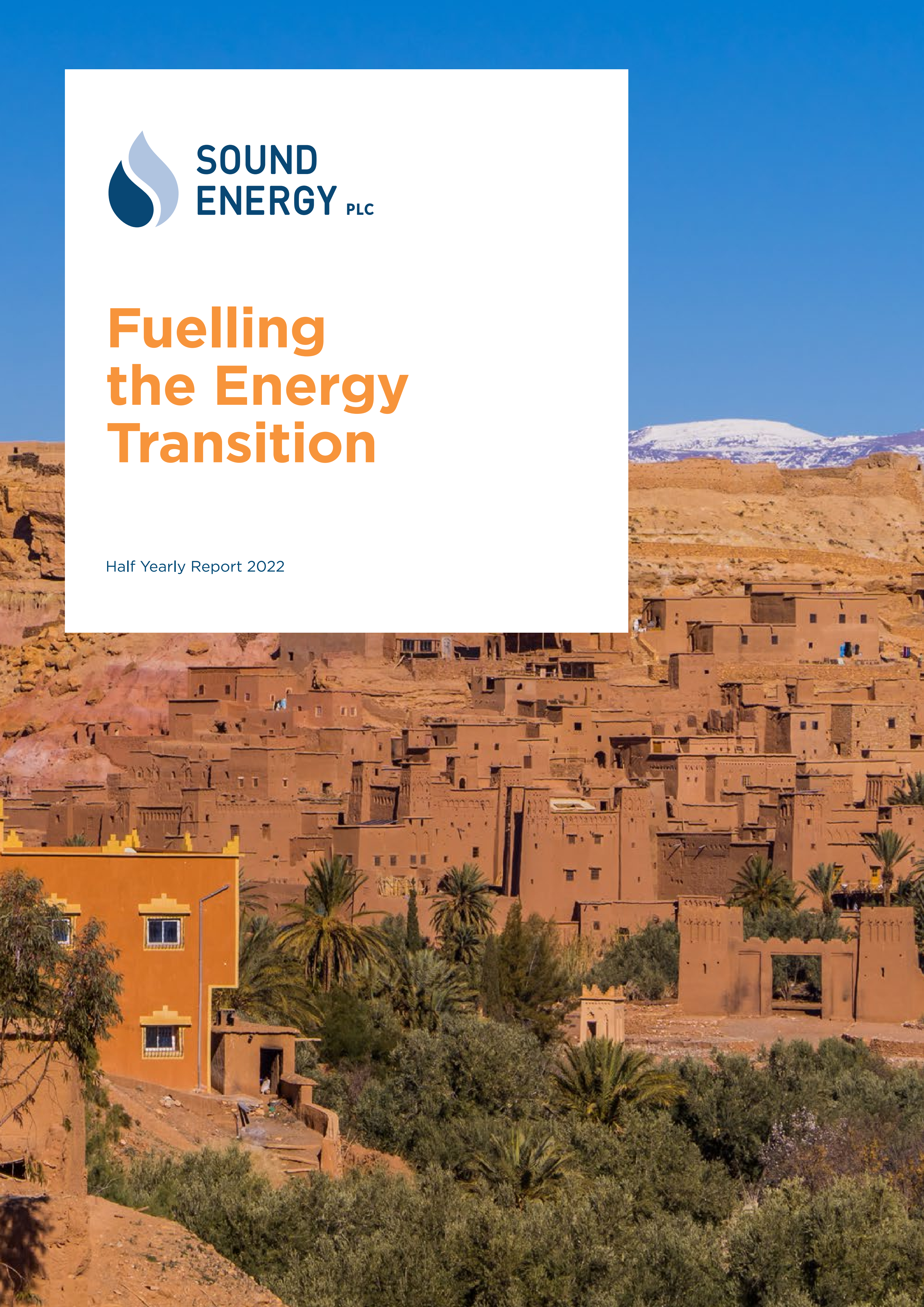
SOUND ENERGY PLC

Fuelling the Energy Transition

Half Yearly Report 2022



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Delivering on Strategy
Despite a challenging and rapidly changing global political and economic backdrop, the Company was able to successfully deliver a number of milestones in moving towards becoming a revenue generating company.

Phase 1 Micro LNG Project
In February, the Group achieved an important milestone in the development of Phase 1 micro LNG (mLNG) Project with the signing of the Notice to Proceed together with Italfluid Geology S.r.l. This triggered an initial drawdown of the Loan Note subscription with Afriquia Gaz S.A (entered into during 2021) and meant that the project contract for the provision of a gas processing and liquification- facility was now fully in effect and the associated works could commence.
In March, the Group commenced site preparation activities at the Tendrara TE-5 field location, with excavation works promptly completed. The evaporation unit pit was completed, and the geomembrane installed in preparation for further construction works. There has been significant progress with the required access road upgrades allowing the project to progress. Technical work also progressed with the computer-based reservoir model optimisation and the well flowline flow assurance studies completed.

