

HALF YEARLY  
REPORT 2019

# Moroccan Gas: Monetisation

# Interim Report 2019

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**Sound Energy** is a Moroccan exploration focused onshore gas company, listed on the AIM (LSE: SOU), with a low cost 0.65 Tcf discovery (TE-5 Horst), and supportive cornerstone investors.

We are focused on the commercialisation of our Moroccan licences.

## Our Investment Proposition

- **Regional gas strategy underpinned by:**
  - Strong gas demand and local pricing
  - Moroccan Cornerstone Investor (OGIF)
  - Multiple strategic partners
- **Low cost 0.65 Tcf development in Eastern Morocco**
- **Significant exploration potential**



## Corporate Website

Visit [www.soundenergyplc.com](http://www.soundenergyplc.com) for the latest news, reports, presentations and videos

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 Sound Energy plc





Simon Davies  
Non-Executive Chairman

**“The first half of 2019 was an incredibly active, if from an exploration perspective, rather disappointing, period for the Company as it safely completed the first two wells of its 2018/19 Eastern Morocco exploration campaign on budget but without having achieved commercial gas flow rates, and then went on to initiate a process to explore monetisation options in respect of its Eastern Morocco portfolio”**

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## Operational and Corporate Highlights

- Initiation of marketing process of Eastern Moroccan licences
- Completion of interpretation of seismic data for Eastern Moroccan licences
- Preparation for 2D seismic for Sidi Moktar

## Financial Summary

- Structural reduction in administrative expenses going forward
- Cash balances as at 30 June 2019 of £11.1 million
- Equity placing to raise £2.4 million at 10 pence per ordinary share completed in June 2019

## Statement from the Chairman and Chief Executive Officer



**Simon Davies**  
Non-Executive Chairman



**James Parsons**  
CEO

The first half of 2019 was an incredibly active, if from an exploration perspective, rather disappointing period for the Company as it safely completed the first two wells of its 2018/19 Eastern Morocco exploration campaign on budget but without having achieved commercial gas flow rates. The Company subsequently went on to initiate a process to explore monetisation options in respect of its Eastern Morocco portfolio. The Eastern Morocco portfolio marketing process is ongoing and the Board continues to expect the marketing process to conclude prior to the end of 2019.

### Exploration Drilling Programme

Following the completion of the TE-10 exploration well in December 2018 and following analysis of the well logs and well results which indicated the presence of a potential gross reservoir interval between a measured depth ("MD") of 1899m MD and 2009m MD, along with the recovery of an unstimulated gas sample to surface, the Company began planning to conduct an unstimulated and stimulated well test over the reservoir interval in early 2019.

Following mobilisation of key equipment, the TE-10 well test was safely completed within schedule and within budget, further underlining the Company's operational capabilities.

Unfortunately, following stimulation, the well did not achieve a commercial gas flow rate and the decision was taken to end the well test and suspend the well after the installation of a downhole pressure gauge.

Following the test at the TE-10 well, the Company has taken an impairment charge of £6.5 million against the Company's intangible assets during the period.

The Company remains confident in the potential of its Eastern Moroccan portfolio which, following the drilling of five wells and the interpretation of new seismic data acquired by the Company, continues to contain a number of high impact opportunities and plays, including the existing Tendirra Production Concession and the TE-5 Horst discovery it contains and additional exploration potential in the TAGI and Palaeozoic formations across multiple leads and prospects.

## **Tendrara TE-5 Development**

During the period the Company continued to make progress in advancing the development of the Tendrara TE-5 discovery, including the continuation of Front End Engineering & Design by the Enagas-led consortium together with the progression of the Moroccan environmental permitting process and has continued to progress discussions in relation to a gas sales agreement (“GSA”) for offtake from the Tendrara Production Concession. The GSA is a critical element required to support project sanction. The Company has to date received a non-binding GSA offer from Morocco’s Office National de l’Electricité et de l’Eau Potable (“ONEE”) and negotiations on the terms of a GSA continue.

## **Structural Cost Reductions**

The Company continues to manage its cash resources prudently and accordingly, having paused its operational programme, the Company initiated a structural cost reduction programme aimed at materially reducing the Company’s ongoing operating expenditure during the period, including reductions in staff numbers and staff costs. Whilst these actions did not deliver a reduction in administrative costs during the period under review, the actions that have been and are being implemented are expected to deliver an annualised reduction in general and administrative expenses of over 50% from end 2019.

