SOUND ENERGY PLC

Exploration & Production

Annual Report & Accounts for the year ended 31 December 2020

Resetting our strategic direction

SOUND ENERGY PLC

Refocusing our **growth ambitions**

Sound Energy is a Moroccan-focused upstream oil and gas company.

This year, we reset our strategy to transition towards becoming a cash-generating company with significant exploration potential.

Highlights

Change in leadership

Read more about **The Team** on pages 36 to 37

Advancing our Micro LNG production plan

Read more in **Portfolio Review** on pages 16 to 19

Structural cost reductions

Read more in **Financial Review** on pages 20 to 21

Refreshed strategic focuses

Read more in **Our Strategy** on pages 12 to 13

Corporate website

Get the latest reports and presentations at www.soundenergyplc.com

The LNG value chain

Sound Energy's current focus	Sectors that use LNG
1 Producing wells	4 Rail
2 Gas processing	5 Industry
3 Small-scale LNG Production	6 Agriculture
	7 Trucking
	8 Mining

Read more in our **Business Model** on pages 08 to 09

Contents

Statement from the Executive Chairman

Graham Lyon
Executive Chairman

"2020 was a pivotal year for Sound Energy, as it transitioned its leadership team and reset its strategy to move towards **becoming a cash-generating development and production company with significant exploration upside potential** from its legacy portfolio position."

2020 was a pivotal year for Sound Energy, as it transitioned its leadership team and reset its strategy in moving towards becoming a cash-generating development and production company with significant exploration upside potential from its legacy portfolio position. This work has positioned the Company well for some important potential milestones in the coming period. The leadership team with the support of the board has a clear focus as we move forward on creating material value for shareholders as we progress all phases of the Tendrara project.

The Company took swift and purposeful action to materially reduce corporate overheads and to reduce costs, as it navigated its way through the significant headwinds brought on by the Covid-19 global pandemic, which challenged the global business environment and was exacerbated in the oil and gas sector by a significant drop in commodities prices, which have since recovered.

The Company announced in July that it had concluded discussions with the previously proposed purchaser relating to a potential partial disposal of its Eastern Morocco portfolio. In furtherance of the refocused strategy, the Company announced in June that it had entered into a Heads of Terms in order to sell the Liquified Natural Gas ("LNG") associated with its Phase 1 development project to the main gas distributor in Morocco, Afriquia Gaz, and get access to partial financing. Post period, the Company successfully restructured its €28.8 million 5% senior secured loan notes to stabilise the platform upon which it can move forward to deliver its strategy. In December, the Company announced another significant step forward towards readiness for a final investment decision ("FID") on the Phase 1 development, when it announced the entry into a period of exclusivity with Italfluid Geoenergy S.r.l. ("Italfluid") for the provision of gas processing and liquefaction equipment through an innovative leasing structure.

In addition, during the period, the Company also received the Environmental Impact Assessment ("EIA") approval for the Tendrara Gas Export Pipeline and Central Processing Facility ("CPF"), whilst continuing to progress the finalisation of binding terms for the proposed Gas Sales Agreement ("GSA") with Office National de l'Electricité et de l'Eau Potable ("ONEE") for the second phase of development of the TE-5 Horst.

Eastern Morocco Partial Disposal

The Company announced in July 2020 that it was no longer in discussions with the previously proposed purchaser in relation to the potential partial disposal of the Eastern Morocco portfolio. However, having announced its phased development strategy for the Tendrara Production Concession, the Company continues to engage with other parties who have expressed interest in participating in the Company's strategy by way of a potential farm-in. Whilst a partial disposal of its Eastern Morocco portfolio is not

a strategic priority for the Company, normal business development discussions are ongoing in this regard. There is no certainty that any of these discussions will progress and the Company's current key priority is to deliver a final investment decision on its proposed Phase 1 development of the Tendrara Production Concession during 2021.

Phase 1 Micro LNG Development

In June, the Company was pleased to announce that Heads of Terms had been entered into to permit exclusive discussions to negotiate definitive agreements for both the purchase of LNG to be produced from the TE-5 Horst to the main gas distributor in Morocco, Afriquia Gaz, as well as partial financing for the Phase 1 development by the Moroccan conglomerate. An LNG Gas Sales Agreement is currently being negotiated pursuant to which the joint venture will commit over a 10-year period to supply an annual contractual quantity of 100 million standard cubic metres of (liquefied) gas from the Phase 1 development, based upon the key commercial terms set out in the Heads of Terms. In December, the Company entered into a letter of exclusivity with Italfluid, an Italian integrated services provider, pursuant to which the parties have agreed to use their reasonable endeavours to negotiate and enter into a binding project contract which will on entry commit Italfluid to design, construct, commission, operate, maintain and let to the Company a micro liquefied natural gas plant (''mLNG Plant'') that can process raw gas and produce LNG.

Phase 2 Tendrara TE-5 Development

The Company continued to make progress in advancing the development of the Tendrara TE-5 discovery including the approval of the EIA mentioned above, along with progression of discussions to obtain pipeline corridor rights. Despite the difficulties imposed by the Covid-19 pandemic, positive discussions with ONEE have continued in order to finalise the fully termed GSA for gas offtake. This will form a key building block to support project sanction of the proposed TE-5 Phase 2 development.

EIA of the Tendrara Gas Export Pipeline and CPF

In January 2020, the Company announced receipt of the EIA approval from the Moroccan Ministry of Energy, Mines and Environment to build and operate a 120km 20-inch gas pipeline connecting the CPF to the Gazoduc Maghreb Europe pipeline (''GME''). This was followed by the ministerial approval of the EIA for the CPF in March. Approval of the respective EIAs are important steps in the development process of the TE-5 Horst. The EIA incorporates the Micro LNG project activity.

Structural Cost Reductions

The Company continues to manage its cash resources prudently and, accordingly, having paused its operational programme in 2019, the Company continued a structural cost reduction programme aimed at materially reducing the Company's ongoing operating expenditure, including reductions in staff numbers, executive remuneration and other business costs. By the end of the reporting period, the cost reduction initiatives that have been implemented delivered a reduction in general and administrative expenses by 52% compared with the year ended 31 December 2019.

Licensing

The Company announced in July that it had successfully concluded a renegotiation of the terms of its Anoual Exploration Permit in order to realign the Company's committed exploration work programme in Eastern Morocco, so that it dovetails more efficiently with the proposed phasing of our Phase 1 development plan at the Tendrara Production Concession, in a manner that underscores both our confidence in the potential of the basin as a future

Statement from the Executive Chairman
continued

significant gas-producing province and our ability to deploy capital judiciously across the portfolio. As such, the Initial Period on the licence was extended from August 2020 to December 2021 with the agreement to drill one Triassic exploration well within this period.

At Sidi Moktar, due to further disruption caused by the impact of the Covid-19 pandemic, during which the Company has continually engaged with the regulatory authorities, ONHYM has approved a two-year extension to the initial period of Petroleum Agreement in order for the Company to complete the committed work programme. The length of the initial period will now be four years and six months, ending 6 October 2022. The work programme commitments for the initial period remain unchanged. The lengths of the first and second complimentary periods remain unchanged at three years, and two years and six months respectively.

Corporate

In February, the Company announced the appointment of myself, Graham Lyon, as Executive Chairman. The Company was pleased to subsequently appoint Mohammed Seghiri as Chief Operating Officer in April. Mohammed brings extensive technical and commercial experience, as well as Moroccan knowledge and relationships, which will be utilised in particular to drive forward the Company's phased development strategy in Eastern Morocco. In July, the Company announced further Board strengthening with the appointment of David Blewden as an Independent Non-Executive Director. David brings a wealth of oil and gas specific financial experience, including in relation to debt restructuring, which was a key priority for the Company in 2020 and remained so moving into 2021.

The Company began discussions relating to the restructuring of its €28.8 million 5% senior secured bond and announced in December that, whilst it had received the support of a majority of noteholders for its restructuring proposal issued in October, it had fallen short of the 75% majority required to approve the proposal. Post-period, the Company continued constructive dialogue with noteholders and was pleased to announce in April 2021 that noteholders had approved a revised restructuring proposal which inter alia moved the maturity of the loan notes to 31 December 2027, converted EUR 3,479,999 of the notes to 141,176,448 new ordinary shares in the Company and amended the coupon structure (applicable from June 2021) from a 5% cash coupon per annum to a 2% cash coupon per annum together with a deferred 3% per annum coupon payable at maturity. The restructuring of the notes has resulted in the delivery of a stabilised capital structure from which the Company can focus on pursuing its growth aspirations in the near term.

In August, the Company placed 163,529,411 new ordinary shares at a price of 2.125 pence per share to raise £3.2 million after costs. Later in the month, the Company also announced that its former subsidiary, Apennine Energy SPA, had entered into a binding Pre-Sale Agreement with a buyer in respect of the proposed sale of the Badile Land pursuant to which the buyer has agreed, in addition to purchasing the Badile Land in two tranches, to take responsibility for meeting the remaining costs of the restoration of the Badile Land associated with the historical drilling activity on the site. Pursuant to the sale of the land, the net proceeds of the sale (after costs) are to be remitted to Sound Energy under the terms of the disposal of the Company's former subsidiary, Sound Energy Holdings Italy Limited, in 2018. The first of two payments arising from the sale was received, post period, in March 2021.

In August, the Company received a notification from the Moroccan tax authority that, pursuant to an audit of its subsidiary Sound Energy Morocco East Limited, the Moroccan tax administration had reassessed taxes for the period of 2016–2018 and had assessed additional withholding taxes and value-added tax liabilities totalling approximately US$14 million were due pursuant to historical licensing changes, with the tax administration suggesting that this assessment might also result in a revision of the tax bases for previously submitted corporate tax returns, which could lead to additional corporate taxes being assessed. The Company believes that the assessment arises from a misunderstanding of the historical licensing changes and has appealed the assessment.

As at 31 December 2020, the Group had total cash balances of £4.5 million (including approximately £1.3 million held as collateral for a bank guarantee against licence commitments). As at 30 April 2021, the Group's unaudited cash balance was £3.2 million (including approximately £1.3 million held as collateral for a bank guarantee against licence commitments).

Graham Lyon
Executive Chairman

Our Focus on LNG

As the transition to cleaner energy sources continues to evolve, Sound Energy's Micro LNG and Phase 2 development project **enables Morocco to participate in this global trend.**

Environmental and Consumer Benefits of LNG

Cleaner – LNG is better than any other fossil fuel for the environment

Versatile – Easy to transport and store, and is used in a wide range of industries

Sectors that use LNG

Rail

Agriculture and Industry

Trucking

Maritime fuel

Power generation

What this means for Sound Energy

We are invested in a sector that fits in with the global ambitions for combating climate change and transition from heavier fuels to LNG and renewables:

- Potentially easier to attract investment into greener fuels
- Current requirement in Morocco for natural gas is 0.44Bcf – we can supply 0.4Bcf annually
- Ability to deliver to a market sector in remote locations
- Likely to gain further traction as market and regulatory pressures to transition to lower carbon energy intensify

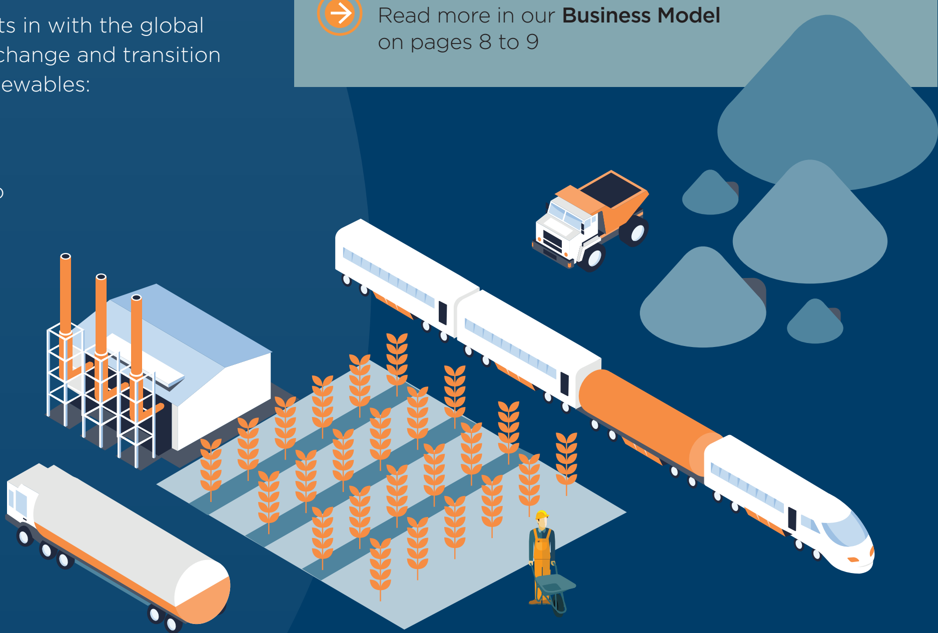
Micro LNG

While the LNG industry has traditionally focused primarily on development of ever increasing plant capacities, the maturity of the technology has allowed development of technologies applicable for small volumes to be competitive and potentially economically attractive. The main challenge for small scale LNG applications is therefore not technical but economic. Mini/Micro LNG facilities currently mainly consist of LNG liquefaction plants supplying LNG satellite stations with annual LNG volumes up to 0.2 mtpa. As an indication, these LNG quantities correspond to the yearly LNG demand for a power plant up to approximately 100MW. The mini-LNG chain is virtually identical to the conventional LNG chain, differing only in scale. One difference is that for small gas volumes: LNG transport is feasible using trucks (onshore) or barges (offshore), rather than large marine carriers.

What this means for Sound Energy

- Remote location but with good road infrastructure means that trucks are a feasible mode of transport
- Good in-country gas prices means that the economics make sense
- Relatively short time to market – infrastructure fairly quick to install
- Supports the transition to lower carbon intensive economies and the Moroccan state plan

Read more in our **Business Model** on pages 8 to 9



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.
- Ease of doing business – ranks high in the World Bank's 2019 report Ease of Doing business report.

What this means for Sound Energy

- Favourable fiscal terms (10-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 and stable government with a desire to promote gas demand in-country.
- Low-cost production.

The properties of natural gas (low environmental impact of its combustion), its energy performance and its abundant reserves distributed around the globe make it an energy of the future: natural gas use is expected to account for 25% of the world energy portfolio by 2035, compared to 21% today, i.e. a demand of 5,1000 billion m^3 (Gm^3).

