SOUND ENERGY PLC

Annual Report & Accounts

FOR THE YEAR ENDED 31 DECEMBER 2019

2019 Annual Report

Sound Energy is an exploration and development-focused onshore gas company, listed on AIM (LSE:SOU), with a low cost 0.65 Tcf discovery (TE-5 Horst) and significant exploration running room. We are the largest onshore operator in Morocco.

Our Investment Proposition

- **0.65 TCF gas discovery at TE-5 Horst (RPS* certified)**
  - Concession award
  - Development planning nearing completion
  - GSA (gas sales agreement) to be finalised shortly

  *RPS Energy Consultants Limited
- **Significant exploration potential**
  - Eastern Morocco up to 34 Tcf**
  - Southern Morocco up to 11 Tcf**

  **Company internally estimated, gross 100%, unrisked original gas in place
- **Low risk emerging market (4.5% growth p.a.)**
  - Investment-grade business environment
  - Politically stable
- **Carbon consciousness driving transition to gas**

Graham Lyon
Executive Chairman

> We are taking Sound into its development and monetisation phase from its comprehensive and significant exploration base.

Navigating this Report

Read more inside **this report**

Read more online **www.soundenergyplc.com**

Contents

Statement from the Executive Chairman

Graham Lyon
Executive Chairman

> "We are taking Sound into its development and monetisation phase from its comprehensive and significant exploration base."

The year ending 31 December 2019 has been a challenging one for the Company and saw us refine our strategy to deliver value from our Moroccan assets. The Board took a decision following our exploration campaign in late 2018 and early 2019 to explore options on monetising our Tendrara Production Concession, the Greater Tendrara Petroleum Agreements and the Anoual Permits (the "Eastern Morocco Portfolio"). Following an extensive marketing process, the Company announced that it had entered into a period of exclusivity with a UK-based energy asset developer for a partial sale of the Company's Eastern Morocco Portfolio. Post period end, the Company announced that the period of exclusivity with the counterparty had ended and that whilst discussions with the counterparty are ongoing, there is no certainty that the previously proposed transaction will proceed or indeed successfully conclude. While the marketing process has inevitably drawn much interest and attention from within and outside of the Company, we must not forget the significant progress that has been made on the ground at our Tendrara Production Concession. In parallel with ongoing discussions in respect of the proposed partial divestment and progress towards the Full Field Development, the Company has been developing plans for a micro-LNG production plant which targets cashflow generation from our natural gas discoveries.

Partial sale of Eastern Morocco Portfolio

Towards the end of H1 2019, Sound began the process of marketing its interests in the Eastern Morocco Portfolio, in order to explore monetisation of the assets. This process saw the Company enter into non-disclosure agreements with 23 companies, a number of which submitted non-binding offers for our Eastern Morocco Portfolio.

On 6 November 2019, we announced that the Company had entered into a non-binding heads of terms and provided a period of exclusivity to a private UK-registered company specialising in energy asset development and investment. On 14 February 2020, the Company announced that whilst the proposed counterparty had advised that it had satisfactorily concluded its technical and commercial due diligence processes, the counterparty had not yet demonstrated to the Company satisfactory proof of funds. The period of exclusivity with the proposed purchaser has now ended, and Sound continues to discuss the proposed transaction with the counterparty, however, these discussions are no longer being conducted on an exclusive basis and there is no certainty that the proposed transaction will proceed or will successfully conclude.

In the meantime, and concurrent to the monetisation that a partial divestment would bring, the Company has been actively progressing the development of the TE-5 Horst project throughout the year and since the period end.

In this regard we are pleased to have received approval from the Moroccan Ministry of Energy, Mines and Environment for our Environmental Impact Assessment ("EIA") to build and operate a 120-kilometre 20-inch Tendrara Gas Export pipeline connecting the proposed gas treatment plant and compression station at Tendrara, for which EIA approval has also been received, to the Gazoduc Maghreb Europe pipeline. Following the announcement in October 2019 of the entry into a binding Memorandum of Understanding (MOU) with the Moroccan State power company, Office National de l'Electricite et de l'Eau Potable for the sale of natural gas to be produced from the Tendrara Concession, the Company continues to progress discussions to enter into a binding gas sales agreement and we remain optimistic of a near-term definitive conclusion. Additionally, having received formal land access approvals for 99.9% of the land required for a 50-metre wide corridor along the entire length of the Tendrara Gas Export pipeline, negotiations with the Ministry in respect of the tariff for the land access also continue to progress to plan. The Company continues to work on a Build-Own-Operate-Transfer (BOOT) funding solution for full pipeline led field development.

On 17 February 2020, following expiry of exclusivity on the partial divestment of the Eastern Morocco Portfolio, the Company announced its intention to pursue a micro Liquified Natural Gas ("LNG") first phase production plan for the TE-5 Horst having identified micro-LNG development as an attractive route to cash flows from the Tendrara Production Concession. Additionally, the Board believes that the micro-LNG project provides a relatively low-capital cost route to gas sales from the TE-5 Horst with the first LNG delivery possible during 2021. The proposed micro-LNG production plan, which is subject to approval by our JV partners in the Tendrara Production Concession, will advance alongside all workstreams relating to the full Field Development Plan underpinning the Concession.

Eastern Morocco Exploration Portfolio

The TE-10 exploration well, which was safely drilled in December 2018 and extensively tested throughout H1 2019, returned a disappointing result. Despite encouraging initial indications provided by the mud and well logs, which identified the presence of a potential gross reservoir interval across a 110-metre measured depth section, unstimulated and stimulated testing of the well ultimately did not deliver a commercial gas flow rate. This prompted a board decision to conclude the well test following the installation of a downhole pressure gauge and to suspend all exploration drilling activity across the Company's portfolio until after the result of the Eastern Morocco Portfolio marketing process.

Two main lessons were learnt from the last drilling campaign:

1. We still retain confidence in the potential of the TAGI across the Eastern Morocco Portfolio acreage
2. The main exploration risk is the pre-drill identification of effective TAGI reservoir which has not, despite considerable technical assessment conducted by our exploration team and specialist consultants, been reliably determined from seismic data alone (2D or 3D) to date

Nevertheless, there remain numerous (56) concepts, leads, and prospects that lie across both Anoual and Greater Tendrara. Some are ready to be drilled and others need to be further matured before being drilled, but in aggregate these concepts, leads and prospects (which will ultimately have varying chances of success) have total unrisked gross exploration potential of 19.4 Tcf of original gas in place.

The Company believes that significant upside remains to be realised from exploring the basin with a view to unlocking new fields within our Eastern Morocco acreage. However, timing will be managed within our fiscal constraints.

Sidi Moktar

Sidi Moktar remains a largely under explored, yet exciting exploration opportunity within the Essaouira Basin. Having recently been granted Environmental Impact Assessment approval for a 2D seismic acquisition programme, our exploration team has been busy preparing for a seismic acquisition campaign which will provide greater understanding on the likely prospectivity for hydrocarbons within the pre-salt Triassic and Palaeozoic plays drawing on our knowledge and experience in these plays.

Corporate

The Company had a cash balance of £4.6 million as at 31 December 2019. In January 2020, the Company received £1.3 million net proceeds from an equity raise announced in December 2019, which strengthened the Company's cash position as it continued to progress a strategy for the partial monetisation of its Eastern Morocco Portfolio. A cost reduction process was implemented in 2019 which resulted in a reduction in General and Administrative costs.

As part of a structural cost reduction process, the Company also saw a restructuring of the Board of Directors which included JJ Traynor (former CFO), Brian Mitchener (former Exploration Director), Simon Davies (former Non-Executive Chairman) and James Parsons (former CEO) step down from the Board.

Since the period end, I am pleased to say that we have welcomed Mohammed Seghiri to the Board as COO. Mohammed has worked at Sound Energy since 2017 as the Company's in-country Managing Director in Morocco and has over 18 years' experience in a range of complex sectors, including upstream and midstream oil and gas, power production and telecoms. Furthermore, his vast experience and in-country connections will undoubtedly prove valuable in his capacity as COO for the near-term. Since 25 February 2020, I have taken on the role of Executive Chairman and whilst it is acknowledged that the separation of Chairman and CEO is best practice for governance I will retain this position until such time that the Board consider it appropriate that I move to Non-Executive Director.

Clearly an exploration focused company can only be sustainable with sufficient funding to fully test its portfolio. My priority is to rebalance the Company's capital, both human and financial, to self-generate sufficient funding such that the higher risk exploration drilling can be undertaken from free cash. The partial monetisation of our assets through trade sales, in parallel to undertaking the micro-LNG development project, therefore remains a short-term focus.

We have a challenging year ahead, but our team is up for the challenge and remain committed to delivering shareholder value.

At the time of issuing the Annual Report and Accounts there are unprecedented societal and market conditions following COVID-19 virus outbreak which increases the risk that there could be delay in the Company's micro-LNG strategy implementation which could impact the Company's liquidity. The Directors continue to explore ways to mitigate the impact including assessing the measures announced by the UK Chancellor to support businesses during the COVID-19 outbreak.

Graham Lyon
Executive Chairman

The Attractiveness of 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.

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 and Moroccan gas pricing
- Supportive government with a desire to promote gas demand in-country
- Low cost production

Business Model

Value creation through high risk, high frontier exploration

Section 1 –

Relationships and Partnering:

Strategic Relationships

Sound Energy recognises that it can achieve more than we can alone by developing high impact and sustainable strategic industry relationships. These relationships allows us to leverage technical, financial and commercial expertise to enhance our business, and deliver on our objectives whilst de-risking our opportunities and accessing capital to fund our operations. We believe the creation of mutually beneficial partnerships allows us and our partners to enhance and deliver our business strategies.

Governmental Relationships

Having strong and well developed relationships with host governmental bodies is key to delivering Sound Energy's aspirations. The company invests time, expertise and resources to engage with governmental agencies to build trust and understanding around its strategy and its operations. We believe we have a responsibility for operating safely, efficiently and reliably in the countries in which we operate, and that through our investments and expertise, we can add value to communities and create a positive legacy for society and key stakeholders.

Cornerstone Investors

The support of Sound Energy's cornerstone investors and shareholders provides us with a firm financial foundation to deliver our strategy. Our cornerstone investors also bring insight, knowledge and business skills which offers an additional layer of value to help us achieve success within the business.

Section 2 –

The Foundation of our Business

Sound Energy's business model is founded on critical components which allows us to deliver opportunities, appropriately manage risks and provides us with our licence to operate.

1. Strong corporate governance combined with effective risk management
2. A culture of safe and sustainable operations, enabling us to achieve high standards of health and safety, and minimise our environmental impact
3. A committed, industry-experienced and entrepreneurial team with a strong blend of technical, commercial and financial skills

Section 3 –

Acquire, Discover, Monetise, Repeat:

ACQUIRE

Sound Energy continually seeks opportunities to enhance its portfolio. We screen for licences and acquisitions which fit our strategy and through which we can deploy our resources and expertise to deliver shareholder value.

DISCOVER

We have built a team of internationally experienced explorers together with a licence position offering significant frontier exploration potential. We have demonstrated our capability to discover hydrocarbons and deliver wells safely, efficiently and with a balanced approach to risk. We remain well positioned to take advantage of our existing licences and seize other exploration opportunities that have the potential to enhance our portfolio.

MONETISE

Sound Energy recognises that a fundamental component of value creation and delivery is swift, innovative and focused commercialisation of our opportunities. We continue to develop and move forward our portfolio at pace by leveraging the expertise and capability of our team together with advisors, government and key industrial partners.

REPEAT

Our business model, like the industry in which we operate, is cyclical. We acquire, discover and deliver value to our shareholders. The agility, skills and experience of our team allow us to move quickly and create advantage to enhance our portfolio and grow our business.

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 Silk Route Services 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 Tendrara 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 Tendrara licence, onshore Morocco. The Company subsequently entered into a Field Management Agreement ("FMA") with SPM in December 2015 where, under the FMA as amended from time to time, Schlumberger provides integrated technical services, equipment and personnel to Sound Energy, Operator of the Tendrara Exploitation Concession in which Schlumberger has a 27.5% synthetic interest.

Schlumberger is also a key partner to Sound Energy in the Anoual and Greater Tendrara Exploration permits with non-operated direct interests of 27.5% in each exploration permit.

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 2019, OGIF had an interest in 24.6% 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.

Q&A with Executive Team

Mohammed Seghiri
Chief Operating Officer

Graham Lyon
Executive Chairman

Q Please tell us a little about your background and previous experience

A Mohammed - I was born and brought up in Paris, where I eventually graduated from the renowned engineering university of l'École Nationale Supérieure Des Mines de Paris.

I started my career as a civil engineer working for ELF before moving to work for a Gaz de France subsidiary within the upstream and midstream sector. Further into my career, I joined a management consultancy company, where one of the projects saw me move to Morocco. It was here I began building my key in-country relationships and subsequently made the decision to move to the country full-time. Not long after settling in Morocco, I joined a small M&A consultancy boutique and commenced work with OGIF. At OGIF, I was heavily involved in the local oil and gas sector where I was able to seize on the opportunity to further develop my relationships amongst various corporate individuals, investors, customers and government officials. In 2017, I was asked to join Sound Energy to manage the local team as the in-country Managing Director. I have been responsible for the delivery of all our operations so far.

Graham - My career, which now extends some 40 years, has spanned a variety of super-major, major and junior oil and gas companies including Chevron, Shell, Deminex, Petro-Canada as executive and various listed and private smaller companies as Non-Executive, most recently as chair of Infrastrata PLC. I am a Petroleum Engineering graduate of Imperial College with post grad business education from a variety of renowned institutions. During my varied career I have worked across multiple geographies, partnered with dozens of international and national oil companies and I have been through a number of business cycles in what has always been a very cyclical industry reacting to the unpredictability of energy prices. I began my career in Petroleum / Reservoir Engineering before transitioning into operational, commercial, business development and leadership roles.

