

PetroMaroc Corporation plc
Interim Condensed Consolidated Financial Statements
September 30, 2016
(Unaudited)

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NATIONAL INSTRUMENT 51-102

The interim condensed financial statements and notes thereto for the three and nine months ended September 30, 2016 are prepared by management and have not been independently audited or reviewed by the Company's auditors.

PetroMaroc Corporation plc
Condensed Consolidated Statements of Financial Position
In United States Dollars
(Unaudited)

	Notes	September 30, 2016	December 31, 2015
Assets			
Current			
Cash and cash equivalents		\$ 514,936	\$ 221,914
Other current assets		31,722	99,369
Restricted cash	3	<u>2,400,019</u>	<u>3,100,019</u>
		<u>2,946,677</u>	<u>3,421,302</u>
Non-current			
Exploration and evaluation assets	4	6,592,360	6,800,000
Property and equipment		<u>1,073</u>	<u>32,522</u>
		<u>6,593,433</u>	<u>6,832,522</u>
		\$ 9,540,110	\$ 10,253,824
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 7,020,606	\$ 4,848,490
Convertible debentures	5	7,395,899	6,867,140
Other current liabilities	6	<u>1,364,683</u>	<u>1,009,260</u>
		<u>15,781,188</u>	<u>12,724,890</u>
Decommissioning obligations	7	<u>1,044,019</u>	<u>1,031,429</u>
		<u>16,825,207</u>	<u>13,756,319</u>
Shareholders' Equity			
Share capital	8	53,456,688	53,456,688
Share based payment reserve		4,979,271	4,924,448
Deficit		<u>(65,721,056)</u>	<u>(61,883,631)</u>
		<u>(7,285,097)</u>	<u>(3,502,495)</u>
		\$ 9,540,110	\$ 10,253,824

Note 1 – Corporate Information and Corporate Transaction

Note 2 – Basis of Presentation

Note 12 – Subsequent Event

The accompanying notes are an integral part of these condensed consolidated financial statements.

PetroMaroc Corporation plc
Condensed Consolidated Statements of Operations and
Comprehensive Loss
In United States Dollars
(Unaudited)

	Notes	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Expenses					
Administrative		\$ 199,001	\$ 403,248	\$ 1,414,264	\$ 1,492,613
Share based compensation		10,477	77,112	54,823	239,595
Depreciation and impairment		98	35,159	28,319	49,015
Impairment of exploration and evaluation		-	(40,466)	-	(16,260)
Accretion of decommissioning obligation	7	3,878	3,820	12,590	10,698
Exploration and evaluation	4	-	-	-	-
Finance costs	5	568,116	397,214	1,918,905	1,230,904
Foreign exchange loss (gain)		(138,664)	(572,060)	413,875	(908,808)
		<u>642,906</u>	<u>304,026</u>	<u>3,842,776</u>	<u>2,097,757</u>
Other income					
Finance income		4,010	595	5,351	3,934
Derivative gain		-	14,922	-	8,480
Warrant fair value adjustment		-	25,725	-	21,818
		<u>4,010</u>	<u>41,242</u>	<u>5,351</u>	<u>34,232</u>
Net and comprehensive loss for the period		\$ (638,896)	\$ (262,785)	\$ (3,837,425)	\$ (2,063,525)
Net loss per share					
- Basic and diluted		(0.006)	(0.003)	(0.036)	(0.02)
- Weighted average shares outstanding					
- Basic and diluted ⁽¹⁾		105,223,923	105,223,923	105,223,923	104,462,680
⁽¹⁾ <i>The options and warrants have been excluded from the diluted loss per share computation as they are anti-dilutive</i>					

The accompanying notes are an integral part of these condensed consolidated financial statements.

PetroMaroc Corporation plc
Condensed Consolidated Statements of Changes in Shareholders' Equity
In United States Dollars
(Unaudited)

	Share Capital	Share Based Payment Reserve	Deficit	Total Equity
Balance, December 31, 2015	\$ 53,456,688	\$ 4,924,448	\$ (61,883,631)	\$ (3,502,495)
Net loss for the period	-	-	(3,837,425)	(3,837,425)
Issue of shares	-	-	-	-
Share-based payments	-	54,823	-	54,823
Balance, September 30, 2016	\$ 53,456,688	\$ 4,979,271	\$ (65,721,056)	\$ (7,285,097)

	Share Capital	Share Based Payment Reserve	Deficit	Total Equity
Balance, December 31, 2014	\$ 53,253,792	\$ 4,639,737	\$ (30,078,814)	\$ 27,814,715
Net loss for the period	-	-	(2,063,525)	(2,063,525)
Issue of shares	202,896	-	-	202,896
Share-based payments	-	251,456	-	251,456
Balance, September 30, 2015	\$ 53,456,688	\$ 4,891,193	\$ (32,142,339)	\$ 26,205,542

The accompanying notes are an integral part of these condensed consolidated financial statements.

