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**PetroMaroc Corporation plc**  
**Consolidated Financial Statements**  
**December 31, 2015**

**Contents**

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## **Independent Auditor's Report**

To the members of PetroMaroc Corporation plc:

We have audited the accompanying consolidated financial statements of PetroMaroc Corporation plc (formerly Longreach Oil and Gas Limited) and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our work, for this report, or for the opinions we have formed.

## **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's affairs as at December 31, 2015 and December 31, 2014, and the consolidated statements of operations and comprehensive loss, consolidated statements of change in shareholders' equity and consolidated statements of cash flows for the years then ended and the consolidated financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

### ***Matters on which we are required to report by exception***

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have received all the information and explanations we require for our audit.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which describe matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about PetroMaroc Corporation plc's ability to continue as a going concern.

*Sippy Chhina*

Chartered Professional Accountants, Chartered Accountants  
Calgary, Canada

April 27, 2016

**PetroMaroc Corporation plc**  
**Consolidated Statements of Financial Position**  
**In United States Dollars**

|                                                   | Notes | December 31,<br>2015 | December 31,<br>2014 |
|---------------------------------------------------|-------|----------------------|----------------------|
| <b>Assets</b>                                     |       |                      |                      |
| <b>Current</b>                                    |       |                      |                      |
| Cash and cash equivalents                         |       | \$ 221,914           | \$ 1,426,473         |
| Other current assets                              |       | 99,369               | 108,209              |
| Investment and advances held for sale             | 5     | -                    | 155,775              |
| Restricted cash                                   | 4     | 3,100,019            | 3,100,019            |
|                                                   |       | <u>3,421,302</u>     | <u>4,790,476</u>     |
| <b>Non-current</b>                                |       |                      |                      |
| Exploration and evaluation assets                 | 6     | 6,800,000            | 35,633,245           |
| Property and equipment                            | 7     | 32,522               | 84,135               |
|                                                   |       | <u>6,832,522</u>     | <u>35,717,380</u>    |
| <b>Total Assets</b>                               |       | <b>\$ 10,253,824</b> | <b>\$ 40,507,856</b> |
| <b>Liabilities</b>                                |       |                      |                      |
| <b>Current</b>                                    |       |                      |                      |
| Accounts payable and accrued liabilities          |       | \$ 4,848,490         | \$ 3,916,001         |
| Convertible debentures                            | 8     | 6,867,140            | -                    |
| Other current liabilities                         | 9     | 1,009,260            | -                    |
|                                                   |       | <u>12,724,890</u>    | <u>3,916,001</u>     |
| <b>Convertible debentures</b>                     | 8     | -                    | 7,673,445            |
| <b>Derivative financial liability</b>             | 8     | -                    | 77,650               |
| <b>Warrant value attributed in financings</b>     | 10    | -                    | 9,149                |
| <b>Decommissioning obligations</b>                | 11    | 1,031,429            | 1,016,896            |
|                                                   |       | <u>13,756,319</u>    | <u>12,693,141</u>    |
| <b>Shareholders' Equity (Deficiency)</b>          |       |                      |                      |
| Share capital                                     | 12    | 53,456,688           | 53,253,792           |
| Share based payment reserve                       | 12(c) | 4,924,448            | 4,639,737            |
| Deficit                                           |       | (61,883,631)         | (30,078,814)         |
|                                                   |       | <u>(3,502,495)</u>   | <u>27,814,715</u>    |
| <b>Total Liabilities and Shareholders' Equity</b> |       | <b>\$ 10,253,824</b> | <b>\$ 40,507,856</b> |

On behalf of the Board:

*D. Campbell Deacon*  
"Signed D. Campbell Deacon"  
 Director - D. Campbell Deacon

*Thomas R. Vukovich*  
"Signed Thomas R. Vukovich"  
 Director - Thomas R. Vukovich

COPY of Directors Signatures - Certification

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

I certify the attached signatures bear & true likeness to the  
 Director Signatures  
 Member No: 8240226 Name: Nathan Ake.  
 Signature: N.A.A.  
 Date: 16 May 2016  
 Qualification: ACA (ICAEW)

**PetroMaroc Corporation plc**  
**Consolidated Statements of Operations and**  
**Comprehensive Loss**  
**In United States Dollars**

|                                                 | Notes | December 31,<br>2015   | December 31,<br>2014  |
|-------------------------------------------------|-------|------------------------|-----------------------|
| Administrative                                  |       | \$ 1,927,469           | \$ 3,051,422          |
| Share based compensation                        |       | 272,822                | 389,390               |
| Depreciation                                    | 7     | 44,186                 | 46,066                |
| Accretion of decommissioning obligations        | 11    | 14,533                 | 14,099                |
| Exploration and evaluation                      | 6     | (16,259)               | 62,064                |
| Impairment of exploration and evaluation assets | 6     | 29,098,000             | 3,793,383             |
| Impairment of investment                        | 5     | 96,399                 | -                     |
| Impairment of property and equipment            | 7     | 27,049                 | -                     |
| Recovery of exploration and evaluation          |       | -                      | (207,831)             |
| Finance costs                                   | 8, 9  | 1,641,342              | 979,361               |
| Foreign exchange gain                           |       | (1,208,009)            | (226,479)             |
|                                                 |       | <u>31,897,532</u>      | <u>7,899,055</u>      |
| <b>Other income</b>                             |       |                        |                       |
| Finance income                                  |       | 4,490                  | 15,747                |
| Derivative gain                                 | 8     | 77,650                 | 161,718               |
| Warrant fair value adjustment                   | 10    | 10,575                 | 475,723               |
|                                                 |       | <u>92,715</u>          | <u>653,188</u>        |
| <b>Net loss and comprehensive loss</b>          |       | <b>\$ (31,804,817)</b> | <b>\$ (7,245,867)</b> |
| <b>Net loss per share</b>                       |       |                        |                       |
| - Basic and diluted                             |       | \$ (0.31)              | \$ (0.08)             |
| <b>Weighted average shares outstanding</b>      |       |                        |                       |
| - Basic and diluted                             |       | 104,168,538            | 84,272,326            |

(1) The options and warrants have been excluded from the diluted loss per share computation as they are anti-dilutive.

