SOUND ENERGY PLC

# Continuing to Fuel the Energy Transition

Annual Report & Accounts
for the year ended 31 December 2022

# Continuing to Fuel the Energy Transition

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

## Strategic and Financial Direction

### Key Priorities

- Moving to revenue generation in 2024
- Delivering phased gas developments at Tendrara
- Maturing and delivering creative financial solutions to grow the business
- Further infrastucture-led exploration and appraisal to unlock additional gas resources
- Diversification and portfolio development
- Continue to prudently manage costs and financial resources

Read more in the **Financial Review** on pages 22 to 23

### Net 2C Resources[1]

**283 Bcf**

[1] 2C certified by RPS Energy Consultants Limited 2018, net (75%) recoverable resources, includes non-hydrocarbons, common examples of which are carbon dioxide and nitrogen.

## Operational Highlights

### Micro LNG Phase 1

- Construction of LNG storage tank and wellhead maintenance continues at site
- Work has included site preparation, excavation for the tank foundation, laying the concrete base for the tank foundation and several other activities
- Reduced operating cost by 7%

### Phase 2

- Commenced potential partner selection process and received non-binding indications of interest from credible and well-funded parties
- Developed relationships with various vendors to conduct Engineering, Procurement, Construction ("EPC") and potentially Operations and Maintenance activities for Phase 2 development
- Continued negotiations with Attijariwafa bank on arrangement of a long-term project senior debt facility

### Exploration

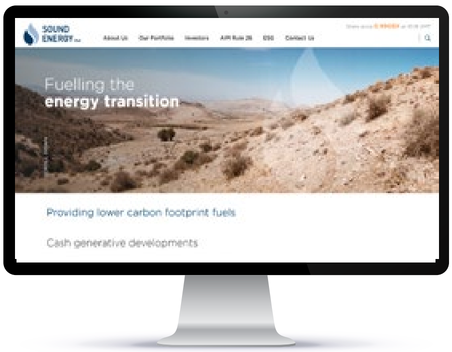
- Approval of the Company's application to enter the optional First Complementary Period under the Grand Tendrara Exploration Permits consisting of 2 years to 1 October 2024 by ONHYM – commitment to drill one well (awaiting final approval from Moroccan Energy and Finance Ministry)
- 12-month extension to the Anoual Exploration Permits initial period to January 2023 by ONHYM (subject to final approval from Moroccan Energy and Finance Ministry)
- 12-month extension to the Sidi Moktar Exploration Permits initial period to October 2023 (subject to final approval from Moroccan Energy and Finance Ministry)

# Our investment proposition summary

- Largest onshore operator in Morocco and focused leadership team with track record of delivering value
- Advanced in monetising Tendrara's significant 377 Bcf[1], 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, and thereafter, before first revenue in around 24 months, generating significant value

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




## View our Corporate website

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

1 2C certified by RPS Energy Consultants Limited 2018, gross (100%) recoverable resources, includes non-hydrocarbons, common examples, two of which are carbon dioxide and nitrogen.

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# Group at a Glance

## Where we operate

### Morocco and gas: a compelling case

### Greater Tendrara

**Strategic relevance**

Exploration potential in the Triassic TAGI reservoir of 7.52 Tcf gross/5.64 Tcf net (arithmetical sum of mid-case unrisked GIIP) identified in sub-salt concepts, leads and prospects

**Ownership**

Operator with an effective interest of 75%

ONHYM holds the remaining 25% interest

**Partnerships**

Long standing partnership with ONHYM. Additional partners currently being considered

### Anoual

**Strategic relevance**

Exploration potential in the Triassic TAGI reservoir of 11.51 Tcf gross/8.63 Tcf net (arithmetical sum of mid-case unrisked GIIP) identified in the sub-salt concepts, leads and prospects

**Ownership**

Operator with an effective interest of 75%

ONHYM holds the remaining 25% interest

**Partnerships**

Long standing partnership with ONHYM. Additional partners currently being considered

### Sidi Mokhtar

**Strategic relevance**

Unrisked exploration potential 8.9 Tcf gross/6.7 Tcf net (arithmetical sum of mid-case unrisked GIIP) TCF gross original gas in place. Sound believes the pre-salt plays have been overlooked in the region

**Ownership**

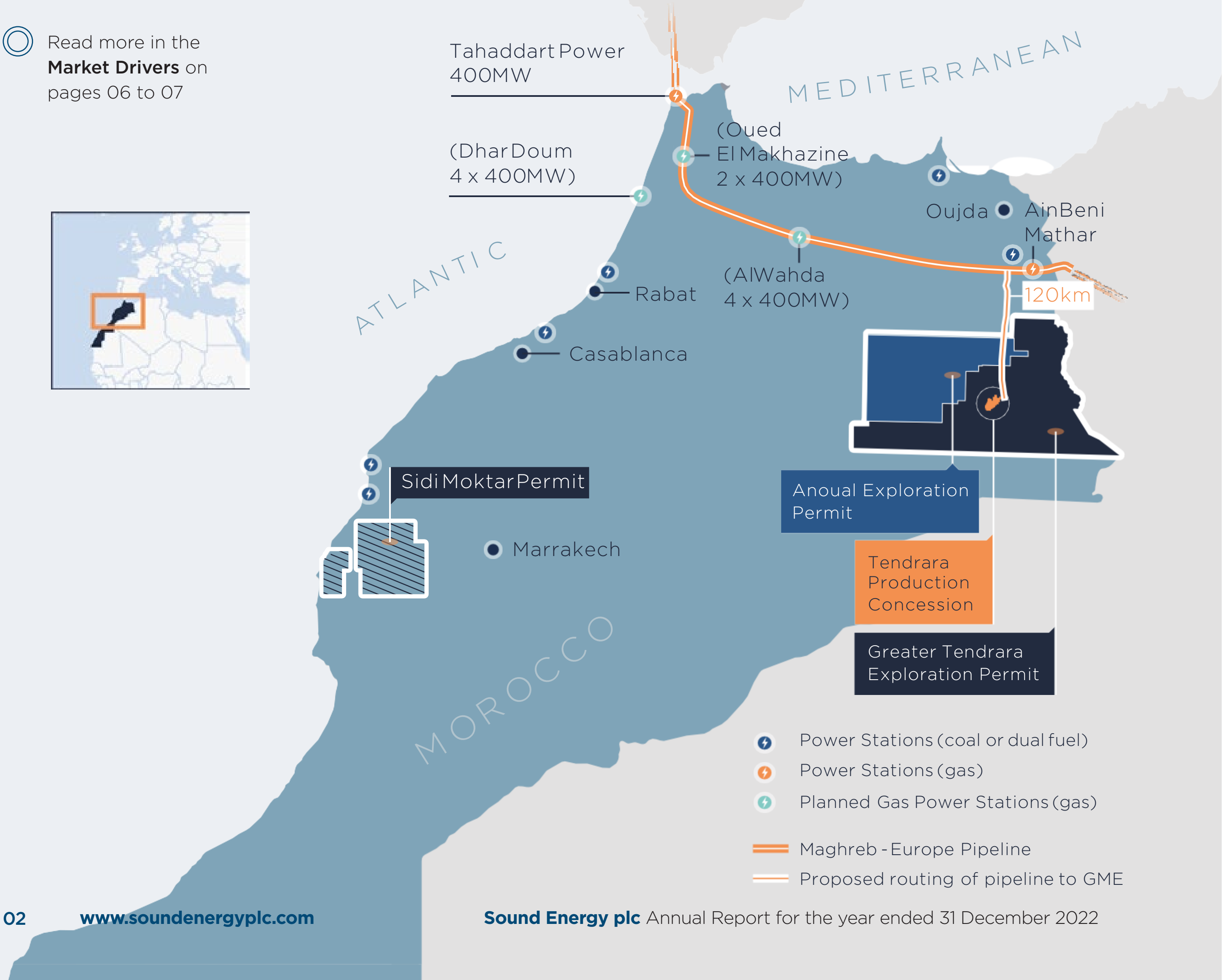
Operator with an effective interest of 75%

ONHYM holds the remaining 25% interest

**Partnerships**

Long standing partnership with ONHYM. Additional partners currently being sought

Read more in the **Market Drivers** on pages 06 to 07



## Strategic priorities

1. **Unlocking cash flow**
2. **Pipeline to power generation**
3. **Unlocking portfolio potential**

## Strategic principles

**Opportunity assessment**
We carefully review relevant opportunities in the transition fuel and renewable energy space, both in Morocco and further afield, for projects that could align with our strategy.

**Partnerships**
We nurture our existing partnerships and seek to develop new ones to ensure we remain a competitive and shareholder value accretive company.

**Scalable growth**
We look to scale within our means with a firm eye on costs, but understanding of the enormous growth potential in our acreage.

## Our Vision

Fuelling the energy transition through a focused and compelling value proposition, we assess multiple opportunities to develop, diversify and grow our business organically, and inorganically, in Morocco and beyond.

## The future

1. **The transition:** We are committed to the energy transition and view gas and mLNG as transition fuels.
2. **Portfolio diversification:** We see portfolio diversification as a key strategy in reducing risk and optimising shareholder returns.
3. **Sustainable shareholder value:** We continue to work towards revenue generation via our Phase 1 and Phase 2 projects.

