SOUND ENERGY PLC

Half Yearly Report 2021

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Sound Energy plc
Statement from the Executive Chairman

Fuelling the Energy Transition

Whilst the effects of COVID-19 meant a continuation of a challenging business environment during the first half of 2021, the Company was able to maintain delivery on its strategy of progressing towards becoming a revenue generating Company. The Tendrara Horst development will help fuel the energy transition by providing lower carbon footprint fuel in Morocco. Our substantial exploration base may indeed provide a future energy supply, however monetising our discovered resource now will provide domestic LNG to the industrial users in Morocco displacing presently imported fuels with a deeper carbon footprint. Key milestones achieved were the announcement of the acquisition of an additional Eastern Morocco interest from Schlumberger (completed post period end) and, also post period, the execution of the conditional LNG Sales Agreement with Afriquia Gaz. The latter was a transformational milestone for the Company as it seeks to move into a cash generative position and become the leading gas developer in Morocco. Additionally post period the Anoual Licence agreement was extended a further year due to force majeure.

Protecting Shareholder Equity and Company Cash

The Company was able to successfully restructure its Luxembourg listed EUR 28.8m 5% senior secured notes by engaging proactively with noteholders to agree a suitable restructuring without substantial equity dilution.

Post period £2.0 million of equity was placed with Afriquia Gaz at 1.25p per share in connection with the LNG Sales Agreement, providing the Company with important liquidity.

The Company has received notices of potential taxation claims from the Moroccan Tax Authorities which are being robustly challenged. In the Company's view, these stem from a fundamental misunderstanding by the tax authority of the Hydrocarbon Code in Morocco and of historical licence awards. Post the half year, one of the claims put forward has been judged as redundant by the Local Tax Committee.

Eastern Morocco Portfolio

In June the Company announced that it had entered into a sale and purchase agreement with Schlumberger Holdings II Limited to acquire the entire issued share capital of Schlumberger Silk Route Services Limited. With this acquisition now completed, the Group has increased participating interests in Anoual and Greater Tendrara of 75%. A Profit Sharing Deed has been entered into whereby Schlumberger gains a minority share in the profits from the concession development. The acquisition positions the Company to generate enhanced returns, cashflow and value as it moves forwards towards the phased development of the TE-5 Horst via the Phase 1 Micro LNG (mLNG) development and the Phase 2 pipeline development.

Phase 1 Micro LNG Development

Post review period, the Group announced an important milestone - the signature of an LNG Gas sales Agreement with Afriquia Gaz, which is the first such agreement to be reached in Morocco. The agreement, which remains subject to the satisfaction of conditions precedent, is a ten year take or pay LNG GSA where Afriquia Gaz commits to purchase not less than 100,000 cubic metres a year of gas produced and liquified from the Phase 1 Development Concession joint venture. The agreement was accompanied by a £2 million equity investment by Afriquia Gaz into Sound Energy. The Company is now in the advanced stages of negotiating an $18 million loan from Afriquia Gaz, with a 6% annual coupon and a 12-year term, that on completion will see Sound Energy fully funded for the Phase 1 development at Tendrara, even with its increasing participating interest following completion of the Schlumberger Silk Route Services acquisition.

Phase 2 Tendrara TE-5 Development

The Group continued to make progress in advancing the development of the Tendrara TE-5 discovery. Despite the difficulties imposed by the Covid-19 pandemic, positive discussions with ONEE have continued in order to finalise the long term take or pay gas sales agreement for gas offtake. This will form a key building block to support project sanction of the proposed TE-5 Phase 2 development.

Corporate

In March 2021 we announced the proposals in relation to the restructuring of the Company's Luxembourg listed EUR 28.8m 5% senior secured notes and in April these proposals were approved. The restructured debt now has a coupon of 2% (with a deferred 3% coupon paid at redemption), a six-year maturity to 21 December 2027 and the outstanding amount will be partially amortised at a rate of 5% every six months commencing 21 December 2023. Additionally, EUR 3,479,999 of the secured notes was converted into ordinary shares in the Company at a conversion price of 2.125 pence per ordinary share. The restructuring of the debt position is a key milestone for the Company, and I am delighted that we managed to execute this without major dilution to existing shareholders. It allows Sound Energy now to focus on the progression and completion of our Phase 1 and Phase 2 projects from a stable financial platform.

Additionally, in March we received the first payment for the disposal of Badile land in northern Italy, receiving sales proceeds of circa EUR 183,000 net of fees. We expect to receive the consideration for the sale of the second tranche of land later in 2021.

A huge amount of work has been completed so far this year and much remains to be concluded during the remainder of 2021. Having secured a long-term LNG sales agreement with Afriquia Gaz, we have established a route to market for our gas and following completion of the proposed $18M loan from Afriquia Gaz, the Company will have financing for the Sound Energy share of the Phase 1 development. With important catalysts to come in the near term, I look forward to updating shareholders further as we progress towards the development phase of the project and to becoming a revenue generating business. I would like to thank all our staff, contractors, partners, noteholders, shareholders and other stakeholders for their commitment and support. I feel confident that Sound Energy is moving in the right direction and is building a business that will deliver real value for our investors by playing our part in fuelling the energy transition.