Going forward project activities to be advanced include wellhead inspection and servicing tool fabrication, flowlines concept selection, engineering and owners engineering support.

Phase 2 Tendrara TE-5 Development
Strong progress on our Tendrara Phase 2 Central Processing Facility (CPF) and pipeline development was made in the first half of 2022. In March, the Company announced the pipeline interconnection agreement with ONHYM (Office National des Hydrocarbures et des Mines) to enable the tie-in of the future gas export pipeline to the GME (‘‘GME’’) gas pipeline. This fulfilled one of the key remaining conditions of the binding but conditional gas sale and purchase agreement with ONEE (Office National de l'Electricite et de l'Eau potable). Additionally, in June the Company announced the appointment of Attijariwafa Bank, Morocco’s largest bank, as exclusive lead arranger of a senior debt financing of up to approximately $250 million for the pipeline development. The bank is now undertaking detailed due diligence and the parties expect to enter into a binding term sheet in H2 2022.

Corporate
In June, the Company raised £4 million (before expenses) to progress a number of key value creating projects including pre-development activities on the proposed Tendrara Phase 2 development necessary to enable a final investment decision, corporate new ventures activities and corporate G&A.

Post period end, in July, the Company announced that a Moroccan tribunal had rejected its claim to overturn the previous decision of a Moroccan local tax committee to seek a tax payment of approximately $2.55 million from Sound Energy Morocco East relating to a purported historical sale of an exploration permit. Based upon previous specialist tax and legal advice, the Company continues to vehemently refute the tax claim and is, among other measures, awaiting the written court judgment and working alongside its specialist advisors in order to determine the next steps that it will take to defend its position.

I am extremely proud of what we have achieved in the first half of 2022, with limited resources: making significant progress on Phase 1 which is targeting first LNG delivery by year end 2023 and advancing debt financing for Phase 2, which is planned to fund the majority of the Phase 2 development costs. The Company continues to be ever prudent with our G&A as we also evaluate a range of new business development opportunities in order to grow and diversify the Company both in Morocco and further afield.

Post period end, we commenced a farm-out process to secure participation of a strategic partner in both the development of the Tendrara Production Concession (the ‘‘Concession’’) and exploration and appraisal of the Company’s exploration permits in Eastern Morocco. The committed Sound Energy team is diligently pursuing its ongoing development activities leading to production and revenue in 2023 and will continue to be focused on creating shareholder value whilst taking bold decisions to enable us to respond to the challenges (and opportunities) which continue to impact the wider global economy as world events unfold.

Graham Lyon
Chairman (Executive)

Tendrara Development: Micro LNG

Sound Energy is pursuing the Field Development Plan underpinning the 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 mLNG production scheme. This is planned to commence production a year ahead of the Phase 2 full field development that is centred around the installation of a 120km gas export pipeline to help fully unlock the gas potential of this region and lower the bar of commerciality for future discoveries. Both phases address different markets in Morocco; the industrial energy user and the state power producer, both of which have strong and growing demand, and Tendrara gas playing an important role in supporting Morocco's strategy to lower carbon emissions.

Progress of the Phase 1 Development Project

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

The Company signed a letter of exclusivity with Italfluid Geoenergy S.r.l. (''Italfluid'') in December 2020 to negotiate and enter a binding project contract, and in February 2022 the Company issued Italfluid the notice to proceed under the agreed project contract. The project contract includes the necessary design, construction, commissioning, operation, and maintenance of the mLNG facilities under a lease to purchase arrangement. The mLNG facilities, which will also treat, and process raw gas produced from the wells prior to liquefaction, is the principal part of the surface facilities required to be built and operated as part of this first phase of development. LNG will be delivered to on-site storage from the outlet of the mLNG facilities whereupon Afriquia Gaz will lift LNG for transportation, distribution and sale to the Moroccan industrial market.

Groundworks for the construction of the mLNG facility commenced March 2022 following completion of surveying and remediation works to the access road for the facility. Excavation works for the LNG storage tank, evaporation and flare pits have been completed with geomembrane installed where necessary. Preparations for the compressor package foundations has also been completed. Facilities engineering will continue to progress throughout the year with major vendors and Italfuild has placed purchase orders for the gas processing and liquefaction packages together with the LNG storage tank.