Q You are clearly both very experienced executives. Where do you see your experience and expertise adding value to the Company?

A Mohammed - I certainly feel that my Moroccan background and vast network in-country will prove helpful to move the Tendrara development to the next stage. Relationships are a key part of doing business in Morocco. Throughout my 15 years based there, I have developed a strong set of relationships and ties with government officials, state-owned agencies, oil and gas offtake customers and local stakeholders. These span across both our Eastern Morocco portfolio and Sidi Mokhtar licences.

Graham – My background has allowed me develop substantial insight into our industry and more importantly has provided me with a wide variety of networks and relationships that I can utilise in helping re-balance our business, deliver on our revised strategy and deliver value to our shareholders. I have held leadership positions for a couple of decades and I believe this together with my technical and commercial ability puts me in a strong position to help Sound exploit a very exciting and unique opportunity set.

Q Over the past few months, we have seen a few board changes. Has this been a difficult transition?

A As part of our cost reduction, we have seen a gradual but managed change in our organization and board structure whilst still preserving momentum for the delivery of our various projects. Change is never easy but is always continuous in any business and through an effective and balanced approach to managing such changes we will deliver our business objectives whilst bringing the added value of new ideas, new relationships and new ways of thinking.

Q I can see that from an announcement released recently that the negotiation period for an agreed GSA on Tendrara has been extended until 30 June. Are we any closer to a final agreement?

A A significant amount of work has been conducted on the GSA in recent months and we are approaching the final stages. However, the Company recently announced that while GSA negotiations continue, a binding GSA is not expected to be entered into prior to 30 June 2020, notwithstanding any potential consequential impact from the COVID-19 pandemic. We were pleased to secure various Environment Impact Assessments on a 120km 20- inch pipeline which will connect the asset's proposed gas treatment plant and compression station to the Gazoduc Maghreb Europe pipeline and also complete the EIA on the gas treatment plant and compression station. Alongside all of this, we are also in ongoing discussions with the Ministry of Interior to obtain rights through a long-term lease agreement for a 50m wide corridor along the entire 120 km length of the TGEP.

Q What are your longer-term visions for the Company?

A **Mohammed** - It is very important that the Company is fit for purpose as it progresses the Tendrara development. There remains a number of opportunities to deliver significant upside for shareholders, and we are very focused on assessing and ensuring that all potential options add value, whether through exploration or the progression of other parts of the existing asset base.

Graham – This report covers the period where I was purely a Sound shareholder and along with all shareholders my vision then as well as now was to see Sound deliver value to its shareholders. I am recently arrived to the role of Executive Chairman. Now, from the inside I can certainly see the value of undertaking the phased development of the discovered and producible resource that Sound own. It's early days of my tenure so I prefer to focus on short to medium term (two to five year) value creation whilst taking my time to envision the longer term.

Q With the recent outbreak of COVID-19, tell us a little about how the company is responding and the potential consequences for the business?

A The COVID-19 outbreak is, in our lifetimes, an unprecedented global public health crisis, which is having significant and far reaching consequences on society, on businesses and on individuals. First and foremost, as a company, we have a duty of care to our people – to do our utmost to keep our colleagues safe and free from harm whilst working for Sound Energy. In the UK and in Morocco, we are following governmental and public health rules and guidelines. All of our team are working from home to adhere to social distancing guidance and minimise risk of transmission of the virus. We check in on our colleagues on a daily basis and offer help and support as required. The company has a business continuity plan which is designed to help us navigate the business in times like this. The business continuity plan, together with the robust IT and communications systems that we have in place allows us to continue operating with minimal disruption. So far, I am pleased to say that all of our team are safe and that the business is continuing to function effectively with minimal disruption but with the combined leadership of the Executive and the commitment of our team, we will respond to any changes to the situation assuredly to navigate our business through the crisis to strive to deliver these objectives.

Reserves and Resources

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 Tendrara Production concession contains both discovered and undiscovered petroleum 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 (Tendrara 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 Unclarified or On Hold);
- Contingent Resources (Development Not Viable).

The Tendrara Production concession contains Contingent Resources (Development Unclarified 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 Tendrara discovery. This exercise was conducted by a leading independent technical consultancy (RPS Energy Consultants Ltd). The results of the resource evaluation were presented in a Competent Persons Report ("CPR") and were communicated by R.N.S on 23 January 2018. The key resource estimates from the CPR are summarised in the table below.

	Discovered Gas Originally In-place (Bcf)			Contingent Resources (Bcf)[1]		
Accumulation Name	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 Contingent Resources, gross, for the TE-5 Horst accumulation (TAGI Reservoir), within the Tendrara Production concession.

Resource Estimates for Eastern Morocco (Greater Tendrara and Anoual licences)

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. The term "exploration potential" as used herein is intended to encompass all quantities of undiscovered petroleum recoverable and unrecoverable and presented as original gas in place (OGIP).

Sound Energy has internally estimated exploration potential for the Greater Tendrara and Anoual licences and the Tendrara Production Area concession, which are given in Fig. 1 on the right. These estimates are presented as original gas in place, unrisked without an associated geological CoS and on a gross basis. The total volume of exploration potential 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 concession as 20 Tcf gas equivalent, mid case, unrisked 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 unrisked 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 unrisked original gas in place.

The range of unrisked original gas in place volume estimates from the Basin Model has been used to constrain and consolidate the exploration inventory of features across the licences in addition to the resources of the Tendrara Production concession, as shown in the graph in Fig. 1. 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 exploration potential estimates are unrisked original gas in place (gross)

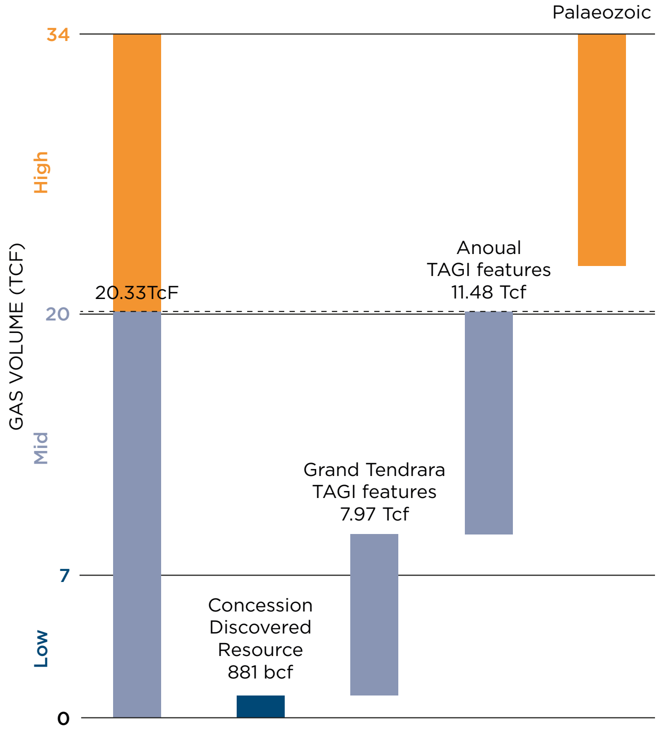


Fig. 1. Summary chart showing the internally estimated, gross, unrisked OGIP exploration potential for the Greater Tendrara and Anoual licences and the resources of the Tendrara Production concession. The Concession Discovered Resource estimate is based on the sum of the externally certified, gross, mid case discovered OGIP estimates from the RPS resource certification exercise from several features, of which the TE-5 horst is included, within the concession. The exploration potential 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 Tendrara	47.5% interest operated	Exploration Permit	14,599km² acreage, 8 wells drilled
Anoual	47.5% interest operated	Exploration Permit	8,873km², 1 well drilled
Tendrara Production Concession	47.5% interest operated	Concession	133.5km², 4 wells drilled

Southern Morocco

Asset	Interest	Status	Area
Sidi Moktar	75% interest operated	Exploration Permit	4,711km² acreage, 44 wells drilled

Eastern Morocco

Operational Review

Our Eastern Morocco Licences are positioned in a region containing a continuity of the established petroleum plays of Algerian Triassic Province and Saharan Hercynian Platform. The presence of the key geological elements of the Algerian TAGI gas play are already proven within the licence areas with the underlying Palaeozoic representing a significant upside opportunity to be explored.

Last year we continued our programme of geological and geophysical studies required to mature a set of established leads into drillable prospects. In late 2018/early 2019 we drilled two high-impact exploration wells TE-9 and TE-10 to test two independent elements of the TAGI gas play outward of the TE-5 Horst discovery. Both wells were completed with zero lost time incidents.

TE-9 targeted a well-defined structural trap, the A1 Structure, similar in many respects to the TE-5 Horst. The TE-9 well was drilled to a total measured depth of 2,925m and penetrated both the TAGI primary target and the Palaeozoic secondary target. The TAGI succession consisted of 60m of dolomitised silty sandstone to microconglomerates.

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

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

From March to May 2019, the TE-10 gas discovery was tested by unstimulated and mechanical stimulation over the uppermost primary zone (1,932 to 1,938 mMD) by Schlumberger deploying Hi-Way technology, the first use of this technique in Morocco. After the initial clean up this zone was flowed and recovered a mixture of gas and liquid, largely comprising the fluid used in the stimulation. Two nitrogen lift operations were subsequently performed in an attempt to increase the gas flow rate, followed by nitrogen injection into the fracture network.

Despite the nitrogen lifts and injection, the gas flow rates achieved were below the threshold required for development previously advised by the Company. In total, approximately 64,500 scf of gas and approximately 2,300 bbls of liquid were recovered over an 11-day period. The secondary lower three zones did not flow gas unstimulated, and a sample of liquid subsequently interpreted as formation water, was recovered from the third zone (1,965 to 1,977mMD). The subsequent analysis of this water supported the petrophysical interpretation of high gas saturations in the uppermost primary zone.

The Company deployed a downhole gauge to monitor the pressure in the well and has demobilised the test equipment and crew from the TE-10 well site. The test was completed with zero lost time incidents.

Further operations were placed on hold, to allow the Company to explore the monetisation options available in respect of its Eastern Moroccan portfolio.

Operational Review

Eastern Morocco – Commercialisation

During 2019 the Company continued to make progress in advancing the development of the Tendrara TE-5 discovery, including the progression of Front-End Engineering & Design (FEED) by the Enagas-led consortium together with the progression of the Moroccan environmental permitting process.

The Company also progressed discussions with Office National de l'Electricité et de l'Eau Potable ("ONEE"), the Moroccan state electricity producer, in relation to a gas sales agreement ("GSA") for offtake from the Tendrara Production Concession. In October, the Company entered into a Memorandum of Understanding ("MOU") with ONEE to set out the key terms through which it would sell an agreed quantity of gas from the Tendrara Production Concession. The GSA is a critical element required to support project sanction. Both parties continue to negotiate with a view to entering into a binding gas sales agreement in early 2020 which will incorporate the key terms of the MOU.

Southern Morocco

The Sidi Moktar licence is located in the Essaouira Basin, in Southern Morocco. The licence covers a combined area of 4,712km^2.

The Company views our Sidi Moktar licences as an exciting opportunity to explore high impact prospectivity within the pre-salt Triassic and Palaeozoic plays in the underexplored Essaouira Basin in the West of Morocco. In June 2018 we were delighted to receive Ministerial approval of a new 8-year Sidi Moktar Onshore Petroleum Agreement.

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

Our evaluation of the exploration potential of Sidi Moktar, following an independent technical review, includes a mapped portfolio of 27 Jurassic, Triassic and Palaeozoic leads in a variety of hydrocarbon trap types. In addition, the Sidi Moktar licence also contains discovered resource in Jurassic reservoirs in the Kechoula gas field, which is located close to existing infrastructure and gas demand, including the large-scale Moroccan state owned OCP phosphate plant.

Sound Energy is developing a work programme to mature the licence with specific focus on the deeper, pre-salt plays. We aim to acquire new, high quality 2D seismic data in 2020, focused on improving trap imaging. Preparations for this seismic acquisition campaign have commenced with the completion and approval of an EIA. This approval, which concerns 25 territorial communes of the province of Essaouira and 11 territorial communes of the province of Chichaoua, is an important step in the local permitting process and enables the Company to continue its preparations for the seismic acquisition campaign. The Company has also undertaken a market enquiry receiving responses from multiple seismic acquisition providers.

This work is planned to culminate in an exploration well, targeting a deep prospect towards the end of 2021. The Company continues to progress a farm out process for this permit, offering an opportunity to a technically competent partner to acquire a material position in this large tract of prospective acreage.

Financial Review

Approximately £5.7 million (net of Badile VAT refund £0.8 million) was invested during 2019, primarily on the drilling and testing of TE-10 well within schedule and budget, although the well did not achieve a commercial gas flow rate.

£177.6 million

Carrying amount of development and intangible assets as at 31 December 2019

Income Statement

The loss for the year before tax from continuing operations was £16.4 million (2018: £11.7 million). Exploration costs of £6.6 million (2018: £4.1 million) related to the impairment charge of TE-10 drilling and well test costs as the well did not achieve a commercial gas flow rate. 2018 exploration costs related to the TE-9 well that was plugged and abandoned. Administrative costs at £6.1 million were lower than 2018 administration costs of £8.9 million due to a structural cost reduction initiative taken during the year which included a reduction in staff numbers.

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

Foreign exchange gains and losses arising from intercompany loans that originated on acquisition of Moroccan licences are recognised in the statement of other comprehensive income.

Discontinued operations in 2018 related to the disposal of the Group's operations in Italy which completed in April 2018.

Cash Flow/Financing

During 2019, an equity raise, warrants and share option exercises raised approximately £2.2 million (2018: £12.2 million).

Financing costs were £2.8 million (2018: £2.4 million) primarily due to amortised costs of the bonds, net of interest capitalised to the exploration licences of £0.5 million (2018: £0.6 million).

The Group spent £5.7 million (2018: £12.4 million) on investing activities during 2019, which largely consisted of spend on the Greater Tendrara licence in Morocco, primarily in relation to the TE-10 exploration well drilling completion and testing

and capitalised general and administrative expenses. A £0.8 million VAT refund from the disposed Italian operations was received during the year.

