SOUND ENERGY PLC

Fuelling the Energy Transition

Annual Report & Accounts
for the year ended 31 December 2021

SOUND ENERGY PLC

Sound Energy is an AIM quoted transition energy-focused business, currently playing an important role providing lower carbon energy for Morocco.

Highlights:

Significant steps towards cash generation

> Tendrara production concession – Phase 1 milestones

Read more on page 12

Major strides forward with a Gas Sales Agreement announced mid 2021 and a finance package completed by year end. Introduction of significant partners: Italfluid and Afriquia Gas.

> Phase 2 milestones

Read more on page 13

Signature of conditional Gas Sales Agreement with ONEE (Office National de l'Electricite et de l'Eau potable) facilitating the Tendrara JV Partners (Sound and ONHYM) to commit to produce, process and deliver gas from the Tendrara Production Concession to the Gas Maghreb-Europe pipeline for an annual contractual volume of up to 350 million cubic metres for 10 years.

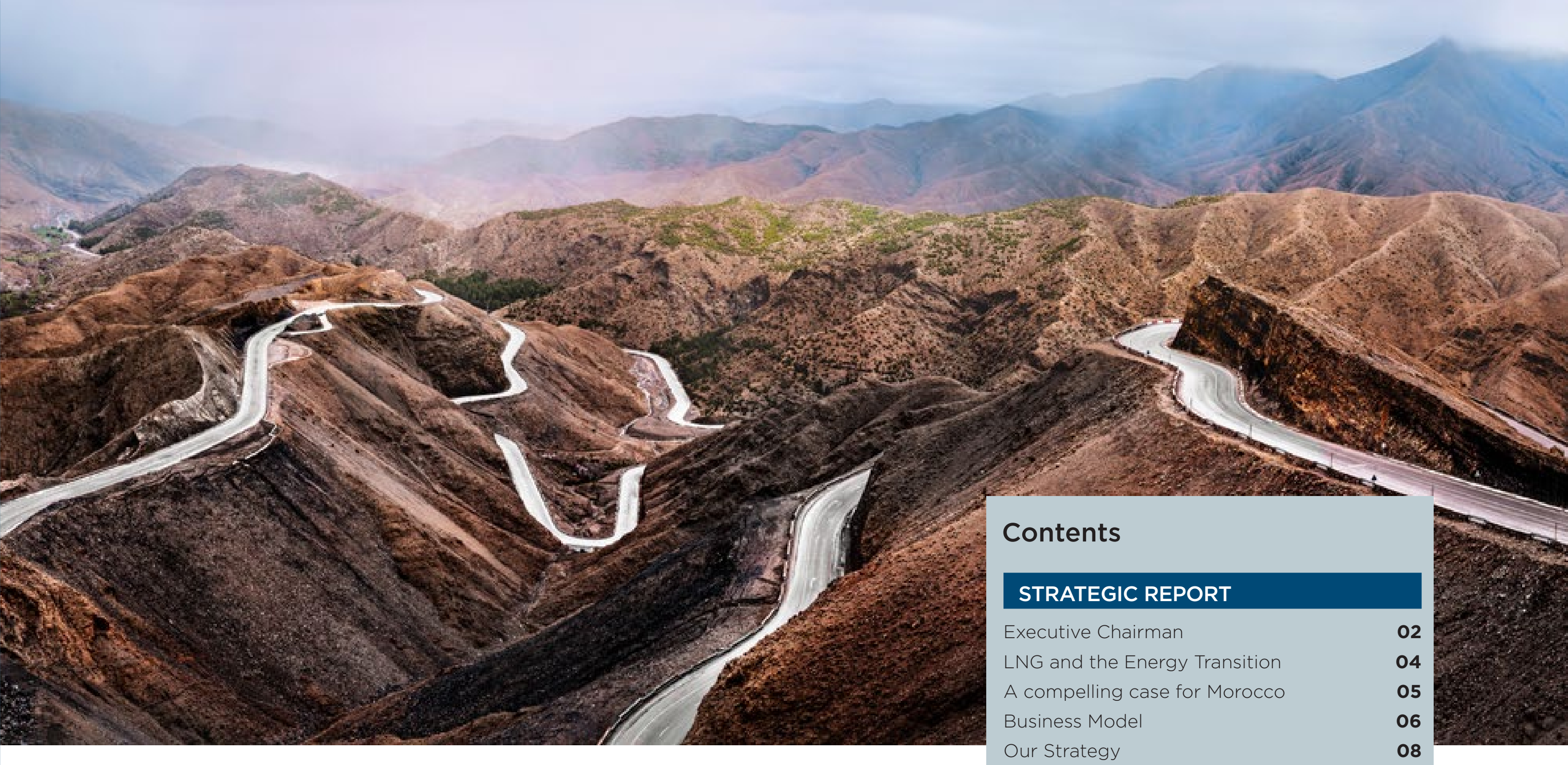
> Exploration permits

Read more on pages 18 to 19

Our exploration permits cover Greater Tendrara, Anoual and Sidi Mokhtar and offer several further opportunities to potentially add to our asset base. We extended our exploration permit from eight to nine years at Anoual and, via an acquisition, materially increased our working interest in Anoual and Greater Tendrara to 75%.

"Our refocused long-term strategy provides a compelling opportunity to responsibly enable the energy transition in Morocco and to create significant value for shareholders."

Graham Lyon
Executive Chairman



Our Investment Proposition

- Largest onshore operator in Morocco and focused leadership team with track record of delivering value
- Advanced in monetising Tendrara's significant 377 bcf, 2C (gross 100%) discovered gas resource through an innovative phased development
- Scalable Phase 1 mLNG FID sanctioned 2022 with First Gas expected within 24 months, unlocking the route to cash flow
- Phase 2 pipeline gas sales, preparation for FID in 2022 and first revenue in around 24 months, generating significant value thereafter

Read more in Our Strategy on pages 08 to 09

- Significant multi-tcf upside exploration potential at both Tendrara and Sidi Mokhtar

Read more in Reserves and Resources on pages 14 to 15

- Value upside as trading at a deep discount to Net Asset Value supported by SP Angel equity research valuation
- Assessing a basket of Energy Transition growth opportunities in and beyond Morocco
- Multiple near-term catalysts for a re-rating with attractive ESG credentials

Corporate website

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

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Statement from the Executive Chairman

"2021: A year of delivery and development."

Graham Lyon
Executive Chairman

Introduction

Following 2020, our year of stabilisation, 2021 was a year of delivery for the Company. The team's relentless hard work resulted, in spite of the challenges raised by the global Covid pandemic, in the achievement of a number of key milestones for the business and the commencement of our strategic shift to a production focused energy transition business. This delivery has advanced the prospect of gas sales and revenues from our Phase 1 microLNG ("mLNG") development in Morocco while at the same time establishing basis for the large-scale Phase 2 development.

The Phase 1 project made significant strides forward in 2021 with a Gas Sales Agreement ("GSA") announced earlier in the year and a financing package completed at year end. This will cover the cost of bringing this development to market. In parallel with this, we have materially advanced the Phase 2 development, securing a binding GSA with ONEE (Office National de l'Electricite et de l'Eau potable), a vital step, which provided certainty on gas sales pricing and offtake from the pipeline development to unlock the financing stage of the development process. The value of these strategically pivotal developments to Sound shareholders was further enhanced by our entry into a sale and purchase agreement with Schlumberger Holdings II Limited, which resulted in Sound increasing its participating interests in the Tendrara Concession along with the Anoual and Greater Tendrara exploration permits, from 47.5% to 75%. Finally, Sound secured an extension to the term of the Annual Permit, which covers the Tendrara concession, from eight to nine years.

The Company was able to reschedule its longer-term bond holder debt and gain the support of these holders to the staged development of the business. This was completed with minimal dilution to equity holders and has put the Company in a stronger financial position.

In addition to the operational progress delivered in 2021, I am also very proud that we have redoubled our commitment to Environment, Social and Governance (ESG) best practice and while we have always maintained the highest environmental standards in our operations, we now have a clear path to measuring and reporting our ESG metrics against the UN's Sustainable Development Goals. Furthermore, we are working with a University of Cambridge project which will assist with the measurement of our Carbon footprint.

Phase 1

In July 2021, we signed the Phase 1 Development LNG Sale & Purchase Agreement ("LNG SPA") for the mLNG project for the TE-5 Horst. This is a ten year take or pay agreement between Afriquia Gaz (Morocco's leading fuel distributor) and Sound Energy Morocco East Limited ("SEMEL") – a 100% subsidiary of Sound Energy PLC. Under the LNG SPA, SEMEL will commit, for 360 days a year over 10 years from first gas, to provide a daily quantity of between 475 and 546 cubic metres of LNG and Afriquia will commit to offtake (or pay for if not offtaken) an annual minimum of 475 cubic metres per day.

Additionally, at the end of the year, we announced binding agreements in respect of a US$18 million loan from Afriquia Gaz for development of the Tendrara Concession. Earlier in the year, Afriquia Gaz also invested in the Company by way of an equity placing of £2 million of Sound Energy PLC shares, further cementing the strategic relationship between the two companies.

Post period, we were delighted to announce that we have entered into a binding contract with Italfluid Geoenergy srl for the leasing and operation of gas processing and liquefaction facilities in respect of our Phase I development. This novel vendor financing arrangement provides the lion's share of the development capital required for Phase 1, thus providing the platform for attractive shareholder returns.

Subsequent to this, the Company has issued a notice to proceed to Italfluid, thus commencing the project execution stage and paving the way for first gas within 24 months. Whilst I do not underestimate the project challenges that lie ahead, particularly in a world post COVID experiencing inflation and supply chain issues, we are pleased that the Company is now on a pathway to becoming cash generative.

Phase 2

In November 2021, the Company announced the signature of the conditional binding Gas Sales Agreement with offtaker, ONEE. The agreement means that the Tendrara JV Partners (Sound and ONHYM – the Moroccan Government representative body) have committed to delivering gas from the Tendrara Production Concession to the Gas Maghreb-Europe pipeline for an annual contractual volume of up to 350 million cubic metres of pipeline gas for a period of 10 years, with an annual take or pay volume of 300 million cubic meters at a market competitive price.

This binding Gas Sales agreement for Phase 2 represents a major milestone for the Company, so I am extremely proud that it was completed in 2021.

Anoual

In September 2021, we announced an update to the Anoual Permits extending their duration from eight to nine years. While the team has worked relentlessly to deliver our operational goals, COVID has undoubtedly impacted progress on the ground and we have been unable to progress at the speed that we would have wished. As a result of this, Sound was granted an extension to the Permits resulting in an extension to the permits from eight to nine years, giving us further time to mature our plans for this important and potentially transformative exploration permit.

Schlumberger Holdings II Limited sale and purchase agreement

In June 2021, the Company entered into a sale and purchase agreement to acquire the entire issued share capital of Schlumberger Holdings II Limited in return for a minority profit share from the concession development plus a share in any cash disposal of the Anoual and Greater Tendrara exploration permits (should this occur prior to 28 February 2023). This agreement, at no upfront cash cost to the Company, materially increased our working interest in the Tendrara Concession together with the Anoual and Greater Tendrara exploration permits to 75% (from 47.5%), positioning the Company to benefit from enhanced returns, cash flows and value as it moves forward.

Corporate

In February 2021 , we announced the appointment of SP Angel as our corporate broker, whilst in March 2021 we announced the receipt of the first payment (€183k) in respect of the disposal of legacy Badile land in Italy.

In April, we successfully concluded the restructuring of the Company's Luxembourg listed €28.8 million 5.0% senior secured notes due 2021 extending the maturity to December 2027, converting part of the loan into equity, partially amortising and changing the structure of the interest due, to minimise near-term cash outflow.

We continue to constructively engage with the Moroccan Tax Administration in relation to a number of tax notifications. The Company remains clear that the assessments by the Moroccan Tax Administration, as previously announced, arise from a fundamental misunderstanding of the historical licensing changes (relinquishing old licences and entering new licences covering revised acreage with revised terms – with no continuation or transfer of the original licence) and inter-group ownership outside of Morocco. We hope to bring this to a conclusion so that we can continue our very positive and productive relationship with a number of the Country's ministries.

We have continued to scrupulously and efficiently manage our expenditure and corporate overheads, to sustain cash balances, whilst at the same time strengthening our team and our resourcing capability necessary for the Company's operations.

Whilst the pandemic has challenged our ability to engage face to face with shareholders and other key stakeholders, we undertook a variety of virtual stakeholder and investor events and I was delighted to welcome shareholders into our London office for our first face to face event since 2019. I look forward to more shareholder events through 2022, giving us the opportunity to share, in real time, our exciting plans for the growth of the Company.

Post period, the Company announced that it was considering a possible offer for Angus Energy plc ("Angus"). The possible offer would be an all-share offer whereby Angus shareholders would (subject to Sound Energy shareholder approval) receive the Company's ordinary shares in exchange for their holding in Angus at an agreed exchange ratio. The deadline by which the Company is required to announce a firm intention to make an offer for Angus, or announce that it does not intend to make an offer, expires on 8 April 2022.

Board Strengthening

We further strengthened our Board as we welcomed Christian Bukovics as Senior Independent Non-Executive Director. Christian has over 40 years of experience across various international roles in the energy industry and he has already made a considerable contribution to the Company since his recent appointment.

Summary

As I have already outlined, 2021 was a year of delivery in pursuit of monetising our significant discovered gas for our Phase 1 mLNG project. This included the successful conclusion of a number of major agreements and the delivery of key project milestones that very clearly demonstrated our commitment to delivering against our promises. During 2022, we will continue to work tirelessly to deliver additional value for our shareholders through meaningful progression on both Phase 1 mLNG project and the Phase 2 gas pipeline development in our energy transition strategy in order to deliver increased future Company growth. I look forward with confidence to delivering a similarly productive 2022 for Sound on behalf of all of its stakeholders.

Graham Lyon

Executive Chairman

LNG and the Energy Transition

Global Context

A poignant time for the energy transition. COP26 in 2021 showed the world the urgency we face in securing less carbon-intensive fuels as part of the energy mix.

Economics of 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 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.