The Company has also completed selection of the owner engineering contract, awarded to Kellogg Brown and Root Ltd alongside contractor selection for flow assurance and flowline preliminary engineering. The Company awarded scheduled inspection and routine maintenance of the wellhead Christmas tree assemblies on TE-6 and TE-7, to Petroleum Equipment Supply Engineering Company Ltd with planning now underway for inspection and maintenance to take place later in the year.

The next key steps to progress the project include execution of TE-6 and TE-7 wellhead inspection and servicing and flowline and associated equipment procurement. Additionally, Italfluid. will complete the preliminary engineering and progress detailed design, place its remaining purchase orders for equipment packages and bulks, and complete site preparation and commence civils foundation works.

Completion of the Phase 1 Development Project remains on schedule for Q4 2023, with first LNG delivery expected year end 2023.

Progress of the Phase 2 Development Project

In November 2021, the Company announced that the Tendrara JV partners' had entered into a binding gas sale and purchase agreement (the "GSA") in respect of the Phase 2 development of the Concession with Morocco's state-owned power Company ONEE for the sale of natural gas from the Concession in Eastern Morocco over a 10-year period. ONEE will utilise the gas to fuel its gas-fired power stations that are connected to the regional GME pipeline.

Under the GSA, the Tendrara JV Partners have conditionally committed to delivering gas from the Concession, to the GME pipeline (point of sale) for an annual contractual volume up to 350 million cubic meters of natural gas per year for a period of 10 years, with an annual take or pay volume of 300 million cubic meters.

The GSA includes a fixed unitary price for the annual volume of 0.3 bcm per annum (approximately 29.0 MMscf/d or a minimum amount of energy of approximatively 10.5 million MMBtu per annum to be delivered at the point of sale).

The GSA is conditional upon: all necessary authorisations and permits having been granted for the construction of the Phase 2 gas installations, the final investment decision, when taken, by the Tendrara JV Partners, being approved by the relevant governmental ministries and finally, the entry by the Tendrara JV Partners into an interconnection agreement with the operator of the GME pipeline, together with the commencement of works, for the connection of the Concession to the GME pipeline.

The conditions to the GSA are required to be satisfied within 90 days of signature, however an extension is allowable with the consent of all parties. On the 9 March 2022 the Company announced an extension of a further 90 days. Whilst the conditions precedent have not yet been concluded ONEE and the Company are in close discussion regarding an extension.

On 14 March 2022 the Company announced the entry of a pipeline tie-in agreement to the GME pipeline with ONHYM (GME owner and operator) in respect of the Phase 2 development of the Concession, and satisfying one of the above referenced GSA conditions. Pursuant to the pipeline tie-in agreement, ONHYM has now approved the connection of the Concession via a gas export spur pipeline to the GME pipeline.

On 23 June 2022 the Company announce that it had entered into an arrangement and mandate letter with Attijariwafa Bank of Morocco in relation to senior debt financing for the development of Sound Energy's Concession. The senior debt facility is intended to have a term of up to 12 years of up to 2.250 billion Moroccan dirhams (approximately US$250 million) for the partial financing of the currently estimated 3.000 billion Moroccan dirhams (approximately US$330 million) Phase 2 development cost.

Eastern Morocco

Exploration

Our Eastern Morocco Licences comprising the Concession together with the Anoual and Greater Tendrara exploration permits are positioned in a region containing a potential extension 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 Concession. Exploration drilling beyond the region of the 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, subsequent processing and ongoing interpretation studies. These features are internally classified as either prospects, leads or concepts based upon their level of technical maturity and represent potential future exploration drilling targets.

Whilst the Company has strategically prioritised its gas monetisation strategy through the phased development of the TE-5 Horst (Tendrara Production Concession), the Company has also re-evaluated its extensive exploration portfolio within the Greater Tendrara and Anoual exploration permits surrounding the Concession. By integrating the acquired data and learnings from previous drilling campaigns with acquired and reprocessed seismic datasets, the Company has high graded several potential near term subsalt drilling opportunities within the TAGI gas reservoir, the proven reservoir of the TE-5 Horst gas accumulation.

In August 2022, the Company launched a farm-out process in the underexplored but highly prospective Tendrara Basin in Eastern Morocco. This opportunity provides access to high impact, short term exploration opportunities, in a stable country with very attractive fiscal terms. The Company has high graded three potential near term sub-salt drilling opportunities where, importantly, future discoveries have the potential to be commercialised through the planned infrastructure of Phase 2. The Company’s intention is to seek to secure an ambitious strategic partner for both the ongoing and planned development of the Concession together with exploration and appraisal of the Eastern Morocco exploration permits.