PetroMaroc Corporation plc
Condensed Consolidated Statements of Cash Flows
In United States Dollars
(Unaudited)

	Notes	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Cash flows from (used in) operating activities					
Net loss for the period		\$ (638,896)	\$ (262,785)	\$ (3,837,425)	\$ (2,063,525)
Items not involving cash:					
Foreign exchange loss/(gain)		(164,390)	(755,880)	372,086	(1,056,838)
Stock based compensation	8	10,477	77,112	54,823	239,595
Impairment (reversal) of exploration and evaluation		-	(40,466)	-	(16,260)
Warrant fair value		-	15,376	-	21,818
Accretion of decommissioning obligation	7	3,878	3,820	12,590	10,698
Non-cash finance costs		141,780	233,163	141,780	353,066
Derivative loss		-	17,911	-	21,818
Depreciation		98	35,159	28,319	49,015
Changes in non-cash working capital balances:					
Other current assets		28,167	26,015	67,647	27,075
Accounts payable and accrued liabilities		494,246	349,474	2,172,116	894,046
Cash flow used in operating activities		<u>(266,420)</u>	<u>(301,101)</u>	<u>(988,064)</u>	<u>(1,519,492)</u>
Cash flows from (used in) financing activities					
Restricted cash	3	700,000	-	700,000	-
Loan	6	-	-	299,203	323,720
Cash flows from (used in) financing activities		<u>-</u>	<u>-</u>	<u>999,203</u>	<u>323,720</u>
Cash flows from (used in) investing activities					
Expenditures on evaluation and equipment		-	(64,922)	(21,247)	(135,659)
Proceeds on property and equipment disposal		-	-	3,130	(1,286)
Proceeds on evaluation and equipment disposal		-	-	300,000	-
Cash flows from (used in) investing activities		<u>-</u>	<u>(64,922)</u>	<u>281,883</u>	<u>(136,945)</u>
Increase (decrease) in cash and cash equivalents		433,580	(366,023)	293,022	(1,332,717)
Cash and cash equivalents, beginning of period		<u>81,356</u>	<u>459,779</u>	<u>221,914</u>	<u>1,426,473</u>
Cash and cash equivalents, end of period		\$ 514,936	\$ 93,756	\$ 514,936	\$ 93,756
Supplemental Information					
Interest paid		\$ -	\$ -	\$ -	\$ -
Corporate Taxes paid		\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these condensed consolidated financial statements.

PetroMaroc Corporation plc
Notes to Condensed Consolidated Financial Statements
In United States Dollars
(Unaudited)

September 30, 2016

1. Corporate Information and Corporate Transaction

PetroMaroc Corporation plc (“PetroMaroc” or “the Company”), is a publicly traded corporation on the TSX Venture Exchange (“TSX-V”) under the trading symbol PMA. The Company is engaged in the evaluation, acquisition, exploration and development of oil and gas properties in Morocco and at December 31, 2015 had one remaining exploration licence that the Company is pursuing (*Sidi Moktar onshore*).

On March 8, 2016, the Company entered into a binding sale and purchase agreement with Sound Energy plc (“Sound”). The agreement, upon completion, would allow Sound to acquire the Company’s Sidi Moktar licences in consideration for issuance to the Company of 21,258,008 shares of Sound with an estimated market value of \$5.5 million (£3.65 million) and the Company retaining a 10% net profit interest in any future cash flows from the Kechoula structure within the Sidi Moktar licences, and the Company retaining a 5% net profit interest in any future cash flows from structures within the Sidi Moktar licences other than the Kechoula structure. The \$2.5 million of restricted cash (Note 3) is to be released upon completion of the transaction, ahead of which \$0.7 million was released in July 2016. The binding sale and purchase agreement is subject to a number of conditions precedent, including ministerial approvals in Morocco, debenture holder approval and a final approval of the TSX Venture Exchange. In September 2016, the PetroMaroc and Sound have entered into an amending agreement, pursuant to which any proceeds from a sale (in whole or in part) of the 21,258,008 new Sound Energy ordinary shares to be issued to PetroMaroc as consideration on completion of the acquisition will be shared between PetroMaroc and Sound Energy as follows: PetroMaroc will receive all proceeds from sale(s) up to 50 pence per consideration share and sale proceeds in excess of 50 pence per consideration share will be shared equally between PetroMaroc and Sound Energy. In addition, the long stop date for completion of the acquisition has been extended to Dec. 31, 2016, or such later date as is necessary to satisfy the remaining conditions precedent.

PetroMaroc is a Jersey limited company governed by the Companies (Jersey) Law 1991 (the “CJL”). The registered office of the Company is located at Queensway House, St Helier, Jersey, Channel Islands.