Graham Lyon
Chairman (Executive)

Tendrara Development: Micro LNG

Sound Energy is pursuing the Field Development Plan underpinning the Tendrara Production Concession centred around, the TE-5 Horst gas discovery. The development is progressing in two phases. Phase 1 is intended to prioritise early first cash flows from the Concession via a micro liquified natural gas ("mLNG") production scheme ahead of Phase 2 to development of the full field that will include the installation of a 120km gas export pipeline to fully unlock the gas potential of this region.

Progress of the Phase 1 Development Project

This first phase focuses on area of the existing TE-6 and TE-7 wells of the TE-5 Horst. First gas is planned to be achieved by tying the currently suspended TE-6 and TE-7 gas wells with flowlines connected to the inlet of a skid mounted, micro LNG plant. The environmental impact assessment for the micro LNG facility has been approved under the existing field development plan.

Following the Company announcing on the 23 December 2020 that it had signed a letter of exclusivity with Italfluid Geoenergy S.r.l. with the intention to negotiate and enter a binding project contract, the parties have continued to make significant progress on these discussions throughout 2021. The project contract will include the necessary design, construction, commissioning, operation, and maintenance of the micro LNG facilities under a lease arrangement. The micro LNG facilities, which will also treat, and process raw gas produced from the wells prior to liquefaction, is the substantial part of the surface facilities required to be built and operated as part of this first phase of development. LNG will be delivered on-site to the outlet of the micro LNG facilities for sale and distribution to the industrial market.

During 2021 a binding gas offtake and sales agreement was negotiated with Afriquia Gas SA, part of the Moroccan Akwa Group, and a national leader in the distribution of liquefied petroleum gas, butane and propane. Post-period, a binding gas sales agreement was signed with Afriquia Gaz with a 10-year take or pay commitment from first gas to sell a minimum of 100 million standard cubic metres per annum priced at $6-8.346 per MMBtu (from the plant). Afriquia Gaz will be responsible for the transportation, distribution and marketing of the LNG including the associated capital costs of these downstream operations beyond the outlet of the LNG plant.

The agreement with Afriquia Gaz SA included a UK £2 million equity investment for a 9.8% stake of Sound Energy plc and access to loan financing consisting of an US$ 18 million loan note, the final details of which are under discussion.

Additionally, the Company has held discussions with a number of technical consultancies and contractors for the provision of well and flow line services required to tie the TE-6 and TE-7 wells into the micro LNG facilities.

Next key steps to progress the project include execution of the funding documentation for the US$ 18 million loan note with Afriquia Gaz and execution of the micro LNG plant contract with Italfluid Geoenergy to allow to Company and joint venture partners to take the final investment decision ('FID') for Phase 1 of the TE-5 Horst gas development by year end.

Eastern Morocco

Development and Exploration

Our Eastern Morocco Licences comprising the Tendrara Production Concession, Anoual and Greater Tendrara are positioned in a region containing a continuity of the established petroleum plays of Algerian Triassic Province and Saharan Hercynian Platform. The presence of the key geological elements of the Algerian Trias Argilo-Gréseux Inférieur or 'TAGI' gas play are already proven within the licence areas with the underlying Palaeozoic, representing a significant upside opportunity to be explored.

These licences cover a surface area of over 23,000 square kilometres, but so far only thirteen wells have been drilled, of which six are either located within or local to the Tendrara Production Concession. Exploration drilling beyond the region of the Production Concession has been limited and the Group maintains a portfolio of features identified from previous operators' studies, plus new targets identified by Sound Energy from the recent geophysical data acquisition, processing and ongoing interpretation studies. These features are internally classified as either prospects, leads or concepts based on their level of technical maturity and represent potential future exploration drilling targets.

On the 14 June 2021 the Group announced entering into a sale and purchase agreement with Schlumberger Holdings II Limited to acquire the entire issued share capital of Schlumberger Silk Route Services Limited.

Acquisition Highlights:

- The Group will have increased participating interests in in the Anoual and Greater Tendrara exploration permits in Eastern Morocco (the "Exploration Permits") by 27.5% to 75%, together with full control over its 75% participating interest in the Tendrara Concession
- Positions Sound Energy to generate enhanced returns, cashflow and value as it moves forward the phased development of the TE-5 Horst
- Significantly enhances discovered and undiscovered resource position
- Underlines Sound Energy's position as a leading gas developer in country
- Sound Energy will remain fully funded for its increased 75% working interest of planned phase 1 Tendrara Concession capital investments required until first gas, subject to finalising funding arrangements previously announced with Afriquia Gaz, our strategic partner and a major participant in the Moroccan gas industry

Schlumberger Silk Route Services Limited holds a 27.5% participating interest in the Anoual and Greater Tendrara exploration permits in Eastern Morocco together with a 27.5% indirect interest in the Tendrara Concession through its contractual relationship with the Group. Following completion of the Acquisition, Sound Energy will control operated working interests of 75% in the Exploration Permits and in the Concession.

In consideration for the Acquisition, the Group shall make an initial payment of one US dollar to the Schlumberger Holdings II Limited in cash on completion and may make future payments to the Seller pursuant to a Profit Sharing Deed.