Near term drillable targets include the exploration prospect 'M5' located on the Anoual permits, together with the potential of the structures previously drilled on the Greater Tendrara permits, SBK-1 and TE-4. Both SBK-1 and TE-4, drilled in 2000 and 2006 respectively, encountered gas shows in the TAGI reservoir. SBK-1 flowed gas to surface during testing in 2000 at a peak rate of 4.41 mmscf/d post acidification but was not tested with mechanical stimulation. TE-4 was tested in 2006 but did not flow gas to the surface. Mechanical stimulation has proven to be a key technology to commercially unlock the potential of the

TAGI gas reservoir in the TE-5 Horst gas accumulation and accordingly the Company believes this offers potential to unlock commerciality elsewhere in the basin.

The Company looks forward to providing further updates on these near-term drilling opportunities as further evaluation and planning progresses.

Eastern Morocco licences

TENDRARA CONCESSION – 25 years from September 2018		
75% interest Operated	Production permit	133.5 km^2 acreage, 4 wells drilled

GREATER TENDRARA – 8 years from September 2018		
75% interest Operated	Exploration permit	14,411 km^2 acreage, 8 wells drilled
ANOUAL – 9 years and 4 months from September 2017		
75% interest Operated	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 km2. The Group views the Sidi Moktar licences as an exciting opportunity to explore high impact prospectivity within the sub-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 8-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 initial period, also remain unchanged.

The Sidi Moktar permit hosts a variety of proven plays. The licence 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 licence. 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 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. The Company believes that the deeper, sub-salt Triassic and Palaeozoic plays may contain significant prospective resources, in excess of any discovered volumes in the shallower stratigraphy.

The Company's evaluation of the exploration potential of Sidi Moktar, following an independent technical review, includes a mapped portfolio of sub-salt, 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, sub-salt plays.

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 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 auditor's review report to Sound Energy plc on the interim financial information for the six months ended 30 June 2022

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half yearly report for the 6 months ended 30 June 2022 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.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements in the half yearly financial report for the 6 months ended 30 June 2022 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.

Basis of Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. 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.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with UK adopted international accounting standard. The condensed set of financial statements included in this half yearly report has been prepared in accordance with UK adopted International Accounting Standard 34 "Interim Financial Reporting".

Material uncertainty in relation to going concern

We draw attention to Note 1 to the condensed interim consolidated financial statements. The Company's cash flow forecast for the twelve-month period to September 2023, indicates that additional funding will be required to enable the Company to fulfil 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.

Directors' Responsibilities

The directors are responsible for preparing the half yearly report in accordance with UK adopted International Accounting Standard 34 and the AIM Rules for Companies.

In preparing the half-yearly financial report, the directors are responsible for assessing the Groups ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our conclusion relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Crowe U.K. LLP
Statutory Auditor
London
6 September 2022

Sound Energy plc
Condensed Interim Consolidated Income Statement

	Notes	**Six months ended 30 June 2022 Unaudited £'000s**	Six months ended 30 June 2021 Unaudited £'000s	Year ended 31 Dec 2021 Audited £'000s
Other income	3	**41**	221	223
Reversal of impairment/(impairment loss) on development assets and exploration costs		**5,407**	(3,684)	4,024
Gross profit/(loss)		**5,448**	(3,463)	4,247
Administrative expenses		**(2,018)**	(1,028)	(1,695)
Group operating profit/(loss) from continuing operations		**3,430**	(4,491)	2,552
Finance revenue		**2**	1	4
Foreign exchange gain		**5,896**	416	2,210
Finance expense		**(720)**	(1,712)	(2,306)
Profit/(loss) for period before taxation		**8,608**	(5,786)	2,460
Tax expense	4	**(7)**	(42)	(42)
Profit/(loss) for period after taxation		**8,601**	(5,828)	2,418
Other comprehensive income/(loss)				
Items that may subsequently be reclassified to profit and loss account:				
Foreign currency translation income/(loss)		**13,136**	(1,472)	1,179
Total comprehensive income/(loss) for the period attributable to equity holders of the parent		**21,737**	(7,300)	3,597
		Pence	Pence	Pence
Basic and diluted profit/(loss) per share for the period attributable to equity holders of the parent	5	**0.52**	(0.42)	0.16