## What ESG means to Sound Energy

**We are aligned to the following UNSDGs**


### Social
We are committed to making a positive contribution to the communities in which we operate. Our operations will deliver energy, jobs and investment into local communities and the wider economy, and we are committed to delivering this in the most sustainable manner.

### Governance
Sound Energy's strong corporate governance culture ensures that all stakeholders are treated with fairness and respect.

### Environmental
At Sound Energy, we are environmentally focused and compliant with all international and local operating standards. We have a keen focus on energy conservation, which includes a $CO_2$ recovery project at Tendrara Eastern Morocco. We are also advancing the development of renewable sources (solar and wind) at Tendrara to fully run all operations.

Read more on pages 27 to 33

# Chairman's Statement

"2022 marked the start of development – a milestone on our journey to revenue."

**Graham Lyon**
Executive Chairman

## Introduction

2022 was a ground breaking year for the Company both (literally and, figuratively) as Sound Energy continued the transition from being a pure exploration company to a development and production company. In March, groundworks began on Phase 1, our micro-LNG project at the Tendrara production concession in Morocco. We also made material progress on Phase 2, the further development of the concession via a pipeline, primarily on the financing side. Despite a challenging and rapidly-changing global political and economic backdrop, the Company was able to successfully deliver a number of milestones in moving towards becoming a revenue generating company. All exploration licences were either extended or advanced into the first Complementary Period. The ongoing dispute with the Moroccan authorities over tax continued to be an unhelpful drain on the Company's time and resources; and, post period end, the Company entered into a settlement agreement with Morocco tax authority on a phased payment schedule of approximately US$2.5 million as a full and final settlement against a claim of approximately US$23.95 million.

2023 will be an important year, which I hope will see further progress. Irrespective of the challenges we may face, the team remains fully dedicated to delivering its project activities and growing the Company as we seek to create material value for the Company's shareholders.

In February 2022, the Notice to Proceed for our Phase 1 project was issued, and work commenced. Material progress at site has been made and there is a more detailed commentary in the operational review. We are pleased that the Company is moving forward to becoming a revenue generating company.

Progress on the Group's Phase 2 Tendrara Concession development planning comprising of a Central Processing Facility (CPF), a pipeline and several development wells, has been made throughout the year. In March, the Company announced the pipeline interconnection agreement with ONHYM (Office National des Hydrocarbures et des Mines) to enable the tie-in of the future gas export pipeline to the GME gas pipeline, a key remaining condition of the binding, but conditional, gas sale and purchase agreement with ONEE (Office National de l'Electricite et de l'Eau potable). Additionally, in June, the Company announced the appointment of Attijariwafa Bank, Morocco's largest bank, as the exclusive lead arranger of a senior debt financing of up to approximately U$250 million for Phase 2. The bank is now undertaking detailed due diligence and we expect the parties will enter into a Conditioned Financing Offer term sheet in the near future. Both ONEE and Attijariwafa work hand in hand with Sound to ensure the prime target of delivering local gas to local power stations becomes a reality. As such, all have agreed to work to conclude documentation by mid-2023.

In December, we were pleased to report that ONHYM had extended a number of our Moroccan licences, all subject to Ministry approval. First, the Grand Tendrara Exploration Permits are continued by two years to 1 October 2024 and will involve the drilling of one exploration well with a Triassic objective, this being entry into the First Complementary Period. The Anoual exploration permits has been extended by 12 months and will also involve the drilling of one exploration well with a Triassic objective. Finally, the Sidi Moktar exploration permit has been granted a 12-month extension to 9 October 2023. We are delighted that the Moroccan authorities remain so supportive of our work programmes. and await Ministerial formal approval.

As part of our wider efforts to bring funding into our plans for Phase 2, we announced, in August, that we had initiated a formal process to identify a partner for the Tendrara Production Concession and the surrounding Grand Tendrara and Anoual exploration permits.

The objective of the area-wide approach is to seek a co-investing partner in each licence, to both fund the expected balance of Phase 2 development costs to first gas of,

c. US$60 million net to the Company's working interest in the Tendrara Production Concession and to progress an exploration and appraisal drilling programme in the Grand Tendrara and Anoual exploration permit areas.

Following strong levels of interest in this process, from a wide range of credible and well-funded parties, the Company received quantified non-binding indications of interest from several parties and, following review, the Company is progressing negotiations. Whilst there is no guarantee that a partner will be selected, it is hoped that such a transaction can be concluded alongside the debt funding for Phase 2 development.

## Corporate

Early in 2022 the Company reviewed the opportunity to create an enlarged group with Angus Energy to focus on high margin, onshore gas in stable fiscal environments. On detailed evaluation the opportunity did not meet the criteria required for Sound Energy and the opportunity was not further pursued.

In June, we successfully raised £4 million through an equity issue, which was priced at 2 pence per share, with the funds earmarked for pre-development work on the Tendrara Phase 2 pipeline to FID, new ventures activities and corporate G&A.

The Company performed its first stakeholder review, setting a benchmark in early 2022 with a follow up undertaken at year end 2022. The Company strategy is well recognised amongst Stakeholders, and stakeholder feedback that the team are considered to be performing well whilst facing technical, commercial, and resourcing challenges.

Stakeholder meetings and Investor sessions were held; it was a pleasure to meet so many knowledgeable and passionate shareholders face to face and engage in meaningful dialogue.

ESG sits at the heart of our business and, as Operations commenced, we have monitored and taken immediate action at any slight safety issue. Our environmental releases are recorded and monitored. Corporate Governance is maintained all levels. Finally, we engage with our local communities and have taken steps to not only employ but keep all stakeholders in Morocco well informed regarding our activities.

The Company continues to manage its financial resources prudently whilst undertaking several substantial activities. The bridge to fund the company until first revenues is always under review and the mix of various cash sources explored, such as debt/equity funding for projects and potential partnering.

## Moroccan tax dispute

In July, a Moroccan tribunal rejected Sound Energy Morocco East's (SEME) claim to overturn the previous decision of a Moroccan local tax committee to seek a tax payment of approximately US$2.5 million relating to a purported historical sale of an exploration permit. The Company received the written judgement late in the year and submitted an appeal within the allotted timeframe. The Company continues to believe the tax authority has mis-interpreted licensing law in Morocco.

In a separate case, Sound Energy Morocco SARL AU (SARL AU) received notice that the Local Taxation Committee supported the Tax Authorities' assumption of a sale of assets, although the Committee did not present a full calculation of the amounts it purports to be due on the taxable base amounts it has now upheld. However, Sound Energy estimated that taxes on those taxable base amounts would amount to, approximately, US$ 21.4 million (previously reported as US$19.7 million for half-year reporting but was unaudited. Following the year-end audit, the estimate was revised to US$21.4 million). As previously announced, the Company remains of the strong opinion that the assessments levied against SARL AU, that certain purported historical intra Group transactions between SARL AU and SEME have taxable bases, have been wrongly interpreted by the Moroccan Tax Administration.

Post period end, the Company entered into a settlement agreement with Morocco tax authority on a phased payment schedule back ended over 6 years of approximately US$2.5 million as a full and final settlement against a claim of approximately US$23.95 million.

## Board

During 2022, the Board continued to meet regularly and contribute to strategy and problem solving for the company. A review of the Board's effectiveness was conducted, the first in several years. Learnings and improvements were identified and will be included in the Board's 2023 activities.

## Summary

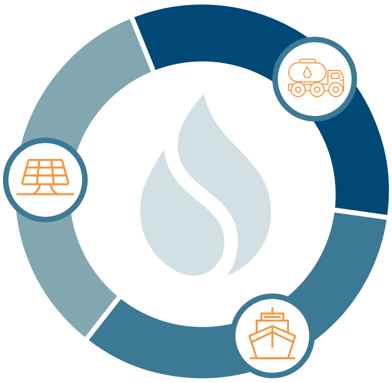
2022 was a year of real tangible progress for Sound Energy, with the micro-LNG development at Tendrara contracted to deliver maiden revenues in early 2024. I am pleased that, as we move further into construction activities, the Company continues to uphold all our ESG values and deliver our work in a manner commensurate with our principles. We are pleased to have settled our outstanding tax matters such that we can optimise our resources on field development. We have enjoyed a supportive working relationship with ONHYM, the Ministry and our various contractors in Morocco, and, most importantly, we continue to benefit from the hard work and dedication of our own staff. We will continue to work diligently to deliver value and progress for all our stakeholders during 2023 and beyond as we target to deliver material developments.

**Graham Lyon**

**Executive Chairman**

# Our Marketplace

## LNG and the energy transition



### The market opportunity

**It is a poignant time for the energy transition. In 2022, COP27 showed the world the urgency we face in securing fewer carbon-intensive fuels as part of the energy mix.**

## MicroLNG and the opportunity for Sound Energy's stakeholders

While the LNG industry has, traditionally, focused primarily on the development of ever-increasing plant capacities, the maturity of the technology has allowed the 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 mLNG chain is virtually identical to the conventional LNG chain, differing only in scale. One difference is that for small gas volumes, LNG transport is feasible using trucks (onshore) or barges (offshore), rather than large marine carriers.