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

**PetroMaroc Corporation plc**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**In United States Dollars**

|                                   | Share<br>Capital     | Share<br>Based<br>Payment<br>Reserve | Deficit                | Total Equity          |
|-----------------------------------|----------------------|--------------------------------------|------------------------|-----------------------|
| Balance, December 31, 2014        | \$ 53,253,792        | \$ 4,639,737                         | \$ (30,078,814)        | \$ 27,814,715         |
| Net loss for the year             | -                    | -                                    | (31,804,817)           | (31,804,817)          |
| Issue of shares                   | 202,896              | -                                    | -                      | 202,896               |
| Share-based payments              | -                    | 284,711                              | -                      | 284,711               |
| <b>Balance, December 31, 2015</b> | <b>\$ 53,456,688</b> | <b>\$ 4,924,448</b>                  | <b>\$ (61,883,631)</b> | <b>\$ (3,502,495)</b> |

|                                   | Share<br>Capital     | Share<br>Based<br>Payment<br>Reserve | Deficit                | Total Equity         |
|-----------------------------------|----------------------|--------------------------------------|------------------------|----------------------|
| Balance, December 31, 2013        | \$ 50,731,693        | \$ 4,139,390                         | \$ (22,832,947)        | \$ 32,038,136        |
| Net loss for the year             | -                    | -                                    | (7,245,867)            | (7,245,867)          |
| Issue of shares                   | 2,522,099            | -                                    | -                      | 2,522,099            |
| Share-based payments              | -                    | 500,347                              | -                      | 500,347              |
| <b>Balance, December 31, 2014</b> | <b>\$ 53,253,792</b> | <b>\$ 4,639,737</b>                  | <b>\$ (30,078,814)</b> | <b>\$ 27,814,715</b> |

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

**PetroMaroc Corporation plc**  
**Consolidated Statements of Cash Flows**  
**In United States Dollars**

| For the year ended December 31,                         | Notes    | 2015               | 2014                |
|---------------------------------------------------------|----------|--------------------|---------------------|
| <b>Cash flows from (used in) operating activities</b>   |          |                    |                     |
| Net loss for the year                                   |          | \$ (31,804,817)    | \$ (7,245,867)      |
| Items not involving cash:                               |          |                    |                     |
| Unrealised foreign exchange loss (gain)                 |          | (1,328,412)        | (381,785)           |
| Share based payments                                    |          | 272,822            | 389,390             |
| Unrealised gain on warrant fair market value adjustment | 10       | (10,575)           | (475,723)           |
| Impairment of property and equipment                    |          | 27,049             | -                   |
| Penalty (recovery) of exploration and evaluation        |          | -                  | (207,831)           |
| Accretion of decommissioning obligation                 | 11       | 14,533             | 14,099              |
| Exploration and evaluation assets impairment            | 6        | 29,098,000         | 3,793,383           |
| Impairment of investment and advances                   | 5        | 96,399             | -                   |
| Non-cash finance costs                                  | 8        | 480,832            | 339,119             |
| Derivative gain                                         |          | (77,650)           | (161,718)           |
| Depreciation                                            | 7        | 44,186             | 46,066              |
| Changes in non-cash working capital balances:           |          |                    |                     |
| Other current assets                                    |          | 8,840              | (45,068)            |
| Accounts payable and accrued liabilities                |          | 1,062,580          | (775,216)           |
| Cash flow used in operating activities                  |          | <u>(2,116,213)</u> | <u>(4,711,151)</u>  |
| <b>Cash flows from (used in) financing activities</b>   |          |                    |                     |
| Proceeds from loan                                      | 9        | 1,087,964          | -                   |
| Proceeds from debenture                                 | 8        | -                  | 8,823,120           |
| Proceeds from issuance of common shares                 |          | -                  | -                   |
| Issue of units                                          | 12       | -                  | 2,680,940           |
| Financing issuance costs                                | 8 and 12 | -                  | (515,361)           |
| Cash flow from (used in) financing activities           |          | <u>1,087,964</u>   | <u>10,988,699</u>   |
| <b>Cash flows from (used in) investing activities</b>   |          |                    |                     |
| Expenditures on property and equipment                  | 7        | -                  | (15,524)            |
| Expenditures on exploration and evaluation assets       | 6        | (180,090)          | (17,465,101)        |
| Proceeds from disposal of property and equipment        |          | 3,780              | -                   |
| Restricted cash                                         | 4        | -                  | 327,144             |
| Cash flow used in investing activities                  |          | <u>(176,310)</u>   | <u>(17,153,481)</u> |
| Effect of exchange rate changes on cash                 |          | -                  | (2,631)             |
| <b>Decrease in cash and cash equivalents</b>            |          | <b>(1,204,559)</b> | <b>(10,878,564)</b> |
| Cash and cash equivalents, beginning of year            |          | <u>1,426,473</u>   | <u>12,305,037</u>   |
| <b>Cash and cash equivalents, end of year</b>           |          | <b>\$ 221,914</b>  | <b>\$ 1,426,473</b> |
| <b>Supplemental information</b>                         |          |                    |                     |
| Interest paid                                           |          | \$ -               | \$ 404,757          |
| Corporate taxes paid                                    |          | \$ -               | \$ -                |

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

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**PetroMaroc Corporation plc**  
**Notes to Consolidated Financial Statements**  
**In United States Dollars**

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**As at and for the years ended December 31, 2015 and 2014**

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**1. Corporate Information and Subsequent Transaction**

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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 4) is to be released upon completion of the transaction. 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.