Sound Energy plc
Condensed Interim Consolidated Balance Sheet

	Notes	**30 June 2022 Unaudited £'000s**	30 June 2021 Unaudited £'000s	31 Dec 2021 Audited £'000s
Non-current assets				
Property, plant and equipment	6	**161,631**	128,175	139,666
Intangible assets	7	**35,434**	30,589	31,598
Interest in Badile land		**619**	730	663
Prepayments	8	**3,087**	–	–
		200,771	159,494	171,927
Current assets				
Inventories		**969**	851	871
Other receivables		**2,345**	1,586	852
Prepayments		**233**	105	31
Cash and short term deposits		**10,513**	2,261	2,913
		14,060	4,803	4,667
Total assets		**214,831**	164,297	176,594
Current liabilities				
Trade and other payables		**6,184**	2,068	1,500
		6,184	2,068	1,500
Non-current liabilities				
Loans and borrowings	9	**27,271**	20,098	20,039
		27,271	20,098	20,039
Total liabilities		**33,455**	22,166	21,539
Net assets		**181,376**	142,131	155,055
Capital and reserves				
Share capital and share premium		**38,621**	32,558	34,573
Shares to be issued		**404**	–	–
Warrant reserve		**1,607**	1,534	1,534
Foreign currency reserve		**8,212**	(7,575)	(4,924)
Accumulated surplus		**132,532**	115,614	123,872
Total equity		**181,376**	142,131	155,055

The financial statements were approved by the Board and authorised for issue on 6 September 2022 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**	**Shares to be issued £'000s**	**Accumulated surplus £'000s**	**Warrant reserve £'000s**	**Foreign currency reserves £'000s**	**Total equity £'000s**
At 1 January 2022	**16,292**	**18,281**	**–**	**123,872**	**1,534**	**(4,924)**	**155,055**
Total profit for the period	**–**	**–**	**–**	**8,601**	**–**	**–**	**8,601**
Other comprehensive income	**–**	**–**		**–**	**–**	**13,136**	**13,136**
Total comprehensive income for the period	**–**	**–**	**–**	**8,601**	**–**	**13,136**	**21,737**
Issue of share capital	**2,195**	**2,246**	**–**	**–**	**–**	**–**	**4,441**
Share issue costs	**–**	**(393)**	**–**	**–**	**–**	**–**	**(393)**
Fair value of warrants issued during the period	**–**	**–**	**–**	**–**	**73**	**–**	**73**
Vested nil options bonus awards	**–**	**–**	**404**	**–**	**–**	**–**	**404**
Share based payments	**–**	**–**	**–**	**59**	**–**	**–**	**59**
At 30 June 2022 (unaudited)	**18,487**	**20,134**	**404**	**132,532**	**1,607**	**8,212**	**181,376**

	Share capital £'000s	Share premium £'000s	Shares to be issued £'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 profit for the year	–	–	–	2,418	–	–	2,418
Other comprehensive income	–	–	–	–	–	1,179	1,179
Total comprehensive income for the period	–	–	–	2,418	–	1,179	3,597
Issue of share capital	3,030	2,004	–	–	–	–	5,034
Share issue costs	–	(1)	–	–	–	–	(1)
Fair value of warrants issued during the period	–	–	–	–	1,534	–	1,534
Reclassification on expiry of warrants	–	–	–	4,090	(4,090)	–	–
Share based payments	–	–	–	30	–	–	30
At 31 December 2021 (audited)	16,292	18,281	–	123,872	1,534	(4,924)	155,055

	Share capital £'000s	Share premium £'000s	Shares to be issued £'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/(loss)	–	–	–	–	–	(1,472)	(1,472)
Total comprehensive loss 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

Sound Energy plc
Condensed Interim Consolidated Statement of Cash Flows

	Six months ended 30 June 2022 Unaudited £'000s	Six months ended 30 June 2021 Unaudited £'000s	Year ended 31 Dec 2021 Audited £'000s
Cash flow from operating activities			
Cash flow from operations	**(1,080)**	(1,079)	(1,513)
Interest received	**2**	1	4
Tax paid	**(7)**	(42)	(42)
Net cash flow from operating activities	**(1,085)**	(1,120)	(1,551)
Cash flow from investing activities			
Capital expenditure	**(770)**	(290)	(959)
Exploration expenditure	**(311)**	(246)	(454)
Receipt from interest in Badile land	**–**	–	218
Net cash flow from investing activities	**(1,081)**	(536)	(1,195)
Cash flow from financing activities			
Net proceeds from equity issue	**3,680**	–	2,000
Loan drawdown	**5,532**	–	–
Interest payments	**(214)**	(587)	(878)
Lease payments	**–**	(15)	(31)
Net cash flow from financing activities	**8,998**	(602)	1,091
Net increase increase/(decrease) in cash and cash equivalents	**6,832**	(2,258)	(1,655)
Net foreign exchange difference	**768**	51	100
Cash and cash equivalents at the beginning of the period	**2,913**	4,468	4,468
Cash and cash equivalents at the end of the period	**10,513**	2,261	2,913