2. Basis of Presentation

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting. These condensed consolidated financial statements were authorised for issue by the Board of Directors on November 23, 2016. They do not contain all disclosures required by International Financial Reporting Standards (“IFRS”) for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015.

These condensed consolidated financial statements have been prepared on the historical cost basis, except for the warrants associated with the equity financing which are measured at their estimated fair value. The condensed consolidated financial statements have been prepared using the same accounting policies and methods as the consolidated financial statements for the year ended December 31, 2015.

Going concern assumption

The Company has been in the process of exploring its oil and gas properties and has not yet established whether the properties contain reserves that are economically recoverable. The ability of the Company to complete the exploration and/or development of the Sidi Moktar property requires additional financing either directly or through a joint venture and the Company successfully negotiating the terms of the next phase of the licence agreement. To date, the Company has not earned revenues relative to its costs incurred for exploration activities, nor established commerciality of the Sidi Moktar licence subsequent to exploration costs incurred to-date. The recovery of amounts capitalised for the Company’s remaining property interest of Sidi Moktar on the consolidated statement of financial position is primarily dependent upon the completion of the transaction proposed with Sound, as described in Note 1.

PetroMaroc Corporation plc
Notes to Condensed Consolidated Financial Statements
In United States Dollars
(Unaudited)

September 30, 2016

2. Basis of Presentation - continued

These condensed consolidated financial statements have been prepared on a going concern basis, under which the Company is assumed to be able to realise its assets and discharge its liabilities in the normal course of operations, which is subjective. The ongoing activities are dependent upon its ability to obtain sufficient financing to fund its current and future operations. At September 30, 2016, the Company has a working capital deficit of \$12.8 million inclusive of the \$2.4 million in respect to restricted cash bank guarantees (Note 3 and Note 9), which are expected to be recovered within the next 12 months.

Commitments due in less than twelve months of approximately \$2.65 million including, \$1.2 million for estimated Zag penalty costs (Note 9(b)), \$0.45 million for debenture interest costs/waiver costs/consideration fee costs to the December 31, 2016 maturity date (Note 5, Note 6 (a), Note 6 (c)), and \$1.0 million for estimated general and administrative costs (which includes an estimate for corporate restructuring costs, and which excludes ongoing exploration and evaluation costs).

On April 11, 2016, the Company entered into a waiver and amending agreement with the Cdn \$9.7 million (Note 5) and Cdn \$1.0 million (Note 6 (c)) debenture holders to extend the maturity date from April 10, 2016 to September 30, 2016, under which payment of the quarterly interest payments (June 30, 2016, September 30, 2016) shall accrue to the maturity date. On September 30, 2016, the Company entered into a second waiver agreement extending the maturity date of the Cdn \$9.7 million, Cdn \$1.0 million and Cdn \$0.39 million debentures to December 31, 2016. Pursuant to the terms of the waiver agreement, the aggregate amount of all Deferred Interest Payments shall accrue interest at the previously amended annual interest rate of 15% and shall be due and owing on the maturity date. In consideration for entering into the Waiver Agreement, the Company has agreed to pay to the Debenture holders a fee equal to 15% of the aggregate amount of their respective deferred interest payments, which Consideration Fee shall be payable on the maturity date, in cash.

The ability of the Company to meet its commitments and costs is dependent upon the raising additional capital by issuing equity securities (which may include a rights offering or private placement), debt financing. There can be no assurance, however, that these initiatives will lead to additional capital being secured, nor the timing of any transaction taking place, or at all. In addition, the Company continues to assess restructuring alternatives to the Company's debt and share capital, with a focus on debt reduction and settlement for the Company's debentures, which the Company plans to complete before the end of 2016.

Future financings will be required in order to fund the short-term, medium-term and long-term exploration and evaluation program however, there is no certainty that such financings will be obtained on terms acceptable to management. This uncertainty casts significant and material doubt about the ability of the Company to continue as a going concern. The consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate. Should the going concern basis not be appropriate for these consolidated financial statements, then adjustments may be necessary in the carrying value of property and equipment, liabilities, the reported expenses, and the classifications used in the consolidated statement of financial position. Such adjustments could be material.

Use of estimates and judgments

The preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Significant estimates and judgments made by management in the preparation of these condensed consolidated interim financial statements are detailed in Note 2 in the annual financial statements.