## What this means for Sound Energy and its stakeholders

Our mLNG project aims to be generating revenue in 2024. There is demand for our LNG both internally in Morocco and externally. For shareholders and other stakeholders, this is a key phase for the business and could allow us to be less reliant on external sources of funding.

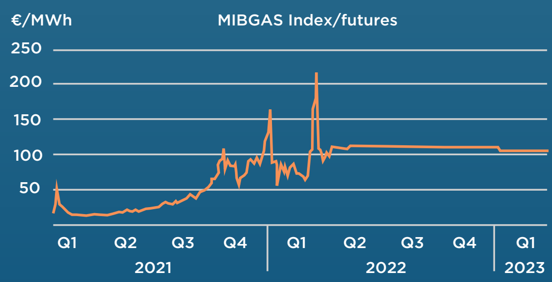
### Gas and the opportunity for Sound Energy's stakeholders

- Spanish natural gas consumption in 2020 was 31 BCM(1 Tcf), more than 30 times larger than Morocco's
- Gas exports from Algeria to Spain and Morocco via the GME pipeline ceased at the end of October 2021
- In 2021, over 99% of Spanish gas demand is met by imports, from countries including USA, Angola, Nigeria, Norway, Russia and Australia
- Moroccan gas to power generating market consumed 0.7BCM (25 bcf) in 2021, 0.5 BCM (18 bcf) of which was purchased from Algeria, 0.2 (7 bcf) BCM as GME pipeline royalty – this gap needs to be filled
- Moroccan LPG market demand is equivalent to > 2 BCM (71 bcf) p.a. of natural gas

### Algeria Gas

Following the cessation of gas exports to Morocco from Algeria in 2020, the case for enhanced supply security 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.

### Spanish gas prices




### What does this mean for Sound Energy?

- In the Moroccan National Energy Strategy, Sound Energy has been referred to 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.

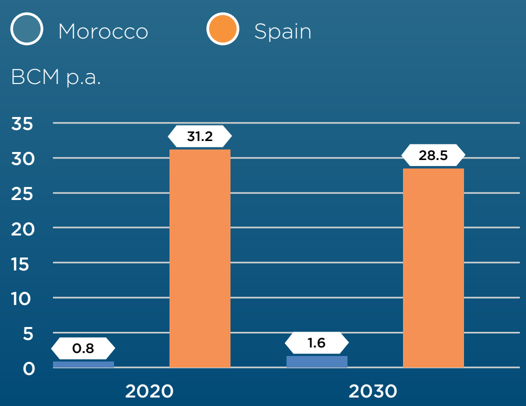
# A compelling case for Morocco

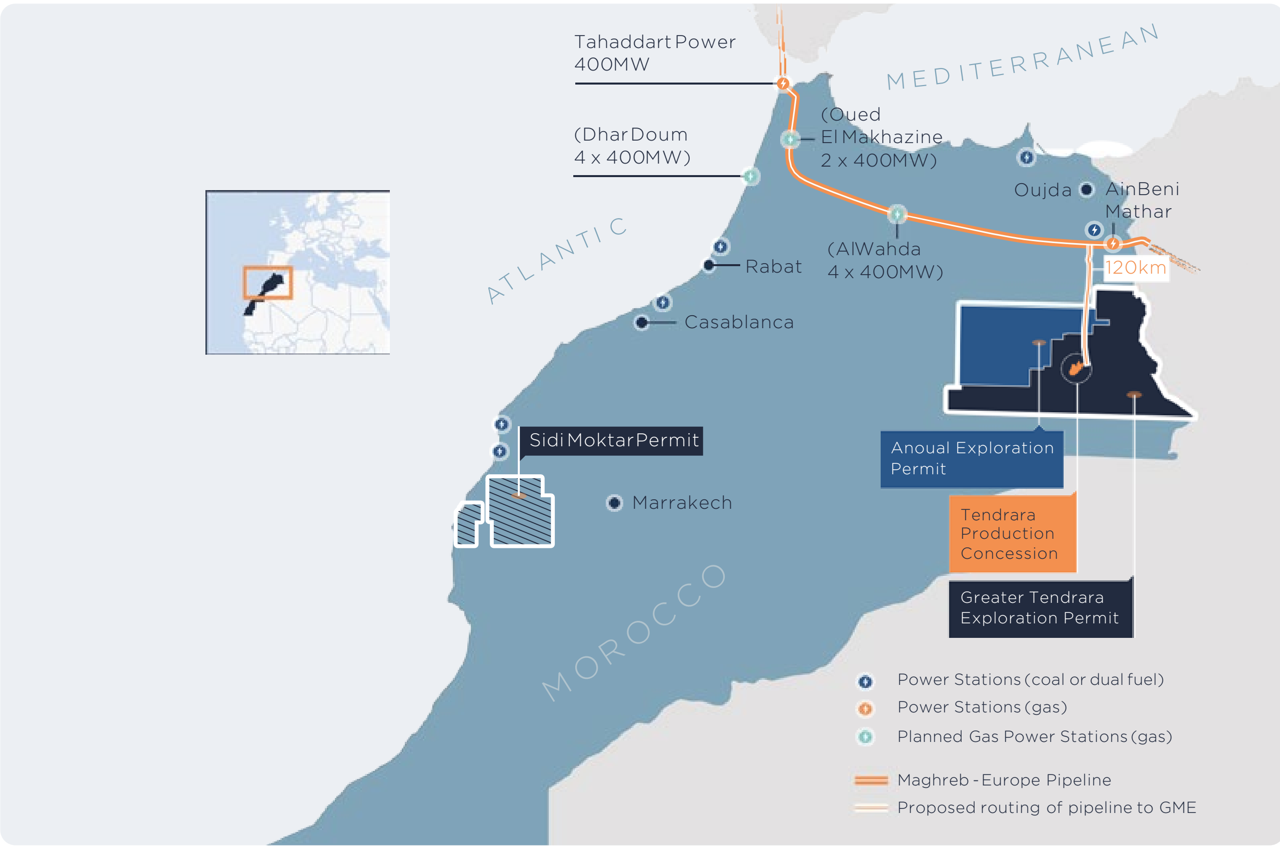
- Prior to 2021, Morocco historically imported 90% of all consumed gas from Algeria through the GME pipeline, feeding two existing CCGTs in Tahaddart and Ain Beni Mathar.
- Electricity needs are growing at a sustained yearly rate of about 5%.[1]
- The Moroccan Government is committed to reducing dependency 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 the 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 Morocco's nationally-determined contribution under the UNFCCC 2016

### Natural gas demand



# Our Business Partnerships

Our key partners allow Sound Energy to achieve more than we could do alone. Our partners support us from investment 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, liquefy 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 the capital funding requirements of Sound Energy's JV concession participants to bring the Phase 1 project onstream.

#### Current substantial market share of LPG supply

1. Listed in Morocco
2. Market Cap. of c 1.29 USD bn[1]

#### 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 and re-gasification
4. Guaranteed 10-year take or pay offtake contract

[1] Quoted from Casablanca Bourse at 16:00 on 14 April 2023

## Italfluid Geoenergy S.r.l

# Phase 1

### Design/construct/commission/operate/maintain

In 2022, 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 an international 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. Its clients include Total, Edison, British Gas and Eni.

Italfluid, through a vendor financing financial structure with Sound Energy, is aligned with delivering plant 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 contractual obligations for plant operability and delivery.

### Lease structure:

1. Minimal capital payments during project execution 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 obligations 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 2022, OGIF had an interest in, approximately, 14.36% 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 private partners in Morocco.
- Sound Energy has a good relationship with ONHYM and looks forward to further strengthening their shared interests.

# Business **Model**

## Delivering sustainable value through the energy transition.

### Fuelling the energy transition

As the world continues its ambitious journey towards lower carbon, sustainable energy solutions and a greener planet, Sound Energy is committed to delivering its part in this journey. Access to energy improves lives and stimulates growth in society. Sound Energy is committed to this aspiration and has a strategy focused on developing a portfolio of opportunities to deliver business growth whilst serving consumer needs.

EVALUATE
PEOPLE
DEVELOP
SOCIAL RESPONSIBLITY
PRODUCE
ENVIRONMENT
RECYCLE AND GROW
GOVERNANCE AND ETHICS

## 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 de-risking our opportunities and accessing capital to fund our operations. We believe the creation of mutually-beneficial partnerships allows us and our partners to enhance, and deliver, our business strategies.

### Governmental relationships

Having strong and well-developed relationships with host governmental bodies is key to delivering Sound Energy's aspirations. The Company invests time, expertise and resources to engage with governmental agencies to build trust and understanding around its strategy and 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.