## **Sidi Moktar**

The Company continues to view its Sidi Moktar licences as an exciting opportunity to explore for high impact prospectivity within the pre-salt Triassic and Palaeozoic plays in the underexplored Essaouira Basin in Southern Morocco. An Environmental Impact Assessment for the proposed seismic programme was initiated and the Company continues to pursue discussions for a potential farm-down of its interest ahead of the programme commencing.

## **Italy Disposal**

Following the disposal of the Company’s Italian licence portfolio, work has continued with the new owners on the restoration of the Badile land, to which the Company retains its economic rights to receive the proceeds from a future sale.

## **Corporate**

In June, the Company successfully completed an equity placing of US\$3 million (before expenses) to strengthen the Company’s cash position as it continues to explore monetisation options for its Eastern Morocco portfolio. The Company remains well positioned for the second half of 2019 with a 30 June 2019 cash balance of £11.1 million.

**Simon Davies**  
Non-Executive Chairman

**James Parsons**  
Chief Executive Officer

# Eastern Morocco

GREATER TENDRARA		
– 8 years remaining		
47.5% interest	Exploration	14,559 km <sup>2</sup>
Operated	permit	acreage, 10 wells drilled
ANOUAL		
– 8 years remaining		
47.5% interest	Exploration	8,873 km <sup>2</sup>
Operated	permit	

Our Eastern Morocco Licences position the Company 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 to the Algerian TAGI gas play are already proven within the licence areas with the underlying Palaeozoic representing a significant upside opportunity to be explored.

Last year we completed the geological and geophysical studies required to mature a set of established leads into drillable prospects. We drilled two hi-impact exploration wells TE-9 and TE-10 to test two independent elements of the TAGI gas play outward of the TE-5 Horst discovery. Both wells were completed with zero lost time incidents.

TE-9 targeted a well-defined structural trap, the A1 Structure, similar in many respects to the TE-5 Horst. The TE-9 well was drilled to a total measured depth of 2925m and penetrated both the TAGI primary target and the Palaeozoic secondary target. The TAGI succession consisted of a 60m of dolomitized silty sandstone to microconglomerates.

The petrophysical analysis of the wireline data indicates the interval has no appreciable porosity and therefore lacks effective reservoir, the key pre-drill risk. The well also encountered approximately 630m of a Westphalian aged succession of fine sandstones siltstones and mudstones. The petrophysical analysis of the wireline data indicates the interval is of low porosity and therefore poor reservoir quality. The well was plugged and abandoned. However, subsequent analysis of the sampled drill gas in both the TAGI and Paleozoic intervals provided evidence of the working petroleum system supporting the Basin Model.

TE-10 targeted a combined structural-stratigraphic trap, North East Lakbir. The well was drilled to a total measured depth of 2,218m and encountering a 110m gross interval of the TAGI succession. Gas shows greater than background levels were observed and a MDT gas sample was successfully recovered. Petrophysical analysis identified the potential for to up to 15.4m of net pay distributed throughout the gross interval.

The TE-10 gas discovery was subsequently tested by mechanical stimulation over the uppermost primary zone (1,932 to 1938 mMD) by Schlumberger deploying Hi-Way technology, the first use of this technique in Morocco. After the initial clean up this zone was flowed and recovered a mixture of gas and liquid, largely comprising the fluid used in the stimulation. Two nitrogen lift operations were subsequently performed in an attempt to increase the gas flow rate, followed by nitrogen injection into the fracture network.

Despite the nitrogen lifts and injection the Company reports that the gas flow rates achieved were below the 1.5 mmscf/d to 2.0 mmscf/d commercial threshold required for development previously advised by the Company.

In total, approximately 64,500 scf of gas and approximately 2,300 bbls of liquid were recovered over an 11-day period. The secondary lower three zones did not flow gas unstimulated, and a sample of liquid subsequently interpreted as formation water, was recovered from the third zone (1,965 to 1,977mMD). The subsequent analysis of this water supported the

petrophysical interpretation of high gas saturations in the uppermost primary zone.