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.

The following sets out the operating subsidiaries of the Company and the Company's ownership interest in those subsidiaries:

| Name of Subsidiary                     | Jurisdiction of Incorporation | Ownership |
|----------------------------------------|-------------------------------|-----------|
| Longreach Oil and Gas Ventures Limited | Jersey, Channel Islands       | 100%      |
| Longreach Oil and Gas (Canada) Limited | Canada                        | 100%      |
| Longreach Oil and Gas (UK) Ltd.        | United Kingdom                | 100%      |

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**2. Basis of Presentation**

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**Statement of compliance**

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April 26, 2016, the date they were approved and authorised for issuance by the Board of Directors ("the Board").

**Going concern**

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 17.

These 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 December 31, 2015 the Company has a working

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**PetroMaroc Corporation plc**  
**Notes to Consolidated Financial Statements**  
**In United States Dollars**

**As at and for the years ended December 31, 2015 and 2014**

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**2. Basis of Presentation – Continued**

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capital deficit of \$9.3 million inclusive of the \$3.1 million in respect to restricted cash bank guarantees (Note 4 and Note 13), which are expected to be recovered within the next 12 months.

Commitments due in less than twelve months of approximately \$4.0 million including, \$1.2 million for estimated Zag penalty costs (Note 13(b)), \$0.34 million for debenture interest costs to the April 10, 2016 maturity date /debenture consideration fee costs to the April 10, 2016 maturity date (Note 8 and Note 9), \$0.01 million for unsecured loan interest costs (Note 9) to the April 10, 2016 maturity date, and \$2.4 million for estimated general and administrative costs (which includes an estimate for corporate restructuring costs, and which excludes ongoing exploration and evaluation costs).

In order to continue operations, the Company disposed of surplus inventory on hand in February 2016 for US\$0.3 million, the proceeds of which will be used for general working capital purposes. Following which, additional capital or access to the restricted cash is required before the end of May 2016 for the Company to continue its current operations.

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.

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**PetroMaroc Corporation plc**  
**Notes to Consolidated Financial Statements**  
**In United States Dollars**

**As at and for the years ended December 31, 2015 and 2014**

**2. Basis of Presentation – Continued**

**Functional and presentation currency**

These consolidated financial statements are presented in United States ("US") Dollars, which is also the Company and its subsidiaries functional currency. The following are the US Dollar foreign exchange rates at the respective years:

| Currency                   | December 31,<br>2015 | December 31,<br>2014 |
|----------------------------|----------------------|----------------------|
| Average rate for the year: |                      |                      |
| Pounds Sterling            | 0.6542               | 0.6072               |
| Canadian Dollar            | 1.2783               | 1.1041               |
| Euro                       | 0.9012               | 0.7535               |
| Moroccan Dirhams           | 9.6839               | 8.3343               |
| Year end rates:            |                      |                      |
| Pounds Sterling            | 0.6755               | 0.6437               |
| Canadian Dollar            | 1.3869               | 1.1627               |
| Euro                       | 0.9168               | 0.8226               |
| Moroccan Dirhams           | 9.8165               | 9.0062               |

**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 the directors in the preparation of these consolidated financial statements are as follows:

- i. The consolidated financial statements include accruals and provisions based on management's interpretation of the terms of existing licence terms and commitments. Best available information is used to determine the accruals at each period end. The Company is at varying stages of negotiations with certain partners to settle differences in opinion of the obligations of each party under existing agreements. The accruals made by management in this regard may be significantly different from those determined by the Company's partners or amounts agreed to as a result of negotiations. The effect on the consolidated financial statements resulting from such adjustments, if any, may be material and will be reflected prospectively.
- ii. Costs associated with acquiring oil and natural gas licences and exploratory drilling are accumulated as exploration and evaluation ("E&E") assets pending determination of technical feasibility and commercial viability. Establishment of technical feasibility and commercial viability is subject to judgment which management has determined to be based on the allocation of commercial reserves to the exploration area. Upon determination of commercial reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets referred to as oil and natural gas properties.
- iii. Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognised in the period when it becomes probable that there will be a future cash outflow. In 2013, the Company recorded a decommissioning obligation on its Koba-1 well at Sidi Moktar. In 2014, the Company recorded a decommissioning obligation on its Kamar-1 well at Sidi Moktar.

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**PetroMaroc Corporation plc**  
**Notes to Consolidated Financial Statements**  
**In United States Dollars**

**As at and for the years ended December 31, 2015 and 2014**

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**2. Basis of Presentation – Continued**

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- iv. Compensation costs recognised for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.
  - v. The Company's non-compensation based warrants are treated as derivative financial liabilities. The estimated fair value of each is adjusted on a quarterly basis with gains or losses recognised in the statement of operations and comprehensive income. The Black-Scholes model is based on significant assumptions such as volatility, dividend yield and expected term.
  - vi. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. Therefore, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realised from future taxable earnings. The Company has yet to record any deferred tax assets or liabilities.
  - vii. The recoverability of the Company's investment is dependent on the liquidity of a private Company's shares, which is based in part on its performance. The Company will assess at each reporting period whether there is any objective evidence that a financial asset has been impaired. When the fair value of the investment cannot be derived from active markets, they are determined using recent transactions or a variety of valuation techniques that may include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.
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**3. Summary of Significant Accounting Policies**

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The significant accounting policies used in the preparation of these consolidated financial statements are described below.

