



**SOUND
ENERGY** PLC
Exploration & Production

ANNUAL REPORT
& ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 2018

Hunting for gas under Moroccan Skies



Annual Report 2018

Sound Energy is a well-funded exploration focused onshore gas company, listed on AIM (LSE:SOU), with a low cost 0.65 Tcf discovery (TE-5 Horst), a second TAGI discovery (TE-10), and a strategic partnership with Schlumberger.

Our strategy is focused on the further exploration and development of our Moroccan portfolio.

Reasons to invest



- **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**
- **Recent second TAGI discovery (at TE-10) awaiting test**
- **Significant exploration potential**
 - Eastern Morocco up to 34 Tcf*
 - Southern Morocco up to 11 Tcf*

*Gross 100% unrisksed

+ Read about our **Business Model** on page 06



Delivering on our promises

2018 was a very active year for Sound Energy delivering on our priorities to de-risk and advance our existing discovery and unlock our significant exploration potential.

 Read more in the **Financial Review** on page 24

Corporate website

Visit www.soundenergyplc.com for the latest news, reports, presentations and videos



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Highlights

Morocco

- Completion of 2,850 line kilometres fully carried seismic programme
- Recent second TAGI discovery at TE-10 at Tendirara with testing underway
- De-risking of existing TE-5 discovery; including production concession awarded and GSA approaching
- Heads signed for Infrastructure BOOT with Enagas, Elecnor and Fomento

2nd TAGI discovery

at TE-10

+ Read more in the **Operational Review** on page 16



Corporate

- Cash balance as at 31 December 2018 of £20.5 million
- Completion of disposal of Italian interests to centre strategic focus on high impact Moroccan assets

£20.5 million

cash balance as at 31 December 2018

+ Read more in the **Financial Review** on page 24





Chairman's Statement



Richard Liddell
Non-executive Chairman

Delivering on promises we've made

What we promised

- Developing existing gas discovery
- Unlocking upside through seismic acquisition and bold exploration programmes

What we delivered

- Submission and award of the production concession. FEED and BOOT in advanced stages
- Second TAGI discovery with stratigraphic upside identified
- Italian exit
- Completed seismic programme

A busy year

2018 was a very active year for Sound Energy delivering on our priorities to de-risk and advance our existing discovery and unlock our significant exploration potential.

During the year, Sound Energy focused on safely delivering its Moroccan growth strategy which culminated in the recommencement of exploration drilling operations on the Tendirara licences in Eastern Morocco. During the year, in addition to the exploration drilling programme, the Company was awarded a 25-year exploitation (production) concession for the TE-5 discovery at Tendirara (less than two years from discovery), entered into a Heads of Terms with a Spanish consortium embracing the development infrastructure, completed its fully Schlumberger-carried Eastern Morocco 2D seismic programme, commenced the process to introduce Schlumberger directly onto the Eastern Morocco licences and was awarded new eight-year Petroleum Agreements for Sidi Mokhtar, Tendirara and Anoual. The Company is now well advanced in the execution of its Moroccan strategy which includes early options for monetisation.

Strengthening the Moroccan Portfolio

The Company continues to believe that the TAGI and Palaeozoic plays across Tendirara and Anoual have the potential to become a material hydrocarbon province, transforming both the Company and the Moroccan gas industry. In 2018, the Company strengthened its licence position by securing a new eight-year licence combining Tendirara and Matarka. In addition, the Company's Moroccan strategic partner, Schlumberger, underlined its commitment to its partnership with Sound Energy and to the Tendirara licences by issuing notice to convert its synthetic commercial interest in the licences to a full participating licence interest.

Sound Energy continued to deepen its knowledge of the Eastern Morocco basin through, in part, the completion in August 2018 of the US\$27.2 million seismic programme which was fully funded by Schlumberger. This work has supported our new Eastern Morocco basin model and was critical to minimising the risk of the 2018/19 exploration drill programme.

Exploration Drilling Programme

In October, following an extensive pre-drill exploration work programme and detailed well planning, the Company embarked upon drilling the first well in a three-well exploration campaign in Eastern Morocco. The first well, TE-9, targeting the A1 structure at Tendirara, was safely drilled ahead of schedule and under budget. The well encountered approximately 60m gross section in the primary TAGI objective, consisting of dolomitized silty sandstones. In the secondary Palaeozoic objective, consisted of an approximately 630m of a Westphalian aged succession of fine sandstones siltstones and mudstones. The wireline logs did not indicate the presence of producible gas in either the primary or secondary objectives. Subsequent petrophysical analysis indicated that the intervals are of low porosity and therefore poor reservoir quality. Despite the poor reservoir quality, subsequent laboratory analysis of the drill gas samples from the well confirmed the presence of thermogenic hydrocarbons supporting the Company's basin model and the significant remaining exploration potential in the area.

In December, the Company commenced the second well (TE-10) in the exploration programme, targeting a TAGI structural-stratigraphic play. TE-10 was also safely drilled ahead of schedule and under budget, underlining the Company's operational capabilities. The well logs indicated a potential gross reservoir interval between a measured depth ("MD") of 1,899 metres and 2,009 metres MD. The gas shows encountered during drilling and the petrophysical analysis both indicate that net pay extends below the seismically mapped structural closure. These observations suggest that the gas accumulation most likely extends up-dip into the larger North East Lakbir structural-stratigraphic trap. The well also encountered additional thin-bedded net pay and following the first successful modular formation dynamic testing ("MDT") in the TAGI sands at Tendrara, the Company successfully recovered a gas sample to surface.

Following completion of TE-10 drilling, the Company commenced the planning process for an unstimulated and stimulated well test over the reservoir interval in early 2019.

Tendrara TE-5 Development

The Company made considerable progress in advancing the development of the Tendrara TE-5 discovery. An independent Competent Person's Report ("CPR") in relation to the discovery was completed in January 2018 – the report certified mid-case resources of 651 Bcf unrisksed gas originally in place (GOIP) with an upside case of 873 Bcf and a downside case of 349 Bcf.

In June, following a competitive market enquiry process, a Heads of Terms for front end engineering design ("FEED") for a 20-inch (240mmsc/d capacity) gas export pipeline and central processing facilities ("CPF") was signed with a consortium of Enagas, Elecnor and Fomento who bring strong industry expertise and capabilities.

An innovative 'build-own-operate-transfer' ("BOOT") structure was agreed with the consortium which further underpins the financial attractiveness of the development by leveraging vendor financing. FEED for the pipeline was completed in November, with FEED for the CPF scheduled to be completed in early 2019. Since June, and in parallel with the technical work, the Company has made progress to further develop the structuring and commercial framework relating to the proposed BOOT transaction.

Positive discussions have continued to progress the gas sales agreement ("GSA") for offtake which forms a key building block to support project sanction. The Company expects to sign binding GSA terms shortly.

The Company continues to maintain a strong focus on health, safety, environment and the community, with the Company working in partnership with a local charity on the renovation of the Matarka healthcare centre.

Sidi Mokhtar

The Company views its Sidi Mokhtar 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. In June, the Company was delighted to receive Ministerial approval of a new eight-year Sidi Mokhtar Onshore Petroleum Agreement. An Environmental Impact Assessment for the proposed seismic programme is underway and the Company continues to assess a potential farm down of the asset, while retaining operatorship of the permits, ahead of potential exploration operations in 2019.

Italy Disposal

Following the agreement entered into in 2017 with Saffron Energy PLC (now Coro Energy plc) to divest the Company's Italian portfolio, the sale was successfully completed in April 2018. This divestment allowed the Company to centre its strategic focus and investments on its high-impact Moroccan portfolio whilst providing Sound Energy shareholders with direct shareholdings in Coro Energy plc. Work continues with Coro Energy plc on the restoration of the Badile land, to which the Company retains its economic rights to receive the proceeds of a future sale.

Corporate

The Company remains in a strong financial position for 2019 with cash balances remaining at 31 December 2018 of US\$26 million. In June, the Company successfully completed an equity placing of US\$15 million before expenses. The Company has significantly strengthened the Board during 2018 with Richard Liddell being appointed as Non-executive Chairman, David Clarkson joining as a Non-executive Director and JJ Traynor, the Company's Chief Financial Officer, joining the Board.

Richard Liddell | Chairman (Non-executive)

Business Model

Creating shareholder value through high-risk, high-reward frontier exploration.

Key Partners

Strategic Industry Partners

Our strategic industry partnerships allow **Sound Energy** to achieve more than we could alone. Our partners enable scale, help to technically de-risk assets and provide funding for our activities. They contribute to our ability to move quickly and take advantage of opportunities, as well as our own creative technical, commercial and financial expertise. The partnerships we create are mutually beneficial, enhancing both our, and our partners' businesses. We play to our strengths and are stronger together.

Cornerstone Investors

Our cornerstone investors give **Sound Energy** a strong financial foundation, bringing to the table both asset opportunities and the funds to deliver discoveries. Having our cornerstone investors represented on the Board helps align management and shareholders, ensuring that our strategy plays to our strengths and delivers value. Our cornerstone investors bring more than just funds to the business – their skills, knowledge and relationships help us deliver successful outcomes.

[+](#) Read about our **Partners** on page 12

The Building Blocks of Our Business

Our **business model is underpinned** by a series of **fundamental building blocks** that we must have in place to manage our risks and provide us with our licence to operate.

An engaged, industry-experienced and entrepreneurial team with a balance of technical, commercial and financial skills.

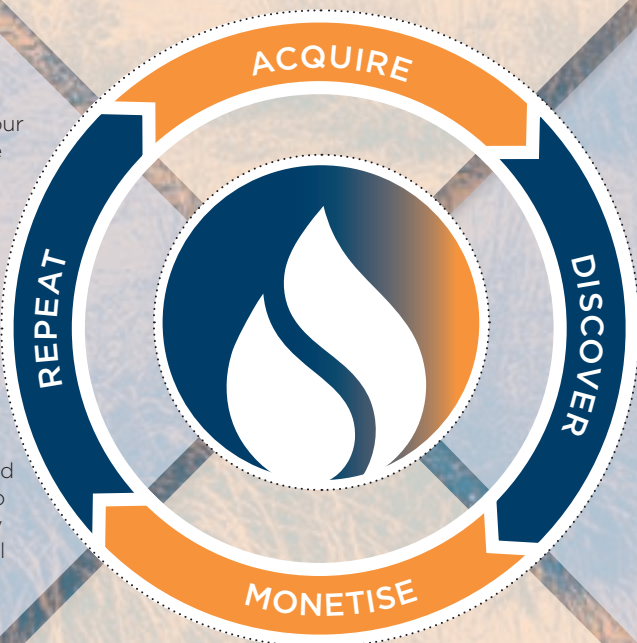
Strong governance coupled with effective risk management.

A culture of safe and sustainable operations, enabling us to achieve high standards of health and safety and minimise our environmental and social impact.



Sound Energy is continually looking for new opportunities to diversify our portfolio. We screen for corporate and asset acquisitions which fit with our high-impact exploration strategy, onshore or shallow water, in countries with attractive fiscal terms. We have demonstrated our deal-making capability to enter assets pre-discovery and can apply the same skills to gas commercialisation and asset or corporate exit as required. We can move quickly to take advantage of the attractive opportunities identified by our team under current market conditions.

Our business, like the oil industry, is cyclical. We acquire, we discover, we deliver to our shareholders – and then we repeat. We have shown we can grow counter-cyclically and we can capitalise on the re-bounce and boom of the industry. We are passionate about our business and enjoy what we do. We carefully manage our financial resources and exposures, use innovative methods to deliver acquisitions and fund discoveries, and then we do it all over again. Our energy is endless. Our primary goal is to deliver returns to shareholders.



We are well-positioned in this environment to take advantage of our exciting exploration acreage and the significantly reduced cost of drilling to deliver material gains to shareholders. We are permanently placing emphasis on efficient exploration and a low-cost of finding reserves. We have demonstrated our capability to discover major fields and deliver wells, and carefully manage our technical and financial risk.

Sound Energy recognises that a fundamental element of value creation is swift, innovative and focused commercialisation of our opportunities. We continue to develop and move forward our portfolio through the gas industry life cycle at pace - leveraging the skills of our team, working with trusted external advisers and collaborating closely with our key industrial partners and the Moroccan state to develop industry-leading commercial outcomes.



Strategy and KPIs

Our overall aim.

The strategic focus for the Company is the further exploration and development of our Moroccan portfolio. Key steps we plan to take to deliver increased shareholder value.

Grow the value of our assets and de-risk upside volumes

- De-risk 34 Tcf exploration potential in Eastern Morocco and up to 11 Tcf in Sidi Mokhtar through shooting new seismic and aerial gradiometry
- Prove further volumes with bold exploration programme in Eastern Morocco, each with multi Tcf potential

Highlights

- Completion of seismic programme in Eastern Morocco
- Finalisation of the TE-10 well location
- Securing a new eight-year licence combining Tendirara and Matarka into the Greater Tendirara licence
- Award of a new Petroleum Agreement for Sidi Mokhtar

Commercialisation of existing gas discovery

- Develop existing 0.65 Tcf throughout gas discovery, with first gas targeted for 2020

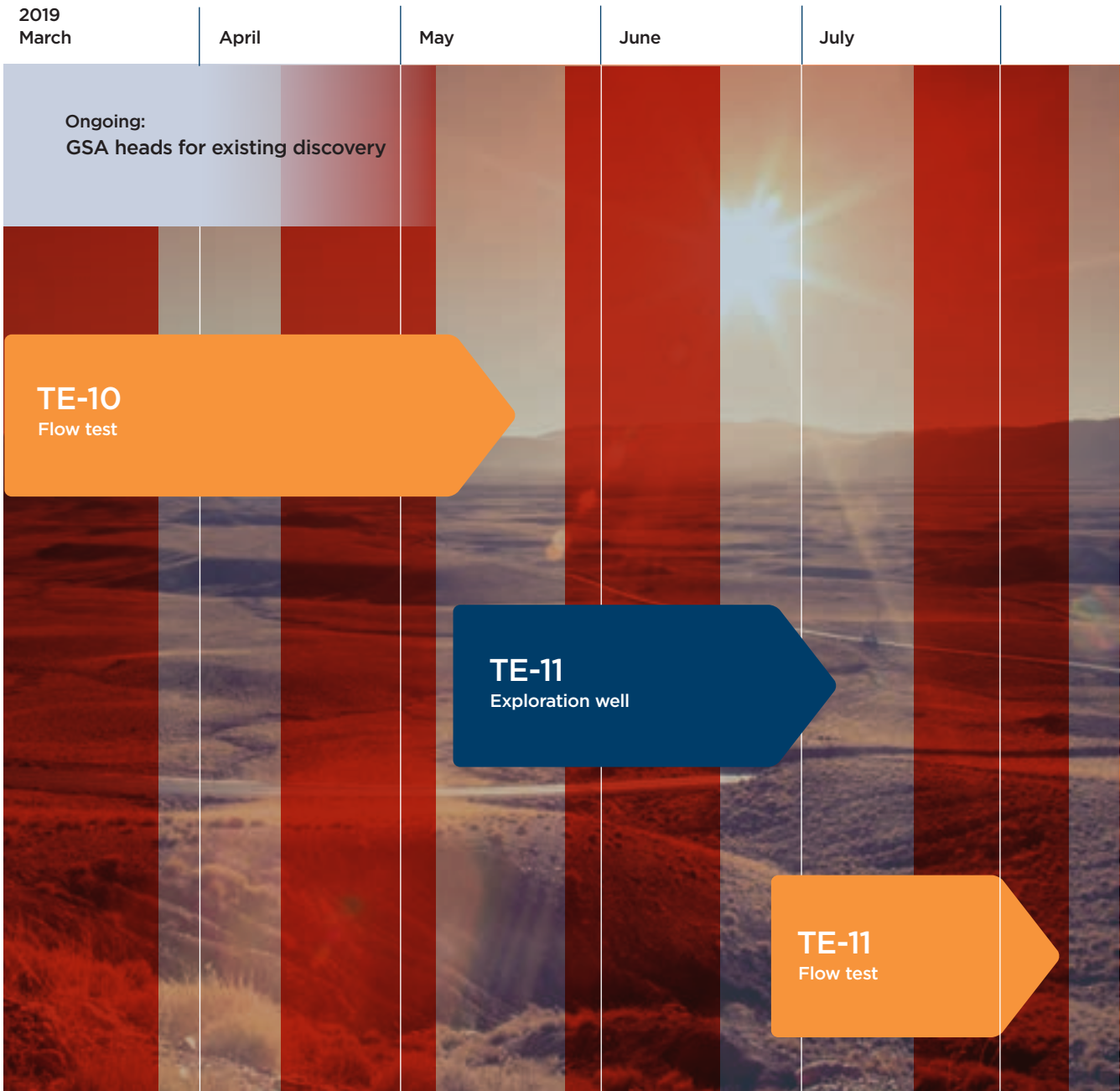
Highlights

- Submission and award of the production concession application for the existing discovery at Tendirara
- Award of FEED and signing of a Heads of Terms covering the infrastructure, including a 20-inch pipeline, with a consortium including Enagas

 Read about our [Board of Directors](#) on page 38

Future Focus

Current exploration campaign



Market Review

Energy Sector

2018 has been a clearly improving year for international E&Ps, as companies have strengthened their balance sheets, numerous projects have been brought into production and agendas have refocused on growth; however recent weakness in oil price will test the robustness of measures undertaken over the last few years to strengthen balance sheets.

Oil companies set 2018 budgets on a \$50-55/bbl basis and hence overall capex levels have remained modest by historical standards.

The surge in the Brent price to +\$80/bbl catalysed interest in the sector but a recent sharp correction has dissipated a degree of enthusiasm. The final quarter in 2018 has been problematic for global markets and stocks in the Oil and Gas sector. On average, IOC stocks went down nearly 12% in the quarter while E&Ps c.25% vs 13% for the S&P 500 and 33% for Brent. Concerns of renewed oil price weakness prevail once US infrastructure bottlenecks are resolved.

However, during the meetings on 6-7 December 2018, OPEC decided to adjust OPEC overall production by 0.8mb/d (additional 0.4mb/d cuts from non-OPEC countries). We see OPEC+ continuing to remain focused on securing balance (not targeting a specific price) - cuts will also create an exacerbation of light heavy differentials. Therefore, short-term oil prices are likely to remain volatile.

Key Themes for 2019:

- **Continuing OPEC+ cuts:**
a more urgent imperative to get prices back on a firmer footing
- **Doing more with less:**
investors will pay attention to the type of spending - look for an increase in capital to be committed to short cycle, infrastructure-led opportunities
- **Rationalisation of the portfolio:**
the Majors continue to rationalise their portfolios while the E&P companies look to benefit from tax synergies via diversification into a larger number of jurisdictions to help mitigate political, geographical and geological risk
- **Returning money to shareholders:**
a growing number of International E&P companies are paying a dividend - dominated by stocks with major shareholders
- **IPO market:**
relatively full pipeline of private equity and other E&Ps targeting IPO in 2019-20

Brent Price (US\$/bbl)

Source: Bloomberg as at 12 February 2019



NBP (pence/therm)

Source: Bloomberg as at 12 February 2019

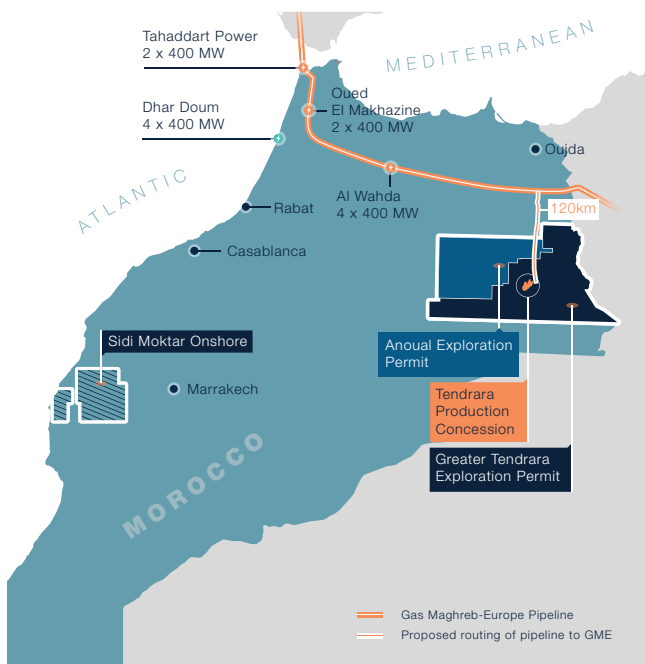




Morocco

- Around 90% of Morocco's hydrocarbons are imported from Algeria.
- In the medium to long term, Morocco expects to increase the share of natural gas in the energy mix.
- Morocco provides one of the most attractive fiscal regimes for oil and gas companies worldwide.
- GME pipeline ownership transitions to Morocco in 2021.
- New Gas Agency is under discussion.

Regional Infrastructure



What this means to Sound Energy

- Favourable fiscal terms (ten year tax holiday and 36% net government take including 5% royalty - one of the lowest globally)
- Good economics and able to get gas to market with ease
- Attractive pricing - benefits from high European gas pricing
- Supportive government with a desire to keep gas in-country
- Low cost production

Key Partners

Our key partners allow Sound Energy to achieve more than we could do alone. Our partners support us from investment and funding to project execution and delivery.

Schlumberger Oilfield Holdings Limited (Schlumberger)

Schlumberger is the world's leading provider of technology for reservoir characterisation, drilling, production, and processing to the oil and gas industry. It supplies the industry's most comprehensive range of products and services, from exploration through production and integrated pore-to-pipeline solutions for hydrocarbon recovery that optimise reservoir performance, working in more than 85 countries and employing approximately 113,000 people who represent over 140 nationalities.

The strategic partnership between Sound Energy and Schlumberger allows the Company to benefit from Schlumberger's wealth of experience and vast resource within the sector. In addition, Schlumberger shares the risks of the Tendirara project, earning its net profit interest through funding a significant portion of the initial capital expenditure.

In October 2015, Sound Energy announced that it had signed a Memorandum of Understanding ("MOU") with Schlumberger Oilfield Holdings Limited ("Schlumberger")

defining a strategic relationship between Sound Energy and Schlumberger across Europe and Africa. Associated with this, a Term Sheet was signed with Schlumberger Production Management ("SPM"), the production management arm of Schlumberger, regarding the Tendirara licence, onshore Morocco. The Company subsequently entered into a Field Management Agreement ("FMA") with SPM in December 2015 where, under the FMA, Schlumberger provides integrated technical services, equipment and personnel to Sound Energy, Operator of the Tendirara Licence;

- Schlumberger have funded a significant proportion of the capital expenditure on the first three Tendirara appraisal wells (80-75%), and of the development of the licence area thereafter (27.5%); and
- Schlumberger were granted a synthetic net profit interest of half of the Company's interest (which equates to 18.75% initially, increasing to 27.5% after the first well).