The Company deployed a downhole gauge to monitor the pressure in the well and has demobilized the test equipment and crew from the TE-10 well site. Further operations were placed on hold, we believe it is now the right time to explore the monetisation options available in respect of its Eastern Moroccan portfolio. With support from Rothschild & Co we are marketing the Eastern Moroccan portfolio with a view to assessing a sale, prior to FID.

Sound Energy internal resource estimates are unrisks original gas in place (gross)

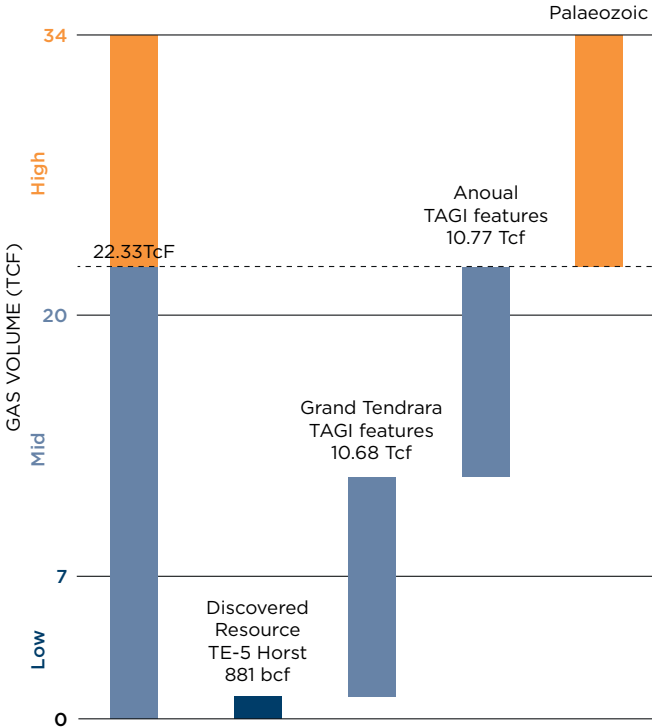


Fig. 1. Summary chart showing the internally estimated, gross, unrisks OGIP volumes for the Greater Tendirara and Anoual licences and Tendirara Production concession. The Eastern Morocco Development Volumes estimate is based on the sum of the externally certified, gross, mid case discovered and undiscovered OGIP estimates from the RPS resource certification exercise. The Prospective Resource estimates are Sound Energy internal estimates and have not been externally verified or certified.

# Southern Morocco

**SIDI MOKTAR ONSHORE**  
– 8 years remaining  
– Effective date 9/04/2018

75% interest

Exploration

4,712 km<sup>2</sup>

Operated

permit

The Sidi Mokhtar licence is located in the Essaouira Basin, in Southern Morocco. The licence covers a combined area of 4,712km<sup>2</sup>.

The Company views our Sidi Mokhtar 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 last year we were delighted to receive Ministerial approval of a new 8 year Sidi Mokhtar Onshore Petroleum Agreement.

The Sidi Mokhtar permit hosts a variety of proven plays. Previous exploration has focused on the shallower post salt plays. 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 Mokhtar, following an independent technical review, includes a mapped a portfolio of 27 Jurassic, Triassic and Paleozoic leads in a variety of hydrocarbon trap types. In addition, the Sidi Mokhtar licence also contains discovered resource in Jurassic reservoirs in the Kechoula field, which is located close to existing infrastructure and gas demand, including the large-scale Moroccan state owned OCP Phosphate plant.

Sound Energy is developing a work programme to mature the licence with specific focus on the deeper, pre salt plays. We aim to acquire new, high quality 2D seismic data in early 2020, focused on improving trap imaging. Preparations for this survey have commenced with the application of an EIA. This work will culminate in an exploration well, targeting a deep prospect towards the end of 2020.

The company has now initiated a formal 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.



# 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 2019 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 Cash flow Statement 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.

This report is made solely to the Company, in accordance with our instructions. Our review has been undertaken so that we might state to the Company those matters we are required to state to them in a 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 work, for this report, or for the conclusion we have reached.

## 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 European Union. 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 European Union.