**Basis of consolidation:**

**(i) Subsidiaries:**

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases or the subsidiaries become dormant.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of closing. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in the statement of operations and comprehensive income (loss).

**(ii) Jointly controlled operations and jointly controlled assets:**

Most of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of any relevant revenue and related costs.

**(iii) Transactions eliminated on consolidation:**

Intercompany balances and transactions, and any unrealised income and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

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**PetroMaroc Corporation plc**  
**Notes to Consolidated Financial Statements**  
**In United States Dollars**

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**As at and for the years ended December 31, 2015 and 2014**

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**3. Summary of Significant Accounting Policies – continued**

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**Financial instruments:**

(i) **Non-derivative financial instruments:**

Non-derivative financial instruments comprise cash and cash equivalents, other current assets, restricted cash, investment and advances, accounts payable and accrued liabilities and other liabilities. Non-derivative financial instruments are recognised initially at fair value net of any directly attributable transaction costs, except for non-derivative instrument classified as fair value through profit and loss ("FVPL"). Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

**Financial assets at fair value through earnings:**

An instrument is classified at fair value through earnings if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit and loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, directly attributable transaction costs are recognised in earnings when incurred. Financial instruments at fair value through earnings are measured at fair value, and changes therein are recognised in earnings.

**Other:**

Other non-derivative financial instruments, such as accounts receivable, accounts payable and accrued liabilities, and related party loan and other liabilities are measured at amortised cost using the effective interest method. The Company's investments are classified as available for sale.

(ii) **Derivative financial instruments:**

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity or currency prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. All financial derivative contracts when entered into will be classified as fair value through earnings and are recorded on the statement of financial position at fair value. Transaction costs are recognised in earnings when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through earnings.

Changes in the fair value of separable embedded derivatives are recognised immediately in earnings. Certain warrants issued by the Company are considered a derivative liability as further discussed below.

(iii) **Share capital:**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from share capital, net of any tax effects.

(iv) **Warrants:**

The non-compensation based warrants entitle the holder to acquire a fixed number of common shares for a fixed Canadian Dollar price per share. An obligation to issue shares for a price that is not fixed in the Company's functional currency of United States Dollars, and that does not qualify as a share based payment, must be classified as a derivative liability and measured at fair value with changes recognised in the statements of operations and comprehensive income (loss) as they arise. The Company has recorded these changes as financing income and expenses. The transaction costs associated with the issuance of the warrants are expensed when incurred.

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**PetroMaroc Corporation plc**  
**Notes to Consolidated Financial Statements**  
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**As at and for the years ended December 31, 2015 and 2014**

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**3. Summary of Significant Accounting Policies – continued**

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**Foreign Currency Translation:**

The consolidated financial statements are presented in United States dollars which is the reporting and functional currency. Transactions denominated in a currency other than the functional currency are translated at the prevailing rates on the date of the transaction. Any monetary items held in a currency which is not the functional currency are translated to the functional currency at the prevailing rate as at the date of the statement of financial position. All exchange differences arising as a result of the translation to the functional currency are recorded in net income (loss) from operations.

**Property, plant and equipment and exploration and evaluation assets:**

**Exploration and evaluation expenditures:**

Pre-licence costs are recognised in the statement of operations when incurred. Exploration and evaluation costs, including the costs of acquiring undeveloped land and drilling costs are initially capitalised until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved reserves are determined to exist. If proved reserves are found, the drilling costs and associated undeveloped land are assessed for impairment when transferred to property, plant and equipment. The cost of licences on undeveloped land that expire or any impairment recognised during a period, is charged as an impairment expense and if not material charged to depletion and depreciation expense.

Exploration and evaluation assets are also assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units ("CGU's"). The Company had grouped its exploration and evaluation assets into the following two CGU's: Sidi Moktar onshore and Zag Basin onshore.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

**Impairment:**

**(i) Financial assets:**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the statement of operations and comprehensive income (loss).

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the statements of operations and comprehensive income (loss).

**(ii) Non-financial assets:**

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are transferred to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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**3. Summary of Significant Accounting Policies – continued**

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For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and gas assets may be determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Value in use may be determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilising geological, production, recovery and economic projections.

Any goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. Exploration and evaluation assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances, as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date, if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognised.

**Share based payment:**

The Company has established a share based payment plan (the "Plan") comprised of a Stock Option Plan (refer to note 12 for further details of the Plan). The Company uses the fair value method for valuing share based payment. Under this method, the compensation cost attributed to stock options granted are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to share based payment reserve. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options or units that vest. Upon the settlement of the stock options, the previously recognised value in share based payment reserve is recorded as an increase to shareholders' equity.

**Provisions:**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk-free" rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognised for future operating losses.

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**PetroMaroc Corporation plc**  
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**3. Summary of Significant Accounting Policies – continued**

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**Decommissioning obligations:**

The Company's activities may give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalised in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognised as accretion expense whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalised. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

**Revenue:**

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party.

Royalty income is recognised as it accrues in accordance with the terms of any overriding royalty agreements.

**Income tax:**

Income tax expense is comprised of current and deferred tax. Income tax expense is recognised in the statements of operations and comprehensive income (loss) except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted substantively at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**Income (loss) per share:**

Basic income (loss) per share is calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on the exercise of the in the money stock options and warrants would be used to purchase common shares at the average market price for the period.