Balance Sheet

As at 31 December 2019, the carrying amount of property, plant and equipment was £147.3 million (2018: £151.0 million) primarily related to the development and production assets in Morocco with a carried value of £146.9 million (2018: £150.6 million) after taking account of additions and foreign exchange movement.

Following the adoption of IFRS 16 in 2019, the liabilities relating to the Group's office leases in UK and Morocco were measured at the present value of the remaining lease payments and recognised in the balance sheet as lease liabilities and the associated right-of-use assets was included within property, plant and equity. The carrying amount of the right-of-use assets was £0.2 million (2018: nil). The lease liabilities as at 31 December 2019 had a carrying amount of £0.2 million, primarily current liabilities.

Additions of £6.0 million intangible assets largely consisted of TE-10 exploration well drilling completion and testing and capitalised general and administrative expenses. The drilling was within schedule and budget, although the well did not achieve a commercial gas flow rate.

As part of the Italy divestment agreement, the Company is entitled to receive the proceeds, upon the sale, of Badile land. The Company therefore has a carrying amount of £0.9 million (2018: £1.6 million) as interest in Badile land. During 2019, the Company recognised £0.6 million impairment charge in respect of the interest in Badile land due to decline in expected sale price.

Other receivables amounting to £1.5 million (2018: £3.4 million) primarily related to receivables from our partners in Morocco licences and recoverable VAT in Morocco.

Trade and other payables amounting to £2.4 million (2018: £10.1 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 has a carrying amount of £0.6 million (2018: £0.7 million) relating to the obligation for the Badile land remediation in line with the Italy divestment agreement.

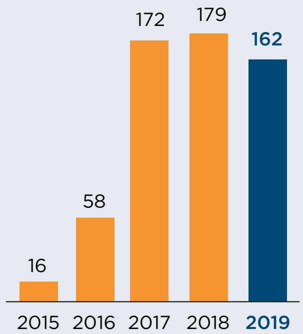
Going Concern

Disclosure on going concern is included in note 1 to the financial statements. See page 64.

Net Assets (£ million)

£162 million

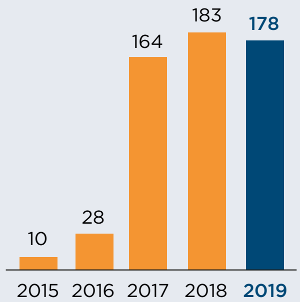
2018: £179 million



Development and Intangible Assets (£ million)

£178 million

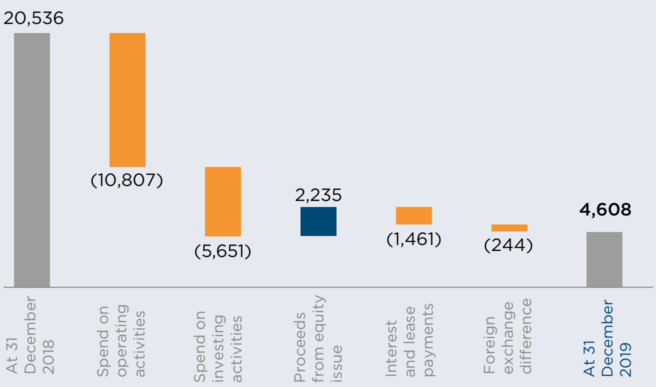
2018: £183 million



Cash Flow Bridge (£ million)

£4.6 million

2018: £20.5 million



HSE during 2019

Promoting positive behaviour

During this operationally busy year HSE is at our core.

During the first half of 2019, Sound Energy Morocco has been actively involved in Exploration activities, comprising the drilling of the second well in Greater Tendrara (TE-10) as well as the associated activities required for the successful undertaking of these operations. In May 2019 the company announced that it would pause further operations.

The 2019 operations are summarised as follows:

- Drilling of TE-10
- Rigless well testing
- Mechanical Stimulation of TE-10 well
- Completion of operations at TE-10 including de-rig
- Plug and abandon of TE-10
- Strengthening 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 2019 was 212,573 and the data recorded has been divided into three main categories:

1. Lagging Indicators

Fatality	0
LTI	1
RWC	0
MTC	3
FAC	7
Property Damage	8
Environmental Incident	4
RTA	0
ONM	2
HiPO	1
Lost Workdays	0

2. Leading Indicators

HSE Inspections	958
HSE Audits	11
HSE Meetings	360
HSE induction hours	1,100
HSE training hours	10
Emergency Drills	6
Toolbox Talks	430
STOP Cards	1,446
Job Safety Analysis	430
Risk Assessments	376
Management Tours	11

3. Environmental Data

Diesel consumed (m3)	2,299
Water Consumed (m3)	19,833
Mud Cuttings (m3)	676
Sewage Water (m3)	13,599
Waste Water (m3)	5,560
Non Hazardous Wastes (ton)	86
Fuel Gas (m3)	0
Electrical Energy (kWh)	93,323
Km Driven	826,586
Total barrels spilled	3.06

The first half of 2019 was an active year for Sound Energy Morocco, with exploration activities continuing through Q1 and concluding at the end of Q2 with the well test and mechanical stimulation of TE-10. Consequently the exposure hours and driven kilometres were lower than the previous year. We had set ourselves an ambitious target of no Lost-Time Injuries for the year and, while operationally, we did not have any LTIs we did have an incident where an employee broke their ankle falling down the stairs at their guesthouse. The incident was dealt with swiftly and the injured person was taken first to the local medical centre nearby in Bouarfa before being transferred to Casablanca for surgery. The employee has since made a full recovery.

Sound Energy Morocco is aligned to similar operators in the International Association of Oil and Gas Producers ("IOGP") database. But the instances of HiPo indicate the need to avoid complacency and policies to address this have already been made. These build on the following upgrading of driving and fleet management policies highlighting 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 cards during 2019.

SOUND ENERGY MOROCCO — **Safety Hazard Observation Card**

Observer Name	Location	Date	Time

☐ *Drilling* ☐ *Construction* ☐ *Seismic* ☐ *Other*
☐ *Rigless* ☐ *Production* ☐ *Office*

Personal Protective Equipment	Safe	Concerns
Hard hat, eye and face protection, foot wear	☐	☐
Hearing protection	☐	☐
Respiratory protection /Air quality	☐	☐
Protective clothing /gloves	☐	☐
Fall protection	☐	☐
Appropriate working attire	☐	☐
Body Position/Body Mechanics	**Safe**	**Concerns**
Clear of "line of fire"	☐	☐
Clear of pinch points, sharp edges and hot surfaces	☐	☐
Eyes on path or work	☐	☐
Ascending/descending/stairs, steps or fixed ladders	☐	☐
Body mechanics when lifting, reaching, pulling, pushing	☐	☐
Appropriate pace	☐	☐
Adequate personnel for job	☐	☐
Tools & Equipment	**Safe**	**Concerns**

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

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

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.

HSE during 2019

Life Saving Rules

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

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.

Personal Safety

Driving Safety

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 2019, 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.

Sound Energy CSR Actions for 2019

Training and Employment Opportunities:

In 2019, during its exploration activities at Tendrara, Sound Energy provided training and employment opportunities for members of neighbouring communities.

The total number of persons from the local community who were employed, directly or indirectly, by Sound Energy Morocco from 2016 to early 2019 is 870 individuals.

Telecom Tower:

Sound Energy Morocco commissioned and fully paid for the construction of a Maroc Telecom telecommunications tower in the Tendrara area, required for operational purposes. Its presence has significantly enhanced mobile phone coverage in the area, which local communities benefitted from, since its deployment in 2018.

Water Well:

Sound Energy Morocco drilled the Hassi Lahcen water well and installed the required pump for operational purposes. In 2019, and similar to previous years, we continued to provide a 24/7 guard from the local community to ensure safe access for all of the local community. We also provided an electrical generator at the well.

Water Storage Tanks:

In order to help the local community better utilise the water pumped from the well, Sound Energy has provided three 6,000 litre PVC water tanks for the community.

Training Programme:

In line with the Company's commitment to the various contributions to develop local competencies in the oil & gas industry, Sound Energy Morocco has established an academic collaboration agreement with the Mohammed 1st University in Oujda.

Under the agreement, Sound Energy Morocco received two doctoral students in Geology/Geoscience in the Company's offices to work on their doctoral theses.

The candidates chosen will not only have access to data in real time, but also receive academic supervision throughout the period of their research as PhD candidates, as well as technical training provided in house.

The programme of this training is focused on bibliography, geological field missions, structural studies (geochemistry, petrophysics, gravity), and the intergrated structural and sedimetalological interpretation of the Tendrara Basin.

Managing Our Risks 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 2019, including marketing the Company's interests in the Tendrara Production Concession, the Greater Tendrara and the Anoual Permits, the cost reduction programme and particularly the progress towards the TE-5 Horst development project.

Removed or changed:

Absence of applying standard operating procedures creates unnecessary errors and costs risk

Company executes operations in accordance with industry standard procedures and practices aligned with products and services provided with our joint venture partner Schlumberger under the Field Management Agreement.

Loss of company data

Company has a robust IT policy in place and business continuity plan.

Fraud, Bribery & Corruption

Company has a robust anti-bribery and corruption policy in place.

Currency Risk

Company undertakes proactive FX management in accordance with the Group treasury policy.

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
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	• Profitability and cash flow • Increased risk profile • Reduced appetite for investment in the Company	• Build strong relationships with partners, advisors, governments, local authorities, local population and other stakeholders • Actively monitor potential legislation changes • Activate new business development programme	Chairman
2 Facilities funding Inability/delay in securing funding for the TE-5 development. BOOT bankability risk results in delayed or unable to take FID	• Inability/delay to fund the development project leads to delay/halts on project progress especially in the case of failure to secure BOOT option or secure the GSA to support the Field Development plan	• 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.	Chairman
3 Reservoir uncertainty	• Exploration 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 exploration potential across our exploration permits. • Reservoir distribution and effectiveness, hydrocarbon saturation and H2S risk in respect of Jurassic carbonate reservoirs in Sidi Moktar	• Comprehensive geophysical surveying, data anlaysis, and modelling integrated with geological studies to improve reservoir understanding throughout the basin • Independent resources certification	Chairman

Our Principal Risks

Risk	Impact	Control Measure	Owner
4 Change in regulatory or fiscal regime	• 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	• Regular engagement and communication with government and in-country stakeholders • Monitor potential changes in legislation • Seek stabilisation provisions in key agreements	COO
5 Poor GSA pricing leads to lower economic case at FID or corporate/ asset sale	• Pricing achieved in gas sale agreement is suboptimal and/ or offtake arrangements are unsatisfactory	• Proactive involvement with government agencies • Robust negotiation strategy alignment internally • Clarity on price required to have an economical project	COO
6 Drop in commodity prices	• Falls in commodity prices result in loss in value, reduced cash flows and/or impairments • Reduced ability or appetite to invest	• Gas price monitoring both in country and on international markets (inc. LNG, Brent) • Secure long-term pricing under key offtake agreements	COO
7 Major HSE event	• Loss of life or injury to personnel • Environmental impact • Reputational damage • Exposure to litigation • Financial and operational losses	• 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	Chairman
8 Loss of key personnel	• Loss of shareholder confidence • Lack of direction and leadership within the Company • Loss of expertise and knowledge	• Competitive remuneration package in place for key executives, benchmarked regularly relative to the market • Succession planning	Chairman

Risk	Impact	Control Measure	Owner
9 Insufficient funds to operate and sustain the business	• Capital constraints due to insufficient funding of work programme, potential impact to long term viability of business	• Long term cashflow management • Finances are controlled through annual planning process with regular forecast updates. Monthly MI measures performance against plan. • Risk transfer through farm-ins, joint venture and funding arrangements. • Active commitment management and tracking for main contracts.	Chairman
10 Unable to fully monetise divestment for investors	• Given Company portfolio, inherent risks and external conditions unable to full monetise at Company exit. Inability to mitigate factors or deliver alternative options should the exit not be possible.	• Flexible and active transactional approach within the Company • Robust alternative monetisation approaches to exit strategy.	Chairman
11 Business disruption due to COVID-19 virus outbreak	• Delay in implementation of micro LNG strategy • Key staff absence due to illness • Capital markets disruption • Consequential impact of disruption to key counterparties e.g. government, suppliers.	• Follow Government guidelines and enable staff to work remotely • Explore liquidity continuity measures • Implement business continuity plan.	Chairman

Directors' Statement under Section 172 (1) of the Companies Act 2006

The Section 172 (1) of the Companies Act 2006 obliges the Directors to promote the success of the Company for the benefit of the Company's members as a whole.

The section specifies that the Directors must act in good faith when promoting the success of the Company and in doing so have regard (amongst other things) to:

a. the likely consequences of any decision in the long term,

b. the interests of the Company's employees,

c. the need to foster the Company's business relationship with suppliers, customers and others,

d. the impact of the Company's operations on the community and environment,

e. the desirability of the Company maintaining a reputation for high standards of business conduct, and

f. the need to act fairly as between members of the Company.

The Board of Directors is collectively responsible for the decisions made towards the long-term success of the Company and how the strategic, operational and risk management decisions have been implemented throughout the business is detailed in the Strategic Report on page 02 to 29.

Employees

Our employees are one of the primary assets of our business and the Board recognises that our employees are the key resource which enables delivering Company's vision and goals. Annual pay and benefit reviews are carried out to determine whether all levels of employees are benefitted equally and to retain and encourage skills vital for the business. The Remuneration Committee oversees and make recommendations of executive remuneration and long-term share awards. The Board encourages management to improve employee engagement and to provide necessary training in order to use their skills in the relevant areas in the business. The Board periodically reviews the Health and safety measures implemented in the business premises and improvements are recommended for better practices.

The employees are informed of the results and important business decisions and are encouraged to feel engaged and to improve their potential.

