)

In Map 1 below, part of Indonesia is shown, including the big island of Borneo, on part of which the tiny nation of Brunei is located, and the smaller, irregularly-shaped island of Sulawesi that contains the Budong Budong region (and marked with the identifier) in the province of West Sulawesi. Map 2, on the following page, shows the BB PSC up close.



The Budong Budong region is located on the coast of West Sulawesi and almost directly opposite Balikpapan on the island of Borneo. There is a refinery at Balikpapan.

See, also, Map 2 on the next page.

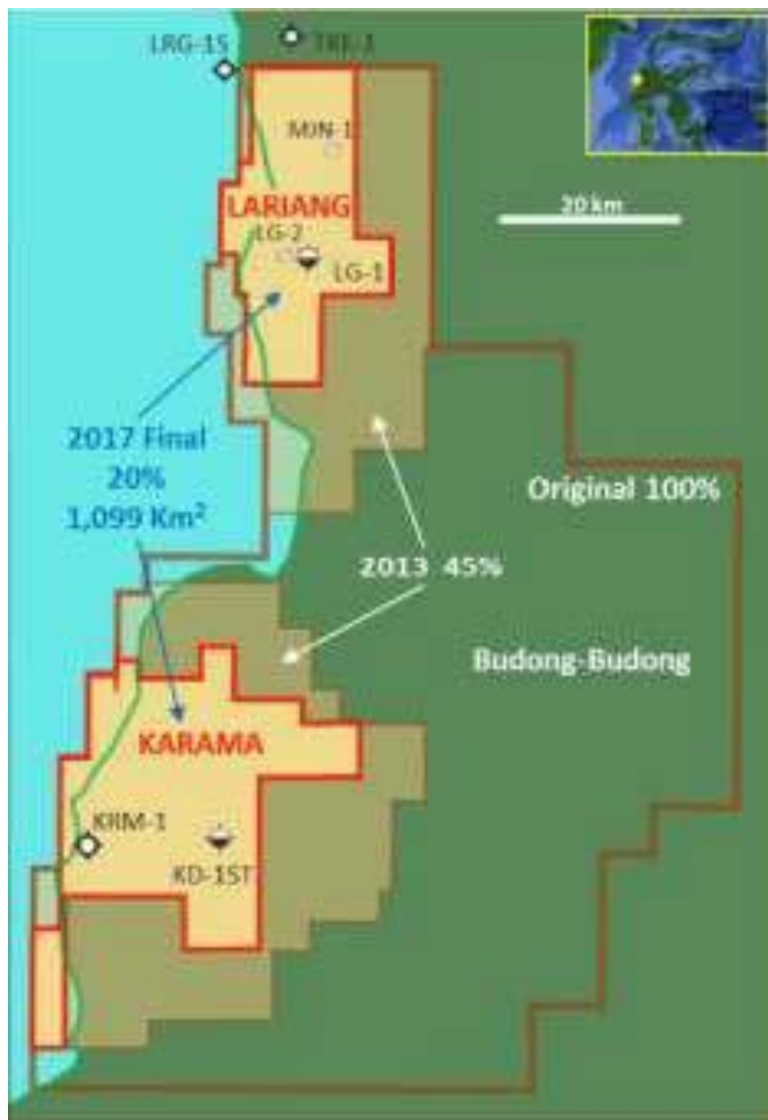
Map 2: Location of the Budong Budong PSC (Close-Up)

BUDONG BUDONG PRODUCTION SHARING CONTRACT

The BB PSC area and drill program are identified as follows:

- 1,099 sq. km.
- Cost recovery of 100%
- Cost recovery pool at over \$80 million (unaudited by SSK Migas)
- Production split of 62.5% to the contractor
- Royalty of 10%
- The exploration term expired on January 15, 2017 and was extended for one year
- Tately & Harvest's LG-1 and KD-1 wells discovered oil and gas at shallow depths (450-750m)
- Sonoro Energy is expected to be granted a 20-year production term once there is a commercial discovery and the Company has issued an acceptable plan of development
- The Balikpapan refinery is 280 km across the Makassar Strait (two days journey) with several ports on Sulawesi capable of providing export capability and facilities

Map 3: BB PSC Well Locations



After a detailed analysis of the data relating to the drilling of the LG-1 well by Tately & Harvest, Sonoro Energy has determined that the well was drilled on the flank of the structure, and that it intersected a series of hydrocarbon reservoirs with clear oil gradients.