Under the principal terms of the Profit Sharing Deed, the Group will pay to Schlumberger Holdings II Limited an amount equivalent to between 8% and 11% of total net profits (after costs, taxes and other applicable deductions) arising from the Tendrara Concession over a period of 12 years from first commercial production from the Concession. In the event of a cash disposal by the Group of part or the whole of the Schlumberger Silk Route Services Limited's interest in the Exploration Permits on or before 28 February 2023, the Schlumberger Holdings II Limited would be entitled to receive from Sound Energy 27.5% of the net cash proceeds related to the disposal of the Schlumberger Silk Route Services Limited Permit Interest, rising to 55% of proceeds related to the SSRS Permit Interest in the event of such a disposal occurring prior to 31 December 2021.

The Acquisition is conditional upon the Seller taking the necessary steps (including settling all intercompany balances) on or before 5 September 2021 to sell the entire issued share capital of Schlumberger Silk Route Services Limited to Sound Energy on a cash-free, debt-free basis at completion. Upon completion of the Acquisition, Sound Energy will grant to Schlumberger Holdings II Limited a share charge over 100% of the share capital of Sound Energy Morocco East Limited, the Group's wholly owned subsidiary, in connection with the Profit Sharing Deed and the Exploration Permit Disposal Right. Under the terms of the Profit Sharing Deed, there is a mechanism for reducing this share charge upon certain milestones having been met and also for replacing the share charge with an alternative security mechanism following the first payment arising from the Profit Sharing Deed.

As at 31 December 2020, Schlumberger Silk Route Services Limited had unaudited net assets of US$ 87.1 million and recorded a loss for the year before tax of US$ 0.2 million.

Eastern Morocco licences

TENDRARA CONCESSION – 25 years from September 2018		
47.5% interest Operated (75% post completion of acquisition)	Production permit	133.5 km^2 acreage, 4 wells drilled

GREATER TENDRARA – 8 years from September 2018		
47.5% interest Operated (75% post completion of acquisition)	Exploration permit	14,411 km^2 acreage, 8 wells drilled
ANOUAL – 9 years and 4 months from September 2017		

47.5% interest Operated (75% post completion of acquisition)	Exploration permit	8,873 km^2, 1 well drilled

Southern Morocco licence

SIDI MOKTAR ONSHORE – 8 years remaining – Effective date 9/04/2018		
75% interest Operated	Exploration permit	4,712 km^2

Southern Morocco Exploration

The Sidi Moktar licence is located in the Essaouira Basin, in Southern Morocco. The licence covers a combined area of 4,712 km^2. The Group views the Sidi Moktar licences as an exciting opportunity to explore high impact prospectivity within the pre-salt Triassic and Palaeozoic plays in the underexplored Essaouira Basin in the West of Morocco. In June 2018, Ministerial approval was received for a new eight year Sidi Moktar Onshore Petroleum Agreement, consisting of a two years and six months initial period, a first extension period of three years, and a second extension period of two years and six months. Due to disruption caused by the impact of the Covid-19 pandemic, during which the Group undertook regular dialogue with the regulatory authorities, ONHYM approved a 24-month extension to the initial period of the Sidi Moktar Petroleum Agreement in order for the Group to complete the committed work programme. The work programme commitments for the initial period remain unchanged. The lengths of the first and second complimentary periods, which would commence upon the successful completion of the recently extended initial period, also remain unchanged.

The Sidi Moktar permit hosts a variety of proven plays. The licences host 44 vintage wells drilled between the 1950s and the present. Previous exploration has been predominantly focused on the shallower post-salt plays. The licence is adjacent to the ONHYM operated Meskala gas and condensate field. The main reservoirs in the field are Triassic aged sands, directly analogous to the deeper exploration plays in the Sidi Moktar licences. The Meskala field and its associated gas processing facility is linked via a pipeline to a state-owned phosphate plant, which produces fertiliser both for the domestic and export markets. This pipeline passes across the Sidi Moktar licence. The discovery of the Meskala field proved the existence of a deeper petroleum system in the basin. Specifically, Meskala provides evidence that Triassic clastic reservoirs are effective, proves the existence of the overlying salt seal and provides support for evidence of charge from deep Palaeozoic source rocks. Based on work undertaken by Sound Energy, the main focus of future exploration activity in the licence is expected to be within this deeper play fairway. We believe that the deeper, pre-salt Triassic and Palaeozoic plays may contain significant prospective resources, in excess of any discovered volumes in the shallower stratigraphy.

Our evaluation of the exploration potential of Sidi Moktar, following an independent technical review, includes a mapped portfolio of 27 Jurassic, Triassic and Palaeozoic leads in a variety of hydrocarbon trap types. Sound Energy is developing a work programme to mature the licence with specific focus on the deeper, pre-salt plays.

Subject to financing, we aim to commence acquisition of the committed, high quality 2D seismic data in 2021, focused on improving trap imaging. Preparations for this seismic acquisition campaign have commenced with the completion and approval of an EIA in late 2019. This approval, which concerns 25 territorial communes of the province of Essaouira and 11 territorial communes of the province of Chichaoua, is an important step in the local permitting process and enables the Group to continue its preparations for the seismic acquisition campaign.