Read more about **Stakeholder engagement** on page 24

### Organic growth

- Tendrara Phase 2 gas development
- Phase 1 and Phase 2 expansions, more LNG and 2C resources gas sold
- Exploration potential
- Commercialising known discoveries (e.g. SBK-1)

### Inorganic growth

- Renewables
  - Solar
  - Wind (own use in Eastern Morocco, expansion for grid)
- Gas storage
- Corporate actions where accretive

## A sustainable business model with ESG at its core

### 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
- Screen and assess opportunities for revenue generation

### DEVELOP

- Advance development strategies with efficient use of financial resources
- Move discoveries through the development phase at pace
- Innovative relationships with strategic partners which can deploy capital and/or technical solutions

### PRODUCE

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

### RECYCLE AND GROW

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

### GOVERNANCE AND ETHICS

- Committed to strong corporate governance to strengthen our business and serve our stakeholders
- LSE listed entity observing the QCA code

### PEOPLE

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

### SOCIAL RESPONSIBILITY

- Creating local employment in developing countries
- Sponsoring PhD students

### ENVIRONMENT

- LNG and piped gas development displacing coal and LPG to lower Morocco's carbon footprint and increase security of supply
- Respecting our environment and upholding high environmental standards

"It is not just what you do, it is how you do it; we aim to be a respected developer in Morocco."

**Graham Lyon**
Executive Chairman

# 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<br>• Commission<br>• Operate and maintain | |
| **Small-scale LNG production** | Small-scale LNG production | • Design<br>• Commission<br>• Operate and maintain | |
| **Transport via truck** | | | Transport via truck |
| **Local storage + regasification** | | | Local storage + 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
- Contract for civil works for the micro-LNG facilities awarded (via Italfluid) and works commenced with the construction of the LNG storage tank and processing units' foundation pads
- Detailed design engineering within primary subcontractors progressing

### Next steps

- Finalise engineering of flowlines and associated equipment, engage with suppliers and place purchase order(s) for supply
- Complete construction of LNG storage tank
- Execute TE-6 and TE-7 well-works including replacement of trees
- Site installation of gas processing and liquefaction train
- Hook-up, integration and tie-ins
- Field commissioning and testing

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 via pipeline** | Transport | Transport via pipeline |
| **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[1] 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[3].

| | Discovered Gas Originally In Place (Bcf) | | | Contingent Resources (Bcf)[2] | | | Contingent Resources (Bcf)[2] | | |
|---|---|---|---|---|---|---|---|---|---|
| **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 the 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:

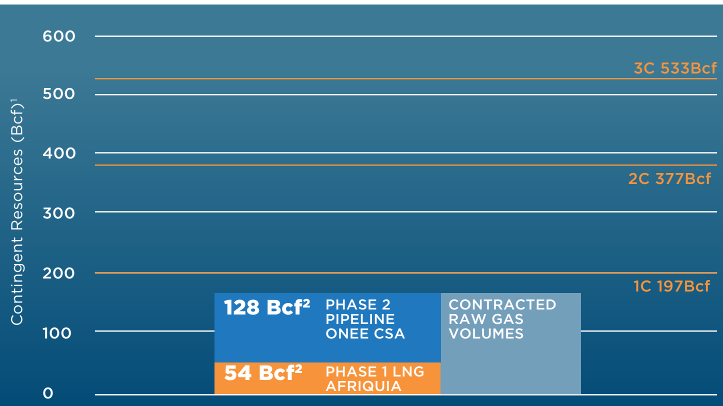
- a technically mature and feasible development plan
- financial appropriations either being in place or having a high likelihood of being secured to implement the project
- a reasonable timeframe for development
- a reasonable assessment that the development projects will have positive economics and 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
- legal, contractual, environmental, regulatory, and government approvals are in place, or will be forthcoming, together with resolving any social and economic concerns

1 Petroleum is a naturally occurring mixture consisting of, but not limited to, hydrocarbons in the gaseous, liquid or solid phase. Petroleum may also contain non-hydrocarbon compounds, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide, and sulfur.

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

3 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

## Exploration Potential for Eastern Morocco (Greater Tendrara and Anoual licences)

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations, assuming the application of future development projects. Prospective Resources have an associated geological chance of success ("CoS") applied. CoS is the estimated probability that drilling activities will confirm the existence of a significant accumulation of petroleum and for them to be tested to flow to the surface. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates, assuming their discovery and development, and may be subclassified based on project maturity.

Sound Energy has defined an exploration inventory, a series of features internally classified as either prospects, leads or concepts, based on their technical maturity. The term "exploration potential", as used herein, is intended to encompass all quantities of undiscovered petroleum (recoverable and unrecoverable) and presented as gas initially in place ("GIIP"). GIIP is the total quantity of gaseous petroleum that is estimated to exist originally in naturally occurring reservoirs, as of a given date. Petroleum may also contain non-hydrocarbon compounds, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide, and sulfur.

Sound Energy has internally estimated exploration potential for the Greater Tendrara and Anoual licences. These estimates are presented as GIIP (gas initially in place) unrisked without an associated geological CoS and on a gross basis. The total volume of exploration potential is constrained by a basin modelling study undertaken by a leading independent petroleum systems analysis consultancy (IGI Ltd), as communicated by RNS on 29 June 2018.

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

The range of unrisked gas initially in place volume estimates from the basin model has been used to constrain and consolidate the exploration inventory of features across the licences in addition to the resources of the Tendrara Production Concession. The volumes are spread across a portfolio of prospects, leads and concepts with varying degrees of technical maturity. The portfolio includes an estimate of volumes for features identified from previous operators' studies, plus new volumes identified by Sound Energy from geophysical data acquisition, processing and interpretation exercise, including the recent evaluation of the TE-4 Horst, SBK-1 Structure and M5 Prospect.

# Our Strategy

## Today

**FOCUSED**
Moroccan gas development and monetisation strategy

**COMPELLING**
Case for gas in Morocco and Europe, leading to advantaged pricing

**DEVELOPING**
A major discovered gas resource with strategic partners (e.g. Afriquia Gaz), with follow-on potential

**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. Financing solutions progressing

**GAS EXPLORATION**
Portfolio offers potential for transformational growth

**STRONG ESG**
Lower carbon footprint fuel, strong corporate governance

## 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

# Portfolio Review

## A blended portfolio of gas assets

### Eastern Morocco

### Tendrara Production Concession

#### Permit Area

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

#### Geology

The gas is trapped within the Triassic TAGI[1] reservoir within the structural fault block, termed the TE-5 Horst, and sealed by the overlying salt. Reservoir characteristics are significantly enhanced by application of proven hydraulic stimulation techniques to increase gas flow rates.

#### Ongoing and Planned Developments

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

#### Phase 1

**Supply of LNG displacing higher carbon energy (such as heavy fuel, petcoke or imported LPG)**

Phase 1 Micro LNG Development – Funding arranged to meet Sound Energy's share of sanctioned pre first gas 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 equivalent to approximately 100 million standard cubic metres of gas (approximately 3.5 billion standard cubic feet of gas per year) over a ten-year period.

Binding gas sales agreement and associated funding are in place with Afriquia Gaz, one of the largest LPG distributor in Morocco. 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 wells TE-6 and TE-7, with the drilling of one new well, as required, to maintain the ten-year period of production at the plateau.

LNG Central Processing Facility is under construction by 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 LNG tank construction 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), approved by the new operator ONHYM, which took over the GME operatorship at the end of Q4 2021.

- Pipeline EIA permit approved and pipeline corridor fully secured. Lease agreements signed with the landowners and the first lease payments are scheduled for first of half 2023
- CPF EIA permit approved
- EPC Consortium selection process launched in 2022 and ongoing discussion with bidders
- 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.
- Up to six horizontal wells planned to achieve First Gas (Phase 2)
- Exclusive partnership with Attijariwafabank (which is one of the top banks in Morocco and in Africa and which is part of the King's holding MADA) acting as Lead Debt Arranger in order to fund a substantial part of Phase 2 project. Technical and Legal Due Diligence ongoing.
- Different options to close out equity raise are currently discussed with financial investors and Vendors.

## Exploration

### Greater Tendrara – two Triassic TAGI[1] discoveries

**Licence Details**

| | |
|---|---|
| **Area** | 14,411 km$^2$ |
| **Status** | Petroleum Agreement: Exploration |
| **Effective date** | 1 October 2018 |
| **Term** | 8 years |
| **Resource Potential** | Exploration potential in the Triassic TAGI reservoir of 7.52 Tcf gross/5.64 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 kilometres to the north. The 522 kilometres long Moroccan section is owned and operated by the Moroccan State. 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. The primary reservoir is the Triassic TAGI[1] charged from Palaeozoic petroleum source rocks and sealed by the overlying Triassic salt, which is present across much of the basin. This petroleum play is regionally extensive and extends into Morocco from Algeria.

Two Triassic TAGI[1] gas discoveries exist within the permit area:

- 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 in May 2019

Exploration potential in the Triassic TAGI[1] reservoir of 7.52 Tcf gross/5.64 Tcf net (mid-case unrisked GIIP) identified in sub-salt concepts, leads and prospects.

### Future Developments

A number of targets are available for near-term drilling with two features, the SBK structure and the TE-4 Horst, high-graded for drilling. Both these structures were drilled by SBK-1 and TE-4, in 2000 and 2006, respectively, and both encountered gas shows in the TAGI[1] reservoir. SBK-1 flowed gas to surface during testing in 2000 at a peak rate of 4.41 mmscf/d post acidification, but was not tested with hydraulic stimulation. TE-4 was tested in 2006 but did not flow gas to the surface. Hydraulic stimulation has proven to be a key technology to commercially unlock the potential of the TAGI gas reservoir in the TE-5 Horst gas accumulation and, accordingly, the Company believes this offers potential to unlock commerciality elsewhere in the basin.