Enagas led consortium

The Spanish BOOT Consortium of Enagas, Elecnor and Fomento is a key strategic partnering group of Sound Energy, following the signing (June) of a binding Heads of Terms for FEED in respect of the proposed TE-5 field processing facilities and gas export pipeline. The consortium is funding FEED and is currently in discussions with Sound Energy to deploy vendor-sourced financing to build, own and operate these facilities. The consortium's strong midstream industry experience and project financing capabilities, combined with the upstream expertise and capability of Sound Energy is being blended to develop a strong partnership to further the development of the Moroccan oil and gas industry.

Oil and Gas Investment Fund (OGIF)

In January 2017, Sound Energy announced the acquisition of OGIF's Eastern Morocco portfolio and introduced OGIF as a second cornerstone investor:

- Consolidates interest in Eastern Morocco's prospective acreage
- Strengthens Sound Energy's position in Morocco: OGIF is a Moroccan fund, owned by the seven largest Moroccan financial institutions
- As at 31 December 2018, OGIF had an interest in 25.59% of Sound Energy's current issued share capital.

Office of Hydrocarbons and Mines (ONHYM)

The National Office of Hydrocarbons and Mines ("ONHYM") is another key partner for Sound Energy. The department was established in August 2005 by the merger of the Bureau of Research and Mining Participations ("BRPM") and the National Office for Research and Petroleum Explorations ("ONAREP").

ONHYM is a public institution with legal personality and financial autonomy under State supervision and is responsible for the awarding of licences for exploration and development in Morocco.

Sound Energy has an excellent relationship with ONHYM and looks forward to future co-operation.

Our Hosts

The way in which we conduct ourselves with our host communities and governments, and our record on health, safety and the environment, is the bedrock for all our operations and is crucial to our success as a business. In close partnership with our host government we work to grow and strengthen our social and economic relationship within the countries and regions we operate in, through the community support we provide, employment opportunities we offer and the willingness of our local communities to work with us to create wealth. Our partners and our people play a vital role in creating value for our shareholders.

Our Partners in Our Ventures

Our ability to build and maintain relationships is a key part of our success, enabling us to identify accretive M&A opportunities, share the risks and rewards of oil and gas exploration and production with our partners and, in return, increase our knowledge and fund our work programmes. We have high quality relationships with our partners in our assets.

Reserves and Resources

Sound Energy Resource and Reserve Estimates.

The Company's volumes and risk factors are presented in accordance with the updated and revised June 2018 SPE/WPC/AAPG/SPEE/SEG/SPWLA/EAGE Petroleum Resource Management System ("PRMS").

The Greater Tendirara and Anoual licences ("the licences") and Tendirara Production concession contain both discovered and undiscovered hydrocarbons which fall within the PRMS classifications of either Prospective or Contingent Resources. Prospective Resources are, by definition, undiscovered and are assigned a probability of success. This probability is referred to by the Company as the geological Chance of Success ("CoS"). Contingent Resources are, by definition, discovered, and therefore do not have an associated geological CoS but are subject to commercial contingencies for development and production.



Contingent Resource Estimates for Eastern Morocco (Tendirara Production concession)

Contingent Resources are those quantities of petroleum estimated, at a given date, that are potentially recoverable from known subsurface accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources are further categorised in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterised by their economic status as follows:

- Contingent Resources (Development Pending);
- Contingent Resources (Development Unclassified or On Hold);
- Contingent Resources (Development Not Viable).

The Tendirara Production concession contains Contingent Resources (Development Unclassified or On Hold). At the point of Final investment decision ("FID"), these resources will move to Contingent Resources (Development Pending). When developed, it is expected that the Contingent Resources will be directly converted into Reserves.

In late 2017, Sound Energy undertook a resource evaluation exercise for the Tendirara discovery. This exercise was conducted by a leading independent technical consultancy (RPS Energy). The results of the resource evaluation were presented in a Competent Persons Report ("CPR") and were communicated by RNS on 23 January 2018. The key resource estimates from the CPR are summarised in the table below.

Accumulation Name	Discovered Gas Originally In-place (Bcf)			Contingent Resources (Bcf) ¹		
	Gross (100%) basis			Gross (100%) basis		
	Low	Mid	High	1C	2C	3C
TE-5 Horst (TAGI 1 and 2)	349	651	873	197	377	533

1. Contingent Resources are technical volumes i.e. no economic limit test applied.

TABLE 1. Summary table showing the range of Discovered Gas Originally In-place and Discovered Contingent Resources, gross, for the TE-5 Horst accumulation, within the Tendirara Production concession.

Prospective Resource Estimates for Eastern Morocco (Greater Tendirara and Anoual licences and the Tendirara Production Concession)

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations assuming the application of future development projects. Prospective Resources have an associated geological CoS applied. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates, assuming their discovery and development, and may be subclassified based on project maturity. Sound Energy has defined prospective resources for a series of features internally classified as either Prospects, Leads or Concepts based on their level of technical maturity.

Sound Energy has internally estimated prospective resources for the Greater Tendirara and Anoual licences and the Tendirara Production Area concession, which are given in Fig. 1 on the right. These estimates are presented as original gas in place (OGIP), unrisks without an associated geological CoS and on a gross basis. The total volume of Prospective Resource is constrained by a basin modelling study undertaken by a leading independent petroleum systems analysis consultancy (IGI Ltd), as communicated by RNS on 29 June 2018.

The output of the basin modelling has allowed Sound Energy to update the estimated exploration potential of the licences and Production lease as 20 Tcf gas equivalent, mid case, unrisks original gas in place. The Basin Model further defines a possible range of estimated exploration potential across the entire permit area, with a 7 Tcf low case of unrisks original gas in place and, if all the key elements of the petroleum system's model are present, an upside case of 34 Tcf of unrisks original gas in place.

The range of unrisks original gas in place volume estimates from the Basin Model has been used to constrain and consolidate the prospective resource inventory for the licences and Production concession, as shown in the graph below. The volumes are spread across a portfolio of prospects, leads, and concepts with varying degrees of technical maturity. The portfolio includes an estimate of volumes for features identified from previous operators studies, plus new volumes identified by Sound Energy from the recent geophysical data acquisition, processing and interpretation exercise.

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

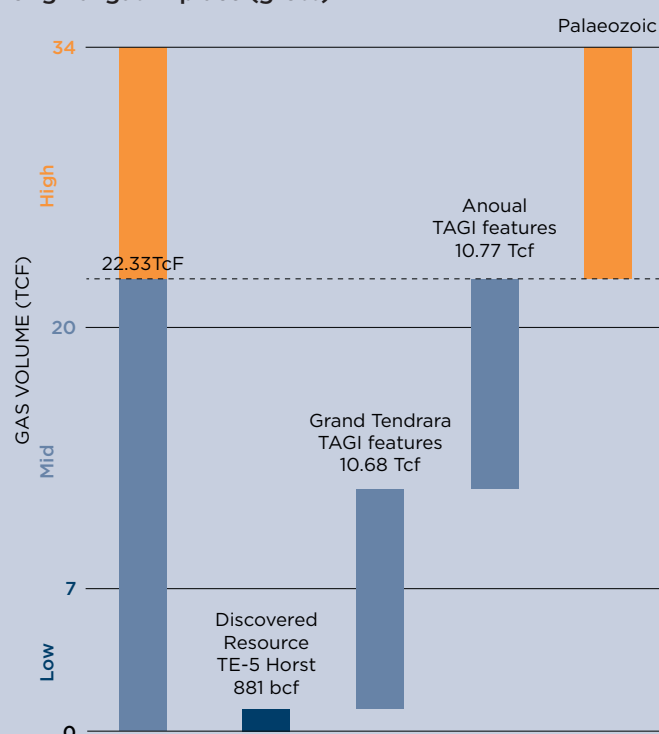


Fig. 1. Summary chart showing the internally estimated, gross, unrisks OGIP volumes for the Greater Tendirara and Anoual licences and Tendirara Production concession. The Eastern Morocco Development Volumes estimate is based on the sum of the externally certified, gross, mid case discovered and undiscovered 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.

Operational Review

Asset Overview

Eastern Morocco



Asset	Interest	Status	Area
Greater Tandrara	47.5% interest operated	Exploration Permit	14,599km ² acreage, 10 wells drilled
Anoual	47.5%* interest operated	Exploration Permit	8,873km ²
Tandrara Production Concession	47.5%* interest operated	Concession	133.5km ²

*upon Schlumberger converting their synthetic interest into an interest on the licence

Southern Morocco



Asset	Interest	Status	Area
Sidi Mokhtar	75% interest operated	Exploration Permit	4,711km ² acreage

Operationally, 2018 was a busy year for Sound Energy in Morocco.

Exploration Programme

Two challenging exploration wells were safely delivered in the year, TE-9 and TE-10 both within the Greater Tendirra permit in Morocco. TE-9 proved unsuccessful due to a lack of effective reservoir in both the targeted TAGI and Westphalian sequences. The second well TE-10 completed drilling in December 2018 and established a new gas discovery within the TAGI sequence with a potential gross reservoir interval of 110m MD. A gas sample was successfully recovered, the first successful MDT gas test from the TAGI sandstone in the Tendirra licence. These two wells have fulfilled the work programme commitment for the initial three-year phase of the new Greater Tendirra licence awarded in August 2018, combining the previous Tendirra Lakbir and Matarka licences into a single licence.

Geophysical and Geological Programme

2018 saw Sound Energy complete its geophysical programme in Eastern Morocco with an extensive programme of 2D seismic acquisition and processing. This seismic programme augmented the coverage of 22,800 square kilometres of the licences with flown Gravity Gradiometry, Magnetics and LiDAR data and detailed satellite imagery completed in 2017. The seismic programme totalled approximately 2,850 line kilometres commenced in October 2017 and all phases were completed in August 2018. In total, approximately 2,252 line kilometres were acquired in 2018. In addition to this operational programme, the Company has completed reprocessing approximately 2,431 line kilometres of historical 2D seismic data across both the Greater Tendirra and Anoual licences, including advanced quantitative interpretation techniques. The Company further progressed an integrated programme of geological studies including commissioning new petrographic, surface geochemical, chemostratigraphic and biostratigraphic analyses of the historical well data. Both geological and geophysical programmes provided the datasets to build a 3D basin model in order to quantify hydrocarbon charge, migration timing and migration pathways on a regional basis.

HSE

The Company's HSE record met KPIs of zero LTIs Company-wide for >1 million exposure hours and >2.5 million kilometres driven on both Seismic and Drilling Operations. More details on HSE are provided in the Health and Safety Review on page 27.

Development of Existing Discovery

Continued good progress has been made on the development project, including the resource certification issued in January 2018. Key forward steps including the contracting, engineering and financing, are progressing well. Following a competitive process and negotiation, a consortium comprising Enagas, Elecnor and Fomento has been awarded the front-end engineering and design ("FEED") and exclusivity to finalise the funding, construction and operation for both a 20-inch pipeline and the central processing facility under a 'build-own-operate-transfer' ("BOOT") structure. Off-take and other related commercial agreements under the Gas Sales Agreement are in advanced negotiations.

In September, Sound Energy and its partners were awarded the production concession. The production concession covers an area of 133.5 square kilometres and follows the application made in June 2018. The partnership expects to be in a position to take a final investment decision on the Tendirra development once key development milestones have been secured, including a Gas Sales Agreement, development capital funding and local regulatory administrative formalities.

Commercial Relationships

A new Greater Tendirra licence was awarded in August 2018, combining the previous Tendirra-Lakbir and Matarka licences into a single licence with Schlumberger converting through its affiliate Schlumberger Silk Route Services Limited the previous 27.5% synthetic interests held by an affiliate of Schlumberger Oilfield Holdings Limited in the Tendirra Lakbir licences, into a participating interest. Schlumberger also decided to convert their 27.5% synthetic interest into a 27.5% participating interest in the Anoual licences and the Tendirra Production Concession. Sound Energy retained operatorship of this Eastern Morocco Portfolio.

Operational Review

Eastern Morocco

2018 Highlights

- TE-10 vertical well drilled and proved evidence of another gas discovery in the TAGI play on the Greater Tendirara licence
- Achievement of the Reserves Certification on the first field (TE-5 Horst structure)
- Completion of renegotiation of the exploration licences combining Tendirara Lakbir and Matarka into a single licence, Greater Tendirara with a new 8-year term
- Fulfilling the initial three-year period work programme commitment on Greater Tendirara with the drilling of TE-9 and TE-10
- Completion of the biggest 2D seismic acquisition and processing ever done onshore Morocco to provide a better image of the drilled structures and to support an improved assessment of potential prospects
- Award of a 25 year exploitation (production) concession for the TE-5 gas discovery at Tendirara and entered into a Heads of Terms with the Enagas-led consortium embracing the associated development infrastructure



Permit Area

- Figuig Province, North-East Morocco
- 120 kilometres from Gazoduc Maghreb Europe (“GME”) pipeline (connecting Algeria and Morocco to the Spanish/Portuguese gas grids)
- Greater Tadrara and Anoual licences are sub-divided into thirteen blocks

Geology

Greater Tadrara is contiguous with the Algerian Triassic Province and Saharan Hercynian platform. Comparable tectono-sedimentary as the evolution in the Algeria Basins.

Partnerships

- Sound Energy farmed in to the Tadrara licence in June 2015, taking a 55% working interest in the licence, partnering L’office National des Hydrocarbures et des Mines (“ONHYM”) (25% interest) and OGIF – (20% interest) and assuming Operatorship.
- In December 2015, Sound Energy entered into a Field Management Agreement (“FMA”) with Schlumberger. Schlumberger agreed to fund a significant portion of the capital expenditure on the first three Tadrara wells and provide technical services, equipment and personnel to Sound Energy as Operator in exchange for an upside linked to production performance.
- In February 2017, Sound Energy entered into binding agreements with OGIF for the conditional acquisition by the Company of a further 20% interest in the Company’s Tadrara-Lakbir permits and a 75% position in Matarka (relinquished area of the Tadrara exploration area) and in Anoual permits (ex Meridja reconnaissance licence converted in permits). These agreements were approved by Sound Energy shareholders at a general meeting in March 2017.
- In June 2017, Sound Energy and Schlumberger expanded their partnership to Matarka reconnaissance licence and Anoual permits.
- In September 2017, after the completion of all the conditions precedent-related to February 2017’s binding agreements, OGIF became a substantial shareholder of the Company.
- In August 2018, the Tadrara-Lakbir and Matarka licences are combined into a single licence, Greater Tadrara, and Schlumberger convert their synthetic interests into participating interests.

Historical Well Results

- **First well (TE-6):**
28m net pay, 17 mmscf/d achieved post-stimulation
- **Second well (TE-7):**
32 mmscf/d after clean up: Successful extended well test

Main Results in 2018

- TE-10 proved another gas accumulation, 19 kilometres to the Northeast of the Tadrara production concession, in the TAGI sequence, commencing at a measured depth of 1,899 metres. It penetrated a potential gross interval of 110 metres with gas shows greater than background levels observed from 1,908 metres to approximately 2,030 metres MD. The TAGI encountered by TE-10 was also interpreted to be at a different reservoir pressure to the previous wells on the TE-5 Horst (TE-5, TE-6, TE-7 and TE-8).
- Preliminary interpretation of the intermediate wireline log data from TE-10 indicates thinly bedded gas bearing intervals within the gross section, with initial estimates of net pay of up to 10.5 metres and an average porosity of 8%. FMI logs have potentially identified the presence of additional thin bedded net pay within the gross reservoir interval. An MDT gas sample (comprising C1 to C5 hydrocarbons) was successfully recovered from one of these pay intervals at approximately 1,937 metres MD.
- The gas shows observed extend below the currently mapped structural closure suggesting the gas accumulation may extend up dip into the larger stratigraphic trap. The North East Lakbir stratigraphic trap, the most material of TE-10’s two targets, had pre-drill mid case potential on a gross (100%) basis of 2.7 Tcf gas originally in place (“GOIP”) (4.5 Tcf GOIP upside case and a 1.5 Tcf GOIP low case).
- Sound Energy completed the 2D seismic and magneto-telluric acquisition in Eastern Morocco, the largest onshore survey ever in Morocco.

Future Focus

- Sound Energy will conduct a rigless stimulated well test over the TE-10 reservoir interval. The testing programme will conduct a series of flow tests on multiple intervals between 1,899 metres MD and 2,070 metres MD to establish the presence of deepest moveable gas and then mechanically stimulate the most prospective reservoir zones in a series of production flow tests. This is expected to occur in early 2019.
- A third well, TE-11, targeting the Palaeozoic in the northern area of the Greater Tadrara licence, is expected to be drilled in 2019. Groundworks for TE-11 are expected to commence after the TE-10 well test subject to partners’ approvals.

Operational Review

Eastern Morocco – Commercialisation

BOOT and FEED

The Company continued to make good progress commercialising its Eastern Morocco licence position. In June, the Company was pleased to enter into a binding Heads of Terms with a Spanish Consortium led by the Spanish midstream gas company, Enagas, for the provision of build own operate transfer (“BOOT”) services for the key infrastructure (processing and treatment facilities and gas export pipeline) associated with its proposed development of the TE-5 discovery.

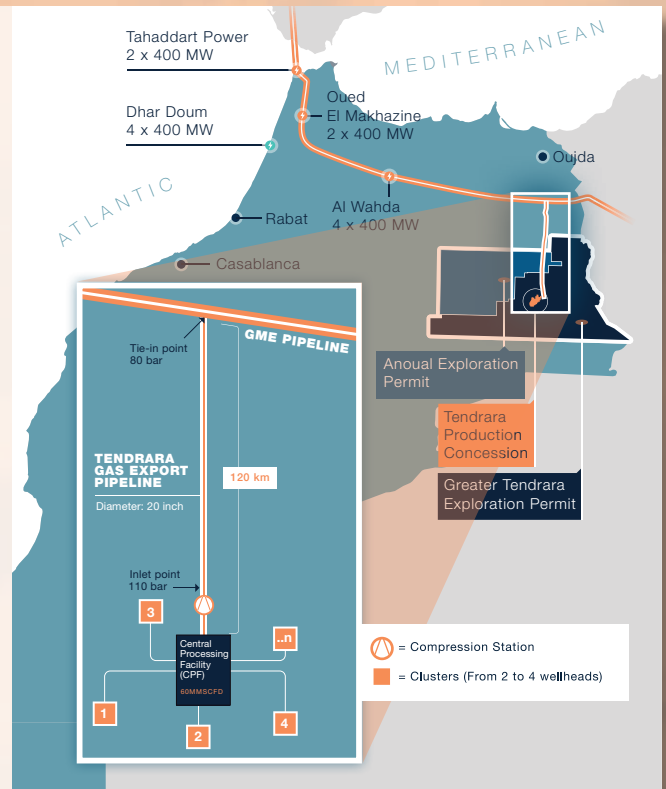
The agreement sets out the terms upon which the consortium will undertake and finance front end engineering design (“FEED”) and the conditional terms upon which the development and financing of the facilities will be undertaken by the consortium. FEED is now under way and is expected to complete in early 2019 prior to entering into a definitive BOOT Agreement ahead of the Company taking a Final Investment Decision (FID) on the project.

Approval of Production Concession

The Company submitted its field development plan for the proposed TE-5 development to the Moroccan State in June and was pleased to have been awarded a 25-year exploitation (production) concession in September – a significant milestone in progressing Sound Energy’s Eastern Morocco commercialisation strategy. Award of the concession was followed by other pre-FID activities including progression of the environmental impact assessment, pipeline route survey and continuation of FEED activities.

Gas Sales Agreement

The Company continues to make good progress in negotiating long-term gas offtake arrangements in support of the proposed development. This is a critical component in the proposed development and in the overall value creation in Eastern Morocco, and the Company anticipates signing binding gas sales terms in 2019.



Southern Morocco



The Sidi Mokhtar permit is located in the Essaouira Basin in central-southern Morocco and is sub-divided into three sub-blocks (North, South and West) with a combined area of 4,711 km².

Sound Energy originally farmed into the Sidi Mokhtar licences in 2015 and took over operatorship in 2016. Following the successful completion of the work programme on the old licences, the permit was re-awarded to Sound Energy in April 2018 with an extended footprint. Sound Energy holds a 75% interest in the licence, with ONHYM holding the remaining 25%. The licence has an overall eight year period (expiring in April 2026) divided into three phases: an initial period of two years and six months, followed by a first extension period of three years and second extension period of a further two years and six months.

The Sidi Mokhtar permit area hosts some 40 vintage wells drilled between the 1950s and the present. The licence is adjacent to the ONHYM operated Meskala gas and condensate field. The main reservoir in the field are Triassic aged sands, directly analogous to the deeper exploration plays in the Sidi Mokhtar 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 Mokhtar licence.

Two main play types are present in the Sidi Mokhtar licence. These are broadly divided into the Sidi Shallow and Sidi Deep play types. The main focus of activity in the basin and licence area historically has been the shallow plays. Indeed a number of discoveries were made from the 1950s to the present in Jurassic aged carbonates and clastics. With the discovery of the Meskala field in the 1980s, focus switched to the deeper play types. The discovery of the Meskala field proved the existence of a deep petroleum system in the basin. Specifically, Meskala provides evidence that Triassic clastic reservoirs are effective, proves the existence of the overlying salt super seal and provides 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 the deeper play fairways.

Sidi Shallow (approx. 1,000 metres to 3,000 metres depth below surface)

- Mainly Jurassic aged carbonate and clastic reservoirs.
- Gas discovery (Kechoula) in Argovian and Lower Liassic aged reservoirs. The Argovian aged reservoir was successfully tested in the Kechoula discovery by Sound Energy, by re-energizing the Koba-1 well.

Sidi Deep (approx. 3,000 metres to 4,500 metres depth below surface)

- Mainly Triassic and older clastic and carbonate reservoirs, sealed by Triassic salt.
- A potential of up to 9 Tcf mid case, gross, unrisks, gas initially in place.