The Group has also undertaken an invitation to tender for acquisition and processing of the 2D seismic survey and received responses from multiple seismic service providers and continues discussions with a shortlist of providers. This work is planned to culminate in an exploration well, targeting a deep prospect in 2023. The Group continues to seek to progress a farm out process for this permit, offering an opportunity to a technically competent partner to acquire a material position in this large tract of prospective acreage.

Sound Energy plc
Independent Review Report

Introduction

We have been engaged by the Company to review the interim financial statements in the interim financial report for the 6 months ended 30 June 2021 which comprises the Condensed Interim Consolidated Income Statement, the Condensed Interim Consolidated Balance Sheet, the Condensed Interim Consolidated Statement of Changes in Equity, the Condensed Interim Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the AIM Rules for Companies.

As disclosed in note one, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the United Kingdom. The interim financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the United Kingdom.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the interim financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements in the interim financial report for the 6 months ended 30 June 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the United Kingdom and the AIM rules for companies.

Emphasis of matter: Material uncertainty in relation to going concern

We draw attention to Note 1 in the financial statements. The Company's cash flow forecast for the twelve-month period to September 2022, indicates that additional funding will be required to enable the Company to meet its obligations.

These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Crowe U.K. LLP
Statutory Auditor
London
15 September 2021

Sound Energy plc
Condensed Interim Consolidated Income Statement

	Notes	**Six months ended 30 June 2021 Unaudited £'000s**	Six months ended 30 June 2020 Unaudited £'000s	Year ended 31 Dec 2020 Audited £'000s
Other income	3	**221**	–	–
Impairment of development assets and exploration costs		**(3,684)**	–	(9,777)
Gross profit/(loss)		**(3,463)**	–	(9,777)
Administrative expenses		**(1,028)**	(1,700)	(2,904)
Group operating loss from continuing operations		**(4,491)**	(1,700)	(12,681)
Finance revenue		**1**	26	46
Foreign exchange gain/(loss)		**416**	2,890	(2,877)
Finance expense		**(1,712)**	(1,596)	(3,304)
Loss for period before taxation		**(5,786)**	(380)	(18,816)
Tax expense	4	**(42)**	–	–
Loss for period after taxation		**(5,828)**	(380)	(18,816)
Other comprehensive (loss)/income				
Items that may subsequently be reclassified to profit and loss account:				
Foreign currency translation (loss)/income		**(1,472)**	8,044	(4,010)
Total comprehensive (loss)/income for the period attributable to equity holders of the parent		**(7,300)**	7,664	(22,826)
		Pence	Pence	Pence
Basic and diluted loss per share for the period attributable to equity holders of the parent	5	**(0.42)**	(0.03)	(1.54)

Sound Energy plc
Condensed Interim Consolidated Balance Sheet

	Notes	**30 June 2021 Unaudited £'000s**	30 June 2020 Unaudited £'000s	31 Dec 2020 Audited £'000s
Non-current assets				
Property, plant and equipment	6	**128,175**	157,490	133,387
Intangible assets	7	**30,589**	33,434	30,657
Interest in Badile land		**730**	1,002	988
		159,494	191,926	165,032
Current assets				
Inventories		**851**	1,084	912
Other receivables		**1,586**	1,669	1,371
Prepayments		**105**	51	23
Cash and short term deposits		**2,261**	4,206	4,468
		4,803	7,010	6,774
Total assets		**164,297**	198,936	171,806
Current liabilities				
Trade and other payables		**2,068**	3,028	2,206
Lease liabilities		**–**	156	30
Loans and borrowings	8	**–**	23,845	24,709
		2,068	27,029	26,945
Non-current liabilities				
Loans and borrowings	8	**20,098**	–	–
		20,098	–	–
Total liabilities		**22,166**	27,029	26,945
Net assets		**142,131**	171,907	144,861
Capital and reserves				
Share capital and share premium		**32,558**	26,294	29,540
Warrant reserve		**1,534**	4,090	4,090
Foreign currency reserve		**(7,575)**	5,951	(6,103)
Accumulated surplus		**115,614**	135,572	117,334
Total equity		**142,131**	171,907	144,861

The financial statements were approved by the Board and authorised for issue on 15 September 2021 and were signed on its behalf by:

Mohammed Seghiri, Director

Graham Lyon, Director

Sound Energy plc
Condensed Interim Consolidated Statement of Changes in Equity

	Share capital £'000s	Share premium £'000s	Accumulated surplus £'000s	Warrant reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2021	**13,262**	**16,278**	**117,334**	**4,090**	**(6,103)**	**144,861**
Total loss for the period	**–**	**–**	**(5,828)**	**–**	**–**	**(5,828)**
Other comprehensive income	**–**	**–**	**–**	**–**	**(1,472)**	**(1,472)**
Total comprehensive income for the period	**–**	**–**	**(5,828)**	**–**	**(1,472)**	**(7,300)**
Issue of share capital	**1,423**	**1,595**	**–**	**–**	**–**	**3,018**
Fair value of warrants issued during the period	**–**	**–**	**–**	**1,534**	**–**	**1,534**
Reclassification on expiry of warrants	**–**	**–**	**4,090**	**(4,090)**	**–**	**–**
Share based payments	**–**	**–**	**18**	**–**	**–**	**18**
At 30 June 2021 (unaudited)	**14,685**	**17,873**	**115,614**	**1,534**	**(7,575)**	**142,131**