The gross exploration potential of these high-graded structures, expressed as GIIP, are as follows:

| | Unrisked Volume Potential Gas Initially in Place (Bcf) | | | | |
|---|---|---|---|---|---|
| | Gross (100%) basis | | | | |
| **Target name** | **Low** | **Best** | **High** | **Mean** | **Chance of Success** |
| **TE-4 Horst Structure** | 153 | 260 | 408 | 273 | 36% |
| **SBK-1 Structure** | 71 | 130 | 225 | 140 | 50% |

A discovery in either structure would have the potential to be commercialised through the proposed development infrastructure centred on the TE-5 Horst, with sufficient capacity in the planned Tendrara Export Pipeline or as standalone mLNG projects.

Subject to approval by the Ministry of Energy and Ministry of Finance, the Company has elected to enter the voluntary first Complementary period, which commenced mid-October 2022 with one well commitment to be drilled before October 2024. A well drilled on either the SBK structure or the TE-4 Horst would satisfy this commitment.

[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

# Portfolio Review continued

## Anoual

**Licence Details**

| | |
|---|---|
| **Area** | 8,873 $km^2$ |
| **Status** | Petroleum Agreement: Exploration |
| **Effective date** | 8 September 2017 |
| **Term** | 10 years |
| **Resource Potential** | Exploration potential in the Triassic TAGI reservoir of 11.51 Tcf gross/8.63 Tcf net (mid-case un-risked GIIP[2]) identified in sub-salt concepts, leads and prospects |

### Permit Area

Located for access to Gazoduc Maghreb Europe ("GME") pipeline approximately 120 kilometres to the North. The 522 kilometre-long Moroccan section is owned and operated by the Moroccan State. 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. The primary reservoir is the Triassic TAGI[1] charged from Palaeozoic petroleum source rocks and sealed by the overlying Triassic salt, which is present across much of the basin. This petroleum play is regionally extensive and extends into Morocco from Algeria.

Committed geophysical surveying completed with a single well commitment remaining.

Exploration potential in the Triassic TAGI[1] reservoir of 11.51 Tcf gross/8.63 Tcf net (mid-case un-risked GIIP[2]) identified in sub-salt concepts, leads and prospects.

### Future Developments

"M5" prospect high graded for drilling a TAGI[1] target, operational planning is progressing. The Company's estimation of the gross exploration potential of the M5 exploration prospect, a possible candidate for the exploration well, expressed in GIIP, is as follows:

| | Unrisked Volume Potential Gas Initially In Place (Bcf) | | | | |
|---|---|---|---|---|---|
| | Gross (100%) basis | | | | |
| **Target name** | **Low** | **Best** | **High** | **Mean** | **Chance of Success** |
| **M5 Exploration** | 332 | 800 | 1728 | 943 | 21% |

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 Gas Initially In Place ("GIIP")

**Anoual**

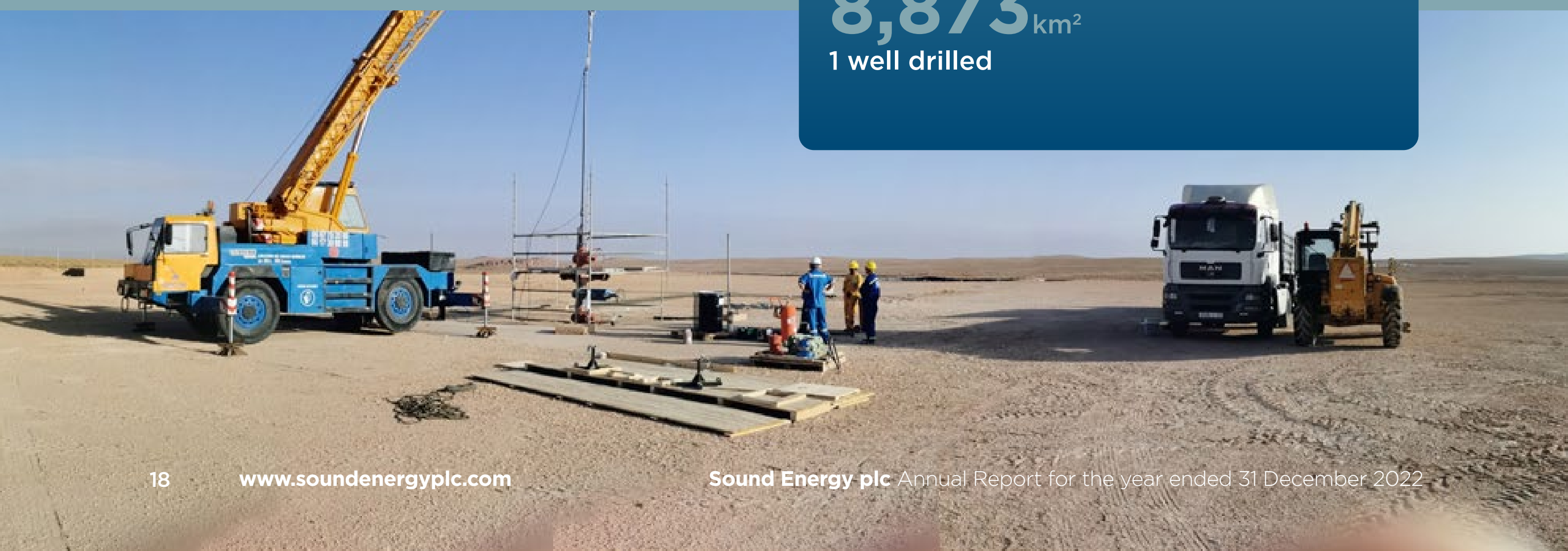
10 years[1] from September 2017

**75%** interest

**Exploration permit**
Operated

**8,873** $km^2$

1 well drilled



## Sidi Mokhtar

**Licence Details**

| | |
|---|---|
| **Area** | 4,712 $km^2$ |
| **Status** | Petroleum Agreement: Exploration |
| **Effective date** | April 2018 |
| **Term** | 10 years |
| **Resource Potential** | Unrisked exploration potential of 8.9 Tcf mid-case unrisked GIIP following interpretation of the historical 2D seismic |

### Permit Area

The permit in which Sound Energy has a 75% interest is located onshore on the Atlantic seaboard of Morocco, approximately 100 kilometres to the west of Marrakech.

In July 2017, the Company reported the results of the re-entry, completion, perforation and flow testing of the existing Koba-1 well, with a focus 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[2] 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 partner to participate in a geophysical survey programme focused on these deeper objectives.

In December 2020, the Company announced a further one-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

Un-risked exploration potential of up to 8.9 Tcf[1] gross gas initially 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.

### 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 hoped to lead to an exploration well targeting a high-impact gas prospect.

1 Internal exploration potential estimates, arithmetical sum of mid-case unrisked Gas Initially In Place (gross)

2 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

**Production Concession**

25 years from September 2018

**75%** interest

**Exploration permit**
Operated

**133.5** $km^2$

4 wells drilled

# LNG Project **Review**

## Operational progress

### Sound Energy is a pioneer in Morocco in establishing an onshore small scale LNG solution to provide LNG to a local market in Africa and to assist the Moroccan industry in reducing usage of more polluting fuels and reducing $CO_2$ emissions.

The mLNG project is a complex project that involves three main parties:

- Afriquia Gaz, which is the LNG offtaker and is in charge of LNG logistics from the Tendrara gas field to all its customers located in Morocco (mainly in the western part of Morocco, whereas the Tendrara field is in Eastern Morocco)
- Italfluid GeoEnergy (Italfluid), which is Sound Energy's partner in charge of the construction and maintenance of the gas processing and liquefaction plant through a lease arrangement;
- Sound Energy and its Concession partners including ONHYM, which are in charge of financing the delivery of the raw gas gathering system, the upgrade of the current wells ready to produce (TE6 and TE7), and the drilling of a new well T-112 to be done post first gas production

All the main agreements were signed in 2021 and are in place to enable the project to be implemented. On behalf of the Concession partners, Sound Energy released the Notice to Proceed to Italfluid on 15 February 2022.

## Progress in 2022

Italfluid mobilised its staff to start the civil work on site and levelled up the land on which the plant will be located. In the meantime, they started the engineering specifics, and the work on the main equipment packages required to be manufactured by its subcontractors.

Despite some challenges encountered since the issue of the Notice to Proceed, including market volatility due to the war in Ukraine, which has been disruptive in achieving a reliable schedule and firm costs from the supply chain subcontractors. Sound Energy and both of its partners, successfully, managed to progress project activities on site and to start the manufacturing of several elements. The foundations of the LNG tank, which is the most complicated part of the civil work on site, are now complete, and have been checked by the subcontractor in charge of the erection of the LNG tank, which is another key part of the mLNG plant construction project. Project schedule is reviewed constantly and remains challenging. Delivery of a commissioned plant by Italfluid is contracted for Q1 2024.

The first pieces of equipment were delivered on site and are being assembled. The main elements of the firefighting system have been put in place in the field. The detailed engineering is still progressing to allow Italfluid to continue procuring remaining different packages required for commissioning the plant. Some delays have, nevertheless, been noted on the date for first gas production but Italfluid, Sound Energy and Afriquia Gaz are working together, cooperatively, to supply LNG to the local industry in 2024 in an efficient manner without neglecting safety issues.