Future development

The forward plans for Sidi Mokhtar, following the initial tests of the remaining potential of the Kechoula discovery, are focused on exploring the deep potential of the Triassic TAGI and Palaeozoic plays. An exploration 2D seismic programme is planned to start in the second half of 2019. The 2D seismic programme will be focused on improving the imaging in the pre-salt section.

Operational Review

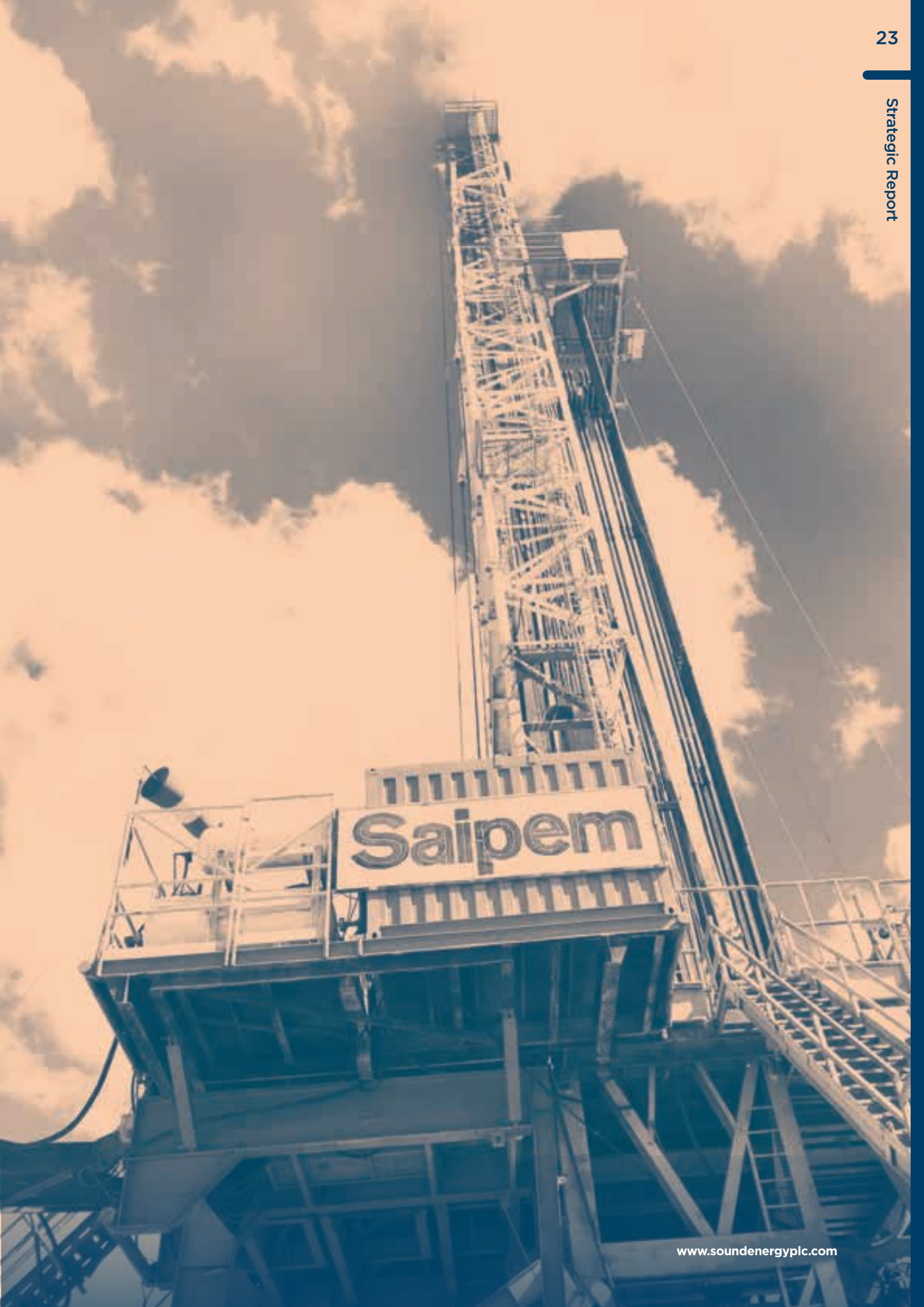
Italy

Disposal of Italian Portfolio

On 22 January 2018, the Company announced entry into a binding conditional sale and purchase agreement with Saffron Energy Plc under which Saffron acquired the Company's portfolio of Italian interests and permits through the acquisition by Saffron of the entire issued share capital of the Company's wholly owned subsidiary, Sound Energy Holdings Italy Limited. On completion Saffron was renamed Coro Energy plc. The divestment successfully completed on 9 April 2018.

The consideration for the disposal was the issue of 183,907,500 new ordinary shares in Saffron directly to Sound Energy plc shareholders. The consideration value was approximately £8.0 million using the completion date share price of 4.3 pence per share.





Financial Review



JJ Traynor
Chief Financial Officer

**£8.9
million**

spend on drilling and exploration activities in Morocco

**£183.0
million**

carrying value of development and intangible assets at 31 December 2018

We invested £12.4 million during 2018, primarily on the TE-9 and TE-10 wells. Approximately £8.0 million worth of Coro Energy plc shares were distributed to shareholders, as payment for Sound's exit from Italy. Sound's cash position at the end of the year was £20.5 million, positioning us well for 2019.

Income Statement

The loss for the year before tax from continuing operations was £11.7 million (2017: £12.3 million). Exploration costs of £4.1 million (2017: nil) related to the impairment charge of TE-9 well costs as the well didn't encounter producible gas. Administrative costs at £8.9 million were slightly higher than 2017 administration costs of £8.5 million.

Foreign exchange gains and losses primarily related to intra-Group loans and Euro denominated borrowings.

As part of the acquisition of the Sidi Mokhtar licences, onshore Morocco, an agreement was entered into with PetroMaroc and provided that, if the shares of the Company which were issued as part of the consideration for the acquisition were sold, the realised proceeds for any share price achieved above 50 pence would be shared equally between the Company and PetroMaroc. The derivative financial instruments arose from this agreement. During the year, PetroMaroc sold all the outstanding shares at prices below 50 pence. The carrying value of the derivative, £80 thousand, at the time of the sale was expensed. In 2017, a £1.9 million loss arose from the change in the share price during the year.

The disposal of the Group's operations in Italy completed in April 2018. The profit from discontinued operations increased to £5.0 million (2017: £21.8 million loss), primarily from the transfer of

£1.5 million cumulative translation gains to the income statement on the Italy divestment and recognition of interest in Badile land and VAT refund receivable in line with the divestment agreement. The loss in 2017 was primarily due to an impairment charge of approximately £19.0 million attributable to the Badile licence following sub-commercial well results.

Cash Flow/Financing

During 2018, an equity raise, warrants and share option exercises raised approximately £12.2 million (2017: £11.6 million). Net proceeds from the July 2018 equity raise was £10.8 million.

The financing costs were £2.4 million (2017: £1.1 million) primarily due to amortised costs of the bonds, net of interest capitalised to the exploration licences of £0.6 million (2017: £1.6 million). The capitalised interest was lower in 2018 compared to 2017 due to a lower capital expenditure on the licences during 2018.

The Group spent £12.4 million (2017: £24.0 million) on investing activities during 2018, which largely consisted of spend on the greater Tendirara licence TE-9 and TE-10 exploration wells in Morocco and capitalised general and administrative expenses. £2.7 million of cash disposed with Italian operations is included in the cash flow from investing activities.

Balance Sheet

Following the award to the Group of a production concession in September 2018, covering the Tendirara's TE-5 Horst area, approximately £146.2 million of capital expenditure was transferred from intangible assets to development and production assets. As at 31 December 2018, the carrying amount of the development and production assets was £150.6 million after taking account of additions and foreign exchange movement.

Additions to the intangible assets largely consisted of expenditure on the Greater Tendirara licence TE-9 and TE-10 exploration wells in Morocco and capitalised general and administrative expenses. During the year we completed a \$27.2 million (£21.4 million) carried seismic programme and commenced a three-well drilling programme. The TE-9 and TE-10 exploration wells were drilled ahead of schedule and under budget with TE-10 well completing in January 2019.

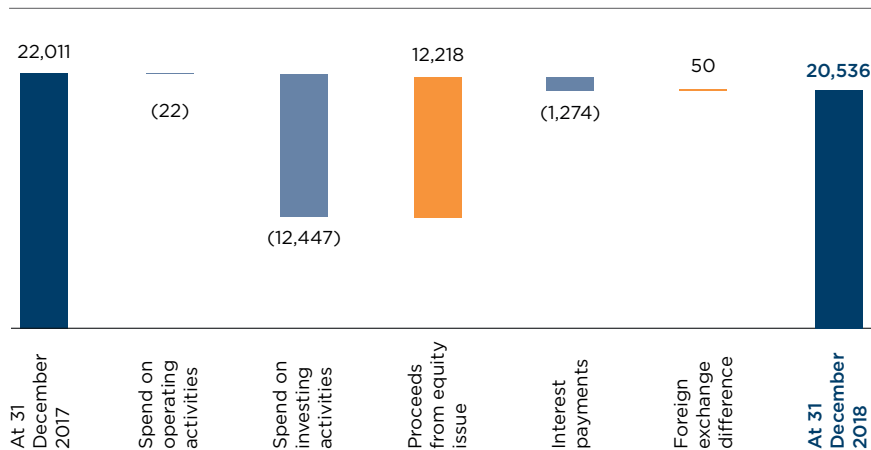
As part of the Italy divestment agreement, the Company is entitled to receive the proceeds, upon the sale, of Badile land. The Company has therefore recognised £1.6 million (2017: nil) being the carrying value of Badile land at the time of disposal.

Other receivables amounting to £3.4 million (2017: £3.5 million) primarily related to receivables from our partners in Morocco licences and £0.8 million VAT refund receivable as part of the Italy divestment agreement.

2017 assets of the disposal group held for sale related to the Italian operations and primarily included intangible assets, Badile land and VAT receivables.

Trade and other payables amounting to £10.1 million (2017: £6.6 million) primarily related to payables and accruals for the operations in the Group's licences in Morocco, where the Group, as operator, recognises 100% of the liability and receives funds from partners to pay the partners' share. The Company recognised £0.7 million as obligation for the Badile land remediation in line with the Italy divestment agreement.

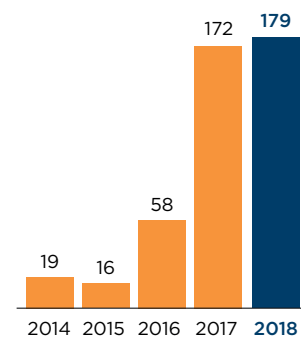
Cash Flow Bridge Chart (£'000)



Net Assets (£ million)

£179 million

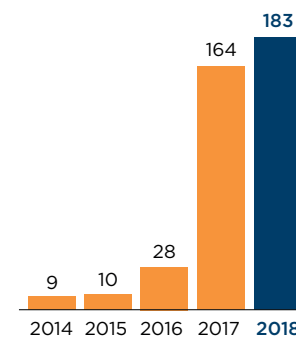
2017: £172 million



Development and Intangible Assets (£ million)

£183 million

2017: £164 million



2017 liabilities of the disposal group held for sale related to the Italian operations and primarily included trade and other payables and provision for decommissioning of licences.

Going Concern

The Directors have reviewed the forward cash flow projections for the Group for the foreseeable future, being at least the next 12 months from the date of this report, which show

that the Group has sufficient financial resources to undertake its committed work programme, and thus the Directors have concluded that the Group is a going concern.

JJ Traynor | Chief Financial Officer

Corporate Social Responsibility

Our CSR Strategy

Environment

Aims:

- We have the upmost respect for our environment and aim to operate with minimal damage to it.
- We seek to do any new business with due care and consideration on the environment before any operations begin.

Suppliers

Aims:

- We value the relationships we have with our suppliers and conduct our business with them with fairly and openly.

Employees

Aims:

- Diversity is key to the growth of Sound Energy; we employ a range of nationalities and rewards are performance based.

Communities

Aims:

- As guests in Morocco we are extremely conscious of our relationships with the local communities and treat them with the utmost respect.
- Our community projects are a great source of pride for Sound Energy and we always seek to do more to improve their daily lives.

Community at our heart

During 2018, Sound Energy has engaged in various CSR-related projects, seeking to enhance its involvement in local community life and welfare. Some highlights of these activities are:



Beni Guil Festival in Maatarka

Sound Energy Morocco provided the following goods and services for the festival:

- Provision and delivery of three water tanks
- Three-day ground levelling activities using an industrial grader
- Provision and delivery of 500kg of charcoal for the festival proceedings

Local Employment Opportunities

Sound Energy has either directly or indirectly been involved in the employment of 870 members of surrounding communities, who have been instrumental in the safe and clean operations of Sound over the years.

Sound Energy intends to continue this good practice of engaging in Social Corporate Responsibility projects during 2019, to give something back to the communities with which our operations are so inextricably intertwined.

Revamp and extension of Mataarka Dispensary

Using the approved national charity LNPE (Ligue National pour la Protection des Enfants) as an intermediary, Sound Energy Morocco sponsored the redevelopment and extension of the dispensary located in Mataarka. This involved complete rebuild to allow for a more hygienic level of medical care to be provided to local communities. It also provides more space for patients and includes the addition of a local pharmacy area.

HSE during 2018

Promoting positive behaviours

During this operationally busy year HSE is at our core.

During 2018, Sound Energy Morocco has been actively involved in Exploration activities, comprising of a 2D seismic campaign and the drilling of two wells in Greater Tendirra as well as the associated activities required for the successful undertaking of these operations. The 2018 operations are summarised as follows:

- Concluded 2,850 kilometres of 2D seismic lines recorded
- Surface sampling survey undertaken
- Civil works for construction of well pads for TE-9 and TE-10
- Rigmove from SMK Koba and TE-8-TE-6 camp to TE-9
- Drilling of TE-9
- Rigmove from TE-9 to TE-10
- Drilling of TE-10
- Man-hours: 828,589
- Kilometres driven: 1,765,755
- Introduction of industry standard Life-Saving Rules for our major Hazard classes, part of a cultural change programme; with major initiatives on Land Transportation and Lifting. Also we undertook review of our contractor management strategies and re-tendered contracts for Land Transportation with an HSE qualification element to the award criteria.



The total man-hours worked in 2018 was 828,589 (110,638 Company, 717,951 Contractors) and the data recorded has been divided into three main categories:

1. Lagging Indicators		2. Leading Indicators		3. Environmental Data	
Fatality	0	HSE Inspections	9,814	Diesel consumed (m ³)	2,299
LTI	0	HSE Audits	24	Water Consumed (m ³)	19,833
RWC	0	HSE Meetings	403	Mud Cuttings (m ³)	676
MTC	3	HSE induction hours	1,100	Sewage Water (m ³)	13,599
FAC	7	HSE training hours	4,921	Waste Water (m ³)	5,560
Property Damage	8	Emergency Drills	38	Non Hazardous Wastes (ton)	86
Environmental Incident	4	Toolbox Talks	3,135	Fuel Gas (m ³)	0
RTA	7	STOP Cards	7,036	Electrical Energy (kWh)	93,323
NM	2	Job Safety Analysis	1,076	Km Driven	1,765,755
HiPO	5	Risk Assessments	376	Total barrels spilled	3.06
Lost Workdays	0	Management Tours	24		

HSE during 2018

2018 was a more active year for Sound Energy Morocco, with exploration activities ongoing for the whole 12 months. Consequently the exposure hours and driven kilometres were higher. We had set ourselves an ambitious target of no Lost-Time Injuries for the year and achieved this. However, our systems caught an increase in High-Potential Incidents and near-miss indicators during the drilling campaign. Sound Energy investigated and then took steps to manage these exposures through changes to organisational structure, engagements with our contractors and upgraded key procedures ahead of activities in 2019.

In achieving a zero LTIF and a TRIR of 3.62, Sound Energy Morocco is aligned to similar operators in the IOGP database and in LTIF ahead of trend. But the instances of HiPo indicate the need to avoid complacency and those reactions have already been made. These build on the upgrading of driving and fleet management policies and the introduction of IOGP aligned Life-Saving Rules in 2018; our systems are fit for purpose and evolving.

STOP Cards

Sound Energy has developed and implemented an HSE reporting system whereby all personnel, visitors and contractors, be they field-based or office based, are encouraged to report any unsafe conditions, unsafe acts and positive acts.

This is an industry standard initiative which seeks to enhance behavioural safety and implicate everyone in the improvement of Company HSE culture.

Sound Energy recorded 7,036 STOP cards during 2018.

Observed Name		Location	Date	Time
<input type="checkbox"/> Drilling	<input type="checkbox"/> Construction	<input type="checkbox"/> Service	<input type="checkbox"/> Other	
<input type="checkbox"/> Safety	<input type="checkbox"/> Assistance	<input type="checkbox"/> Other		
Personal Protective Equipment				
Hard hat, sub and full protection, full wear			Sub	Compliance
Safety glasses			<input type="checkbox"/>	<input type="checkbox"/>
Respiratory protection (if applicable)			<input type="checkbox"/>	<input type="checkbox"/>
Protective clothing (gloves)			<input type="checkbox"/>	<input type="checkbox"/>
Full protection			<input type="checkbox"/>	<input type="checkbox"/>
Safety harness/collaring device			<input type="checkbox"/>	<input type="checkbox"/>
Body Positioning/Body Mechanics				
Use of back office			Sub	Compliance
Use of front panel, close edges and hot surfaces			<input type="checkbox"/>	<input type="checkbox"/>
Use of lift/lift truck			<input type="checkbox"/>	<input type="checkbox"/>
Standing/bending/lifting/lowering/lifting/lifting			<input type="checkbox"/>	<input type="checkbox"/>
Body mechanics other lifting, reaching, pulling, pushing			<input type="checkbox"/>	<input type="checkbox"/>
Repetitive work			<input type="checkbox"/>	<input type="checkbox"/>
Inadequate postural rest			<input type="checkbox"/>	<input type="checkbox"/>
Tools & Equipment				
Proper selection and use of tools			<input type="checkbox"/>	<input type="checkbox"/>
Equipment maintained			<input type="checkbox"/>	<input type="checkbox"/>
Condition of tools			<input type="checkbox"/>	<input type="checkbox"/>
Condition of PPE			<input type="checkbox"/>	<input type="checkbox"/>

Putting Safety First

Putting Safety First is an HSE cultural enhancement programme developed by Sound Energy that is based on four key principles:



I will **FOLLOW all** the rules and procedures at my place of work.



I will **STOP any** activity that I think is unsafe and will not commence any job I consider unsafe.



I will **always ENCOURAGE** those around me to act safely and praise those acting safely.



I will **REPORT all** unsafe acts and conditions, spills, incidents and accidents I see.

This programme was devised to encourage and promote compliance with HSE procedures, increase HSE reporting and above all, empower everyone to stop any work that they consider to be unsafe without any consequences.

Life Saving Rules

Personal Safety

Sound Energy has adopted the IOGP Life-Saving Rules, which are transposed throughout the DNA of Company activities and operations.

Driving Safety

These rules have been extracted from an extensive survey undertaken throughout the International Oil and Gas HSE world that identified the activities that have historically resulted in the most significant incidents. The Life-Saving Rules, focusing on Personal Safety, Driving Safety, Site Safety and Work Controls, clearly and concisely stipulate what is expected of each and every person working for Sound Energy and that a no-tolerance policy is in place with respect to their non-compliance.

Site Safety

Work Controls

HSE Induction and Training Sessions

Daily HSE meetings are held for all staff and contractors on site to convey the Sound Energy HSE messages to all persons working on site and as a periodic reminder of the importance that HSE holds within Sound Energy.

Throughout 2018, Sound Energy organised a number of high-importance HSE training courses, such as Fire Fighting, First Aid and Defensive Drivers courses. Key people were selected for these courses, based on their roles and responsibilities and covered both Sound personnel and contractors.



HSE Reward and Recognition Programme

Sound Energy has developed an HSE Reward and Recognition programme for its drilling operations and sought to reward those demonstrating the best and safest HSE performance when working for Sound Energy.



Other HSE Initiatives Taken During 2018

Development and implementation of Land Transportation Safety Standards and Journey Management Procedures.

Implementation of In-Vehicle Monitoring Systems in Field and Rabat vehicles allowing for daily monitoring of driver performance and GPS localisation. This action resulted in a noticeable improvement in driver performance.

Managing Ours Risk and Opportunities

Risk management is central to achieving the Group's strategy and delivering long-term value to shareholders. The Board, its Committees and the executive team are actively engaged in setting the risk appetite as well as managing both risks and opportunities to the Group.

Definition of Risk

Risk is defined as a potential future event that may influence the achievement of business objectives. This includes both "upside" (opportunity) and "downside" (threat) risks. Risks and opportunities can come from a variety of sources and can be directly related to the Company's operational and commercial activities and support functions, or they can arise externally: from third parties such as Joint Venture partners, suppliers, regulators, competitors; from the economic environment or political climate.

Risk Management

The Group operates to ensure that risks are identified, understood, agreed, communicated and acted upon in a timely and consistent manner. It enables informed resource allocation and the delivery of expected results by providing a structured way to foresee the unexpected and be prepared for it. The main objectives for the Group risk management system are:

- Support the achievement of business objectives and safeguard Company assets.
- Integrate consistent risk management methodology into key business processes.
- Create a risk-aware culture where staff actively identify and respond to risks and opportunities.
- Ensure compliance with legal, regulatory, and ethical requirements.

Identifying Risk and Ownership

Risk management is actively promoted from both a top-down and bottom-up approach where all individuals in the organisation are empowered to highlight risks and opportunities to the business. All agreed risks are allocated to an individual risk owner with mitigations and actions followed up through quarterly reporting to the Executive and biannual reporting to the Audit Committee. Our principal risks have been categorised as strategic, operational and financial, although many risks impact more than one aspect of the business.

Changes to Risks in the Year

Several factors have impacted the Company risk register through 2018, including exit from Italy, focus on Morocco and particularly the progress towards the TE-5 Horst development project.