At 1 January 2020	10,796	14,039	135,481	4,090	(2,093)	162,313
Total loss for the year	–	–	(18,816)	–	–	(18,816)
Other comprehensive loss	–	–	–	–	(4,010)	(4,010)
Total comprehensive loss	–	–	(18,816)	–	(4,010)	(22,826)
Issue of share capital	2,466	2,656	–	–	–	5,122
Share issue costs	–	(417)	–	–	–	(417)
Share based payments	–	–	669	–	–	669
At 31 December 2020	13,262	16,278	117,334	4,090	(6,103)	144,861

	Share capital £'000s	Share premium £'000s	Accumulated surplus £'000s	Warrant reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2020	10,796	14,039	135,481	4,090	(2,093)	162,313
Total loss for the period	–	–	(380)	–	–	(380)
Other comprehensive income	–	–	–	–	8,044	8,044
Total comprehensive loss for the period	–	–	(380)	–	8,044	7,664
Issue of share capital	822	816	–	–	–	1,638
Share issue costs	–	(179)	–	–	–	(179)
Share based payments	–	–	471	–	–	471
At 30 June 2020 (unaudited)	11,618	14,676	135,572	4,090	5,951	171,907

Sound Energy plc
Condensed Interim Consolidated Statement of Cash Flows

	Six months ended 30 June 2021 Unaudited £'000s	Six months ended 30 June 2020 Unaudited £'000s	Year ended 31 Dec 2020 Audited £'000s
Cash flow from operating activities			
Cash flow from operations	**(1,079)**	(630)	(1,873)
Interest received	**1**	26	46
Tax paid	**(42)**	–	–
Net cash flow from operating activities	**(1,120)**	(604)	(1,827)
Cash flow from investing activities			
Capital expenditure	**(290)**	(201)	(461)
Exploration expenditure	**(246)**	(528)	(821)
Net cash flow from investing activities	**(536)**	(729)	(1,282)
Cash flow from financing activities			
Net proceeds from equity issue	–	1,352	4,589
Interest payments	**(587)**	(622)	(1,269)
Lease payments	**(15)**	(30)	(128)
Net cash flow from financing activities	**(602)**	700	3,192
Net (decrease)/increase in cash and cash equivalents	**(2,258)**	(633)	83
Net foreign exchange difference	**51**	231	(223)
Cash and cash equivalents at the beginning of the period	**4,468**	4,608	4,608
Cash and cash equivalents at the end of the period	**2,261**	4,206	4,468

Notes to Statement of Cash Flows

	Six months ended 30 June 2021 Unaudited £'000s	Six months ended 30 June 2020 Unaudited £'000s	Year ended 31 Dec 2020 Audited £'000s
Cash flow from operations reconciliation			
Loss for the period before tax	**(5,786)**	(380)	(18,816)
Finance revenue	**(1)**	(26)	(46)
Decrease/(Increase) in drilling inventories	**61**	(70)	102
(Increase)/decrease in short term receivables and prepayments	**(297)**	(187)	139
(Decrease)/increase in accruals and short term payables	**(155)**	550	(315)
Impairment of development assets and exploration costs	**3,684**	–	9,777
Depreciation	**101**	198	328
Share based payments charge and remuneration paid in shares	**18**	579	777
Finance costs and exchange adjustments	**1,296**	(1,294)	6,181
Cash flow from operations	**(1,079)**	(630)	(1,873)

Non-cash transactions during the period included the issue of 141,176,448 ordinary shares, at a price of 2.125 pence per share, to the Company's bondholders as part of the restructuring of the corporate bond. 322,365 ordinary shares were issued following the exercise by the Company's former employees of Restricted Stock Units (RSU) awards that had vested, and 808,095 ordinary shares were issued to a third party in settlement of £15,000 due for services provided.

The Group has provided collateral of $1.75 million (December 2020: $1.75 million) to the Moroccan Ministry of Petroleum to guarantee the Group's minimum work programme obligations. The cash is held in a bank account under the control of the Company and as the Group expects the funds to be released as soon as the commitment is fulfilled on this basis the amount remains included within cash and cash equivalents.

1. Basis of preparation

The condensed interim consolidated financial statements do not represent statutory accounts within the meaning of section 435 of the Companies Act 2006. The financial information for the year ended 31 December 2020 is based on the statutory accounts for the year ended 31 December 2020. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The condensed interim financial information is unaudited and has been prepared on the basis of the accounting policies set out in the Group's 2020 statutory accounts and in accordance with IAS 34 Interim Financial Reporting.

The seasonality or cyclicality of operations does not impact on the interim financial statements.