Sound Energy have deployed an HSSE supervisor on site to closely monitor the work to ensure it is done in compliance with the best safe practice.

Sound Energy started the detailed engineering work related to the gas gathering system and the upgrade operation on wells TE6 and TE7. The work to upgrade the access road and to bring an alternate source of power supply from the grid, using the construction of the self-powered generation solution using raw gas production, are ongoing.

2023 is a key year when all the equipment packages are to be completed and tested in the workshops and later be brought from workshops located around the world (USA, Asia, etc.), delivered on site through the main ports in Morocco (Casablanca, Tanger or Nador) and assembled on site before being all tested. Sound Energy expects to face some challenges of different nature ( for example, administrative approval of equipment testing by local authorities given that this project is the 1st LNG project in Morocco, delays in the supply chain due to the disruptive events which occurred in 2022, cost increase which can impact our main contractor and its subcontractors and risk of delay on the offtake side), which are usual for projects in which an international chain of suppliers is involved, but remain confident that the three partners Afriquia Gaz, Sound Energy and Italfluid should make significant progress in 2023.

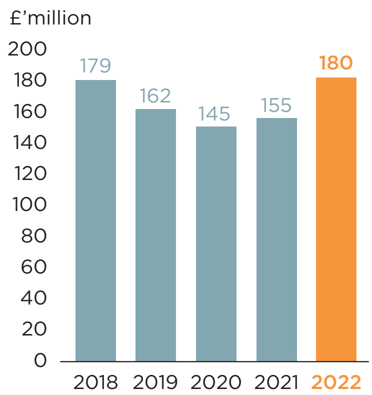
Consequently, provided that no new disruptive events slow down progress, and the final industrial users are ready to make their process switch from their current fuel to natural gas, LNG plant commissioning and the full solution commissioning including the well and gas gathering system and Afriquia Gaz logistic solution, are both expected to be started in 2024.

# Financial Review

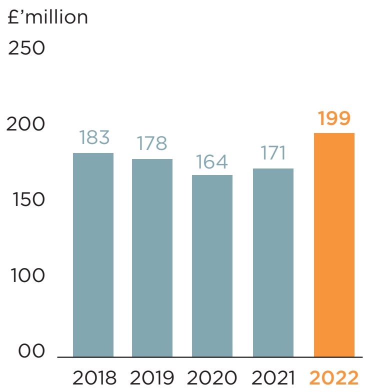
"2022 marked a year of prudently managing working capital whilst moving into major capital investment mode to pave the way for planned, sustainable revenue generation from 2024."

**Garry Dempster**
**Chief Financial Officer**

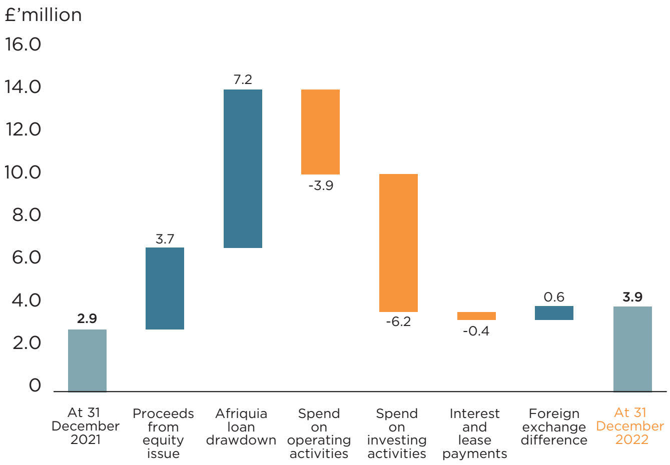
## Net assets (£'m)




## Development and intangible assets (£'m)




## Cash flow bridge (£'m)




## Income Statement

The profit for the year after tax from continuing operations was £6.6 million (2021: £2.4 million). Reversal of impairment of development assets of £5.7 million (2021: £4.0 million impairment reversal), related to the TE-5 Horst production concession, arose following the results of an impairment test, which indicated that previously recognised impairment charge should be reversed. The discount rate and forecast gas price are significant estimated inputs used by the Company to determine the recoverable amount when undertaking impairment testing of the Company's TE-5 Horst concession. The Company has taken account of changes in the wider financial markets during 2022 and has, accordingly, revised the discount rate from 10% at the end of 2021 to 12.5% as at 31 December 2022. The Company previously used forecast gas price indexed to the Brent price for pricing the forecasted uncontracted gas sales volumes for impairment testing. Following significant changes in market conditions during the year, the Company concluded that an average of forecast gas price referenced to the Title Transfer Facility ("TTF") in the Netherlands and the UK National Balancing Point ("NBP") price is more representative of the conditions in the gas market than an indexation to the Brent price.

Accordingly, the Company used an average of TTF and NBP forecast gas price for its impairment testing as at 31 December 2022.

Administrative costs at £3.1 million were higher than 2021 administration costs (£1.7 million). During 2022, there were awards of nil cost options of approximately £0.5 million in settlement of 2020 and 2021 staff bonuses, and the issue of shares of approximately £0.3 million in settlement of a one-time bonus to the Chief Operating Officer. Due to the Company being in a largely continuous closed period during 2020 and 2021, the issue of shares and awards of the nil cost options could not be done during that period. During 2022, the Company adopted a new Long-term Incentive Plan (LTIP) designed to reward, incentivise and retain the Company's executives and senior management to deliver sustainable growth for shareholders. Approximately £0.2 million of the administrative costs related to the LTIP expense incurred during 2022. The remainder of the increase in administrative costs reflects increased operational activities, including the taking of FID on Phase 1 Micro-LNG in February 2022 and pre-FID activities on the Phase 2 gas project.

Foreign exchange gains primarily related to intra-Group loans, which were partially offset by exchange losses in US dollar and Euro-denominated borrowings. Foreign exchange gains and losses arising from intercompany loans that originated on acquisition of Moroccan licences are recognised in the other comprehensive income section of the statement of comprehensive income.

## Cash Flow/Financing

During 2022, an equity issuance raised approximately £3.7 million (2021: £2.0 million) net of issue costs. Drawdowns from the Company's loan note facility with Afriquia Gaz amounted to $9.5 million (£7.2 million).

Financing costs were £1.4 million (2021: £2.3 million), primarily due to the amortised costs of the Euro denominated loan notes and the US dollar Afriquia loan note facility drawdowns, net of interest capitalised to the development and exploration licences of £0.1 million (2021: £0.1 million). The decline in finance costs arose due to full-year impact of the 2021 restructuring of the Company's Eurobond, which inter alia extended the maturity of the loan notes to 21 December 2027 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.

The Group spent £6.2 million (2021: £1.2 million) on investing activities during 2022. The primary spend related to approximately £4.3 million paid in advance in respect of the Group's Micro-LNG project. The balance of spend consisted of expenditure on the Group's Morocco licences and capitalised general and administrative expenses.

## Balance Sheet

As at 31 December 2022, the carrying amount of property, plant and equipment was £163.4 million (2021: £139.7 million), primarily related to the development and production assets in Morocco with a carried value of £163.1 million (2021: £139.6 million) after taking account of impairment reversal, additions and foreign exchange movement.

Intangible assets, with a carrying amount of £36.0 million (2021: £31.6 million), primarily relates to the Group's investment in its exploration licences in Morocco. Additions of £0.8 million intangible assets primarily consisted of capitalised general and administrative expenses and £3.6 million foreign exchange movement recognised.

As part of the 2018 Italy divestment agreement, the Company is entitled to receive the proceeds, upon the sale, of land associated with the former Badile onshore exploration permit (''Badile land''). The Company has a carrying amount of, approximately, £0.6 million (2021: £0.7 million) as interest in Badile land. The Company expects the sale of the remaining area of Badile land to be completed during 2023 for gross proceeds of €350,000 and the Company's obligation for the Badile land remediation, with a carrying amount of £0.4 million (2021: £0.4 million) will terminate upon the sale as will be taken over by the buyer of the Badile land.

Non-current prepayments of £4.3 million relate to the Group's Phase 1 mLNG project. Other receivables, amounting to £2.8 million (2021: £0.9 million), primarily related to receivables from our partners in Morocco licences and recoverable VAT in Morocco.

Trade and other payables amounting to £1.9 million (2021: £1.5 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.

During 2022, the Company issued 219,518,767 shares of which 200,000,000 were issued for cash and 19,518,767 were non-cash share issues. The primary non-cash share issue related to 13,419,891 shares issued as one-time bonus to the Chief Operating Officer following the delivery of all elements required to take FID for Phase 1 of the Concession and for establishing the commercial framework for monetisation of Phase 2 of the Concession.

Post period end in May 2023, the Company entered into a phased payment schedule with Morocco tax authority for full and final settlement of the tax cases for approximately £1.6 million (£0.1 million current liabilty and £1.5 million non current liability).

## Going Concern

As detailed in note 1 on page 72, the Company's cash flow forecasts, for the next twelve-month period to May 2024, indicate that additional funding will be required to enable the Company to continue to meet its obligations. This condition, indicates the existence of a material uncertainty on the Company's ability to continue as a going concern.