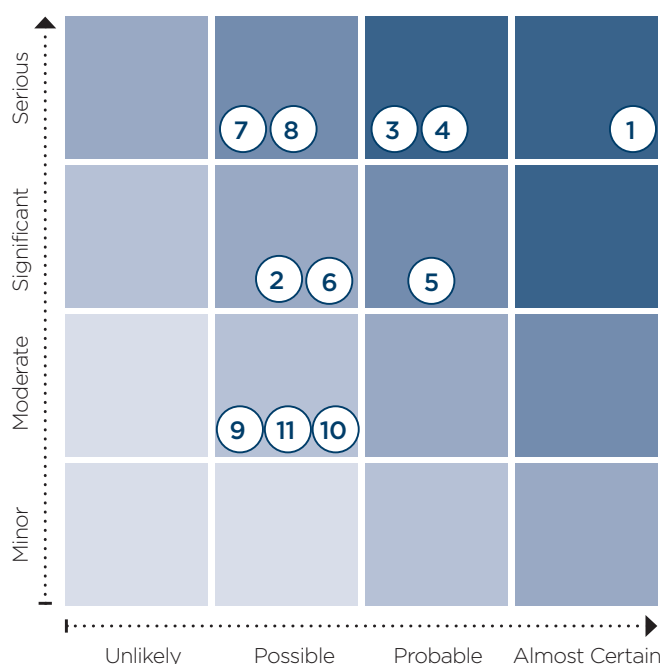
Removed or changed:

Development Risk

As the Company has progressed development planning, development risk has been split into more specific risks such as Facilities Funding and Construction Schedule Delays.

Insufficient Funds

Company has continued to progress its funding strategy throughout year including entry into BOOT HoT (Heads of Terms) and a mid year corporate fund raise.



- | | |
|--|--------------------------------------|
| ① Limited diversification | ⑥ Loss of Company data |
| ② Facilities funding | ⑦ Drop in commodity prices |
| ③ Absence of applying standard operating procedures creates unnecessary errors and costs | ⑧ Major HSSE Event |
| ④ Reservoir uncertainty | ⑨ Loss of key personnel |
| ⑤ Change in regulatory or fiscal regime | ⑩ Fraud, anti-bribery and corruption |
| | ⑪ Currency Risk |

Our Principal Risks

The table below indicates the principal risks the Group faces and has been produced following a robust assessment of risk, including consideration of those that would threaten its business model, future performance, solvency or liquidity. The list is not exhaustive or in priority order, and may change over time.

Risk	Impact	Control Measure	Owner
<p>1 Limited diversification The Company operates in a limited number of jurisdictions and thus operations may be significantly adversely impacted by geographical issues and/or regime changes.</p>	<ul style="list-style-type: none"> – Profitability and cash flow – Increased risk profile – Reduced appetite for investment in the Company 	<ul style="list-style-type: none"> – Build strong relationships with partners, advisors, governments, local authorities, local population and other stakeholders – Actively monitor potential legislation changes 	CEO
<p>2 Facilities funding Inability/delay in securing funding for the TE-5 development</p>	<ul style="list-style-type: none"> – Inability/delay to fund the development project leads to delay/halts on project progress especially in the case of failure to secure BOOT option 	<ul style="list-style-type: none"> – Minimise up front funding exposure via securing BOOT contract with contractor financing – Seek post gas deferred payment on development cost or enforce association agreement penalty – Identify alternative funding structure options to BOOT e.g. EPC deferred payment, post first gas re-financing, no TGEP transfer etc. 	CFO
<p>3 Absence of applying standard operating procedures creates unnecessary errors & costs</p>	<ul style="list-style-type: none"> – Activities rushed without proper planning and coherent approach or methods 	<ul style="list-style-type: none"> – Changes being put in place to improve forward planning – Execute drilling operations in accordance with industry standard procedures and drilling practices 	CEO
<p>4 Reservoir uncertainty</p>	<ul style="list-style-type: none"> – Play risk in relation to basin understanding, reservoir distribution and effectiveness. Hydrocarbon volume available to charge the structures in the basin, in order to deliver the hydrocarbon potential of 7-20-34 Tcf – H2S risk in respect of carbonate reservoir in Sidi Mokhtar 	<ul style="list-style-type: none"> – Comprehensive seismic and data acquisition commitment to improve reservoir understanding – Independent resources certification 	Exploration Director
<p>5 Change in regulatory or fiscal regime</p>	<ul style="list-style-type: none"> – Regulatory and tax changes affect profitability and viability of projects and operations (e.g. Morocco 10 year tax holiday) – Delay to projects and/or regulatory approvals while changes are agreed. May also result in renegotiation with Partners 	<ul style="list-style-type: none"> – Regular engagement and communication with government and in-country stakeholders – Monitor potential changes in legislation – Seek stabilisation provisions in key agreements 	CFO

Managing Our Risks and Opportunities

Risk	Impact	Control Measure	Owner
<p>⑥ Loss of Company data</p>	<ul style="list-style-type: none"> – Tools: Data integrity records and their accuracy, completeness in Sharefile system not fit for purpose. High level of reliance on spreadsheets, particularly for financial planning and forecasting – Structure: Records management and electronic filing system not structured adequately given growth in business – Security: Inadequate controls on security with cyber risk of data breach, data corruption, risk on data protection obligations on HR data – Connectivity: Break in Internet connection and thus access to Company files given reliance on cloud-based systems mean reliance on effective Internet connection 	<ul style="list-style-type: none"> – Robust IT policy in place – Anti-virus software up to date and in place – Separate guest Wi-Fi to separate access to corporate data – Restricted admin access to systems and IT infrastructure – Robust connection with negligible instances of drop-outs 	<p>VP Commercial & Finance</p>



Risk	Impact	Control Measure	Owner
7 Drop in commodity prices	<ul style="list-style-type: none"> – Falls in commodity prices result in loss in value, reduced cash flows and/or impairments – Reduced ability or appetite to invest 	<ul style="list-style-type: none"> – Gas price monitoring both in country and on international markets (inc. LNG, Brent) – Secure long-term pricing under key offtake agreements 	CFO
8 Major HSE Event	<ul style="list-style-type: none"> – Loss of life or injury to personnel – Environmental impact – Reputational damage – Exposure to litigation – Financial and operational losses 	<ul style="list-style-type: none"> – Highly skilled, competent and qualified personnel and subcontractors. Training provided as required – Management and Board commitment – Robust operational HSE processes and procedures – HSE Committee reviews and regular HSE meetings and engagements – Insurance cover 	Exploration Director
9 Loss of key personnel	<ul style="list-style-type: none"> – Loss of shareholder confidence – Lack of direction and leadership within the Company – Loss of expertise and knowledge 	<ul style="list-style-type: none"> – Competitive remuneration package in place for key executives, benchmarked regularly relative to the market – Succession planning 	CEO
10 Fraud, anti-bribery and corruption	<ul style="list-style-type: none"> – Prosecution of the Company and/or individuals leading to unlimited fines, jail sentences 	<ul style="list-style-type: none"> – Anti-bribery and corruption policy in place across the Company. New starter training for all contractor and staff to ensure understanding of compliance requirements – Contract reviews to ensure policy compliance 	CFO
11 Currency risk Currency fluctuations impact on forecasting and project requirements, with currency mix of USD, GBP, EUR and MAD. Additional complexity to manage local MAD currency due to in-country FX restrictions.	<ul style="list-style-type: none"> – The Company may diminish cash resources due to exchange rate fluctuations – MAD is a controlled currency, limiting hedging opportunities – Exchange rate fluctuations may have an income statement impact where the currency of the transaction differs from the functional currency of the entity 	<ul style="list-style-type: none"> – Proactive FX management in accordance with Group treasury policy 	CFO

Governance

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Chairman's Corporate Governance Statement



Richard Liddell
Chairman

“Strong corporate governance underpins the foundations of a solid and successful business”

Dear Shareholders

Since assuming the position of Chairman of the Company at the beginning of 2018, having been a non-executive director of the Company since September 2015 I have been particularly interested in ensuring that an effective and focused Board leads the Company and builds success. Strong corporate governance helps underpin the foundations of a solid and successful business. The Board is committed to strong corporate governance across the business, from executive level and throughout the operations of the business. Following the revisions to the AIM Rules for Companies in March 2018 pursuant to which all AIM companies are required to comply with a recognised corporate governance code, the decision has been made by the Company that it will adopt the Quoted Companies Alliance corporate governance code 2018. Historically the Company had aspired to comply with the 2013 Quoted Company Alliance corporate governance code and as such the adoption of the QCA Code remains the most appropriate recognised governance code for the Company.

As Chairman it is my duty to ensure that good standards of governance are delivered and cascaded down throughout the organisation. The Board as a whole looks to instil a culture across the Company, delivering strong values and behaviours. This is considered paramount at all levels and during 2017 the Board brought in an external consultant from the Institute of Directors to look at the functioning of the Board. This was a valuable exercise considering areas such as strategy, performance, corporate culture and risk oversight.

The importance of engaging with our shareholders underpins the essence of the business, ensuring that there are numerous opportunities for investors to engage with both the Board and executive team.

Richard Liddell | Chairman



QCA Code 2018 Principles

Introduction:

The Board of directors of the Company recognises the importance of sound corporate governance and applies the Quoted Companies Alliance Corporate Governance Code (2018) (the 'QCA Code'), which they believe is the most appropriate recognised governance code for a company with shares admitted to trading on the AIM market of the London Stock Exchange. It is believed that the QCA Code provides the Company with the framework to help ensure that a strong level of governance is maintained, enabling the Company to embed the governance culture that exists within the organisation as part of building a successful and sustainable business for all its stakeholders.

The QCA Code has ten principles of corporate governance that the Company has committed to apply within the foundations of the business. These principles are:

QCA Code Principle	Required disclosure	Reference
1	Establish a strategy and business model which promote long-term value for shareholders.	See pages 6-8 of 2018 Annual Report.
2	Seek to understand and meet shareholder needs and expectations. Explain the ways in which the Company seeks to engage with shareholders.	See website disclosures: Principle Two under AIM Rule 26.
3	Take into account wider stakeholder and social responsibilities and their implications for long term success. Explain how the business model identifies the key resources and relationships on which the business relies. Explain how the Company obtains feedback from stakeholders.	See website disclosures: Principle Three under AIM Rule 26.
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation.	See page 30 of 2018 Annual Report.
5	Maintain the board as a well-functioning balanced team led by the Chair.	See page 38 of 2018 Annual Report.
6	Ensure that between them the directors have the necessary up to date experience, skills and capabilities.	See page 38 of 2018 Annual Report. See website disclosures: Principle Six under AIM Rule 26.
7	Evaluate board performance based on clear and relevant objectives, seeking continuous improvement. A description of the Board performance evaluation process.	See page 40 of 2018 Annual Report. See website disclosures: Principle Seven under AIM Rule 26.
8	Promote a corporate culture that is based on ethical values and behaviours. Explain how the Board ensures that the Company has the means to determine ethical values and behaviours.	See website disclosures: Principle Eight under AIM Rule 26.
9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board. Roles and responsibilities of the Chair, CEO and other directors with commitments. Describe the roles of the Committees.	See website disclosures: Principle Nine under AIM Rule 26.
10	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders. Outcomes of votes cast by shareholders to be disclosed in a clear and transparent manner. If a significant number of votes were cast against a resolution put to a general meeting (20%) explain the reasons behind the votes cast.	See pages 43-46 of 2018 Annual Report. See website disclosures: Principle Ten under AIM Rule 26.

Overview

Leadership

Sound Energy's success is fundamentally linked to good governance and we remain committed to achieving high standards in all we do. Our business and processes are aligned around a robust governance framework. The Company applies the Quoted Companies Alliance Corporate Governance Code (2018) (the 'QCA Code') and is committed to adhering to the ten principles of the QCA Code, and the requirements of the AIM market of the London Stock Exchange.

The Directors are developing policies and procedures in line with the QCA Code and these policies and procedures are monitored on a regular basis.

While building a strong governance framework we also try to ensure that we take a proportionate approach and that our processes remain fit for purpose as well as embedded within the culture of our organisation. We continue to evolve our approach and make ongoing improvements as part of building a successful and sustainable company.

Good governance provides a framework that allows the right decisions to be taken by the right people at the right time.

Shareholders and other stakeholders

Board

Set strategy and deliver value to shareholders
Review performance against plan
Board reserved matters: policy risk

Health and Safety Committee

The Health and Safety Committee is primarily focused on ensuring that the HSE policies are adopted and applied across the Group.

Audit Committee

The main responsibilities of the Audit Committee are to monitor the integrity of the Company's financial statements and other formal announcements relating to the Company's financial performance. The Committee ensures that the Company has effective risk management and appropriate internal controls in place. The responsibility for the enforcement of the Company's code of conduct, and the adequacy and security of the anti-bribery and corruption policy also rests with the Audit Committee.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee is responsible for all material elements of remuneration policy, including Directors' remuneration and assessing Directors' performance. It is also responsible for Board recruitment and succession planning, ensuring that the right skill sets are present in the Boardroom.

Executive Committee

The Executive Team supports CEO and Board decision-making, particularly around assurance at project decision gates and new business opportunities. The Executive Team is accountable for implementation of the strategy, the performance of the business, and designing and implementing the culture and tone of the organisation.

Execution and Delivery

The Team

Leadership

Directors and Executives



Richard Liddell
Chairman
(Non-Executive)



Appointed to Board
28 September 2015

Background

Richard Liddell joined the Board as a Non-executive Director in September 2015, taking on the role of Non-executive Chairman in January 2018. Richard Liddell has over 35 years' experience in the oil and gas industry. He served on the board of Falkland Oil and Gas from 2005 to 2015 initially as a Non-Executive Director and for the nine years from 2006, as Chairman. Richard is also Chairman and Managing Director of Clara Petroleum, an exploration and production company which he founded in 2008.

He served on the board of Premier Oil as Operations Director from 2000 until 2003 and prior to that spent three years as Director of Development on the board of BG Exploration and Production. Richard previously held a number of senior UK and international positions during an 18-year career at Philips Petroleum Company.

Richard has a BSc in Electrical Engineering.

Current external commitments

- Founder and Executive Chairman – Clara Petroleum Ltd



James Parsons
Chief Executive Officer
(Executive Director)

Appointed to Board
10 October 2012

Background

James Parsons has over 20 years' experience in the fields of strategy, management, finance and corporate development in the energy industry. James Parsons was appointed Chief Executive Officer in October 2012.

James started his career with the Royal Dutch Shell group in 1994 and spent 12 years with Shell working in Brazil, the Dominican Republic, Scandinavia, the Netherlands and London. Leading up to 2006 (when he left Shell to join Inter Pipeline Fund), James held various positions in Shell's exploration and production business, latterly as Vice President, Finance, of New Business.

James joined Sound Energy as Chief Financial Officer in 2011 from the European division of Inter Pipeline Fund, a Toronto-listed resources business, where he held the position of Finance and Corporate Development Director of Inter Pipeline Europe.

James is a qualified accountant and has a BA Honours in Business Economics.

Current external commitments

- Non-Executive Chairman – Echo Energy plc
- Non-Executive Chairman – Coro Energy plc



Brian Mitchener
Exploration Director
(Executive Director)



Appointed to Board
21 June 2017

Background

Brian Mitchener has over 36 years' experience in Oil & Gas exploration including as Regional General Manager of Exploration at BG, Vice President International Exploration for Africa at Statoil and 22 years with BP Exploration.

Brian is a Chartered Geologist, and a past President of the Petroleum Group of the Geological Society.

Current external commitments

- None



JJ Traynor
Chief Financial Officer
(Executive Director)

Appointed to Board
11 July 2018

Background

JJ Traynor joined Sound Energy in 2018 and has 30 years' experience in the Oil & Gas and financial markets, including as Executive Vice President of Investor Relations at Shell, Managing Director of the number one ranked Oil & Gas research team at Deutsche Bank and as an Exploration Geologist at BP.

JJ has a First Class honours degree in Geology and a PhD in Geology from Cambridge University.

Current external commitments

- None



Mohammed Seghiri
Managing Director,
Morocco

Background

Mohammed Seghiri has over 18 years' experience leading complex European and African projects across different sectors, including Gas Storage, Oil & Gas Exploration, Telecom, Real Estate and Power Production.

He was Managing Director at Advisory & Finance Group, a Morocco-based investment bank where he led, amongst other projects, the financing and construction of the first coal to power plant in Senegal. Mohammed joined Sound Energy from OGIF where he was a Managing Partner.

Mohammed is a graduate from the School of Mines in Nancy, France.

Current external commitments

- None



Marco Fumagalli
Director
(Non-Executive)



Appointed to Board
17 July 2014

Background

Marco Fumagalli joined Sound Energy as a Non-executive Director in July 2014. Marco is Founding Partner at Continental Investment Partners SA, a Swiss based investment firm and cornerstone shareholder in Sound Energy. He is a well-known Italian businessman who was previously a Group Partner at 3i.

Marco is a qualified accountant and holds a degree in Business Administration.

Current external commitments

- Non-Executive Director - Echo Energy plc
- Non-Executive Director - Coro Energy plc
- Director - Continental Group of Companies
- Non-Executive Director - CIP Merchant Capital plc



David Clarkson
Director
(Non-Executive)



Appointed to Board
14 May 2018

Background

David was formerly a member of BP's Group Leadership Team and Senior Vice President for Projects and Engineering (Upstream) at BP. In this role, he was functionally accountable for embedding rigour and discipline in BP's Upstream major project investment decisions, and for building engineering capability to support the company's growth agenda.

He built his career delivering safe, reliable industry-leading projects in challenging frontier locations. Throughout a 34 year career with BP, David held a variety of senior management roles in countries which include Colombia, Indonesia, Iraq, the USA and the UK.

David is a Chartered Engineer and Fellow of the Institution of Mechanical Engineers.

Current external commitments

- Chief Operating Officer and Member of the Board of Directors - Savannah Petroleum

Key:

- Audit Committee
- Remuneration Committee
- Health and Safety Committee

Board Activities

Effectiveness

The Board retains full and effective control over the Company and holds regular meetings at which financial, operational and other reports are considered and where appropriate voted upon. The Board is responsible for the Group's strategy and key financial and compliance issues.

The key matters reserved for the Board:

- Approval of the Group's strategic aims and objectives
- Approval of the Group's annual operating and capital expenditure budgets and any material changes to them
- Review of Group performance and ensuring that any necessary corrective action is taken
- Extension of the Group's activities into new business or geographical areas
- Any decision to cease to operate all or any material part of the Group's business
- Major changes to the Group's corporate structure and management and control structure
- Any changes to the Company's listing
- Changes to governance and key business policies
- Ensuring maintenance of a sound system of internal control and risk management
- Approval of half yearly and annual report and accounts and preliminary announcements of final year results
- Reviewing material contracts and contracts not in the ordinary course of business
- Reviewing the effectiveness of the Board and its Committees

The Board delegates matters not reserved for the Board concerning the management of the Group's business to the Executive Team.

Composition and Independence of the Board

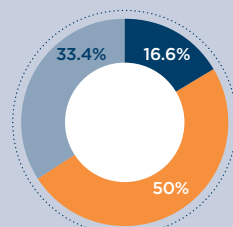
During the year ended 31 December 2018 the Board appointed David Clarkson as an Independent Non-Executive Director and JJ Traynor, Chief Financial Officer as an Executive Director of the Company. Mr. Clarkson was appointed as the Chairman of the Remuneration Committee and this change further strengthened the governance structure of the Company.

The Board comprises the non-executive Chairman, two non-executive directors and three executive directors. The Board has significant industry, financial, public markets and governance experience, possessing the necessary mix of experience, skills, personal qualities and capabilities to deliver the strategy of the Company for the benefit of the shareholders over the medium to long-term. The role of the Chairman and Chief Executive Officer are split in accordance with best practice.

The Chairman is responsible for leading the Board and ensuring that the Board discharges its responsibilities; the Chairman is also responsible for facilitating full and constructive contributions from each member of the Board in the determination of the Group's strategy and overall commercial objectives.

The Chief Executive Officer leads the business and the executive team, ensuring that strategic and commercial objectives set by the Board are met. He is accountable to the Board for the operational and financial performance of the business.

Board Composition %



Chairman	16.6%
Executive Director	50%
Non-Executive Director	33.4%

Attendance at Meetings:

A schedule of the Board and Board Committee meetings held during the year ended 31 December 2018 is noted below. Key Executives and advisors have attended these meetings where appropriate to present and provide feedback on actions throughout the year.

Name of the Director	Board Meetings		Year ended 31.12.2018		
	Scheduled (5)	Ad Hoc* (8)	Audit Committee	Remuneration Committee	Health and Safety Committee
Total number of meetings held ^{iv.}		13	2	2	6
Richard Liddell (Chairman)	5	8	1	2	6
James Parsons (CEO)	5	8	NA	NA	NA
Marco Fumagalli	5	3	2	2	NA
Brian Mitchener	5	2	NA	NA	5
JJ Traynor ^{i.} (CFO)	2	0	NA	NA	NA
David Clarkson ^{ii.}	3	1	NA	1	NA
Stephen Whyte ^{iii.}	1	0	1	NA	NA

* Ad hoc meetings: Additional meetings called for a specific matter generally of a more administration nature not requiring full Board attendance.