Going concern

As at 31 August 2021, the Group's cash balance was £3.6 million (including approximately £1.3 million held as collateral for a bank guarantee against licence commitments). The Directors have reviewed the Company's cash flow forecasts for a range of micro-LNG FID timing scenarios and reflecting expected costs. While the micro-LNG project itself is expected to be fully financed through associated commercial arrangements, the forecasts and projections indicate that a delay in the project sanctioning will require the Company to seek additional funding to cover its obligations.

The COVID-19 pandemic has not had a material impact on the Company's operations, but a deterioration could lead to a delay in the micro-LNG project and therefore impact the Company's liquidity.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. These condensed interim consolidated financial statements do not include adjustments that would be required if the Company was unable to continue as a going concern. The Company continues to exercise cost control to conserve cash resources and the Directors believe that there are several corporate funding options available to the Company and therefore the Directors have a reasonable expectation that the Company and the Group will be able to secure the funding required to continue in operational existence for the foreseeable future and have made a judgement that the Group will continue to realise its assets and discharge its liabilities in the normal course of business. Accordingly, the directors have adopted the going concern basis in preparing the condensed interim consolidated financial statements.

2. Segment information

The Group categorises its operations into three business segments based on Corporate, Exploration and Appraisal and Development and Production. The Group's Exploration and Appraisal activities are carried out in Morocco. The Group's reportable segments are based on internal reports about the components of the Group which are regularly reviewed by the Board of Directors, being the Chief Operating Decision Maker (''CODM''), for strategic decision making and resources allocation to the segment and to assess its performance. The segment results for the period ended 30 June 2021 are as follows:

Segment results for the period ended 30 June 2021

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Other income	–	–	221	221
Impairment of development assets and exploration costs	–	(3,684)	–	(3,684)
Administration expenses	(1,028)	–	–	(1,028)
Operating loss segment result	**(1,028)**	**(3,684)**	**221**	**(4,491)**
Interest receivable	1	–	–	1
Finance costs and exchange adjustments	(1,296)	–	–	(1,296)
Loss for the period before taxation	**(2,323)**	**(3,684)**	**221**	**(5,786)**

2. Segment information (continued)

The segments assets and liabilities at 30 June 2021 are as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	**804**	**128,101**	**30,589**	**159,494**
Current assets	**2,573**	**941**	**1,289**	**4,803**
Liabilities attributable to continuing operations	**(21,147)**	**(65)**	**(954)**	**(22,166)**

The geographical split of non-current assets is as follows:

	Europe £'000s	Morocco £'000s
Development and production assets	**–**	**128,101**
Interest in Badile land	**730**	**–**
Fixtures, fittings and office equipment	**5**	**67**
Right-of-use assets	**2**	**–**
Exploration and evaluation assets	**–**	**30,562**
Software	**–**	**27**
Total	**737**	**158,757**

Segment results for the period ended 30 June 2020

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Administration expenses	(1,700)	–	–	(1,700)
Operating loss segment result	(1,700)	–	–	(1,700)
Interest receivable	26	–	–	26
Finance costs and exchange adjustments	1,294	–	–	1,294
Loss for the period before taxation	(380)	–	–	(380)

The segments assets and liabilities at 30 June 2020 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	1,327	157,165	33,434	191,926
Current assets	4,442	785	1,783	7,010
Liabilities attributable to continuing operations	(25,148)	–	(1,881)	(27,029)

The geographical split of non-current assets was as follows:

	Europe £'000s	Morocco £'000s
Development and production assets	–	157,165
Interest in Badile land	1,002	–
Fixtures, fittings and office equipment	19	166
Right-of-use assets	61	79
Exploration and evaluation assets	–	33,333
Software	–	101
Total	1,082	190,844

2. Segment information (continued)
Segment results for the year ended 31 December 2020

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Impairment of development assets and exploration costs	–	(9,787)	10	(9,777)
Administration expenses	(2,904)	–	–	(2,904)
Operating loss segment result	(2,904)	(9,787)	10	(12,681)
Interest receivable	46	–	–	46
Finance costs and exchange adjustments	(6,181)	–	–	(6,181)
Loss for the period before taxation from continuing operations	(9,039)	(9,787)	10	(18,816)

The segments assets and liabilities at 31 December 2020 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	1,192	133,243	30,597	165,032
Current assets	4,598	800	1,376	6,774
Liabilities of continuing operations	(25,878)	(58)	(1,009)	(26,945)

The geographical split of non-current assets is as follows:

	Europe £'000s	Morocco £'000
Development and production assets	–	133,243
Interest in Badile land	988	–
Fixtures, fittings and office equipment	5	108
Right-of-use assets	31	–
Exploration and evaluation assets	–	30,597
Software	–	60
Total	1,024	164,008

3. Other income

	30 June 2021 Unaudited £'000s	30 June 2020 Unaudited £'000s	31 Dec 2020 Audited £'000s
Research and development expenditure credit	**221**	–	–

During the period the Company's subsidiaries received credit under the HMRC 's Research and Development Expenditure Credit (RDEC) scheme for qualifying activities undertaken during 2018 and 2019. A contingent asset was not recognised when the expenditure was incurred due to uncertainty as to whether it would qualify for a credit under the RDEC scheme.