Source: https://www.elengy.com/en/lng/lng-an-energy-of-the-future.html#:~:text=The%20properties%20of%20natural%20gas,a%20demand%20of%205%2C1000

Business Model

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 allow us to leverage technical, financial and commercial expertise to enhance our business, and deliver on our objectives, whilst derisking 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 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.

Investors

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

Enabling the Energy Transition to Deliver Shareholder Value

A business model centred around value delivery at the heart of the energy transition.

The world is changing. Society demands an irreversible transition towards a decarbonised and sustainable energy future. Sound Energy is committed to this aspiration and has a strategy focused on developing a portfolio of opportunities to deliver business growth whilst serving society's aspirations.

Environmental, social and governance ("ESG") factors are core to Sound Energy's strategy as we look to develop and build our portfolio. We will grow our business responsibly, safely and sustainably, and work with society, governments, stakeholders and local communities to create a legacy from which shareholders and communities can benefit alike.

Upstream Gas Value Chain

Evaluate

Evaluate our existing portfolio, focusing on value extraction via a variety of energy transition strategies including partnerships, farm-outs and revenue-producing opportunities.

Develop

Advance development strategies while preserving financial resources. Seek opportunities for revenue generation. Move discoveries through the development phase at pace. Innovative co-operation with strategic partners who can deploy capital.

Sound Energy's Current Focus

Phase 1 of TE-5 development (Micro LNG plant)

Produce

Natural gas production via Micro LNG or larger projects at advantaged pricing to generate cash and value for shareholders.

Recycle and Grow

Recycle cash and leverage portfolio to fuel growth. Leverage technical, financial and commercial skillsets to build the portfolio.

Delivering Sustainable Shareholder Value Through the Energy Transition

This year, we reset our near-term strategic direction to pivot towards becoming a revenue-generating development Company whilst retaining the significant exploration potential opportunity inherent within our existing portfolio.

The Company recognises that it is uniquely positioned through its people, portfolio, expertise and innovative approach to attracting investment to be at the vanguard of transitioning Morocco towards a lower carbon future, whilst creating access to reliable sources of energy. As the Company delivers upon its objectives, it will look to grow its portfolio by leveraging these strengths and focusing its investments on opportunities with strong ESG attributes that can also generate cash and sustainable long-term value for shareholders.

The immediate focus is on development of the discovered TE-5 Horst divided into two phases.

Phase 1 is focused on a Micro LNG (liquefied natural gas) development to sell liquefied gas into the Moroccan industrial market through a fuel distributor, whilst Phase 2 centres around the development of a pipeline and central processing facility to sell gas to the electrical power sector.

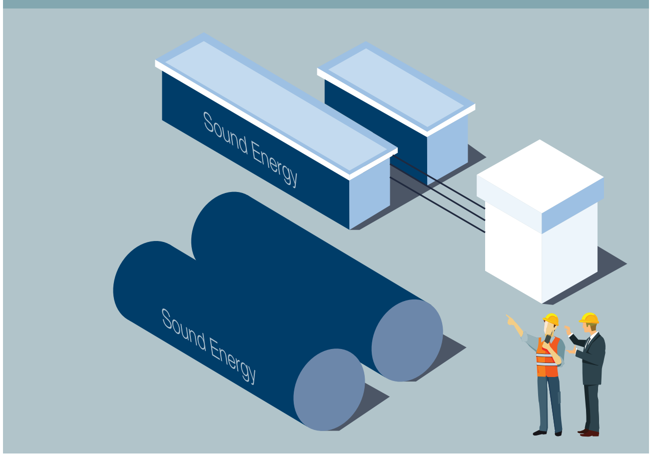
Both developments look to displace liquefied petroleum gas and coal from the Moroccan energy mix to enable Morocco to bridge towards a lower carbon future.

During 2020, the Company made significant progress in advancing Phase 1 including:

- Signing of a Heads of Terms with Afriquia Gaz for both the purchase of LNG and the partial financing of the Phase 1 development. This included:
  - A 10-year take or pay commitment from first gas to purchase an annual contractual quantity of 100 million standard cubic metres per annum at a price between $7–9 per mmBTU
  - Approval of LNG CPF EIA permit
  - Letter of exclusivity signed with EPC contractor Italfluid for provision and operation of Micro LNG facilities

During the coming period, the next steps are:

1. Finalise funding with gas offtaker
2. Complete definitive LNG gas sales agreement
3. Entry into service agreement with LNG equipment supplier and operator
4. Final investment decision



As we transition towards becoming a near-term revenue generating business via our Micro LNG and Phase 2 full field development plan, the focus on delivery of exploration has been deprioritised within our overall strategy.

The significant exploration potential in our Moroccan portfolio remains, so as we deliver the revenue-generating opportunities, our strategy will include selective investments to further unlock the exploration and appraisal potential, particularly where this can underpin further cash-generative developments in and around key infrastructure.

Business Partnerships

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.

Afriquia Gaz

Sound Energy is pleased to be partnering with Afriquia Gaz as the LNG offtaker for its phase 1 development plan for the TE-5 Horst development. As the largest LPG distributor in Morocco with a 44% Market share they have significant liquified petroleum gas, butane and propane distribution and marketing operations. They are listed on the Casablanca Stock exchange (Market cap: approx. £1.1 billion).

The partnership commits SEMEL for 10 years from first gas and subject to the conclusion of a gas sales agreement to produce, process, liquify and sell to Afriquia Gaz an annual contractual quantity of 100 million standard cubic metres of gas from the Phase 1 development with Afriquia Gaz committing to an annual minimum "take or pay" quantity of 90 million standard cubic meters of gas, priced within a range.

Afriquia Gaz has also committed to use reasonable endeavours to conclude definitive agreements in respect of a proposed partial financing for the development via a subscription of Sound Energy Shares and a secured commercial loan. Post completion of the subscription Afriquia Gaz will become a shareholder in Sound Energy with an approximate 10% stake. Afriquia Gaz will also be providing development funding to Sound Energy thereby cementing alignment between all companies.

Italfluid Geoenergy S.r.l

In December 2020 Sound Energy Morocco East entered into a letter of exclusivity with Italfluid to negotiate and enter into a binding project contract to commit to design, construct, commission, operate, maintain and to let to SEMEL a mLNG plant. This exclusivity period ended in March 2021 but negotiations continue positively between the two parties.

Italfluid is a global integrated service company which provides certain upstream petroleum services, including the design, construction, commissioning and maintenance of process plants and hydrocarbon processing, including gas liquefaction to produce liquified natural gas. It has been operating in the oil and gas industry for over 30 years. Their clients include Total, Edison, British Gas and Eni.

Italfluid through a vendor financing and lease to own financial structure with Sound Energy are aligned with delivering plant and operation and maintenance services to the Phase 1 mLNG Project such that LNG deliveries are guaranteed to market as required under take or pay and send or pay contractual obligations.

Schlumberger Silk Route Services Limited (“SSRL”)

Schlumberger Silk Route Services Limited is a subsidiary of Schlumberger group (“Schlumberger”) which is the world’s leading provider of technology for reservoir characterisation, drilling, production, and processing to the oil and gas industry. Schlumberger supplies the industry’s most comprehensive range of products and services, from exploration through production and integrated pore-to-pipeline solutions for hydrocarbon recovery working in more than 85 countries.

Schlumberger

In October 2015, Sound Energy announced that it had signed a Memorandum of Understanding (“MOU”) with Schlumberger Oilfield Holdings Limited (“SOHL”) 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 and later has renewed it with SSRL where, under the FMA as amended from time to time, Schlumberger provides via SSRL integrated technical services, equipment and personnel to Sound Energy, operator of the Tendrara Exploitation Concession in which Schlumberger has a 27.5% synthetic interest.

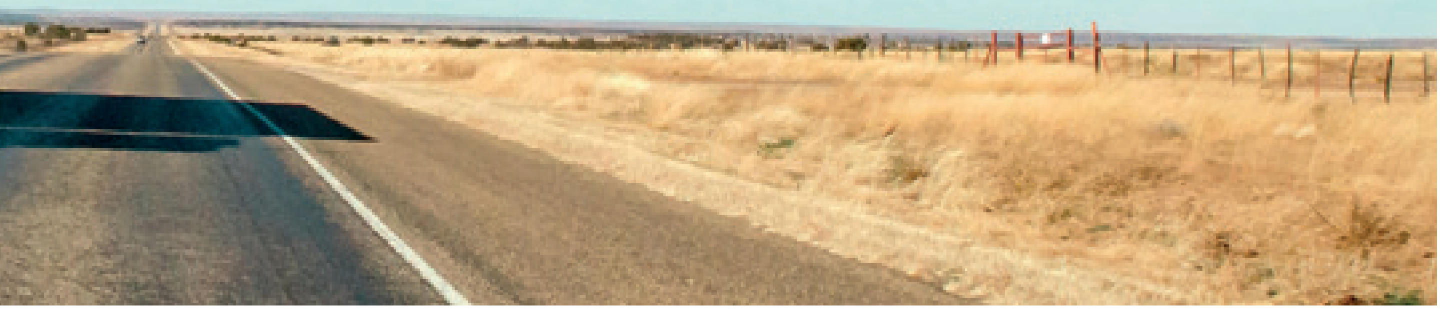
Oil and Gas Investment Fund

In January 2017, Sound Energy announced the acquisition of the Eastern Morocco portfolio of Oil and Gas Investment Fund (“OGIF”), and introduced OGIF as a second cornerstone investor:

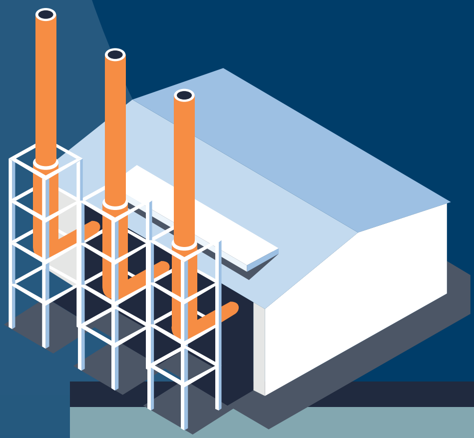
- Consolidates interest in Eastern Morocco’s prospective acreage.
- Strengthens Sound Energy’s position in Morocco: OGIF is a Moroccan fund, owned by the seven largest Moroccan financial institutions.
- As at 31 December 2020, OGIF had an interest in approx. 20% of Sound Energy’s current issued share capital.

Office of Hydrocarbons and Mines

- 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 monitoring of licences for exploration and for funding the development jointly with the private partners in Morocco.
- Sound Energy has a good relationship with ONHYM and looks forward to future co-operation.



Our Strategy



This year, we reset our strategy to transition towards becoming a cash-generating Company with significant exploration potential.

The focus is on development of the TE-5 Horst divided into two phases. **Phase 1** involves on the Micro LNG development plan, and **Phase 2** involves a full field development plan, centred around the development of a pipeline and central processing facility.

Phase 1 – Micro liquefied natural gas ("mLNG") development plan for the TE-5 Horst development

Objectives

With the global energy transition to more climate-friendly sources – such as natural gas – well underway, the key objective of the mLNG project is to provide alternative energy to Moroccan industry where there is a clear demand and willingness to replace coal with fuels such as natural gas. Additionally, Sound Energy:

- is transitioning to a revenue-generating Company and the mLNG project is key in this transition; and
- will use this revenue on meeting our exploration commitments and other value creating opportunities.

Phase 2 – Full field development plan centred around the development of a 120km pipeline and central processing facility

Objectives

The larger full field development plan has the primary objective of increasing the amount of natural gas available within Morocco and aiding the transition from coal fired power generation. Furthermore, development of Moroccan domestic gas can reduce Morocco's reliance on current Algerian sourced gas.

- Connection into the GME pipeline – offering multiple prospective commercialisation routes
- Increase in the available quantum of gas to our purchaser ONEE

Phase 1 – Micro liquefied natural gas ("mLNG") development plan for the TE-5 Horst development

Progress

- HoT with Afriquia Gaz
- Exclusivity for both the purchase of LNG (TE-5 Horst development) and partial financing of Phase 1 development
- 10-year commitment from first gas to sell annual contractual quantity of 100 million standard cubic metres per annum with take or pay agreement priced at $7–9 per mmBTU
- LNG CPF EIA permit approved

Next steps

- Conclude agreements with Italfluid
- Finalise funding
- Complete definitive LNG GSA
- Final investment decision

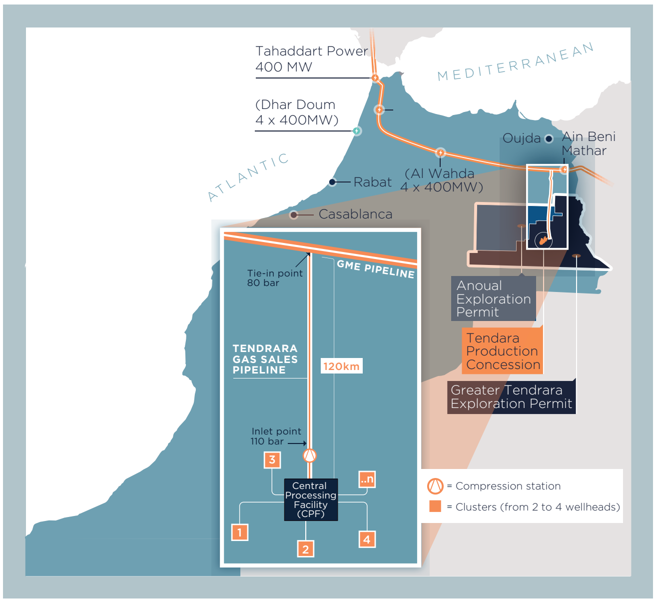
Phase 2 – full field development plan centred around the development of a 120km pipeline and central processing facility

Progress

- 25-year concession awarded September 2018
- GSA MoU signed October 2019 based on M4 connection to GME pipeline
- Definitive 10-year take or pay GSA with ONEE (the state power company of Morocco) for minimum annual volume of 0.3 bcm currently being negotiated
- 20-inch, 120km Tendrara Gas Export Pipeline (TGEP) FEED complete
- CPF FEED completed
- Interconnection to existing GME pipeline tie-in FEED completed by Metragaz
- Pipeline EIA permit and land access approved

Next steps

- Enter into definitive gas sales agreement with ONEE
- Mature project towards FID



Reserves and Resources

Contingent Resource Estimates for Eastern Morocco (Tendrara Production Concession)

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 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 RNS 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	Gross (100%) basis			Gross (100%) basis		
Name	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.