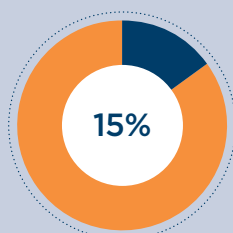
i. JJ Traynor (CFO) was appointed to the Board on 11.07.2018

ii. David Clarkson was appointed to the Board on 14.05.2018

iii. Stephen Whyte resigned from the Board on 23.01.2018

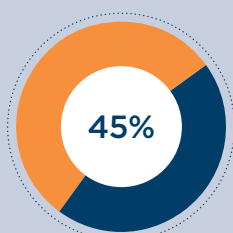
iv. All directors attended the meeting they were expected to attend

What the Board did in 2018



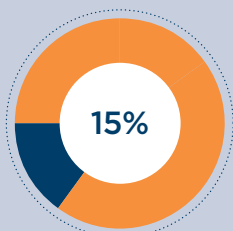
Governance & Risk – 15%

- Adoption of the Quoted Companies Alliance Corporate Governance Code and a review of the requirements of the Code
- AIM training carried out by the Company's Nominated Advisor
- Manual of Authorities reviewed and updated
- Risk Management Policy and Register reviewed
- Adoption of Global Data Protection Regulations policy for roll out across the Company
- Review of insider dealing requirements and individuals persons closely associated to PDMRs
- Updates from Board Committees following every Committee meeting
- Updates from the Group Auditor via the Audit Committee



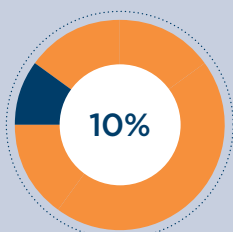
Strategy – 45%

- Completion of the Divestment of Italian Portfolio
- Evaluated and appointed a Joint Broker to the Company
- Embark on a three well drilling exploration programme in the Tendrara area
- Business development opportunities considered by the Board
- External strategy advisors retained to present and advise to the Board
- Funding review



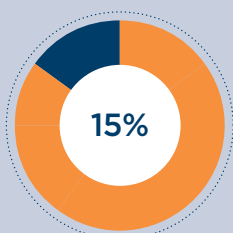
Investor Engagement – 15%

- Investor events held with opportunities for shareholders to speak to executive directors in both a formal environment and also more informal one to one
- Annual General Meeting with opportunity for shareholders to raise questions to the Board
- 'CEO Fireside Chat' periodic opportunities for Q&A sessions with the CEO and executive team
- Close liaising with the Company's major shareholders
- AGM proxy figures reviewed and considered



People, Visions, Values – 10%

- CEO scorecard presented and approved and fed down to the executive team
- Personal development of staff
- Executive team meetings
- Staff meetings in Country
- Establishing new Long Term Incentive Programme for Company's management and key personnel
- Consideration given to the organisation structure and the needs of the business



Performance Monitoring – 15%

- Updates from the chairman of the Audit, Remuneration and HSE Committees
- Monthly reports on performance against targets received by the Board
- Approval full and half year results
- Annual Report and Accounts for 2017 approved

Shareholder Relations

Effectiveness

The Board meets every other month, with ad hoc meetings as and when business demands require. The Agenda is set with the consultation of both the CEO and Chairman, with consideration being given to both standing Agenda items and the strategic and operational needs of the business. Papers are circulated well in advance of the meetings, giving Directors ample time to review the documentation and enabling an effective meeting. Resulting actions are tracked for appropriate delivery and follow-up.

The CEO and Chairman meet and speak regularly to ensure alignment between the day-to-day running of the business and the Board. The Chairman ensures that there is open communication with the other Non-executive Directors.

The effectiveness of the Board is monitored on an on-going basis. During 2017, the Directors undertook a Board evaluation exercise with the Institute of Directors (IoD), which was based on the IoD board evaluation methodology and covered key areas such as strategy, performance, corporate culture and risk oversight. Consideration was given to Board composition, processes and behaviours. It enabled the Directors to consider the functioning of the Board, both within the Boardroom and in the relationships of the Non-executive and Executive Directors. The findings of the exercise were positive and whilst there is always room for improvement, the overall indication was that the Board has performed well during a period of rapid growth for the Company. During 2018 the Board addressed one of the recommendations following the evaluation and

appointed David Clarkson as an independent non-executive director of the Company. The directors continue to consider the balance of executive and non-executive directors on the Board to ensure that there is a good balance present to ensure that it continues to function as effectively as possible.

The Board enters 2019 looking forward to building further on the governance structure already in place. Ongoing review of the functioning of the Board and ensuring that the highest level of governance is maintained whilst being mindful of the size and stage of development of the Company.

The Company has a strong reputation of active and transparent communication with its shareholders. It regularly offers opportunities for the private investor to attend events and meet the Executive Management, as well as offering opportunities for all interested shareholders to see its operations at work. It uses its website and social media as key communication tools to reach its wide private investor audience. In addition, cornerstone investors have Board representation, further helping to align the Executive Management and shareholder interests. The Executive Team regularly meets with present and prospective institutional investors. At the Company's Annual General Meetings, all Directors are available to respond to questions from shareholders present. The Annual General Meeting provides a forum for constructive communication between the Board and the shareholders.

Communications with Shareholders

2018 Review

- Regional roadshow with meetings in Bristol, Chester, Durham, Edinburgh, London and Norwich close to 1,000 investors seen
- AGM held 24 May 2018
- Shareholder visit to Tendrara with over 50 investors
- Six on-line Q&A sessions held with 1,381 users from 40 countries and 1,213 questions answered

2019 Look forward

- London shareholder event planned for first half of 2019
- Regular Q&A sessions throughout the year



Pictured:
Oil and Gas conference South Africa

Health and Safety Committee

Accountability



Richard Liddell
Chairman of the Health and
Safety Committee

2018 Review

- HSE Focus group continued to meet during the year to review the on-going HSE procedures and culture, with consideration given to the three well drilling programme.
- The HSE Committee met at regular intervals during the year.
- Crisis management. Stages drills carried out.
- Site visit by Committee members.

2019 Looking Forward

- Ensure HSE policy and procedures remain effective given on-going drilling programme.
- HSE management system and resources to be kept under review.
- Carry out further staged drills.
- Ensure ongoing transparent reporting to the HSE Committee.

Pictured right:

TE-9 investor site visit

Health and safety (HSE) Committee Activities

The HSE Committee comprises of Richard Liddell and Brian Mitchener.

During the year under review, the Committee met five times to discuss matters pertaining to Health Safety and Environmental issues. The Committee is primarily focused on ensuring that the HSE policies are adopted and applied across the Group.

A full report of the activities of the HSE Committee can be found on pages 27 to 29.



Audit Committee

Accountability



Marco Fumagalli
Chairman of the
Audit Committee

2018 Review

- Approved Audited and interim financial statements; including key judgements and policies to ensure they are fair, balanced and understandable for our shareholders
- Reviewed and recommended the reappointment of our external Auditor Crowe U.K. LLP, including fee structure.
- Comprehensive review of the Company's Risk Management framework; extensive discussions on controls and policies in place to prevent Anti Bribery and corruption and Insider dealing. Implemented risk register matrix to measure risk against individual goals and targets.
- Reviewed Company's Contracting and Procurement (C&P) process and internal audit results on P&C controls.
- Discussed, reviewed and evaluated training implementation on anti-bribery and corruption, Insider dealing and global data protection regulations.

2019 Looking Forward

- Keep under review the Company's existing control framework
- In line with business priorities for the year, complement existing internal resources with fit for purpose internal audit support through external providers.
- Ensure continued risk management procedures and controls are appropriate to support the Company's exploration programme.

Audit Committee Activities

The Audit Committee comprises of Marco Fumagalli (Chairman) and Richard Liddell.

Responsibilities

The main responsibilities of the Audit Committee are to monitor the integrity of the Company's financial statements and other formal announcements relating to the Company's financial performance. The Committee approves the risk management policy, strategic risks and mitigation actions allocated to the Executive Team. Follow-up and review is undertaken throughout the year to ensure effective risk management and appropriate internal controls are in place. The responsibility for the enforcement of the Company's code of conduct and the adequacy and security of the anti-bribery and corruption policy also rests with the Audit Committee.

Financial and Business Reporting

The Audit Committee reviews and evaluates, based on the financial statements, whether the Company is a going concern and communicates to the Board its findings and recommendations. The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and

prospects. The statement setting out the reasons why the Board continues to adopt the going concern basis for preparing the financial statements is included in the Directors' Report on page 52.

Risk and Controls

The Board, through the Audit Committee, is responsible for determining the nature and extent of the significant risks that the Group is willing to take in achieving its strategic objectives and for maintaining sound risk management and internal control procedures. The Group's internal control system is designed to manage the risk of failure to achieve business objectives, rather than to eliminate that risk. Such systems can only provide reasonable, and not absolute, assurance against material misstatement or loss. A summary of our approach and strategic risks is covered in detail on page 30.

Conflicts of Interest

Under the Companies Act 2006, a Director must avoid a situation where a direct or an indirect conflict of interest may occur. The Company has in place procedures to deal with any situation where a conflict may be perceived.



Nominations Committee

Accountability



Richard Liddell
Chairman of the Nominations
Committee

2018 Review

- Selection and appointment of a new Independent Non-Executive Director, David Clarkson in May 2018.
- Review of the composition of the Board.
- Consideration of the requirements of the QCA Code to which the Company adheres with regards to the balance of the Board.

2019 Looking Forward

- On-going review of the composition of the Board.
- Consider the longer term succession planning for the executive team.



Nominations Committee Activities

The Nominations Committee comprises of Richard Liddell (Chairman) and Marco Fumagalli.

The Committee meets as and when required to consider matters related to succession planning and new nominations to the Board to ensure that the right skill sets are present in the Boardroom at each stage of the Company's evolution.

Remuneration Committee

Accountability



David Clarkson
Chairman of the
Remuneration Committee

2018 Review

- Assessment of performance targets and outcome against annual bonus targets for CEO and other Executive Directors.
- On-going review of pay and benefits for CEO and Executive Directors' ensuring packages are competitive and fairly and responsibly rewarded.
- Determine awards made under the Restricted Stock Option (RSU).
- Evaluated Scorecard analysis of 2018 (both mid and full year).

2019 Looking Forward

- Continued monitoring of pay and benefits of the CEO and Executive Directors.
- Agree categories and approve the 2019 performance targets for the CEO and Company.
- Approval of the RSU's performance criteria and awards to be made.



Remuneration Committee Activities

The Remuneration Committee comprises of David Clarkson (Chairman), Richard Liddell and Marco Fumagalli. Richard Liddell was the Chairman of both Nominations and Remuneration Committees until May 2018. Upon his appointment to the Board of Directors of the Company in May 2018, David Clarkson was appointed Chairman of Remuneration Committee.

The Committee meets to consider all material elements of the Company's remuneration policy, including assessing the directors' remuneration and performance. During 2018 the Committee met twice.

Directors' Remuneration Report

The Committee and the wider Board recognise the importance of attracting, retaining and motivating talent within the Board and wider Executive Team to continue the successful growth of the Group as Sound Energy pursues its strategy to deliver high-impact exploration and development opportunities, to leverage strategic partnerships and to add further opportunities through acquisition. As Sound Energy continues to grow, the Company's remuneration policy and framework is evolving to ensure that Directors and Executives are rewarded for achieving strategic targets and creating value for shareholders. We are creating a remuneration framework that is appropriately aligned, both to our business and to the interests and current expectations of our shareholders. The Committee also wanted to ensure that the policy was capable of satisfying investor preferences for simplicity and transparency.

Principles For Executive Remuneration

The main principles of the senior Executive remuneration policy are set out below:

- Attract and retain high-calibre Executives in a competitive international market, and remunerate Executives fairly and responsibly
- Motivate delivery of our key business strategies and encourage a strong performance-oriented culture
- Reward achievement over the short and long term
- Support both near-term and long-term success and sustainable shareholder value
- Align the business strategy and achievement of planned business objectives
- Be compatible with the Company's risk policies and systems
- Ensure that a significant proportion of remuneration is performance-related
- Take into consideration the views of shareholders and best practice guidelines

Fixed remuneration comprises salary, pension and benefits. Variable pay includes annual bonus and LTIP awards. Together, fixed and variable remuneration comprise total remuneration for Senior Executives. The Committee recognises that it may be necessary on occasion to use its discretion to make remuneration decisions outside the standard remuneration policy, such as agreeing a sign-on payment, to attract and retain talent.

Purpose	Operation	Maximum Opportunity	Performance Measures
Salary			
<p>Attract and retain the right calibre of staff required to support the long-term success of the business.</p> <p>Provide the basis for a competitive remuneration package.</p>	<p>Determined by reference to market data.</p> <p>Reflects individual experience, skills and role.</p> <p>Paid monthly.</p> <p>Reviewed annually.</p>	<p>Increases will be made at the discretion of the Committee, or for Non-executive Directors, the CEO, considering:</p> <ul style="list-style-type: none"> - increase in responsibility, particularly as the Company grows and expands - development and performance in the role - alignment to market level 	<p>None, although overall performance of the individual is considered when setting and reviewing salaries annually.</p>
Pension			
<p>Provide a level of pension provision which is compliant with regulation and allows staff to build long-term retirement savings.</p>	<p>Defined contribution based on a percentage of salary.</p> <p>Executives may elect to take part of their pension contribution as salary.</p>	<p>4% of base salary.</p> <p>No element other than salary is pensionable.</p>	<p>None. Pension contribution is set at commencement of an individual's contract.</p>
Benefits			
<p>Protect against risks and provide other benefits reflecting the international aspects of roles.</p>	<p>Private medical and dental insurance in the UK, permanent health insurance and life assurance cover.</p>	<p>Set at a level which provides a sufficient level of benefit.</p>	<p>None.</p>

Directors' Remuneration Report

Purpose	Operation	Maximum Opportunity	Performance Measures
Bonus Awards			
<p>The payment of bonus awards in the form of cash has been largely replaced by the restricted stock unit plan which was introduced in 2018. Any future cash payments made by the Company will be made at the sole discretion of the Remuneration Committee.</p> <p>Provide a direct link between measurable individual performance and rewards. Encourage the achievement of outstanding results aligned to Group strategy and achievement of business objectives.</p>	<p>Individual Executive bonus is based on performance measured against Group and personal objectives.</p> <p>Performance measures are both quantitative and qualitative, and both financial and non-financial.</p> <p>Bonus awards are made by the Committee and awards are paid in cash or shares.</p>	<p>The value of any bonus is at the discretion of the Remuneration Committee.</p>	<p>Performance is assessed using specific metrics set by the Remuneration Committee, including the delivery of the Company Scorecard and the share price performance.</p>
Long-Term Incentive Plan (LTIP)			
<p>Reward execution of Group strategy and growth in shareholder value over a multiple-year period.</p> <p>Long-term performance measurement discourages excessive risk-taking and inappropriate short-term behaviours, and also aligns Executive interests with those of shareholders.</p> <p>The LTIP is designed to retain Senior Executives over the performance period of the awards.</p> <p>In order to better meet the LTIP objectives, the Board determined in January 2018 that the existing Share Option Plan be replaced with a Restricted Stock Unit (RSU) Plan. The RSU awards will be made on an annual basis, with a three-year vesting period, and at vesting the awards will be satisfied in Sound Energy shares. First award occurred with vesting criteria in 2018 and first vesting to occur in January 2021.</p> <p>RSU awards recognise and rewards outstanding performance and individual contributions and give participants in the plan an interest in the Company parallel to that of the shareholders, thus enhancing the proprietary and personal interest in the Company's continued success and long-term progress.</p>	<p>LTIP awards are made by the Committee for the CEO and for Executives by the Committee based on CEO recommendations.</p> <p>Awards vest three years after the date of the award, subject to achievement of any set performance criteria. At vesting, the LTIP awards are satisfied in Sound Energy shares.</p> <p>Awards will typically lapse on termination of employment, although the Committee may determine that awards may vest after termination of employment, in accordance with the plan rules and taking into account performance during the date of grant and date of termination of employment.</p> <p>In the event of a change of control of the Company, awards shall vest and be exercisable.</p>	<p>Awards are made at market price at the date of grant and are discretionary.</p> <p>Awarded annually.</p>	<p>Awards vest based on share price performance or in terms set by the Remuneration Committee.</p> <p>Alternative or additional criteria may be used to determine future rewards.</p>

Purpose	Operation	Maximum Opportunity	Performance Measures
Chairman and Non-executive Director Fees			
<p>Provide an appropriate reward to attract and retain high calibre individuals.</p> <p>Neither the Chairman nor any of the Non-executive Directors are entitled to a bonus or benefits and their fees are not performance-related.</p>	<p>The fee for the Chairman and Non-executive Directors reflects the level of commitment and responsibility of the role.</p> <p>The fee is paid monthly in cash and is inclusive of all Committee roles. There is a fee for the role of Senior Independent Director.</p>	<p>Set at a level which reflects the commitment and contribution expected from the Chairman and Non-executive Directors, and is appropriately positioned against comparable roles in companies of a similar size and complexity.</p> <p>Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.</p>	<p>Benchmarked externally from time to time as appropriate.</p>

Recruitment Remuneration Arrangements

When recruiting a new Executive Director, whether from within the organisation or externally, the Committee will take into consideration all relevant factors to ensure that remuneration arrangements are in the best interests of the Company and its shareholders without paying more than is necessary to recruit an Executive of the required calibre. The Committee will seek to align the remuneration package offered with the remuneration policy outlined above, but retains discretion to make proposals on hiring which are outside the standard policy.

Director Shareholding Guidelines

From 2017 and applicable to future LTIP awards, the Committee has introduced new guidelines regarding Director and Senior Executive shareholding requirements. All Executive Directors and Senior Executives are expected to build up over a reasonable period from appointment, and hold, a minimum level of shareholding in the Company equal to one year's salary, with the CEO expected to build up a holding of 200% of base salary. Transitional provisions have been introduced with each Executive having three years to build up the requisite holding. The minimum level of shareholding is intended to be a pre-requisite for further LTIP awards. This is considered an effective way to align the interests of the Executive Management and shareholders over the long term.

Executive Director Employment Contracts and Termination Payments

The CEO, CFO and the Exploration Director have employment contracts which entitle them to the fixed elements of remuneration and to consideration for variable remuneration each year. Their contracts are terminable by the Company on not more than six months' written notice for the CEO and Exploration Director, and three months' written notice for the CFO.

External Appointments

It has been expressly agreed that the CEO can take positions of Non-executive Director or Non-executive Chairman in other listed companies provided that (i) the company is not in direct or indirect competition with the business of Sound Energy plc and/or any Group company and that (ii) the position and corresponding duties and obligations do not reduce in any manner his ability to fulfil his duties and obligations under his employment contract with Sound Energy. It is the Company's policy that remuneration earned from any such appointment may be retained by the individual.

Remuneration Policy for the Chairman and Non-executive Directors

The Chairman and other Non-executive Directors are appointed under Service Contracts with a notice period for termination of three months. The Service Contracts cover such matters as duties, time commitment and other business interests.

Loss of Office and Change of Control Provisions

In the event of a change of control of the Company, the CEO, CFO and Exploration Director have the option to give notice and receive a lump sum equivalent to 18 months' salary for the CEO, 12 months' salary for the CFO and 8 months' salary for the Exploration Director.

All of the Company's current share plans contain provisions relating to a change of control. On a change of control, outstanding awards would normally vest and become exercisable, subject to the satisfaction of any performance conditions at that time.

Directors' Remuneration Report

Summary Of Actual Remuneration Of Directors

	Salary £'000s	2018 Performance Award £'000s	Additional Award £'000s	Severance £'000s	Benefits in kind £'000s	Total 2018 £'000s	Total 2017 £'000s
Executive Directors							
James Parsons ⁽ⁱ⁾	499	192	300	-	4	995	549
Brian Mitchener ⁽ⁱ⁾	322	-	-	-	1	323	195
JJ Traynor ⁽ⁱ⁾⁽ⁱⁱ⁾	164	-	-	-	4	168	-
Non-executive Directors and Chairman							
Richard Liddell	116	-	-	-	-	116	55
Marco Fumagalli	52	-	-	-	-	52	50
David Clarkson	36	-	-	-	-	36	-
Stephen Whyte	48	-	-	25	-	73	94
Total for all Directors	1,237	192	300	25	9	1,763	943

i. Includes pension contribution of 4%.

ii. Appointed Director from 11 July 2018. Remuneration disclosed is from the date of the appointment.

Share Options

	Date of Grant	Exercisable Date	Acquisition Price per share (pence)	Options held at 1 January 2018	Options held at 31 December 2018
James Parsons	25.09.15	25.09.18 - 25.09.20	14.25	1,250,000	-
	23.03.16	23.03.19 - 23.03.21	16.00	3,000,000	3,000,000
Brian Mitchener	07.10.16	07.10.19 - 07.10.21	84.00	1,500,000	1,500,000
	25.01.17	25.01.20 - 25.01.22	67.00	1,500,000	1,500,000
JJ Traynor	14.09.17	14.09.20 - 14.09.22	48.00	4,000,000	4,000,000
Stephen Whyte	08.08.16	08.08.19 - 08.08.21	60.00	1,000,000	-
Marco Fumagalli	08.08.16	08.08.19 - 08.08.21	60.00	250,000	250,000
Richard Liddell	08.08.16	08.08.19 - 08.08.21	60.00	250,000	250,000

During 2018, James Parsons exercised a total of 1.25 million options at an exercise price of 14.25 pence per option. The share price at the date of exercise was 38.12 pence and the calculated gain on the options at the date of exercise was £298,331. The options that had been granted to Stephen Whyte lapsed on resignation.

In order to better meet the LTIP objectives, the Board determined in January 2018 that the existing Share Option Plan be replaced with a RSU Plan. The RSU awards will be made on an annual basis, with a three-year vesting period, and at vesting the awards will be satisfied in Sound Energy shares. First award occurred in 2018 and first vesting to occur in January 2021.

RSU Awards

	Date of Grant	Settlement Date	RSU Awards held at 1 January 2018	RSU Awards held at 31 December 2018
Brian Mitchener	26.04.18	01.01.21	-	863,682
JJ Traynor	26.04.18	01.01.21	-	961,194

Directors' Shareholdings and Interests in Shares

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company:

Directors and connected persons	No. of Shares
James Parsons	2,602,905
Richard Liddell	100,000
Brian Mitchener	-
JJ Traynor	-
Marco Fumagalli (Continental Investment Partners)	18,775,509
David Clarkson	-

Movements in Share Price During the Year

The mid-market price of the Company's shares at the end of the financial year was 22.5p and the range of mid-market prices during the year was between 11p and 57p.

Advice Received by the Committee

The Committee has access to advice when it considers appropriate. In the year ended 31 December 2018, the Committee received advice relating to specific Executive compensation from Mercer who were paid £3,800 (excluding VAT).

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 20 March 2019 and signed on its behalf by:

David Clarkson | Chairman of the Remuneration Committee
20 March 2019

Directors' Report

Other Disclosures

Pages 38 to 53 inclusive (together with sections of the Annual Report incorporated by reference) constitute a Directors' Report that has been drawn up and presented in accordance with applicable English company law and the liabilities of the Directors in connection with that report are subject to the limitations and restrictions provided by that law.

Principal Activities and Business Review

Sound Energy plc is the holding company for a group of companies whose principal activities are the exploration, appraisal and development of oil and gas assets to first production and the operation of producing assets. Following the sale of Italian assets in the first half of 2018, the Group's current principal area of activity is Morocco. A review of the performance and future development of the Group's business is contained on pages 2 to 33 and forms part of this report.

Results and Dividends

The loss for the year before tax was £6.8 million (2017: £34.2million). The Directors do not recommend the payment of a dividend.

Going Concern

In presenting the annual and interim financial statements, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. As at 31 December 2018, the Group had £20.5 million of total cash. Based on the current management plan, management believes that the Group will remain a going concern for the next 12 months from the date of the authorisation of the financial statements on the basis that the Group has sufficient funding options for the forecast expenditure using both the available cash resources and funding from partners in the main strategic licences, and therefore, the Group continues to adopt the going concern basis in preparing the financial statements.