**Garry Dempster**
**Chief Financial Officer**

# Engaging with our Stakeholders

## Employees

### Why it's important to engage
Our employees are at the centre of our business and engaging regularly with open communication is crucial. High performing employees are hard to find and harder to keep, and we do all that is necessary to ensure a happy and open working environment.

### How the Board engages
The Board provides regular updates and communication both in person and via e-mail to its employees and contractors.

### How we engage across the Company
Regular e-mail communication, updates on different projects and our investor relations activities are given to all employees.

## Suppliers

### Why it's important to engage
To deliver on our Phase 1 and Phase 2 projects, we need reliable and credible suppliers.

### How the Board engages
Decisions on major partners are made at Board level and communicated to senior management, who then form lasting relationships with their partners.

### How we engage across the Company
Our local teams in Morocco actively engage with our suppliers. Internationally our project team and senior management engage with our service supplier counterparts.

## Customers

### Why it's important to engage
Our primary customer for phase 1 is Afriquia Gaz. As the offtaker of the mLNG it is key that we have regular dialogue with regards to the progress of our projects. Ensuring they are kept up to date means we protect the relationship allowing for further potential gas sales agreements going forward.

### How the Board engages
The Board is responsible for discussing and agreeing to all potential major agreements, which are then implemented either via the Executive Chairman or senior management to our stakeholders and customers.

### How we engage across the Company
Our share register shows key stakeholders are also customers The Executive Chairman maintains their strong relationships, with them as with all shareholders.

## Regulatory authorities

### Why it's important to engage
Our regulatory authorities both in Morocco and the United Kingdom are there to protect stakeholders and shareholders alike. It is important for Sound Energy to engage with them to ensure we are up to date with the latest regulations and can adjust our processes and procedures according to any revisions.

### How the Board engages
The Board engages with regulators via the Executive Chairman Graham Lyon and via the firm's nominated advisor: CENKOS

### How we engage across the Company
Senior management, including the firm's CFO and COO, are also in regular contact with the various regulators.

## Communities and environment

### Why it's important to engage
As guests in our host country, Morocco, we want to ensure longevity of our operations and protection of the local environment and communities. Engaging with these key stakeholders enables us to understand our operating environment in greater detail.

### How the Board engages
The Board is kept up to date with all matters with regards to the environment and local communities and communicates via the Executive Chairman Graham Lyon on any decisions or courses of action.

### How we engage across the Company
Over the years, there have been events that have raised funds for the local community and provided medical facilities and training for our Moroccan stakeholders.

## Shareholders

### Why it's important to engage
Our shareholders are the owners of our business – we want to engage with them as much as possible while respecting all regulations with regards to that communication.

### How the Board engages
The Board engages via the AGM and other shareholder events, where all board members are present.

### How we engage across the Company
Several members of our team have met our shareholders via shareholder events and Q&A sessions. We value those encounters and will plan more in 2023.

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

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 details of how the strategic, operational and risk management decisions have been implemented throughout the business are included in the Strategic Report on pages 2 to 36.

## Employees

Our employees are a primary asset of our business and the Board recognises that our employees are the key resource that enables the 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 for 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, Safety, Security and Environmental measures implemented in the business premises and improvements are recommended for better practices.

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

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

## Community and the 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 HSSE updates from the HSSE 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 in which it operates. As detailed in the ESG 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 are 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 related 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 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 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 keep abreast of the 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.

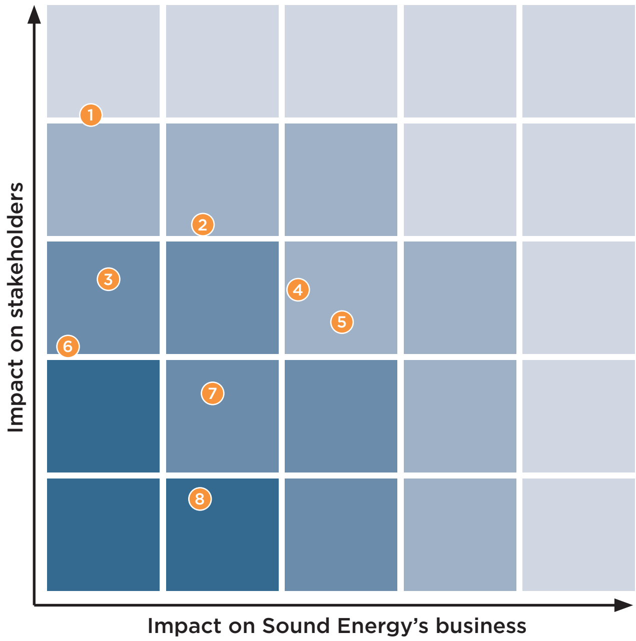
There are opportunities throughout the year for shareholders to meet with the Board and members of the Executive team, through general meetings, investor events and the Company's Q&A sessions as well as e-mail directed questions.

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, and instilling trust and confidence to allow informed investment decisions to be made by the Board.

# Sustainable and **Responsible Business**

## Sound Energy are committed to the principles of an environmental, social and governance framework.

We have a range of policies, processes and procedures embedded within our integrated management systems that demonstrate our commitment to Environmental, Social and Governance requirements, expectations and performance.




### Materiality assessment

**Identifying key material topics for Sound Energy**

1. Local communities, land and resource rights
2. Anti-bribery and anti-corruption and strong governance
3. Employment practices
4. Economic impacts
5. Public policy and regulation
6. Occupational health and safety
7. Climate change, transition and GHG emissions
8. Waste and emissions

### Applicable Sustainable Development Goals

From our materiality assessment, we are working towards the following United Nations Sustainable Development Goals.

# Sustainable and Responsible Business continued

## Materiality assessment

The assessment looks at the materiality of different topics for Sound Energy and the impact they have on the business and stakeholders. The ESG materiality assessment was approved by the Board in 2022.

### Environmental

Our Environmental Policy and Environmental Management Standards define our commitments and the methodology we use to manage all aspects of Environmental risk and stewardship in a sustainable manner:

| Material issue | UN SDG | Vision | Goals | Example metrics | Timing |
|---|---|---|---|---|---|
| **Climate change transition and GHG transitions** | 7 AFFORDABLE AND CLEAN ENERGY<br>13 CLIMATE ACTION | To support Morocco in achieving a low carbon economy | • Support energy transition through the Tendrara Gas development to offset the use of coal<br>• Capture and commercialise $CO_2$ emissions<br>• Quantify energy and emissions baseline<br>• Implement plans to capture future data<br>• Define reduction strategies<br>• Analyse and mitigate climate risks | • Number of homes/facilities supplied<br>• Value to local economy<br>• Avoided emissions<br>• Energy efficiencies in the development<br>• Carbon intensity<br>• Fugitive emissions, air and water pollution<br>• Waste management and disposal<br>• Baseline Scope 1, 2 and 3 emissions<br>• Define planned data capture of emissions, energy usage, waste<br>• Model future emissions profile, define reduction strategies, risk analysis | 2023 onwards |

### Our Carbon Footprint

In 2022, we consumed 101.90 m3 of diesel in 2022, which corresponds to 275.79 tCO2e. Our diesel consumption is primarily from road transport to and from our Tendrara Phase 1 operations and is very dependent on the level of activity over there. There are also fluctuations dependent on weather. For example in less occupationally busy times and in extreme heat, our consumption decreases significantly.

We expect our carbon impact to increase as we move towards being fully operational on site, but are committed to monitoring and acting upon any avoidable peaks. We also remain committed to reviewing all possible strategies for renewable energy on site.

We work with carbon accounting and measurement company Redigo: www.redigocarbon.com

## Social

We have a number of policies and procedures that direct the approach to our social responsibilities:

- Health and Safety Policy
- Corporate Social Responsibility Policy
- Equality, Inclusion & Diversity Policy
- Labour Rights & Modern Slavery Policy
- Supply Chain Policy

| Material issue | UN SDG | Vision | Goals | Example metrics | Timing |
|---|---|---|---|---|---|
| **Economic impacts and equality** | 3 GOOD HEALTH AND WELL-BEING<br>4 QUALITY EDUCATION | To be a partner of choice, promote equality, and contribute to the long-term economic benefit of the countries and communities in which we operate | • Support local content and diversity in all aspects of the business<br>• Participate in the capacity building of local communities to enhance skills and contribute to local job development and the economy | • Local content by contract value, % of contracts<br>• Diversity statistics, incl. from suppliers (gender, nationality, ethnicity, age)<br>• Capacity building support through funding/internships/programmes for local businesses (e.g. value donated, number of people supported, jobs provided) | 2023 onwards |
| **Local and indigenous communities, land & resource rights** | 8 DECENT WORK AND ECONOMIC GROWTH<br>16 PEACE, JUSTICE AND STRONG INSTITUTIONS | Create and sustain long-term value for our stakeholders and communities in which we operate | • Develop effective and positive relationships with stakeholders through transparent communication and fair practices<br>• Conduct land acquisition in a fair and sensitive manner with full engagement with stakeholders | • Number of formal and informal engagement processes with local communities<br>• Adopt and follow internationally recognised procedures for land acquisition (e.g. IFC)<br>• Establish & communicate community grievance mechanism (number of grievances received and successfully closed)<br>• Capacity building (hours of training) | 2023 onwards |
| **Occupational health and safety** | 13 CLIMATE ACTION | To perform in the top quartile for safety performance among peers in North Africa and support healthcare in the communities in which we work | • Top quartile health and safety performance with zero serious incidents during infrastructure installation<br>• Contribute to the improvement of community health through the support of local projects | • HSSE management systems, work towards ISO accreditation, risk assessments<br>• Number of HSSE training hours, people trained, toolbox meetings, Stop Cards issued<br>• Fatalities, HiPos, lost-time incidents, medical incidents<br>• Community project contributions (funding value, people benefiting, number of additional health professionals) | 2023 onwards |

# Sustainable and **Responsible Business** continued

## 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 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 Programmes:** 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 first 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 chosen candidates not only have access to data in real time, but also receive academic supervision throughout the period of their research, as well as technical training and mentorship provided in house and externally. The training programme is focused on bibliography, geological field missions, structural studies (geochemistry, petrophysics, gravity), and the integrated structural and sedimentological interpretation of the Tendrara Basin.