Global trade in LNG rebounds strongly in 2021, increasing to

380

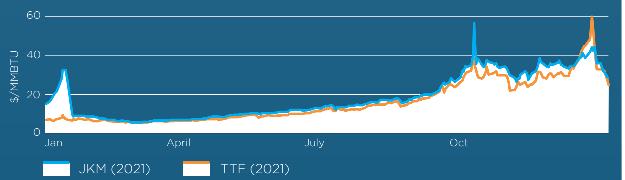
million tonnes, an increase of 21 million tonnes (6.0%) compared to 2020*

Global LNG demand expected to cross

700

million tonnes by 2040*

Gas and LNG prices hit record levels in 2021*



* Global data referenced from Shell LNG Outlook 2022

Environmental and Consumer Benefits of LNG

Cleaner – Gas 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

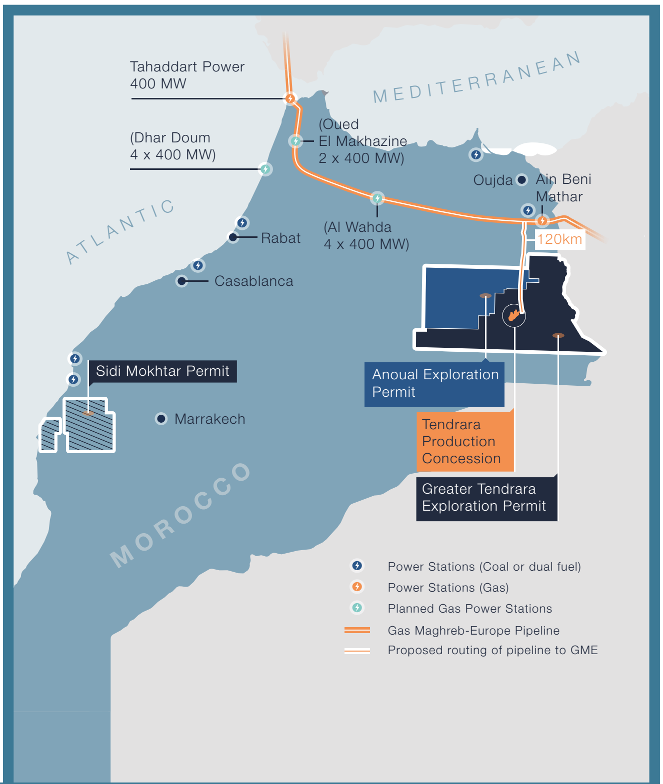
- Rail
- Agriculture and Industry
- Trucking
- Maritime fuel
- Power generation

A compelling case for Morocco

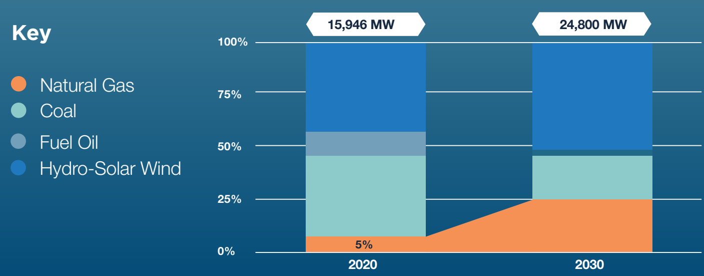
- Prior to 2021, Morocco historically imported 90% of all consumed gas from Algeria through the GME pipeline – feeding two existing CCGTs in Tahaddart and Ain Beni Mathar.
- Electricity needs are growing at a sustained yearly rate of about 5%.[1]
- The Moroccan Government is committed to reduce dependency on imports, with a clear energy policy focused on energy security and sustainability.
- The Morocco National Energy Strategy has stated its plan to harness renewable energy and add 3,900 MW of new gas-fired power capacity[2] as an alternative to coal.
- Natural gas therefore plays a strategic role as a bridge fuel and a catalyst to sustain Morocco's growing energy needs.
- Increasing domestic energy needs are identified as a growth opportunity for Tendrara gas.
- Connecting to the GME opens access to European market with confirmed capacity by Spain and Portugal, two import-dependent geographies, to absorb additional volumes.
- Attractive fiscal terms (10-year tax holiday).

1 IEA Energy Policies Beyond IEA Countries 2019 Morocco

2 Moroccan nationally determined contribution under the UNFCCC 2016



Power generation in Morocco installed capacity and gas requirements



Algeria Gas

Following the cessation of gas exports to Morocco from Algeria in 2020, the case for enhanced security of supply and indigenous gas production has become even greater. The proposed Phase 2 gas development to produce for the gas-to-power market is a key element of Morocco's energy strategy. Clearly with the significant exploration potential within Sound Energy's portfolio, we are very well-positioned to meet Morocco's heightened and growing need for gas should the company discover further gas resources.

What does this mean for Sound Energy?

- Sound has been referred to by name in the Moroccan National Energy Strategy as crucial in plugging the supply demand imbalance for Gas as it becomes the replacement fuel for Coal in Morocco.
- As Morocco continues to grow both industrially and domestically and as other fuel sources become more scarce in-Country, there is a further opportunity to supply more of the energy mix.

Read more in Our Strategy on pages 08 to 09

Business Model

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

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, lenders 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.

A Sustainable Business Model with ESG at its core

Environment

- LNG and Piped gas development displacing coal and LPG to lower Morocco's carbon footprint
- Respecting our environment and upholding high environmental standards

Social Responsibility

- Creating local employment in developing countries
- Investing in community projects e.g. Mataarka dispensary

The world is changing

Society demands an irreversible transition towards a de-carbonised 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.

Re-cycle & grow

- Re-cycle cash and leverage portfolio to fuel growth
- Leverage technical, financial and commercial skill sets to build the portfolio

Evaluate

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

Develop

- Advance development strategies with efficient use of financial resources.
- More discoveries through the development phase at pace.
- Innovative co-operation with strategic partners who can deploy capital.

Produce

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

People

- Keeping our people safe
- Developing our people
- Promoting positive behaviours
- Training of Moroccan nationals

Governance & Ethics

- Committed to strong corporate governance to strengthen our business and serve our stakeholders.
- LSE listed entity observing QCA code
- Chairman and Senior Independent Non-Executive Director

Delivering sustainable shareholder value through the energy transition

Our existing portfolio has the capacity to satisfy a significant amount of Morocco's gas needs in the coming years.

The journey for shareholders since discovery and evaluation of the TE-5 Horst has taken time to get to this exciting development stage. However, the pieces of the puzzle, namely the funding, Gas Sales Agreement, development contract and staffing up, are now in place ready for Sound to deliver first revenue via its Phase 1 Micro LNG project in the coming 24 months. These first revenues and indeed the component milestones that will take place through the development process will offer sustainable and recurring shareholder value.

Growing responsibly, safely and sustainably

Our growth and business model is created while maintaining the highest international safety standards and utmost regard for the environment in which we operate. We conduct all business with respect and integrity.

Our Strategy

Today

FOCUSED
Moroccan gas development/monetisation strategy

COMPELLING
Case for gas in Morocco

DEVELOPING
A major discovered gas resource with strategic partners, e.g. Afriquia Gaz

FINANCED
Phase 1 gas development via Micro LNG with Afriquia Gaz and Italfluid, unlocking cash flow

PHASE 2
Pipeline gas-to-power generation providing an alternative to coal use

GAS EXPLORATION
Portfolio offers potential for transformational growth

SUCCESSFULLY RESTRUCTURED
Long-term debt to enable value delivery

STRONG ESG
Lower carbon footprint fuel

The future

TRANSITION ENERGY
Delivering secure, affordable and sustainable energy, replacing imported LPG, coal and Algerian gas

PORTFOLIO DIVERSIFICATION
By asset class and geography to spread risk and open growth opportunities

SHAREHOLDER RETURNS
Delivered through sustainable cash generation and capital growth

Phase 1

Unlocking cash flow

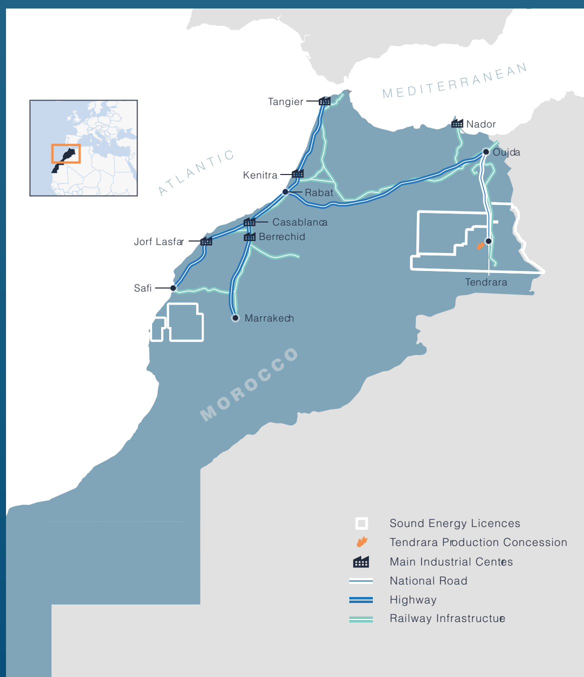
TENDRARA DEVELOPMENT PHASE 1: MICRO LNG

Contract signed with EPC contractor Italfluid Geoenergy S.r.l for Micro LNG plant

- Binding agreements with Afriquia Gaz (part of AKWA group) covering Sound Energy's project capital requirement to first gas
- Binding gas sales agreement in place with Afriquia Gaz
  – 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 $6-$8.346 per mmBTU ex plant
- LNG CPF EIA permit approved

Next steps

1. Progress engineering of remaining Phase 1
2. Placing purchase orders for major equipment (Italfluid)



near-term, low-risk potential and near-term cash generation

Phase 2

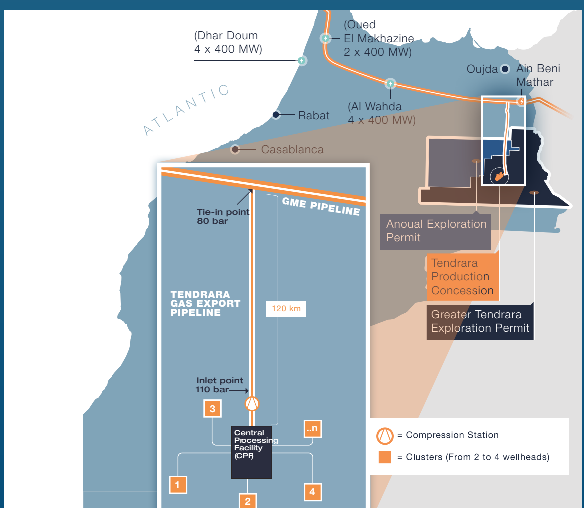
Pipeline to power generation

TENDRARA DEVELOPMENT PHASE 2: CPF AND PIPELINE

- 20 inch, 120km Tendrara Gas Export Pipeline (TGEP): FEED complete
- Tie-in to existing GME pipeline (Station M04): FEED completed by Metragaz (EMPL operator)
- Pipeline EIA permit approved
- 70 mmscf/d raw gas CPF processing capacity: FEED completed
- CPF EIA permit approved
- GSA MoU (ONEE) signed October 2019 for domestic power plants for gas-to-power generation (transit via GME line), minimum volume of 0.3 bcm/year
- Recompletion of existing TE-6 & TE-7 wells (Phase 1), followed by 6 horizontal wells planned for FFDP (Full field development plan) First Gas (Phase 2)

Future Activities:

1. Pipeline tie-in agreement
2. Project Finance
3. FID which leads to:
4. Additional Processing Plant
5. Additional Development Wells
6. Maturing gas-for-industry options for future discoveries



immediate follow-on potential

Phase 3

Unlocking Portfolio Potential

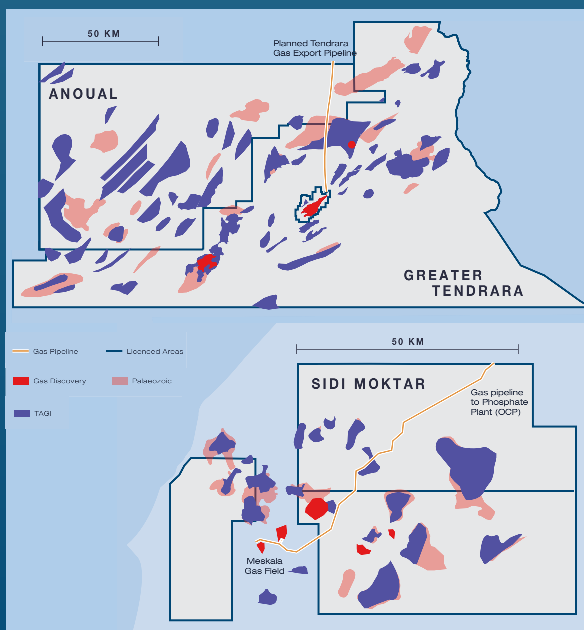
FURTHER GAS EXPLORATION: SIGNIFICANT POTENTIAL FOR SCALABLE GROWTH

- We are the largest onshore licence holder in Morocco
- Potential of continuity with the prolific Algerian Triassic & Palaeozoic sub-salt gas plays
- Opportunity to access the overlooked, high exploration potential with 28.35 Tcf[1] identified across the licences

PORTFOLIO DIVERSIFICATION

- Leveraging our skill sets and relationships to build out the portfolio, to deliver growth and spread risk
- Actively working a funnel of inorganic business development opportunities centred on the energy transition within Morocco and beyond
- Focus on asset classes that deliver near-term returns

[1] Internal exploration potential estimates, unrisked original gas in place (gross, 100%)



long-term opportunities to support the energy transition

Our 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
Phase 1

Funding/offtaking/investment

The partnership commits SEMEL (Sound Energy Morocco East Ltd) on behalf of the Concession JV, for 10 years from first gas via the binding 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 underpinned its partnership with Sound Energy PLC by acquiring a 9.8% shareholding through a £2 million placing in 2021 and entered into a $18 million loan note agreement with the Company also in 2021, which meets capital funding requirements of Sound Energy's JV concession participants to bring the Phase 1 project onstream.

Substantial market share of LPG supply currently

1. 44% share of Moroccan LPG market[1]
2. Listed in Morocco
3. Market Cap. of c 1.65 USD bn[2]

Financing

1. Loan note for $18 million
2. £2 million equity placement resulting in a 9.8% shareholder position
3. Provision of transportation and end-user storage & re-gasification
4. Guaranteed 10 year take or pay offtake contract

[1] Advised by Afriquia Gaz CFO on 5 May 2021.

[2] Quoted from Casablanca Bourse at 16:00 pm on 21 March 2022.

Italfluid Geoenergy S.r.l
Phase 1

Design/construct/commission/operate/maintain

Post period end, Sound Energy Morocco East Limited (SEMEL) entered into a binding contract with Italfluid S.R.L. in which Italfluid will design, construct, install, commission, operate, maintain and lease to SEMEL, a gas processing and liquefaction plant over a 10-year period.

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.

Micro LNG Plant is to be designed, constructed, commissioned, operated and maintained by Italfluid with guarantees for plant operability and delivery.

Lease structure (with option to buy):

1. Minimal two-step capital payments at FID and following successful completion of Micro LNG plant commissioning (including production build-up)
2. Leasing solution substantially lowers capital investment requirements of Phase 1 development
3. Daily Rental payment paid to Italfluids on guaranteed daily volume only
4. Performance guarantees on plant availability

Oil and Gas Investment Fund

Investment

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:

- Consolidated interest in Eastern Morocco’s prospective acreage.
- Strengthened Sound Energy’s position in Morocco: OGIF is a Moroccan fund, owned by the seven largest Moroccan financial institutions.
- As at 31 December 2021, OGIF had an interest in approx. 16.4% of Sound Energy’s current issued share capital.

Office of Hydrocarbons and Mines

Licences/funding

- 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 further strengthening their shared interests.

Partnering through **the Value Chain**

Phase 1

Micro liquified natural gas ("mLNG") development plan for the TE-5 Horst Development

Micro LNG Value Chain	Sound Energy	Italfluid	Afriquia Gaz
Production	Production	• Design • Commission • Maintain	
Small-Scale LNG Production	Small Scale LNG Production	• Design • Commission • Maintain	
Transport			Transport
Regasification			Regasification
Distribution			Distribution
Marketing and Sales			Marketing and Sales

Progress

- 10-year Gas Sales Agreement signed with Afriquia Gaz
- Italfluid Geoenergy Srl selected as contractor to Engineer, Procure, Construct, Operate and Maintain the micro-LNG Plant based on a lease contract structure.
- Access road topographic and geotechnical field survey completed
- Geotechnical field survey completed by Italfluids across the proposed micro-LNG site for facilities

Next Steps

- Progress micro-LNG Plant engineering towards Approved for Design and Approved for Construction status
- Place purchase orders for all major micro-LNG equipment (via Italfluid)
- Award site construction contract (via Italfluid) and commence civils works at site
- Finalise engineering of flowlines and associated equipment, engage with suppliers and place purchase order(s) for supply

Phase 2

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

Full field Value Chain	Sound Energy	ONEE
Production	Production	
Gas Processing	Gas processing	
Transport	Transport	Transport
Distribution	Distribution	Distribution
Marketing and Sales	Marketing and Sales	Marketing and Sales

Progress
- Gas Sales Agreement signed with ONEE for supply of minimum 0.3 bcm/year gas-for-power generation (transit via GME pipeline)

Next Steps
- Engage with potential suppliers for the design and build of the CPF

Reserves and **Resources**

Resources

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

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.