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)

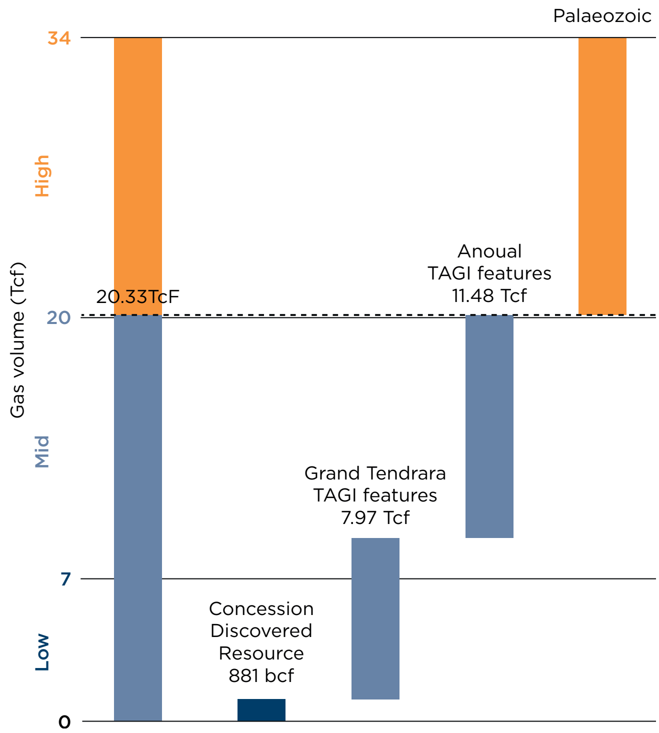
Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations assuming the application of future development projects. Prospective Resources have an associated geological CoS applied. Prospective Resources are further 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 the graph 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. 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)

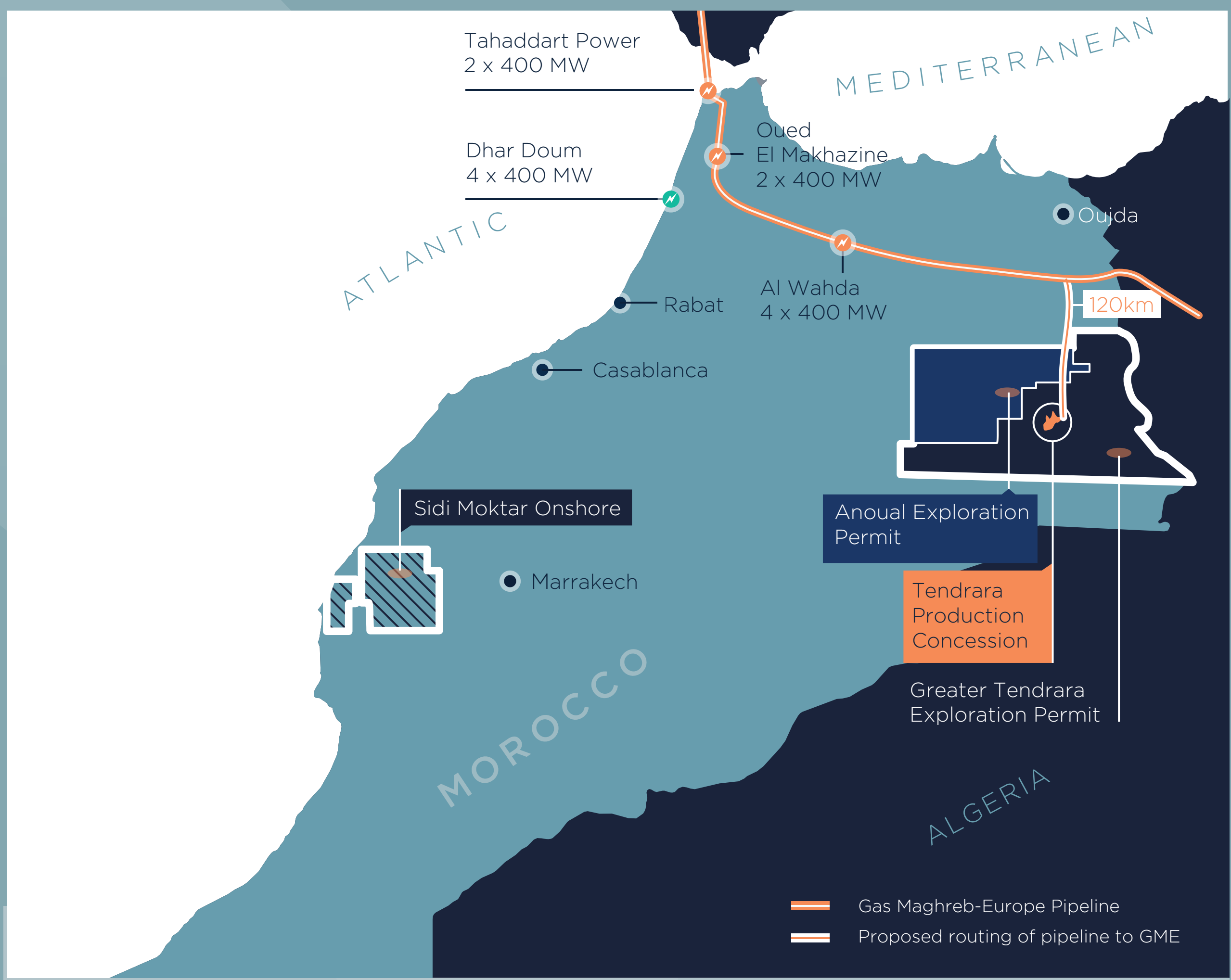


Summary chart showing the internally estimated, gross, unrisked OGIP exploration potential for the Greater Tendrara and Anoual licences and the resources of the Tendrara Production concession. The Concession Discovered Resource estimate is based on the sum of the externally certified, gross, mid case 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.

Portfolio Review

Our Portfolio

Sound Energy's basin model for the Eastern Morocco portfolio predicts the presence of sufficient gas charge available to fill the high graded Trias Argilo-Gréseux Inférieur ("TAGI") prospects, generated from source rocks, attributed to the regionally significant Palaeozoic succession. The model gives the Company its internal view of the estimated volumes for the exploration potential, expressed as unrisked gross gas originally in place, of a low case of 7 Tcf, a mid case of 20 Tcf, and if all the key elements of the petroleum, system's model are present an upside case of 34 Tcf.



Greater Tendrara

Production Concession

Anoual

Sidi Mokhtar onshore

Eastern Morocco Development and Exploration

Our Eastern Morocco Licences comprising the Tendrara Production Concession, Anoual and Greater Tendrara are positioned in a region containing a continuity of the established petroleum plays of Algerian Triassic Province and Saharan Hercynian Platform. The presence of the key geological elements of the Algerian TAGI gas play are already proven within the licence areas with the underlying Palaeozoic, representing a significant upside opportunity to be explored. These licences cover a surface area of over 23,000 square kilometres, but so far only thirteen wells have been drilled, of which six are either located within or local to the Tendrara Production Concession. Exploration drilling beyond the region of the Production Concession has been limited and the Company maintains a portfolio of features identified from previous operators' studies, plus new targets identified by Sound Energy from the recent geophysical data acquisition, processing and ongoing interpretation studies. These features are internally classified as either prospects, leads or concepts based on their level of technical maturity and represent potential future exploration drilling targets.

In February 2020, the Company announced an innovative concept to advance development of the discovered TE-5 Horst gas field within the Production Concession through a fast-track, cost-efficient, mLNG production scheme. This proposal divided the gas development project into two phases. The proposed mLNG production plan, Phase 1, would be advanced alongside workstreams related to the full field development plan, Phase 2. The mLNG scheme includes the processing and liquification of the gas produced at the field with the resulting LNG being transported to industrial customer sites in Morocco. This mLNG production plan for the TE-5 Horst is viewed by the Company as an attractive route to generating early cash flows from the Production Concession.

In March, the Company confirmed further progress with the development of the Production Concession with the receipt of an approved Environmental Impact Assessment ("EIA") from the Moroccan Ministry of Energy, Mines and Environment related to the building of the proposed gas treatment plant and compression station ("CPF") at the Concession, including the option for gas liquefaction. Inclusion of gas liquefaction within the CPF EIA approval enables the LNG development planned as Phase 1 of the Concession field development plan, with the full field development of the Concession following as Phase 2.

The Company continued to progress Phase 2, the full field development of the Concession and following discussions with representatives of Morocco's Ministry of Interior and of the Forestry Department obtained rights through a long-term lease agreement for a 50m wide corridor along the entire 120km length of the Tendrara Gas Export Pipeline ("TGEP"), with formal land access approvals received from the Ministry of Interior and the Forestry Department. Approvals relate to land covering 99.9% of the entire length of the 50m-wide TGEP corridor and the remaining land approvals required, covering land required for the three principal blacktop roads and five river crossings along the TGEP route, are to be sought at a later date, after the Final Investment Decision is taken.

In June, the Company announced Heads of Terms were entered into with a Moroccan conglomerate, that controls the main gas distributor in Morocco, Afriquia Gaz, with significant liquified petroleum gas, butane and propane distribution and marketing operations in Morocco, pursuant to which the Company entered into exclusive discussions in order to enter into agreements for both the purchase of LNG to be produced from the TE-5 Horst development, as well as the partial financing of the Phase 1 development.

Under the Heads of Terms, the parties have agreed to use their reasonable endeavours to negotiate and enter into a gas sales agreement pursuant to which the Company, on behalf of the Concession joint venture partners, will commit, over a period of ten years from first gas from the Concession, to produce, process, liquefy and sell to Afriquia Gaz an annual contractual quantity of 100 million standard cubic metres of gas (approximately 4 billion standard cubic feet of gas per year) from the Phase 1 development, and Afriquia Gaz will commit to an annual minimum "take or pay" quantity of 90 million standard cubic meters of gas, priced within a range of US$7–9 per mmBTU with an indexed formula using a combination of the European Title Transfer Facility and United States Henry Hub benchmark indexes.

Portfolio Review
continued

In July 2020, the Company successfully concluded a renegotiating of the terms of its Anoual licence with ONHYM to align the work programme commitments with the expected phasing of the Company's Tendrara Production Concession LNG development plan. The amended work programme commitments under the Permit included:

- Initial period of four years and four months from 31 August 2017 (the "Initial Period"): FTG-aerogradiometry and 600km of 2D seismic and one exploration well with Triassic objective.
- Optional first complimentary period of a further two years and six months (from 31 December 2021): if the results of the drilling of the exploration well drilled in the Initial Period are likely to constitute a commercially exploitable discovery, the Company will acquire 150 square kilometres of 3D seismic or its equivalent in 2D seismic data. If the results of the exploration well drilled in the Initial Period are not likely to constitute a commercially exploitable discovery, the Company will undertake further geological and geophysical studies but will not be required to acquire this additional seismic.
- Optional second complimentary period of a final two years and six months: a further single exploration well with Triassic objective.

The effective date of the Permit remains the same at 31 August 2017. The commitment to acquire FTG-aerogradiometry and 600km of 2D seismic has already been fulfilled and approved by ONHYM.

In December 2020, the Company announced entry into a letter of exclusivity (the "LoE") with Italfluid, agreeing to use reasonable endeavours to negotiate and enter into a binding project contract with Italfluid to design, construct, commission, operate, maintain and let to the Company a mLNG Plant. Italfluid is an integrated service company that provides certain upstream petroleum services, including the design, construction, commissioning and maintenance of process plants and hydrocarbon processing, including gas liquefaction, to produce liquified natural gas. The mLNG Plant, which will also treat and process raw gas from the Phase 1 development prior to liquefaction, is a substantial part of the surface facilities required to be built and operated as part of the Phase 1 development. The mLNG Plant shall be designed, constructed, commissioned, operated and maintained by Italfluid for the Company in consideration for the Initial Payments and the Daily Rental Payments.

Southern Morocco Exploration

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 the Sidi Moktar licences as an exciting opportunity to explore high impact prospectivity within the pre-salt Triassic and Palaeozoic plays in the underexplored Essaouira Basin in the West of Morocco. In June 2018, Ministerial approval was received for a new eight–year Sidi Moktar Onshore Petroleum Agreement, consisting of a two years and six months initial period, a first extension period of three years, and a second extension period of two years and six months. Due to disruption caused by the impact of the Covid-19 pandemic, during which the Company undertook regular dialogue with the regulatory authorities, ONHYM approved a 24-month extension to the initial period of the Sidi Moktar Petroleum Agreement in order for the Company to complete the committed work programme. Subject to the issuance of the Joint Arreté signed by the Minister in charge of Energy and Minister in charge of Finance, the length of the initial period will now be four years and six months. The work programme commitments for the initial period remain unchanged. The lengths of the first and second complimentary periods, which would commence upon the successful completion of the recently extended initial period, also remain unchanged.

The Sidi Moktar permit hosts a variety of proven plays.

The licences host 44 vintage wells drilled between the 1950s and the present. Previous exploration has been predominantly focused on the shallower post-salt plays. The licence is adjacent to the ONHYM operated Meskala gas and condensate field. The main reservoirs in the field are Triassic-aged sands, directly analogous to the deeper exploration plays in the Sidi Moktar licences. The Meskala field and its associated gas processing facility is linked via a pipeline to a state-owned phosphate plant, which produces fertiliser both for the domestic and export markets. This pipeline passes across the Sidi Moktar licence.

The discovery of the Meskala field proved the existence of a deeper petroleum system in the basin. Specifically, Meskala provides evidence that Triassic clastic reservoirs are effective, proves the existence of the overlying salt seal and provides support for evidence of charge from deep Palaeozoic source rocks. Based on work undertaken by Sound Energy, the main focus of future exploration activity in the licence is expected to be within this deeper play fairway. We believe that the deeper, pre-salt Triassic and Palaeozoic plays may contain significant prospective resources, in excess of any discovered volumes in the shallower stratigraphy.

Our evaluation of the exploration potential of Sidi Moktar, following an independent technical review, includes a mapped portfolio of 27 Jurassic, Triassic and Palaeozoic leads in a variety of hydrocarbon trap types. 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. Subject to financing, we aim to acquire the committed, high-quality 2D seismic data in 2021, focused on improving trap imaging. Preparations for this seismic acquisition campaign have commenced with the completion and approval of an EIA in late 2019. This approval, which concerns 25 territorial communes of the province of Essaouira and 11 territorial communes of the province of Chichaoua, is an important step in the local permitting process and enables the Company to continue its preparations for the seismic acquisition campaign. The Company has also undertaken an invitation to tender for acquisition and processing of the 2D seismic survey and received responses from multiple seismic service providers.