Thus, the Company’s prospective LG-1 Up-Dip well is identified as an oil prospect with a crest about 110 metres up-dip from the original LG-1 well.

COMMENT: Based upon this information, the LG-1 Up-Dip drilling initiative is a low-risk appraisal project with all pay intervals being between 200 to 600 metres of depth and an estimated total depth of about 750 metres.

Further, the Company believes that there are at least two further follow-up shallow prospects of similar, if not larger, size in both the northern and southern areas of the PSC.

COMMENT: Sonoro Energy has identified several other large seismic structures within the Lariang Basin as next-step activities following the drilling of the LG-1 Up-Dip well.

NEW INITIATIVES

Sonoro Energy is actively seeking new on-shore opportunities in the region that meet key company criteria:

- Acquiring shallow (typically less than 1,000 metres), low-risk opportunities, where the Company can apply its development approach and utilize its technology;
- Obtaining oil and gas contracts that have not been developed either because of previously weak commodity markets or because companies had insufficient capital or access to capital;
- Attaining contracts that offer early production prospects, which provides immediate (or almost immediate) cash flow and further production growth;
- Securing contracts that offer further development and exploration upside; and
- Acquiring contracts having geographic locations that add to an existing core production area to generate economies of scale.

HISTORY

The Budong Budong region has had a long history of oil exploration, beginning back to the 1890s, when a Dutch company, the Doda Oil Company (“Doda”), first discovered large oil seeps. In the early 1900s, Doda drilled four shallow wells that exhibited significant shows of both oil and gas, with several blow-outs.

COMMENT: *A blow-out is when considerable crude oil is released uncontrollably and accidentally from a well. Modern wells have blowout preventers to avert such occurrences.*

Doda’s production continued for more than ten years.

COMMENT: *Oil and gas continues to leak from well-heads and seeps even today.*

In the 1930s, a subsidiary of Shell Oil Company conducted extensive field-mapping and identified multiple surface anticlines with two significant oil seeps. With war looming, the Shell prospects were never drilled, and exploration and development activity came to a complete standstill during and after World War II.

In the first half of the 1970s, Gulf Oil Corporation drilled two wells, but one of them, near the Doda wells, was a gas blow-out and was abandoned at shallow depth.

In 1974, the British Petroleum Company gathered 2D seismic information and drilled one well. Despite encouraging showings, BP decided to turn its attention elsewhere in the region.

Not much of significance occurred until 2011 when Tately & Harvest, in an unsuccessful attempt to test deep targets, drilled its LG-1 well in the vicinity of the Doda wells. LG-1 had strong oil and gas shows in the top 750 metres and, at one point was a blow-out, but was successfully capped and then abandoned.

COMMENT: *Sonoro Energy is the only O&G company that is currently considering undertaking a comprehensive drilling program in the area’s shallow-surface anticlines.*

The Company’s CEO states, “Given the abundant available data, and the empirical evidence over several decades, we see our Budong Budong appraisal well program as a low-risk, high-return proposition. We also believe that success in this region would open up new basins and new opportunities, and finally fulfil the potential that has been apparent for more than 100 years.”

KEY OBJECTIVE

Sonoro Energy's primary goal is to establish commerciality of its drilling discoveries and, therefrom, obtain a 20-year production license.

COMPETITORS

There was considerable activity in the BB region in the 1970s with Chevron, Gulf Oil Corporation, and British Petroleum all active. There are a number of offshore blocks for which some international oil companies have rights but, currently, there is no planned exploration or appraisal drilling in and around Sulawesi, except for the efforts of Sonoro Energy.