The Tendrara Production concession contains Contingent Resources. 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 ("RPS"). The results of the resource evaluation were presented in a Competent Persons Report ("CPR"). The table below summarises the Discovered Gas Originally in Place and the Contingent Resources[1] for the Tendrara TE-5 Horst within the Concession certified by RPS, as announced by the Company on 20 December 2017 and 23 January 2018 and the net interest to the Company[2].

	Discovered Gas Originally In Place (Bcf)			Contingent Resources (Bcf)[1]			Contingent Resources (Bcf)[1]		
Segment Name	**Gross** (100%) basis			**Gross** (100%) basis			**Net** to Company (75%) basis		
	Low	Mid	High	1C	2C	3C	1C	2C	3C
TE-5 Horst (TAGI 1 & 2)	349	651	873	197	377	533	148	283	400

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.

At the point of Final Investment Decision ("FID") for each phase of the Tendrara TE-5 Horst development project, it is expected that a portion of these Contingent Resources will be converted into Reserves. Projects that are classified as Reserves will meet the following criteria:

- a technically mature and feasible development plan;
- financial appropriations either being in place or having a high likelihood of being secured to implement the project;
- a reasonable timeframe for development;
- a reasonable assessment that the development projects will have positive economics and meet defined investment and operating criteria;
- a reasonable expectation that there will be a market for forecast sales quantities of the production. There should also be similar confidence that all produced streams can be sold, stored, re-injected, or otherwise appropriately disposed;
- the necessary production and transportation facilities are available or can be made available; and
- legal, contractual, environmental, regulatory, and government approvals are in place or will be forthcoming, together with resolving any social and economic concerns.

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

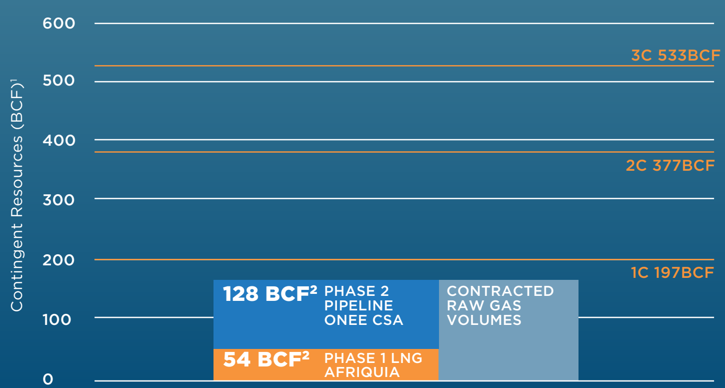
2 Under the principal terms of a Profit Sharing Deed, the Company, together with its subsidiaries, will pay to Schlumberger Holdings II Limited an amount equivalent to between 8% and 11% of total net profits (after costs, taxes and other applicable deductions) arising from the Concession over a period of 12 years from first commercial production from the Concession.

TE-5 HORST RESOURCES (TAGI I & II) GROSS (100%) BASIS[3]

1 Contingent Resources certified by RPS Energy (2018) are technical volumes, i.e. no economic limit test applied.

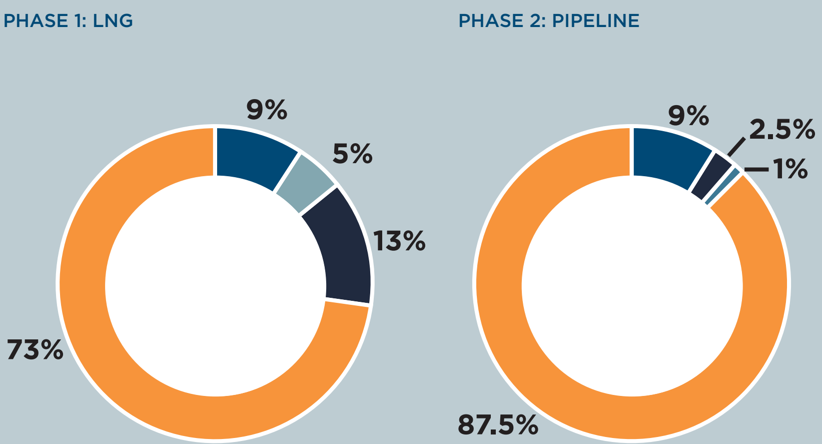
2 Raw gas required to satisfy "take or pay" delivery requirement in the GSA over 10 years.

3 Quoted volumes in standard conditions cubic feet.



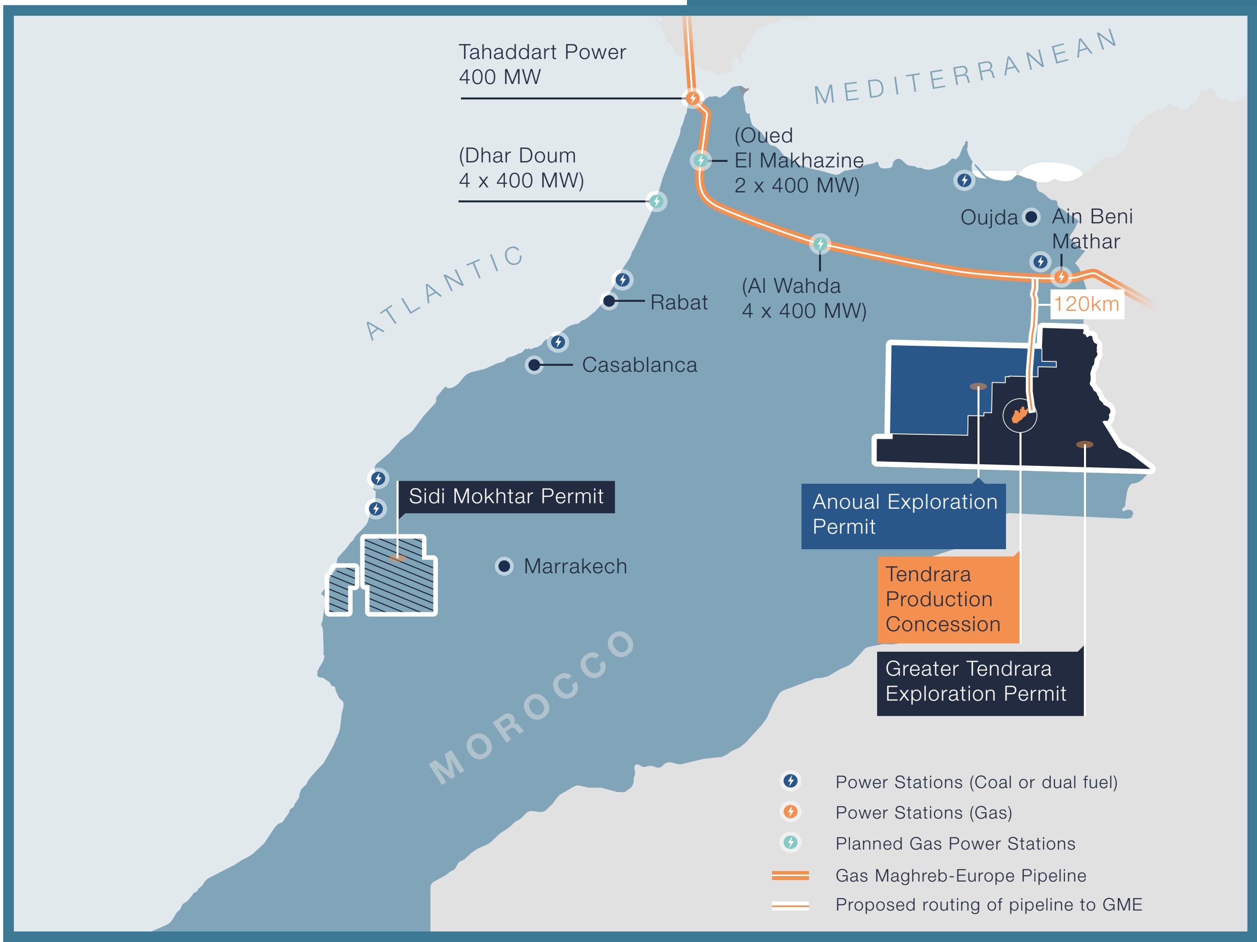
RAW GAS COMPONENTS

- Sales Gas
- CO_2
- N_2
- Fuel
- Condensate



Portfolio Review

Our Portfolio



A blended portfolio of gas assets.

Southern Morocco

SIDI MOKHTAR ONSHORE

75% interest **Operated***	Exploration permit	4,712 km^2 44 wells drilled

Eastern Morocco

GREATER TENDRARA

8 years from October 2018

75% interest **Operated**	Exploration permit	14,411 km^2 8 wells drilled

ANOUAL

8 years from August 2017

75% interest **Operated**	Exploration permit	8,873 km^2 1 well drilled

PRODUCTION CONCESSION

25 years from September 2018

75% interest **Operated**	Exploration permit	133.5 km^2 4 wells drilled

Tendrara Production Concession

Permit Area

Located proximate to Gazoduc Maghreb Europe ("GME") pipeline approximately 120 kilometers to the North. The 522 kilometres long Moroccan section is owned by the Moroccan State and operated by Metragaz. The pipeline connects Morocco to the Spanish/Portuguese gas grids as well as the Moroccan gas-fired power stations.

Geology

Gas reservoir with flow rates significantly enhanced by application of proven mechanical stimulation techniques.

Ongoing and Planned Developments

Potential capacity to meet gas demand in a phased manner with Phase I being the implementation of a micro-LNG development scheme and Phase II being the development of a larger scale central processing facility ("CPF") and gas export pipeline.

Phase 1

Supply of LNG displacing higher carbon LPG

Phase 1 Micro LNG Development - Sound fully funded for pre first gas share of development costs

Deployment of field gas treatment, processing, liquefaction and storage facilities to deliver mobile LNG to buyer at site. The LNG buyer will distribute and sell on to its growing Moroccan industrial consumers within the domestic gas market.

Supplies of LNG are to be an annual contractual quantity of 100 million standard cubic metres of gas (approximately 3.5 billion standard cubic feet of gas per year) over a ten-year period in a liquid form.

Binding gas sales agreement and associated funding in place with Afriquia Gaz. A ten-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 $6–$8.346 per mmBTU ex plant.

Development utilises the existing well stock of TE-6 and TE-7, with additionally the drilling of one new well as required to maintain the ten-year period of potential at the plateau.

LNG Central Processing Facility and Environmental Impact Assessment EIA permit approved and binding agreement with Italfluid

Micro LNG Plant to be designed, constructed, commissioned, operated and maintained by Italfluid with guarantees for plant operability and delivery.

Lease structure (with option to buy):

- Minimal two-step capital payments at FID and following successful completion of Micro LNG Plant commissioning (including production build-up)
- Leasing solution substantially lowers capital investment requirements of Phase 1 development
- Daily rental payment paid to Italfluid on guaranteed daily volume only
- Performance guarantees on plant availability

Phase 2

Gas as a transition fuel flowing to the GME pipeline

Phase 2 Tendrara TE-5 Development

20 inch, 120km Tendrara Gas Export Pipeline ("TGEP"):

- Tie-in to existing GME pipeline (Station M04): FEED completed by Metragaz (EMPL operator)
- Pipeline EIA permit approved
- 70 mmscf/d raw gas CPF processing capacity: FEED completed by Enagás Consortium
- CPF EIA permit approved
- Gas Sales Agreement ("GSA") with ONEE (Office National de l'Electricite et de l'Eau potable) signed November 2021 for domestic power plants for gas-to-power generation (transit via GME line), minimum volume of 0.3 bcm/year (approximately 10.5 billion standard cubic feet of gas per year) at a fixed sale price over a ten year term.
- Six horizontal wells planned for First Gas (Phase 2)

Portfolio Review continued

Exploration

Greater Tendrara – two Triassic TAGI[1] discoveries

License Details

Area	14,411 km^2
Status	Petroleum Agreement: Exploration
Effective date	01 October 2018
Term	8 years
Resource Potential	Exploration potential in the Triassic TAGI reservoir of 7.97 Tcf gross/5.98 Tcf net (arithmetical sum of mid-case un-risked GIIP) identified in sub-salt concepts, leads and prospects.

Permit Area

Surrounds the Tendrara Production Concession.

Located for access to Gazoduc Maghreb Europe ("GME") pipeline approximately 120 kilometers to the north. The 522 kilometres long Moroccan section is owned by the Moroccan State and operated by Metragaz. The pipeline connects Morocco to the Spanish/Portuguese gas grids as well as the Moroccan gas-fired-power stations.

Geology

Only eight wells drilled across the entire area, all encountered evidence of a petroleum system.

Two Triassic TAGI gas discoveries:

- SBK-1 tested by the previous licence holder at a peak rate of 4.41 mmscf/d in July 2000
- TE-10 flowed gas at non-commercial rates

Exploration potential in the Triassic TAGI reservoir of 7.97 Tcf gross/5.98 Tcf net (mid-case un-risked GIIP[2]) identified in sub-salt concepts, leads and prospects.

Future Developments

A number of targets are available for near-term drilling.

All work commitments completed for the current period. The next voluntary period commences mid-September 2022 with one well commitment to be drilled before September 2024.

Anoual

License Details

Area	8,873 km^2
Status	Petroleum Agreement: Exploration
Effective date	31 August 2018
Term	9 years 4 months
Resource Potential	Exploration potential in the Triassic TAGI reservoir of 11.48 Tcf gross/8.61 Tcf net (arithmetical sum of mid-case un-risked GIIP) identified in sub-salt concepts, leads and prospects.

Permit Area

Located for access to Gazoduc Maghreb Europe ("GME") pipeline approximately 120 kilometers to the North. The 522 kilometres long Moroccan section is owned by the Moroccan State and operated by Metragaz. The pipeline connects Morocco to the Spanish/Portuguese gas grids as well as the Moroccan gas-fired-power stations.

Geology

Only one well drilled across the entire area.

Committed geophysical surveying completed with a single well commitment remaining.

Exploration potential in the Triassic TAGI[1] reservoir of 11.48 Tcf gross/8.61 Tcf net (mid-case un-risked GIIP[2]) identified in sub-salt concepts, leads and prospects.

Future Developments

"M5" prospect matured for drilling a TAGI target, operational planning progressing.

1 Trias Argilo-Gréseux Inférieur ('TAGI') are sandstones deposited in a fluvial-alluvial environment and are significant oil and gas reservoirs across Algeria, extending into Morocco.

2 Internal exploration potential estimates, arithmetical sum of mid-case unrisked original gas in place.

Sidi Mokhtar

License Details

Area	4,712 km^2
Status	Petroleum Agreement: Exploration
Effective date	April 2018
Term	10 years
Resource Potential	Unrisked exploration potential of up to nine Tcf1 gross original gas in place following interpretation of the historical 2D seismic. The Company believes the pre-salt plays have been overlooked in the region with limited drilling to specifically target these deeper successions

Permit Area

The permit is located on the Atlantic seaboard of Morocco approximately 100 kms to the west of Marrakech.

In 2016, Sound Energy entered into binding agreements with Maghreb Petroleum Exploration S.A and PetroMaroc Corporation Plc to acquire a 75% operated position in the Sidi Mokhtar Petroleum Agreement. ONHYM retains the remaining 25% position under the Petroleum Agreement. In July 2017, the Company reported the results of a re-entry, completion, perforation and flow testing of the existing Koba-1 well, focused on previously producing relatively shallow gas reservoir.