Notes to Statement of Cash Flows

	Six months ended 30 June 2022 Unaudited £'000s	Six months ended 30 June 2021 Unaudited £'000s	Year ended 31 Dec 2021 Audited £'000s
Cash flow from operations reconciliation			
Profit/(loss) for the period before tax	**8,608**	(5,786)	2,460
Finance revenue	**(2)**	(1)	(4)
(Increase)/decrease in drilling inventories	**(98)**	61	41
(Increase)/decrease in short term receivables and prepayments	**(666)**	(297)	511
Increase/(decrease) in accruals and short term payables	**702**	(155)	(841)
(Reversal of Impairment)/impairment loss on development assets and exploration costs	**(5,407)**	3,684	(4,024)
Impairment of interest in Badile land	**60**	–	50
Depreciation	**30**	101	168
Share based payments charge and bonuses payable in shares	**869**	18	30
Finance costs and exchange adjustments	**(5,176)**	1,296	96
Cash flow from operations	**(1,080)**	(1,079)	(1,513)

Non-cash transactions during the period included the issue of 17,901,146 ordinary shares, to members of staff and former employees of the Company in settlement of vested Restricted Stock Units (RSU) awards, a one-time bonus to one member of staff, and vested nil cost options. 1,617,621 ordinary shares were issued to third parties in settlement of £25,000 due for services provided (note 10).

The Group has provided collateral of $1.75 million (December 2021: $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.

Sound Energy plc
Notes to the Condensed Interim Consolidated Financial Statements

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 2021 is based on the statutory accounts for the year ended 31 December 2021. 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 2021 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 2022, the Group's unaudited cash balance was £5.5 million (including approximately £1.5 million held as collateral for a bank guarantee against licence commitments). The Directors have reviewed the Company's cash flow forecasts for the next 12-month period to September 2023. The Company commenced its Phase 1 of the Concession upon taking FID on the mLNG project. The Company is progressing Phase 2, pipeline led development of the Concession and is in the process of arranging financing after which FID is expected to be taken. The Company's forecasts and projections indicate that to fulfil its other obligations the Company will be required to seek additional funding.

The COVID-19 pandemic has not had a material impact on the Company's operations. Following the sanctioning of the mLNG project the Company will continue to monitor the situation as deterioration could impact the supply chain and affect the project schedule and therefore could 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 Interim condensed 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 rigorous cost control to conserve cash resources and the Directors believe that there are several corporate funding options available to the Company, including a farm-down on some of the Company's licences. Furthermore, based upon the Company's proven track record in raising capital in the London equity market and based on feedback from ongoing financing discussions, 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 Interim condensed 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 2022 are as follows:

Segment results for the period ended 30 June 2022

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Other income	–	–	41	41
Reversal of impairment of development assets and exploration costs	–	5,407	–	5,407
Administration expenses	(2,018)	–	–	(2,018)
Operating profit segment result	(2,018)	5,407	41	3,430
Interest receivable	2	–	–	2
Finance costs and exchange adjustments	5,176	–	–	5,176
Profit for the period before taxation	3,160	5,407	41	8,608

2. Segment information (continued)
The segments assets and liabilities at 30 June 2022 are as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	**632**	**164,705**	**35,434**	**200,771**
Current assets	**4,383**	**6,625**	**3,052**	**14,060**
Liabilities attributable to continuing operations	**(17,629)**	**(10,446)**	**(5,380)**	**(33,455)**

The geographical split of non-current assets at 30 June 2022 is as follows:

	Europe £'000s	Morocco £'000s
Development and production assets	**–**	**161,618**
Interest in Badile land	**619**	**–**
Fixtures, fittings and office equipment	**5**	**8**
Prepayment	**–**	**3,087**
Exploration and evaluation assets	**–**	**35,434**
Total	**624**	**200,147**

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)

The segments assets and liabilities at 30 June 2021 were 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 at 30 June 2021 was 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

2. Segment information (continued)

Segment results for the year ended 31 December 2021

	Corporate £'000s	Development and production £'000s	Exploration and appraisal £'000s	Total £'000s
Other income	–	–	223	223
Reversal of impairment of development assets and exploration costs	–	4,024	–	4,024
Administration expenses	(1,695)	–	–	(1,695)
Operating profit/(loss) segment result	(1,695)	4,024	223	2,552
Interest receivable	4	–	–	4
Finance costs and exchange adjustments	(96)	–	–	(96)
Profit/(loss) for the period before taxation from continuing operations	(1,787)	4,024	223	2,460

The segments assets and liabilities at 31 December 2021 were as follows:

	Corporate £'000s	Development and production £'000s	Exploration and appraisal £'000s	Total £'000s
Non-current assets	701	139,628	31,598	171,927
Current assets	3,097	244	1,326	4,667
Liabilities attributable to continuing operations	(20,669)	(94)	(776)	(21,539)

The geographical split of non-current assets at 31 December 2021 was as follows:

	Europe £'000s	Morocco £'000s
Development and production assets	–	139,628
Interest in Badile land	663	–
Fixtures, fittings and office equipment	5	33
Exploration and evaluation assets	–	31,598
Total	668	171,259

3. Other income

	30 June 2022 Unaudited £'000s	30 June 2021 Unaudited £'000s	31 Dec 2021 Audited £'000s
Research and development expenditure credit	**41**	221	223

During the period the Company's subsidiaries received credit under the HMRC 's Research and Development Expenditure Credit (RDEC) scheme for qualifying activities undertaken in prior years.

4. Taxation

	30 June 2022 Unaudited £'000s	30 June 2021 Unaudited £'000s	31 Dec 2021 Audited £'000s
Tax expense	**(7)**	(42)	(42)

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

In May 2021, the Group received from the tax authority an information request and a notification of its intention to assess Sound Energy Morocco SARL AU (''SARL AU''), a wholly owned subsidiary of Sound Energy Morocco East Limited (''SEME''). 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 $19.7 million. The Group believes that the assessment arises from a misunderstanding of the historical licence relinquishment and intercompany funding arrangements and appealed to the LTC which has up to 12 months to make a decision.

In September 2021, SEME filed to the Moroccan Court its challenge to the Local tax committee (''LTC'') finding that upheld the tax authority's claim of tax liabilities of approx. $2.5 million (excluding penalties and interests that may be levied) alleging 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.

In July 2022, the Company was informed that a public pronouncement had been made by the Court indicating that SEME's demand for the annulment of the LTC finding was rejected. Once the reasons for the decision are received, the Company, together with its advisors, will decide what further steps it will take including but not limited to lodging an appeal. The Company has 30 days from the date of receiving the reasons for the decision to make an appeal.

No liability has been recognised in the interim condensed consolidated 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 2022 £'000	30 June 2021 £'000	31 December 2021 £'000
Profit/(loss) after tax from continuing operations	**8,601**	(5,828)	2,418

	million	million	million
Weighted average shares in issue	**1,650**	1,382	1,494
Dilutive potential ordinary shares	**9**	–	1
Diluted weighted average number of shares	**1,659**	1,382	1,495

	Pence	Pence	Pence
Basic profit/(loss) per share from continuing operations	**0.52**	(0.42)	0.16
Diluted profit/(loss) per share from continuing operations	**0.52**	(0.42)	0.16

6. Property, plant and equipment

	30 June 2022 £'000s	30 June 2021 £'000s	31 December 2021 £'000s
Cost			
At start of period	**145,361**	143,375	143,375
Additions	**795**	313	997
Disposal	**(3)**	–	(305)
Exchange adjustments	**16,119**	(1,762)	1,294
At end of period	**162,272**	141,926	145,361
Depreciation			
At start of period	**5,695**	9,988	9,988
Charge/(reversal) for period	**(5,377)**	3,753	(3,916)
Disposal	**(2)**	–	(305)
Exchange adjustments	**325**	10	(72)
At end of period	**641**	13,751	5,695
Net book amount	**161,631**	128,175	139,666

Change in estimate

The discount rate and forecast gas price are significant estimates used by the Company to determine the recoverable amount when undertaking impairment testing of the Company's TE-5 Horst concession. The Company has taken account of changes in the market conditions during the period and accordingly revised the discount rate from 10% to 14.3% as at 30 June 2022. The Company previously used forecast gas price indexed to the Brent price for pricing the forecast uncontracted gas sales volumes. Following significant changes in market conditions during the period, the Company concluded that a forecast gas price referenced to the Title Transfer Facility (''TTF'') in the Netherlands is more representative of the current conditions in the gas market instead of indexation to the Brent price. After taking account of the changes to the discount rate and referenced forecast gas price to TTF, an impairment reversal of approximately £5.4 million has been recognised.

7. Intangibles

	30 June 2022 Unaudited £'000s	30 June 2021 Unaudited £'000s	31 December 2021 Audited £'000s
Cost			
At start of period	**42,556**	41,552	41,552
Additions	**401**	363	698
Exchange adjustments	**3,466**	(402)	306
At end of period	**46,423**	41,513	42,556
Impairment and Depreciation			
At start of period	**10,958**	10,895	10,895
Charge for period	**–**	32	60
Exchange adjustments	**31**	(3)	3
At end of period	**10,989**	10,924	10,958
Net book amount	**35,434**	30,589	31,598

8. Prepayments
Non-current prepayment of £3.1 million relates to activities of the Company's Phase 1 mLNG Project in the Concession.