PetroMaroc Corporation plc
Notes to Condensed Consolidated Financial Statements
In United States Dollars
(Unaudited)

September 30, 2016

2. Basis of Presentation - continued

Functional and presentation currency

These condensed consolidated financial statements are presented in United States ("US") Dollars, which is the Company's functional currency. The following are the US Dollar foreign exchange rates at the respective periods:

Currency	September 30, 2016	December 31, 2015	September 30, 2015
Average rate for the period:			
Pounds Sterling	0.7195	0.6542	0.6527
Canadian Dollar	1.3218	1.2783	1.2591
Euro	0.8898	0.9012	0.8971
Moroccan Dirhams	9.7091	9.6839	9.6440
Period end rate:			
Pounds Sterling	0.7685	0.6755	0.6598
Canadian Dollar	1.3117	1.3869	1.3400
Euro	0.8959	0.9168	0.8915
Moroccan Dirhams	9.7520	9.8165	9.6859

3. Restricted Cash

The Company has a restricted cash balance, which represents the following bank deposits securing licenses as follows:

	In favor of	September 30, 2016	December 31, 2015
Sidi Moktar farm-in arrangement and (Note 9(a))	MPE	\$ 1,800,000	\$ 2,500,000
Zag exploration licence	San Leon	600,000	600,000
Other	Barclays	19	19
		<u>\$ 2,400,019</u>	<u>\$ 3,100,019</u>

4. Exploration and Evaluation Assets

Balance, December 31, 2015	\$ 6,800,000
Proceeds on disposal	(300,000)
Additions	92,360
Balance, September 30, 2016	<u>\$ 6,592,360</u>

PetroMaroc Corporation plc
Notes to Condensed Consolidated Financial Statements
In United States Dollars
(Unaudited)

September 30, 2016

4. Exploration and Evaluation Assets - continued

Exploration and evaluation assets consist entirely of costs pertaining to licences in Morocco. The carrying value at September 30, 2016 relates to the Sidi Mokhtar licence. The evaluation of the technical feasibility or commercial viability of the Sidi Mokhtar licence has not been established. Pursuant to the Company's strategic alternatives process, on March 8, 2016, the Company entered into a binding Sale and Purchase agreement with Sound Energy plc ("Sound"). The agreement upon completion would allow Sound to acquire the Company's Sidi Mokhtar licences in consideration for issuance to the Company 21,258,008 shares of Sound at with an estimated market value at the issue price of £3.65 million (\$5.5 million) and the Company retaining a 10% net profit interest in any future cash flows from the Kechoula structure within the Sidi Mokhtar licences, and the Company retaining a 5% net profit interest in any future cash flows from structures within the Sidi Mokhtar licences other than the Kechoula structure (Note 1). In September 2016, the PetroMaroc and Sound have entered into an amending agreement, pursuant to which any proceeds from a sale (in whole or in part) of the 21,258,008 new Sound Energy ordinary shares to be issued to PetroMaroc as consideration on completion of the acquisition will be shared between PetroMaroc and Sound Energy as follows: PetroMaroc will receive all proceeds from sale(s) up to 50 pence per consideration share and sale proceeds in excess of 50 pence per consideration share will be shared equally between PetroMaroc and Sound Energy.

The current economic conditions, the Company's inability to raise suitable financing at acceptable terms to further develop the licensed asset and valuation based on the subsequent transaction with Sound are all indicators that the carrying value of the Company's E&E assets are impaired. As such, PetroMaroc has impaired the Sidi Mokhtar licence to the estimated net recoverable value of the asset. Given the uncertainty around the extension of the licence and related commitments the impairment was based on fair value less cost of disposal ("FVLCD"). The best indicator of FVLCD is the amount obtained from the sale of an asset in an arm's length transaction between knowledgeable, willing parties and as such PetroMaroc established FVLCD by reference to the estimated price agreed to with Sound. Fair value was estimated to approximate \$6.6 million at September 30, 2016, and the associated decommissioning obligation (Note 7) to be assumed by Sound. This approximation was based on the fair value of the Sound shares valued at their trading prices, ie a Level 2 level of hierarchy. No value has been allocated to the net profit interest(s) which were negotiated as a part of the Sound agreement as their value is contingent on future cash flows from the licence.

On December 31, 2015, \$0.3 million was included for the salvage value of the surplus inventory on hand, which surplus inventory was disposed of in February 2016.

During the nine month period, the Company capitalised \$Nil (2015 - \$79,471) of administrative salaries and costs and \$Nil (2015 - \$11,861) related to share based payments directly related to exploration and evaluation activities on the Sidi Mokhtar licence.

5. Convertible Debenture

On April 10, 2014, PetroMaroc issued \$9.7 million (CAD) of convertible secured debentures (the "Debentures") with an annual coupon rate of 10% maturing on April 10, 2016. The Debentures have a face value of \$1,000 (CAD) per debentures, following the first anniversary the Debentures are convertible into common shares at the option of the holder at the greater of \$0.30 (CAD) and the market price at the time of conversion based on a 20 day volume weighted average price. The Debenture subscribers were also issued 9,700,000 warrants exercisable at \$0.30 (CAD) until April 10, 2016. These warrants expired unexercised during the second quarter of 2016.