Strategically, the Company has shifted its focus on the Sidi Mokhtar area towards what it believes to be the potentially more significant opportunity of the deeper Triassic TAGI[1] and Palaeozoic gas plays in the region already demonstrated by the gas and condensate producing adjacent Meskala Field operated by our partner ONHYM. In June 2018, the Company was awarded a new eight-year Petroleum Agreement and is now actively seeking a farm-in partner to participate in a geophysical survey programme focused on these deeper objectives.

In October 2020, the Company announced a two-year extension to the initial period of the Sidi Mokhtar licence and that the work programme for the initial period of the Sidi Mokhtar permit remained unchanged.

Geology

The Sidi Mokhtar permit hosts a variety of proven plays. Previous exploration has focused on the shallower post-salt plays. Sound Energy believes that the deeper, sub-salt Triassic and Palaeozoic plays, already proven by the Meskala Gas Field, may contain significant prospective resources, in excess of any discovered volumes in the shallower stratigraphy.

Un-risked exploration potential of up to 9 Tcf[2] gross original gas in place following interpretation of the historical 2D seismic. The Company believes the pre-salt plays have been overlooked in the region with limited drilling to specifically target these deeper successions.

The sub-salt plays are underexplored with more than 60 historical exploration wells focused on shallower objectives in the Jurassic post-salt carbonate successions. The few historical sub-salt tests were drilled on poor sub-salt seismic imaging. Recent improvements in seismic acquisition and processing technologies are expected to provide enhanced imaging of the sub-salt structure and geology.

Sound believes that all elements of petroleum system are present and commissioned integrated geological mapping, basin restoration and 3D petroleum system modelling to de-risk the Triassic and Palaeozoic plays in the basin, proven by the Meskala Field which produces gas and condensate from a Triassic reservoir. Note that the salt forms a critical and extensive seal retaining sub-salt overpressures and preserving this deeper petroleum system from the later Atlantic and Alpine tectonics.

Future Developments

Our next step is to mature the identified leads to drillable prospects with improved seismic imaging. We aim to acquire new, high-quality 2D seismic data, focused on improving the sub-salt imaging. This work is currently hoped to culminate in an exploration well targeting a high-impact gas prospect.

1 Trias Argilo-Gréseux Inférieur ('TAGI') are sandstones deposited in a fluvial-alluvial environment and are significant oil and gas reservoirs across Algeria, extending into Morocco.

2 Internal exploration potential estimates, arithmetical sum of mid-case unrisked original gas in place (gross)

Financial
Review

We successfully restructured our €28.8 million corporate loan notes reducing the principal to €25.3 million with a 2% cash coupon per annum together with a deferred 3% per annum coupon and, inter alia, extended the maturity of the loan notes to 21 December 2027.

Income Statement

The profit for the year before tax from continuing operations was £2.4 million (2020: £18.8 million loss). Reversal of impairment of development assets of £4.0 million (2020: £9.8 million impairment loss) related to the TE-5 Horst production concession following revision to forecast assumptions, primarily higher forward Brent price and gas price assumption in line with long-term market price forecast as at 31 December 2021 compared to the position as at 31 December 2020. Administrative costs at £1.7 million were 42% lower than 2020 administration costs (£2.9 million) due to continued focus on cost reduction.

Foreign exchange gains primarily related to intra-Group loans and offset by exchange losses in 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 2021, equity issuances raised approximately £2.0 million (2020: £4.6 million) net of issue costs.

Financing costs were £2.3 million (2020: £3.3 million), primarily due to amortised costs of the notes, net of interest capitalised to the development and exploration licences of £0.1 million (2020: £0.1 million). The decline in finance costs arose due to restructuring of the Company's €28.8 million bond which inter alia extended the maturity of the loan notes to 21 December 2027, converted €3,479,999 of the notes to 141,176,448 new ordinary shares in the Company and amended the coupon structure 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 note 24.

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").

In March 2021, a partial sale of the Badile land for €250,000 occurred which, after deducting amounts then due from the Company to Badile land remediation, the Company received net proceeds of €183,000. The sale of remaining area of Badile land is expected to complete during 2022 for gross proceeds of €350,000.

The Group spent £1.2 million (2020: £1.3 million) on investing activities during 2021 (net of £0.2 million receipt from interest in Badile land) which consisted of spend on the Group's Morocco licences and capitalised general and administrative expenses.

Balance Sheet

As at 31 December 2021, the carrying amount of property, plant and equipment was £139.7 million (2020: £133.4 million), primarily related to the development and production assets in Morocco with a carried value of £139.6 million (2020: £133.2 million) after taking account of impairment reversal, additions and foreign exchange movement.

Additions of £0.7 million intangible assets largely consisted of capitalised general and administrative expenses.

The Company has a carrying amount of approximately £0.7 million (2020: £1.0 million) as interest in Badile land. The Company expects the sale of Badile Area 2 to be completed before the end of 2022.

Other receivables amounting to £0.9 million (2020: £1.4 million), primarily related to receivables from our partners in Morocco licences and recoverable VAT in Morocco.

Trade and other payables amounting to £1.5 million (2020: £2.2 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 £0.4 million (2020: £0.5 million) relating to the obligation for the Badile land remediation in line with the 2018 Italy divestment agreement.

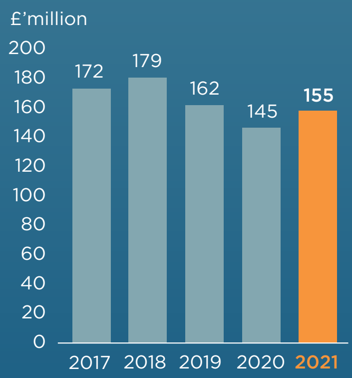
During 2021, the Company issued 302,939,518 shares of which 159,731,651 were issued for cash and 143,207,867 were non-cash share issues. The primary non-cash share issue related to 141,176,448 shares issued to the Company's bondholders as part of corporate bond restructuring in April 2021.

Going Concern

As detailed in note 1 on page 70, the Company's cash flow forecasts for the next twelve-month period to March 2023, indicate that additional funding will be required to enable the Company to 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.

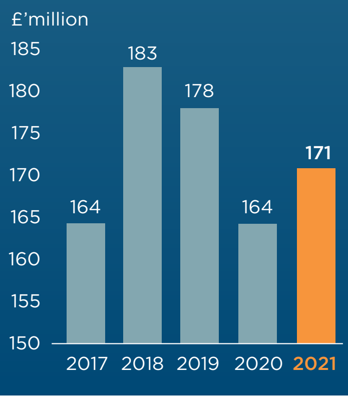
Net Assets (£m)

£155m
2020: £145m



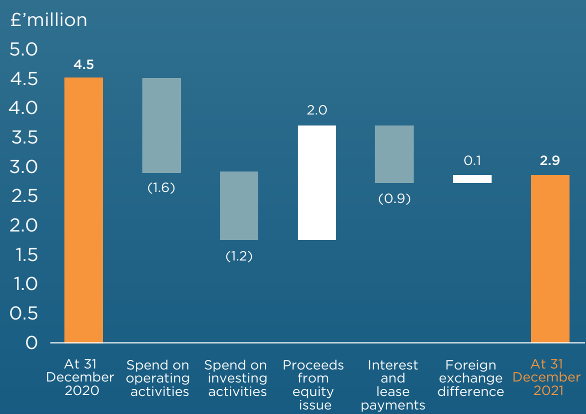
Development and Intangible Assets (£m)

£171m
2020: £164m



Cash Flow Bridge Chart (£m)

£2.9m
2020: £4.5m



HSE Report

HSE Promoting Positive Behaviour

As the COVID-19 global Pandemic continued to impact our working lives, Health and Safety (HSE) has remained at the core of everything we do, with particular focus during these times being to the protection of our personnel. Sound Energy PLC has been managing the effects of the pandemic, whilst maintaining an operational presence in both the Tendrara and Sidi Mokhtar fields and progressing our plans to develop the Tendrara field, starting with the mLNG project.

During 2021, the Sound Energy PLC had no Drilling or geophysical surveying activities however, the Company undertook a series of activities to promote safe working practices for both our personnel and Contractors. The 2021 activities are summarised as follows:

- The Company completed COVID-19 risk assessments of our operational and office sites in both Morocco and UK, ensuring that our safe working practices were aligned with Moroccan and UK Laws, regulations, and current Government guidance. These included social distancing and frequent periods of working from home combined with flexible working programs.
- In September, Sound Energy PLC hosted a Corporate Investor event at our offices in St. Dunstan's Hill. Planning for the event included completion of a comprehensive COVID-19 Risk Assessment to ensure that all precautions were taken to ensure a safe, successful event, aligned with Government guidance and recommended safe meeting and event practices.
- Towards the end of 2021, a full Audit and Gap Analysis of the Company HSE Management System was completed with the aim being to gauge the current status of Company HSEMS, verify compliance with relevant procedures, internal & external standards, legislation, and to ultimately improve the way we manage HSE across all levels and worksites.
- An Implementation Plan developed from the Audit process to ensure that the areas identified for improvements were tracked to closure, with the aim being to support Company activities with fit-for-purpose safety management systems and processes based on international standards.
- A Management High Visibility team tour to Morocco was completed in October, with the Sound Energy PLC team, which included the newly hired HSE Manager. The team visited various locations at both the Tendrara and Sid Mokhtar fields, as well as meeting with key stakeholders. This successful visit concluded with the ONHYM Tendrara concession TCM/MCM meeting.

HSE Reporting Data

Sound Energy Morocco is aligned to similar operators in the International Association of Oil and Gas Producers ("IOGP") database. Since the outbreak of COVID-19 at the end of Q1 2021, Sound Energy PLC has had to curtail a number of operational activities and reduce resources which has led to significantly lower working exposure hours, kilometres driven and other key indicators than previous years.

Again, we had set ourselves a target of no lost time injuries for the year, which we achieved accepting this context of continued lower operational exposure.

The total manhours worked in 2021 was 91,444 hours (22,984 Company, 68,460 Contractors) and the data recorded has been divided into three main categories:

1. Lagging Indicators

Fatality	0
LTI	0
RWC	0
MTC	0
FAC	0
Property Damage	1
Environmental Incident	0
RTA	0
NM	0
HiPO	0
Lost Workdays	0

2. Leading Indicators

HSE Audits & Inspections	46
HSE Meetings	2
HSE Induction Hours	0
HSE Training Hours	20
Emergency Drills	1
Toolbox Talks	1
STOP Cards	0
Job Safety Analysis	4
Risk Assessments	4
Management Tours	2

3. Environmental Data

Diesel consumed (m^3)	7,778.16
Water Consumed (m^3)	3.25
Mud Cuttings (m^3)	0
Sewage Water (m^3)	0
Waste Water (m^3)	0
Non Hazardous Wastes (ton)	0
Fuel Gas (m^3)	0
Electrical Energy (kWh)	0
Km Driven	148, 170 kms
Total barrels spilled	0

Comparing Sound Energy to IOGP TRIR Data for worldwide Oil and Gas activities in 2020, the Company HSE incident rate is aligned with industry trend.

HSE Promoting Positive Behaviour

Promoting Safe working behaviours is key to building a safety culture where everyone feels empowered to stop any work which they consider to be unsafe without any consequences. During 2021, we have developed our Company safety programs which include focus on communicating our key safe behaviours to all our employees and Contractors. These programs promote and encourage both compliance to HSE procedures and increase ownership of safety at our worksites.

Our **Sound Safe Behaviours** ("**SAFER**") is based on five key principles:

SAFER > 5 Sound Safe Behaviours

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

ACCOUNTABILITY
I will always take **ACCOUNTABILITY** for my own safety and for the safety of others.

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

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

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

ESG
Societal

Employment Opportunities:

Sound Energy PLC has been committed to the development of the local community via substantial investment over the past 15 years. We have worked with remote communities through employment, training and engagement with local communities and leaders.

A reduction in Company operational activities has led to a corresponding reduction in the number of personnel which we are currently able to offer employment opportunities to. However, we continue to hire local personnel to ensure that the integrity of our assets is maintained, and Sound Energy PLC continues to employ 12 individuals from our neighbouring communities at our operational locations in Morocco.

Training Programs: In line with the Company's commitment 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 and mentorship 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.

During 2021, our two students continue in their studies which include the planning of field visits to enhance their understanding of the data interpretation, as well as highlight some of the operational and geographical issues which may dictate changes to the design of our field sites and facilities.

Social Impact: During previous years, Sound Energy have worked on infrastructure projects to improve the facilities, conditions, and environment in the areas which we operate in Morocco. Projects have included:

- Sound Energy PLC paid and installed a Maroc Telecom telecommunications tower in the Tendrara area. This not only greatly enhanced mobile phone coverage for our operational purposes, but its presence continues to significantly benefit the local communities in the area.
- In 2020, Sound Energy Morocco drilled the Hassi Lahcen water well in the Tendrara field, installed the required Generator, electric pump and provided three 6,000 litre PVC water tanks for local community use. Throughout 2021, Sound Energy Morocco continued to maintain the well and provided security from the local community to ensure safe access for all.
- Investment in a new maternity section for the local health centre.
- Investment in a school building and an on-site office with accommodation for employees who work and live year-round at our operational hub.
- We have also worked on various infrastructure projects including building and maintenance to improve the access roads surrounding our sites.

Governance: Sound Energy's success is fundamentally linked to good governance, and we remain committed to achieving high standards in all that we do. Our business and processes being aligned around a robust governance framework.

In November, Sound Energy PLC personnel, at both the London and Rabat offices, successfully completed Anti-Bribery and Corruption training. As a Company, we analyse corruption risks within our business, ensuring that we have up to date policies and procedures, monitoring programs in place and raising awareness through training programmes.

Looking Forward: Looking forward to our planned recommencement of operations in Morocco, we intend to continue this good practice of engaging in Social Corporate Responsibility projects during 2022. We are currently developing plans to ensure that we prioritise the local community in employment opportunities arising from the project within the areas in which we operate.

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 02 to 33.

Employees

Our employees are one of the primary assets of our business and the Board recognises that our employees are the key resource which enables delivery of the 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.

Continued engagement during 2021 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, with some employees attending the London office location in the last quarter of 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 uphold ethical business behaviour and encourages management to seek comparable business practices from all suppliers and customers doing business with the Company. We value the feedback we receive from our stakeholders and we take every opportunity to ensure that, where possible, their wishes are duly considered.

Community and 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.

Shareholders

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

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

There are opportunities throughout the year for shareholders to meet with the Board and members of the Executive team, through general meetings, investor events and the Company's "fireside chat", Q&A sessions. Efforts have been made to ensure this dialogue was maintained despite the challenges of COVID-19.

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.

Sustainable and
Responsible Business

Sound Energy's strategic positioning includes a focus on gas – a transition fuel with less than half the carbon emissions of coal.

Going forward, and while we know we are still a fossil fuel Company, we are looking at a number of initiatives in order to measure, capture and reduce our carbon emissions. We will be looking to align our Company-wide strategy further to the 17 UN Sustainable Development Goals. This will take place in a number of phases with the environmental goal being targeted by using a phased approach.

Our intention through 2022 is to identify the SDGs that are most aligned to our business and created our planned contribution to these goals.

We also aim to work through a Carbon Measurement process to calculate our footprint and then look at steps to reduce it both in our operations and in our offices.

Principal Risks and **Uncertainties**

Principal Risks and Uncertainties

Risk management is a key component of the Company's Control Framework and is a cornerstone element in enabling delivery of the Group's strategy and delivering long-term value to shareholders. The Board, its Committees and the Executive team are actively engaged in assessing 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 monthly reporting to the Senior Leadership 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 2021, including restructuring of the corporate Eurobond, the continuing COVID pandemic and progression of the TE-5 Horst development project.