This work is planned to culminate in an exploration well, targeting a deep prospect in 2023. The Company continues to seek to progress a farm out process for this permit, offering an opportunity to a technically competent partner to acquire a material position in this large tract of prospective acreage.

Financial Review

We prioritised the restructuring of our €28.8 million corporate loan notes, which was successfully completed following the year end, and on structural cost reduction, which led to a decrease by 52% in administrative expenses to £2.9 million (2019: £6.1 million) during 2020.

Income Statement

The loss for the year before tax from continuing operations was £18.8 million (2019: £16.4 million). Impairment of development assets and exploration costs of £9.8 million (2019: £6.6 million) related to the impairment loss on TE-5 Horst production concession following revision to forecast assumptions, primarily forward Brent price assumption in line with long-term Brent price forecast as at 31 December 2020. In 2019, the impairment loss of £6.6 million related to TE-10 drilling and well test costs as the well did not achieve a commercial gas flow rate. Administrative costs at £2.9 million were 52% lower than 2019 administration costs of £6.1 million due to a focus on cost reduction.

Foreign exchange 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 other comprehensive income section of the statement of comprehensive income.

Cash Flow/Financing

During 2020, equity issuances and warrants exercises raised approximately £4.6 million (2019: £2.2 million) net of issue costs.

Financing costs were £3.3 million (2019: £2.8 million), primarily due to amortised costs of the notes, net of interest capitalised to the development and exploration licences of £0.1 million (2019: £0.5 million). The Company's €28.8 million bond due in June 2021 was successfully restructured subsequent to the year end such that inter alia extended the maturity of the loan notes to 31 December 2027, converted EUR 3,479,999 of the notes to 141,176,448 new ordinary shares in the Company and amended the coupon structure (applicable from June 2021) from a 5% cash coupon per annum to a 2% cash coupon per annum together with a deferred 3% per annum coupon, payable at maturity. Further details on the restructuring are provided in the subsequent events note 25.

The Group spent £1.3 million (2019: £5.7 million) on investing activities during 2020, which consisted of spend on the Group's Morocco licences and capitalised general and administrative expenses.

Balance Sheet

As at 31 December 2020, the carrying amount of property, plant and equipment was £133.4 million (2019: £147.3 million), primarily related to the development and production assets in Morocco with a carried value of £133.2 million (2019: £146.9 million) after taking account of impairment loss, additions and foreign exchange movement.

Additions of £0.9 million intangible assets largely consisted of capitalised general and administrative expenses.

As part of the 2018 Italy divestment agreement, the Company is entitled to receive the proceeds, upon the sale, of land associated with the former Badile onshore exploration permit ("Badile land"). The Company therefore has a carrying amount of approximately £1.0 million (2019: £0.9 million) as interest in Badile land. Subsequent to year end, the Company received approximately £0.2 million following the sale of Badile Area 1 and expects the sale of Badile Area 2 to be completed before the end of 2021.

Other receivables amounting to £1.4 million (2019: £1.5 million), primarily related to receivables from our partners in Morocco licences and recoverable VAT in Morocco.

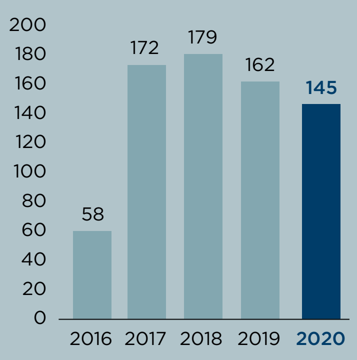
Trade and other payables amounting to £2.2 million (2019: £2.4 million), primarily related to payables and accruals for the operations in the Group's licences in Morocco, where the Group, as operator, recognises 100% of the liability and receives funds from partners to pay the partners' share. The Company has a carrying amount of £0.5 million (2019: £0.6 million) relating to the obligation for the Badile land remediation in line with the 2018 Italy divestment agreement.

Going Concern

As detailed in note 1 on page 66 the Company's cash flow forecasts for the next twelve-month period to May 2022, indicated that additional funding will be required to enable the Company meet its obligations. These conditions, along with other matters described in Note 1 indicates existence of a material uncertainty on the Company's ability to continue as going concern.

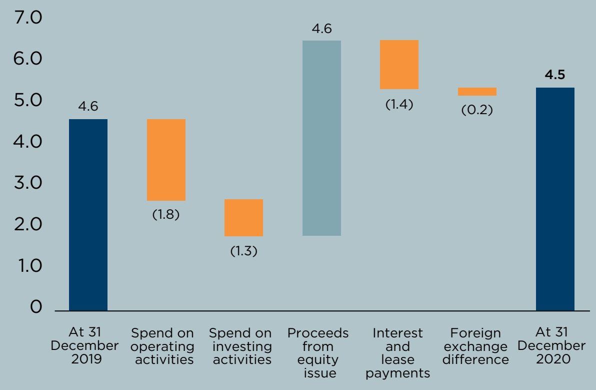
Net Assets (£m)

£145m
2019: £162m



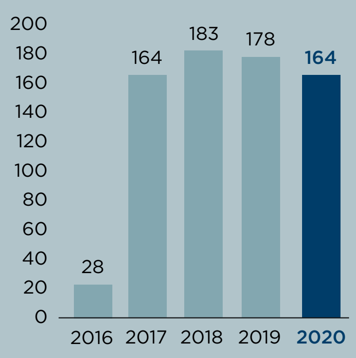
Cash Flow Bridge Chart (£m)

£4.5m
2019: £4.6m



Development and Intangible Assets (£m)

£164m
2019: £178m



HSE

Promoting Positive Behaviour

During this unprecedented year, Health and Safety (HSE) remains at our core.

During the first half of 2020, Sound Energy Morocco has actively been dealing with the effects of the Covid-19 global pandemic on our activities to maintain an operational presence and progress our plans to develop (starting with the mLNG project) the TE-5 Horst gas discovery in a phased manner. In May 2019, the Company announced that it would pause further operations and 2020 did not seeing any further geophysical surveying or drilling activities. However, Sound Energy Morocco undertook a series of activities to promote safe working practices for our personnel and contractors.

The 2020 activities are summarised as follows:

- Relocation of the Rabat office
- Aligned to UK and Moroccan law, regulations and guidelines the Company carried out a Covid-19 risk assessment, adopted a policy of measures to actively mitigate the spread of coronavirus in the office environment, including increased hygiene management, social distancing, and working from home where possible
- Continued enhancement and implementation of security to the Company's information technology infrastructure
- Emptying of the TE-10 stimulation liquid storage facility, cleaning and removal of the liner
- Audit and restocking of the field inventory at the TE-5 site, TE-10 site, and the Tendrara Warehouse

The total labour hours worked in 2020 was 80,755 and the data recorded has been divided into three main categories:

1. Lagging Indicators

Fatality	-
LTI	-
RWC	-
MTC	-
FAC	-
Property damage	1
Environmental incident	-
RTA	-
NM	-
HiPO	-
Lost workdays	-

2. Leading Indicators

HSE inspections	32
HSE audits	-
HSE meetings	22
HSE induction hours	-
HSE training hours	59
Emergency drills	-
Toolbox talks	-
STOP cards	-
Job safety analysis	-
Risk assessments	2
Management tours	-

3. Environmental Data

Diesel consumed (m^3)	19.21
Water consumed (m^3)	58
Mud cuttings (m^3)	n/a
Sewage water (m^3)	n/a
Waste water (m^3)	278
Non-hazardous wastes (tonne)	n/a
Fuel gas (m^3)	n/a
Electrical energy (kWh)	n/a
Km driven	193,339
Total barrels spilled	n/a

STOP Cards

Sound Energy has developed and implemented an HSE reporting system whereby all personnel, visitors and contractors are encouraged to report any unsafe conditions, unsafe acts and positive acts.

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

Sound Energy cards during 2020.

Safety Hazard Observation Card

Observation 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 a 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.

From the outbreak of Covid-19 in Europe and North Africa at the end of Q1 2020, Sound Energy Morocco had to curtail a number of envisaged operationally activities until the situation improved. As a direct consequence, coupled with a reduction of the operational resources, the exposure hours and driven kilometres were significantly lower than the previous year. Again, we had set ourselves a target of no lost time injuries for the year, which we achieved accepting this context of lower operational exposure.

Sound Energy Morocco is aligned to similar operators in the International Association of Oil and Gas Producers ("IOGP") database. During 2020, we recognised the need to avoid complacency particularly during the relatively minor operations we undertook at the well sites and warehouse. We continue to follow the introduction of IOGP aligned Life-Saving Rules in 2018; our systems are fit for purpose and evolving.

HSE
continued

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

Operational 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.

HSE Reward and Recognition Programme

Sound Energy has developed a 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.

ESG – Societal

Training and Employment Opportunities: In 2020, at the Tendrara well sites and warehouse, 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. Sound Energy continues to employ eight individuals at our operational locations in Morocco.

Telecom Tower: Sound Energy Morocco commissioned and fully paid for the construction of a Maroc Telecom telecommunications tower in the Tendrara area, which was required for operational purposes. Its presence has significantly enhanced mobile phone coverage in the area, and local communities have benefitted greatly.

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 2020, as per previous years, we continued to provide a 24/7 guard from the local community to ensure safe access for all. 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 provided three 6,000 litre PVC water tanks.

Training Programme: In line with the Company's commitment to the various contributions to develop local competencies in the oil and gas industry, Sound Energy Morocco established an academic collaboration agreement with the Mohammed 1st University in Oujda in 2019. 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 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 and externally. The programme of this training is focused on bibliography, geological field missions, structural studies (geochemistry, petrophysics, gravity), and the integrated structural and sedimentological interpretation of the Tendrara Basin.

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 pages 2 to 30

Employees

Our employees are one of the primary assets of our business, and the Board recognises that our employees are the key resource that 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 makes 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.

Engagement during 2020 has been paramount due to the Covid-19 pandemic. The Company has worked to ensure that employees are safe and well, both physically and mentally. The majority of staff have worked remotely during the year.

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 upholds ethical business behaviour and encourages management to seek comparable business practices from all suppliers and customers doing business with the Company. During 2020 there was regular engagement with key suppliers to ensure ongoing safety within the business. The HSE Committee was kept up to date with the safety measures in place and they were fed back to the Board as appropriate. We value the feedback we receive from our stakeholders and we take every opportunity to ensure that, where possible, their wishes are duly considered. The Board is aware of its regulatory requirements and receives training and advice when required. In early 2021 the directors received a refresher update on the requirements under the UK Market Abuse regulations and disclosure of information to the Market.

Community and Environment

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 behaviour 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. The risk framework and key business risks reviewed by the Audit Committee who in turn reports to the Board.

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 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. Typically the chair of the Audit Committee and the chair of the Remuneration and Nominations Committee would attend the AGM and be available to shareholders to answer any questions.

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 is mindful that with the global Covid-19 pandemic, face-to-face meetings with shareholders have not been possible during 2020. The Company has endeavoured to maintain communication with investors remotely and believes that engagement has been carried out efficiently during these challenging times. The Board considers stakeholder engagement and discussed the safest way to keep the lines of communication open with shareholders during the pandemic.

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.

Principal Risks and Uncertainties

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; and
- 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 Team 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 2020, 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 and 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.

Risk	Impact	Control measure	Owner
1 – Limited diversification The Company operates in a single country and thus the business may be significantly adversely impacted by political, fiscal and regime changes. The Company portfolio is not currently balanced across the oil and gas lifecycle	• 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 Phase 1 and Phase 2 development of the TE-5 Horst results in delays or inability to take FID	• Company investment profile and ability to generate cash is impaired as a consequence	• Minimise up-front funding exposure via securing agreements with contractor financing • Ensure adequate resourcing of negotiation team	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 analysis, and modelling integrated with geological and reservoir engineering studies to improve reservoir understanding throughout the basin • Independent resources certification	Chairman
4 – Change in regulatory or fiscal regime	• Regulatory and tax changes affect profitability and viability of projects and operations (e.g. Morocco ten-year tax holiday) • Delay to projects and/or regulatory approvals while changes are agreed. May also result in renegotiation with partners	• Regular engagement and COO communication with government and in-country stakeholders • Monitor potential changes in legislation • Seek stabilisation provisions in key agreements	COO
5 – 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 (including LNG, Brent) • Secure long-term pricing under key offtake agreements	COO
6 – 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

Principal Risks and Uncertainties
continued

Risk	Impact	Control measure	Owner
7 – Loss of or inability to secure key personnel	• Loss of shareholder confidence • Lack of direction and leadership within the Company • Loss of expertise and knowledge • Unable to secure required expertise to deliver the work programme	• Competitive remuneration package in place for key executives, benchmarked regularly relative to the market • Succession planning • Programme to identify and source additional expertise as and when required	Chairman
8 – 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 • Insufficient working capital to sustain the business as a going concern	• Active engagement with capital markets and financing streams • 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
9 – Business disruption due to Covid-19 virus outbreak	• Delay in implementation of mLNG 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 personnel to work remotely • Explore liquidity continuity measures • Implement business continuity plan	Chairman
10 – Requirement to pay substantial Moroccan tax demand The Company was issued notification by the Moroccan tax administration of interpreted taxable liabilities in respect of historic transfer of licence interests between wholly owned subsidiaries of Sound Energy plc	• Reduction of working capital and cash flow • Reduced appetite for investment in the Company	• Manage Moroccan tax assessment process taking appropriate technical and legal advice to resolve, as the Company believes, this misunderstanding	COO

On behalf of Board

Graham Lyon
Executive Chairman

19 May 2021

Governance Report

Chairman's Corporate Governance Statement

Graham Lyon
Executive Chairman

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

Dear Shareholders

My first year as Executive Chairman of the Company has certainly seen a challenging business environment with the global pandemic and the downturn in the oil and gas sector. However, the Company has continued to work hard to drive forward its strategy to transition the business to a cash-generative Company with exploration opportunities. Underpinning the foundations of the business is a developed and strong corporate governance structure. 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 ("QCA Code"). I firmly believe in the importance of solid governance from the top of an organisation. The QCA Code and the principles contained within this 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

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 that promote long-term value for shareholders.	See pages 8 to 9 of 2020 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 28 to 30 of 2020 Annual Report.
5	Maintain the Board as a well-functioning balanced team led by the Chair.	See pages 36 to 37 of 2020 Annual Report.
6	Ensure that, between them, the Directors have the necessary up-to-date experience, skills and capabilities.	See pages 36 to 37 of 2020 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 38 to 39 of 2020 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 40 to 54 of 2020 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.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee is responsible for all material elements of remuneration policy, including Directors' remuneration and assessing Directors' performance. The Committee will consider recruitment of Board members and members of the Executive Team together with consideration of succession planning.