4. Taxation

	30 June 2021 Unaudited £'000s	30 June 2020 Unaudited £'000s	31 Dec 2020 Audited £'000s
Tax expense	**(42)**	–	–

4. Taxation (continued)
The tax expense, at a rate of 19%, was paid on receipt of the research and development expenditure credit (note 3).

In August 2020, the Group received a notification from the tax authority in Morocco of its intention to assess Sound Energy Morocco East Limited (''SEME'') for additional withholding taxes and VAT liabilities totalling approximately $14 million, and intention to consider a revision of the tax bases for previously submitted corporation tax returns, which could lead to additional corporate taxes being assessed. The Group believes that the assessment arises from a misunderstanding of the underlying transactions and appealed the Local tax committee (''LTC''). According to the tax authority original assessment, the main assessment related to the historical licensing changes detailed in the notification related to the Tendrara Lakbir Exploration Permits and the transfer of Operatorship from Sound Energy Morocco SARL AU ("SARL AU") to SEME raised taxation claims against SEME. The Moroccan Tax Administration sought to justify this tax claim asserting a so-called acquisition of intangible assets from SARL AU by SEME. In August 2021 the Group received written notification that the LTC found the assessment on the transfer of intangible assets be dropped. The LTC did not drop the assessment relating to the tax authority's claim that there was a disposal of assets by SEME to its partner, Schlumberger on entry to a brand-new petroleum agreement for exploration at Greater Tendrara.

The Group has 60 days from the receipt of the LTC decision to accept or challenge the decision in court. The Group continue to believe that the remaining assessment arises from misinterpretation of the underlying transactions and together with its advisors, continue to seek to engage constructively with the authorities.

In May 2021, the Group received from the tax authority an information request and a notification (1st notification) of its intention to assess SARL AU. The information request levied penalties (approximately $0.3 million) claiming late remittance of withholding taxes and the notification intended to assess additional VAT and withholding taxes of approximately $22.5 million, and in addition, sought to consider a revision of the tax bases for previously submitted corporation tax returns, which could lead to additional corporate taxes being assessed. The Group believes that the assessment arises from a misunderstanding of the historical licence relinquishment and intercompany funding arrangements and in June 2021, appealed against the assessment. Following SARL AU appeal, in August 2021, the tax authority issued a notification (''2nd notification) retaining the assessment included in the 1st notification but did not re-issue the information request that had levied penalties for claimed late remittance of withholding taxes. The Group has appealed against the 2nd notification. Following the Group's appeal, the tax authority has up to 90 days to refer the matter to the LTC.

No liability has been recognised in the financial statements, but the assessments are considered to be a contingent liability.

5. Profit/(loss) per share
The calculation of basic profit/(loss) per Ordinary Share is based on the profit/(loss) after tax and on the weighted average number of Ordinary Shares in issue during the period. The calculation of diluted profit/(loss) per share is based on the profit/(loss) after tax on the weighted average number of ordinary shares in issue plus weighted average number of shares that would be issued if dilutive options, restricted stock units and warrants were converted into shares. Basic and diluted profit/(loss) per share is calculated as follows:

	30 June 2021 £'000	30 June 2020 £'000	31 December 2020 £'000
Loss after tax from continuing operations	**(5,828)**	(380)	(18,816)
	million	million	million
Weighted average shares in issue	**1,382**	1,155	1,225
	Pence	Pence	Pence
Basic and diluted profit/(loss) per share from continuing operations	**(0.42)**	(0.03)	(1.54)

5. Profit/(loss) per share (continued)

Due to the loss for the period, the effect of the potential dilutive shares on the earnings per share from continuing operations would be anti-dilutive and therefore are not included in the calculation of diluted earnings per share from continuing operations.

6. Property, plant and equipment

	30 June 2021 £'000s	30 June 2020 £'000s	31 Dec 2020 £'000s
Cost			
At start of period	**143,375**	148,071	148,071
Additions	**313**	216	494
Derecognition on termination of lease	**–**	–	(262)
Exchange adjustments	**(1,762)**	10,118	(4,928)
At end of period	**141,926**	158,405	143,375
Depreciation			
At start of period	**9,988**	729	729
Charge for period	**3,753**	163	10,048
Derecognition on termination of lease	**–**	–	(193)
Exchange adjustments	**10**	23	(596)
At end of period	**13,751**	915	9,988
Net book amount	**128,175**	157,490	133,387

The impairment during the period has arisen following a change in the underlying development cost assumptions for the Tendrara production concession in line with latest market conditions.