## 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 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union 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 2020, 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  
18 September 2019

# Condensed Interim Consolidated Income Statement

	Notes	Six months ended 30 June 2019 Unaudited £'000s	Six months ended 30 June 2018 Unaudited £'000s	Year ended 31 Dec 2018 Audited £'000s
<b>Continuing operations</b>				
Exploration costs		(6,494)	-	(4,058)
<b>Gross loss</b>		<b>(6,494)</b>	-	(4,058)
Administrative expenses		(3,995)	(4,077)	(8,857)
<b>Group operating loss from continuing operations</b>		<b>(10,489)</b>	(4,077)	(12,915)
Finance revenue		57	35	233
Foreign exchange gain		116	1,885	3,387
Other losses				
- derivative financial instruments		-	(80)	(80)
External interest costs		(1,151)	(1,195)	(2,374)
<b>Loss for period from continuing operations before taxation</b>		<b>(11,467)</b>	(3,432)	(11,749)
Tax credit/(expense)		-	-	-
<b>Profit/(loss) for period from continuing operations after taxation</b>		<b>(11,467)</b>	(3,432)	(11,749)
<b>Discontinued operations</b>				
Profit from discontinued operations	10	-	5,236	4,953
<b>Total profit/(loss) for the period</b>		<b>(11,467)</b>	1,804	(6,796)
<b>Other comprehensive (loss)/income</b>				
Items that may be subsequently be reclassified to profit and loss account:				
Foreign currency translation income		349	2,872	7,614
<b>Total comprehensive profit/(loss) for the period attributable to equity holders of the parent</b>		<b>(11,118)</b>	4,676	818
		<b>Pence</b>	Pence	Pence
Basic and diluted profit/(loss) per share for the period from continuing and discontinued operations attributable to equity holders of the parent	3	(1.08)	0.17	(0.66)
Basic and diluted loss per share for the period from continuing operations attributable to equity holders of the parent	3	(1.08)	(0.34)	(1.14)

# Condensed Interim Consolidated Balance Sheet

As at 30 June 2019

	Notes	30 June 2019 Unaudited £'000s	30 June 2018 Unaudited £'000s	31 Dec 2018 Audited £'000s
<b>Non-current assets</b>				
Property, plant and equipment	4	152,844	680	151,005
Intangible assets	5	30,996	170,585	32,008
Interest in Badile land	10	985	–	1,618
		<b>184,825</b>	171,265	184,631
<b>Current assets</b>				
Inventories		1,020	602	929
Other receivables	6	1,963	8,235	3,365
Prepayments		126	227	178
Cash and short term deposits		11,091	14,664	20,536
		<b>14,200</b>	23,728	25,008
<b>Total assets</b>		<b>199,025</b>	194,993	209,639
<b>Current liabilities</b>				
Trade and other payables		6,243	5,925	10,068
Lease liabilities	8	181	–	–
		<b>6,424</b>	5,925	10,068
<b>Non-current liabilities</b>				
Lease liabilities	8	151	–	–
Loans and borrowings	7	21,337	19,290	20,476
		<b>21,488</b>	19,290	20,476
<b>Total liabilities</b>		<b>27,912</b>	25,215	30,544
<b>Net assets</b>		<b>171,113</b>	169,778	179,095
<b>Capital and reserves</b>				
Share capital and share premium		24,835	10,974	22,600
Warrant reserve		4,090	4,090	4,090
Foreign currency reserve		2,512	(2,579)	2,163
Accumulated surplus		139,676	157,293	150,242
<b>Total equity</b>		<b>171,113</b>	169,778	179,095

The financial statements were approved by the Board and authorised for issue on 18 September 2019 and were signed on its behalf by:

James Parsons, Director

Simon Davies, Director

# Condensed Interim Consolidated Statement of Changes in Equity

	Share capital £'000s	Share premium £'000s	Accumulated surplus/ (deficit) £'000s	Warrant reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s	
<b>At 1 January 2019</b>	<b>10,551</b>	<b>12,049</b>	<b>150,242</b>	<b>4,090</b>	<b>2,163</b>	<b>179,095</b>	
Total loss for the period	-	-	(11,467)	-	-	(11,467)	
Other comprehensive income	-	-	-	-	349	349	
Total comprehensive income for the period	-	-	(11,467)	-	349	(11,118)	
Issue of share capital	245	2,228	-	-	-	2,473	
Share issue costs	-	(238)	-	-	-	(238)	
Share based payments	-	-	901	-	-	901	
<b>At 30 June 2019 (unaudited)</b>	<b>10,796</b>	<b>14,039</b>	<b>139,676</b>	<b>4,090</b>	<b>2,512</b>	<b>171,113</b>	
At 1 January 2018	10,159	277,670	(115,508)	4,090	(3,918)	172,493	
Total loss for the year	-	-	(6,796)	-	-	(6,796)	
Other comprehensive loss	-	-	-	-	7,614	7,614	
Total comprehensive loss	-	-	(6,796)	-	7,614	818	
Issue of share capital	392	12,687	-	-	-	13,079	
Share issue costs	-	(570)	-	-	-	(570)	
Reclassification to profit and loss account on Italy divestment	-	-	-	-	(1,533)	(1,533)	
Reclassification on share premium account cancellation	-	(277,738)	277,738	-	-	-	
Distribution to shareholders on Italy divestment	-	-	(7,994)	-	-	(7,994)	
Share based payments	-	-	2,802	-	-	2,802	
At 31 December 2018	10,551	12,049	150,242	4,090	2,163	179,095	
	Share capital £'000s	Share premium £'000s	Shares to be issued £'000s	Accumulated deficit £'000s	Warrant reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2018	10,159	277,670	-	(115,508)	4,090	(3,918)	172,493
Total loss for the period	-	-	-	1,804	-	-	1,804
Other comprehensive income	-	-	-	-	-	2,872	2,872
Total comprehensive income for the period	-	-	-	1,804	-	2,872	4,676
Reclassification to profit and loss account on Italy divestment	-	-	-	-	-	(1,533)	(1,533)
Reclassification on share premium account cancellation	-	(277,738)	-	277,738	-	-	-
Distribution to shareholders on Italy divestment	-	-	-	(7,994)	-	-	(7,994)
Issue of share capital	41	842	-	-	-	-	883
Share based payments	-	-	-	1,253	-	-	1,253
At 30 June 2018 (unaudited)	10,200	774	-	157,293	4,090	(2,579)	169,778



# Condensed Interim Consolidated Cash Flow Statement

	Six months ended 30 June 2019 Unaudited £'000s	Six months ended 30 June 2018 Unaudited £'000s	Year ended 31 Dec 2018 Audited £'000s
<b>Cash flow from operating activities</b>			
Cash flow from operations	(6,591)	(1,202)	(281)
Interest received	57	61	259
<b>Net cash flow from operating activities</b>	<b>(6,534)</b>	<b>(1,141)</b>	<b>(22)</b>
<b>Cash flow from investing activities</b>			
Capital expenditure and disposals	(963)	(382)	(937)
Exploration expenditure	(4,351)	(3,122)	(8,855)
Disposal of Italian operations	761	(2,655)	(2,655)
<b>Net cash flow from investing activities</b>	<b>(4,553)</b>	<b>(6,159)</b>	<b>(12,447)</b>
<b>Cash flow from financing activities</b>			
Net proceeds from equity issue	2,235	607	12,218
Interest payments	(627)	(634)	(1,274)
Lease payments	(83)	-	-
<b>Net cash flow from financing activities</b>	<b>1,525</b>	<b>(27)</b>	<b>10,944</b>
Net decrease in cash and cash equivalents	(9,562)	(7,327)	(1,525)
Net foreign exchange difference	117	(20)	50
Cash and cash equivalents at the beginning of the period	20,536	22,011	22,011
<b>Cash and cash equivalents at the end of the period</b>	<b>11,091</b>	<b>14,664</b>	<b>20,536</b>
<b>Cash flow from operations reconciliation</b>			
Profit/(loss) before tax from continuing operations	(11,467)	(3,432)	(11,749)
Profit/(loss) before tax from discontinued operations	-	5,236	4,953
Total profit/(loss) for the period before tax	(11,467)	1,804	(6,796)
Finance revenue	(57)	(61)	(259)
Exploration expenditure written off and impairment of assets	6,494	-	4,058
Gain on disposal of Italian operations	-	(3,967)	(3,684)
Decrease in accruals and short term payables	(4,365)	(379)	1,078
Depreciation	266	176	164
Share based payments charge and bonuses paid in shares	901	1,529	3,094
Decrease/(Increase) in drilling inventories	(91)	28	(299)
Loss on derivative financial instruments	-	80	80
Finance costs and exchange differences	1,035	(690)	(1,013)
Foreign currency translation gain reclassified from other comprehensive income	-	(1,533)	(1,533)
Decrease in short term receivables and prepayments	693	1,811	4,829
<b>Cash flow from operations</b>	<b>(6,591)</b>	<b>(1,202)</b>	<b>(281)</b>