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**PetroMaroc Corporation plc**  
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**3. Summary of Significant Accounting Policies – continued**

**Future Accounting Changes:**

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces International Accounting Standard ("IAS") 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by PetroMaroc on January 1, 2018 and the Company is currently evaluating the impact of the standard on PetroMaroc's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 *Financial Instruments*. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by PetroMaroc on January 1, 2018 and the Company is currently evaluating the impact of the standard on PetroMaroc's financial statements.

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. IFRS 16 will be applied by PetroMaroc on January 1, 2019 and the Company is currently evaluating the impact of the standard on PetroMaroc's financial statements.

**4. Restricted Cash**

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

|                                                         | In favor of | December 31,<br>2015 | December 31,<br>2014 |
|---------------------------------------------------------|-------------|----------------------|----------------------|
| Sidi Moktar farm-in arrangement<br>(Notes 13(a) and 17) | MPE         | \$ 2,500,000         | \$ 2,500,000         |
| Zag exploration licence (Note 13(b))                    | San Leon    | 600,000              | 600,000              |
| Other                                                   | Barclays    | 19                   | 19                   |
|                                                         |             | <u>\$ 3,100,019</u>  | <u>\$ 3,100,019</u>  |

**5. Investments and Advances**

The Company holds an 11.28% common equity interest in Aizan Technologies Inc. ("Aizan"), a private company, valued at approximately \$130,000 (CAD) at December 31, 2014 and 2013. Aizan is a private technology company providing cloud based voice solutions focused on intelligent call routing and intelligent call management. PetroMaroc also holds \$51,155 (CAD) subordinated series D convertible debenture in Aizan bearing interest at 10% per annum which matured on March 31, 2014. Aizan has requested an extension with respect to the repayment of the debenture.



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**5. Investments and Advances - continued**

The Company was actively endeavoring to dispose of the equity interest and convertible debentures. During 2015, due to the prevailing market conditions, the Company impaired the equity interest and convertible debentures. In March 2016, The Company disposed of the equity interest and convertible debentures for \$5,000 (CAD).

**6. Exploration and Evaluation Assets**

|                            |               |
|----------------------------|---------------|
| Balance, December 31, 2013 | \$ 25,476,298 |
| Additions                  | 13,950,330    |
| Impairment                 | (3,793,383)   |
| Balance, December 31, 2014 | 35,633,245    |
| Additions                  | 264,755       |
| Impairment                 | (29,098,000)  |
| Balance, December 31, 2015 | \$ 6,800,000  |

Exploration and evaluation assets consist entirely of costs pertaining to licences in Morocco. The carrying value at December 31, 2015 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 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 17).

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 \$6.5 million, and the associated decommissioning obligation (Note 11) 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.

In addition \$0.3 million was included for the salvage value of the surplus inventory on hand (such surplus inventory was subsequently disposed of in February 2016).

The Company recovered \$16,259 with respect to a previously recognized impairment of exploration and evaluation assets, as a result of the operator finalizing the well costs and cash call reconciliations.

In 2014, \$2,232,007 of costs associated with the Zag licence were considered to be impaired as the required work commitments were not achieved. In 2014, the Company impaired \$1,456,741 of costs associated with the Foun Draa licence following detailed technical review during 2014, subsequent to the exploration well drilled in December 2013.

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**6. Exploration and Evaluation Assets - continued**

In 2014, the Company entered into formal discussions to transfer its 1.5% working interest in the Sidi Moussa licence, in order to avoid a potential default situation on the forthcoming cash calls. In early October 2014, the Company successfully executed the transfer of its working interest to a partner on the Sidi Moussa licence, following which, the net cost for the Nour-1 well will be \$nil. This transfer will be effective upon the approval by the Moroccan authorities (joint Ministerial orders). In 2014, \$104,635 of costs associated with the Sidi Moussa licence were considered to be impaired, as a result of the Company commencing the transfer of the 1.5% working interest on this licence. In 2014, the Company also incurred \$62,064 of costs related to former licences that were directly charged to expense.

During the year, the Company capitalised \$79,166 (2014 - \$537,330) of administrative salaries and costs (including consultants costs) and \$11,889 (2014 - \$113,464) related to share based payments directly related to exploration and evaluation activities on the Sidi Moktar licence.

**7. Property and Equipment**

|                                   |    |           |
|-----------------------------------|----|-----------|
| <b>Cost</b>                       |    |           |
| Balance, December 31, 2013        | \$ | 164,248   |
| Additions                         |    | 15,524    |
| Balance, December 31, 2014        |    | 179,772   |
| Additions                         |    | -         |
| Sale of equipment                 |    | (3,780)   |
| Balance, December 31, 2015        | \$ | 175,992   |
| <b>Accumulated depreciation</b>   |    |           |
| Balance, December 31, 2013        | \$ | (49,571)  |
| Depreciation charge               |    | (46,066)  |
| Balance, December 31, 2014        |    | (95,637)  |
| Write off of equipment            |    | 23,402    |
| Impairment                        |    | (27,049)  |
| Depreciation charge               |    | (44,186)  |
| Balance, December 31, 2015        | \$ | (143,470) |
| <b>Net book value</b>             |    |           |
| Net book value, December 31, 2014 | \$ | 84,135    |
| Net book value, December 31, 2015 | \$ | 32,522    |

During the year, the Company closed the Calgary office, and impaired the residual office equipment and furniture.

All of the property and equipment consists of office equipment and furniture and is located in Morocco and in the United Kingdom.