Suppliers, Customers and Regulatory Authorities

The Board acknowledges that a strong business relationship with suppliers and customers is a vital part of the growth. Whilst day to day business operations considering suppliers and customers are delegated to the executive management, the Board sets directions and evaluates policies with regard to new business ventures and investing in research and development. The Board uphold ethical business behaviour and encourages management to seek comparable business practices from all suppliers and customers doing business with the Company. We value the feedback we receive from our stakeholders and we take every opportunity to ensure that where possible their wishes are duly considered.

Community and Enviornment

The Board upholds high standards of care towards the community and environment and is conscious of the fact that the nature of the Company's business requires strong measures to protect the environment. At its meetings, the Board receives HSE updates from the HSE Committee and considers the impact of the Company's operations on the environment and the neighbouring Community.

The Company provides training and employment opportunities to members of the communities in the areas it operates. As detailed in the CSR section of the strategic report, the Company fully paid for the construction of a telecommunication tower in the Tendrara area, drilled a water well, supplied water storage tanks and continues to provide round the clock security to enable safe access to the water by the local community. The Company is supporting two PHD students in Geology/Geoscience in the Company's offices to enable them to complete their doctoral thesis.

Maintaining High Standards of Business Conduct

The Company is incorporated in the UK and governed by the Companies Act 2006. The Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the 'QCA Code') and the Board recognises the importance of maintaining a good level of corporate governance, which together with the requirements to comply with the AIM Rules ensures that the interests of the Company's stakeholders are safeguarded. The Board has prompted that ethical behavior and business practices should be implemented across the business. Anti-corruption and anti-bribery training are compulsory for all staff and contractors and the anti-bribery statement and policy is contained in the Company's Employee Manual. The Company's expectation of honest, fair and professional behaviour is reflected by this and there is zero tolerance for bribery and unethical behaviour by anyone relating to the Company.

The importance of making all staff feel safe in their environment is maintained and a Whistleblowing policy is in place to enable staff to confidentially raise any concerns freely and to discuss any issues that arise. Strong financial controls are in place and are well documented.

Shareholders

The Board places equal importance on all shareholders and recognises the significance of transparent and effective communications with its investors. As an AIM listed company there is a need to provide fair and balanced information in a way that is understandable to all stakeholders and particularly our shareholders.

The primary communication tool with our shareholders is through the Regulatory News Service, ("RNS") on regulatory matters and matters of material substance. The Company's website provides details of the business, investor presentations and details of the Board and Board Committees, changes to major shareholder information, QCA Code disclosure and updates under AIM Rule 26. Changes are promptly published on the website to enable the shareholders to be kept abreast of Company's affairs. The Company's Annual Report and Notice of Annual General Meetings (AGM) are available to all shareholders. The Interim Report and other investor presentations are also available for the last six years and can be downloaded from our website.

There are opportunities throughout the year for shareholders to meet with the Board and members of the Executive team, through general meetings, investor events and the Company's 'fireside chat', Q&A sessions.

The Board acknowledges that encouraging effective two-way communication with shareholders encourages mutual understanding and better connection with them. The benefits include improved transparency of information on the business and its performance, appropriate consideration of all shareholders views, as well as instilling trust and confidence to allow informed investment decisions to be made by the Board.

On behalf of Board

Graham Lyon
Executive Chairman
22 April 2020

Governance

Chairman's Corporate Governance Statement

Graham Lyon
Executive Chairman

Dear Shareholders

Since assuming the position of Executive Chairman of the Company during February 2020 I am particularly interested in ensuring that good corporate governance is adhered to and recognise that it underpins the foundations of business. The Board is committed to fit-for-purpose corporate governance across the business, from executive level and throughout the business. The Company made the decision to adopt the Quoted Companies Alliance Corporate Governance Code 2018. I firmly believe in the importance of solid governance from the top of an organisation. The QCA Code and the principles contained within this code are valued by the Company and seen as fundamental building blocks for the underlying development of the business.

As Chairman it is my duty to ensure that good standards of governance are maintained and cascaded down throughout the organisation. The Board as a whole look to instil a culture across the Company and throughout the business, delivering strong values and behaviours.

Graham Lyon
Executive Chairman

> "Purposeful corporate governance underpins the foundations of a solid and successful business"

QCA Code Principles

Introduction:

The Board of Directors of the Company recognises the importance of good 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 sound 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	Required disclosure	Reference
1	Establish a strategy and business model which promote long-term value for shareholders.	See pages 06 to 07 of 2019 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 pages 24 to 27 of 2019 Annual Report.
5	Maintain the Board as a well-functioning balanced team led by the Chair.	See pages 34 to 35 of 2019 Annual Report.
6	Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities.	See pages 34 to 35 of 2019 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 pages 36 to 37 of 2019 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 38 to 52 of 2019 Annual Report. See website disclosures: Principle Ten under AIM Rule 26.

Overview
Leadership

The Company remains committed to achieving high standards in all we do. Our business and processes are aligned around a robust governance framework. The Company applies and seeks to adhere 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 solid 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.

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.

That incidents that occur are dealt with correctly and lessons learnt and exercises carried out to prevent repeats.

Audit Committee
The main responsibilities of the Audit Committee is 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. The Committee is mindful of the guidance from the QCA with respect to the function and duties of the Audit Committee within the business.

Nomination Committee
The Nomination committee is responsible for Board recruitment and succession planning, ensuring that the right skill sets are present in the Boardroom.

Remuneration Committee
The Remuneration Committee is responsible for all material elements of remuneration policy, including Directors' remuneration and assessing Directors' performance.

The Committee assesses Executive Directors' performance based on an annually approved scorecard.

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

Graham Lyon

Executive Chairman

Appointed to Board
25 February 2020

Background
Graham Lyon was appointed Executive Chairman on 25 February 2020. Graham is an experienced oil and gas executive with 40 years' experience across technical, operational and commercial leadership roles.

Current external commitments
- Non-Executive Director – SulNOx Group plc.

Mohammed Seghiri

Chief Operating Officer

Appointed to Board
23 January 2020

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

Richard Liddell

Director (Non-Executive)

A N R H

Appointed to Board
28 September 2015

Background
Richard Liddell joined the Board as a Non-Executive Director in September 2015, holding the role of Non-executive Chairman from January 2018 to May 2019. 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

Key:

A Audit Committee

N Nominations Committee

R Remuneration Committee

H Health and Safety Committee

Marco Fumagalli

Director (Non-Executive)

A R N

Appointed to Board

17 July 2014, appointed as Acting Chairman on 12 November 2019 to 25 February 2020.

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

Former Directors who served during the financial year

Brian Mitchener

Former Exploration Director (Executive Director)

Appointed to Board

21 June 2017, resigned from the Board on 31 March 2020

JJ Traynor

Former Chief Financial Officer (Executive Director)

Appointed to Board

11 July 2018, resigned from the Board on 6 February 2020

David Clarkson

Former Director (Non-Executive)

Appointed to Board

14 May 2018, resigned from the Board on 13 August 2019

Simon Davies

Former Chairman

Appointed to Board

23 May 2019, resigned from the Board on 12 November 2019

James Parsons

Former Chief Executive Officer (Executive Director)

Appointed to Board

10 October 2012, resigned from the board 23 January 2020

The information provided sets out the current Board of Sound Energy, as at the time of signing these accounts together with the names and dates of tenure of those that resigned during the period from 1 January 2019 to 31 March 2020.

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:

As at 31 December 2019 the Board comprised of the Acting Non-Executive Chairman, a Non-Executive Director and three Executive Directors. Since the end of the financial year there have been a number of changes to the Board and at the time of signing these accounts there are two Non-Executive Directors, Executive Chairman and COO.

There have been a number of changes throughout 2019 to the Board as the Company enters into a new stage of development.

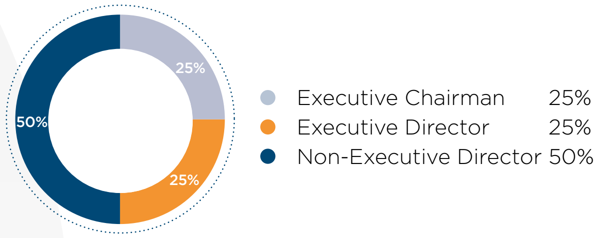
The current Board has a good level of industry, financial, public markets and governance experience, possessing the necessary mix of experience, skills, personal qualities and capabilities to deliver the strategy of the Company for the benefit of the shareholders over the medium term. The Company recently appointed a new Executive Chairman who will drive the business forward. The Board is aware of the need to appoint a further independent Non-Executive Director and a process is underway to find the right person to appoint to the Board.

The Executive Chairman is responsible for leading the Board and Executive team, 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, 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.

It is recognised that an Executive Chairman and CEO is not within the realms of good practice. The appointment of a further independent Non-Executive Director will help balance the Board. At the current stage of the business it is believed that an Executive Chairman is right for the Company..

Board Composition %



Attendance at Meetings:

A schedule of the Board and Board Committee meetings held during the year ended 31 December 2019 is noted below. Key Executives and advisors have attended these meetings where appropriate to present and provide feedback on actions throughout the year.

	Year ended 31.12.2019					
	Board Meetings					
Name of the Director	Scheduled (5)	Ad Hoc* (14)	Audit Committee	Remuneration Committee	Nomination Committee	Health and Safety Committee
Total number of meetings held [iii]	**5**	**14**	**2**	**4**	**3**	**5**
Marco Fumagalli (Chairman)	5	13	2	4	3	N/A
James Parsons (CEO)	5	14	NA	NA	NA	NA
Richard Liddell	5	14	2	4	3	5
Brian Mitchener	5	13	NA	NA	NA	5
JJ Traynor (CFO)	3	12	NA	NA	NA	NA
David Clarkson [ii]	3	7	NA	2	1	NA
Simon Davies [i]	1	7	NA	NA	NA	NA

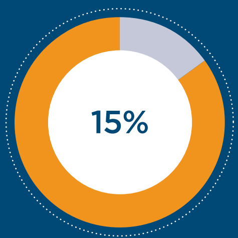
* Ad hoc meetings: Additional meetings called for a specific matter generally of a more administration nature not requiring full Board attendance.

i Simon Davies was appointed to the Board as Chairman on 23 May 2019 and resigned on 12 November 2019

ii David Clarkson resigned from the Board on 13 August 2019

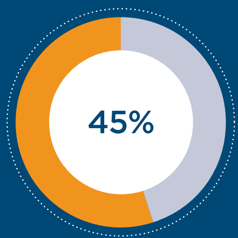
iii All directors attended the meeting they were expected to attend

What the Board did in 2019



Governance & Risk – 15%

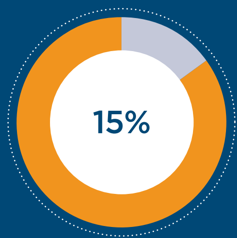
- On-going consideration of the Quoted Companies Alliance Corporate Governance Code and a review of the requirements of the Code.
- AIM training carried out by the Company's Nominated Advisor to individual Directors to ensure that the Board is up to date with regards their regulatory requirements.
- Manual of Authorities reviewed and updated
- Risk Management Policy and Register reviewed
- Review of insider dealing requirements and individual persons closely associated to PDMRs
- Updates from Board Committees following every Committee meeting
- Updates from the Group Auditor via the Audit Committee



Strategy – 45%

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
- Successful fund raise and implementation of a cost reduction programme
- Embarked on a strategy to market Eastern Moroccan portfolio.

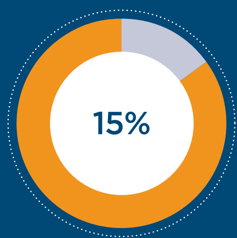


Investor Engagement – 15%

- 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
- 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 2018 approved

Shareholder Relations

Effectiveness

The Board meets five times a year, 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 Non-Executive Directors.

The effectiveness of the Board is monitored on an on-going basis. The Board has undertaken a formal evaluation exercise in the last few years 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 Board may consider a similar exercise, either internally or externally run during 2020 once the new directors and the Board as a whole has had time to settle in. 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 2020 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

2019 Review

- AGM held 22 May 2019
- Three on-line Q&A sessions held with 1,538 users from 43 countries and 614 questions answered

2020 Look forward

- AGM in the first half of 2020
- Q&A sessions throughout the year

Health and Safety Committee

Accountability

Richard Liddell

Chairman of the Health and Safety Committee

- The HSE Committee met at regular intervals during the year.
- Review of HSE procedures carried out.

2020 Looking Forward

- Ensure HSE policy and procedures remain effective.
- HSE management system and resources to be kept under review.
- Ensure ongoing transparent reporting to the HSE Committee with Committee updates provided to the Board.

Health and Safety (HSE) Committee Activities

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 20 to 22.

Audit Committee

Accountability

Marco Fumagalli

Chairman of the Audit Committee

2019 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 Bribery and Corruption and Insider dealing.
- 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.

2020 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.
- Continue to consider the recommendations of the Quoted Companies Alliance Corporate Governance Code, Audit Guide.

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 note 1 to the financial statements on page 64.

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 24.

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.

Auditor

Following the completion of the 2018 audit, the audit partner had been in situ for five years. Considering the significant changes that have occurred to the Company during the financial year, the Audit Committee requested the audit partner to remain for a further two years.

Nominations Committee

Accountability

Richard Liddell

Chairman of the Nominations Committee

2019 Review

- Review of the composition of the Board.
- On-going consideration of the requirements of the QCA Code to which the Company adheres with regards to the balance of the Board.

2020 Looking Forward

- On-going review of the composition of the Board.
- Consider the longer term succession planning for the Executive Team
- Securing the appointment of a further independent Non-Executive Director.

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. During 2019 the Committee met three times.

Remuneration Committee

Accountability

Richard Liddell

Chairman of the Remuneration Committee

Remuneration Committee Activities

The Remuneration Committee comprises of Richard Liddell (Chairman) and Marco Fumagalli. Richard Liddell was appointed as Chair following the departure of David Clarkson from the Board during August 2019.