Removed or Changed:

Change in regulatory or fiscal regime

Risk remains but removed from top ten. Control measures including monitoring and stakeholder engagement remain in place.

Drop in Commodities Prices

Current gas and oil markets are strong. Key Moroccan investment projects underpinned by long-term fixed pricing under take or pay contracts.

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 Mokhtar	• 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

Principal Risks and Uncertainties continued

Risk	Impact	Control measure	Owner
4 – Share Price Weakness	• Vulnerability to hostile takeover • Difficulty raising finance to support and grow business	• Strengthen investor appetite through delivery of business plan, diversification and growth	Chairman
5 – Major HSSE 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. Corporate HSSE Manager appointed • Robust operational HSE processes and procedures • HSE Committee reviews and regular HSE meetings and engagements • Insurance cover	Chairman
6 – 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 relative to the market • Succession planning • Programme to identify and source additional expertise as and when required	Chairman

Risk	Impact	Control measure	Owner
7 – 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 to raise capital • Long-term cash flow 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
8 – Business disruption due to COVID-19 virus outbreak	• Delay in implementation of Phase 1 and Phase 2 developments • 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
9 – 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 legal advice to resolve through court and/or local taxation committee, as the Company believes this arises from a misunderstanding • Lobbying with regulator and within government	COO

Graham Lyon

Executive Chairman

23 March 2022

Governance Report

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Chairman's Corporate Governance Statement

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

Graham Lyon
Executive Chairman

Dear Shareholders

As Executive Chairman of the Company, it is my duty to ensure that good standards of governance are maintained, it is my responsibility to work with my fellow Board members to ensure that the Company embraces corporate governance, delivers the highest standards we can and that this is cascaded down throughout the organisation. It is within my role to manage the Board in the best interests of our many stakeholders. The Board as a whole look to instil a culture across the Company and throughout the business, delivering strong values and behaviours. 2021, like 2020, has again been a challenging year, with the continued global pandemic and the impact on economies and businesses across the world. However, the Company has continued to work hard to drive forward its strategy to transition the business towards becoming a cash generative Company with exploration upside opportunities. The Board has an effective, robust but fit-for-purpose corporate governance framework across the business, from Executive level and cascading throughout the business.

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 which promote long-term value for shareholders.	See pages 08 to 09 of 2021 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 30 to 33 of 2021 Annual Report.
5	Maintain the Board as a well-functioning balanced team led by the Chair.	See pages 38 to 39 of 2021 Annual Report.
6	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.	See pages 38 to 39 of 2021 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 40 to 41 of 2021 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 42 to 55 of 2021 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 develop 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 responsibility 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 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 the Executive Chairman 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

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, energy Executive with 40 years' experience across technical, operational, commercial and leadership roles. Graham has chaired AIM, TSX, ASX and AQSE growth companies. He is a Petroleum Engineer by background.

Current external commitments
- Sealion Power UK Limited
- Clarion Petroleum Limited
- Kwark Energy Limited
- Soncer Limited
- Cleve Cross Management Company Limited

Mohammed Seghiri
Chief Operating Officer

H

Appointed to Board
23 January 2020

Background
Before joining Sound Energy, Mohammed Seghiri had over 20 years' experience leading complex European and African projects across different sectors, including Gas Storage, Oil & Gas Exploration, Telecom, Real Estate and Power Production. He was hired by Sound Energy in February 2017 as Vice President Commercial before the Board designated him as Country Managing Director in Morocco supervising all the operations in country in June 2017. In November 2019, the Board requested him to carry out of the role of acting CEO until Graham Lyon was appointed as Executive Chairman in February 2020. Mohammed formally joined the Board in January 2020 and has been in the role of Chief Operating Officer since April 2020, while he keeps managing all the subsidiaries in Morocco.

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

Current external commitments
None

Christian Bukovics
Director (Senior Independent Non-Executive)

R H

Appointed to Board
2 December 2021

Background
Christian Bukovics joined Sound Energy as a Senior Non-Executive Director on 2 December 2021. Christian is a senior oil and gas sector Executive with 40 years of international experience across a variety of roles. Since 2013, he has worked as founder, advisor and Non-Executive Director in small-cap oil and gas companies and was part of the board of LSE premium listed JKX Oil and Gas plc. Prior to this, he held several senior positions with Shell, including VP Exploration Russia and FSU, VP Commercial in Global Exploration and GD of Shell Temir (Kazakhstan).

Christian holds a doctorate in Experimental Physics.

Current external commitments
- Advisor to Chairman of UNB (Ukraine)
- Director – CB Exploration Limited
- Director – Adveneq Holdings Limited (registered in Ireland)

Key:

A Audit Committee
R Remuneration and Nominations Committee
H Health and Safety Committee



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 – SourceBio International plc

David Blewden
Director (Independent 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 a senior oil and gas sector Executive with 40 years of international experience working as a petroleum engineer, an energy investment banker and in energy industry finance roles. He is currently CFO of Sunny Hill Energy Ltd, a UK private E&P Company (formerly Petroceltic International), and in recent years, has been a Non-Executive Director of Gulf Marine Services plc, a LSE premium listed oil services Company and 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
- Director – Philipshill Consulting Limited
- Director – Hodgemoor Investments Limited
- Director – Corella Holdings Limited
- Director – Firecrest Investments Limited
- Director – New Age Holdings 2 Ltd

Richard Liddell
Director (Senior Independent Non-Executive)

A R H

Appointed to Board
28 September 2015

Resigned from the Board
30 November 2021

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 2021.

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 2021 the Board comprised of the Executive Chairman, three Non-Executive Directors and one Executive Director.

There were two changes within the Board during the last quarter of 2021. 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. Christian Bukovics joined the Board during 2021, replacing Richard Liddell as Senior Independent Non-Executive Director. The Company 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:

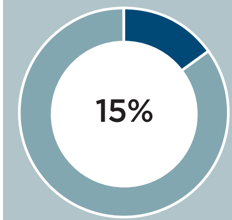
A schedule of the Board and Board Committee meetings held during the year ended 31 December 2021 is noted below. Key Executives and advisors have attended these meetings, where appropriate, to present and provide feedback on actions throughout the year.

	Year ended 31 December 2021				
	Board meetings				
Name of the Director	Scheduled	Ad hoc[1]	Audit Committee	Remuneration and Nominations Committee	Health and Safety Committee
Total number of meetings held	**5**	**12**	**4**	**2**	**5**
Graham Lyon (Chairman)	5	12	N/A	2	N/A
Mohammed Seghiri (COO)	5	12	N/A	N/A	5
David Blewden	5	12	4	2	N/A
Marco Fumagalli	5	12	4	2	N/A
Richard Liddell[2]	4	9	4	2	5
Christian Bukovics[3]	0	3	N/A	0	1

1 Ad hoc meetings: Additional meetings called for a specific business matter or of a more general administration nature not necessarily requiring full Board attendance.
2 Richard Liddell resigned from the Board on 30 November 2021.
3 Christian Bukovics was appointed to the Board as Senior Independent Non-Executive Director on 2 December 2021.

All Directors attended the meeting they were expected to attend.

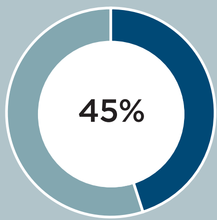
What the Board did in 2021



Governance and Risk – 15%

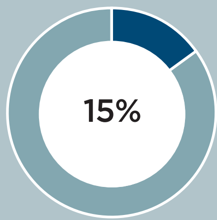
- Ongoing consideration of the Quoted Companies Alliance Corporate Governance Code and a review of the requirements of the Code.
- AIM training carried out by the Company's Nominated Advisor to Directors to ensure that the Board is up to date with regard to their regulatory requirements.
- Manual of Authorities 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, securing funding and appointing. Contractor for development.
- Signature of Phase 2 Gas Sales Agreement.
- Financing Strategy – successful Restructure of bond.

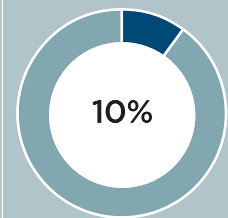


Investor Engagement – 15%

- An Investor event held providing the opportunity 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 Executive team.

– Videos of Executive team and board answering shareholder questions.

- Close liaising with the Company's major shareholders.
- AGM proxy figures counted and disclosed.

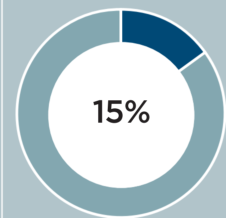


People, Visions, Values – 10%

- Company scorecard presented and approved and fed down to the Executive team.
- Personal development of staff.
- Executive team meetings.

– Town Hall.

- Consideration given to the organisation structure and the needs of the business.



Performance Monitoring – 15%

- Updates from the Chairman of the Audit, Remuneration and HSE Committees.
- Monthly reports on performance against targets received by the Board.
- Approval full and half-year results.

Shareholder
Relations

We value our interactions with our investors; however, during the pandemic it was difficult to have face to face engagements. We counterbalanced this with a variety of online question and answer sessions, short videos introducing new team members and by keeping our website up to date. In September 2021, we were finally able to see investors in person in London and were pleased to meet some long-term holders as well as new investors. We were also delighted to have Italfluid and Afriquia Gaz speak at the event.

Post balance sheet we launched a new website and plan to host further face to face events through the year.

Health and Safety Committee

"Health and Safety is at the core of our business and will remain a focus as we move to a more operational phase."

Christian Bukovics

Chairman of the Health and Safety Committee

Accountability

Richard Liddell (to 30 November 2021)/Christian Bukovics (From 2 December 2021-current)

Committee Members and Participants

During 2021, the HSE Committee comprised of Richard Liddell (Chairman) and Mohammed Seghiri. Since 2 December 2021, Christian Bukovics was appointed Chairman of the HSE Committee following the resignation of Richard Liddell from the Company. 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 as appropriate.

Health and Safety (HSE) Committee Activities

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

A full report of the activities of the HSE Committee can be found on pages 22 to 23.

2021 Activities

- HSE Focus group continued to meet during the year to review the ongoing HSE procedures and culture.
- Continual reviews were completed to ensure safe working measures were implemented both within the UK and Morocco with regards to the COVID-19 pandemic.
- Appointment of a new HSE Manager in October 2021.
- An Audit and Gap Analysis of the Company HSE Management Systems was completed and Implementation Plan activated in order to address the areas identified for improvements to our Policies, Procedures and Standards.
- Developed HSE KPI's and an annual plan to report back to the Committee. An HSSE Plan and HSE KPI's were developed to ensure tracking of Company goals for 2022.

2022 Looking Forward

- Ensure HSE policies and procedures remain effective and purposeful for the activities of the business.
- Finalise, implement, and communicate HSE action plan and KPI's for 2022.
- Revise Company Safety programs to ensure they are relevant to Company activities and understood by all Company Employees and Contractors. Ensure tracking to closure of Action items raised during HSE Committee meetings.
- HSE management system and resources to be kept under review.
- Ensure ongoing transparent reporting to the HSE Committee with updates provided to the Board.
- Visit of Sound Board members to planned operations in Tendrara block with a strong emphasis on observing and communicating regarding HSE matters.

Christian Bukovics

Chairman of the Health and Safety Committee

Audit Committee

"We recognise that accurate, comprehensive and meaningful reporting, and thorough oversight of risk management and financial controls, is critically important to our stakeholders"

David Blewden
Chairman of the Audit Committee

Accountability
David Blewden

Committee Members and Participants
During 2021 the Audit Committee comprised David Blewden (chair), Marco Fumagalli and until 30 November, Richard Liddell. The CFO and Group Financial Controller are also invited to attend parts of most meetings and the external auditor is invited to attend parts of meetings regarding preparation and approval of financial reporting.

Audit Committee Activities
The Audit committee met on four occasions in 2021 regarding financial reporting, audit and risk management. In addition, various other matters were dealt with on an ad hoc basis.

Responsibilities
The main responsibilities of the Audit Committee are to monitor the integrity of the Group's and the Company's financial statements and other formal announcements relating to 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.

2021 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.
- Review of the Company's principal risks and uncertainties.
- 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.

2022 Looking Forward

- Keep under review the Company's existing control framework.
- 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.
- Support the Executive team with regards to the tax claims made against 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.
- 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 70.

Risk and Controls

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

A summary of our approach and strategic risks is covered in detail on page 30.

Conflicts of Interest

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

Auditor

A new audit partner was appointed for the 2021 audit following rotation of the previous partner.

David Blewden

Chairman of the Audit Committee

Nominations and Remuneration Committee

Christian Bukovics
Chairman of the Nominations and Remuneration Committee

Accountability

Richard Liddell (to 30 November 2021)/Christian Bukovics (From 2 December 2021-current)

Committee Members and Participants

During 2021, the Nominations and Remuneration Committee comprised of Richard Liddell (Chairman), Marco Fumagalli and David Blewden. Since 2 December 2021, Christian Bukovics was appointed Chairman of the Nominations and Remuneration Committee following the resignation of Richard Liddell from the Company.

Committee Activities

The Committee generally meets twice a year to consider matters of a remuneration nature, to consider all material elements of the Company's remuneration policy, including assessing the Directors' remuneration and performance. During 2021 the Committee met twice. In respect of matters pertaining to nominations and succession planning the Committee will meet as and when required. This will be to consider new nominations to the Board, ensuring that the right skill sets are present in the Board room at each stage of the Company's evolution and that there is the right balance of executive and non-executive.

2021 Review

- Review of the composition of the Board.
- Ongoing consideration of the requirements of the QCA Code to which the Company adheres with regard to the balance of the Board.
- Resignation of the Senior Independent Director and appointment of a successor.
- Undertook a remuneration review. Engaged an external remuneration advisor to provide advice in relation to Executive remuneration including salary, bonus and longer-term incentives.
- Considered remuneration packages for the Executives.
- Review of Executive remuneration scheme.
- Established an employee benefit trust in order to make awards under the Restricted Stock option scheme (RSU).
- Evaluated the 2020 scorecard.
- Agreed the 2021 scorecard, which was reviewed mid-year.

2022 Looking Forward

- Ongoing review of the composition of the Board.
- Consider the longer-term succession planning for the Executive team.
- Continue monitoring of pay and benefits of the Chairman and Executive Director.
- Review and agree the 2021 scorecard and related bonus awards.
- Agree performance awards for the CEO and Company based on delivery of the 2021 scorecard.
- Agree the 2022 scorecard for the Company.
- Define and agree 2022 KPIs for the Chairman/acting CEO and Executive director (COO) and review and agree KPIs for senior managers.
- Finalise remuneration policy statement, obtain Board approval and implement it.
- Review the Terms of reference of the Committee.

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; and
- Take into consideration the views of shareholders and best practice guidelines.

The Remuneration Committee has spent considerable time assessing the current remuneration policy and has continued 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 continues to develop a policy, which is evolving and being prepared as the shape of the business evolves. It believes that once finalised, the framework 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. The Committee continues to assess the ongoing use of the RSU scheme and whether a different style of LTIP (Long-Term Incentive Plan) scheme would be more appropriate. A remuneration advisor was appointed to provide advice on the most appropriate incentives for the Executive team. 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.

Christian Bukovics

Chairman of the Nominations and Remuneration Committee

Directors' Remuneration Report continued

2021 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 and advice from external remuneration advisor. 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 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.	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 prerequisite 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.

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

As a result of greatly reducing the number of Executive Directors and significantly reducing the level of fees for Non-Executive Directors, the overall remuneration paid to Sound's Directors in 2021 was reduced by one-third compared to 2020. This was one of the factors contributing to the major overall reduction of Sound's G&A costs in 2021.