**8. 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.

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**8. 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 aggregate amount of their respective deferred interest payments, which shall be payable on the maturity date. Subsequent to the 2015 year-end, the debenture maturity date was extended from April 10, 2016, to September 30, 2016.

On issuance, the Debentures were split between the financial liability and the equity conversion feature (which is classified as a derivative financial liability under IFRS). The financial liability portion was determined by subtracting issuance costs, the fair value of the warrants issued and the fair value of the conversion feature from the principal of the Debenture.

On April 10, 2014, the value classified as convertible debentures liability amounted to \$8,583,752 (gross of commissions, legal costs and value attributed to the warrants) and the value classified as a derivative financial liability amounted to \$239,638. The fair value of the equity conversion feature is estimated every balance sheet date with changes in the fair value estimate between periods recognized in the consolidated statement of operations and comprehensive income/loss.

The following table summarizes the accounting for the debentures:

|                                                   | Liability    | Derivative<br>Financial<br>Liability | Total        |
|---------------------------------------------------|--------------|--------------------------------------|--------------|
| Opening balance, April 10, 2014                   | \$ 8,583,752 | \$ 239,368                           | \$ 8,823,120 |
| Fair value of warrants attached                   | (431,811)    | -                                    | (431,811)    |
| Commission of convertible debenture (1)           | (295,936)    | -                                    | (295,936)    |
| Legal costs                                       | (113,645)    | -                                    | (113,645)    |
| Accretion and amortization of debt issuance costs | 339,119      | -                                    | 339,119      |
| Derivative gain                                   | -            | (161,718)                            | (161,718)    |
| Foreign Exchange gain                             | (408,034)    | -                                    | (408,034)    |
| Balance at December 31, 2014                      | \$ 7,673,445 | \$ 77,650                            | \$ 7,751,095 |
| Accretion and amortization of debt issuance costs | 480,832      | -                                    | 480,832      |
| Derivative gain (loss)                            | -            | (77,650)                             | (77,650)     |
| Foreign exchange gain                             | (1,287,137)  | -                                    | (1,287,137)  |
| Balance at December 31, 2015                      | \$ 6,867,140 | \$ -                                 | \$ 6,867,140 |

(1) The commission of CAD \$315,800 was paid to Euro Pacific Canada Inc., whose Chairman is PetroMaroc's Chief Executive Officer.

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 2015 - \$1,609,601 (2014 - \$979,361) include the accretion and amortization of debt issuance costs of 2015 - \$480,832 (2014 - \$339,119) and 2015 - \$1,128,769 (2014 - \$640,242) of debenture interest.

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**9. Other Current Liabilities**

- (a) 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 will receive 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 expire on June 16, 2016. The fair value of the warrants was initially estimated at \$1,426 and was determined using the Black-Scholes option pricing model with the following assumptions: dividend yield – NIL, expected volatility – 65%, risk free rate of return – 1.07% and weighted average life – 2 years. The principal amount and all accrued interest is due either on April 30, 2016 or upon the release of the \$2.5 million of restricted cash (Note 4). This loan is unsecured and ranks subordinate to the Cdn \$9.7 million Convertible Debenture (Note 8), and the Cdn \$1.0 million Debentures (Note 9 (b)). As at December 31, 2015, \$16,477 interest has been accrued for the unsecured loan.
- (b) On November 4, 2015, the Company closed a secured, non-convertible debenture financing of Cdn\$1.0 million with an arms 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 8) and ranks in priority to unsecured Loan (Note 9(a)). As at December 31, 2015 \$15,263 interest has been accrued for the secured debenture. Subsequent to the 2015 year-end, the debenture maturity date was extended from April 10, 2016, to September 30, 2016.

**10. Warrant Value Attributed in Financings**

- (a) Warrants issued and outstanding

|                                   | December 31, 2015 |          | December 31, 2014 |           |
|-----------------------------------|-------------------|----------|-------------------|-----------|
|                                   | Warrants          | Amounts  | Warrants          | Amounts   |
| <b>Warrants (i)</b>               |                   |          |                   |           |
| Opening balance                   | 19,700,000        | \$ 9,149 | -                 | \$ -      |
| Issued in loan (Note 8 and 9 (a)) | 8,000,000         | 1,426    | 9,700,000         | 431,811   |
| Issued in private placement       | -                 | -        | 10,000,000        | 53,061    |
| Fair value adjustment             |                   | (10,575) | -                 | (475,723) |
| Balance, end of year              | 27,700,000        | -        | 19,700,000        | \$ 9,149  |

- (i) Only values related to the non-compensatory warrants have been included in this table and do not include the compensatory warrants included in equity (Note 10(b)).

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**10. Warrant Value Attributed in Financings - continued**

- (b) Each non-compensatory warrant is measured at fair value quarterly using the Black-Scholes options pricing model. The fair value of warrants was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

|                                                      | December 31, 2015 |
|------------------------------------------------------|-------------------|
| Number outstanding re-valued warrants, end of period | 27,000,000        |
| Fair value of warrants outstanding                   | CAD\$0.0005       |
| Risk free interest rate                              | 1.07%             |
| Expected life                                        | 0.27 - 0.34 years |
| Expected volatility                                  | 65%               |

- (c) The following table summarises the warrants outstanding and exercisable at December 31, 2015:

| Number of warrants | Warrant Type     | Exercise price<br>(CAD \$) | Expiry date    |
|--------------------|------------------|----------------------------|----------------|
| 9,700,000          | Non-compensatory | \$0.30                     | April 10, 2016 |
| 10,000,000         | Non-compensatory | \$0.30                     | May 4, 2016    |
| 8,000,000          | Non-compensatory | \$0.05                     | June 15, 2016  |
| 27,700,000         |                  |                            |                |

**11. 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.

|                                | December 31,<br>2015 | December 31,<br>2014 |
|--------------------------------|----------------------|----------------------|
| Obligation, beginning of year  | 1,016,896            | \$ 752,051           |
| Liabilities incurred           | -                    | 250,000              |
| Change in estimated cash flows | -                    | 746                  |
| Accretion expenses             | 14,533               | 14,099               |
| Obligation, end of year        | 1,031,429            | \$ 1,016,896         |

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 (2014 - 1.50 percent) and an inflation rate of 2.0 percent (2014 - 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 Moktar licence.