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

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 Chair at Clarion Petroleum (private co.)
- Founder and Director of Soncer Limited

Mohammed Seghiri

Chief Operating Officer

H

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 and 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) – Senior Independent Director

A 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 that 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

R Remuneration and Nominations Committee

H Health and Safety Committee

David Blewden

Director (Non-Executive)

A R

Appointed to Board

1 July 2020

Background

David Blewden joined the Board as a Non-Executive Director in July 2020. David is currently CFO of Sunny Hill Energy Ltd, a UK private E&P company, he is also a non-executive director of Gulf Marine Services plc and a director of Philipshill Consulting Limited. From 2015 to January 2020 he was a non-executive director of new Age (African Global Energy) Limited, a private E&P company. From 2010 to 2016 he was CFO of Sterling Resources Ltd, a TSX-V listed Canadian E&P company.

Current external commitments

- Chief Financial Officer of Sunny Hill Energy Ltd (formerly Petroceltic International)
- Non-Executive Director of Gulf Marine Services plc (LSE:GMS)
- Director of Philipshill Consulting Limited

Marco Fumagalli

Director (Non-Executive)

A R

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

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 2020.

Former Directors who served during the year

Brian Mitchener

Former Exploration Director (Executive Director)

Appointed to Board

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

James Parsons

Former Chief Executive Officer (Executive Director)

Appointed to Board

10 October 2012; resigned from the Board 23 January 2020

JJ Traynor

Former Chief Financial Officer (Executive Director)

Appointed to Board

11 July 2018; resigned from the Board on 6 February 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 2020, the Board comprised of the Executive Chairman, three Non-Executive Directors and one Executive Director.

There were a number of changes within the Board during the first quarter of 2020 as the Company entered 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 has an Executive Chairman who provides a bridge of the Chairman and Chief Executive Officer role. David Blewden joined the Board during 2020 as a further independent Non-Executive Director. The Company now has a good balance of Executive and Non-Executive Directors, with a strong level of independence within 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. Without a Chief Executive Officer, the Executive Chairman, with the support of the Chief Operating Officer and other members of the Executive Team, 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.

The Board continues to believe, given the current stage of the business, that an Executive Chairman is right for the Company. At present, there is no Chief Executive Officer; however, with three Non-Executive Directors, of which two are independent, it is believed there is a strong voice of independence.

Board Composition %

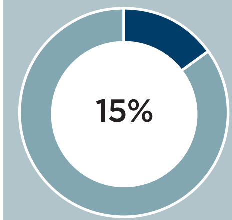
Attendance at Meetings:

A schedule of the Board and Board Committee meetings held during the year ended 31 December 2020 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 December 2020				
	Board meetings				
Name of the Director	**Scheduled**	**Ad hoc***	**Audit Committee**	**Remuneration and Nominations Committee**	**Health and Safety Committee**
Total number of meetings held[iv]	**4**	**14**	**3**	**3**	**2**
Graham Lyon (Chairman)	3	13	n/a	n/a	n/a
Mohammed Seghiri (COO)	3	14	n/a	n/a	2
David Blewden[ii]	2	8	1	1	n/a
Marco Fumagalli	4	12	3	3	n/a
Richard Liddell	4	12	3	3	2
Brian Mitchener[iii]	1	–	n/a	n/a	n/a
James Parsons[iv]	1	–	n/a	n/a	n/a
JJ Traynor[v]	–	–	n/a	n/a	n/a

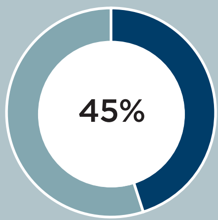
*Ad hoc meetings: Additional meetings called for a specific matter generally of a more administration nature not requiring full Board attendance.
i Graham Lyon missed one scheduled Board meeting as he was only appointed in February 2020.
ii David Blewden was appointed to the Board as independent Non-Executive Director on 1 July 2020.
iii Brian Mitchener resigned from the Board on 31 March 2020.
iv James Parsons resigned from the Board on 23 January 2020.
v JJ Traynor resigned from the Board on 6 February 2020.
All Directors attended all the meetings they were required to attend.

What the Board did in 2020



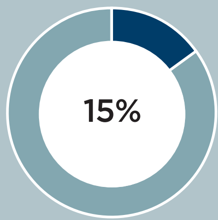
Governance and Risk – 15%

- Ongoing 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 for individual Directors to ensure that the Board is up to date with 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.
  - Review of Committee structures and composition.



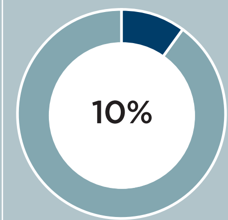
Strategy – 45%

- Business development opportunities considered by the Board.
- mLNG production plan, Heads of Terms executed for the gas sales agreement.
- Successful fundraise and implementation of a cost reduction programme.
  - Pre-sales agreement for the disposal of Badile land.
  - Sidi Moktar permit, extension to work programme.
  - Financing strategy, including bond restructuring and capital raises.



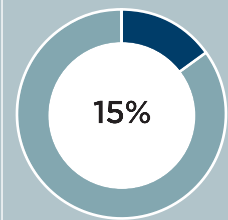
Investor Engagement – 15%

- Investor events held with opportunities for shareholders to speak to Executive Directors in both a formal environment and also more informal one-to-one.
- '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%

- Company scorecard presented and approved, and fed down to the Executive Team.
- Personal development of staff.
- Executive Team meetings.
- Consideration given to the organisation structure and the needs of the business.



Performance Monitoring – 15%

- Updates from the Chairman of the Audit, Nominations and 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 2019 approved.

Shareholder Relations

The Board meets regularly throughout the year, with a combination of scheduled meetings and ad hoc ones held 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 Executive Chairman liaises with board and other exec directors, with an enhanced role for the Senior Independent Director (Richard Liddell). The Chairman ensures that there is open communication with the Non-Executive Directors.

The effectiveness of the Board is monitored on an ongoing 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 2021 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 meet 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 2020 Review

- AGM held 8 June 2020 (closed event in line with Covid-19 restrictions)
- Four online Q&A sessions held throughout the year with accompanying videos

Look Forward

- AGM in the first half of 2021
- Q&A sessions planned throughout the year
- Face-to-face meetings when government guidelines allow

Health and Safety Committee

Richard Liddell
Chairman of the Health and Safety Committee

HSE Committee Activities

The HSE Committee comprises of Richard Liddell (Chairman) and Mohammed Seghiri. Other members of the Executive Team and those within the business responsible for matters pertaining to HSE are invited to join and present to the Committee.

Health and Safety (HSE) Committee Activities

During the year under review, the Committee met twice 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. During operational times and in the lead up to activities within the business, the Committee will meet more regularly to ensure monitoring of the safety of the business.

A full report of the activities of the HSE Committee can be found on pages 22 to 24.

2020 Activities

- HSE focus group continued to meet during the year to review the ongoing HSE procedures and culture.
- The HSE Committee met twice during the year.
- Review of HSE procedures carried out.
- Ensuring safe working measures implemented both within the UK and Morocco with regards to the Covid-19 pandemic.

2021 Looking Forward

- Ensure HSE policy and procedures remain effective and purposeful for the activities of the business.
- 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.

Audit Committee

David Blewden
Chairman of the Audit Committee

Audit Committee Activities

The Audit Committee comprises of David Blewden (Chairman), Marco Fumagalli 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 are 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.

2020 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.
- Appointment of David Blewden as Chairman of the Audit Committee.
- Review of the Company's key strategic risks and mitigations.
- Extensive discussions on controls and policies in place and related training to prevent bribery, corruption and insider dealing. Consideration given to the additional pressures within the business and the economy as a whole due to the Covid-19 global pandemic.
- Ongoing monitoring of the going concern status of the business.
- Reviewed and approved the update to the manual of authorities taking into account new members of the Executive Team.

2021 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 business growth.
- Ongoing monitoring of the Company's going concern status.
- Supporting the Executive Team with regards to the tax assessment of the Company's Moroccan subsidiary, Sound Energy Morocco East Limited.
- Continue to consider the recommendations of the Quoted Companies Alliance Corporate Governance Code, Audit Guide.
- Work with the auditor in respect of a new audit partner for the business.
- Approval of the interim and annual reports and financial statements.

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 66.

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 28.

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.

External audit – audit partner

Considering the significant changes that occurred to the Company following the completion of the 2018 audit, at the Audit Committee's request, the audit partner remained in place for a further two years (the maximum extension allowed by the Financial Reporting Council). This extension includes the 2019 and 2020 audits; a new audit partner will be appointed for the 2021 audit.

Nominations and Remuneration Committee

Richard Liddell

Chairman of the Nominations and Remuneration Committee

Nominations and Remuneration Committee Activities

The Nominations and Remuneration Committee comprises of Richard Liddell (Chairman), Marco Fumagalli and David Blewden.

The Committee meets as and when required to consider matters related to succession planning, new nominations to the Board to ensure that the right skill sets are present in the Board room at each stage of the Company's evolution, to consider all material elements of the Company's remuneration policy, including assessing the Directors' remuneration and performance. During 2020 the Committee met three times.

2020 Review

- Review of the composition of the Board.
- Ongoing consideration of the requirements of the QCA Code to which the Company adheres with regards to the balance of the Board.
- Appointment of a further independent Non-Executive Director.
- Consideration of the remuneration packages for the Executives, including the newly appointed Executive Chairman and Chief Operating Officer during Q1 of 2020.
- Agreed exit arrangement and payments to Executive Directors during Q1 of 2020.
- Determined awards made under the Restricted Stock option ("RSU").
- Evaluated 2020 scorecard (mid-year review).

2021 Looking Forward

- Ongoing review of the composition of the Board.
- Consider the longer-term succession planning for the Executive Team.
- Carry out a review of the remuneration package offered to the Executive Directors and Executive Team, to ensure that the Company offers a fit-for-purpose package, which incentivises senior members within the business and is aligned with the future growth of the business and is commensurate with the Company's peer group.
- Implement the agreed outcome of the remuneration review.
- Continue monitoring of pay and benefits of the CEO and Executive Directors.
- Agree the 2020 performance awards for the CEO and Company based on delivery of the 2020 scorecard.
- Agree the 2021 scorecard for the CEO and Company.

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

2020 was a transitional period for the Company, with new executive directors and a re-focus on the strategy of the business. The Company has worked hard to establish a path forward despite the challenges of the Covid-19 pandemic, compounded with the significant drop in commodity prices during the first half of 2020.

The Remuneration Committee has spent considerable time assessing the current remuneration policy and have sought to devise a policy that aligns executives' rewards for delivery of the success of the business with shareholders. The fundamental principles of the Senior Executive remuneration remains the same, as set out in this report. However, the Committee has taken those principles and is seeking to develop a policy, which it believes will not only incentivise and drive the Executive team to strive for success but will also align them clearly with the aspirations of shareholders for capital growth and ultimately long term value to the business for all stakeholders.

Fixed remuneration comprises salary, pension and benefits. Variable pay includes the potential for an annual bonus and longer term incentives is currently awarded by the use of restricted stock unit (RSU) awards. However, the Committee is currently assessing the on-going use of the RSU scheme and whether a different style of LTIP (Long Term Incentive Plan) scheme would be more appropriate. 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 continued

2020 Remuneration Policy

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 discretion 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 continued

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 an employment contract 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 employment 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. Mohammed Seghiri, COO, has the option to give notice and receive a lump sum equivalent to three months salary. The former CEO, James Parsons and the Exploration Director, Brian Mitchener no longer have a right to receive a change of control payment from the Company.

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	Remuneration in shares £'000s	Additional award £'000s	Benefits in kind £'000s	**Total 2020 £'000s**	Total 2019 £'000s
Executive Directors						
James Parsons(i)	183	–	–	1	**184**	475
Brian Mitchener(i)	13	108	–	2	**123**	300
JJ Traynor(i)(ii)	20	–	–	2	**22**	238
M Seghiri(ii)	195	–	–	14	**209**	–
Executive Chairman and Non-Executive Directors						
Graham Lyon(iii)	199	–	3	–	**202**	–
Richard Liddell	73	–	–	–	**73**	150
Marco Fumagalli	52	–	–	–	**52**	82
David Blewden(iv)	26	–	–	–	**26**	–
David Clarkson	–	–	–	–	**–**	36
Simon Davies	–	–	–	–	**–**	57
Total for all Directors	761	108	3	19	**891**	1,338

(i) Includes pension contribution of 4.5%.
(ii) Benefits in kind includes travel/relocation cost benefit.
(iii) Additional award represents a bonus for services provided.
(iv) Remuneration from the date of appointment.

Directors' Remuneration Report continued

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 2020	**Options held at 31 December 2020**
James Parsons	23.03.16	23.03.19 – 23.03.21	16.00	3,000,000	**–**
Brian Mitchener	07.10.16	07.10.19 – 07.10.21	84.00	1,500,000	**–**
	25.01.17	25.01.20 – 25.01.22	67.00	1,500,000	**–**
JJ Traynor	14.09.17	14.09.20 – 14.09.22	48.00	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. For the directors who resigned during the year, their outstanding options expired.

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.

RSU Awards

	Date of grant	Settlement date	RSU Awards held at 1 January 2020	**RSU Awards held at 31 December 2020**
Brian Mitchener	26.04.18	01.01.21	863,682	**–**
JJ Traynor	26.04.18	01.01.21	961,194	**–**
M Seghiri	26.04.18	01.01.21	126,501	**126,501**
	21.06.19	01.01.22	195,591	**195,591**

During the year 863,682 RSU awards were exercised while 961,194 RSU awards expired.

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 2020:

Directors and connected persons	**No. of shares**
Graham Lyon	**1,066,962**
Richard Liddell	**1,141,176**
David Blewden	**1,176,471**
Mohammed Seghiri	**–**
Marco Fumagalli (Continental Investment Partners)[i]	**18,775,509**

[i] In May 2021 Continental Investment Partners shareholding of 18,775,509 was distributed and Marco Fumagalli became a direct holder of 4,693,877 ordinary shares in Sound Energy plc.

Movements in Share Price During the Year

The mid-market price of the Company's shares at the end of the financial year was 1.4 pence and the range of mid-market prices during the year was between 0.9 pence and 4.2 pence.

Advice Received by the Committee

The Committee has access to advice when it considers appropriate. The Committee engaged a consultant to review the existing Company's LTIP. The amount payable to the consultant for services provided to 31 December 2020, was £3,250.