The Committee meets to consider all material elements of the Company's remuneration policy, including assessing the Directors' remuneration and performance. During 2019 the Committee met four times.

2019 Review

- Consideration of the remuneration packages for the Executive Team.
- Agree any exit payments to members of the Executive Team.
- Determine awards made under the Restricted Stock option (RSU).
- Evaluated scorecard analysis of 2019 (both mid and full year).

2020 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 any RSU's performance criteria and awards to be made.

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 promote the successful growth of the Group. As Sound Energy continues to develop, 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 of our shareholders. The Committee also wants to ensure that the policy provides 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 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 awards under the company's RSU reward scheme 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.

Directors' Remuneration Report

Purpose	Operation	Maximum Opportunity	Performance Measures
Salary			
Attract and retain the right calibre of staff required to support the long-term success of the business. Provide the basis for a competitive remuneration package.	Determined by reference to market data. Reflects individual experience, skills and role. Paid monthly. Reviewed annually.	Increases will be made at the discretion of the Committee, or for Non-Executive Directors, the Executive Directors, considering: • increase in responsibility, particularly as the Company grows and expands • development and performance in the role • alignment to market level	None, although overall performance of the individual is considered when setting and reviewing salaries annually.
Pension			
Provide a level of pension provision which is compliant with regulation and allows staff to build long-term retirement savings.	Defined contribution based on a percentage of salary. Executives may elect to take part of their pension contribution as salary	4.5% of base salary. No element other than salary is pensionable.	None. Pension contribution is set at commencement of an individual's contract.
Benefits			
Protect against risks and provide other benefits reflecting the international aspects of roles.	Private medical and dental insurance in the UK, permanent health insurance and life assurance cover.	Set at a level which provides a sufficient level of benefit.	None.
Bonus Awards			
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. 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.	Individual Executive bonus is based on performance measured against Group and personal objectives. Performance measures are both quantitative and qualitative, and both financial and non-financial. Bonus awards are made by the Committee and awards are paid in shares. Any cash payments are made at the sole discrection of the Remuneration Committee.	The value of any bonus is at the discretion of the Remuneration Committee.	Performance is assessed using specific metrics set by the Remuneration Committee, including the delivery of the Company scorecard and the share price performance.

Purpose	Operation	Maximum Opportunity	Performance Measures
Long-Term Incentive Plan (LTIP)			
Reward execution of Group strategy and growth in shareholder value over a multiple-year period. Long-term performance measurement discourages excessive risk-taking and inappropriate short-term behaviours, and also aligns Executive interests with those of shareholders. The LTIP is designed to retain Senior Executives over the performance period of the awards. 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. RSU awards recognise and reward 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.	LTIP awards are made by the Committee for the CEO and for Executives by the Committee based on CEO recommendations. 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. 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. In the event of a change of control of the Company, awards shall vest and be exercisable.	Awards are made at market price at the date of grant and are discretionary. Awarded annually.	Share options awards vest based on share price performance or in terms set by the Remuneration Committee. RSU awards vest after three years or on attainment of performance criteria associated with the awards. Alternative or additional criteria may be used to determine future rewards.

Directors' Remuneration Report

Purpose	Operation	Maximum Opportunity	Performance Measures
Chairman and Non-Executive Director Fees			
Provide an appropriate reward to attract and retain high calibre individuals.	The fee for the Chairman and Non-Executive Directors reflects the level of commitment and responsibility of the role. 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.	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. Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.	Benchmarked externally from time to time as appropriate.

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 shareholder 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 Executive Chairman has a service agreement and the COO an employment contract 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 three months' written notice.

External Appointments

It has been expressly agreed that the Executive Chairman must obtain agreement from the Board before accepting additional commitments that might affect the time he is able to devote as chair of the company.

Remuneration Policy for the Chairman and Non-Executive Directors

The Executive 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 occurring during their employment, the former CEO and the Exploration Director have the right to receive a fixed gross lump sum change of control payment of £576,000 and £165,333.33 respectively. Mohammed Seghiri, COO, has the option to give notice and receive a lump sum equivalent to three months salary.

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.

Summary Of Actual Remuneration Of Directors

	Salary £'000s	Additional Award £'000s	Benefits in kind £'000s	**Total 2019 £'000s**	Total 2018 £'000s
Executive Directors					
James Parsons(i)	473	–	2	**475**	995
Brian Mitchener(i)	297	–	3	**300**	323
JJ Traynor(i)(ii)	225	–	13	**238**	168
Non-Executive Directors and Chairman					
Richard Liddell(iii)	120	30	–	**150**	116
Marco Fumagalli(iii)	52	30	–	**82**	52
David Clarkson	36	–	–	**36**	36
Simon Davies	57	–	–	**57**	–
Stephen Whyte	–	–	–	**–**	73
Total for all Directors	1,260	60	18	**1,338**	1,763

(i) Includes pension contribution of 4.5%.
(ii) Benefits in kind includes travel cost benefit. 2018 Remuneration was from the date of appointment in July 2018.
(iii) Additional award represents contractual bonus based on years of service.

The Executive Directors elected to take a salary reduction during the year which is reflected in the table above.

	Date of Grant	Exercisable Date	Acquisition Price per share (pence)	Options held at 1 January 2019	**Options held at 31 December 2019**
James Parsons	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**
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**

There were no options exercised by the Directors during the year.

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 are made on an annual basis, with a three-year vesting period, and at vesting the awards will be satisfied in Sound Energy shares.

Directors' Remuneration Report

RSU Awards

	Date of Grant	Settlement Date	RSU Awards held at 1 January 2019	RSU Awards held at 31 December 2019
Brian Mitchener	26.04.18	01.01.21	863,682	**863,682**
JJ Traynor	26.04.18	01.01.21	961,194	**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 as at 31 December 2019:

Directors and connected persons	No. of Shares
James Parsons	2,602,905
Richard Liddell	100,000
Brian Mitchener	150,000
JJ Traynor	–
Marco Fumagalli (Continental Investment Partners)	18,675,509

Movements in Share Price During the Year

The mid-market price of the Company's shares at the end of the financial year was 2.05 pence and the range of mid-market prices during the year was between 1.88 pence and 30.8 pence.

Advice Received by the Committee

The Committee has access to advice when it considers appropriate. In the year ended 31 December 2019, the Committee did not receive external advice relating to Executive compensation.

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 22 April 2020 and signed on its behalf by:

Richard Liddell

Chairman of the Remuneration Committee

22 April 2020

Directors' Report

Graham Lyon
Executive Chairman

Other Disclosures

Pages 34 to 51 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 UK 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 29 and forms part of this report.

Results and Dividends

The loss for the year before tax was £16.4 million (2018: £6.8 million). The Directors do not recommend the payment of a dividend.

Going Concern

Disclosure on going concern is included on note 1 to the financial statements. See page 64.

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 (2018: £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 48.

Board of Directors

The names of the present Directors and their biographical details are shown on pages 34 to 35.

The Directors who served during the year were as follows:

- Richard Liddell
- James Parsons
- David Clarkson
- Simon Davies
- Marco Fumagalli
- Brian Mitchener
- JJ Traynor

Changes to the Board during the year:

David Clarkson resigned from the Board on 13 August 2019.

Simon Davies was appointed to the Board on 23 May 2019 and resigned from the Board on 12 November 2019.

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 2019, 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 2019, the Company had 1,079,612,264 ordinary shares in issue as shown in note 16 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 2019 and up to the date of this report.

Oil & Gas Investment Fund SAS 265,605,201 share interest.

Financial Instruments

The information relating to the Group's financial assets and its financial risk management can be found in note 18 to the consolidated financial statements.

Subsequent Events

See note on page 91.

Graham Lyon

Executive Chairman

22 April 2020

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 are 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.

Graham Lyon

Executive Chairman

22 April 2020

Independent Auditor's Report

Opinion

We have audited the financial statements of Sound Energy plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2019, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2019;
- the Group and Company statements of financial position as at 31 December 2019;
- the Group and Company statements of cash flows 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 2019 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 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.

Material uncertainty in relation to going concern

We draw attention to Note 1 in the financial statements. The Company's cash flow for the next twelve-month period to April 2021, indicated that the additional funding will be required to enable the Company to meet its obligations. In addition, the Company's €28.8 million bond is due for settlement on 21 June 2021 and a refinancing or funding will be required before the due date to enable the Company to settle the debt.

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

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 £1.9m (2018: £2.0m), based on 1% of 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 (2018: £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.

In addition to the matter described in the Material uncertainty in relation to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. 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
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 totalled £6.0m. The carrying value of the exploration and evaluation assets was £30.7m at 31 December 2019. We consider the risk that exploration assets are impaired.	We reviewed management's assessment which concluded that there are no facts or circumstances that suggest the carrying amount of the assets exceeds the recoverable amount. In considering this assessment we performed the following: • 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 • Discussed plans and intentions with management
Impairment of development and production assets The Group has a significant amount of development and production assets which totalled £146.9m at 31 December 2019. We consider the risk that development and production assets are impaired.	We reviewed management's assessment which included their internal model which concluded that there are no facts or circumstances that suggest the carrying amount of the assets exceeds the recoverable amount. In considering this assessment we performed the following: • Verified the technical feasibility an commercial viability is demonstrated by IFRS 6 • Obtained management's impairment assessment carried out during the year • 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 • Reviewed the board minutes, budgets and other operational plans setting out the Group's plans in regard to the exclusivity award • Discussed plans and intentions with management

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 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 52, 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 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 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
22 April 2020

Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	2019 £'000s	2018 £'000s
Continuing operations			
Revenue		–	–
Exploration costs		**(6,570)**	(4,058)
Gross loss		**(6,570)**	(4,058)
Administrative expenses		**(6,064)**	(8,857)
Group operating loss from continuing operations	3	**(12,634)**	(12,915)
Finance revenue	6	**102**	233
Foreign exchange (loss)/gain		**(1,101)**	3,387
Other losses			
– derivative financial instruments		–	(80)
External interest costs	23	**(2,787)**	(2,374)
Loss for the year from continuing operations before taxation		**(16,420)**	(11,749)
Tax credit/(expense)	7	–	–
Loss for the year from continuing operations		**(16,420)**	(11,749)
Discontinued operations			
Profit for the year from discontinued operations	24	–	4,953
Total loss for the year		**(16,420)**	(6,796)
Other comprehensive (loss)/income			
Items that may subsequently be reclassified to the profit and loss account			
Foreign currency translation (loss)/gain		**(4,256)**	7,614
Total comprehensive (loss)/profit for the year		**(20,676)**	818
(Loss)/profit for the year attributable to:			
Owners of the company		**(20,676)**	818
Non-controlling interests		–	–

	Notes	2019 Pence	2018 Pence
Basic and diluted loss per share for the year from continuing and discontinued operations	8	**(1.54)**	(0.66)
Attributable to the equity shareholders of the parent (pence)	8	**(1.54)**	(0.66)
Basic and diluted loss per share for the year from continuing operations	8	**(1.54)**	(1.14)
Attributable to the equity shareholders of the parent (pence)	8	**(1.54)**	(1.14)

Consolidated Balance Sheet

as at 31 December 2019

	Notes	2019 £'000s	2018 £'000s
Non-current assets			
Property, plant and equipment	9	**147,342**	151,005
Intangible assets	10	**30,784**	32,008
Interest in Badile land	24	**936**	1,618
		179,062	184,631
Current assets			
Inventories		**1,014**	929
Other receivables	12	**1,492**	3,365
Prepayments		**41**	178
Cash and short term deposits	13	**4,608**	20,536
		7,155	25,008
Total assets		**186,217**	209,639
Current liabilities			
Trade and other payables	14	**2,444**	10,068
Lease liabilities	15	**183**	–
		2,627	10,068
Non-current liabilities			
Lease liabilities	15	**42**	–
Loans due in over one year	23	**21,235**	20,476
		21,277	20,476
Total liabilities		**23,904**	30,544
Net assets		**162,313**	179,095
Capital and reserves			
Share capital and share premium		**24,835**	22,600
Accumulated surplus		**135,481**	150,242
Warrant reserve		**4,090**	4,090
Foreign currency reserve		**(2,093)**	2,163
Total equity		**162,313**	179,095

The financial statements were approved by the Board and authorised for issue on 22 April 2020 and were signed on its behalf by:

Mohammed Seghiri Director

Graham Lyon Director

The accounting policies on pages 64 to 70 and notes on pages 64 to 91 form part of these financial statements.

Company Balance Sheet

as at 31 December 2019

	Notes	2019 £'000s	2018 £'000s
Non-current assets			
Property, plant and equipment		105	34
Fixtures and fittings		31	79
Software		2	24
Interest in Badile land	24	936	1,618
Investments in subsidiaries	11	172,127	171,708
		173,201	173,463
Current assets			
Other receivables	12	10	834
Prepayments		34	169
Cash and short term deposits	13	1,802	11,160
		1,846	12,163
Total assets		175,047	185,626
Current liabilities			
Trade and other payables	14	1,091	1,901
Leases		55	–
		1,146	1,901
Non-current liabilities			
Leases		30	–
Loans due in over one year	23	21,235	20,476
		21,265	20,476
Total liabilities		22,411	22,377
Net assets		152,636	163,249
Capital and reserves attributable to equity holders of the Company			
Share capital and share premium		24,835	22,600
Accumulated surplus		123,711	136,559
Warrant reserve		4,090	4,090
Total equity		152,636	163,249

The Company's accumulated surplus includes loss for the year of £14.5 million (2018: £4.0 million). 2019 loss is higher than 2018 primarily due to £5.6 million foreign exchange losses recognised compared to £10.4 million exchange gains recognised in 2018.