As disclosed in Notes 6 and 17, Sound will assume the decommissioning obligations upon closing of the transaction.

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**12. Share Capital**

(a) Authorised

Unlimited number of Common Shares without nominal or par value.

(b) Issued

|                                                                 | December 31, 2015 |               | December 31, 2014 |               |
|-----------------------------------------------------------------|-------------------|---------------|-------------------|---------------|
|                                                                 | Issued            | Amounts       | Issued            | Amounts       |
| <b>Common Shares</b>                                            |                   |               |                   |               |
| Opening balance                                                 | 101,149,036       | 53,253,792    | 81,149,037        | \$ 50,731,693 |
| Private Placement (i)                                           | -                 | -             | 20,000,000        | 2,627,879     |
| Debt settlement (ii)                                            | 4,074,887         | 202,896       | -                 | -             |
| Share issue costs (iii)                                         | -                 | -             | -                 | (105,780)     |
| Balance, end of year                                            | 105,223,923       | 53,456,688    | 101,149,037       | \$ 53,253,792 |
| <b>Warrants</b>                                                 |                   |               |                   |               |
| Opening balance                                                 | 19,700,000        | \$ -          | -                 | \$ -          |
| Issued pursuant to the convertible debenture financing (Note 8) | -                 | -             | 9,700,000         | -             |
| Issued pursuant to the private placement (i)                    | -                 | -             | 10,000,000        | -             |
| Issued in loan (Note 9(a))                                      | 8,000,000         | -             | -                 | -             |
| Balance, end of year                                            |                   |               | 19,700,000        | \$ -          |
|                                                                 | 27,700,000        | \$ 53,456,688 |                   | \$ 53,253,792 |

- (i) On November 4, 2014, the Company closed a \$3.0 million CAD (\$2,680,958 USD) financing via the issuance of 20,000,000 units at \$0.15 CAD per unit. Each unit consisted of one common share and one half share purchase warrant with each whole warrant being exercisable at \$0.30 CAD until May 4, 2016. These warrants are considered non-compensatory warrants and are required to be fair valued at each quarter. The fair value of the warrants was initially estimated at \$53,061USD and was determined using the Black-Scholes option pricing model with the following assumptions dividend yield – Nil, expected volatility 70%, risk free rate of return 1.5%, weighted average life – 1.5 years (Note 10).
- (ii) 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).
- (iii) The total share issue costs incurred were \$109,114 with \$105,780 being allocated to share issue costs and \$3,334 being expensed as a finance cost. A finder's fee of \$90,000 (CAD) was paid to Euro Pacific Canada Inc., whose Chairman is PetroMaroc's Chief Executive Officer..

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**12. Share Capital - continued**

**(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 stock option plan as at December 31, 2015 and December 31, 2014 and changes during the respective periods ended on those dates is presented below:

| Stock Options            | December 31, 2015 |                                          | December 31, 2014 |                                          |
|--------------------------|-------------------|------------------------------------------|-------------------|------------------------------------------|
|                          | Number of options | Weighted average Exercise Price (CAD \$) | Number of options | Weighted average exercise price (CAD \$) |
| Beginning of year        | 7,101,426         | \$0.34                                   | 6,353,425         | \$0.77                                   |
| Granted                  | 5,080,000         | \$0.05                                   | 4,130,000         | \$0.30                                   |
| Exercised                | -                 | -                                        | -                 | -                                        |
| Expired/Forfeited        | (1,659,284)       | \$0.45                                   | (3,381,999)       | \$0.71                                   |
| End of year              | 10,522,142        | \$0.21                                   | 7,101,426         | \$0.34                                   |
| Exercisable, end of year | 7,892,142         | \$0.27                                   | 1,549,760         | \$0.89                                   |

| Date of Grant     | Number Outstanding | Exercise Price (Cdn \$) | Weighted Average Remaining Contractual Life | Date of Expiry    | Number Exercisable December 31, 2015 |
|-------------------|--------------------|-------------------------|---------------------------------------------|-------------------|--------------------------------------|
| May 22, 2012      | 25,000             | \$0.60                  | 1.39 years                                  | May 22, 2017      | 25,000                               |
| December 21, 2012 | 687,142            | \$1.18                  | 1.17 years                                  | February 28, 2017 | 687,142                              |
| January 15, 2013  | 1,570,000          | \$0.70                  | 2.05 years                                  | January 15, 2018  | 1,046,667                            |
| April 30, 2014    | 3,160,000          | \$0.30                  | 3.33 years                                  | April 30, 2019    | 1,053,333                            |
| July 22, 2015     | 5,080,000          | \$0.05                  | 4.56 years                                  | July 22, 2020     | 5,080,000                            |
|                   | 10,522,142         |                         | 3.59 years                                  |                   | 7,892,142                            |

The weighted average fair market value per option of approximately \$0.012 (2014 - \$0.16) (CAD) was estimated using the Black-Scholes option pricing model with the following assumptions: dividend yield - nil, expected volatility 100% (2014 - 100%), risk free rate - 1.4% (2014 - 1.5%), expected life - 5 years (2014 - 5 years), an estimated forfeiture rate - 5% (2014 - 5%) and utilising the graded option method.