7. Intangibles

	30 June 2021 Unaudited £'000s	30 June 2020 Unaudited £'000s	31 Dec 2020 Audited £'000s
Cost			
At start of period	**41,552**	41,631	41,631
Additions	**363**	603	939
Exchange adjustments	**(402)**	2,094	(1,018)
At end of period	**41,513**	44,328	41,552
Impairment and Depreciation			
At start of period	**10,895**	10,847	10,847
Charge for period	**32**	35	57
Exchange adjustments	**(3)**	12	(9)
At end of period	**10,924**	10,894	10,895
Net book amount	**30,589**	33,434	30,657

8. Loans and borrowings

	30 June 2021 Unaudited £'000s	30 June 2020 Unaudited £'000s	31 Dec 2020 Audited £'000s
Current liability			
Secured bonds	**–**	23,845	24,709
Non-current liability			
Secured bonds	**20,098**	–	–

In April 2021, the Company successfully restructured its then outstanding €28.8 million secured bonds (the "Bonds"). Following the restructuring the revised terms of the Bonds are as below:

1) The Maturity date of the Bonds was extended by six years from 21 June 2021 to 21 December 2027;

2) The outstanding principal amount of the Bonds will be amortised, at a rate of 5% every six months, commencing on 21 December 2023;

3) Approximately €3.5 million of the Bonds were converted to a total of 141,176,448 new ordinary shares in the Company at a conversion price of 2.125 pence per share;

4) The Bonds bear until maturity 2% cash interest paid per annum and 3% deferred interest per annum to be paid at redemption for the period commencing on 21 June 2021;

5) The Company issued to the Bondholders 99,999,936 warrants to subscribe for new ordinary shares in the Company at an exercise price of 2.75 pence per share. The warrants expire on 21 December 2021; and

6) The Company will have the right, at any time until 21 December 2024, to redeem the Bonds in full for 70% of the principal value then outstanding together with any unpaid interest at the date of redemption.

After taking account of the revised terms above, the effective interest rate on the Bonds is approximately 6.2%.

9. Shares in issue and share based payments

As at 30 June 2021, the Company had 1,468,551,297 ordinary shares in issue. In April 2021, the Company issued 141,176,448 million shares at 2.125 per share as part of the restructuring of the Company's €28.8 million loan Notes. In May 2021, the Company issued 322,365 shares following the exercise by the Company's former employee of Restricted Stock Units (RSU) awards that had vested. In June 2021, the Company issued 808,095 shares to a third party as part settlement for services provided.

During the period to 30 June 2021, 0.6 million RSU awards vested and in addition, 3.0 million share options and 52.4 million warrants expired.

10. Post Balance Sheet events

In July 2021, the Company announced the signing, by its subsidiary, SEME and Afriquia Gas S.A (''Afriquia''), of a binding ten year LNG sales and purchase agreement (the ''LNG SPA'') for the Company's micro-LNG phase 1 development for the TE-5 Horst development at the Tendrara Production Concession in Morocco. In addition, the Company announced the execution of equity subscription agreement with Afriquia pursuant to which Afriquia made a £2.0m subscription to the Company in consideration for which the Company issued 159,731,631 new ordinary shares at a price of 1.2521 pence per share to Afriquia. The LNG SPA is conditional upon fulfilment of certain conditions precedent including:

- The approval of the LNG SPA by the Concession joint venture;
- The execution of a loan note agreement between the Company (as borrower) and Afriquia (as lender) setting out the terms of an US$ 18 million secured loan with a 6% annual coupon and a 12 year term;

10. Post Balance Sheet events (continued)

- The execution of a project contract with Italfluid Geoenergy S.r.l (Italfluid) for the provision of a gas processing and liquefaction facility relating to the Phase 1 Development;
- Receipt by Afriquia of regulatory approvals for the transportation of LNG by tankers and the sale of LNG; and
- Afriquia having secured in principle agreement from downstream buyers to purchase not less than 60% of the Annual Take or Pay Quantity under the LNG SPA

In August 2021, the Company announced the completion of the acquisition of the entire issued share capital of Schlumberger Silk Route Services Limited (''SSRS''). SSRS holds a 27.5% participating interest in the Anoual and Greater Tendrara exploration permits in Eastern Morocco (the ''Exploration Permits''), together with a 27.5% indirect interest in the Tendrara Concession (the ''Concession'') through its contractual relationship with the Group. Following the completion of the acquisition, Sound Energy plc controls operated working interest of 75% in the Exploration Permits and in the Concession. The consideration for the acquisition was an initial payment of US$1 (one US dollar) and the Group will make future payments for an amount equivalent to between 8% and 11% of total net profits (after costs, taxes and other applicable deductions) arising from the Concession over a period of 12 years from first commercial production from the Concession.

As detailed in note 4, following the Group's appeal during 2020 against Morocco tax administration notification of additional tax assessment in respect of historical licences changes, in August 2021, the Company received notification that the LTC after several hearings had found that the charges of Sound Energy Morocco East Limited (''SEME'') relating to the free acquisition of intangible assets be dropped. The LTC did not drop the charges relating to Morocco tax administration's assessment of a purported disposal of assets by SEME to Schlumberger in relation to the entry of a new petroleum agreement for exploration at Greater Tendrara. The Group has 60 days from the receipt of the LTC decision to accept or challenge the decision in court. The Group continue to believe that the remaining assessment arises from misinterpretation of the underlying transactions and together with its advisors, continue to seek to engage constructively with the authorities.

In September 2021, the Company announced that due to ongoing disruption caused by the impact of the COVID-19 pandemic, ONHYM had approved a 12-month extension to the initial period of the Anoual Exploration Permits, onshore Morocco, in order for the Company to complete the committed work programme.

Sound Energy plc
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Dealing Information

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Financial Calendar
Meetings
Annual General Meeting – May 2020

Announcements
2020 Interim – September 2020
2020 Preliminary – March 2021

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