PetroMaroc Corporation plc
Notes to Condensed Consolidated Financial Statements
In United States Dollars
(Unaudited)

September 30, 2016

5. Convertible Debenture - continued

In June 2015, PetroMaroc entered into a waiver and amending agreement with the debenture holders to defer payment of the quarterly interest payments under the debentures until April 10, 2016, including the March 31, 2015, interest payment. Pursuant to the terms of the waiver agreement, the aggregate amount of all deferred interest payments shall accrue interest at the amended annual interest rate of 15% per annum, and shall be due and owing on the maturity date. In consideration for entering into the waiver agreement, the Company has agreed to pay to the debenture holders a fee equal to 15% of the deferred interest payments, which shall be payable on the maturity date (the Waiver Fee).

In October 2015, PetroMaroc entered into a waiver and amending agreement with the debenture holders, where in order to consent to the Cdn \$1.0 million debenture financing, a fee equal to 15% of the aggregate amount of their respective deferred interest payments shall be payable on the maturity date (the Consideration Fee), being in addition to the Waiver Fee.

On April 11, 2016, the Company entered into a waiver and amending agreement with the Cdn \$9.7 million and Cdn \$1.0 million (Note 6(b)) debenture holders to extend the maturity date from April 10, 2016 to September 30, 2016, under which payment of the quarterly interest payments (June 30, 2016, September 30, 2016, December 31, 2016) shall accrue to the December 31, 2016 maturity date. Pursuant to the terms of the waiver agreement, the aggregate amount of all Deferred Interest Payments shall accrue interest at the previously amended annual interest rate of 15% and shall be due and owing on the maturity date. In consideration for entering into the Waiver Agreement, the Company has agreed to pay to the Debenture holders a fee equal to 15% of the aggregate amount of their respective deferred interest payments (the Consideration Fee), which shall be payable on the maturity date, in cash.

The following table summarizes the accounting for the debentures:

	Liability	Derivative Financial Liability	Total
Balance at December 31, 2015	\$ 6,867,140	\$ -	\$ 6,867,140
Accretion and amortization of debt issuance costs	141,780	-	141,780
Foreign exchange loss	386,979	-	386,979
Balance at September 30, 2016	\$ 7,395,899	\$ -	\$ 7,395,899

The liability portion is measured at amortized cost and will accrete up to the principal balance at maturity using the effective interest rate method. The accretion, interest paid and amortization of debt issuance costs are charged to finance expense in the consolidated statement of comprehensive income/loss. The derivative financial liability is measured at fair value through profit or loss, with changes to the fair value being recorded in finance expense.

Finance costs of \$1,918,905 in 2016 include the accretion and amortization of debt issuance costs of \$141,780, \$15,000 of debenture interest (note 6 (a)), \$26,886 of loan interest (note 6 (b)), \$98,287 of debenture interest (note 6 (c)), and \$1,636,952 of interest, waiver and consent fees relating to deferred payment of the debenture interest, consent for the November 2015 debenture financing, and loan maturity extension from April 10, 2016 to September 30, 2016.

PetroMaroc Corporation plc
Notes to Condensed Consolidated Financial Statements
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(Unaudited)

September 30, 2016

6. Other Current Liabilities

- (a) On June 9, 2016, the Company closed a secured, non-convertible debenture financing of Cdn\$0.39 million. The debenture bears interest at a rate of 15% per annum, calculated and payable in arrears, in cash, on the maturity date. This secured loan ranks equally to the Cdn \$9.7 million Convertible debentures (Note 5) and the Cdn \$1.0 million non-convertible debenture (Note 6 (c)), and ranks in priority to unsecured Loan (Note 6(b)). As at September 30, 2016, \$15,000 interest has been accrued for the secured debenture. In September 2016, the debenture maturity date was extended from September 30, 2016, to December 31, 2016.
- (b) On June 16, 2015 the Company closed an unsecured Cdn\$0.4 million loan. This arms' length loan bears interest at 10% per annum. The lender received 8,000,000 bonus warrants with each bonus warrant exercisable into one common share at a price of Cdn\$0.05 per Common Share. The bonus warrants expired on June 16, 2016. The principal amount and all accrued interest was due either on April 30, 2016 or upon the release of the \$2.5 million of restricted cash (Note 3). This loan is unsecured and ranks subordinate to the Cdn \$9.7 million Convertible debentures (Note 5), the Cdn \$1.0 million debentures (Note 6 (c)), and the Cdn \$0.39 million debentures (Note 6(a)). As at September 30, 2016, \$43,586 interest has been accrued for the unsecured loan. This loan matures on December 31, 2016.
- (c) On November 4, 2015, the Company closed a secured, non-convertible debenture financing of Cdn\$1.0 million with an arm's length lender. The debenture matured on April 10, 2016, and bears interest at 15% per annum, calculated and payable in arrears, in cash, on the maturity date. No warrants were issued in conjunction with this financing. This secured loan ranks equally to the Cdn \$9.7 million Convertible debentures (Note 5), and the Cdn \$0.39 million non-Convertible debenture (Note 6 (a)), and ranks in priority to unsecured Loan (Note 6(b)). As at September 30, 2016, \$119,009 of interest has been accrued for the secured debenture. In September 2016, the debenture maturity date was extended from September 30, 2016, to December 31, 2016.