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**13. Commitments and Contingencies**

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(a) Sidi Moktar 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 Moktar exploration licences referred to as Sidi Moktar West, Sidi Moktar South and Sidi Moktar 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 \$2.5 million (Note 4).

Subsequent to year end, PetroMaroc entered into a binding transaction with Sound in March 2016, to dispose of the Sidi Moktar asset (note 1, note 17). Upon completion of the transaction, the Bank Guarantee held in escrow will be released 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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**14. Financial Instruments**

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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.

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**14. Financial Instruments - continued**

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(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 December 31, 2015, 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 10% on convertible debentures as disclosed in Notes 8 and 9.

(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 December 31, 2015 and 2014.

Assuming all other variables remain constant, a 1% increase or decrease in foreign exchange rates on the foreign cash balances at December 31, 2015 would have impacted the cash flows of the Company during the 2015 fiscal period by approximately \$1,974 (2014 - \$105,600). A 1% increase or decrease in foreign exchanges on the convertible debenture would have impacted the cash flows of the Company during the 2015 fiscal period by approximately \$68,671 (2014 - \$110,801).

(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.

- 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. The investment in the Aizan convertible debenture and non-compensatory warrants are classified as level 2. The investment in the common equity of Aizan has been classified as level 3.

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. The investment in Aizan has been designated as available-for-sale. There have been no changes to the aforementioned classifications during the year.

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**14. Financial Instruments - continued**

(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 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 debenture was due on April 10, 2016 (Note 8). The Cdn \$1.0 million secured debenture was due on April 10, 2016 (note 9 (b)). The Cdn \$0.4 million unsecured loan was due on April 10, 2016. Note 2 further discusses the ability of the Company to meet its obligations as they come due.

**15. Compensation to Key Management Personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management personnel are its directors and executive officers. Key management personnel compensation is comprised of the following:

|                                            | December 31,<br>2015 | December 31,<br>2014 |
|--------------------------------------------|----------------------|----------------------|
| Executives and Executive Directors (1) (2) | \$ 466,616           | \$ 692,559           |
| Non-Executive Directors (3) (4)            | 171,933              | 268,517              |
| Benefits and other personnel costs         | 740                  | 2,247                |
| Share based compensation                   | 284,711              | 113,464              |
| Total remuneration                         | \$ 924,000           | \$ 1,076,787         |

Personnel expenses are recorded in general and administrative expenses. In 2015, \$nil (2014 - \$163,877) of salaries directly attributed to capital activities have been capitalised and included in exploration and evaluation assets.

- (1) Includes \$30,060 (2014: \$nil) in directors' salaries accrued to the Chief Executive Officer of the Company.  
(2) Includes \$87,645 (2014: \$5,895) in directors' salaries accrued to the Chairman of the Company.  
(3) Includes \$142,800 (2014: \$45,000) in directors' fees accrued to Non-executive directors of the Company.  
(4) Includes \$8,300 (2014: \$15,800) in directors' fees accrued to former Non-executive directors.

Included in accounts payable and accrued liabilities at December 31, 2015 is \$335,500 (2014: \$66,695) owing to related parties, all in respect of the above transactions. All related party transactions were conducted on arms length terms.

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**16. Capital Risk Management**

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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.

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 10. 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 matured on April 10, 2016 (Note 8), the non-convertible Cdn \$1.0 million debenture matured on April 10, 2016 (Note 9 (b)), and the Cdn \$0.4 million unsecured loan matured by April 10, 2016 (Note 9(a)). 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 \$9.3 million (inclusive of the Cdn\$10.7 million debentures which matured in April 2016, and the Cdn\$0.4 million unsecured loan which matured in April 2016 and also include the \$3.1 million in respect to restricted cash bank guarantees (Note 4 and Note 13), which are expected to be recovered within the next 12 months) and commitments due in less than twelve months of approximately \$4.0 million including, \$1.2 million for estimated Zag penalty costs (Note 13(b)), \$0.34 million for debenture interest costs to the maturity date /debenture consideration fee costs to the maturity date (Note 8, Note 9 (b)), \$0.01 million for loan interest costs (Note 9 (a)) to the maturity date, and \$2.4 million for estimated general and administrative costs (which amount includes an estimate for corporate restructuring costs which the Company estimates will be incurred in 2016 [which costs have not yet been incurred], 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 17. The ability of PetroMaroc to meet these commitments and repay the secured debentures (Note 8, Note 9 (b)) and unsecured loan (Notes 9 (a)) is dependent upon raising additional financing by issuing equity or debt securities, or by a partial sale on its working interests with an industry partner. In order to continue operations, the Company entered into a binding transaction disposition agreement as disclosed in Note 17.

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**17. Subsequent Events**

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Except as disclosed elsewhere in these consolidated financial statements the Company had the following subsequent events:

As detailed in note 1, 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 4) is to be released upon completion of the transaction. 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.

On April 10, 2016, 9,700,000 convertible warrants issued on April 10, 2014 in conjunction with the Cdn \$9.7 million debentures expired unexercised.

On April 11, 2016, the Company entered into a waiver and amending agreement with the Cdn \$9.7 million (Note 8) and Cdn \$1.0 million (Note 9(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) shall accrue to the 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, which Consideration Fee (Cdn \$0.11 million) shall be payable on the maturity date, in cash.

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