The financial statements were approved by the Board and authorised for issue on 22 April 2020 and were signed on its behalf by:

Mohammed Seghiri Director

Graham Lyon Director

Group and Company Statements of Changes in Equity

for the year ended 31 December 2019

Group

	Notes	Share capital £'000s	Share premium £'000s	Accumulated surplus £'000s	Warrant reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2019		10,551	12,049	150,242	4,090	2,163	179,095
Total loss for the year		–	–	(16,420)	–	–	(16,420)
Other comprehensive income		–	–	–	–	(4,256)	(4,256)
Total comprehensive loss		–	–	(16,420)	–	(4,256)	(20,676)
Issue of share capital	16	245	2,228	–	–	–	2,473
Share issue costs		–	(238)	–	–	–	(238)
Share based payments	21	–	–	1,659	–	–	1,659
At 31 December 2019		**10,796**	**14,039**	**135,481**	**4,090**	**(2,093)**	**162,313**

Company

	Notes	Share capital £'000s	Share premium £'000s	Accumulated surplus £'000s	Warrant reserve £'000s	Total equity £'000s
At 1 January 2019		10,551	12,049	136,559	4,090	163,249
Total loss for the year		–	–	(14,507)	–	(14,507)
Issue of share capital		245	2,228	–	–	2,473
Share issue costs		–	(238)	–	–	(238)
Share based payments	21	–	–	1,659	–	1,659
At 31 December 2019		**10,796**	**14,039**	**123,711**	**4,090**	**152,636**

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		392	12,687	–	–	–	13,079
Share issue costs		–	(570)	–	–	–	(570)
Reclassification to profit and loss account on Italy divestment		–	–	–	–	(1,533)	(1,533)
Reclassification on share premium account cancellation	16	–	(277,738)	277,738	–	–	–
Distribution to shareholders on Italy divestment		–	–	(7,994)	–	–	(7,994)
Share based payments	21	–	–	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		–	–	(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		392	12,687	–	–	13,079
Share issue costs		–	(570)	–	–	(570)
Reclassification on share premium account cancellation	16	–	(277,738)	277,738	–	–
Distribution to shareholders on Italy divestment		–	–	(7,994)	–	(7,994)
Share based payments	21	–	–	2,802	–	2,802
At 31 December 2018		10,551	12,049	136,559	4,090	163,249

Consolidated Cash Flow Statement

for the year ended 31 December 2019

	Notes	2019 £'000s	2018 £'000s
Cash flow from operating activities			
Cash flow from operations		**(10,909)**	(281)
Interest received		**102**	259
Net cash flow from operating activities		**(10,807)**	(22)
Cash flow from investing activities			
Capital expenditure and disposals		**(1,011)**	(937)
Exploration expenditure		**(5,401)**	(8,855)
Disposal of Italian operations		**761**	(2,655)
Net cash flow from investing activities		**(5,651)**	(12,447)
Cash flow from financing activities			
Net proceeds from equity issue		**2,235**	12,218
Interest payments	23	**(1,266)**	(1,274)
Lease payments		**(195)**	-
Net cash flow from financing activities		**774**	10,944
Net decrease in cash and cash equivalents		**(15,684)**	(1,525)
Net foreign exchange difference		**(244)**	50
Cash and cash equivalents at the beginning of the year		**20,536**	22,011
Cash and cash equivalents at the end of the year	13	**4,608**	20,536

Notes to Cash Flow Statement

for the year ended 31 December 2019

	Notes	2019 £'000s	2018 £'000s
Cash flow from operations reconciliation			
Loss before tax from continuing operations		**(16,420)**	(11,749)
Profit before tax from discontinued operations		**-**	4,953
Total loss for the year before tax		**(16,420)**	(6,796)
Finance revenue		**(102)**	(259)
Exploration expenditure written off and impairment of intangible assets		**6,570**	4,058
Impairment of interest in Badile land		**616**	-
Increase/(decrease) in accruals and short term payables		**(7,773)**	1,078
Depreciation		**425**	164
Share based payments charge and bonuses paid in shares		**1,659**	3,094
Increase in drilling inventories		**(85)**	(299)
Loss on derivative financial instruments		**-**	80
Gain on disposal of Italy operations		**-**	(3,684)
Foreign currency translation gain reclassified from other comprehensive income		**-**	(1,533)
Finance costs and exchange adjustments		**3,888**	(1,013)
Decrease in receivables and prepayments		**313**	4,829
Cash flow from operations		**(10,909)**	(281)

Non-cash transactions during the year included the issue of 40,915 ordinary shares to a former employee under the Company's RSU plan. In 2018, non-cash transactions 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.

The Group has provided $3.35 million (2018: $3.35 million) to the Moroccan Ministry of Petroleum to guarantee the Group's minimum work programme obligations. The cash is held in a bank account under the control of the Company and as the Group expects the funds to be released as soon as the commitment is fulfilled on this basis the amount remains included within cash and cash equivalents.

Company Cash Flow Statement

for the year ended 31 December 2019

	Notes	2019 £'000s	2018 £'000s
Cash flow from operating activities			
Cash flow from operations		**(4,586)**	(5,261)
Interest received		**46**	166
Net cash flow from operating activities		**(4,540)**	(5,095)
Cash flow from investing activities			
Capital expenditure and disposals		**–**	(14)
Badile VAT refund received		**761**	–
Cash advances to subsidiaries		**(6,406)**	(11,608)
Net cash flow from investing activities		**(5,645)**	(11,622)
Cash flow from financing activities			
Net proceeds from equity issue		**2,235**	12,218
Interest payments		**(1,266)**	–
Lease payments		**(59)**	(1,274)
Net cash flow from financing activities		**910**	10,944
Net decrease in cash and cash equivalents		**(9,275)**	(5,773)
Net foreign exchange difference		**(83)**	364
Cash and cash equivalents at the beginning of the year		**11,160**	16,569
Cash and cash equivalents at the end of the year	13	**1,802**	11,160

Notes to Cash Flow Statement

for the year ended 31 December 2019

	Notes	2019 £'000s	2018 £'000s
Cash flow from operations reconciliation			
Loss before tax		**(14,507)**	(3,980)
Impairment of investments in subsidiaries		**–**	1,098
Impairment of interest in Badile land		**616**	–
Intragroup recharges		**(475)**	(1,202)
Finance revenue		**(46)**	(166)
Decrease in receivables and prepayments		**198**	1,536
Decrease in accruals and short term payables		**(810)**	(456)
Depreciation		**149**	118
Share based payments charge and bonuses paid in shares		**1,659**	3,094
(Decrease)/increase in expected credit loss allowance on intercompany loans	11	**(260)**	2,135
Loss on derivative financial instruments		**–**	80
Finance costs and exchange adjustments		**8,890**	(7,518)
Cash flow from operations		**(4,586)**	(5,261)

Non-cash transactions during the year included the issue of 40,915 ordinary shares to a former employee under the Company's RSU plan. In 2018, non-cash transactions 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.

Notes to the Financial Statements

for the year ended 31 December 2019

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 2019 were authorised for issue by the Board of Directors on 22 April 2020.

Going concern

As at 31 December 2019, the Group's cash balance was £4.6 million (including approximately £2.5 million held as guarantee for minimum work commitments on the Company's licences). The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities and commitments in the normal course of operations. The Company is pursuing a micro-LNG early production plan for its Tendrara Production Concession ahead of the full development plan whilst continuing discussions with third parties for a partial sale of its Eastern Morocco Portfolio. The Company initiated a structural cost reduction programme in early 2019 to conserve cash resources and meet its ongoing obligations including settlement of coupon interest on the Company's €28.8 million bond. In January 2020, the Company received £1.3 million net proceeds from an equity raise. The Company's cashflow forecast for the twelve-month period to April 2021 indicates that additional funding will be required to enable the Company to meet its obligations. The Company's €28.8 million bond is due for settlement on 21 June 2021 and a refinancing or funding will be required before the due date to enable the Company to settle the debt.

COVID-19 pandemic has not had a significant, immediate impact on the Company's operations but the Directors are aware that if the current situation becomes prolonged then this may change, in particular it could delay the Company's micro-LNG strategy implementation and the ability of the Company to raise additional funds through an equity raise, both would impact the Company's liquidity.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not include adjustments that would be required if the Company was unable to continue as a going concern. The Directors have formed a judgement based on the Company's proven success in raising capital and a review of the strategic options available to the Company, that the going concern basis should be adopted in preparing the consolidated financial statements.

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 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. In considering whether development and production assets are impaired the Group considers significant declines in the market capitalisation of the Company and whether this indicates existence of an impairment.

1 Accounting policies continued

If those indicators are met a full impairment test is performed. During the year the TE-10 well drilled at the Group's Tendrara licence, onshore Morocco was suspended as no commercial gas flow rate was achieved during the well test. An impairment charge of £6.7 million was recognised.

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.

At 31 December 2019 the Company's market capitalisation was £22.1m, which is below the Group and Company's net asset value of £162.3m and £152.6m respectively. Management consider there is a possible indication of impairment of the Group's and Company's assets. Included above is management's consideration of impairment of the E&E assets. A significant portion of the Group's net assets is the carrying value of the development and producing assets and disclosures relating to management's assessment regarding potential impairment are included in note 9 on the basis that the recoverability of the investment in subsidiaries in the Company balance sheet is linked to the value of the development and producing assets as ultimately the cashflows these generate will determine the subsidiaries ability to pay returns to the Company. As detailed in note 9, following management's assessment, no impairment is required.

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 (note 17).

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.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Other sources of estimate concern IFRS 9 on intercompany loans at parent Company level (note 11) and share based payments (note 21) but are not considered likely subject to material change in the coming 12 months.

(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 IFRS 9 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.

Notes to the Financial Statements

for the year ended 31 December 2019

1 Accounting policies continued

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.

On consolidation, 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.

(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.

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.

1 Accounting policies continued

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.

(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 include restricted cash that has been placed as guarantee for commitments on the licences.

Notes to the Financial Statements

for the year ended 31 December 2019

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 adopted IFRS 16 which became effective on 1 January 2019. As allowed by IFRS 16, the Group used the modified retrospective method and therefore the comparatives were not restated and the reclassifications and adjustments arising from the adoption of IFRS 16 were recognised in the opening balance sheet on 1 January 2019. The Group's leases are in respect of the UK and Morocco office premises. On adoption of IFRS 16, the Group recognised £0.4 million as lease liability and right of use assets of the same amount, adjusted for prepaid amounts relating to the lease.

These liabilities were measured at the present value of the remaining lease payments, discounted using the individual entities incremental borrowing rates. The weighted average incremental borrowing rate was 5.6%.

The Group elected to recognise as an expense on a straight-line basis for short-term leases (lease term of 12 months or less) and leases of low value assets. During the year, depreciation of right-of-use assets recorded in the income statement was £0.2 million. The finance charge on unwind of lease liabilities was not material. Further information on the leases is provided in note 15.

1 Accounting policies continued

Amendments to published standards

A number of amendments to standards and interpretations have been issued but had no material impact on the Group.

New accounting policies adopted by the Group

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

I. Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

II. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the assessment to purchase the underlying asset.

III. Short-term leases and leases of low value assets

The Group applies the short-term lease recognition exemption to its short-term leases of vehicles and rented staff housing (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(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.

Notes to the Financial Statements

for the year ended 31 December 2019

(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.

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 2019, 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 segments are included in the following tables.

Segment results for the year ended 31 December 2019:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Exploration costs	–	–	(6,570)	(6,570)
Administration expenses	(6,064)	–	–	(6,064)
Operating loss segment result	(6,064)	–	(6,570)	(12,634)
Interest receivable	102	–	–	102
Finance costs and exchange adjustments	(3,888)	–	–	(3,888)
Loss for the period before taxation from continuing operations	(9,850)	–	(6,570)	(16,420)

The segments assets and liabilities at 31 December 2019 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	1,530	146,876	30,656	179,062
Current assets	4,795	–	2,360	7,155
Liabilities attributable to continuing operations	(22,636)	(9)	(1,259)	(23,904)

2 Segment Information continued

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

	UK £'000s	Morocco £'000s
Development and production assets	–	146,876
Interest in Badile land	936	–
Fixtures, fittings and office equipment	46	195
Right-of-use assets	90	135
Exploration and evaluation assets	–	30,656
Software	2	126
Total	1,074	177,988

Segment results for the year ended 31 December 2018 were as follows:

	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 are 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

3 Operating Loss

	2019 £'000s	2018 £'000s
Operating loss is stated after charging:		
Depreciation	425	164
Employee costs	3,798	5,669
Impairment charges and exploration costs	6,570	4,058

Notes to the Financial Statements

for the year ended 31 December 2019

4 Auditor's Remuneration

	2019 £'000s	2018 £'000s
Fees payable to the Company's Auditor for the audit of Company's annual accounts	**52**	50
Fees payable to the Company's Auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**5**	5
Tax services	**6**	6
	63	61

5 Employee Costs

	2019 £'000s	2018 £'000s
Staff costs, including Executive Directors		
Share based payments	**1,659**	2,802
Wages and salaries	**2,967**	5,581
Social security costs	**321**	664
Employee benefits	**132**	362
Employee costs capitalised to development and intangible assets	**(1,281)**	(3,740)
Total	**3,798**	5,669

	2019 Number	2018 Number
The average monthly number of employees (including Executive Directors) was:		
Technical and operations	**8**	14
Management and administration	**17**	18
Total	**25**	32

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 £1.3 million (2018: £3.7 million) of the employee costs was capitalised. The 2018 comparatives have been amended to exclude employment costs of seconded staff who are not employees of the Company.

6 Finance Revenue

	2019 £'000s	2018 £'000s
Interest on cash at bank and short term deposits	**102**	233
	102	233

7 Taxation

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

	2019 £'000s	2018 £'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

	2019 £'000s	2018 £'000s
Loss before tax	(16,420)	(11,749)
Tax (charge)/credit charged at UK corporation tax rate of 19% (2018: 19%)	3,120	2,232
Tax effect of:		
Expenses not deductible for tax purposes	(396)	(564)
Temporary differences not recognised	(2,883)	(1,645)
Differences in overseas tax rates	159	(23)
Total tax (charge)/credit	–	–

Deferred tax assets have not been recognised in respect of tax losses available due to uncertainty of utilisation of those assets. Unrecognised tax losses as at 31 December 2019 were estimated to be approximately £8.9 million (2018: £5.3 million).