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 19 May 2021 and signed on its behalf by:

Richard Liddell

Chairman of the Remuneration Committee

19 May 2021

Directors' Report Executive Chairman

Graham Lyon
Executive Chairman

GOVERNANCE REPORT

Other Disclosures

Pages 36 to 53 inclusive (together with sections of the Annual Report incorporated by reference) constitute a Directors' Report that has been drawn up and presented in accordance with applicable 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 31 and forms part of this Report.

Results and Dividends

The loss for the year before tax was £18.8 million (2019: £16.4 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 66.

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 their 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 (2019: £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 50.

Board of Directors

The names of the present Directors and their biographical details are shown on pages 36 to 37.

The Directors who served during the year were as follows:

- Graham Lyon
- David Blewden
- Marco Fumagalli

- Richard Liddell
- Brian Mitchener
- James Parsons
- Mohammed Seghiri
- JJ Traynor

Changes to the Board during the year:

- James Parsons, CEO, resigned from the Board on 23 January 2020.
- JJ Traynor, CFO, resigned from the Board on 6 February 2020.
- Brian Mitchener, Exploration Director, resigned from the Board on 31 March 2020.
- Mohammed Seghiri, COO, was appointed to the Board on 23 January 2020.
- Graham Lyon, Executive Chairman, was appointed to the Board on 25 February 2020.
- David Blewden, independent Non-Executive Director, was appointed to the Board on 1 July 2020.

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 2020 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 the 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 2020, the Company had 1,326,244,389 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 that 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 2020 and up to the date of this report.

Oil & Gas Investment Fund SAS hold 265,605,201 shares, representing a 20.03% 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 92.

Graham Lyon

Executive Chairman

19 May 2021

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; and
- 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's 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

19 May 2021

Independent Auditor's Report to the members of Sound Energy PLC

Opinion

We have audited the financial statements of Sound Energy plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2020, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2020;
- the Group and Company balance sheets as at 31 December 2020;
- the Group and Company statements of changes in equity for the year then ended;
- the Group and Company statements of cash flows 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 and as regards the parent company, as applied in accordance with the provisions of the Companies Act 2006.

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 2020 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 May 2022, indicate that additional funding will be required to enable the Company to meet its obligations.

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

In auditing the financial statements, we have concluded that the directors use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the director's assessment of the group and company's ability to continue to adopt the going concern basis of accounting included:

– Assessing the cash flow requirements of the Group and Company over the duration of the assessment period based on budgets and forecasts.
– Understanding what forecast expenditure is committed and what could be considered discretionary.
– Considering potential downside scenarios and the resultant impact on available funds.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 £1.7m (2019: £1.9m) and the overall materiality for the parent company is £1.6m, 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 £34,000. 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.

The Group also has operations in Morocco which has a separate accounting function. We have performed a remote audit of the accounting systems operating locally in Morocco in order to perform the required audit work.

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 going concern which is 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 totalled £1.0m. The carrying value of the exploration and evaluation assets was £30.5m at 31 December 2020. We consider the risk that exploration assets are impaired.	We reviewed management's assessment which concluded that there are no facts or circumstances that indicate 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 • Obtaining evidence of continued legal title • Reviewed current well and licence reserve appraisals • Discussed and critically analysed plans and intentions with management
Impairment of development and production assets	

The Group has a significant amount of development and production assets which totalled £133.2m at 31 December 2020.
 	
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 indicate the carrying amount of the assets exceeds the recoverable amount.
	
	In considering this assessment we performed the following:
	• 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 and critically analysed plans and intentions with management

Independent Auditor's Report to the members of Sound Energy PLC continued

Key audit matter	How the scope of our audit addressed the key audit matter
Taxation	
The Group received a claim from the Moroccan tax authority for approximately $14m. We considered whether it was probable that settlement would be required and if so, the amount should be recognised as a liability.	We reviewed management's assessment which concluded the liability is contingent. In considering this assessment we performed the following: • Reviewed the initial claim from the Moroccan tax authority and the independent professional advice received by management • Obtained an independent view from our local tax experts • Agreed the disclosure for consistency with the facts as presented and understood by us.

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

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below however the primary responsibility for the prevention and detection of fraud lies with management and those charged with governance of the company.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and the procedures in place for ensuring compliance. The most significant identified were the Companies Act 2006 and UK and Moroccan taxation legislation. Our work included, reviewing board and relevant committee minutes and inspection of correspondence and HSE reports.
- As part of our audit planning process we assessed the different areas of the financial statements, including disclosures, for the risk of material misstatement. This included considering the risk of fraud where direct enquiries were made of management and those charged with governance concerning both whether they had any knowledge of actual or suspected fraud and their assessment of the susceptibility of fraud. We considered the risk was greater in areas involve significant management estimate or judgement. Based on this assessment we designed audit procedures to focus on the key areas of estimate or judgement, including impairment, this included specific testing of journal transactions, both at the year end and throughout the year.
- We used analytics to identify any unusual transactions or unexpected relationships, including considering the risk of undisclosed related party transactions.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

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

19 May 2021

Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020

	Notes	2020 £'000s	2019 £'000s
Continuing operations			
Revenue		**–**	–
Impairment of development assets and exploration costs		**(9,777)**	(6,570)
Gross loss		**(9,777)**	(6,570)
Administrative expenses		**(2,904)**	(6,064)
Group operating loss from continuing operations	3	**(12,681)**	(12,634)
Finance revenue	6	**46**	102
Foreign exchange loss		**(2,877)**	(1,101)
Finance expense	23	**(3,304)**	(2,787)
Loss for the year before taxation		**(18,816)**	(16,420)
Tax credit/(expense)	7	**–**	–
Loss for the year after taxation		**(18,816)**	(16,420)
Other comprehensive (loss)/income			
Items that may subsequently be reclassified to the profit and loss account			
Foreign currency translation loss		**(4,010)**	(4,256)
Total comprehensive loss for the year		**(22,826)**	(20,676)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(22,826)**	(20,676)

	Notes	2020 Pence	2019 Pence
Basic and diluted loss per share for the year attributable to the equity shareholders of the parent (pence)	8	**(1.54)**	(1.54)

Consolidated Balance Sheet

as at 31 December 2020

	Notes	2020 £'000s	2019 £'000s
Non-current assets			
Property, plant and equipment	9	**133,387**	147,342
Intangible assets	10	**30,657**	30,784
Interest in Badile land	24	**988**	936
		165,032	179,062
Current assets			
Inventories		**912**	1,014
Other receivables	12	**1,371**	1,492
Prepayments		**23**	41
Cash and short-term deposits	13	**4,468**	4,608
		6,774	7,155
Total assets		**171,806**	186,217
Current liabilities			
Trade and other payables	14	**2,206**	2,444
Lease liabilities	15	**30**	183
Loans and borrowings	23	**24,709**	–
		26,945	2,627
Non-current liabilities			
Lease liabilities	15	**–**	42
Loans and borrowings	23	**–**	21,235
		–	21,277
Total liabilities		**26,945**	23,904
Net assets		**144,861**	162,313
Capital and reserves			
Share capital and share premium		**29,540**	24,835
Accumulated surplus		**117,334**	135,481
Warrant reserve		**4,090**	4,090
Foreign currency reserve		**(6,103)**	(2,093)
Total equity		**144,861**	162,313

The financial statements were approved by the Board and authorised for issue on 19 May 2021 and were signed on its behalf by:

Mohammed Seghiri Director

Graham Lyon Director

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

Company Balance Sheet

as at 31 December 2020

	Notes	2020 £'000s	2019 £'000s
Non-current assets			
Property, plant and equipment		**36**	105
Fixtures and fittings		**–**	31
Software		**–**	2
Interest in Badile land	24	**988**	936
Investments in subsidiaries	11	**157,851**	172,127
		158,875	173,201
Current assets			
Other receivables	12	**–**	10
Prepayments		**9**	34
Cash and short-term deposits	13	**2,248**	1,802
		2,257	1,846
Total assets		**161,132**	175,047
Current liabilities			
Trade and other payables	14	**1,139**	1,091
Leases liabilities		**30**	55
Loans and borrowings	23	**24,709**	–
		25,878	1,146
Non-current liabilities			
Leases liabilities		**–**	30
Loans and borrowings	23	**–**	21,235
		–	21,265
Total liabilities		**25,878**	22,411
Net assets		**135,254**	152,636
Capital and reserves			
Share capital and share premium		**29,540**	24,835
Accumulated surplus		**101,624**	123,711
Warrant reserve		**4,090**	4,090
Total equity		**135,254**	152,636

The Company's accumulated surplus includes loss for the year of £22.8 million (2019: loss of £14.5 million).

The financial statements were approved by the Board and authorised for issue on 19 May 2021 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 2020

Group

	Notes	Share capital £'000s	Share premium £'000s	Accumulated surplus £'000s	Warrant reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2020		10,796	14,039	135,481	4,090	(2,093)	162,313
Total loss for the year		–	–	(18,816)	–	–	(18,816)
Other comprehensive income		–	–	–	–	(4,010)	(4,010)
Total comprehensive loss		–	–	(18,816)	–	(4,010)	(22,826)
Issue of share capital	16	2,466	2,656	–	–	–	5,122
Share issue costs		–	(417)	–	–	–	(417)
Share-based payments	21	–	–	669	–	–	669
At 31 December 2020		**13,262**	**16,278**	**117,334**	**4,090**	**(6,103)**	**144,861**

Company

	Notes	Share capital £'000s	Share premium £'000s	Accumulated surplus £'000s	Warrant reserve £'000s	Total equity £'000s
At 1 January 2020		10,796	14,039	123,711	4,090	152,636
Total loss for the year		–	–	(22,756)	–	(22,756)
Issue of share capital		2,466	2,656	–	–	5,122
Share issue costs		–	(417)	–	–	(417)
Share-based payments	21	–	–	669	–	669
At 31 December 2020		**13,262**	**16,278**	**101,624**	**4,090**	**135,254**

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 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		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/ (deficit) £'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 Statement of Cash Flows

for the year ended 31 December 2020

	Notes	2020 £'000s	2019 £'000s
Cash flow from operating activities			
Cash flow from operations		**(1,873)**	(10,909)
Interest received		**46**	102
Net cash flow from operating activities		**(1,827)**	(10,807)
Cash flow from investing activities			
Capital expenditure		**(461)**	(1,011)
Exploration expenditure		**(821)**	(5,401)
Disposal of Italian operations		**–**	761
Net cash flow from investing activities		**(1,282)**	(5,651)
Cash flow from financing activities			
Net proceeds from equity issue		**4,589**	2,235
Interest payments	23	**(1,269)**	(1,266)
Lease payments		**(128)**	(195)
Net cash flow from financing activities		**3,192**	774
Net increase/(decrease) in cash and cash equivalents		**83**	(15,684)
Net foreign exchange difference		**(223)**	(244)
Cash and cash equivalents at the beginning of the year		**4,608**	20,536
Cash and cash equivalents at the end of the year	13	**4,468**	4,608

Note to Statement of Cash Flows

for the year ended 31 December 2020

	Notes	2020 £'000s	2019 £'000s
Cash flow from operations reconciliation			
Loss for the year before tax		**(18,816)**	(16,420)
Finance revenue		**(46)**	(102)
Decrease/(increase) in drilling inventories		**102**	(85)
Decrease in receivables and prepayments		**139**	313
Decrease in accruals and short-term payables		**(315)**	(7,773)
Impairment of development assets and exploration costs		**9,777**	6,570
Impairment of interest in Badile land		**–**	616
Depreciation		**328**	425
Share-based payments charge and remuneration paid in shares		**777**	1,659
Finance costs and exchange adjustments		**6,181**	3,888
Cash flow from operations		**(1,873)**	(10,909)

Non-cash transactions during the year included the issue of 5,805,555 ordinary shares at a price of 1.86 pence per share to an employee of the Company in connection with the termination of an employment contract, and the issue of 863,682 ordinary shares to a former employee under the Company's RSU plan. 1,425,000 ordinary shares were issued at a price of 2 pence per share to a third party in lieu of fees incurred in connection with a placing announced in December 2019. In 2019, 40,915 ordinary shares were issued to a former employee under the Company's RSU plan.

The Group has provided collateral of $1.75 million (2019: $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. During the year $1.6 million of the $3.35 million collateral outstanding at the end of 2019 was released and became unrestricted.

Company Statement of Cash Flows

for the year ended 31 December 2020

	Notes	2020 £'000s	2019 £'000s
Cash flow from operating activities			
Cash flow from operations		**(2,179)**	(4,586)
Interest received		**3**	46
Net cash flow from operating activities		**(2,176)**	(4,540)
Cash flow from investing activities			
Badile VAT refund received		**–**	761
Cash advances to subsidiaries		**(604)**	(6,406)
Net cash flow from investing activities		**(604)**	(5,645)
Cash flow from financing activities			
Net proceeds from equity issue		**4,589**	2,235
Interest payments		**(1,269)**	(1,266)
Lease payments		**(59)**	(59)
Net cash flow from financing activities		**3,261**	910
Net increase/(decrease) in cash and cash equivalents		**481**	(9,275)
Net foreign exchange difference		**(35)**	(83)
Cash and cash equivalents at the beginning of the year		**1,802**	11,160
Cash and cash equivalents at the end of the year	13	**2,248**	1,802

Note to Statement of Cash Flows

for the year ended 31 December 2020

	Notes	2020 £'000s	2019 £'000s
Cash flow from operations reconciliation			
Loss before tax		**(22,756)**	(14,507)
Impairment of interest in Badile land		**–**	616
Intragroup recharges		**(479)**	(475)
Finance revenue		**(3)**	(46)
Decrease in receivables and prepayments		**35**	198
Increase/(decrease) in accruals and short-term payables		**48**	(810)
Depreciation		**102**	149
Share-based payments charge and remuneration paid in shares		**777**	1,659
Increase/(decrease) in impairment and expected credit loss allowance on intercompany loans	11	**8,843**	(260)
Finance costs and exchange adjustments		**11,254**	8,890
Cash flow from operations		**(2,179)**	(4,586)

Non-cash transactions during the year included the issue of 5,805,555 ordinary shares at a price of 1.86 pence per share to an employee of the Company in connection with the termination of an employment contract, and the issue of 863,682 ordinary shares to a former employee under the Company's RSU plan. 1,425,000 ordinary shares were issued at a price of 2 pence per share to a third party in lieu of fees incurred in connection with a placing announced in December 2019. In 2019, 40,915 ordinary shares were issued to a former employee under the Company's RSU plan.

Notes to the Financial Statements

for the year ended 31 December 2020

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 2020 were authorised for issue by the Board of Directors on 19 May 2021.