Auditor

So far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware. Each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

The Auditor, Crowe U.K. LLP, has indicated its willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

Political Donations

No political donations were made during the year (2017: £Nil).

Takeover Directive

The Company has only one class of ordinary share and these shares have equal voting rights. The nature of individual Directors' holdings is disclosed on page 51.

Board of Directors

The names of the present Directors and their biographical details are shown on pages 38 to 39.

The Directors who served during the year were as follows:

- Richard Liddell
- James Parsons
- Stephen Whyte
- David Clarkson
- Marco Fumagalli
- Brian Mitchener
- JJ Traynor

Changes to the Board during the year:

Stephen Whyte resigned from the Board on 23.01.2018. David Clarkson and JJ Traynor were appointed to the Board on 14.05.2018 and 11.07.2018, respectively.

None of the Directors had any interest during or at the end of the year in any contract of significance in relation to the business of the Company or its subsidiary undertakings.

Full details of the interests in the ordinary share capital of the Company of those Directors holding office on 31 December 2018, are set out in the Directors' Remuneration Report.

Powers Given to Directors

The powers given to the Directors are contained in the Articles of Association (the Articles) and are subject to relevant legislation and, in certain circumstances (including in relation to the issuing or buying back by the Company of its ordinary shares), subject to authority being given to the Directors by shareholders in general meeting. The Articles also govern the appointment and replacement of Directors. The Articles, which may only be amended with shareholders' approval in accordance with relevant legislation, can be found on our website.



Indemnities

Insurance cover also remains in place to protect all Directors and senior management in the event of a claim being brought against them in their capacity as Directors or officers of the Company and its subsidiaries.

Share Capital

At 31 December 2018, the Company had 1,055,107,172 ordinary shares in issue as shown in note 17 to the consolidated financial statements. There are no restrictions on the transfer of the Company's ordinary shares other than certain restrictions which may be imposed by law, for example, insider trading law and the Company's share dealing code. Each ordinary share carries the right to one vote at General Meetings of the Company. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Substantial Shareholding

The Company was advised of the following significant direct and indirect interests in the issued ordinary share capital of the Company as at 31 December 2018 and up to the date of this report.

Oil & Gas Investment Fund SAS 269,956,526 share interest.

Financial instruments

The information relating to the Group's financial assets and its financial risk management can be found in note 19 to the consolidated financial statements.

Subsequent Events

See note on page 92.

Richard Liddell | Chairman
20 March 2019

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and to disclose with reasonable accuracy at

any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are further responsible for ensuring that the Strategic Report and the Directors' Report and other information included in the Annual Report and financial statements is prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of Sound Energy plc website is the responsibility of the Directors; the work carried out by the Auditor does not involve the consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in the Annual Report may differ from legislation in other jurisdictions.

James Parsons | Chief Executive Officer
20 March 2019



Independent Auditor's Report

Opinion

We have audited the financial statements of Sound Energy plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2018, which comprise:

- the Consolidated statement of comprehensive income for the year ended 31 December 2018;
- the Group and Company balance sheet as at 31 December 2018;
- the Group and Company cash flow statement for the year then ended;
- the Group and Company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- The Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £2.0m, based on approximately 1% of total assets.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £40,000. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The head office of the Group is located in the UK which has an accounting function for group reporting as well as the head office costs and certain exploration activities. Our audit was conducted from this location.

The Group also has operations in Morocco which has a separate accounting function. A senior member of the audit team visited Morocco in order to assess the accounting systems operating locally and to perform the required audit work.

Independent Auditor's Report

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Impairment of exploration and evaluation assets The Group's primary focus is on exploration activities in Eastern and Southern Morocco. Exploration expenditure in the current year was significant and totaled £11.4m. The carrying value of the exploration and evaluation assets was £31.8m at 31 December 2018.</p> <p>We consider the risk that exploration assets are impaired.</p>	<p>We reviewed management's assessment which concluded that there are no facts or circumstances that suggest the carrying amount of the asset exceeds the recoverable amount.</p> <p>In considering this assessment we performed the following working:</p> <ul style="list-style-type: none"> – Reviewed the board minutes, budgets and other operational plans setting out the Group's current plans for the continued commercial appraisal of each exploration asset; – Reviewed current well and licence reserve appraisals; and – Discussed plans and intentions with management.
<p>Transfer of assets to development and production assets During the year the Group transferred £146m of assets from Exploration and Evaluation Assets to Development and Production Assets. Under the accounting standards an impairment test is required at this point.</p> <p>We consider the risk that the assets were impaired at the point of transfer.</p>	<p>We reviewed management's assessment including their internal model which concluded that there are no facts or circumstances that suggest the recoverable amount of the asset exceeds the carrying amount.</p> <p>In considering this assessment we performed the following work:</p> <ul style="list-style-type: none"> – Verified the technical feasibility and commercial viability is demonstrable as required by IFRS 6 – Obtained the impairment assessment carried out at the transfer date and validated its mathematical accuracy. – Challenged management's inputs into the valuation model to available market data and other sources of evidence. This included the assessment of the discount rate, market price and reserves.
<p>Going concern The risk that uncertainty on the timing of the receipt of cash inflows and the potential overspend on outgoing costs gives rise to going concern issues.</p>	<p>We reviewed management's assessment on going concern and considered the following:</p> <ul style="list-style-type: none"> – The cash flow budgets and the key inputs on cash inflows and outflows and their likely timing – The appropriateness of the assumptions made on costs to projects and the headroom available – Review of the flexibility on the timing of cash flows

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report and strategic report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 54, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and parent company's 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 the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Stallabrass (Senior Statutory Auditor)

for and on behalf of
Crowe U.K. LLP
Statutory Auditor
London
20 March 2019

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Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £'000s	2017 £'000s
Continuing operations			
Revenue		-	-
Exploration costs		(4,058)	-
Gross loss		(4,058)	-
Administrative expenses		(8,857)	(8,458)
Group operating loss from continuing operations	3	(12,915)	(8,458)
Finance revenue	6	233	23
Foreign exchange gain/(loss)		3,387	(914)
Other gains and (losses)			
- derivative financial instruments	21	(80)	(1,873)
External interest costs	24	(2,374)	(1,117)
Loss for the year from continuing operations before taxation		(11,749)	(12,339)
Tax credit/(expense)	7	-	-
Loss for the year from continuing operations		(11,749)	(12,339)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	25	4,953	(21,811)
Total loss for the year		(6,796)	(34,150)
Other comprehensive income/(loss)			
Items that may subsequently be reclassified to the profit and loss account			
Foreign currency translation gain/(loss)		7,614	(5,361)
Total comprehensive profit/(loss) for the year		818	(39,511)
Profit/(loss) for the year attributable to:			
Owners of the company		818	(39,511)
Non-controlling interests		-	-
	Notes	2018 Pence	2017 Pence
Basic and diluted loss per share for the year from continuing and discontinued operations	8	(0.66)	(4.28)
Attributable to the equity shareholders of the parent (pence)	8	(0.66)	(4.28)
Basic and diluted loss per share for the year from continuing operations	8	(1.14)	(1.54)
Attributable to the equity shareholders of the parent (pence)	8	(1.14)	(1.54)

Consolidated Balance Sheet

as at 31 December 2018

	Notes	2018 £'000s	2017 £'000s
Non-current assets			
Property, plant and equipment	9	151,005	372
Intangible assets	10	32,008	163,939
Interest in Badile land	25	1,618	-
		184,631	164,311
Current assets			
Inventories		929	628
Other receivables	12	3,365	3,526
Derivative financial instruments	21	-	80
Prepayments		178	117
Cash and short term deposits	13	20,536	21,198
		25,008	25,549
Assets of disposal group held for sale	25	-	12,292
Total assets		209,639	202,152
Current liabilities			
Trade and other payables	14	10,068	6,601
		10,068	6,601
Liabilities of disposal group held for sale	25	-	4,492
Non-current liabilities			
Loans due in over one year	24	20,476	18,566
		20,476	18,566
Total liabilities		30,544	29,659
Net assets		179,095	172,493
Capital and reserves			
Share capital and share premium		22,600	287,829
Warrant reserve		4,090	4,090
Foreign currency reserve		2,163	(3,918)
Accumulated surplus/(deficit)		150,242	(115,508)
Total equity		179,095	172,493

The financial statements were approved by the Board and authorised for issue on 20 March 2019 and were signed on its behalf by:

James Parsons | Director

Richard Liddell | Director

The accounting policies on pages 66 to 71 and notes on pages 66 to 92 form part of these financial statements.

Company Balance Sheet

as at 31 December 2018

	Notes	2018 £'000s	2017 £'000s
Non-current assets			
Property, plant and equipment		34	46
Fixtures and fittings		79	131
Software		24	66
Interest in Badile land	25	1,618	-
Investments in subsidiaries	11	171,708	178,249
		173,463	178,492
Current assets			
Other receivables	12	834	100
Prepayments		169	86
Derivative financial instruments	21	-	80
Cash and short term deposits	13	11,160	16,569
		12,163	16,835
Total assets		185,626	195,327
Current liabilities			
Trade and other payables	14	1,901	1,599
		1,901	1,599
Non-current liabilities			
Loans	24	20,476	18,566
Total liabilities		22,377	20,165
Net assets		163,249	175,162
Capital and reserves attributable to equity holders of the Company			
Share capital and share premium		22,600	287,829
Warrant reserve		4,090	4,090
Accumulated surplus/(deficit)		136,559	(116,757)
Total equity		163,249	175,162

The Company's accumulated surplus/(deficit) includes loss for the year of £4.0 million (2017: £66.9 million). 2017 loss was primarily due to an impairment charge of £47.0 million in respect of the divestment of the Italian operations.

The financial statements were approved by the Board and authorised for issue on 20 March 2019 and were signed on its behalf by:

James Parsons | Director

Richard Liddell | Director

Group and Company Statements of Changes in Equity

for the year ended 31 December 2018

Group

	Notes	Share capital £'000s	Share premium £'000s	Accumulated surplus/ (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 year		-	-	(6,796)	-	-	(6,796)
Other comprehensive income		-	-	-	-	7,614	7,614
Total comprehensive loss		-	-	(6,796)	-	7,614	818
Issue of share capital	17	392	12,687	-	-	-	13,079
Share issue costs		-	(570)	-	-	-	(570)
Reclassification to profit and loss account on Italy divestment	25	-	-	-	-	(1,533)	(1,533)
Reclassification on share premium account cancellation	17	-	(277,738)	277,738	-	-	-
Distribution to shareholders on Italy divestment		-	-	(7,994)	-	-	(7,994)
Share based payments	22	-	-	2,802	-	-	2,802
At 31 December 2018		10,551	12,049	150,242	4,090	2,163	179,095

Company

	Notes	Share capital £'000s	Share premium £'000s	Accumulated surplus/ (deficit) £'000s	Warrant reserve £'000s	Total equity £'000s
At 1 January 2018 as previously reported		10,159	277,670	(116,757)	4,090	175,162
Adjustment on initial application of IFRS 9	11	-	-	(15,250)	-	(15,250)
Restated balance at 1 January 2018		10,159	277,670	(132,007)	4,090	159,912
Total loss for the year		-	-	(3,980)	-	(3,980)
Issue of share capital	17	392	12,687	-	-	13,079
Share issue costs	17	-	(570)	-	-	(570)
Reclassification on share premium account cancellation	17	-	(277,738)	277,738	-	-
Distribution to shareholders on Italy divestment		-	-	(7,994)	-	(7,994)
Share based payments	22	-	-	2,802	-	2,802
At 31 December 2018		10,551	12,049	136,559	4,090	163,249

Group

	Notes	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 2017		6,651	129,016	223	(84,213)	4,459	1,443	57,579
Total loss for the year		-	-	-	(34,150)	-	-	(34,150)
Other comprehensive loss		-	-	-	-	-	(5,361)	(5,361)
Total comprehensive loss		-	-	-	(34,150)	-	(5,361)	(39,511)
Issue of share capital	17	3,490	148,449	-	-	-	-	151,939
Reclassification on share issue	17	18	205	(223)	-	-	-	-
Reclassification on debt settlement		-	-	-	369	(369)	-	-
Share based payments	22	-	-	-	2,486	-	-	2,486
At 31 December 2017		10,159	277,670	-	(115,508)	4,090	(3,918)	172,493

Company

	Notes	Share capital £'000s	Share premium £'000s	Shares to be issued £'000s	Accumulated deficit £'000s	Warrant reserve £'000s	Total equity £'000s
At 1 January 2017		6,651	129,016	223	(52,700)	4,459	87,649
Total loss for the year		-	-	-	(66,912)	-	(66,912)
Issue of share capital	17	3,490	148,449	-	-	-	151,939
Reclassification on share issue	17	18	205	(223)	-	-	-
Reclassification on debt settlement		-	-	-	369	(369)	-
Share based payments	22	-	-	-	2,486	-	2,486
At 31 December 2017		10,159	277,670	-	(116,757)	4,090	175,162

Consolidated Cash Flow Statement

for the year ended 31 December 2018

	Notes	2018 £'000s	2017 £'000s
Cash flow from operating activities			
Cash flow from operations		(281)	(11,849)
Interest received		259	102
Net cash flow from operating activities		(22)	(11,747)
Cash flow from investing activities			
Capital expenditure and disposals		(937)	(478)
Exploration expenditure		(8,855)	(23,482)
Disposal of Italian operations	25	(2,655)	-
Net cash flow from investing activities		(12,447)	(23,960)
Proceeds from derivative financial instruments		-	592
Net proceeds from equity issue		12,218	11,550
Interest payments	24	(1,274)	(1,293)
Net cash flow from financing activities		10,944	10,849
Net decrease in cash and cash equivalents		(1,525)	(24,858)
Net foreign exchange difference		50	60
Cash and cash equivalents at the beginning of the year		22,011	46,809
Cash and cash equivalents at the end of the year	13	20,536	22,011

Notes to Cash Flow Statement

for the year ended 31 December 2018

	Notes	2018 £'000s	2017 £'000s
Cash flow from operations reconciliation			
Loss before tax from continuing operations		(11,749)	(12,339)
Profit/(loss) before tax from discontinued operations		4,953	(21,866)
Total loss for the year before tax		(6,796)	(34,205)
Finance revenue		(259)	(102)
Impairment of goodwill		-	55
Exploration expenditure written off and impairment of producing assets		4,058	19,833
Increase/(decrease) in accruals and short term payables		1,078	(5,783)
Depreciation		164	406
Share based payments charge and bonuses paid in shares		3,094	2,486
Increase in drilling inventories		(299)	(430)
Loss on derivative financial instruments		80	1,873
Gain on disposal of Italy operations	25	(3,684)	-
Foreign currency translation gain reclassified from other comprehensive income	25	(1,533)	-
Finance costs and exchange adjustments		(1,013)	2,158
Decrease in receivables and prepayments		4,829	1,860
Cash flow from operations		(281)	(11,849)

Non-cash transactions during the year included the issue of 688,146 shares in lieu of cash bonuses at an issue price of approximately 40.08 pence per share and issue of 88,740 shares at 17.80 pence per share to a third party in settlement of services provided. In 2017, non-cash transactions included the issue of shares worth £138.8 million as the consideration for the acquisition of OGIF's interests in Morocco licences and issue of shares worth £0.7 million as part settlement of the drilling services at the Badile licence, onshore Italy. 9.6 million warrants of 10.4p per warrant were exercised in settlement of £1.0 million debt.

During the year the Group provided \$0.75 million (2017: \$2.95 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 equivalent and cash equivalents. In 2017, a guarantee of €0.7 million was provided for expenditure relating to Badile licence and was included in cash and cash equivalents as it was expected to be released as soon as the commitment was fulfilled.

Company Cash Flow Statement

for the year ended 31 December 2018

	Notes	2018 £'000s	2017 £'000s
Cash flow from operating activities			
Cash flow from operations		(5,261)	(7,465)
Interest received		166	23
Net cash flow from operating activities		(5,095)	(7,442)
Cash flow from investing activities			
Capital expenditure and disposals		(14)	(47)
Cash advances to subsidiaries		(11,608)	(28,772)
Net cash flow from investing activities		(11,622)	(28,819)
Proceeds from derivative financial instruments		-	592
Net proceeds from equity issue		12,218	11,550
Interest payments		(1,274)	(1,293)
Net cash flow from financing activities		10,944	10,849
Net decrease in cash and cash equivalents		(5,773)	(25,412)
Net foreign exchange difference		364	199
Cash and cash equivalents at the beginning of the year		16,569	41,782
Cash and cash equivalents at the end of the year	13	11,160	16,569

Notes to Cash Flow Statement

for the year ended 31 December 2018

	Notes	2018 £'000s	2017 £'000s
Cash flow from operations reconciliation			
Loss before tax		(3,980)	(66,912)
Impairment of investments in subsidiaries		1,098	46,973
Intragroup recharges		(1,202)	(918)
Finance revenue		(166)	(23)
Decrease in receivables and prepayments		1,536	13
Decrease in accruals and short term payables		(456)	(576)
Depreciation		118	86
Share based payments charge and bonuses paid in shares		3,094	2,486
Expected credit loss allowance on intercompany loans	11	2,135	-
Loss on derivative financial instruments		80	1,873
Finance costs and exchange adjustments		(7,518)	9,533
Cash flow from operations		(5,261)	(7,465)

Non-cash transactions during the year included the issue of 688,146 shares in lieu of cash bonuses at an issue price of approximately 40.08 pence per share and the issue of 88,740 shares at 17.85 pence per share to a third party in settlement of services provided. In 2017, non-cash transactions included the issue of shares worth £138.8 million as the consideration for the acquisition of OGIF's interests in Morocco licences and the issue of shares worth £0.7 million as part settlement of the drilling services at the Badile licence, onshore Italy. 9.6 million warrants of 10.4p per warrant were exercised in settlement of £1.0 million debt.

Notes to the Financial Statements

for the year ended 31 December 2018

1 Accounting policies

Sound Energy plc is a public limited Company registered and domiciled in England and Wales under the Companies Act 2006. The Company's registered office is 1st Floor, 4 Pembroke Road, Sevenoaks, Kent, TN13 1XR.

(a) Basis of preparation

The financial statements of the Group and its parent Company have been prepared in accordance with:

1. International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC Interpretations; and
2. those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, except to the extent that the following policies require fair value adjustments.

The Group and its parent company's financial statements are presented in sterling (£) and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these consolidated financial statements and by all Group entities, unless otherwise stated. All amounts classified as current are expected to be settled/recovered in less than 12 months unless otherwise stated in the notes to these financial statements.

The Group and its parent company's financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 20 March 2019.

As at 31 December 2018 the Group had £20.5 million of available cash. Based on the current management plan, management believes that the Group will remain a going concern for at least the next 12 months from the date of the authorisation of the financial statements on the basis that the Group has sufficient funding options for the forecast expenditure (12 months through 21 March 2020) using both the available cash resources and funding from partners in the main strategic licences.

Use of estimates and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the impairment of intangible exploration and evaluation (E&E), investments and goodwill and the estimation of share based payment costs.

When considering whether E&E assets are impaired the Group first considers the IFRS 6 indicators set out in note 10. The making of this assessment involves judgement concerning the Group's future plans and current technical and legal assessments.

If those indicators are met a full impairment test is performed. During the year TE-9 well drilled at the Group's Tendrara licence, onshore Morocco was plugged and abandoned as no producible gas was encountered. An impairment charge of £4.1 million was recognised.

Following the award of a production concession in Morocco, judgement was required in determining the date of and quantum of the E&E expenditure transferred to development. In making assessment for impairment prior to transfer of the E&E expenditure to development (see note 10), the inputs used in the valuation model included expected gas price, production volume, discount rate and tax rate which are not considered likely to be subject to material change in the coming 12 months.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset and chooses a suitable discount rate in order to calculate the present value of those cash flows. In undertaking these value in use calculations, management is required to make use of estimates and assumptions similar to those described in the treatment of E&E assets above. Further details are given in note 10.

The estimation of share based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the continuing participation of key employees (see note 18).

Significant judgement and estimation is also required in the determination of the fair value of warrants and bonds. The proceeds from the issue of the Company's bonds were used to settle existing liabilities and therefore an element of judgement was required in determining the portion of issues costs to be allocated to the old and new debt.

Other sources of estimate concern IFRS 9 on intercompany loans at parent Company level (note 11) and share based payments (note 22) but are not considered likely subject to material change in the coming 12 months.

1 Accounting policies *continued*

(b) Basis of consolidation

The Group financial statements consolidate the Income statements, Balance sheets, Cash flow statements and statements of changes in equity and related notes of the Company and its subsidiary undertakings.

Investments in subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Such power, generally but not exclusively, accompanies a shareholding of more than one-half of the voting rights.

The Group uses the purchase method of accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs of acquisition are expensed during the period they are incurred.

Separate financial statements

The Company has no intention to recall the intercompany loans in the foreseeable future and therefore classifies them as investments in the Company balance sheet. The Company applies IFRS9 in calculating expected credit losses on intercompany loans and recognises a loss allowance based on lifetime expected credit loss at each reporting date.

Investments in subsidiaries, joint ventures and associates are recorded at cost, subject to impairment testing in the Group's financial statements. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, until the date that control ceases.

(c) Foreign currency translation

The functional currency of the Company is pound sterling. The Group also has subsidiaries whose functional currencies are US dollar.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year, unless this is not a reasonable approximation of the rates on the transaction dates. The resulting exchange differences are recognised in other comprehensive income and held in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that foreign operation is recognised in the income statement.

Notes to the Financial Statements

for the year ended 31 December 2018

1 Accounting policies *continued*

(d) Oil and gas assets

The Group's capitalised oil and gas costs principally relate to properties that are in the exploration and evaluation stage.

As allowed under IFRS 6 the Group has continued to apply its existing accounting policy to exploration and evaluation activity, subject to the specific requirements of the standard.

The Group will continue to monitor the application of these policies in the light of expected future guidance on accounting for oil and gas activities.

The Group applies the successful efforts method of accounting for E&E costs.

Exploration and evaluation assets

Under the successful efforts method of accounting, all licence acquisition, exploration and appraisal costs are initially capitalised in well, field or specific exploration cost centres as appropriate, pending determination.

Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

Exploration and evaluation costs

Costs are initially capitalised as E&E assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as E&E assets.