2017-2018 GOALS

For 2017, for its LG-1 Up-Dip well, Sonoro Energy has already constructed the site and contracted a drilling and coring services company. All necessary services are waiting on-site, and the drilling rig is expected to reach the site in early September. The Company hopes to spud the well by the middle of September and complete and test it by the end of the month.

Although Sonoro Energy eventually intends to drill up to seven wells in the area, initially it will concentrate on the first two wells, for which it has received budgeted approval from SKK Migas. Additional approvals plus economic budgets still need to be set in order to drill additional wells beyond the first two.

Since the recent capital raise of C\$3.6 million is earmarked specifically for the LG-1 Up-Dip well, the Company will need to raise additional funds if it intends to carry out other drilling activities.

COMMENT: *It would be worth-while for the Company to consider drilling a second well in the vicinity since the rig and the equipment and services are already there. However, this will likely require a small capital raise. Some success with the first Up-Dip well would be welcome in this regard.*

Sonoro Energy is also hopeful that it might be able to get an early Plan of Development approved by SKK Migas to give it a 20-year production license.

For the remainder of 2017 and into 2018, the Company has the following goals and objectives:

(a) 2017:

- drill, complete, and test the LG-1 Up-Dip well
- obtain an extension to its existing license while it prepares its Plan of Development
- acquire additional assets that have production as well as reserves and development upside (Sumatra)

(b) 2018:

- investigate the feasibility of longer-term, early Plan of Development at BB
- drill one or two additional step-out wells from LG-1
- conduct further seismic 3-D to define the structure and optimize development activities
- consider development drilling of approved Plans of Development that have not yet been drilled

INVESTMENT CONSIDERATIONS

A. Strengths

- Substantial historical evidence of meaningful hydrocarbon showings at shallow depths, with significant oil and gas seeps continuing in the region even today.
- Low-risk exploration and appraisal advantage as there is abundant seismic and well-data information available. About 16 million barrels of prospective recoverable resources are estimated to be situated in the region.
- The region's extensive oil and gas potential is largely untapped.
- Sonoro Energy recently raised C\$3.6 million to be used for drilling purposes. The Company is currently drilling one step-out, up-dip well close to the successful LG-1 well. It also intends to drill seven other wells in the area.
- A successful discovery program that has identifiable commercial potential should lead to the Company being able to obtain a 20-year production license.
- A refinery is available across the 280-km Makassar Strait.
- The Company has attracted several experienced senior management personnel with considerable exploration and production experience in southeast Asia.
- Indonesia has an investment-friendly environment for foreign resource companies, including a tax-free initiative for the importation of drilling equipment and technology.

B. Challenges

- Sonoro Energy's Production Sharing Contract expires in January 2018. There is no guarantee that the existing "exploration phase" license under the PSC arrangement will be either further extended or converted to a "development phase" license.
- There is a continuing need to obtain necessary permits and licenses from various government bodies in order to carry out the Company's exploration, development, and production activities.
- The Company needs to conduct a successful drilling program to reach commercial viability.
- The Company will need to continue to raise funding for its drilling activities until it can reach commercial production.
- With a dearth of companies exploring and operating in the area (in fact, there is very little activity going on in the area), the Company needs to prove to investors that its corporate strategy is sound and successful in order to continue to raise necessary funds.
- Indonesia is located in an area of the world that is somewhat unstable. Indonesia, itself, has experienced unstable conditions in the past. Civil unrest, terrorism, violence and war, as well as political and economic instability are all possible risks associated with operating in that part of the world.
- The Company's market cap is around \$8.87 million, with about 177 million shares outstanding, of which about 37% are held by "Insiders". That leaves a float of approximately 51 million shares. These metrics, plus the low absolute share price, essentially make the shares unsuitable for institutional ownership.
- Fairly illiquid share trading (average 49,940 per day over the last 50 days and 29,400 over the last 200 days).