Going concern

As at 30 April 2021, the Group's cash balance was £3.2 million (including approximately £1.3 million held as collateral for a bank guarantee against licence commitments). The Company's €28.8 million bond was due for settlement on 21 June 2021 but subsequent to the year-end, the terms and maturity date of the bond were restructured such that (inter alia) the maturity date was extended to 21 December 2027 and the coupon rate amended such that 2% coupon interest is payable in cash and 3% coupon interest deferred to the maturity date. Further details on the restructuring are provided in the subsequent events note 25. The Directors have reviewed the Company's cash flow forecasts for a range of micro-LNG FID timing scenarios and reflecting expected costs. While the micro-LNG project itself is expected to be fully financed through associated commercial arrangements, the Company will require additional funding later this year to cover its obligations.

The COVID-19 pandemic has not had a material impact on the Company's operations but could impact market conditions for longer than the Directors currently expect and therefore delay the Company's ability to raise additional funding.

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 Company continues to exercise cost control to conserve cash resources and the Directors believe that additional funding will be available in good time from the capital markets when required. Based on the Company's proven success in raising capital and based on feedback from advisors, the Directors have a reasonable expectation that the Company and the Group will be able to secure the funding required to continue in operational existence for the foreseeable future and have made a judgement that the Group will continue to realise its assets and discharge its liabilities in the normal course of business. Accordingly, the Directors have adopted the going concern basis in preparing the 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. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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") assets, impairment of development and production assets, investments and the estimation of share-based payment costs.

E&E assets

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

1 Accounting Policies continued

in the market capitalisation of the Company and whether this indicates existence of an impairment. If those indicators are met a full impairment test is performed.

Impairment test

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 2020, the Company's market capitalisation was £19.0 million, which is below the Group and Company's net asset value of £144.9 million and £135.3 million respectively. Management considers this to be a possible indication of impairment of the Group and Company's 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 of 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 cash flows these generate will determine the subsidiaries' ability to pay returns to the Company.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model ("DCF model"). The cash flows are derived from latest budgets, expenditure and price data in agreed heads of terms and latest management plans on project phasing. The recoverable amount is sensitive to the discount rate as well as the Brent price assumption that forms part of the indexation for the gas price used in the DCF model. The carrying amount of the development and production assets and parent Company investment in subsidiaries was reduced by a £9.2 million impairment loss during the year. The key assumptions used to determine the recoverable amount of the development and production assets are disclosed in note 9.

Share-based payment

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).

Fair value of warrants and bonds and allocation of issue costs

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.

Taxation

The Group seeks professional tax and legal advice to make a judgement on application of tax rules on underlying transactions within the Group or with third parties. Tax treatment adopted by the Group may be challenged by tax authorities. During the year, Morocco tax authority informed the Group that it intended to claim taxes on historical acquisition of licences in Eastern Morocco by the Group. The Group believes that the Morocco tax authority has misunderstood or misinterpreted the underlying transactions and has appealed the assessment. Accordingly, no liability has been recognised in the financial statements but the assessment is considered to be a contingent liability. A disclosure has been made in note 7.

Intercompany loans

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. Other source of estimate concern IFRS 9 on intercompany loans at parent Company level (note 11) but is 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, statements of cash flows 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

Notes to the Financial Statements
continued

for the year ended 31 December 2020

1 Accounting Policies continued

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. On adoption of IFRS 9, the Company calculated the expected credit losses on intercompany loans based on lifetime expected credit loss. The expected credit loss is re-evaluated when credit risk significantly changes.

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 GBP sterling. The Group also has subsidiaries whose functional currencies are US dollar.

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

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

1 Accounting Policies continued

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 cash-generating unit where the cash flows of each field are interdependent.

Acquisitions, asset purchases and disposals

Acquisitions of oil and gas properties are accounted for under the purchase method where the transaction meets the definition of a business combination or joint venture. Transactions involving the purchase of an individual field interest, or a group of field interests, that do not qualify as a business combination are treated as asset purchases, irrespective of whether the specific transactions involve the transfer of the field interests directly, or the transfer of an incorporated entity. Accordingly, no goodwill arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

(e) Expenses recognition

Expenses are recognised on the accruals basis unless otherwise stated.

(f) Property, plant and equipment

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 five years.

(g) 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.

(h) 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.

Notes to the Financial Statements
continued

for the year ended 31 December 2020

1 Accounting Policies continued

(i) 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.

(j) 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.

(k) 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 vested irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

(l) 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.

(m) Leases
The Group assesses at contract inception whether a contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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.

1 Accounting Policies continued

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 offices, 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.

(n) Standards, interpretations and amendments to published standards

Amendments to published standards

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

(o) 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.

(p) 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.

(q) 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
continued
for the year ended 31 December 2020

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 2020, 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 2020:

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

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

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

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

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

2 Segment Information continued

Segment results for the year ended 31 December 2019 were as follows:

	Corporate £'000s	Development and production £'000s	Exploration and 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 are as follows:

	Corporate £'000s	Development and production £'000s	Exploration and 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)

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

	Europe £'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

3 Operating Loss

	2020 £'000s	2019 £'000s
Operating loss is stated after charging:		
Depreciation	**328**	**425**
Employee costs	**1,893**	**3,798**
Impairment of development assets and exploration costs	**9,777**	**6,570**

Notes to the Financial Statements
continued

for the year ended 31 December 2020

4 Auditor's Remuneration

	2020 £'000s	2019 £'000s
Fees payable to the Company's Auditor for the audit of Company's annual accounts	**54**	52
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
	65	63

5 Employee Costs

	2020 £'000s	2019 £'000s
Staff costs, including Executive Directors		
Share-based payments	**669**	1,659
Wages and salaries	**1,388**	2,967
Social security costs	**166**	321
Employee benefits	**129**	132
Employee costs capitalised to development and intangible assets	**(459)**	(1,281)
Total	**1,893**	3,798

	2020 Number	2019 Number
The average monthly number of employees (including Executive Directors) was:		
Technical and operations	**3**	8
Management and administration	**11**	17
Total	**14**	25

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 £0.5 million (2019: £1.3 million) of the employee costs was capitalised.

6 Finance Revenue

	2020 £'000s	2019 £'000s
Interest on cash at bank and short-term deposits	**46**	102
	46	102

7 Taxation

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

	2020 £'000s	2019 £'000s
Current tax		
UK corporation tax	–	–
Overseas tax	–	–
Total current tax (charge)/credit	–	–
Deferred tax credit arising in the current year	–	–
Total tax (charge)/credit	–	–

(b) Reconciliation of tax charge

	2020 £'000s	2019 £'000s
Loss before tax	(18,816)	(16,420)
Tax (charge)/credit charged at UK corporation tax rate of 19% (2019: 19%)	3,575	3,120
Tax effect of:		
Expenses not deductible for tax purposes	(189)	(396)
Temporary differences not recognised	(3,409)	(2,883)
Differences in overseas tax rates	23	159
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 2020 were estimated to be approximately £8.2 million (2019: £8.9 million).

In August 2020, the Group received a notification from the tax authority in Morocco of its intention to assess Sound Energy Morocco East Limited for additional withholding taxes and VAT liabilities totalling approximately $14 million, and intention to consider a revision of the tax bases for previously submitted corporation tax returns, which could lead to additional corporate taxes being assessed. The Group believes that the assessment arises from a misunderstanding of the underlying transactions and has appealed the assessment. Accordingly, no liability has been recognised in the financial statements but the assessment is considered to be a contingent liability.

Following the Group's appeal, the tax authority has referred the matter to a local tax committee. The local tax committee can take up to 12 months to make a decision.

Notes to the Financial Statements
continued
for the year ended 31 December 2020

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

	2020 £'000s	2019 £'000s
Loss for the year after taxation	(18,816)	(16,420)

	2020 Million	2019 Million
Weighted average shares in issue	1,225	1,068

	2020 Pence	2019 Pence
Basic and diluted loss per share	(1.54)	(1.54)

The effect of the potential dilutive shares on the earnings per share would have been anti-dilutive and therefore were not included in the calculation of diluted earnings per share.

9 Property, Plant and Equipment

	Development and production assets £'000s	Fixtures, fittings and office equipment £'000s	Right-of-use assets £'000s	**2020 £'000s**
Cost				
At 1 January 2020	146,876	785	410	**148,071**
Additions	494	–	–	**494**
Derecognition on termination of lease	–	–	(262)	**(262)**
Exchange adjustments	(4,923)	(7)	2	**(4,928)**
At 31 December 2020	142,447	778	150	**143,375**
Impairment and depreciation				
At 1 January 2020	–	544	185	**729**
Charge for period	9,787	128	133	**10,048**
Derecognition on termination of lease	–	–	(193)	**(193)**
Exchange adjustments	(583)	(7)	(6)	**(596)**
At 31 December 2020	9,204	665	119	**9,988**
Net book amount	133,243	113	31	**133,387**

	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
Disposal		(2)	–	(2)
Exchange adjustments	(4,803)	(7)	(4)	(4,814)
At 31 December 2019	146,876	785	410	148,071
Impairment and depreciation				
At 1 January 2019	–	389	–	389
Charge for period	–	155	185	340
Disposal	–	(1)	–	(1)
Exchange adjustments	–	1	–	1
At 31 December 2019	–	544	185	729
Net book amount	146,876	241	225	147,342

During the year, the Group's office lease in Morocco was terminated and a new short-term lease entered into at new office premises. Accordingly, the right-of-use assets with carrying amount of £0.3 million and the related accumulated depreciation of £0.2 million was derecognised.

The Company's market capitalisation was £19.0 million as at 31 December 2020, which is below the Group's net assets of £144.9 million and the Company's net assets of £135.3 million. An impairment indicator therefore exists. The Company is pursuing a micro-LNG development (phase 1) followed by full field development (phase 2) of its TE-5 Horst concession at the Group's Tendrara licence and an impairment test was undertaken on the carrying amount of the TE-5 Horst concession. The Company used a DCF model ("Model") to calculate the value in use for the Company's share of the TE-5 Horst concession. The Model has an NPV of $181.9 million (£133.2 million), which when compared to the carrying amount of the development and production assets of £142.4 million (before impairment) led to recognition of an impairment loss of £9.2 million (£9.8 million less translation exchange adjustment of £0.6 million).

The Model covers the period 2021 to 2045. The input to the Model included a discount rate of 10% and a gas price of $8.25/mmbtu for the first 0.3 bcm gas produced per annum and the price for additional volumes range between $7 to $9 per

Notes to the Financial Statements
continued

for the year ended 31 December 2020

9 Property, Plant and Equipment continued

mmbtu with an indexed formula using a combination of the European Title Transfer Facility and United States Henry Hub benchmark indexes and Brent price range of $50/bbl in 2021 to $67/bbl in 2030, increasing at 2% per annum thereafter consistent with published sources. The base gas prices used are consistent with Head of Terms for the phase 1 development and memorandum of understanding on the gas sales agreement in negotiation with ONEE. The production volumes and production profile was based on the 2018 CPR for TE-5 Horst.

Well costs assumptions used were based on management's past experience, mLNG plant leasing costs were based on agreed Head of Terms with the potential contractor and pipeline related costs were based on Head of Terms entered into with a consortium of partners that had offered to provide a build, own, operate and transfer ("BOOT") solution for the phase 2 of the development. The Company's latest budgets covered the period to 2023 but the model extends to 2045, as that is the period required to produce the gas resources at TE-5 Horst concession and economic cut-off.

A change in the discount rate by 1% has a $21 million (£15.4 million) impact on the NPV and change in the Brent price by $1/bbl has a $0.5 million (£0.4 million) impact on the NPV.

10 Intangibles

	Software £'000s	Exploration & Evaluation Assets £'000s	2020 £'000s
Cost			
At 1 January 2020	**359**	**41,272**	**41,631**
Additions	**–**	**939**	**939**
Exchange adjustments	**(10)**	**(1,008)**	**(1,018)**
At 31 December 2020	**349**	**41,203**	**41,552**
Impairment and depreciation			
At start of the year	**231**	**10,616**	**10,847**
Charge/(release) for the year	**67**	**(10)**	**57**
Exchange adjustments	**(9)**	**–**	**(9)**
At end of the year	**289**	**10,606**	**10,895**
Net book amount at 31 December 2020	**60**	**30,597**	**30,657**

	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 and depreciation			
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

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 2020 the Directors have:

10 Intangibles continued

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. During the year, the Group had capitalised interest costs of approximately £0.1 million (2019: £0.5 million).

11 Investment in Subsidiaries

	2020			2019		
	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	**189,252**	**–**	**189,252**	189,093	–	189,093
Additions	**1,083**	**–**	**1,083**	6,881	–	6,881
Exchange adjustment	**(6,516)**	**–**	**(6,516)**	(6,722)	–	(6,722)
At 31 December	**183,819**	**–**	**183,819**	189,252	–	189,252
Credit loss allowance and impairment						
At 1 January	**17,125**	**–**	**17,125**	17,385	–	17,385
Decrease in credit loss during the year	**(361)**	**–**	**(361)**	(260)	–	(260)
Impairment loss	**9,204**	**–**	**9,204**	–	–	–
At 31 December	**25,968**	**–**	**25,968**	17,125	–	17,125
Net book amount at 31 December	**157,851**	**–**	**157,851**	172,127	–	172,127

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.

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 production assets, as ultimately the cash flows these generate will determine the subsidiaries ability to pay returns to the Company, an impairment loss of £9.2 million has been recognised for the investment in subsidiaries following the

Notes to the Financial Statements

continued

for the year ended 31 December 2020

11 Investment in Subsidiaries continued

recognition of an impairment in the development and production assets (note 9).

On adoption of IFRS 9, the Company calculated the expected credit losses on intercompany loans based on lifetime expected credit loss. The expected credit loss is re-evaluated when credit risk significantly changes.