# 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 2016. The financial information for the year ended 31 December 2018 is based on the statutory accounts for the year ended 31 December 2018. 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 2018 statutory accounts, except for the adoption of IFRS 16, Leases and in accordance with IAS 34 Interim Financial Reporting. The Group adopted IFRS 16 which became effective on 1 January 2019. As allowed by IFRS 16, the Group used the modified retrospective method and therefore the comparatives were not restated and the reclassifications and adjustments arising from the adoption of IFRS 16 were recognised in the opening balance sheet on 1 January 2019. The Group's leases are in respect of the UK and Morocco office premises. On adoption of IFRS 16, the Group recognised £0.3 million as lease liability and right of use assets of the same amount, adjusted for prepaid amounts relating to the lease. The Group elected to recognise as an expense on a straight-line basis for short-term leases (lease term of 12 months or less) and leases of low value assets. Further information on the leases is provided in note 8.

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

## Going concern

As at 30 June 2019, the Company's cash balance was £11.1 million. The Company's Condensed Interim Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the settlement of liabilities and commitments in the normal course of operations. The Company has paused further operations as it explores the monetisation options available to the Company in respect of its Eastern Moroccan licences. The Company has initiated a structural cost reduction programme to conserve cash resources and meet its ongoing obligations including the settlement of coupon interest on the Company's €28.8 million bond. The Company's cashflow forecast for the twelve-month period to September 2020 indicates that additional funding will be required to enable the Company to meet its obligations.

These conditions indicate the existence of a material uncertainty which, were it not for the expected funding due from the marketing process, 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 directors have formed a judgement based on the Company's proven success in raising capital and a review of the strategic options available to the Company, that the going concern basis should be adopted 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 2019 are as follows:

### Segment results for the period ended 30 June 2019

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Exploration costs	-	-	(6,494)	(6,494)
Administration expenses	(3,995)	-	-	(3,995)
<b>Operating loss segment result</b>	<b>(3,995)</b>	<b>-</b>	<b>(6,494)</b>	<b>(10,489)</b>
Finance revenue	57	-	-	57
Finance costs and exchange adjustments	(1,035)	-	-	(1,035)
<b>Loss for the period before taxation</b>	<b>(4,973)</b>	<b>-</b>	<b>(6,494)</b>	<b>(11,467)</b>

The segments assets and liabilities at 30 June 2019 are as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Capital expenditure	1,590	152,247	30,988	184,825
Other assets	12,490	-	1,710	14,200
Total liabilities	(22,820)	-	(5,092)	(27,912)

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

	UK £'000s	Morocco £'000s
Development and production assets	-	152,247
Interest in Badile land	985	-
Fixtures, fittings and office equipment	75	198
Right of use assets	120	204
Exploration and evaluation assets	-	30,824
Software	8	164
Total	1,188	183,637

# Notes to the Condensed Interim Consolidated Financial Statements

## 2. Segment information (continued)

### Segment results for the period ended 30 June 2018

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Administration expenses	(4,077)	–	–	(4,077)
Operating loss segment result	(4,077)	–	–	(4,077)
Finance revenue	35	–	–	35
Gain/(loss) on derivative financial instruments	(80)	–	–	(80)
Finance costs and exchange adjustments	690	–	–	690
Profit/(loss) for the period before taxation	(3,432)	–	–	(3,432)

The segments assets and liabilities at 30 June 2018 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Capital expenditure	680	–	170,585	171,265
Other assets	19,999	–	3,729	23,728
Liabilities attributable to continuing operations	(21,080)	–	(4,135)	(25,215)

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

	UK £'000s	Morocco £'000s
Fixtures, fittings and office equipment	148	532
Exploration and evaluation assets	–	170,449
Software	45	91
Total	193	171,072



## 2. Segment information (continued)

### Segment results for the year ended 31 December 2018

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Exploration costs	-	-	(4,058)	(4,058)
Administration expenses	(8,857)	-	-	(8,857)
Operating loss segment result	(8,857)	-	(4,058)	(12,915)
Interest receivable	233	-	-	233
Loss on derivative financial instruments	(80)	-	-	(80)
Finance costs and exchange adjustments	1,013	-	-	1,013
Loss for the period before taxation from continuing operations	(7,691)	-	(4,058)	(11,749)