	Salary £'000	Benefits in Kind £'000	Total 2021 £'000	Total 2020 £'000
Executive Directors				
M Seghiri	200	12	212	209
James Parsons	–	–	–	184
Brian Mitchener	–	–	–	123
JJ Traynor	–	–	–	22
Executive Chairman and Non-Executive Directors				
Graham Lyon	250	–	250	202
Richard Liddell	46	–	46	73
Marco Fumagali	46	–	46	52
David Blewden	46	–	46	26
Christian Bukovics[1]	4	–	4	–
Total for all Directors	592	12	604	927

1 Remuneration from the date of appointment.

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

Share Options

	Date of grant	Exercisable date	Acquisition price per share (pence)	Options held at 1 January 2021	Options held at 31 December 2021
M Seghiri	18.01.17	18.01.20 – 18.01.22	70.00	1,500,000	1,500,000
Marco Fumagalli	08.08.16	08.08.19 – 08.08.21	60.00	250,000	–
Richard Liddell	08.08.16	08.08.19 – 08.08.21	60.00	250,000	–

There were no options exercised by the Directors during the year. 500,000 options expired during the year.

RSU Awards

	Date of grant	Settlement date	RSU Awards held at 1 January 2021	RSU Awards held at 31 December 2021
M Seghiri	26.04.18	01.01.21	126,501	126,501
	21.06.19	01.01.22	195,591	195,591

The Company has not been in an open period to enable the shares in respect of the vested RSU's held by M Seghiri to be issued.

Directors' Remuneration Report continued

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 2021:

	No of Shares
Graham Lyon	1,066,962
David Blewden	1,176,471
Mohammed Seghiri	–
Christian Bukovics	–
Marco Fumagalli	4,693,877

Movements in Share Price During the Year

The mid-market price of the Company's shares at the end of the financial year was 2.15 pence and the range of mid-market prices during the year was between 1.25 pence and 3.1 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 Directors remuneration. The amount paid to the consultant for services provided to 31 December 2021, was approximately £28,550.

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 23 March 2022 and signed on its behalf by:

Christian Bukovics

Chairman of the Nominations and Remuneration Committee

Directors' Report

Graham Lyon
Executive Chairman

Other Disclosures

Pages 38 to 55 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 transition energy focused companies whose principal activities are currently the exploration, appraisal and development of gas assets. The Group's current principal area of activity is Morocco and has recently pivoted its monetisation strategy from exploration towards development of its existing discovery in Eastern Morocco. A review of the performance and future development of the Group's business is contained on pages 02 to 33 and forms part of this report.

Results and Dividends

The profit for the year before tax was £2.4 million (2020:£18.8m loss). 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 70.

Auditor

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

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

Political Donations

No political donations were made during the year (2020: £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 52.

Board of Directors

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

The Directors who served during the year were as follows:

- Graham Lyon
- David Blewden
- Marco Fumagalli
- Richard Liddell
- Mohammed Seghiri
- Christian Bukovics

Changes to the Board during the year:

Richard Liddell, Senior Independent Non-Executive Director, resigned from the Board on 30 November 2021.

Christian Bukovics, Senior Independent Non-Executive Director, was appointed to the Board on 2 December 2021.

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 2021 are set out in the Directors' Remuneration Report.

Directors' Report continued

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 a 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 2021, the Company had 1,629,183,907 ordinary shares in issue as shown in note 17 to the consolidated financial statements. There are no restrictions on the transfer of the Company's ordinary shares other than certain restrictions which may be imposed by law, for example, insider trading law and the Company's share dealing code. Each ordinary share carries the right to one vote at General Meetings of the Company. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Substantial Shareholding

The Company was advised of the following significant direct and indirect interests in the issued ordinary share capital of the Company as at 31 December 2021 and up to the date of this report.

Oil & Gas Investment Fund SAS hold 265,508,651 shares, representing a 16.30% interest.

Afriquia Gaz S.A held 159,731,651 shares, representing a 9.80% interest.

Financial Instruments

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

Subsequent Events

See note on page 96.

Graham Lyon

Executive Chairman

23 March 2022

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 United Kingdom 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

23 March 2022

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 2021, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2021;
- the Group and Company balance sheets as at 31 December 2021;
- 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 the UK-adopted International Accounting Standards in conformity with the requirements 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 Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards; 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 March 2023, indicate that additional funding will be required to enable the Company to meet its obligations.

This condition, along with other matters set forth in Note 1, indicates 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.
- Testing the mathematical accuracy of the forecasts

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 (2020: £1.7m) and the overall materiality for the parent company is £1.6m, based on 1% of assets.

We determined that for other account balances, classes of transactions and disclosures not related to the balance sheet, a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of the users. We determined that materiality for these areas should be £350,000.

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 of £1.2m 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.

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

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 was significant and totalled £0.7m. The carrying value of the exploration and evaluation assets was £31.6m at 31 December 2021. As these amounts are material and the group are still developing these assets with their recoverability subject to a number of factors, there is a risk that they could be 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 • Obtained 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 £139.6m at 31 December 2021, including a reversal of an impairment of £4.2m.
 	
As these amounts are material and the group are still developing these assets with their recoverability subject to a number of factors, there is a risk that they could be impaired.
	We reviewed management's assessment which included their internal model, including the consideration of the reversal of the impairment of £4.2m and 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;
	  – implicit oil 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

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 in August 2020 for approximately $14m and a further notification in May 2021 for $22.5m. 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.

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

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.

Leo Malkin (Senior Statutory Auditor)
for and on behalf of
Crowe U.K. LLP
Statutory Auditor

London

23 March 2022

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Consolidated Statement of Comprehensive Income

for the year ended 31 December 2021

	Notes	2021 £'000s	2020 £'000s
Continuing operations			
Revenue		**–**	–
Other income	3	**223**	–
Reversal of impairment/(impairment loss) on development assets and exploration costs		**4,024**	(9,777)
Gross profit/(loss)		**4,247**	(9,777)
Administrative expenses		**(1,695)**	(2,904)
Group operating profit/(loss) from continuing operations	4	**2,552**	(12,681)
Finance revenue	7	**4**	46
Foreign exchange gain/(loss)		**2,210**	(2,877)
Finance expense	24	**(2,306)**	(3,304)
Profit/(loss) for the year before taxation		**2,460**	(18,816)
Tax expense	8	**(42)**	–
Profit/(loss) for the year after taxation		**2,418**	(18,816)
Other comprehensive (loss)/income			
Items that may subsequently be reclassified to the profit and loss account			
Foreign currency translation gain/(loss)		**1,179**	(4,010)
Total comprehensive profit/(loss) for the year		**3,597**	(22,826)
Profit/(loss) for the year attributable to:			
Owners of the Company		**3,597**	(22,826)

	Notes	2021 Pence	2020 Pence
Basic and diluted profit/(loss) per share for the year attributable to the equity shareholders of the parent (pence)	9	**0.16**	(1.54)

Consolidated Balance Sheet

as at 31 December 2021

	Notes	2021 £'000s	2020 £'000s
Non-current assets			
Property, plant and equipment	10	**139,666**	133,387
Intangible assets	11	**31,598**	30,657
Interest in Badile land	25	**663**	988
		171,927	165,032
Current assets			
Inventories		**871**	912
Other receivables	13	**852**	1,371
Prepayments		**31**	23
Cash and short-term deposits	14	**2,913**	4,468
		4,667	6,774
Total assets		**176,594**	171,806
Current liabilities			
Trade and other payables	15	**1,500**	2,206
Lease liabilities	16	**–**	30
Loans and borrowings	24	**–**	24,709
		1,500	26,945
Non-current liabilities			
Loans and borrowings	24	**20,039**	–
		20,039	–
Total liabilities		**21,539**	26,945
Net assets		**155,055**	144,861
Capital and reserves			
Share capital and share premium		**34,573**	29,540
Accumulated surplus		**123,872**	117,334
Warrant reserve		**1,534**	4,090
Foreign currency reserve		**(4,924)**	(6,103)
Total equity		**155,055**	144,861

The financial statements were approved by the Board and authorised for issue on 23 March 2022 and were signed on its behalf by:

Mohammed Seghiri Director

Graham Lyon Director

The accounting policies on pages 70 to 75 and notes on pages 70 to 96 form part of these financial statements.

Company Balance Sheet

as at 31 December 2021

	Notes	2021 £'000s	2020 £'000s
Non-current assets			
Property, plant and equipment		**5**	36
Interest in Badile land	25	**663**	988
Investments in subsidiaries	12	**164,498**	157,851
		165,166	158,875
Current assets			
Other receivables	13	**45**	–
Prepayments		**23**	9
Cash and short-term deposits	14	**595**	2,248
		663	2,257
Total assets		**165,829**	161,132
Current liabilities			
Trade and other payables	15	**630**	1,139
Leases liabilities		**–**	30
Loans and borrowings	24	**–**	24,709
		630	25,878
Non-current liabilities			
Loans and borrowings	24	**20,039**	–
		20,039	–
Total liabilities		**20,669**	25,878
Net assets		**145,160**	135,254
Capital and reserves			
Share capital and share premium		**34,573**	29,540
Accumulated surplus		**109,053**	101,624
Warrant reserve		**1,534**	4,090
Total equity		**145,160**	135,254

The Company's accumulated surplus includes profit for the year of £3.3 million (2020: loss of £22.8 million).

The financial statements were approved by the Board and authorised for issue on 23 March 2022 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 2021

Group

	Notes	Share capital £'000s	Share premium £'000s	Accumulated surplus £'000s	Warrant reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2021		13,262	16,278	117,334	4,090	(6,103)	144,861
Total profit for the year		–	–	2,418	–	–	2,418
Other comprehensive income		–	–	–	–	1,179	1,179
Total comprehensive income		–	–	2,418	–	1,179	3,597
Issue of share capital	17	3,030	2,004	–	–	–	5,034
Share issue costs		–	(1)	–	–	–	(1)
Fair value of warrants issued during the year	24	–	–	–	1,534	–	1,534
Reclassification on expiry of warrants		–	–	4,090	(4,090)	–	–
Share-based payments	22	–	–	30	–	–	30
At 31 December 2021		**16,292**	**18,281**	**123,872**	**1,534**	**(4,924)**	**155,055**

Company

	Notes	Share capital £'000s	Share premium £'000s	Accumulated surplus £'000s	Warrant reserve £'000s	Total equity £'000s
At 1 January 2021		13,262	16,278	101,624	4,090	135,254
Total profit for the year		–	–	3,309	–	3,309
Issue of share capital		3,030	2,004	–	–	5,034
Share issue costs		–	(1)	–	–	(1)
Fair value of warrants issued during the year	24	–	–	–	1,534	1,534
Reclassification on expiry of warrants		–	–	4,090	(4,090)	–
Share-based payments	22	–	–	30	–	30
At 31 December 2021		**16,292**	**18,281**	**109,053**	**1,534**	**145,160**

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 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	17	2,466	2,656	–	–	–	5,122
Share issue costs		–	(417)	–	–	–	(417)
Share-based payments	22	–	–	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/ (deficit) £'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	22	–	–	669	–	669
At 31 December 2020		13,262	16,278	101,624	4,090	135,254

Group Statement of Cash Flows

for the year ended 31 December 2021

	Notes	2021 £'000s	2020 £'000s
Cash flow from operating activities			
Cash flow from operations		**(1,513)**	(1,873)
Interest received		**4**	46
Tax paid		**(42)**	–
Net cash flow from operating activities		**(1,551)**	(1,827)
Cash flow from investing activities			
Capital expenditure		**(959)**	(461)
Exploration expenditure		**(454)**	(821)
Receipt from interest in Badile land		**218**	–
Net cash flow from investing activities		**(1,195)**	(1,282)
Cash flow from financing activities			
Net proceeds from equity issue		**2,000**	4,589
Interest payments	24	**(878)**	(1,269)
Lease payments		**(31)**	(128)
Net cash flow from financing activities		**1,091**	3,192
Net (decrease)/increase in cash and cash equivalents		**(1,655)**	83
Net foreign exchange difference		**100**	(223)
Cash and cash equivalents at the beginning of the year		**4,468**	4,608
Cash and cash equivalents at the end of the year	14	**2,913**	4,468

Note to Statement of Cash Flows

for the year ended 31 December 2021

	Notes	2021 £'000s	2020 £'000s
Cash flow from operations reconciliation			
Profit/(loss) for the year before tax		**2,460**	(18,816)
Finance revenue		**(4)**	(46)
Decrease in drilling inventories		**41**	102
Decrease in receivables and prepayments		**511**	139
Decrease in accruals and short-term payables		**(841)**	(315)
(Reversal of Impairment)/Impairment loss on development assets and exploration costs		**(4,024)**	9,777
Impairment of interest in Badile land		**50**	–
Depreciation		**168**	328
Share-based payments charge and remuneration paid in shares		**30**	777
Finance costs and exchange adjustments		**96**	6,181
Cash flow from operations		**(1,513)**	(1,873)

Non-cash transactions during the year included the issue of 141,176,448 ordinary shares at a price of 2.125 pence per share as part of restructuring of the Company's loan Notes. The Company issued 322,365 ordinary shares to former employees under the Company's RSU plan. 1,709,054 ordinary shares were issued at approximately 1.86 pence per share to a third party for services provided.

The Group has provided collateral of $1.75 million (2020: $1.75 million) to the Moroccan Ministry of Petroleum to guarantee the Group's minimum work programme obligations for the Anoual and Sidi Mokhtar licences. The cash is held in a bank account under the control of the Company and, as the Group expects the funds to be released as soon as the commitment is fulfilled, on this basis, the amount remains included within cash and cash equivalents.

Company Statement of Cash Flows

for the year ended 31 December 2021

	Notes	2021 £'000s	2020 £'000s
Cash flow from operating activities			
Cash flow from operations		**(3,099)**	(2,179)
Interest received		**2**	3
Net cash flow from operating activities		**(3,097)**	(2,176)
Cash flow from investing activities			
Receipt from interest in Badile land		**218**	–
Cash received from/(advances to) subsidiaries		**162**	(604)
Net cash flow from investing activities		**380**	(604)
Cash flow from financing activities			
Net proceeds from equity issue		**2,000**	4,589
Interest payments		**(878)**	(1,269)
Lease payments		**(31)**	(59)
Net cash flow from financing activities		**1,091**	3,261
Net (decrease)/increase in cash and cash equivalents		**(1,626)**	481
Net foreign exchange difference		**(27)**	(35)
Cash and cash equivalents at the beginning of the year		**2,248**	1,802
Cash and cash equivalents at the end of the year	14	**595**	2,248

Note to Statement of Cash Flows

for the year ended 31 December 2021

	Notes	2021 £'000s	2020 £'000s
Cash flow from operations reconciliation			
Profit/(loss) before tax		**3,309**	(22,756)
Impairment of interest in Badile land		**50**	–
Intragroup recharges		**(1,042)**	(479)
Finance revenue		**(2)**	(3)
(Increase)/decrease in receivables and prepayments		**(59)**	35
(Decrease)/increase in accruals and short-term payables		**(509)**	48
Depreciation		**32**	102
Share-based payments charge and remuneration paid in shares		**30**	777
(Decrease)/increase in impairment and expected credit loss allowance on intercompany loans	12	**(3,779)**	8,843
Finance costs and exchange adjustments		**(1,129)**	11,254
Cash flow from operations		**(3,099)**	(2,179)

Non-cash transactions during the year included the issue of 141,176,448 ordinary shares at a price of 2.125 pence per share as part of restructuring of the Company's loan Notes .The Company issued 322,365 ordinary shares to former employees under the Company's RSU plan. 1,709,054 ordinary shares were issued at approximately 1.86 pence per share to a third party for services provided.