FINANCIAL STATEMENT ANALYSIS

Set out in Table 1, below, are salient statistics from the Statement of Loss for the years ending December 31, 2015 and 2016; the trailing twelve months ending March 31, 2017; and Q1 ending March 31, 2016 and 2017.

TABLE 1: Selected Financial Information: Statement of Income/(Loss):

As shown in the table below, the Company is making financial progress in terms of reducing its operating expenses (General & Administrative expenses).

(C\$)	Actual Year End <u>Dec 31/2015</u>	Actual Year End <u>Dec 31/2016</u>	Actual TTM <u>Mar 31/2017</u>	Actual 3 Months <u>Mar 31/2016</u>	Actual 3 Months <u>Mar 31/2017</u>
Statement of Income (Loss)					
General & Administrative	-734,119	-1,203,370	-1,120,007	-212,389	-129,026
Operating Non-Cash Items	<u>-91,269</u>	<u>-264,317</u>	<u>-262,484</u>	<u>-1,833</u>	<u>0</u>
Operating (Loss)/Profit	-825,388	-1,467,687	-1,382,491	-214,222	-129,026
Non-Operating (Expenses)/Income	28,819	0		0	0
Non-Operating Non-Cash Items	<u>0</u>	<u>234,629</u>	<u>231,755</u>	<u>2,672</u>	<u>-202</u>
Net (Loss)	-796,569	-1,233,058	-1,150,736	-211,550	-129,228
Total Shares Outstanding	56,413,243	57,314,466	57,314,466	57,314,466	57,314,466
Weighted Average Shares O/S	5,641,324	35,532,071	57,314,466	56,413,243	57,314,466
Net Profit/(Loss) Per Share	(\$0.14)	(\$0.03)	(\$0.02)	(\$0.00)	(\$0.00)

WARRANTS and OPTIONS

TABLE 2: Warrants and Options (as at May 20, 2017)

WARRANTS

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Status</u>	<u>Potential Equity</u>
59,999,998	\$0.05	20-May-2019	In-the-Money	\$3,000,000
3,212,090	\$0.05	27-Apr-2019	In-the-Money	\$160,604
<u>1,072,855</u>	\$0.05	20-May-2019	In-the-Money	<u>\$53,643</u>
64,284,943				\$3,214,247

Current Price: \$0.060 (price as at August 18)

OPTIONS

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Status</u>	<u>Potential Equity</u>
NIL				

Source: Company

SHARES OUTSTANDING

Sonoro Energy effected a one-for-ten (1-for-10) share consolidation in September 2016.

As part of its recent capital raise, in which the Company sold units (common shares and warrants) at \$0.03 per unit, because the raise was below the Toronto Venture Exchange's minimum price of \$0.05 per share/unit, the Company agreed to effect another share consolidation within six months of the closing date (May 20). This will likely be voted on by shareholders at the next Annual General Meeting in October.

MANAGEMENT and DIRECTORS

The following information on the Company's management and directors was taken from the Company's website. www.sonoroenergy.com/

A. Management

Richard Wadsworth – Chief Executive Officer



Richard Wadsworth is a professional petroleum engineer with 25 years of international oil and gas experience. Mr. Wadsworth co-founded Bankers Petroleum in 2004, and was President, COO, and a Director of Bankers Petroleum from 2004-2008. He led the acquisition of the Patos Marinza oilfield in Albania with initial 500 bopd production and built the team and redeveloped the oilfield with new technology to grow to 7,000 bopd and over 100 mmbbls of 2P reserves in the first four years. Mr. Wadsworth was involved with initial horizontal drilling techniques in 2008. He previously worked for Premier Oil, Anglo Albanian, Koch, Syncrude, and Esso.

Dean Callaway – Chief Financial Officer

Dean Callaway is a Chartered Professional Accountant with more than 23 years in the energy industry. He has been CFO for private and public companies for over a decade with experience in Indonesia, the Philippines, Thailand, France, Namibia, Niger, and the United States. Previously, Mr. Callaway was the head of Mergers and Acquisition for Terasen Pipeline. He has corporate finance and international business development experience at both Enbridge and TransAlta. He also has energy investment banking experience at Merrill Lynch.