7. Decommissioning Obligations

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the estimated obligation associated with the decommissioning of oil and natural gas properties.

	September 30, 2016	December 31, 2015
Obligation, beginning of period	\$ 1,031,429	\$ 1,016,896
Accretion expenses	12,590	14,533
Obligation, end of period	\$ 1,044,019	\$ 1,031,429

The undiscounted amount of cash, required to settle the current decommissioning obligations on the Koba-1 and Kamar-1 wells, adjusted for inflation, is estimated at \$1,057,400. The obligations were calculated using a risk free discount rate of 1.50 percent (2015 - 1.50 percent) and an inflation rate of 2.0 percent (2015 - 2.0 percent). The costs are expected to occur in 2017 but this may be extended following the final results of the Koba-1 and Kamar-1 wells, and an extension of the Sidi Mokhtar licence.

As disclosed in Note 1 and 4, Sound will assume the decommissioning obligations upon closing of the transaction.

PetroMaroc Corporation plc
Notes to Condensed Consolidated Financial Statements
In United States Dollars
(Unaudited)

September 30, 2016

8. Share Capital

(a) Authorised
 Unlimited number of Common Shares without nominal or par value.

(b) Issued

	September 30, 2016		December 31, 2015	
	Issued	Amounts	Issued	Amounts
Common Shares				
Opening balance	105,223,923	\$ 53,456,688	101,149,036	\$ 53,253,792
Debt settlement (i)	-	-	4,074,887	202,896
Balance, end of period	105,223,923	53,456,688	105,223,923	53,456,688
Warrants				
Opening balance	27,700,000	\$ -	19,700,000	\$ -
Issued in loan (Note 6(a))	-	-	8,000,000	-
Expired (ii)	(27,700,000)	-	-	-
Balance, end of period	-	-	27,700,000	-
	\$	53,456,688	\$	53,456,688

(i) On February 20, 2015, the Company issued 789,772 shares at a price of \$0.06 per share by way of payment to settle a 2014 Convertible debenture interest payment of \$47,386 (Cdn). On April 15, 2015, Company issued an additional 3,285,115 shares to settle the remaining Convertible debenture 2014 interest of \$197,107 (Cdn).

(ii) In April 2016 and June 2016, the 27,700,000 warrants expired unexercised.

(c) Stock options

The Company has a stock option plan that provides for the issuance to its directors, officers, employees and consultants options to purchase from treasury a number of common shares not exceeding 10% of the common shares that are outstanding from time to time which is the number of shares reserved for issuance under the plan. The options vest at various rates as determined by the Board. The maximum term of the options is five years. The options are non-transferable if not exercised.

A summary of the status of the Company's stock option plan as at September 30, 2016 is presented below:

Stock Options	September 30, 2016	
	Number of options	Weighted average Exercise Price (CAD \$)
Beginning and end of period	10,522,142	\$0.30
Exercisable, end of period	9,468,809	\$0.30

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8. Share Capital - continued

Date of Grant	Number Outstanding	Exercise Price (Cdn \$)	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable September 30, 2016
May 22, 2012	25,000	\$0.60	0.64 years	May 22, 2017	25,000
December 21, 2012	687,142	\$1.18	0.41 years	February 28, 2017	687,142
January 15, 2013	1,570,000	\$0.70	1.29 years	January 15, 2018	1,570,000
April 30, 2014	3,160,000	\$0.30	2.58 years	April 30, 2019	2,106,667
July 22, 2015	5,080,000	\$0.05	3.81 years	July 22, 2020	5,080,000
	10,522,142		2.84 years		9,468,809

9. Commitments and Contingencies

(a) Sidi Mokhtar Farm-in

On May 16, 2011, PetroMaroc entered into a Farm-in Agreement with Maghreb Petroleum Exploration S.A. ("MPE"). Pursuant to the Farm-in Agreement, PetroMaroc will acquired a 50% interest in the onshore Sidi Mokhtar exploration licences referred to as Sidi Mokhtar West, Sidi Mokhtar South and Sidi Mokhtar North located in the Essaouira Basin in Central Morocco. In consideration for the acquisition of that interest, PetroMaroc is responsible for carrying out a work programme of acquiring, processing and interpreting new seismic data and drilling two earning wells by August 28, 2017. With respect to this and other completed work commitments, the Company has posted a bank guarantee of \$1.8 million (Note 3).

PetroMaroc entered into a binding transaction with Sound in March 2016, to dispose of the Sidi Mokhtar asset (Note 1), where, a condition precedent of the transaction includes release of the Bank Guarantee held in escrow (Note 3) to the Company.