Treatment of exploration and evaluation expenditure at the end of appraisal activities

Intangible E&E assets relating to each exploration licence/prospect are carried forward, until the existence (or otherwise) of commercial reserves has been determined subject to certain limitations including review for indications of impairment. If, however, commercial reserves have been discovered and development has been approved, the carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets. If, however, commercial reserves have not been found, the capitalised costs are charged to expense after conclusion of appraisal activities.

Development and production assets

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in the accounting policy above.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning.

Impairment of development and production assets

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount.

The carrying value is compared with the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single income generating unit where the cash flows of each field are interdependent.

Acquisitions, asset purchases and disposals

Acquisitions of oil and gas properties are accounted for under the purchase method where the transaction meets the definition of a business combination or joint venture.

Transactions involving the purchase of an individual field interest, or a group of field interests, that do not qualify as a business combination are treated as asset purchases, irrespective of whether the specific transactions involve the transfer of the field interests directly, or the transfer of an incorporated entity. Accordingly, no goodwill arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

1 Accounting policies *continued*

(e) Expenses recognition

Expenses are recognised on the accruals basis unless otherwise stated.

(f) Property, plant and equipment and land and buildings

Fixtures, fittings and equipment are recorded at cost as tangible assets.

The straight-line method of depreciation is used to depreciate the cost of these assets over their estimated useful lives, which is estimated to be three to four years.

(g) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at its original value, less any accumulated impairment losses subsequently incurred.

Goodwill is not amortised. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount, an impairment loss is recognised. The Directors consider that the cash generating units to which the goodwill relates are each applicable licence held in the Group's portfolio.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(i) Income tax

Current tax

The current tax expense is based on the taxable results for the year, using tax rates enacted or substantively enacted at the Balance Sheet date, including any adjustments in respect of prior years.

Amounts are charged or credited to the Income Statement or equity as appropriate.

Deferred tax

Deferred tax is provided using the Balance Sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable results will be available against which the temporary differences can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Temporary differences arising from investments in subsidiaries give rise to deferred tax in the Company Balance Sheet only to the extent that it is probable that the temporary difference will reverse in the foreseeable future or the Company does not control the timing of the reversal of that difference.

Deferred tax is provided on unremitted earnings of subsidiaries to the extent that the temporary difference created is expected to reverse in the foreseeable future.

Deferred tax is recognised in the Income Statement except when it relates to items recognised directly in the Statement of Changes in Equity in which case it is credited or charged directly to Retained Earnings through the Statement of Changes in Equity.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Cash and cash equivalents also includes restricted cash that has been placed as guarantee for commitments on the licences.

Notes to the Financial Statements

for the year ended 31 December 2018

1 Accounting policies *continued*

(k) Financial instruments

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Trade receivables and other receivables are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Cash and cash equivalents comprise cash on hand and demand deposits, restricted cash and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Derivative financial instruments are measured at fair value. Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Warrants issued are measured at their fair value on the date of issuance. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below. Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Shares issued are held at their fair value on issue and are not subsequently remeasured.

(l) Share based payments

The Group issues equity-settled share based payments to certain employees. The fair value of each option or restricted stock unit (RSU) at the date of the grant is estimated using the Black-Scholes option-pricing model based upon the exercise price, the share price at the date of issue, volatility and the life of the option or RSU. The estimated fair value of the option or RSU is recognised as an expense over the options' or RSU's vesting period with a corresponding increase to equity. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

(m) Derivative financial instruments

The Company had derivative financial instruments arising from the shares issued on the acquisition of the Sidi Mokhtar licence, onshore Morocco. Derivative financial instruments are stated at their fair value. Gains and losses on the derivatives that do not qualify for hedge accounting are taken directly to the income statement in the period.

(n) Inventories

Inventories represent drilling equipment and materials remaining after drilling operations are completed. Inventory is valued at lower of cost and net realisable value. The value of inventory used during drilling operations is determined on a weighted average basis.

(o) Standards, interpretations and amendments to published standards

New standard adopted

The Group applied IFRS 9 'Financial instruments' for the first time. The Group applied IFRS 9 prospectively with the initial application date of 1 January 2018.

The impact of the adoption was the recognition of expected credit loss on the Company's intercompany loans to its subsidiaries. The impact on the Company's separate financial statements is as shown below.

	Income Statement £'000s	Investments in subsidiaries £'000s	Accumulated Surplus/(Deficit) £'000s
Expected credit loss allowance (note 11)	2,135	(17,385)	15,250

The recognition of expected credit loss allowances as at 1 January 2018 led to an increased in the Company's accumulated deficit by £15.3 million. Due to further loans advanced to the subsidiaries during the year, an additional credit loss allowance of £2.1 million was recognised in the income statement during the year.

IFRS 15, 'Revenue from contracts with customers' and several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the Group's financial statements.

1 Accounting policies *continued*

Standards not yet effective

A number of new standards and amendments to standards and interpretations have been issued but not yet effective and in some cases have not yet been adopted by the EU. The most significant new standard impacting the Group is IFRS 16, 'Leases'.

IFRS 16 provides a new model for lease accounting in which all leases, other than short-term, will be accounted for by recognition in the balance sheet of a right-to-use asset and a lease liability. The right-to use asset is initially measured at cost and subsequently at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments as well as the impact of lease modifications, amongst others. IFRS 16 is effective for accounting periods beginning on or after 1 January 2019.

On adoption of IFRS 16, the Group expects to recognise £0.6 million as right to use assets and a lease liability of the same amount. The Group will opt to recognise an expense on a straight line basis for short-term leases (lease term of 12 months or less) and leases of low-value assets.

(p) Earnings per share

Earnings per share are calculated using the weighted average number of ordinary shares outstanding during the period per IAS 33. Diluted earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all potentially dilutive shares to ordinary shares. It is assumed that any proceeds obtained on the exercise of any options and warrants would be used to purchase ordinary shares at the average price during the period. Where the impact of converted shares would be anti-dilutive, these are excluded from the calculation of diluted earnings.

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(r) Revenue recognition

Revenue associated with production sales of natural gas is recorded when title passes to the customer on delivery to the customer pipeline.

(s) Discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately in the balance sheet.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
 - Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.
- Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of comprehensive income. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

Notes to the Financial Statements

for the year ended 31 December 2018

2 Segment Information

The Group categorises its operations into three business segments based on corporate, exploration and appraisal, and development and production.

In the year ended 31 December 2018 the Group's exploration and appraisal activities were primarily carried out in Morocco.

The Group's reportable segments are based on internal reports about components of the Group which are regularly reviewed and used by the Board of Directors, being the Chief Operating Decision Maker ("CODM"), for strategic decision making and resource allocation, in order to allocate resources to the segment and to assess its performance.

Details regarding each of the operations of each reportable segment is included in the following tables.

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 £'000s
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

2 Segment Information continued

Segment results for the year ended 31 December 2017 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Administration expenses	(8,458)	-	-	(8,458)
Operating loss segment result	(8,458)	-	-	(8,458)
Interest receivable	23	-	-	23
Loss on derivative financial instruments	(1,873)	-	-	(1,873)
Finance costs and exchange adjustments	(2,031)	-	-	(2,031)
Loss for the period before taxation from continuing operations	(12,339)	-	-	(12,339)

The segments assets and liabilities at 31 December 2017 are as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	372	-	163,939	164,311
Current assets	21,701	-	3,848	25,549
Liabilities attributable to continuing operations	(20,165)	-	(5,002)	(25,167)

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

	UK £'000s	Morocco £'000s
Fixtures, fittings and office equipment	177	195
Exploration and evaluation assets	-	163,737
Software	66	136
Total	243	164,068

3 Operating Loss

	2018 £'000s	2017 £'000s
Operating loss is stated after charging:		
Depreciation	164	222
Employee costs	5,728	5,173
Impairment charges and exploration costs	4,058	-

4 Auditor's Remuneration

	2018 £'000s	2017 £'000s
Fees payable to the Company's Auditor for the audit of Company's annual accounts	50	53
Fees payable to the Company's Auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	5	7
Other assurance services	-	9
Tax services	6	8
	61	77

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for the year ended 31 December 2018

5 Employee Costs

	2018 £'000s	2017 £'000s
Staff costs, including Executive Directors		
Share based payments	2,802	2,486
Wages and salaries	6,317	5,912
Social security costs	664	646
Employee benefits	362	182
Employee costs capitalised to intangible assets	(4,417)	(4,053)
Total	5,728	5,173

	2018 Number	2017 Number
Number of employees (including Executive Directors) at the end of the year		
Technical and operations	14	18
Management and administration	18	23
Total	32	41

A proportion of the Group's employee costs is capitalised to the cost of development, exploration and appraisal under the Group's accounting policy for these assets. During the year, approximately £4.4 million (2017: £4.1 million) of the employee costs was capitalised.

6 Finance Revenue

	2018 £'000s	2017 £'000s
Interest on cash at bank and short term deposits	233	23
	233	23

7 Taxation

(a) Analysis of the tax charge for the year:

	2018 £'000s	2017 £'000s
Current tax		
UK corporation tax (charge)/credit	-	-
Adjustment to tax expense in respect of prior years	-	-
Overseas tax	-	-
Total current tax (charge)/credit	-	-
Deferred tax credit arising in the current year	-	-
Total tax (charge)/credit	-	-

(b) Reconciliation of tax charge

	2018 £'000s	2017 £'000s
Loss before tax	(11,749)	(12,339)
Tax (charge)/credit charged at UK corporation tax rate of 19% (2017: 19.25%)	2,232	2,375
Tax effect of:		
Expenses not deductible for tax purposes	(564)	(521)
Temporary differences not recognised	(1,645)	(1,651)
Differences in overseas tax rates	(23)	(203)
Total tax (charge)/credit	-	-

8 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 year. The calculation of diluted profit/(loss) per share is based on 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:

	2018 £'000s	2017 £'000s
Loss after tax from continuing operations	(11,749)	(12,339)
Profit/(loss) after tax from discontinued operations	4,953	(21,811)
Total loss for the year	(6,796)	(34,150)
	2018 Million	2017 Million
Weighted average shares in issue	1,035	799
Dilutive potential ordinary shares	18	-
	1,053	799
	2018 Pence	2017 Pence
Basic profit/(loss) per share		
Basic loss per share from continuing operations	(1.14)	(1.54)
Basic profit/(loss) per share from discontinued operations	0.48	(2.74)
Basic loss per share from continuing and discontinued operations	(0.66)	(4.28)
	2018 Pence	2017 Pence
Diluted profit/(loss) per share		
Diluted loss per share from continuing operations	(1.14)	(1.54)
Diluted profit/(loss) per share from discontinued operations	0.47	(2.74)
Diluted loss per share from continuing and discontinued operations	(0.66)	(4.28)

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.

Notes to the Financial Statements

for the year ended 31 December 2018

9 Property, Plant and Equipment

	2018 £'000s	2017 £'000s
Development and production assets		
Cost		
At start of the year	-	15,968
Transfer from intangible assets (note 10)	146,245	-
Additions	755	-
Exchange adjustments	3,600	51
Reclassification to assets of disposal group held for sale (note 25)	-	(16,019)
At end of the year	150,600	-
Depreciation		
At start of the year	-	14,752
Exchange adjustments	-	-
Impairment of assets	-	27
Charge for the year	-	97
Reclassified to assets of disposal group held for sale (note 25)	-	(14,876)
At end of the year	-	-
Net book amount	150,600	-
Fixtures, fittings and office equipment		
Cost		
At start of the year	646	815
Exchange adjustments	25	7
Additions	127	386
Disposal	(4)	-
Reclassified to assets of disposal group held for sale (note 25)	-	(562)
At end of the year	794	646
Depreciation		
At start of the year	274	302
Exchange adjustments	21	5
Charge for the year	96	309
Disposal	(2)	-
Reclassified to assets of disposal group held for sale (note 25)	-	(342)
At end of the year	389	274
Net book amount	405	372
Total net book amount	151,005	372

10 Intangibles

	Goodwill £'000s	Software £'000s	Exploration & Evaluation Assets £'000s	2018 £'000s
Cost				
At 1 January 2018	-	281	163,737	164,018
Additions	-	55	11,392	11,447
Transfer to development and production assets (note 9)	-	-	(146,245)	(146,245)
Exchange adjustments	-	24	7,168	7,192
At 31 December 2018	-	360	36,052	36,412
Impairment				
At start of the year	-	79	-	79
Charge for the year	-	68	4,058	4,126
Exchange adjustments	-	4	195	199
At end of the year	-	151	4,253	4,404
Net book amount at 31 December 2018	-	209	31,799	32,008

	Goodwill £'000s	Software £'000s	Exploration & Evaluation Assets £'000s	2017 £'000s
Cost				
At 1 January 2017	2,202	282	39,902	42,386
Additions	-	92	165,670	165,762
Exchange adjustments	64	(7)	(6,043)	(5,986)
Reclassified to assets of disposal group held for sale (note 25)	(2,266)	(86)	(35,792)	(38,144)
At 31 December 2017	-	281	163,737	164,018
Impairment				
At start of the year	1,769	42	12,515	14,326
Charge for the year	55	117	19,018	19,190
Exchange adjustments	64	3	(152)	(85)
Reclassified to assets of disposal group held for sale (note 25)	(1,888)	(83)	(31,381)	(33,352)
At end of the year	-	79	-	79
Net book amount at 31 December 2017	-	202	163,737	163,939

Transfer to Development and production assets

In September 2018, the Group was granted a production concession award by the Moroccan Ministry of Energy, covering an area of approximately 133.5 km² in the Tendrara licence. The Group considers the discoveries included in the production concession award area to be commercial and following the award of the concession, the exploration and evaluation expenditure of £146.2 million was transferred to development after an assessment for impairment which indicated that there was no impairment. The key assumptions used in the impairment assessment valuation model included; Company's share of the reserves estimated to be 169.5 bscf, a discount rate of 10% and an implicit oil price of 65 US\$/bbl.

During the year, the Group had capitalised interest costs of approximately £0.6 million (2017: £1.6 million).

Notes to the Financial Statements

for the year ended 31 December 2018

10 Intangibles *continued*

Exploration and evaluation assets

Details regarding the geography of the Groups E&E assets is contained in note 2.

The Directors assess for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. In making this assessment the Directors have regard to the facts and circumstances noted in IFRS 6 paragraph 20. In performing their assessment of each of these factors at 31 December 2018 the Directors have:

- reviewed the time period that the Group has the right to explore the area and noted no instances of expiration, or licences that are expected to expire in the near future;
- determined that further E&E expenditure is either budgeted or planned for all licences;
- not decided to discontinue exploration activity due to there being a lack of quantifiable mineral resource; and
- not identified any instances where sufficient data exists to indicate that there are licences where the E&E spend is unlikely to be recovered from successful development or sale.

On the basis of the above assessment, the Directors are not aware of any facts or circumstances that would suggest the carrying amount of the E&E asset may exceed its recoverable amount.

11 Investment in Subsidiaries

	2018			2017		
	Intercompany loans £'000	Cost of shares in subsidiaries £'000	Total £'000	Intercompany loans £'000	Cost of shares in subsidiaries £'000	Total £'000
At 1 January	165,936	12,313	178,249	57,628	4,828	62,456
Additions	23,162	-	23,162	153,934	8,832	162,766
Transfer of shares to fellow group company	71	(71)	-	-	-	-
Disposal	(76)	(12,242)	(12,318)	-	-	-
Impairment	-	-	-	(45,626)	(1,347)	(46,973)
Allowance for credit loss	(17,385)	-	(17,385)	-	-	-
At 31 December	171,708	-	171,708	165,936	12,313	178,249

As at the 31 December 2018 the cumulative impairment charge was £17.3 million (2017: 45.6 million) relating to the intercompany loans. The 2017 impairment related to loans from Italian subsidiaries which were disposed in 2018 and hence the impairment not carried forward. As at the 31 December 2018 the cumulative impairment charge was £nil (2017: £1.3 million) relating to the cost of shares in the subsidiaries.

The subsidiary companies of the Company at 31 December 2018, which are all 100% owned by the Company, are:

Name	Incorporated	Principal Activity	Registered Addresses
Sound Oil International Limited	British Virgin Isles	Holding Company	PO Box 173, Kingston, Chambers Road, Tortola, VG 1110, British Virgin Islands
Sound Oil Asia Limited	British Virgin Isles	Holding Company	PO Box 173, Kingston, Chambers Road, Tortola, VG 1110, British Virgin Islands
Mitra Energia Citarum Limited*	Mauritius	Exploration Company	Fifth Floor, Ebene, Esplanade, 24 Cybercity, Ebene, Mauritius
Sound Energy Morocco SARL**	Morocco	Exploration Company	Mahaj Ryad Center, Bd Al Arz. Building 6, 3rd floor. Hay Ryad, Rabat 10100
Sound Energy Morocco East Limited	UK	Exploration Company	4 Pembroke Road, Sevenoaks, TN13 1XR, UK
Sound Energy Morocco South Limited	UK	Exploration Company	4 Pembroke Road, Sevenoaks, TN13 1XR, UK
Sound Energy Meridja Limited	UK	Exploration Company	4 Pembroke Road, Sevenoaks, TN13 1XR, UK

* The investment in Mitra Energia Citarum Limited is held indirectly via Sound Oil International Limited.

**The investment in Sound Energy Morocco SARL is held indirectly via Sound Energy Morocco East Limited.

Impairment charge for the year is attributable to a write down of the carrying value of the investment in Sound Energy Holdings Italy Limited upon disposal of the Italian operations. The Company applies IFRS9 in calculating expected credit losses on intercompany loans and recognises a loss allowance based on lifetime expected credit loss at each reporting date.

11 Investment in Subsidiaries continued

The Company considered available external data on oil and gas industry default rates and used a cumulative default rate of 9% obtained from publicly available data published by a leading credit rating agency. £15.3 million expected credit loss allowance was recognised in the accumulated deficit on adoption of IFRS 9 on 1 January 2018. £2.1 million was recognised in the income statement during the year making the total outstanding expected credit loss allowance to be £17.4 million as at 31 December 2018.

The Company has funded its subsidiaries through non-interest bearing loans payable on demand. Given that the Company has no intention to call in the loans in the foreseeable future, the loans are classified as non-current investments.

Composition of the Group

Information about the composition of the Group at the end of the reporting period is as follows:

Principal activity	Place of incorporation	Place of operation	2018 Number	2017 Number
Gas exploration and production	Italy	Italy	-	1
Gas exploration	UK	Morocco	3	3
Holding companies	UK	UK	1	2
Dormant	UK	UK	-	1
Holding companies	British Virgin Isles	British Virgin Isles	2	2
Holding companies	Mauritius	Mauritius	1	1
Gas exploration	Morocco	Morocco	1	1

12 Other Receivables Group

	2018 £'000s	2017 £'000s
UK VAT	30	83
Morocco VAT	710	665
Other receivables	2,625	2,778
	3,365	3,526

Currency Analysis

	2018 £'000s	2017 £'000s
US dollar	1,313	2,555
Euro	790	-
GBP sterling	44	100
Moroccan dirham	1,218	871
	3,365	3,526

Company

	2018 £'000s	2017 £'000s
UK VAT	30	83
Other receivables	804	17
	834	100

Currency Analysis

	2018 £'000s	2017 £'000s
GBP sterling	44	100
Euro	790	-
Total	834	100

Notes to the Financial Statements

for the year ended 31 December 2018

13 Cash and Cash Equivalents Group

	2018 £'000s	2017 £'000s
Cash at bank and in hand	9,417	1,764
Cash equivalents:		
Short term deposits	11,119	19,434
Carrying amount 31 December	20,536	21,198
Being:		
In US dollar	11,365	9,420
In euros	1,951	4,407
In sterling	6,644	7,160
In Moroccan dirham	576	211
Total	20,536	21,198

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following as at 31 December 2018.

	2018 £'000s	2017 £'000s
Cash and short term deposits	20,536	21,198
Cash and short term deposits attributable to discontinued operations	-	813
Total	20,536	22,011

Company

	2018 £'000s	2017 £'000s
Cash at bank and in hand	2,725	25
Cash equivalents:		
Short term deposits	8,435	16,544
Carrying amount 31 December	11,160	16,569
Being:		
In US dollar	2,700	4,983
In euros	1,950	4,395
In sterling	6,510	7,191
Total	11,160	16,569

14 Trade and Other Payables Group

	2018 £'000s	2017 £'000s
Trade payable	4,847	3,910
Payroll taxes and social security	288	157
Accruals	4,933	2,534
	10,068	6,601

14 Trade and Other Payables continued**Currency Analysis**

	2018 £'000s	2017 £'000s
US dollar	6,719	4,049
Euro	988	553
Sterling	1,551	1,287
Moroccan dirham	810	712
Total	10,068	6,601

Company

	2018 £'000s	2017 £'000s
Trade payable	582	741
Payroll taxes and social security	158	126
Accruals	1,161	732
Total	1,901	1,599

Currency Analysis

	2018 £'000s	2017 £'000s
Sterling	673	1,085
Euro	1,228	514
Total	1,901	1,599

15 Deferred Tax Liabilities

	2018 £'000s	2017 £'000s
1 January	-	433
Derecognised on impairment of licences	-	(55)
Reclassified to liabilities of disposal group held for sale (note 25)	-	(378)
31 December	-	-

Deferred tax assets have not been recognised in respect of tax losses available due to the uncertainty of utilisation of those assets. Unrecognised tax losses as at 31 December 2018 were estimated to be approximately £5.3 million (2017: £6.9 million).

16 Provisions for Abandonment

	2018 £'000s	2017 £'000s
At 1 January	-	2,049
Discount unwind	-	131
Additions during the year	-	749
Released during the year	-	(410)
Exchange adjustments	-	(49)
Reclassified to liabilities of disposal group held for sale (note 25)	-	(2,470)
At 31 December	-	-

There are no provisions relating to the Moroccan licences.

Notes to the Financial Statements

for the year ended 31 December 2018

17 Capital and Reserves Group and Company

	2018 Number of shares	£'000s	2017 Number of shares	£'000s
Ordinary shares - 1p	1,055,107,172	10,551	1,015,869,699	10,159
			2018 Number of shares	2017 Number of shares
At January			1,015,869,699	665,069,037
Issued during the year for cash			38,460,587	66,550,042
Non-cash share issue			776,886	284,250,620
At 31 December			1,055,107,172	1,015,869,699

Non-cash transactions during the year included the issue of 688,146 shares in lieu of cash bonuses at an issue price of approximately 40.08 pence per share and the issue of 88,740 shares at 17.85 pence per share to a third party in settlement of services provided.