Notes to the Financial Statements

for the year ended 31 December 2021

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 20 St Dunstan's Hill, London, EC3R 8HL.

(a) Basis of preparation

The financial statements of the Group and its parent Company have been prepared in accordance with UK-adopted International Financial Reporting Standards (''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 2021 were authorised for issue by the Board of Directors on 23 March 2022.

Going concern

As at 28 February 2022, the Group's cash balance was £7.9 million (including approximately £1.3 million held as collateral for a bank guarantee against licence commitments). The Directors have reviewed the Company's cash flow forecasts following the taking of micro-LNG FID and reflecting expected costs. While the Company's funding obligation of the micro-LNG project is financed through associated commercial arrangements, the forecasts and projections indicate that to fulfil its other obligations the Company will require additional funding.

The COVID-19 pandemic has not had a material impact on the Company's operations. Following the sanctioning of the micro-LNG project the Company will continue to monitor the situation as deterioration could impact the supply chain and affect the project schedule and therefore could impact the Company's liquidity.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. These 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 there are several corporate funding options available to the Company, including a cash generative acquisition. Furthermore, based upon the Company's proven success in raising capital in the London equity market 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, warrants, taxation and the estimation of share-based payment costs.

E&E, development and production assets

When considering whether E&E assets are impaired, the Group first considers the IFRS 6 indicators set out in note 11. 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 various impairment

1 Accounting Policies continued

indicators and whether any of these 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 11.

At 31 December 2021, the Company's market capitalisation was £35.0 million, which is below the Group and Company's net asset value of £155.1 million and £145.2 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 for these assets and the investment in subsidiaries are included in note 10, 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 signed gas sales agreement, project contract or 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 impacts condensate sales pricing in the DCF model. The carrying amount of the development and production assets and parent Company investment in subsidiaries increased by approximately £4.0 million following a reversal of impairment during the year. The key assumptions used to determine the recoverable amount of the development and production assets are disclosed in note 10.

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 18).

Fair value of warrants

Significant judgement and estimation is also required in the determination of the fair value of warrants.

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. In 2020, the 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 against the assessment. The matter is pending in Court. In May 2021, the Group received notification from the Morocco tax authority of intention to assess additional VAT and withholding taxes on historical transactions of the Company's subsidiary entity, Sound Energy Morocco SARL AU. The Group 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 8.

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 12) 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.

Notes to the Financial Statements continued

for the year ended 31 December 2021

1 Accounting Policies continued

Investments in subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Such power, generally but not exclusively, accompanies a shareholding of more than one-half of the voting rights. The Group uses the purchase method of accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs of acquisition are expensed during the period they are incurred.

Separate financial statements

The Company has no intention to recall the intercompany loans in the foreseeable future and therefore classifies them as investments in the Company balance sheet. 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 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.

1 Accounting Policies continued

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

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

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

The carrying value is compared with the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash-generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a 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. Where asset purchases include the payment of additional variable payments, such as, net profit interests based on future gas sales, a liability is recognised when the production and sale of gas commences.

(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.

Notes to the Financial Statements continued

for the year ended 31 December 2021

1 Accounting Policies continued

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.

(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 2021

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 2021, 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 2021:

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

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

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

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

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

2 Segment Information continued

Segment results for the year ended 31 December 2020 were as follows:

	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 are 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

3 Other Income

	2021 £'000s	2020 £'000s
Research and development expenditure credit	**223**	–

During the year, the Company's subsidiaries received credit under the HMRC's Research and Development Expenditure Credit (RDEC) scheme for qualifying activities undertaken during 2018 and 2019. The amount was not recognised when the expenditure was incurred due to uncertainty as to whether it would qualify for a credit under the RDEC scheme.

4 Operating Profit/(Loss)

	2021 £'000s	2020 £'000s
Operating profit/(loss) is stated after charging:		
Depreciation	**168**	**328**
Employee costs	**780**	**2,095**
(Reversal of impairment)/impairment of development assets and exploration costs	**(4,024)**	**9,777**

Notes to the Financial Statements continued

for the year ended 31 December 2021

5 Auditor's Remuneration

	2021 £'000s	2020 £'000s
Fees payable to the Company's Auditor for the audit of Company's annual accounts	**51**	49
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
Other assurance services	**7**	7
Tax services	**7**	6
	70	67

6 Employee Costs

	2021 £'000s	2020 £'000s
Staff costs, including Executive Chairman and Executive Directors		
Share-based payments	**30**	669
Wages and salaries	**993**	1,590
Social security costs	**100**	166
Employee benefits	**77**	129
Employee costs capitalised to development and intangible assets	**(420)**	(459)
Total	**780**	2,095

	2021 Number	2020 Number
The average monthly number of employees (including Executive Chairman and Executive Directors) was:		
Technical and operations	**4**	3
Management and administration	**8**	11
Total	**12**	14

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 £0.4 million (2020: £0.5 million) of the employee costs was capitalised.

7 Finance Revenue

	2021 £'000s	2020 £'000s
Interest on cash at bank and short-term deposits	**4**	46
	4	46

8 Taxation

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

	2021 £'000s	2020 £'000s
Current tax		
UK corporation tax	–	–
Adjustment to tax expense in respect of prior years	(42)	–
Overseas tax	–	–
Total current tax (charge)/credit	(42)	–
Deferred tax credit arising in the current year	–	–
Total tax (charge)/credit	(42)	–

(b) Reconciliation of tax charge

	2021 £'000s	2020 £'000s
Profit/(loss) before tax	2,460	(18,816)
Tax (charge)/credit charged at UK corporation tax rate of 19% (2020: 19%)	(467)	3,575
Tax effect of:		
Expenses not deductible for tax purposes	(38)	(189)
Temporary differences not recognised	451	(3,409)
Differences in overseas tax rates	12	23
Total tax (charge)/credit	(42)	–

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 2021 were estimated to be approximately £6.1 million (2020: £8.2 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 ("SEME") 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 appealed to the Local tax committee ("LTC"). According to the tax authority original assessment, the main assessment related to the historical licensing changes of the Tendrara Lakbir Exploration Permits and the transfer of Operatorship from Sound Energy Morocco SARL AU ("SARL AU") to SEME raised taxation claims against SEME. In August 2021, the Group received written notification that the LTC found the assessment on the transfer of intangible assets would be dropped. The LTC did not drop the assessment relating to the tax authority's claim that there was a disposal of assets by SEME to its partner, Schlumberger on entry to a brand-new petroleum agreement for exploration at Greater Tendrara.

The Group has appealed to the court to have the findings that were upheld by the LTC be dropped and the matter is pending at the court.

In May 2021, the Group received from the tax authority an information request and a notification (1st notification) of its intention to assess SARL AU. The information request levied penalties (approximately $0.3 million) claiming late remittance of withholding taxes and the notification intended to assess additional VAT and withholding taxes of approximately $22.2 million. The Group believes that the assessment arises from a misunderstanding of the historical licence relinquishment and intercompany funding arrangements and in June 2021, appealed against the assessment. Following SARL AU appeal, in August 2021, the tax authority issued a notification (2nd notification) retaining the assessment included in the 1st notification. The Group has appealed to the LTC which has up to 12 months to make a decision.

No liability has been recognised in the financial statements but the assessments are considered to be a contingent liability.

Notes to the Financial Statements continued

for the year ended 31 December 2021

9 Profit/(loss) per Share

The calculation of basic profit/(loss) per ordinary share is based on the profit/(loss) after tax and on the weighted average number of ordinary shares in issue during the year. The calculation of diluted profit/(loss) per share is based on profit/(loss) after tax on the weighted average number of ordinary shares in issue plus weighted average number of shares that would be issued if dilutive options, RSUs and warrants were converted into shares. Basic and diluted profit/(loss) per share is calculated as follows:

	2021 £'000s	2020 £'000s
Profit/(loss) for the year after taxation	**2,418**	(18,816)

	2021 Million	2020 Million
Basic weighted average shares in issue	**1,494**	1,225
Dilutive potential ordinary shares	**1**	–
Diluted weighted average number of shares	**1,495**	1,225

	2021 Pence	2020 Pence
Basic profit/(loss) per share	**0.16**	(1.54)
Diluted profit/(loss) per share	**0.16**	(1.54)

Dilutive potential ordinary shares included in the calculation of diluted weighted average number of shares relates to the Company's RSUs. Options and warrants totalling 105 million were all anti-dilutive and were not included in the calculation of diluted weighted average number of shares. In 2020, 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.

10 Property, Plant and Equipment

	Development and production assets £'000s	Fixtures, fittings and office equipment £'000s	Right-of-use assets £'000s	**2021 £'000s**
Cost				
At 1 January 2021	142,447	778	150	**143,375**
Additions	997	–	–	**997**
Disposal	–	(155)	(150)	**(305)**
Exchange adjustments	1,291	3	–	**1,294**
At 31 December 2021	144,735	626	–	**145,361**
Impairment and depreciation				
At 1 January 2021	9,204	665	119	**9,988**
(Reversal)/charge for period	(4,024)	77	31	**(3,916)**
Disposal	–	(155)	(150)	**(305)**
Exchange adjustments	(73)	1	–	**(72)**
At 31 December 2021	5,107	588	–	**5,695**
Net book amount	139,628	38	–	**139,666**

	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

During the year, the Company acquired Schlumberger Silk Route Services Limited ("SSRSL"). The transaction was accounted for as an acquisition of a group of assets. SSRL held a 27.5% participating interest in the Anoual and Greater Tendrara exploration permits in Eastern Morocco (the "Exploration Permits"), together with a 27.5% indirect interest in the Tendrara Concession (the "Concession") through its contractual relationship with the Group. Following the completion of the acquisition, the Company controls operated working interest of 75% in the Exploration Permits and in the Concession. The consideration for the acquisition was an initial payment of US$1 (one US dollar) and the Group will make future contingent payments for an amount equivalent to between 8% and 11% of total net profits (after costs, taxes, and other applicable deductions) (net profit interest or "NPI") arising from the Concession over a period of 12 years from first commercial production from the Concession. In addition, in the event of a disposal of the exploration permits prior to the end of February 2023, the Seller would be entitled to receive a share of any cash proceeds.

The additions in the table above of £0.5 million includes approximately £0.2 million transaction costs capitalised relating to the SSRSL acquisition. The NPI is expected to be recognised on first gas from the Concession as that is the event that would trigger the crystallisation of the liability.

Notes to the Financial Statements continued

for the year ended 31 December 2021

10 Property, Plant and Equipment continued

The Company's market capitalisation was £35.0 million as at 31 December 2021, which is below the Group's net assets of £155.1 million and the Company's net assets of £145.2 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 recoverable amount for the Company's share of the TE-5 Horst concession. The Model has an NPV of $188.2 million (£139.3 million) (excluding interest acquired from SSRSL) which led to recognition of an impairment reversal of £4.0 million. The impairment reversal arose primarily due to higher Brent and gas price assumptions in the Model in line with market long-term price assumption at the end of 2021 compared to end of 2020.

The Model covers the period 2022 to 2045. The input to the Model included a discount rate of 10% and phase 1 gas price of $8.0 per mmBTU rising to the phase 1 gas price ceiling of 8.346 per mmBTU, indexed using a combination of the European Title Transfer Facility and United States Henry Hub benchmark indexes. Phase 2 gas price used is a fixed price for the first 10 years for annual volume of 0.3 bcm and the price for additional volume indexed to Brent. The model included Brent price range of $75 per bbl in 2022 to $79 per bbl in 2031 (2020: $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 LNG GSA for the phase 1 development and Phase 2 gas price is based on GSA signed with ONEE for the first 10 years and price for additional volume is per original binding memorandum of understanding 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 contract with the micro-LNG plant 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 2026 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 $20 million (£14.8 million) impact on the NPV and change in the Brent price by $1/bbl has a $0.7 million (£0.5million) impact on the NPV.

11 Intangibles

	Software £'000s	Exploration & Evaluation Assets £'000s	2021 £'000s
Cost			
At 1 January 2021	349	41,203	41,552
Additions	–	698	698
Exchange adjustments	3	303	306
At 31 December 2021	352	42,204	42,556
Impairment and depreciation			
At start of the year	289	10,606	10,895
Charge for the year	60	–	60
Exchange adjustments	3	–	3
At 31 December 2021	352	10,606	10,958
Net book amount	–	31,598	31,598

11 Intangibles continued

	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 31 December 2020	289	10,606	10,895
Net book amount	60	30,597	30,657

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 2021, the Directors have:

a. reviewed the time period that the Group has the right to explore the area and noted no instances of expiration, or licences that are expected to expire in the near future and not be renewed;

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 (2020: £0.1 million).

12 Investment in Subsidiaries

	2021			2020		
	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	**183,819**	**–**	**183,819**	189,252	–	189,252
Additions	**1,138**	**–**	**1,138**	1,083	–	1,083
Repayment of intercompany loans	**(162)**	**–**	**(162)**	–	–	–
Exchange adjustment	**1,892**	**–**	**1,892**	(6,516)	–	(6,516)
At 31 December	**186,687**	**–**	**186,687**	183,819	–	183,819
Credit loss allowance and impairment						
At 1 January	**25,968**	**–**	**25,968**	17,125	–	17,125
Increase/(decrease) in credit loss	**318**	**–**	**318**	(361)	–	(361)
Impairment (reversal)/loss	**(4,097)**	**–**	**(4,097)**	9,204	–	9,204
At 31 December	**22,189**	**–**	**22,189**	25,968	–	25,968
Net book amount at 31 December	**164,498**	**–**	**164,498**	157,851	–	157,851

Notes to the Financial Statements continued

for the year ended 31 December 2021

12 Investment in Subsidiaries continued

The subsidiary companies of the Company at 31 December 2021, 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
Arran Energy Holdings Limited	British Virgin Isles	Exploration Company	PO Box 662, Wickhams Cay, Road Town, 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	Espace Les Patios, Avenue Anakhil, Batiment 2, 1 er Etage, Hay Ryad, Rabat
Sound Energy New Ventures Limited	UK	Dormant	20 St Dunstan's Hill, London, EC3R 8HL, UK
Sound Energy Sustainables Limited	UK	Renewable Energy	20 St Dunstan's Hill, London, EC3R 8HL, UK
Sound Energy Morocco East Limited	UK	Exploration Company	20 St Dunstan's Hill, London, EC3R 8HL, UK
Sound Energy Morocco South Limited	UK	Exploration Company	20 St Dunstan's Hill, London, EC3R 8HL, UK
Sound Energy Meridja Limited	UK	Exploration Company	20 St Dunstan's Hill, London, EC3R 8HL, 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 reversal of £4.1 million (2020: impairment loss of £9.2 million) has been recognised for the investment in subsidiaries following the recognition of a reversal of impairment in the development and production assets (note 10).