(b) Zag licence

The Company committed to its percentage share of further geophysical studies and the drilling of one exploration well, subject to receiving and approving a satisfactory proposal from the Operator, as per the terms of the First Extension Period. Following the joint venture not completing the minimum work commitment of the First Extension Period, a twelve month extension to the First Extension Period was agreed by the joint venture, to May 2016. During the twelve month extension the Company continued to seek a mutually agreed technical, commercial and financial proposal to reduce its financial exposure insofar as possible. This extension remains subject to approval by the joint venture partners and the Ministry of Energy and Mines. The Company has accrued \$1.2 million penalty costs based on its working interest in the joint venture as the joint venture has not met the minimum work commitments required by the licence and the operator has been notified of the same. The \$0.6 million of restricted cash lodged as a bank guarantee is available to offset this potential penalty.

The Company has also entered into an agreement with the operator whereby if the licence is sold, farmed-out or other triggering event occurs, PetroMaroc may be liable for up to \$1.1 million to the operator. This liability has not been recorded at the balance sheet date as a triggering event has not occurred.

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10. Financial Instruments

The Company may hold various forms of financial instruments. The nature of these instruments and the operations expose the Company to credit and foreign exchange risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Commodity Price Risk

The Company will be subject to commodity price risk for the sale of its production. The Company may enter into contracts for risk management purposes only, in order to protect a portion of its future cash flow from the volatility of petroleum commodity prices. To date, the Company has no production and has not entered into any financial instrument exposed to commodity risk.

(b) Market Risk

Market risk is comprised of two components: currency risk and interest rate risk, discussed separately below.

(c) Credit Risk

Credit risk is the risk that arises when a party to a financial instrument will be unable to discharge its obligations as they become due. The financial assets exposed to credit risk are cash and cash equivalents, restricted cash, and accounts receivable. Cash and cash equivalents and restricted cash is placed with major financial institutions. The maximum credit risk is approximate to the carrying value of such financial instruments. Management assesses quarterly if there should be any impairment of the financial assets of the Company. At June 30, 2016, none of the financial assets are considered to be impaired.

(d) Interest Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is not currently exposed to interest rate risk as it borrows funds at a fixed coupon rate of 15% on debentures as disclosed in Notes 5 and 6.

(e) Foreign Currency Exchange Risk

The Company operates on an international basis and therefore foreign exchange risk exposures arise from transactions denominated in currencies other than USD. The Company is exposed to foreign currency fluctuations as it holds cash and incurs expenditures in property and equipment in foreign currencies. The Company incurs expenditures in Pound Sterling, Euros, Moroccan Dirhams and Canadian Dollars and is exposed to fluctuations in exchange rates in these currencies. There are no exchange rate contracts in place at September 30, 2016 and December 31, 2015.

Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates on the foreign cash balances at September 30, 2016 would have impacted the cash flows of the Company during the 2016 period by approximately \$300 (2015 - \$3,150). A 1% increase or decrease in foreign exchanges on the convertible debenture would have impacted the cash flows of the Company during the 2016 period by approximately \$74,000 (2015 - \$69,800).

(f) Fair Value of Financial Instruments

The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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10. Financial Instruments - continued

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents and restricted cash have been classified as level 1.

All financial assets (except for cash and cash equivalents and restricted cash which are classified as FVPL), are classified as either loans or receivables and are accounted for on an amortised cost basis. All financial liabilities are classified as other liabilities other than the warrants attributed to equity financing which are classified as FVPL. There have been no changes to the aforementioned classifications during the year.

(g) Liquidity Risk

Liquidity risk includes the risk that, as a result of the operational liquidity requirements:

- The Company may not have sufficient funds to settle a transaction on the due date;
- The Company may be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset.

As the Company business plan is capital intensive, the majority of the spending is related to capital programs. The Company goals are to prudently spend its capital. As circumstances change, liquidity risks may necessitate the Company to issue equity, obtain debt finance, or divest assets. The estimated commitments, in addition to those recorded in the 2015 year-end consolidated financial statement and further details of liquidity are discussed in Note 16. The accounts payable have general terms of 30 days from receipt of the invoice or joint venture billing. The convertible Cdn \$9.7 million secured debenture is due on December 31, 2016 (Note 5). The Cdn \$1.0 million secured debenture is due on December 31, 2016 (Note 6 (c)). The Cdn \$0.4 million unsecured loan is due on December 31, 2016 (Note 6 (b)). The Cdn \$0.39 million secured debenture is due on December 31, 2016 (Note 6(a)). Note 2 further discusses the ability of the Company to meet its obligations as they come due.

11. Capital Risk Management

The Company defines capital as total debt and shareholders' equity. The Board's policy is to maintain a capital base so as to maintain investor, creditor and market confidence and sustain future development of the business.

The objectives when managing capital are to safeguard the ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimises the costs of capital at an acceptable level of risk.