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% (2019: 9%) obtained from publicly available data published by leading credit rating agencies. £0.3 million (2019: £0.3 million) release 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	**2020 Number**	2019 Number
Gas exploration	UK	Morocco	**3**	3
Holding companies	UK	UK	**1**	1
Dormant	UK	UK	**1**	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

	2020 £'000s	2019 £'000s
UK VAT	**–**	10
Morocco VAT	**464**	654
Other receivables	**907**	828
	1,371	1,492

Currency Analysis

	2020 £'000s	2019 £'000s
US dollar	**800**	692
GBP sterling	**–**	10
Moroccan dirham	**571**	790
	1,371	1,492

Company

	2020 £'000s	2019 £'000s
UK VAT	**–**	10
	–	10

Currency Analysis

	2020 £'000s	2019 £'000s
GBP sterling	**–**	10
	–	10

13 Cash and Cash Equivalents

Group

	2020 £'000s	2019 £'000s
Cash at bank and in hand	**1,229**	1,754
Cash equivalents:		
Short-term deposits	**3,239**	2,854
Carrying amount 31 December	**4,468**	4,608
Being:		
In US dollar	**2,350**	3,636
In euros	**61**	564
In sterling	**1,978**	376
In Moroccan dirham	**79**	32
Total	**4,468**	4,608

Company

	2020 £'000s	2019 £'000s
Cash at bank and in hand	**311**	1,494
Cash equivalents:		
Short-term deposits	**1,937**	308
Carrying amount 31 December	**2,248**	1,802
Being:		
In US dollar	**225**	905
In euros	**61**	564
In sterling	**1,962**	333
Total	**2,248**	1,802

The Group has provided collateral of $1.75 million (£1.3 million) (2019: $3.35 million (£2.54 million)) to the Morocco 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. In August 2020, $1.6 million of the collateral that was outstanding at the end of 2019 was released and became unrestricted.

14 Trade and Other Payables

Group

	2020 £'000s	2019 £'000s
Trade payable	**1,268**	1,312
Payroll taxes and social security	**112**	81
Accruals	**826**	1,051
	2,206	2,444

Notes to the Financial Statements
continued
for the year ended 31 December 2020

14 Trade and Other Payables continued

Currency Analysis

	2020 £'000s	2019 £'000s
US dollar	**902**	1,192
Euro	**794**	810
Sterling	**313**	270
Moroccan dirham	**197**	172
	2,206	2,444

Company

	2020 £'000s	2019 £'000s
Trade payable	**351**	325
Payroll taxes and social security	**105**	82
Accruals	**683**	684
	1,139	1,091

Currency Analysis

	2020 £'000s	2019 £'000s
Sterling	**345**	281
Euro	**794**	810
	1,139	1,091

15 Lease Liabilities

	2020 £'000s	2019 £'000s
Amounts due within one year	**30**	183
Amounts due after more than one year	**–**	42
	30	225
The movement during the year is as below		
As at 1 January	**225**	400
Interest accretion	**10**	25
Payments	**(128)**	(195)
Office lease termination	**(79)**	–
Exchange adjustments	**2**	(5)
As at 31 December	**30**	225

The Group's leases are in respect of the office premises. During the year, the Group's office lease in Morocco was terminated and a new short-term lease entered into at new office premises.

The right-of-use assets are reported within property, plant and equipment (note 9). During the year ended 31 December 2020, the amount recognised as short-term lease expenses was not material.

16 Capital and Reserves

Group and Company

	2020 Number of shares	£'000s	2019 Number of shares	£'000s
Ordinary shares – 1p	**1,326,244,389**	**13,262**	1,079,612,264	10,796

	2020 Number of shares	2019 Number of shares
At 1 January	**1,079,612,264**	1,055,107,172
Issued during the year for cash	**238,537,888**	24,464,177
Non-cash share issue	**8,094,237**	40,915
At 31 December	**1,326,244,389**	1,079,612,264

Non-cash transactions during the year included the issue of 5,805,555 ordinary shares at a price of 1.86 pence per share to an employee of the Company in connection with the termination of an employment contract and the issue of 863,682 ordinary shares to a former employee under the Company's RSU plan. 1,425,000 ordinary shares were issued at a price of 2 pence per share to a third party in lieu of fees incurred in connection with a placing announced in December 2019.

Share issues

During the year ended 31 December 2020, the Company issued 8,477 shares following warrant exercises at an exercise price of 24 pence per share.

In January 2020, the Company issued 76,425,000 shares following a placing announced in December 2019 at 2 pence per share.

In January 2020, the Company issued 5,805,555 shares at 1.86 pence per share to an employee of the Company in connection with the termination of an employment contract.

In July 2020, the Company issued 863,682 shares following vesting of RSU previously awarded to a former employee of the Company.

In August 2020, the Company issued 163,529,411 shares at a price of 2.125 pence per share following a placing.

Reserves

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.

Notes to the Financial Statements
continued

for the year ended 31 December 2020

17 Related Party Disclosures

Key management

As at 31 December 2020, there were two key management personnel other than Directors of the Company (2019: 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.

	2020 £'000s	2019 £'000s
Salaries and employee benefits	**1,136**	1,492
Share-based payments	**604**	1,283
	1,740	2,775

Directors' interest in employee share options

Share options held by non-executive members of the Board of Directors at 31 December 2020 have the following expiry dates and exercise prices:

	Expiry date	Exercise price Pence	2020 Number	2019 Number
2016	2021	60p	**500,000**	500,000

Share options held by the executive members of the Board of Directors at 31 December 2020 have the following expiry dates and exercise prices:

	Expiry date	Exercise price Pence	2020 Number	2019 Number
2016	2021	16p	**–**	3,000,000
2016	2021	84p	**–**	1,500,000
2017	2022	48p	**–**	4,000,000
2017	2022	67p	**1,500,000**	1,500,000

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

	Expiry date	Exercise price Pence	2020 Number	2019 Number
2017	2022	67p	**300,000**	700,000
2017	2022	70p	**–**	1,500,000
2017	2022	52.25p	**500,000**	500,000

Key management's (including Executive Directors) interest in RSU awards

	Settlement date	2020 Number	2019 Number
2018	2021	**310,548**	2,096,554
2019	2022	**520,992**	462,475

Other expenses

Two Directors of the Company were 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 £nil (2019: £9,018) in respect of travel expenses that had been paid by the Company on behalf of Echo. Two Directors of the Company were 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 £nil (2019: £3,847) 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.

	2020 £'000s	2019 £'000s
Financial assets		
Cash and short-term deposits	**4,468**	4,608
Other receivables and interest in Badile land	**2,359**	2,428
	6,827	7,036
Financial liabilities		
Trade and other payables	**2,206**	2,444
Loans and borrowings held at amortised costs	**24,709**	21,235
	26,915	23,679

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 (note 19). 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.

Notes to the Financial Statements
continued

for the year ended 31 December 2020

18 Financial Instruments Risk Management continued

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 have 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.

	2020 £'000s	2019 £'000s
Borrowings	(24,709)	(21,235)
Cash and cash equivalents	4,468	4,608
Net debt	(20,241)	(16,627)
Total capital excluding reserves:		
Equity share capital	13,262	10,796
Equity share premium	16,278	14,039
Shareholders' equity	144,861	162,313

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.

		2020		2019	
	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%	**(112)**	**(6,589)**	(157)	(6,821)
Increase in EUR/GBP exchange rate	5%	**(13)**	**–**	(35)	–
Increase in MAD/GBP exchange rate	5%	**(23)**	**–**	(33)	–
Decrease in USD/GBP exchange rate	(5%)	**112**	**6,589**	157	6,821
Decrease in EUR/GBP exchange rate	(5%)	**13**	**–**	35	–
Decrease in MAD/GBP exchange rate	(5%)	**23**	**–**	33	–

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
continued
for the year ended 31 December 2020

20 Financial Instruments
Cash and short-term deposits

	Floating rate £'000s	Fixed rate £'000s	Interest-free £'000s	Total £'000s	Weighted average rate %
2020					
Sterling	**452**	**1,501**	**25**	**1,978**	**0.33**
Euro	**–**	**–**	**61**	**61**	**–**
US dollar	**1,302**	**–**	**1,048**	**2,350**	**1.44**
Moroccan dirham	**–**	**–**	**79**	**79**	**–**
	1,754	**1,501**	**1,213**	**4,468**	
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	

Euro cash balances have been converted at the exchange rate of €1.1129: £1.00 (2019: €1.1757: £1.00). Moroccan dirham cash balances have been converted at the exchange rate of MAD12.159: £1.00 (2019: MAD12.646: £1.00). US dollar cash balances have been converted at the exchange rate of US$1.3650: £1.00 (2019: US$1.3189: £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 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

	2020 £'000s	2019 £'000s
Expense arising from equity-settled share options and RSU awards	**669**	1,659

Share options
No share options were granted in 2020 and 2019.

21 Share-Based Payments continued

	2020 Number	Weighted average exercise price Pence	2019 Number	Weighted average exercise price Pence
Share options outstanding at the start of the year	**23,225,000**	**44.93**	24,950,000	49.15
Share options granted	**–**	**–**	–	–
Share options expired	**(14,275,000)**	**41.47**	(1,100,000)	58.00
Share options exercised	**–**	**–**	(625,000)	14.07
Share options outstanding at the end of the year	**8,950,000**	**49.19**	23,225,000	44.93

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2020 was n/a (2019: 23 pence). The weighted average remaining contractual life of the options outstanding at 31 December 2020 was 0.8 years (2019: 1.9 years).

9.0 million share options were exercisable as at 31 December 2020 (2019: 11.4 million). If all equity share options were exercisable immediately, new ordinary shares equal to approximately 0.7% (2019: 2.2%) of the shares currently in issue, would be created. The exercise prices for the share options exercisable as at 31 December 2020 range from 16 pence to 70 pence.

RSU awards

During the year, nil (2019: 828,978) 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.

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: n/a (2019: 8.72 pence)
- Average risk free interest rate: n/a (2019: 0.57%)
- Expected volatility: n/a (2019: 75.42%)
- Assumed forfeitures: n/a (2019: 0%)
- Expected dividends: n/a (2019: nil)

No other features of RSU awards grant are incorporated into the measurement of fair value. The weighted average fair value of the RSU awards granted was n/a (2019: 8.71p).

The weighted average remaining contractual life of the RSU awards outstanding as at 31 December 2020 was one year (2019: 1.25 years)

If all the RSU awards were exercisable immediately, new ordinary shares equal to 0.1% (2019: 0.3%) of the shares currently in issue, would be created.

	2020 Number	2019 Number
RSU awards outstanding at the start of the year	**3,380,019**	2,733,240
Granted during the year	**–**	828,978
Expired during the year	**(1,028,572)**	(141,284)
Exercised during the year	**(863,682)**	(40,915)
RSU awards outstanding at the end of the year	**1,487,765**	3,380,019

The weighted average share price at the date of exercise of the RSU during the year was 2.38 pence (2019: 8.6 pence).

Notes to the Financial Statements
continued

for the year ended 31 December 2020

21 Share-Based Payments continued

Warrants

As at 31 December 2020, the Company had the following outstanding warrants to subscribe to the Company's ordinary shares.

2020	Exercise price Pence	Expiry date	Number at 1 January	Exercised	Expired	Number at 31 December
2015 Warrants	24.00	22 May 2020	17,078,323	(8,477)	(17,069,846)	–
2016 Warrants	30.00	21 June 2021	52,411,273	–	–	52,411,273
			69,489,596	**(8,477)**	**(17,069,846)**	**52,411,273**

2019	Exercise price Pence	Expiry date	Number at 1 January	Exercised	Number at 31 December
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

22 Commitment and Guarantees

At 31 December 2020, the Group's minimum capital expenditure on its licences was approximately £4.2 million, primarily for the exploration and appraisal activities in the Group's licences in Morocco. The Group had placed $1.75 million collateral to guarantee to the Moroccan Oil Ministry for the minimum work commitments on its licences.

23 Loans and Borrowings

Group and Company

	2020 £'000s	2019 £'000s
Current liabilities		
At 1 January	**–**	–
Reclassification from non-current liabilities	**23,845**	–
Amortised finance charges	**1,731**	–
Interest payments	**(647)**	–
Exchange adjustments	**(220)**	–
At 31 December	**24,709**	–
Non-current liabilities		
Five year secured bonds		
At 1 January	**21,235**	20,476
Amortised finance charges	**1,637**	3,249
Interest payments	**(622)**	(1,266)
Exchange adjustments	**1,595**	(1,224)
Reclassification to current liabilities	**(23,845)**	–
At 31 December	**–**	21,235

The Company had a five year non-amortising secured bonds with an aggregate issue value of €28.8 million (the "bonds") issued in 2016. The bonds are secured over the share capital of Sound Energy Morocco South Limited, had a 5% coupon and were issued at a 32% discount to par value. Alongside the bonds, the Company in 2016 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 from 2016, 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 five year secured bonds had been due in June 2021. Subsequent to year-end the terms and maturity date of the bonds were restructured as detailed in Note 25.

Reconciliation of liabilities arising from financing activities

		Non-cash changes				
2020	1 January 2020 £'000s	Cash flows £'000s	Amortised finance charges £'000s	Exchange adjustments £'000s	Termination of lease	**31 December 2020 £'000s**
Long-term borrowings	21,235	(1,269)	3,368	1,375	–	**24,709**
Leases	225	(128)	10	2	(79)	**30**
Total liabilities from financing activities	21,460	(1,397)	3,378	1,377	(79)	**24,739**

			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

Notes to the Financial Statements
continued
for the year ended 31 December 2020

23 Loans and Borrowings continued

Reconciliation of finance expense

	2020 £'000s	2019 £'000s
Amortised finance charges	**3,378**	3,274
Less capitalised interest	**(74)**	(492)
Exchange adjustments	**–**	5
Total external interest for the year	**3,304**	2,787

24 Interest in Badile land

In 2018, the Company completed the sale of its Italian operations. As part of the divestment agreement, the Company retained economic interest in Badile land. The Company was also obligated to fund the Badile land restoration for a fixed amount. A potential buyer for the land has been identified and discussions are continuing and expected to lead to the sale of land. The proposed sale contemplates that the buyer takes over the obligation relating to the land restoration. Based on the terms offered by the buyer, the Company would make a profit of approximately £0.1 million and has therefore concluded that no impairment charge is required.

In 2019, the Company received approximately £0.8 million VAT refund from the Badile well operations and recognised £0.6 million impairment charge in respect of the interest in Badile land due to decline in expected sale price.

25 Post Balance Sheet Events

In March 2021, the Company announced that the sale of Badile land area where no restoration works were required (''Area 1'') had been completed and the Company had received €182,535 net of administrative, agency and the legal fees. The sale of Badile land area where restoration work is required (''Area 2'') is expected to be completed later in the year.

In April 2021, the Company announced that the holders of the Company's €28.8 million secured notes (''the Notes'') had approved the Company's proposal for restructuring of the Notes. The revised terms of the Notes are as below:

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

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

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

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

5) The Company issued to the Noteholders 99,999,936 warrants to subscribe for new ordinary shares in the Company at an exercise price of 2.75 pence per share; and

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

List of Licences and Interests

Licence	Status	Name	Type	Key Project or Prospect WI (%)	Key Project or Prospect 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 – June 2021 (Subject to Government guidelines)

Announcements
2021 Interim – September 2021
2021 Preliminary – March 2022

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