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. The Company used a cumulative default rate of 9% (2020: 9%) obtained from publicly available data published by leading credit rating agencies. £0.3 million loss (2020: £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	2021 Number	2020 Number
Gas exploration	UK	Morocco	**3**	3
Holding companies	UK	UK	**1**	1
Dormant	UK	UK	**1**	1
Renewable Energy	UK	Morocco	**1**	–
Holding companies	British Virgin Isles	British Virgin Isles	**2**	2
Gas exploration	British Virgin Isles	Morocco	**1**	–
Holding companies	Mauritius	Mauritius	**1**	1
Gas exploration	Morocco	Morocco	**1**	1

13 Other Receivables

Group

	2021 £'000s	2020 £'000s
UK VAT	10	–
Morocco VAT	455	464
Other receivables	387	907
	852	1,371

Currency Analysis

	2021 £'000s	2020 £'000s
US dollar	244	800
GBP sterling	45	–
Moroccan dirham	563	571
	852	1,371

Company

	2021 £'000s	2020 £'000s
UK VAT	10	–
Other receivables	35	–
	45	–

Currency Analysis

	2021 £'000s	2020 £'000s
GBP sterling	45	–
	45	–

Notes to the Financial Statements continued

for the year ended 31 December 2021

14 Cash and Cash Equivalents

Group

	2021 £'000s	2020 £'000s
Cash at bank and in hand	**1,358**	1,229
Cash equivalents:		
Short-term deposits	**1,555**	3,239
Carrying amount 31 December	**2,913**	4,468
Being:		
In US dollar	**2,553**	2,350
In euros	**20**	61
In sterling	**298**	1,978
In Moroccan dirham	**42**	79
Total	**2,913**	4,468

Company

	2021 £'000s	2020 £'000s
Cash at bank and in hand	**336**	311
Cash equivalents:		
Short-term deposits	**259**	1,937
Carrying amount 31 December	**595**	2,248
Being:		
In US dollar	**291**	225
In euros	**20**	61
In sterling	**284**	1,962
Total	**595**	2,248

The Group has provided collateral of $1.75 million (£1.3 million) (2020: $1.75 million (£1.3 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.

15 Trade and Other Payables

Group

	2021 £'000s	2020 £'000s
Trade payable	**671**	1,268
Payroll taxes and social security	**44**	112
Accruals	**785**	826
	1,500	2,206

15 Trade and Other Payables continued

Currency Analysis

	2021 £'000s	2020 £'000s
US dollar	**794**	902
Euro	**370**	794
Sterling	**248**	313
Moroccan dirham	**88**	197
	1,500	2,206

Company

	2021 £'000s	2020 £'000s
Trade payable	**77**	351
Payroll taxes and social security	**38**	105
Accruals	**515**	683
	630	1,139

Currency Analysis

	2021 £'000s	2020 £'000s
Sterling	**260**	345
Euro	**370**	794
	630	1,139

16 Lease Liabilities

	2021 £'000s	2020 £'000s
Amounts due within one year	**–**	30
Amounts due after more than one year	**–**	–
	–	30
The movement during the year is as below		
As at 1 January	**30**	225
Interest accretion	**1**	10
Payments	**(31)**	(128)
Office lease termination	**–**	(79)
Exchange adjustments	**–**	2
As at 31 December	**–**	30

The Group office leases are now short-term.

Notes to the Financial Statements continued

for the year ended 31 December 2021

17 Capital and Reserves

Group and Company

	2021 Number of shares	£'000s	2020 Number of shares	£'000s
Ordinary shares – 1p	**1,629,183,907**	**16,292**	1,326,244,389	13,262

	2021 Number of shares	2020 Number of shares
At 1 January	**1,326,244,389**	1,079,612,264
Issued during the year for cash	**159,731,651**	238,537,888
Non-cash share issue	**143,207,867**	8,094,237
At 31 December	**1,629,183,907**	1,326,244,389

Non-cash transactions during the year included the issue of 141,176,448 ordinary shares at a price of 2.125 pence per share as part of restructuring of the Company's loan Notes .The Company issued 322,365 ordinary shares to former employees under the Company's RSU plan. 1,709,054 ordinary shares were issued at approximately 1.86 pence per share to a third party for services provided.

Share issues

In April 2021, the Company issued 141,176,448 shares at 2.125 pence per share as part of the restructuring of the Company's then existing €28.8 million bond.

In May 2021, the Company issued 322,365 shares following vesting of RSUs held by former employees of the Company.

In June 2021, the Company issued 808,095 shares at approximately 1.86 pence per share to a third party as payment for services provided to the Company.

In July 2021, the Company issued 159,731,651 shares at a price of 1.2521 pence per share following equity subscription by Afriquia Gaz S.A.

In September 2021, the Company issued 900,959 shares at approximately 1.86 pence per share to a third party as payment for services provided to the Company.

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.

18 Related Party Disclosures

Key management

As at 31 December 2021, there were two key management personnel other than Directors of the Company (2020: two). 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.

	2021 £'000s	2020 £'000s
Salaries and employee benefits	923	1,136
Share-based payments	24	604
	947	1,740

Directors' interest in employee share options

Share options held by Non-Executive members of the Board of Directors at 31 December 2021 have the following expiry dates and exercise prices:

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

Share options held by the Executive members of the Board of Directors at 31 December 2021 have the following expiry dates and exercise prices:

	Expiry date	Exercise price Pence	2021 Number	2020 Number
2017	2022	67p	1,500,000	1,500,000

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

	Expiry date	Exercise price Pence	2021 Number	2020 Number
2017	2022	67p	300,000	300,000
2017	2022	52.25p	500,000	500,000

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

	Settlement date	2021 Number	2020 Number
2018	2021	310,548	310,548
2019	2022	520,992	520,992

Notes to the Financial Statements continued

for the year ended 31 December 2021

19 Financial Instruments Risk Management

Objectives and policies

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group's financial instruments comprise trade payables, loans and borrowings, receivables, interest in Badile land, cash and short-term deposits. The main purpose of the financial instruments is to finance the Group's operations. The fair value of the financial instruments is their carrying value, with the carrying value amounts included in the Group balance sheet with further analysis in note 13 (Other Receivables), note 14 (Cash and Cash Equivalents), note 15 (Trade and Other Payables) and note 24 (Loans and Borrowings).

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

	2021 £'000s	2020 £'000s
Financial assets		
Cash and short-term deposits	**2,913**	4,468
Other receivables and interest in Badile land	**1,515**	2,359
	4,428	6,827
Financial liabilities		
Trade and other payables	**1,500**	2,206
Loans and borrowings held at amortised costs	**20,039**	24,709
	21,539	26,915

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 20). The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Market risk

Interest rate risk

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

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

Capital management

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

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

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

19 Financial Instruments Risk Management continued

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

	2021 £'000s	2020 £'000s
Borrowings	(20,039)	(24,709)
Cash and cash equivalents	2,913	4,468
Net debt	(17,126)	(20,241)
Total capital excluding reserves:		
Equity share capital	16,292	13,262
Equity share premium	18,281	16,278
Shareholders' equity	155,055	144,861

20 Foreign Currency and Other Risks

Foreign currency risk arises from the Group's financial instruments (note 19). 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.

		2021		2020	
	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%	(100)	(6,657)	(112)	(6,589)
Increase in EUR/GBP exchange rate	5%	(16)	–	(13)	–
Increase in MAD/GBP exchange rate	5%	(26)	–	(23)	–
Decrease in USD/GBP exchange rate	(5%)	100	6,657	112	6,589
Decrease in EUR/GBP exchange rate	(5%)	16	–	13	–
Decrease in MAD/GBP exchange rate	(5%)	26	–	23	–

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 24.

Notes to the Financial Statements continued

for the year ended 31 December 2021

21 Financial Instruments

Cash and short-term deposits

	Floating rate £'000s	Fixed rate £'000s	Interest-free £'000s	Total £'000s	Weighted average rate %
2021					
Sterling	**273**	**–**	**25**	**298**	**0.09**
Euro	**–**	**–**	**20**	**20**	**–**
US dollar	**1,297**	**–**	**1,256**	**2,553**	**1.11**
Moroccan dirham	**–**	**–**	**42**	**42**	**–**
	1,570	**–**	**1,343**	**2,913**	
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	

Euro cash balances have been converted at the exchange rate of €1.1912: £1.00 (2020: €1.1129: £1.00). Moroccan dirham cash balances have been converted at the exchange rate of MAD12.526: £1.00 (2020: MAD12.159: £1.00). US dollar cash balances have been converted at the exchange rate of US$1.3512: £1.00 (2020: US$1.3650: £1.00).

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

22 Share-Based Payments

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

In order to better meet the LTIP objectives, the Board determined in 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

	2021 £'000s	2020 £'000s
Expense arising from equity-settled share options and RSU awards	**30**	699

Share options

No share options were granted in 2021 and 2020.

	2021 Number	Weighted average exercise price Pence	2020 Number	Weighted average exercise price Pence
Share options outstanding at the start of the year	**8,950,000**	**44.93**	23,225,000	44.93
Share options granted	**–**	**–**	–	–
Share options expired	**(3,500,000)**	**22.29**	(14,275,000)	41.47
Share options exercised	**–**	**–**	–	–
Share options outstanding at the end of the year	**5,450,000**	**66.47**	8,950,000	49.19

22 Share-Based Payments continued

The weighted average remaining contractual life of the options outstanding at 31 December 2021 was 0.1 years (2020: 0.8 years).

5.5 million share options were exercisable as at 31 December 2021 (2020: 9.0 million). If all equity share options were exercisable immediately, new ordinary shares equal to approximately 0.3% (2020: 0.7%) of the shares currently in issue, would be created. The exercise prices for the share options exercisable as at 31 December 2021 range from 52.25 pence to 67 pence.

RSU awards

No RSU awards were granted during 2021 and 2020. RSU awards have 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 weighted average remaining contractual life of the RSU awards outstanding as at 31 December 2021 was nil (2020: one year).

If all the RSU awards were exercisable immediately, new ordinary shares equal to 0.1% (2020: 0.1%) of the shares currently in issue, would be created.

	2021 Number	2020 Number
RSU awards outstanding at the start of the year	**1,487,765**	3,380,019
Granted during the year	**–**	–
Expired during the year	**–**	(1,028,572)
Vested during the year	**(322,365)**	(863,682)
RSU awards outstanding at the end of the year	**1,165,400**	1,487,765

The weighted average share price at the date of vesting of the RSU during the year was 1.9 pence (2020: 2.38 pence).

Warrants

As at 31 December 2021, the Company had the following outstanding warrants to subscribe to the Company's ordinary shares.

2021	Exercise price Pence	Expiry date	Number at 1 January	Exercised	Expired	Number at 31 December
2016 Warrants	30.00	21 June 2021	52,411,273	–	(52,411,273)	–
2021 Warrants	2.75	21 December 2027	99,999,936	–	–	99,999,936
			152,411,209	**–**	**(52,411,273)**	**99,999,936**

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

23 Commitment and Guarantees

At 31 December 2021, the Group's minimum capital expenditure on its licences was approximately £2.1 million, primarily for the exploration and appraisal activities in the Group's licences in Morocco. The Group had placed $1.75 million collateral to guarantee to the Moroccan Oil Ministry for the minimum work commitments on its licences.

Notes to the Financial Statements continued

for the year ended 31 December 2021

24 Loans and Borrowings

Group and Company

	2021 £'000s	2020 £'000s
Current liabilities		
At 1 January	**24,709**	–
Amount converted into ordinary shares of the Company	**(3,000)**	–
Fair value of warrants issued	**(1,534)**	–
Amortised finance charges	**1,564**	1,731
Interest payments	**(389)**	(647)
Exchange adjustments	**(919)**	(220)
Reclassification (to)/from non-current liability	**(20,431)**	23,845
At 31 December	**–**	24,709
Non-current liabilities		
Secured bonds		
At 1 January	**–**	21,235
Reclassification from current liabilities	**20,431**	–
Amortised finance charges	**810**	1,637
Interest payments	**(489)**	(622)
Exchange adjustments	**(713)**	1,595
Reclassification to current liabilities	**–**	(23,845)
At 31 December	**20,039**	–

In April 2021, the Company successfully restructured its then outstanding €28.8 million secured bonds (the "Bonds"). Following the restructuring the revised terms of the Bonds are as below:

1. The Maturity date of the Bonds was extended by six years from 21 June 2021 to 21 December 2027;
2. The outstanding principal amount of the Bonds will be partially settled, at a rate of 5% every six months, commencing on 21 December 2023;
3. Approximately €3.5 million of the Bonds 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 Bonds 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 Bondholders 99,999,936 warrants to subscribe for new ordinary shares in the Company at an exercise price of 2.75 pence per share. The warrants expire on 21 December 2027; and
6. The Company will have the right, at any time until 21 December 2024, to redeem the Bonds in full for 70% of the principal value then outstanding together with any unpaid interest at the date of redemption.

After taking account of the revised terms above, the effective interest rate on the Bonds is approximately 6.2%.

24 Loans and Borrowings continued

Reconciliation of liabilities arising from financing activities

2021	1 January 2021 £'000s	Cash flows £'000s	Non-cash changes: Amortised finance charges £'000s	Non-cash changes: Exchange adjustments £'000s	Non-cash changes: Issue of equity and fair value of warrants	31 December 2021 £'000s
Long-term borrowings	24,709	(878)	2,374	(1,632)	(4,534)	**20,039**
Leases	30	(31)	1	–	–	**–**
Total liabilities from financing activities	24,739	(909)	2,375	(1,632)	(4,534)	**20,039**

2020	1 January 2020 £'000s	Cash flows £'000s	Non-cash changes: Amortised finance charges £'000s	Non-cash changes: Exchange adjustments £'000s	Non-cash changes: 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

Reconciliation of finance expense

	2021 £'000s	2020 £'000s
Amortised finance charges	**2,375**	3,378
Less capitalised interest	**(69)**	(74)
Total external interest for the year	**2,306**	3,304

25 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 ("Badile Area 1" and "Badile Area 2"). 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 in March 2021, Badile Area 1 was sold for €250,000 and after taking account of the amount that had fallen due from the Company for remediation, the Company received net proceeds of approximately €183,000. The sale of Badile Area 2 is expected to complete in 2022. The sale of Badile Area 2 contemplates that the buyer takes over the remaining obligation relating to the land restoration. Based on the terms offered by the buyer, the Company would make a loss of approximately £50,000 and has therefore recognised an impairment charge of the same amount as at 31 December 2021.

Notes to the Financial Statements continued

for the year ended 31 December 2021

26 Post Balance Sheet Events

In January 2022, the Company announced that it was considering a possible offer for Angus. The possible offer would be an all-share offer whereby Angus shareholders would receive the Company's ordinary shares in exchange for their holding in Angus at an agreed exchange ratio. The deadline by which the Company is required to announce a firm intention to make an offer for Angus, or announce that it does not intend to make an offer, expires on 8 April 2022.

In February 2022, the Company announced that its wholly owned subsidiary, Sound Energy Morocco East Limited had issued a Notice to Proceed to Italfluid Geoenergy S.r.l (the ''Contractor'') and, following an initial payment of $5 million, will obligate the Contractor to commence works for construction of a Micro-LNG plant for gas processing and liquification in relation to the Phase 1 development of the Company's Tendrara Production Concession (the ''Concession''), Onshore Morocco.

In March 2022, the Company announced a 90 day extension period by which conditions to its binding gas sale and purchase agreement (the ''GSA'') with ONEE in respect of Phase 2 development of the Concession for the sale of natural gas from the Concession over a 10 year period are required to be satisfied. Progress had been made in the preparation of pipeline entry agreements, term sheets for financing, approvals and FID and consequently all parties agreed to a 90 day extension period to the GSA.

In March 2022, the Company announced the entry of a pipeline tie-in agreement to the GME Pipeline with ONHYM in respect of the Phase 2 development of the Concession (the "Pipeline Tie-in Agreement"). The GME Pipeline, which was transferred to Moroccan state-owned entity ONHYM by the previous operator on 1 November 2021, is owned and operated by ONHYM. Pursuant to the Pipeline Tie-in Agreement, ONHYM has now approved the connection of the Concession via a gas export spur pipeline to the GME Pipeline. The entry of the Pipeline Tie-in Agreement fulfils one of the key remaining conditions for the GSA with ONEE.

List of Licences and **Interests**

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

Shareholder **Information**

Dealing Information
Stock code: SOU.LN

Financial Calendar
Meetings
Annual General Meeting – June 2022

Announcements
2022 Interim – September 2022
2022 Preliminary – March 2023

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