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11. Capital Risk Management - continued

As the Company business plan is capital intensive, the majority of the spending is related to capital programs. The Company goals are to prudently spend its capital. As circumstances change, liquidity risks may necessitate the Company to issue equity, obtain debt finance, or divest assets. The estimated commitments, in addition to those recorded in the consolidated financial statement and further details of liquidity are discussed in Note 9. The accounts payable have general terms of 30 days from receipt of the invoice or joint venture billing. The convertible Cdn \$9.7 million debenture matures on December 31, 2016 (Note 5), the non-convertible Cdn \$1.0 million debenture matures on December 31, 2016 (Note 6(c)), the Cdn \$0.4 million unsecured loan matured by December 31, 2016 (Note 6(b)) and the Cdn \$0.39 million secured debenture is due on December 31, 2016 (Note 6(a)). Note 12 discusses the Company's plans to extend the maturity dates and terms of the secured debentures and Note 2 further discusses the ability of the Company to meet its obligations as they come due.

The Company manages the capital structure and makes adjustments to it in light of the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire, or dispose of assets. In order to facilitate the management of its capital requirements the Company prepares an annual expenditure budget that is updated as necessary, depending on various factors. The Company has not changed its approach to capital management during the current year. The Company is not subject to any external capital restrictions. PetroMaroc will be required to complete debt or equity financing to fund its exploration and development plans.

The Company currently has a working capital deficit of \$12.8 million (inclusive of the Cdn \$11.09 million debentures which mature on December 31, 2016, the Cdn\$0.4 million unsecured loan which mature on December 31 2016 and inclusive of the \$2.4 million in respect to restricted cash bank guarantees (Note 3 and Note 9(a)), which are expected to be recovered within the next 12 months) and commitments due in less than twelve months of approximately \$2.65 million including, \$1.2 million for estimated Zag penalty costs (Note 9(b)), \$0.45 million for debenture interest costs / waiver fee costs / consideration fee costs to the September 30, 2016 maturity date and \$1.0 million for estimated general and administrative costs (which amount includes an estimate for corporate restructuring costs which the Company estimates may be incurred during the next 12 months and which excludes ongoing exploration and evaluation costs). In order to meet the obligations as they come due, the Company entered into a disposition agreement as disclosed in Note 1. The ability of PetroMaroc to meet these commitments and repay the secured debentures (Note 5, Note 6 (a), Note 6 (c)), and the unsecured loan (Note 6 (b)) is dependent upon closing the Sidi Moktar asset disposition as disclosed in Note 1.

12. Subsequent Event

In November 2016, PetroMaroc has entered into a binding letter of intent with its secured-debenture holders (Notes 5, 6 (a) and 6(c)). The letter of intent contemplates that the existing Cdn \$11.09 million principal amount of secured debentures of the company, which are currently due December 31, 2016, will be rolled into a new class of secured, redeemable debentures, issuable in series, with all principal and interest due and payable in full on January 31, 2018. The letter of intent is subject to:

1. Completion of the sale and purchase agreement with Sound;
 2. Receipt of necessary approvals from the TSX Venture Exchange; and
 3. Approval of the shareholders of the Company with a meeting date scheduled for December 19, 2016.
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12. Subsequent Event - continued

The Company shall have the right to redeem the amounts owing under the new debentures at any time without penalty or bonus. The new debentures will be secured by a security interest in the Company's present and after acquired property and shall rank pari passu with one another. The Company will be required to repay the accrued interest and fees owing under the debentures up to December 31, 2016, in the amount of approximately Cdn \$4.4 million within 45 days after the original maturity date.

The secured-debenture holders will have the right to elect to receive, in exchange for their existing debentures, either:

- (a) A Series 1 new debenture bearing interest at the rate of 10 per cent per annum and convertible, at the option of the holder, into ordinary shares of the company at a conversion price equal to six cents per share in the first 12 months of the term (January 1, 2017, to December 31, 2017) and 10 cents per share in the last month of the term (January 1, 2018, to January 31, 2018). If the Company wishes to redeem the Series 1 new debentures, it must provide notice to the holder to allow for such debentures to be converted, at the option of the holder, before redemption.
- (b) A Series 2 new debenture bearing interest at the rate of 15 per cent per annum, with no right to convert into ordinary shares of the Company.

The secured debenture holders shall have the right to receive, in exchange for the principal amount owing under the debentures as at December 31, 2016, Series 1 new debentures or Series 2 new debentures, or any combination thereof, in such proportion as they may determine.

In the event that requisite shareholder approval is not obtained, the transaction will not proceed and the debenture holders will have the right, on the original maturity date, to declare the Cdn \$11.09 million principal amount and all accrued interest on the debentures immediately due and payable, and to begin proceedings to realize upon the security held in connection with the debentures. The debentures are secured by a security interest in the Company's present and after acquired property.