Notes to the Financial Statements

for the year ended 31 December 2019

8 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:

	2019 £'000s	2018 £'000s
Loss after tax from continuing operations	(16,420)	(11,749)
Profit/(loss) after tax from discontinued operations	–	4,953
Total loss for the year	(16,420)	(6,796)

	2019 Million	2018 Million
Weighted average shares in issue	1,068	1,035
Dilutive potential ordinary shares	–	18
	1,068	1,053

Basic profit/(loss) per share	2019 Pence	2018 Pence
Basic loss per share from continuing operations	(1.54)	(1.14)
Basic profit/(loss) per share from discontinued operations	–	0.48
Basic loss per share from continuing and discontinued operations	(1.54)	(0.66)

Diluted profit/(loss) per share	2019 Pence	2018 Pence
Diluted loss per share from continuing operations	(1.54)	(1.14)
Diluted profit/(loss) per share from discontinued operations	–	0.47
Diluted loss per share from continuing and discontinued operations	(1.54)	(0.66)

In 2018, the effect of the potential dilutive shares noted above on the earnings per share from continuing operations would have been anti-dilutive and therefore were not included in the above calculation of diluted earnings per share from continuing operations.

9 Property, Plant and Equipment

	Development and production assets £'000s	Fixtures, fittings and office equipment £'000s	Right-of-use assets £'000s	2019 £'000s
Cost				
At 1 January 2019	150,600	794	–	**151,394**
Additions	1,079	–	414	**1,493**
Exchange adjustments	(4,803)	(7)	(4)	**(4,814)**
Disposal		(2)	–	**(2)**
At 31 December 2019	146,876	785	410	**148,071**
Depreciation				
At 1 January 2019	–	389	–	**389**
Exchange adjustments	–	1	–	**1**
Charge for period	–	155	185	**340**
Disposal	–	(1)	–	**(1)**
At 31 December 2019	–	544	185	**729**
Net book amount	146,876	241	225	**147,342**

	Development and production assets £'000s	Fixtures, fittings and office equipment £'000s	Right-of-use assets £'000s	2018 £'000s
Cost				
At 1 January 2018	-	646	–	646
Transfer from intangible assets	146,245	–	–	146,245
Additions	755	127	–	882
Exchange adjustments	3,600	25	–	3,625
Disposal	-	(4)	–	(4)
At 31 December 2018	150,600	794	–	151,394
Depreciation				
At 1 January 2018	–	274	–	274
Exchange adjustments	–	21	–	21
Charge for period	–	96	–	96
Disposal	–	(2)	–	(2)
At 31 December 2018	–	389	–	389
Net book amount	150,600	405	–	151,005

Right-of-use assets were recognised following the adoption of IFRS 16 leases, during the year. Further information is provided in note 15.

The Company's market capitalisation was £22.1 million as at 31 December 2019. The Company received an offer to sell approximately 24.4% of its interest in Eastern Morocco licences to a third party, for $112.8 million (NPV: $104.8 million). The Company's internal model for TE-5 Horst show that the Company's share of the remaining 23.3% of its interest in Eastern Morocco has an NPV of $148.9 million. Therefore, the total NPV is $253.7 million (£192.4 million) which provides significant headroom over the carrying value of the development of £146.9 million as at 31 December 2019. Therefore, no impairment exists.

Notes to the Financial Statements

for the year ended 31 December 2019

10 Intangibles

	Software £'000s	Exploration & Evaluation Assets £'000s	2019 £'000s
Cost			
At 1 January 2019	**360**	**36,052**	**36,412**
Additions	**9**	**5,965**	**5,974**
Exchange adjustments	**(10)**	**(745)**	**(755)**
At 31 December 2019	**359**	**41,272**	**41,631**
Impairment			
At start of the year	**151**	**4,253**	**4,404**
Charge for the year	**85**	**6,570**	**6,655**
Exchange adjustments	**(5)**	**(207)**	**(212)**
At end of the year	**231**	**10,616**	**10,847**
Net book amount at 31 December 2019	**128**	**30,656**	**30,784**

	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	–	(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

Exploration and evaluation assets

Details regarding the geography of the Group's 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 2019 the Directors have:

a. 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;

b. determined that further E&E expenditure is either budgeted or planned for all licences;

c. not decided to discontinue exploration activity due to there being a lack of quantifiable mineral resource; and

d. 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.

10 Intangibles continued

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 km^2 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 £0.5 million (2018: £0.6 million).

11 Investment in Subsidiaries

	2019			2018		
	Intercompany loans £'000s	**Cost of shares in subsidiaries £'000s**	**Total £'000s**	Intercompany loans £'000s	Cost of shares in subsidiaries £'000s	Total £'000s
Cost						
At 1 January	**189,093**	**–**	**189,093**	165,936	12,313	178,249
Additions	**6,881**	**–**	**6,881**	12,810	–	12,810
Transfer of shares to fellow group company	**–**	**–**	**–**	71	(71)	–
Disposal	**–**	**–**	**–**	(76)	(12,242)	(12,318)
Exchange adjustment	**(6,722)**	**–**	**(6,722)**	10,352	–	10,352
At 31 December	**189,252**	**–**	**189,252**	189,093	–	189,093
Credit loss allowance						
At 1 January	**17,385**	**–**	**17,385**	15,250	–	15,250
(Decrease)/increase during the year	**(260)**	**–**	**(260)**	2,135	–	2,135
At 31 December	**17,125**	**–**	**17,125**	17,385	–	17,385
Net book amount at 31 December	**172,127**	**–**	**172,127**	171,708	–	171,708

The subsidiary companies of the Company at 31 December 2019, 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 SARLAU**	Morocco	Exploration Company	Mahaj Ryad Center, Bd Al Arz. Building 6, 3rd floor. Hay Ryad, Rabat 10100
Sound Energy New Co Limited	UK	Dormant	4 Pembroke Road, Sevenoaks, TN13 IXR, UK
Sound Energy Morocco East Limited	UK	Exploration Company	4 Pembroke Road, Sevenoaks, TN13 IXR, UK
Sound Energy Morocco South Limited	UK	Exploration Company	4 Pembroke Road, Sevenoaks, TN13 IXR, UK
Sound Energy Meridja Limited	UK	Exploration Company	4 Pembroke Road, Sevenoaks, TN13 IXR, UK

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

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

Notes to the Financial Statements

for the year ended 31 December 2019

11 Investment in Subsidiaries continued

The Company applies IFRS 9 in calculating expected credit losses on intercompany loans and recognises a loss allowance based on lifetime expected credit loss at each reporting date.

The Company uses available external data on oil and gas industry default rates, where available, or speculative bond default rates. During the year the Company used a cumulative default rate of 9% (2018: 9%) obtained from publicly available data published by leading credit rating agencies. £0.3 million release (2018: £2.1 million charge) was recognised in the income statement.

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	2019 Number	2018 Number
Gas exploration	UK	Morocco	**3**	3
Holding companies	UK	UK	**1**	1
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

	2019 £'000s	2018 £'000s
UK VAT	**10**	30
Morocco VAT	**654**	710
Other receivables	**828**	2,625
	1,492	3,365

Currency Analysis

	2019 £'000s	2018 £'000s
US dollar	**692**	1,313
Euro	**–**	790
GBP sterling	**10**	44
Moroccan dirham	**790**	1,218
	1,492	3,365

Company

	2019 £'000s	2018 £'000s
UK VAT	**10**	30
Other receivables	**–**	804
	10	834

Currency Analysis

	2019 £'000s	2018 £'000s
GBP sterling	**10**	44
Euro	**–**	790
Total	**10**	834

13 Cash and Cash Equivalents

Group

	2019 £'000s	2018 £'000s
Cash at bank and in hand	**1,754**	9,417
Cash equivalents:		
Short term deposits	**2,854**	11,119
Carrying amount 31 December	**4,608**	20,536
Being:		
In US dollar	**3,636**	11,365
In euros	**564**	1,951
In sterling	**376**	6,644
In Moroccan dirham	**32**	576
Total	**4,608**	20,536

Company

	2019 £'000s	2018 £'000s
Cash at bank and in hand	**1,494**	2,725
Cash equivalents:		
Short term deposits	**308**	8,435
Carrying amount 31 December	**1,802**	11,160
Being:		
In US dollar	**905**	2,700
In euros	**564**	1,950
In sterling	**333**	6,510
Total	**1,802**	11,160

The Group cash and cash equivalents includes $3.35 million (£2.54 million) (2018 : $3.35 million (£2.63 million)) held as guarantee for the Group's Moroccan licences minimum work commitments.

14 Trade and Other Payables

Group

	2019 £'000s	2018 £'000s
Trade payable	**1,312**	4,847
Payroll taxes and social security	**81**	288
Accruals	**1,051**	4,933
	2,444	10,068

Notes to the Financial Statements

for the year ended 31 December 2019

14 Trade and Other Payables continued

Currency Analysis

	2019 £'000s	2018 £'000s
US dollar	**1,192**	6,719
Euro	**810**	988
Sterling	**270**	1,551
Moroccan dirham	**172**	810
Total	**2,444**	10,068

Company

	2019 £'000s	2018 £'000s
Trade payable	**325**	582
Payroll taxes and social security	**82**	158
Accruals	**684**	1,161
Total	**1,091**	1,901

Currency Analysis

	2019 £'000s	2018 £'000s
Sterling	**281**	673
Euro	**810**	1,228
Total	**1,091**	1,901

15 Lease Liabilities

	2019 £'000s	2018 £'000s
Amounts due within one year	**183**	–
Amounts due after more than one year	**42**	–
	225	–
The movement during the year is as below		
As at 1 January	**400**	–
Interest accretion	**25**	–
Payments	**(195)**	–
Exchange adjustments	**(5)**	–
As at 31 December 2019	**225**	–

The Group adopted IFRS 16 Leases, using the modified retrospective method with the date of initial application of 1 January 2019. As allowed by IFRS 16, the comparatives were not restated and the reclassifications and the adjustments arising from the new leasing rules were recognised in the opening balance sheet on 1 January 2019. The Group's leases are in respect of the UK and Morocco office premises.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to the office leases which were previously classified as operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the individual entities incremental borrowing rates. The weighted average incremental borrowing rate was 5.6%.

The associated right-of-use assets for the office leases were measured at an amount equal to the lease liability but adjusted for prepaid amounts relating to the lease recognised in the balance sheet as at 31 December 2018.

15 Lease Liabilities continued

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

Assets	1 January 2019 £'000s
Right-of-use assets	**400**
Prepayments	**14**
Total Assets	**414**
Liabilities	
Lease liabilities	**400**
Total Liabilities	**400**

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	1 January 2019 £'000s
Operating lease commitments as at 31 December 2018	**632**
Weighted average incremental borrowing rate as at 1 January 2019	**5.6%**
Discounted operating lease commitments as at 1 January 2019	**585**
Less:	
Commitments relating to short-term leases	**(185)**
Lease liabilities as at 1 January 2019	**400**

The right-of-use assets are reported within property, plant and equipment (note 9). During the year ended 31 December 2019, the amount recognised as short-term lease expenses was not material.

16 Capital and Reserves

Group and Company

	2019 Number of shares	£'000s	2018 Number of shares	£'000s
Ordinary shares – 1p	**1,079,612,264**	**10,796**	1,055,107,172	10,551

	2019 Number of shares	2018 Number of shares
At 1 January	**1,055,107,172**	1,015,869,699
Issued during the year for cash	**24,464,177**	38,460,587
Non-cash share issue	**40,915**	776,886
At 31 December	**1,079,612,264**	1,055,107,172

Non-cash transactions during the year included the issue of 40,915 shares following vesting of RSU previously awarded to a former employee of the Company.

Notes to the Financial Statements

for the year ended 31 December 2019

16 Capital and Reserves continued

Share issues

During the year ended 31 December 2019, the Company issued 8,849 shares following warrant exercises at an exercise price of 24p per share.

On 16 June 2019, the Company announced that it would issue 23,830,328 shares following a placing at 10p per share.

On 16 July 2019, the Company announced the issue of 40,915 shares following vesting of RSU previously awarded to a former employee of the Company.

During the year ended 31 December 2019, the Company issued 625,000 shares as a result of share options exercised by a former employee of the Company. The shares were issued at an exercise price of 14.07p per share.

Subsequent to the year-end the Company issued 75 million shares at a price of 2 pence per share following a placing announced in December 2019. The net proceeds received from the placing was £1.3 million. 1,425,000 shares were issued to a third party to settle fees relating to the placing.

In 2018 the Company sought and was granted a court order approving a capital reduction following the cancellation of the share premium account. This resulted in the transfer of £277.7 million to distributable reserves.

17 Related Party Disclosures

Key management

As at 31 December 2019, there were three key management personnel other than Directors of the Company (2018: three). 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.

	2019 £'000s	2018 £'000s
Salaries and employee benefits	**1,492**	2,616
Share based payments	**1,283**	1,944
	2,775	4,560

Directors' interest in employee share options

At 31 December 2019, the Acting 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 2019 have the following expiry dates and exercise prices:

	Expiry Date	Exercise price Pence	2019 Number	2018 Number
2016	2021	60p	**500,000**	500,000

Share options held by the executive members of the Board of Directors at 31 December 2019 have the following expiry dates and exercise prices:

	Expiry Date	Exercise price Pence	2019 Number	2018 Number
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

17 Related Party Disclosures continued

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

	Expiry Date	Exercise price Pence	2019 Number	2018 Number
2017	2022	67p	**700,000**	700,000
2017	2022	70p	**1,500,000**	1,500,000
2017	2022	52.25p	**500,000**	500,000

Key management (including Executive Directors) interest in RSU Awards

	Settlement date	2019 Number	2018 Number
2018	2021	**2,096,554**	2,012,750
2019	2022	**462,475**	–

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 £9,018 (2018: £637) 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 £3,847 (2018: £5,640) in respect of travel expenses paid by the Company on behalf of Coro.