The segments assets and liabilities at 31 December 2018 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	405	150,600	33,626	184,631
Current assets	22,056	-	2,952	25,008
Liabilities attributable to continuing operations	(22,377)	(320)	(7,847)	(30,544)

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

	UK £'000s	Morocco £'000
Development and production assets	-	150,600
Interest in Badile land	1,618	-
Fixtures, fittings and office equipment	113	292
Exploration and evaluation assets	-	31,799
Software	24	185
Total	1,755	182,876

# Notes to the Condensed Interim Consolidated Financial Statements

## 3. 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 and warrants were converted into shares. Basic and diluted profit/(loss) per share is calculated as follows:

	30 June 2019 £'000	30 June 2018 £'000	31 December 2018 £'000
Loss after tax from continuing operations	(11,467)	(3,432)	(11,749)
Profit/(loss) after tax from discontinued operations	-	5,236	4,953
Total profit/(loss) for the period	(11,467)	1,804	(6,796)

	million	million	million
Weighted average shares in issue	1,057	1,019	1,035
Dilutive potential ordinary shares	-	33	18
Diluted weighted average number of shares	1,057	1,052	1,053

## Basic profit/(loss) per share

	Pence	Pence	Pence
Basic loss per share from continuing operations	(1.08)	(0.34)	(1.14)
Basic profit/(loss) per share from discontinued operations	-	0.51	0.48
Basic profit/(loss) per share from continuing and discontinued operations	(1.08)	0.17	(0.66)

## Diluted profit/(loss) per share

	Pence	Pence	Pence
Diluted loss per share from continuing operations	(1.08)	(0.34)	(1.14)
Diluted profit/(loss) per share from discontinued operations	-	0.50	0.47
Diluted profit/(loss) per share from continuing and discontinued operations	(1.08)	0.17	(0.66)

The effect of the potential dilutive shares noted above on the earnings per share from continuing operations would be anti-dilutive and therefore are not included in the above calculation of diluted earnings per share from continuing operations.

#### 4. Property, plant and equipment

	30 June 2019 £'000s	30 June 2018 £'000s	31 Dec 2018 £'000s
<b>Cost</b>			
At start of period	151,394	646	646
Transfer from intangible assets	-	-	146,245
Additions	1,390	382	882
Exchange adjustments	620	6	3,625
Disposal	(1)	-	(4)
<b>At end of period</b>	<b>153,403</b>	1,034	151,394
<b>Depreciation</b>			
At start of period	389	274	274
Exchange adjustments	(51)	2	21
Disposals	-	-	(2)
Charge for period	221	78	96
At end of period	559	354	389
Net book amount	152,844	680	151,005

#### 5. Intangibles

	30 June 2019 Unaudited £'000s	30 June 2018 Unaudited £'000s	31 Dec 2018 Audited £'000s
<b>Cost</b>			
At start of period	36,412	164,018	164,018
Additions	5,268	3,408	11,447
Transfer to property, plant & equipment	-	-	(146,245)
Exchange adjustments	383	3,304	7,192
At end of period	42,063	170,730	36,412
<b>Impairment and Depreciation</b>			
At start of period	4,404	79	79
Charge for period	6,539	64	4,126
Exchange adjustments	124	2	199
At end of period	11,067	145	4,404
Net book amount	30,996	170,585	32,008

Approximately £6.5 million impairment charge was recognised during the period following sub-commercial well results at TE-10 well, Onshore Morocco. The impairment charge is reported within exploration costs in the profit and loss account.

# Notes to the Condensed Interim Consolidated Financial Statements

## 6. Other receivables

	30 June 2019 Unaudited £'000s	30 June 2018 Unaudited £'000s	31 Dec 2018 Audited £'000s
Italian Vat refundable	-	2,730	-
Interest in Badile land	-	1,592	-
Other receivable	1,963	3,913	3,365
	1,963	8,235	3,365

## 7. Loans and Borrowings

	30 June 2019 Unaudited £'000s	30 June 2018 Unaudited £'000s	31 Dec 2018 Audited £'000s
<b>Non-current liability</b>			
5-year secured bonds	21,337	19,290	20,476
	21,337	19,290	20,476

The Company has 5-year non-amortising secured bonds with an aggregate value of €28.8 million. The bonds are secured over the share capital of Sound Energy Morocco South Limited, have a 5% coupon and were issued at a 32% discount to par value. Alongside the bonds, the Company issued 70,312,500 warrants to subscribe for new ordinary shares in the Company at an exercise price of 30 pence per ordinary share and an exercise period of approximately five years, concurrent with the term of the bonds. The effective interest rate is approximately 16.3%. The 5-year secured bonds are due in June 2021.