9. Loans and borrowings

	30 June 2022 Unaudited £'000s	30 June 2021 Unaudited £'000s	31 December 2021 Audited £'000s
Non-current liability			
Secured bonds	**20,941**	20,098	20,039
Loan note- Afriquia	**6,330**	–	–
	27,271	20,098	20,039

The Company has €25.32 million secured bonds (the "Bonds"). The Bonds mature on 21 December 2027. The outstanding principal amount of the Bonds will be partially settled, at a rate of 5% every six months, commencing on 21 December 2023. The Bonds bear until maturity 2% cash interest paid per annum and 3% deferred interest per annum to be paid at redemption. The Company has 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. 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 2027. The Bonds are secured on the issued share capital of Sound Energy Morocco South Limited. After taking account of the terms of the Bonds, the effective interest is approximately 6.2%.

During the period, the Company made a drawdown of $7.5 million from the Company's $18.0 million 6% secured loan note facility with Afriquia Gaz maturing in December 2033 (the "Loan"). The drawn down principal bears 6% interest per annum payable quarterly but deferred and capitalised semi-annually until the second anniversary of entry of the Loan agreement. Thereafter, principal and deferred interest will be repayable annually in equal installments commencing December 2028. The loan is secured on the issued share capital of Sound Energy Meridja Limited. The effective interest on the drawdown amount is approximately 6.2%.

10. Shares in issue and share based payments
As at 30 June 2022, the Company had 1,848,702,674 ordinary shares in issue.

Share issues during the period

In May 2022, the Company issued 13,419,891 shares as one-time bonus to the Company's Chief Operating Officer following the delivery of all elements required to take FID for Phase 1 of the Tendrara Development and for establishing the commercial framework for monetisation of Phase 2 of the Tendrara development.

In May 2022, the Company issued 1,057,211 shares following vesting of historically awarded Restricted Stock Units (RSU) awards to members of staff and former employees.

In May 2022, the Company issued 1,617,621 to third parties as part settlement for services provided.

In June 2022, the Company issued 200,000,000 shares at 2 pence per share following an equity raise.

In June 2022, the Company issued 3,424,044 shares following the exercise of nil cost options by members of staff.

LTIP

During the period, the Company adopted a new long term incentive plan (the "LTIP"), designed to reward, incentivise and retain the Company's executives and senior management to deliver sustainable growth for shareholders.

The maximum number of awards which may be issued under the LTIP from time to time will be limited to 3% of the Company's issued share capital on the date of grant of awards, and together with all other options issued by the Company under any employee share scheme from time to time will not exceed an aggregate of 15% of the Company's issued ordinary

10. Shares in issue and share based payments (continued)

share capital in a rolling ten year period. Awards granted under the LTIP will generally be subject to a 3 year vesting period from the date of grant, the number of awards ultimately vesting dependent on the grantee's continued service and on additional performance conditions set by the Remuneration Committee.

The Company issued 48,875,515 options to subscribe for new Ordinary shares under the LTIP exercisable at 2.4 pence per share. The LTIP options expire 10 years after the grant.

Nil-cost options

In May 2022, the Company granted 20,236,628 nil-cost options to employees in settlement of bonus awards. The nil-cost options vested immediately and expire 5 years from the date of grant.

Warrants

In June 2022 as part of the equity raise, the Company issued broker warrants over a total of 7,056,875 ordinary shares exercisable at 2.75 pence per share for a period of 3 years.

Expired options and RSU

During the period to 30 June 2022, 5.0 million share options and 0.1 million RSU awards expired.

11. Post Balance Sheet events

In July 2022, the Company was informed that a public pronouncement had been made by the Court indicating that SEME’s demand for the annulment of the LTC finding was rejected (see Note 4).

In August 2022, the Company provided an update on progress being made in securing financing for the Company’s Phase 2 development of the Concession. Progress was being made by the Company’s mandated bank to secure debt financing and to finance the balance of the Phase 2 development costs not covered by debt, the Company announced that it had initiated a formal farm-out process of the Concession and the surrounding Greater Tendrara and Anoual exploration permits and had appointed an advisor to manage the process.

Sound Energy plc
Shareholder Information

Dealing Information

FT Share Price Index –
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Stock code – SOU.LN

Financial Calendar
Meetings
Annual General Meeting – June 2022

Announcements
2022 Interim – September 2022
2022 Preliminary – March 2023

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