As part of the Italy divestment process, the Company sought and was granted a court order on 13 March 2018 approving a capital reduction following the cancellation of the share premium account. This resulted in the transfer of £277.7 million to distributable reserves.

Share option schemes and RSU Awards

The Company's share options scheme was replaced by an RSU Award scheme from 2018. The first RSU award was granted in 2018 and is expected to be settled in 2021.

Share issues

During the year ended 31 December 2018, the Company issued 2,681,279 shares following warrant exercises at exercise prices in the range of 24p to 30p per share.

On 26 April 2018, the Company announced the issue of 688,146 shares in respect of performance bonuses for 2017 financial year. The issue price was approximately 40.08p per share.

On 2 July 2018, the Company announced that it would issue 30,829,308 shares following a placing at 37p per share.

On 26 September 2018, the Company announced the issue of 1,250,000 shares following the exercise of share options by a Director of the Company at a price of 14.25p per share. The gain on exercise is disclosed in the statement of Directors remuneration.

On 23 November 2018, the Company announced that it would issue 88,740 shares at a price of 17.85p per share in settlement of fees for services provided by a third party.

During the year ended 31 December 2018, the Company issued 3,700,000 shares as a result of share options exercised by non-board members of the Company. The shares were issued at prices in the range of 14.25p to 17.13p per share.

18 Related Party Disclosures

Key management

As at 31 December 2018, there were three key management personnel other than Directors of the Company (2017: seven). Details of the Directors' remuneration are set out in the Report of Directors' Remuneration. The table below shows the total remuneration of key management personnel, including the executive Directors.

	2018 £'000s	2017 £'000s
Salaries and employee benefits	2,616	3,043
Share based payments	1,944	1,914
	4,560	4,957

Directors' interest in employee share options

At 31 December 2018, the Chairman had 250,000 share options in the Company. Another non-executive Director held 250,000 options in the Company. Share options held by non-executive members of the Board of Directors at 31 December 2018 have the following expiry dates and exercise prices:

	Expiry Date	Exercise price Pence	2018 Number	2017 Number
2016	2021	60p	500,000	1,500,000

Share options held by the executive members of the Board of Directors at 31 December 2018 have the following expiry dates and exercise prices:

	Expiry Date	Exercise price Pence	2018 Number	2017 Number
2015	2020	14.25p	-	1,250,000
2016	2021	16p	3,000,000	3,000,000
2016	2021	84p	1,500,000	1,500,000
2017	2022	48p	4,000,000	4,000,000
2017	2022	67p	1,500,000	1,500,000

Key management's (excluding Directors) interest in employee share options

	Expiry Date	Exercise price Pence	2018 Number	2017 Number
2015	2020	14.25p	-	2,150,000
2015	2020	14.20p	-	1,250,000
2015	2020	14.07p	-	1,250,000
2016	2021	16p	-	4,000,000
2017	2022	67p	700,000	4,000,000
2017	2022	70p	1,500,000	1,500,000
2017	2022	65p	-	500,000
2017	2022	52.25p	500,000	500,000
2017	2022	48p	-	4,000,000

Key management (including executive Directors) interest in RSU Awards

	Settlement date	2018 Number	2017 Number
2018	2021	2,012,750	-

Other expenses

Two Directors of the Company are also non-executive Directors of Echo Energy plc ("Echo"), a Company listed on the London stock exchange. The Company recharged and was paid by Echo £637 (2017: £24,381) in respect of travel expenses that had been paid by the Company on behalf of Echo. Two Directors of the Company are also non-executive Directors of Coro Energy plc, ("Coro") a Company listed on the London stock exchange. The Company recharged and was paid by Coro £5,640 (2017: £21,398) in respect of travel expenses paid by the Company on behalf of Coro.

Notes to the Financial Statements

for the year ended 31 December 2018

19 Financial Instruments Risk Management

Objectives and Policies

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group's financial instruments comprise trade payables, loans and borrowings, receivables, interest in Badile land, cash and short term deposits. The main purpose of the financial instruments is to finance the Group's operations. The fair value of the financial instruments is their carrying value, with the carrying value amounts included in the Group Balance Sheet with further analysis in note 12 (Other Receivables), note 13 (Cash and Cash Equivalents), note 14 (Trade and Other payables) and note 24 (Loans and Borrowings).

The table below sets out the Group's accounting classification of its financial assets and liabilities.

	2018 £'000s	2017 £'000s
Financial assets		
Cash and short term deposits	20,536	21,198
Other receivables and interest in Badile land	4,983	3,526
Derivative financial instruments at fair value	-	80
	25,519	24,804
Financial liabilities		
Trade and other payables	10,068	6,601
Loans and borrowings held at amortised costs	20,476	18,566
	30,544	25,167

The Company classifies the fair value of the financial instruments according to the following hierarchy, based on the amount of observable inputs used to value the instrument. The three levels of the fair value hierarchy are as follows:

- Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology are derived from quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – inputs to the valuation methodology are not based on observable market data.

Derivative financial instruments are classified as Level 2.

The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's deposit accounts and short term debt instruments.

The Group's policy is to manage this exposure by investing in short term, low risk bank deposits.

Market risk

As the derivative financial instruments are linked to the share price, the movement in the Company's share price has an impact on the value of the derivative financial instruments. The Group continues its exploration and production activities and selective acquisitions to increase shareholder value through capital growth.

Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide return for shareholders, benefit for other stakeholders and to maintain optimal capital structure and to reduce the cost of capital.

Management considers as part of its capital, the financial sources of funding from shareholders and third parties.

In order to ensure an appropriate return for shareholder capital invested in the Group, management thoroughly evaluates all material projects and potential acquisitions and has them approved by the Board of Directors where applicable.

19 Financial Instruments Risk Management *continued*

The Group monitors capital on a short and medium term view. The table below illustrates the Group's capital structure.

	2018 £'000s	2017 £'000s
Borrowings	(20,476)	(18,566)
Cash and cash equivalents	20,536	21,198
Net (debt)/cash	60	2,632
Total capital excluding reserves:		
Equity share capital	10,551	10,159
Equity share premium	12,049	277,670
Shareholders' equity	179,095	172,493

20 Foreign Currency and Other Risks

As a result of the majority of the Group's operations being denominated in US dollar (USD), the Group's balance sheet can be impacted by movements in the USD exchange rate against sterling (GBP). Such movements will result in book gains or losses which are unrealised and will be offset if the exchange rate moves in the opposite direction.

The GBP cost of the assets being acquired with the USD rises or falls pro rata to the currency movement, so the purchasing power of the USD remains the same.

As the Group also holds some Moroccan dirham (MAD) and Euro (EUR) denominated assets at the end of the year, the following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR or MAD exchange rates, with all other variables held constant, of the Group's profit or loss before tax. Wherever possible, the Company holds the same currency as our liabilities, thereby providing a natural hedge.

	Increase/ (decrease) in rate	2018		2017	
		Effect on profit or loss before tax £'000s	Effect on comprehensive income £'000s	Effect on profit or loss before tax £'000s	Effect on comprehensive income £'000s
Increase in USD/GBP exchange rate	5%	(298)	(7,062)	(396)	(6,666)
Increase in EUR/GBP exchange rate	5%	(169)	-	(193)	-
Increase in MAD/GBP exchange rate	5%	(49)	-	(19)	-
Decrease in USD/GBP exchange rate	(5%)	298	7,062	396	6,666
Decrease in EUR/GBP exchange rate	(5%)	169	-	193	-
Decrease in MAD/GBP exchange rate	(5%)	49	-	19	-

The sensitivity table demonstrates the effect of a change in exchange rate assumptions while other assumptions remain unchanged. In reality, such an occurrence is very unlikely due to correlation between the factors. Furthermore, these sensitivities are non-linear, and larger or smaller impacts cannot easily be derived from the results. The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed and may vary at the time that any actual exchange rate movement occurs.

Credit risk

The maximum credit exposure at the reporting date of each category of financial assets is the carrying value as detailed in the relevant notes. The Group's management considers that the financial assets that are not impaired for each of the reporting dates are of good credit quality.

Liquidity risk

The Group and Company have significant liquid assets and are not materially exposed to liquidity risk. For further details on the maturity of financial liabilities see note 24.

Notes to the Financial Statements

for the year ended 31 December 2018

21 Financial Instruments

(i) Derivative financial instruments

	2018 £'000s	2017 £'000s
Derivative on shares issued on acquisition of Sidi Mokhtar licence	-	80

In March 2016, the Company signed a binding agreement to acquire PetroMaroc's 50% working interest in, and operatorship of, the Sidi Mokhtar Licences. The terms of the acquisition included the issue by the Company of 21,258,008 ordinary shares to PetroMaroc as consideration. In September 2016, the agreement with PetroMaroc was amended such that should PetroMaroc dispose of the shares issued, the proceeds of the share price above 50 pence would be shared equally between the Company and PetroMaroc.

During 2018, Petro Maroc sold all the outstanding shares at prices below 50 pence and as a result, no proceeds were available to be shared between the Company and PetroMaroc. The Company recognised a loss of £0.8 million (2017: £1.9 million, loss) in the income statement on disposal of the shares.

(ii) Cash and short term deposits

	Floating rate £'000s	Fixed rate £'000s	Interest- free £'000s	Total £'000s	Weighted average rate %
2018					
Sterling	4,619	2,000	25	6,644	0.14
Euro	-	899	1,052	1,951	1.89
US dollar	2,095	-	9,270	11,365	-
Moroccan dirham	-	-	576	576	-
	6,714	2,899	10,923	20,536	
2017					
Sterling	4,135	3,000	25	7,160	0.26
Euro	888	-	3,519	4,407	0.60
US dollar	-	4,447	4,973	9,420	0.57
Moroccan dirham	-	211	-	211	3.75
	5,023	7,658	8,517	21,198	

Euro cash balances have been converted at the exchange rate of €1.1128: £1.00 (2017: €1.1263: £1.00). Moroccan dirham cash balances have been converted at the exchange rate of MAD12.1940: £1.00 (2017: MAD12.6280: £1.00). US dollar cash balances have been converted at the exchange rate of US\$1.2736: £1.00 (2017: US\$1.3493: £1.00).

The floating rate cash and short term deposits comprise cash held in interest bearing deposit accounts. The Group carrying value of the financial instruments approximates the fair values.

22 Share Based Payments

The Group has a Long Term Incentive Plan (LTIP) under which share options have been granted to the Directors and key staff. The share options were awarded to employees on appointment and periodically thereafter. Options were issued at market price on the grant date and have vesting periods of up to three years. The options expire after five years if they remain unexercised and are forfeited if the employee leaves the Group before the options vest except at the discretion of the Board.

In order to better meet the LTIP objectives, the Board determined in January 2018 that the existing Share Option Plan be replaced with an RSU Plan. The RSU awards will be made on an annual basis, with a three-year vesting period, and at vesting the awards will be satisfied in Sound Energy shares. The RSU award are granted at nil cost to the Directors and key staff. First award occurred in 2018 and first vesting is to occur in January 2021.

The expense recognised for employee services in the Consolidated Income Statement is as follows:

Group and Company

	2018 £'000s	2017 £'000s
Expense arising from equity-settled share options and RSU awards	2,802	2,486

Share options

No share options were granted in 2018.

In 2017, the fair value of equity-settled share options granted was estimated at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

	Granted	Period (years)	Price (pence)
2017	8,800,000	5	67
	1,500,000	5	70
	800,000	5	65
	500,000	5	52.25
	4,000,000	5	48
Total	15,600,000		

The expected life of the options is based on the maximum option period and is not necessarily indicative of exercise patterns that may occur. Expected volatility is determined by reference to the historical volatility of the Company's share price over a three year period. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The valuations assumed an expected life of five years and used the following additional assumptions for options granted during the year:

- Weighted average share price as of grant date: n/a (2017: 61.84 pence)
- Average risk free interest rate: n/a (2017: 0.39%)
- Expected volatility: n/a (2017: 60.69%)
- Assumed forfeitures: n/a (2017: 0%)
- Expected dividends: n/a (2017: nil)

No other features of options grant were incorporated into the measurement of fair value. The weighted average fair value of the options granted was n/a (2017: 31.38p).

Notes to the Financial Statements

for the year ended 31 December 2018

22 Share Based Payments *continued*

	2018 £'000s	Weighted average exercise price (pence)	2017 £'000s	Weighted average exercise price (pence)
Share options outstanding at the start of the year	33,400,000	41.04	29,400,000	24.59
Share options granted	-	-	15,600,000	61.84
Share options expired	(3,500,000)	66.00	(3,750,000)	56.80
Share options exercised	(4,950,000)	14.87	(7,850,000)	8.00
Share options outstanding at the end of the year	24,950,000	49.15	33,400,000	41.04

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2018 was 37.54p (2017: 46.39p). The weighted average remaining contractual life of the options outstanding at 31 December 2018 was 3.1 years (2017: 3.5 years).

3.1 million share options were exercisable as at 31 December 2018 (2017: nil). If all equity share options were exercisable immediately, new ordinary shares equal to approximately 2.4% (2017: 3.3%) of the shares currently in issue, would be created.

RSU Awards

2,809,956 RSU awards were granted in 2018 with a three year vesting period, and at vesting, the RSU awards will be satisfied by issue of the Company's shares to the plan participants. During the year 76,716 RSU awards expired and therefore 2,732,240 RSU awards were outstanding as at 31 December 2018.

The fair value of the RSU awards granted is estimated at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the RSU awards were granted. The valuation used an expected life of three years and used the following additional assumptions for the RSU awards granted during the year:

- Weighted average share price as of grant date: 41.84 pence (2017: n/a)
- Average risk free interest rate: 0.93% (2017: n/a)
- Expected volatility: 60.51% (2017: n/a)
- Assumed forfeitures: 0% (2017: n/a)
- Expected dividends: nil (2017: n/a)

No other features of RSU awards grant were incorporated into the measurement of fair value. The weighted average fair value of the RSU awards granted was 41.83p (2017: n/a).

The weighted average remaining contractual life of the RSU awards outstanding as at 31 December 2018 was 2.01 years (2017: n/a)

If all the RSU awards were exercisable immediately, new ordinary shares equal to 0.3% (2017:n/a) of the shares currently in issue, would be created.

22 Share Based Payments continued**Warrants**

As at 31 December 2018, the Company had the following outstanding warrants to subscribe to the Company's ordinary shares.

2018	Exercise price	Expiry date	Number		Number
	(pence)		At 1 January	Exercised	At 31 December 2018
2015 Warrants	24.00	22 May 2020	19,675,152	(2,587,980)	17,087,172
2016 Warrants	30.00	21 June 2021	52,441,273	(30,000)	52,411,273
			72,116,425	(2,617,980)	69,498,445

2017	Exercise price	Expiry date	Number		Number
	(pence)		At 1 January	Exercised	At 31 December 2017
2014 Warrants	10.40	28 July 2017	34,048,080	(34,048,080)	-
2015 Warrants	24.00	22 May 2020	51,389,776	(31,714,624)	19,675,152
2016 Warrants	30.00	21 June 2021	55,057,294	(2,616,021)	52,441,273
			140,495,150	(68,378,725)	72,116,425

23 Commitment and Guarantees

At 31 December 2018, the Group's minimum capital expenditure on its licences was approximately £3.8 million primarily for the exploration and appraisal activities in the Group's licences in Morocco. The Group had \$3.35 million as guarantee to the Moroccan Oil Ministry for the minimum work commitments on its licences.

As at 31 December 2018, the Group had the following operating leases:

	Premises £'000s	Vehicles £'000s	Total £'000s
Due within one year	313	79	392
After one year but within two years	197	-	197
After two years but within five years	43	-	43
After five years	-	-	-
	553	79	632

As at 31 December 2017, the Group had the following operating leases:

	Premises £'000s	Vehicles £'000s	Total £'000s
Due within one year	382	99	481
After one year but within two years	386	-	386
After two years but within five years	307	-	307
After five years	-	-	-
	1,075	99	1,174

Notes to the Financial Statements

for the year ended 31 December 2018

24 Loans and Borrowings Group and Company

	2018 £'000s	2017 £'000s
Non-current liabilities		
5-year secured bonds		
At 1 January/on recognition	18,566	16,455
Amortised finance charges	2,927	2,706
Interest payments	(1,274)	(1,263)
Exchange adjustments	257	668
	20,476	18,566

The Company has a 5-year non-amortising secured bonds with an aggregate issue value of €28.8 million (the "bonds"). 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 Warrants were recorded within equity at fair value on the date of issuance and the proceeds of the notes net of issue costs were recorded as non-current liability. The effective interest rate is approximately 16.3%. The 5-year secured bonds are due in June 2021.

Reconciliation of liabilities arising from financing activities

	1 January 2018 £'000	Cash flows £'000	Non-cash changes		31 December 2018 £'000
			Amortised finance charges £'000	Exchange adjustments £'000	
2018					
Long-term borrowings	18,566	(1,274)	2,927	257	20,476
Total liabilities from financing activities	18,566	(1,274)	2,927	257	20,476

	1 January 2017 £'000	Cash flows £'000	Non-cash changes		31 December 2017 £'000
			Loan repayment in shares £'000	Amortised finance charges £'000	
2017					
Long-term borrowings	16,455	(1,263)	-	2,706	18,566
Short-term borrowings	986	(30)	(1,000)	44	-
Total liabilities from financing activities	17,441	(1,293)	(1,000)	2,750	18,566

Reconciliation of external interest costs

	2018 £'000s	2017 £'000s
Amortised finance charges - long-term borrowings	2,927	2,706
Amortised finance charges - short-term borrowings	-	44
	2,927	2,750
Less capitalised interest	(561)	(1,618)
Exchange adjustments	8	(15)
Total external interest for the year	2,374	1,117

25 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 Company disposes of its portfolio of Italian interests and permits through the sale of Sound Energy Holdings Italy and Apennine Energy SpA (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 Coro Energy plc of 4.3 pence per share. The Company was also entitled to receive proceeds of VAT refund due from the Badile well operations and retained economic interest in Badile land. The Company was also obligated to fund the Badile land restoration for a fixed amount.

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

	2018*	2017
	£'000s	£'000s
Revenue	140	708
Operating costs	(170)	(697)
Impairment of goodwill	-	(55)
Impairment of intangible assets	-	(19,018)
Exploration costs	(25)	(761)
Gross loss	(55)	(19,823)
Administrative expenses	(235)	(1,995)
Operating loss from discontinued operations	(290)	(21,818)
Finance revenue	26	79
Foreign exchange gain	-	4
Finance costs	-	(131)
Foreign currency translation gain reclassified from other comprehensive income	1,533	-
Gain on disposal of Italian operations	3,684	-
Profit/(loss) for the year before taxation from discontinued operations	4,953	(21,866)
Deferred tax credit	-	55
Profit/(loss) for the year after taxation from discontinued operations	4,953	(21,811)

* Represent the results for the period to divestment on 9 April 2018.

The net cash flows of the Italian operations were as follows:

	2018	2017
	£'000s	£'000s
Net cash flow from operating activities	1,897	(2,513)
Net cash flow from investing activities	(2,655)	(13,962)
Net cash flow from financing activities	-	-
Net cash outflow	(758)	(16,475)

The calculation of gain on disposal of Italian operation is shown below:

	2018	2017
	£'000s	£'000s
Consideration		
Fair value of shares distributed to shareholders	7,994	-
Total disposal consideration	7,994	-
Carrying amount of net assets sold	(7,415)	-
Assets less liabilities payable by the Company	3,969	-
Impairments and other expenses on disposal	(864)	-
Gain on disposal of Italian operations	3,684	-

Notes to the Financial Statements

for the year ended 31 December 2018

25 Discontinued Operations *continued*

The major classes of assets and liabilities of the Italian operations classified as held for sale as at 31 December 2017 were as follows:

	2017 £'000s
Assets	
Property, plant and equipment	1,363
Intangible assets	4,792
Land and buildings	1,598
Inventories	133
Other receivables	3,527
Prepayments	66
Cash and short term deposits	813
Assets of disposal group held for sale	12,292
Liabilities	
Trade and other payables	1,644
Deferred tax liabilities	378
Provisions	2,470
Liabilities of disposal group held for sale	4,492
Net assets	7,800

26 Post Balance Sheet Events

On 7 January 2019, the Company provided further update on the Company's TE-10 exploration well, confirmed the achievement of total depth, the potential identification of additional thin bedded net pay and the successful recovering of a gas sample to surface.

On 28 January 2019, the Company provided further update on the operations in Eastern Morocco and confirmed that the rig at TE-10 had been demobilised and that design, planning and procurement for the TE-10 testing programme was nearing completion.

On 18 February 2019, the Company announced an increase in net pay estimate on TE-10 well from up to 10.5m to up to 15.3m. The well testing and stimulation equipment has been mobilised from Libya and Tunisia and extra equipment mobilised from the USA. The Company is expecting the equipment to arrive on location, and be rigged up and be ready to commence the test programme within four weeks.

On 7 March 2019, the Company confirmed that it was in continued positive discussions with Morocco's Office National de l'Electricité et de l'Eau Potable ("ONEE") and the Moroccan Minister of Energy in relation to a gas sales agreement ("GSA"), pursuant to which the Minister of Energy had confirmed his intention that the GSA covers all of the gas to be produced from the recently awarded Tendrara Production Concession, onshore Morocco.

List of Licences and Interests

Licence	Status	Key Project or Prospect		WI (%)	Area (km ²)	Operator
		Name	Type			
Greater Tandrara	Permit	Greater Tandrara	Exploration	47.5	14,500	Sound Energy Morocco East
Tandrara ¹	Permit	Tandrara	Exploitation	47.5	133.5	Sound Energy Morocco East
Anoual ²	Permit	Anoual	Exploration	47.5	8,853.33	Sound Energy Morocco East
Sidi Mokhtar	Permit	Sidi Mokhtar	Exploration	75	4,711.7	Sound Energy Morocco South

Notes:

1. The Company's interest in the permit is 75%, of which 27.5% is shared with Schlumberger resulting in the Company's net effective interest of 47.5%.
2. The Company's interest in the permit is 75%, of which 27.5% is shared with Schlumberger resulting in the Company's net effective interest of 47.5%.

Shareholder Information

Dealing Information

Stock code – SOU.LN

Financial Calendar

Meetings

Annual General Meeting – May 2019

Announcements

2019 Interim – September 2019

2019 Preliminary – March 2020

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