## 8. Lease liabilities

	30 June 2019 Unaudited £'000s	30 June 2018 Unaudited £'000s	31 December 2018 Audited £'000s
Amounts due within one year	181	–	–
Amounts due after more than one year	151	–	–
	332	–	–

The Group has adopted IFRS 16 Leases, from 1 January 2019. As allowed by IFRS 16, the comparatives were not restated and the reclassifications and the adjustments arising from the new leasing rules were recognised in the opening balance sheet on 1 January 2019. The Group's leases are in respect of the UK and Morocco offices premises. On adoption of IFRS 16, the Group recognised lease liabilities in relation to the office leases which were previously classified as operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the individual entities incremental borrowing rates. The weighted average incremental borrowing rate was 5.6%.

The associated right of use assets for the office leases were measured at an amount equal to the lease liability but adjusted for prepaid amounts relating to the lease recognised in the balance sheet as at 31 December 2018. The right of use assets are reported within property, plant and equipment and had a carrying value of £0.3 million as at 30 June 2019.

## 9. Shares in issue and share based payments

As at 30 June 2019, the Company had 1,079,570,324 ordinary shares in issue. On 18 June 2019, the Company announced the issue of 23,830,328 shares at 10 pence per share following a placing. The net proceeds of the placing were approximately £2.1 million.

During the period to 30 June 2019, the Company granted 0.8 million restricted stock units awards to staff under its long term incentive plan. 625,000 share options were exercised and 550,000 expired during the period.

# Notes to the Condensed Interim Consolidated Financial Statements

## 10. Discontinued operations

On 5 October 2017, the Company announced that it had entered into non-binding conditional heads of terms with Saffron Energy plc ("Saffron") and Po Valley Energy Limited under which it was proposed that the Company disposed of its portfolio of Italian interests and permits through the sale of Sound Energy Holdings Italy ("SEHIL") and Apennine Energy SpA ("APN") (the "disposal") for the consideration of 185,907,500 new ordinary shares in Saffron (subsequently renamed Coro Energy plc) issued directly to the Company's shareholders. On 23 January 2018, the Company announced that it had entered into a binding agreement with Saffron for the disposal and the transaction completed on 9 April 2018. The value of the 185,907,500 Coro Energy plc shares distributed to the Company's shareholders was £8.0 million using the completion date share price of 4.3 pence. The Company was also entitled to receive proceeds of VAT refund from the Badile well operations and retained economic interest in Badile land. The Company was also obligated to fund Badile land restoration for a fixed amount. During the period to 30 June 2019 the Company received approximately £0.8 million VAT refund from the Badile well operations and recognised £0.6 million impairment charge in respect of the interest in Badile land due to decline in expected sale price.

The results of the Italian operations for the period are presented below:

	Six months ended 30 June 2019 Unaudited £'000	Six months ended 30 June 2018 Unaudited £'000	Twelve months ended 31 December 2018 Audited £'000
Revenue	-	140	140
Operating costs	-	(170)	(170)
Exploration costs	-	(25)	(25)
<b>Gross loss</b>	-	(55)	(55)
Administrative expenses	-	(235)	(235)
<b>Operating loss from discontinued operations</b>	-	(290)	(290)
Finance revenue	-	26	26
Foreign currency translation gain reclassified from other comprehensive income	-	1,533	1,533
Gain on disposal of Italian operations	-	3,967	3,684
<b>Profit/(loss) for the period before and after taxation from discontinued operations</b>	-	5,236	4,953

The net cash flows for the period were as follows:

Net cash flow from operating activities	-	1,897	1,897
Net cash flow from investing activities	761	-	(2,655)
Net cash flow from financing activities	-	-	-
<b>Net cash outflow</b>	<b>761</b>	<b>1,897</b>	<b>(758)</b>

## 11. Post Balance Sheet events

There are no significant subsequent events to report.

# Shareholder Information

## 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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