Bill Marpe – General Manager, Jakarta, Indonesia

Bill Marpe is a lawyer (called to the bar in Texas). He has 35 years of international experience with Union Texas Petroleum and Transworld Oil Ltd. He is the president of three production sharing companies in Indonesia. Mr. Marpe was the general manager of P.T. Petcon Borneo when the Palangkaraya Block was sold to Conoco-Phillips. He is the founder and President of Stockbridge Oil & Gas Ltd. which is now a subsidiary of Sonoro Energy.

Hening Sugiatno - Senior Geologist

Hening Sugiatno is a geologist with a M.Sc. from the Colorado School of Mines. He has more than 20 years of oil exploration and production experience in Indonesia. He was an exploration geologist for Coparex and Lundin in Indonesia, and a new-venture advisor for Oilex in Australia.

Alan Rachman - Government Liaison

Alan Rachman is an engineer with more than 30 years' experience in upstream and downstream operations in Indonesia. Mr. Rachman previously gained experience with PT Petcon, Harvest Natural Resources, and Ormat International. He began his career with Schlumberger Inc. He is a regular participant in Indonesia in government and regulatory consultative panels focusing on renewable energy.

B. Directors

Chris Atkinson - Chairman

Chris Atkinson is a geologist with 30 years of international experience with Shell and ARCO. He was a Vice-President at ARCO for Europe and North Africa. Mr. Atkinson had major industry successes in China, New Zealand, Indonesia, and the United Kingdom, and has a notable track record of building and financing start-up exploration and production ventures in south-east Asia, the United Kingdom, Canada, and the Caribbean.

Richard Wadsworth – Chief Executive Officer

(bio above)

Bill Marpe – General Manager, Jakarta, Indonesia

(bio above)

David Robinson

David Robinson is a geologist with 25 years of international experience with RadCan, Arakis Energy, Forum Energy, and Benchmark. He has worked in Colombia, the Philippines, Tunisia, Egypt, Indonesia, Turkmenistan, Sudan, Papua New Guinea, and Oman. Mr. Robinson is currently VP Business Development at Horizon Petroleum Plc. He has been involved in raising over \$300 million across various ventures.

Ryszard Kurr

Ryszard Kurr has over 30 years of international commercial and financial experience in the oil and gas industry. Mr. Kurr was most recently with Noble Energy and Glencore, and formerly with BP and Vitol Group. The majority of his working life has been spent in Asia with the balance in Europe and Africa. He currently is involved in establishing and investing in start-up and growth energy companies.

David Winter

David Winter is a geologist with over 27 years of experience in the international oil industry. Mr. Winter has worked for Horizon Petroleum, CalValley, AEC, Canadian Occidental (in Indonesia), Sun Oil, and BP in Europe, southeast Asia, North America, South America, and Africa. He is currently CEO and President of Horizon Petroleum Ltd. He was the founder and a director of Canacol Energy.

C. Shareholdings

Officers and Directors own or control, directly or indirectly, approximately 19.6% of the issued and outstanding common shares of the Corporation (according to SEDI), and excluding warrants and options. There is only one known shareholder, or group of shareholders, with more than the required admission holding of 10.0%, and that is Geopetrol International Holdings Ltd. with a 17.4% holding, as at the last date of filing. However, with the financing and share consolidation last year, and the financing this year, Geopetrol may still hold approximately 3 million shares, which would represent only about 1.7%. Geopetrol is a Swiss-based, private, integrated oil and gas exploration and production company.

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ANALYST ACCREDITATION

eResearch Analyst on this Report: Bob Weir, B.Sc., B.Comm., CFA

Analyst Affirmation: I, Bob Weir, hereby state that, at the time of issuance of this research report, I do not own shares of Sonoro Energy Ltd.

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