18 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 23 (Loans and Borrowings).

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

	2019 £'000s	2018 £'000s
Financial assets		
Cash and short term deposits	**4,608**	20,536
Other receivables and interest in Badile land	**2,428**	4,983
	7,036	25,519
Financial liabilities		
Trade and other payables	**2,444**	10,068
Loans and borrowings held at amortised costs	**21,235**	20,476
	23,679	30,544

Notes to the Financial Statements

for the year ended 31 December 2019

18 Financial Instruments Risk Management continued

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.

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:

Market risk

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.

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.

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

	2019 £'000s	2018 £'000s
Borrowings	**(21,235)**	(20,476)
Cash and cash equivalents	**4,608**	20,536
Net (debt)/cash	**(16,627)**	60
Total capital excluding reserves:		
Equity share capital	**10,796**	10,551
Equity share premium	**14,039**	12,049
Shareholders' equity	**162,313**	179,095

19 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.

		2019		2018	
	Increase/ (decrease) in rate	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%	**(157)**	**(6,821)**	(298)	(7,062)
Increase in EUR/GBP exchange rate	5%	**(35)**	**–**	(169)	–
Increase in MAD/GBP exchange rate	5%	**(33)**	**–**	(49)	–
Decrease in USD/GBP exchange rate	(5%)	**157**	**6,821**	298	7,062
Decrease in EUR/GBP exchange rate	(5%)	**35**	**–**	169	–
Decrease in MAD/GBP exchange rate	(5%)	**33**	**–**	49	–

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 manage cash resources to ensure that sufficient funding is in place to settle obligations as they fall due. Disclosure on going concern consideration is provided in note 1. For further details on the maturity of financial liabilities see note 23.

Notes to the Financial Statements
for the year ended 31 December 2019

20 Financial Instruments

Cash and short term deposits

	Floating rate £'000s	Fixed rate £'000s	Interest-free £'000s	Total £'000s	Weighted average rate %
2019					
Sterling	**351**	**–**	**25**	**376**	**0.09**
Euro	**–**	**–**	**564**	**564**	**–**
US dollar	**1,973**	**–**	**1,663**	**3,636**	**1.41**
Moroccan dirham	**–**	**–**	**32**	**32**	**–**
	2,324	**–**	**2,284**	**4,608**	
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	

Euro cash balances have been converted at the exchange rate of €1.1757: £1.00 (2018: €1.1128: £1.00). Moroccan dirham cash balances have been converted at the exchange rate of MAD12.646: £1.00 (2018: MAD12.1940: £1.00). US dollar cash balances have been converted at the exchange rate of US$1.3189: £1.00 (2018: US$1.2736: £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.

21 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 Share Option Plan be replaced with an RSU Plan. The RSU awards are made on an annual basis, with a three-year vesting period and may contain performance conditions, and at vesting the awards will be satisfied in Sound Energy shares. The RSU awards are granted at nil cost to the Directors and key staff.

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

Group and Company

	2019 £'000s	2018 £'000s
Expense arising from equity-settled share options and RSU awards	**1,659**	2,802

Share options

No share options were granted in 2019 and 2018.

21 Share Based Payments continued

	2019 Number	Weighted average exercise price (pence)	2018 Number	Weighted average exercise price (pence)
Share options outstanding at the start of the year	**24,950,000**	**49.15**	33,400,000	41.04
Share options granted	**–**	**–**	–	–
Share options expired	**(1,100,000)**	**58.00**	(3,500,000)	66.00
Share options exercised	**(625,000)**	**14.07**	(4,950,000)	14.87
Share options outstanding at the end of the year	**23,225,000**	**44.93**	24,950,000	49.15

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2019 was 23p (2018: 37.54p). The weighted average remaining contractual life of the options outstanding at 31 December 2019 was 1.9 years (2018: 3.1 years).

11.4 million share options were exercisable as at 31 December 2019 (2018: 3.1 million). If all equity share options were exercisable immediately, new ordinary shares equal to approximately 2.2% (2018: 2.4%) of the shares currently in issue, would be created.

RSU Awards

During the year 828,978 (2018: 2,809,956) RSU awards were granted 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. RSU awards in 2019 may vest upon the commercialisation of the Company's Eastern Morocco portfolio.

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: 8.72 pence (2018: 41.84 pence)
- Average risk free interest rate: 0.57% (2018: 0.93%)
- Expected volatility: 75.42% (2018: 60.51%)
- Assumed forfeitures: 0% (2018: 0%)
- Expected dividends: nil (2018: nil)

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 8.71p (2018: 41.83p).

The weighted average remaining contractual life of the RSU awards outstanding as at 31 December 2019 was 1.25 years (2018: 2.01 years)

If all the RSU awards were exercisable immediately, new ordinary shares equal to 0.3% (2018: 0.3%) of the shares currently in issue, would be created.

	2019 Number	2018 Number
RSU awards outstanding at the start of the year	**2,733,240**	–
Granted during the year	**828,978**	2,809,956
Expired during the year	**(141,284)**	(76,716)
Vested during the year	**(40,915)**	–
RSU awards outstanding at the end of the year	**3,380,019**	2,733,240

Notes to the Financial Statements

for the year ended 31 December 2019

21 Share Based Payments continued

Warrants

As at 31 December 2019, the Company had the following outstanding warrants to subscribe to the Company's ordinary shares.

2019	Exercise price (pence)	Expiry date	Number At 1 January	Exercised	Number At 31 December 2019
2015 Warrants	24.00	22 May 2020	17,087,172	(8,849)	17,078,323
2016 Warrants	30.00	21 June 2021	52,411,273	–	52,411,273
			69,498,445	**(8,849)**	**69,489,596**

2018	Exercise price (pence)	Expiry date	Number At 1 January	Exercised	Number 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

22 Commitment and Guarantees

At 31 December 2019, the Group's minimum capital expenditure on its licences was approximately £2.1 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.

23 Loans and Borrowings

Group and Company

	2019 £'000s	2018 £'000s
Non-current liabilities		
5-year secured bonds		
At 1 January	**20,476**	18,566
Amortised finance charges	**3,249**	2,927
Interest payments	**(1,266)**	(1,274)
Exchange adjustments	**(1,224)**	257
At 31 December	**21,235**	20,476

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

			Non-cash changes		
2019	1 January 2019 £'000s	Cash flows £'000s	Amortised finance charges £'000s	Exchange adjustments £'000s	**31 December 2019 £'000s**
Long-term borrowings	20,476	(1,266)	3,249	(1,224)	**21,235**
Leases	400	(195)	25	(5)	**225**
Total liabilities from financing activities	20,876	(1,461)	3,274	(1,229)	**21,460**

			Non-cash changes		
2018	1 January 2018 £'000s	Cash flows £'000s	Amortised finance charges £'000s	Exchange adjustments £'000s	31 December 2018 £'000s
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

Reconciliation of external interest costs

	2019 £'000s	2018 £'000s
Amortised finance charges	**3,274**	2,927
Less capitalised interest	**(492)**	(561)
Exchange adjustments	**5**	8
Total external interest for the year	**2,787**	2,374

Notes to the Financial Statements

for the year ended 31 December 2019

24 Discontinued Operations

On 5 October 2017, the Company announced that it had entered into non-binding conditional heads of terms with Saffron Energy plc ("Saffron") and Po Valley Energy Limited under which it was proposed that the Company 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. During the year, the Company received approximately £0.8 million VAT refund from the Badile well operations and recognised £0.6 million impairment charge in respect of the interest in Badile land due to decline in expected sale price.

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

	2019 £'000s	2018 £'000s
Revenue	–	140
Operating costs	–	(170)
Exploration costs	–	(25)
Gross loss	–	(55)
Administrative expenses	–	(235)
Operating loss from discontinued operations	–	(290)
Finance revenue	–	26
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
Taxation	–	–
Profit/(loss) for the year after taxation from discontinued operations	–	4,953

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

	2019 £'000s	2018 £'000s
Net cash flow from operating activities	–	1,897
Net cash flow from investing activities	761	(2,655)
Net cash flow from financing activities	–	–
Net cash outflow	761	(758)

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

	2019 £'000s	2018 £'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

25 Post Balance Sheet Events

On 13 January 2020, the Company confirmed the signing of an amendment to the binding memorandum of understanding with Morocco's Office National de l'Electricité et de l'Eau Potable ("ONEE") in order to extend the period for negotiations of the final gas sales agreement ("GSA"), to 31 March 2020. On 1 April 2020, the Company confirmed that GSA negotiations were continuing and that it is was in the process of agreeing a further amendment to the MOU with ONEE in order to extend the period for negotiations of the final GSA to 30 June 2020 (the "Amendment"). Whilst the Amendment had been agreed in principle, COVID-19 related travel restrictions have meant that it has not yet been possible for the parties to enter into the Amendment and, as a result, the parties intend to enter into the Amendment as soon as is practicable.

On 27 January 2020, the Company announced the issue of 5,805,555 ordinary shares to the Company's Exploration Director in connection with the termination of his employment contract. The shares were issued at an effective issue price of 1.86 pence per share.

On 17 February 2020, the Company announced that it was continuing non exclusive discussions with a private company for partial sale of its Eastern Morocco portfolio and in parallel, the Company plans to pursue a micro LNG production plan for its concession ahead of the full field development plan.

List of Licences and Interests

		Key Project or Prospect				
Licence	Status	Name	Type	WI (%)	Area (km²)	Operator
Greater Tendrara	Permit	Greater Tendrara	Exploration	47.5	14,500	Sound Energy Morocco East
Tendrara[1]	Permit	Tendrara	Exploitation	47.5	133.5	Sound Energy Morocco East
Anoual	Permit	Anoual	Exploration	47.5	8,853.33	Sound Energy Morocco East
Sidi Moktar	Permit	Sidi Moktar	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%.

Shareholder Information

Dealing Information
Stock code – SOU.LN

Financial Calendar

Meetings
Annual General Meeting – May 2020 (Subject to Government Guidelines)

Announcements
2020 Interim – September 2020
2020 Preliminary – March 2021

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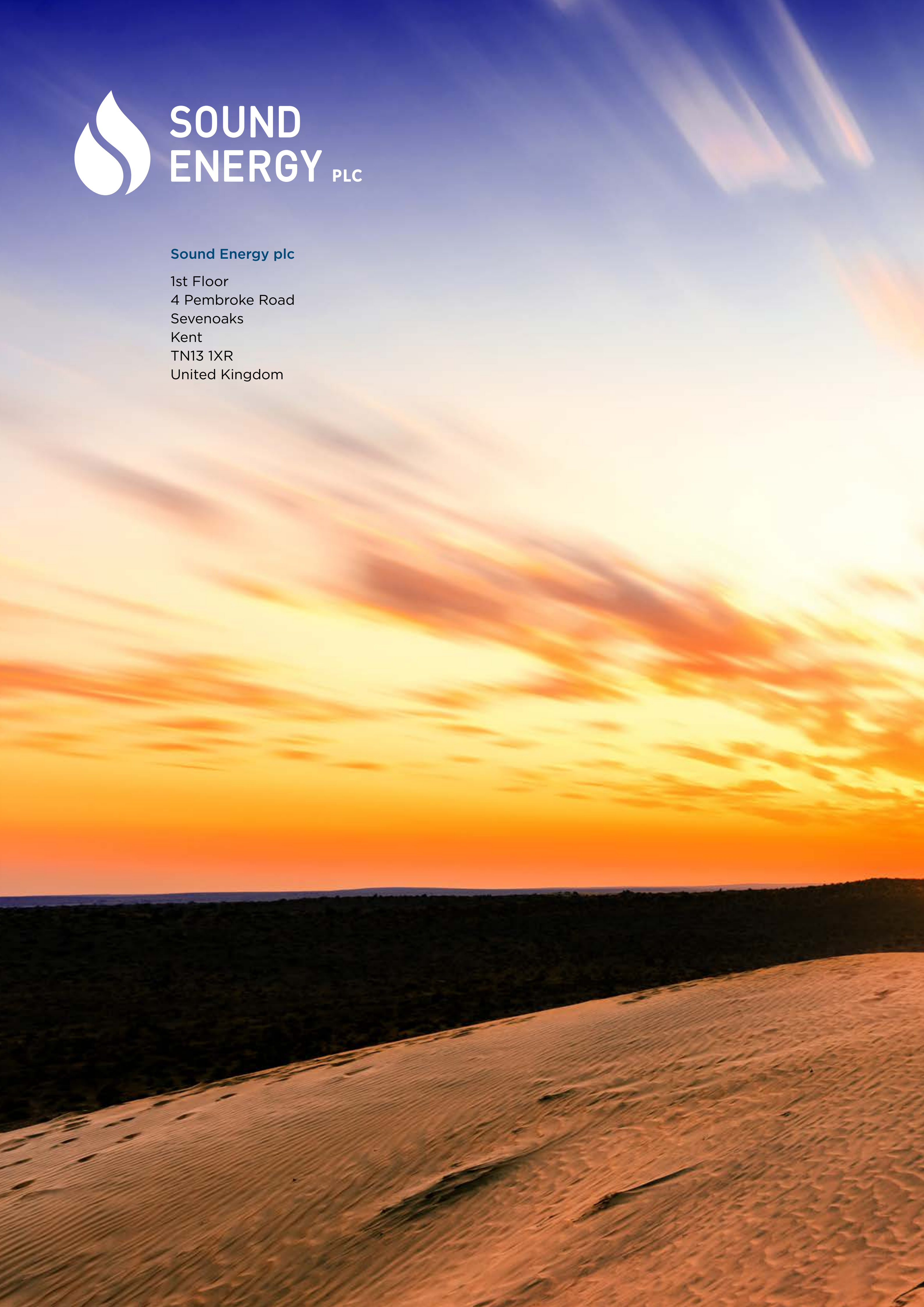

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