Our two PhD students studies included field visits to enhance their understanding of data interpretation, as well as highlight some of the operational and geographical challenges that 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 in which we operate in Morocco. Projects in recent years 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.
- Sound Energy Morocco also drilled the Hassi Lahcen water well in the Tendrara field, installed the required generator and electric pump, and provided three 6,000-litre PVC water tanks for local community use. Throughout 2022, 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 all 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 programmes in place and raising awareness through training.

**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 2023. 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.

# Health, Safety, Security and Environment

## 2022 Overview

The HSE function within Sound Energy has been redesignated as the Health, Safety, Security and Environment function (HSSE) to reflect the broader areas of risk exposure that the business must manage.

HSSE is of paramount importance within the exploration and production industry, and with the increased levels of operational activity at our Tendrara site in 2022, we have placed a major focus on implementing Sound Energy's Health, Safety, Security and Environmental Management System to minimise risk.

Key operational achievements in 2022 were the civil engineering works involved in the construction of the mLNG plant package foundations and the LNG storage tank foundations. Additionally, we conducted maintenance operations on two gas production wells, TE6 and TE7. This work involved the replacement of a hydraulically actuated upper master valve on TE6 in preparation for production.

These activities saw up to 45 personnel onsite and were achieved with no injuries.

At a corporate level, all company policies associated with Environmental, Social and Governance were updated and approved by the Board of Directors.

A company HSSE management system improvement plan was implemented.

We recruited a field based HSSE Advisor role to assure our oversight of contractor activities as part of our focus on contractor management.

## Health

Our key focus in 2022 has been to ensure Field Medical support for our operations. Tendrara is a remote area with very limited infrastructure, so it is essential that adequate medical support is available on site. We have a doctor trained in emergency medicine operating out of our on-site clinic in Tendrara supported by an ambulance and driver.

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.

## Safety

We spent considerable time ensuring our principal contractor's HSSE management system was effectively implemented for the Tendrara project. This included preparing management system interface documents to define responsibility and overriding procedures to be used. This was further assured by frequent field visits.

We had no recordable injuries or work related first aid cases in 2022. We did, however, have two safety-related near-miss incidents in 2022, from which there were no injuries. Both incidents involved the unloading of steel reinforcement bars from delivery lorries with a crane. The learning from these incidents has resulted in changes to our procedures and an increased focus on the competent supervision of operational activities.

# Sustainable and Responsible Business continued

### Security

We conduct quarterly country security reviews and maintain close liaison with the Moroccan security services in our area of operations. We have also created local employment opportunities by employing and training personnel from the local community as security guards for our site, ensuring a permanent presence to oversee our assets.

### Environment

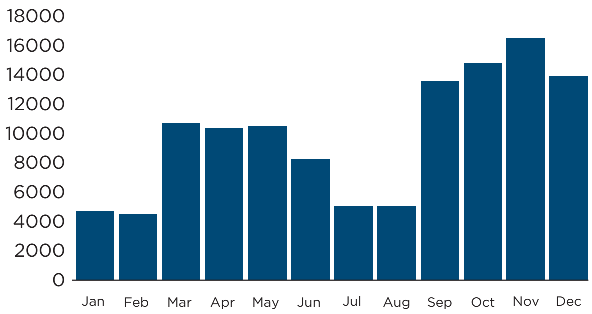
The environmental impact assessment for our Tendrara project has been approved by the Moroccan authorities and we conduct monthly EIA monitoring inspections to assure our compliance with the environmental management plan.

In partnership with Redigo Carbon, we now gather data on our carbon dioxide emissions and report on a monthly basis.

### HSSE Reporting Data

Sound Energy is aligned to similar operators in the International Oil and Gas Producers Association ("IOGP") database. We gather a range of HSSE related data to enable us to compare our performance against IOGP peers, both internationally and regionally.

**Total Man-hours 2022**
Sound Energy & Contractors




| 1. Lagging Indicators | |
|---|---|
| Fatality | 0 |
| Lost Time Injury | 0 |
| Restricted Work Case | 0 |
| Medical Treatment Case | 0 |
| First Aid Case | 0 |
| Property Damage | 2 |
| Environmental Incident | 0 |
| Near Miss | 2 |
| High Potential Incident | 1 |
| Lost Workdays | 0 |

| 2. Leading Indicators | |
|---|---|
| Audits & Inspections | 86 |
| HSSE Meetings | 10 |
| Inductions | 73 |
| Emergency Drills | 2 |
| Job Safety Analysis | 160 |
| Toolbox Talks | 200 |
| SHOC Cards | 110 |
| Management Tours | 3 |

| 3. Environmental Data | |
|---|---|
| Diesel Consumed ($m^3$) | 275.79 |
| Water Consumed ($m^3$) | 725.6 |
| Mud Cuttings ($m^3$) | 0 |
| Fuel Gas ($m^3$) | 0 |
| Electrical Energy (kWh) | 0 |
| Total Barrels Spilled | 0 |
| $CO_2$ Produced ($tCO_2e$) | 101.9 |

# Governance

We have policies and processes that ensure the governance and transparency of our business:

- Statement of Ethics
- Market Abuse Regulations training
- Board Audit Committee
- Board Compensation Committee
- Whistleblowing Policy
- Anti Bribery & Corruption Policy
- Data Protection Policy
- Manual of Authorities

We also conduct frequent shareholder briefings and Q&A sessions and as an AIM listed company we are bound by, and adhere to, AIM rules.

| Material issue | UN SDG | Vision | Goals | Example metrics | Timing |
|---|---|---|---|---|---|
| **Anti-corruption and strong governance** | | Conduct our business with the highest degree of ethics and integrity | • Zero tolerance and zero incidents of bribery and corruption within company and suppliers | • Annual policy revision process<br>• Implement annual, compulsory ABC & compliance training for all key staff and contractors (% of staff trained)<br>• Adopt and follow internationally recognised procedures for land acquisition (e.g. IFC)<br>• Strong supplier screening and risk assessment procedures | 2023 onwards |

# 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 the 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 and 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 in which 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 through which 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 2022, including changes in the global economic and business landscape and progression of the TE-5 Horst development project.

## Removed or Changed: Business interruption due to the Covid-19 Pandemic

Risk remains but has been removed from the top ten. Control measures including active monitoring remain in place.

| Risk | Impact | Control measure | Owner |
|---|---|---|---|
| **1 Limited diversification**<br><br>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<br>• Increased risk profile<br>• Limited platform for growth<br>• Reduced appetite for investment in the Company | • Build strong relationships with partners, advisors, governments, local authorities, local population and other stakeholders<br>• Actively monitor potential legislation changes<br>• Active new business development programme<br>• Working with financial advisor to screen opportunities | Chairman |
| **2 Facilities funding**<br><br>Inability/delay in securing funding for 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 | • Mature vendor financing and structured financing (gas buyers) options<br>• Progress senior debt funding proposal with Attijariwafa Bank<br>• Mature licence partnering options | Chairman |

| Risk | Impact | Control measure | Owner |
|---|---|---|---|
| **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<br>• Reservoir distribution and effectiveness, hydrocarbon saturation and H2S risk in respect of Jurassic carbonate reservoirs in Sidi Moktar | • Comprehensive geophysical surveying, data analysis, and modelling integrated with geological and reservoir engineering studies to improve reservoir understanding throughout the basin<br>• Independent resources certification | Chairman |
| **4 Share price weakness** | • Vulnerability to hostile takeover<br>• 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<br>• Environmental impact<br>• Reputational damage<br>• Exposure to litigation<br>• Financial and operational losses | • Highly skilled, competent, and qualified personnel and subcontractors. Training provided as required<br>• Management and Board commitment. Experienced corporate HSSE Manager<br>• Robust operational HSE processes and procedures<br>• HSE Committee reviews and regular HSE meetings and engagements<br>• Insurance cover | Chairman |
| **6 Loss of, or inability to secure, key personnel** | • Loss of shareholder confidence<br>• Lack of direction and leadership within the Company<br>• Loss of expertise and knowledge<br>• Unable to secure required expertise to deliver the work programme | • Competitive remuneration package in place for key Executives, benchmarked relative to the market<br>• Succession planning<br>• Programme to identify and source additional expertise as and when required<br>• Resourcing partnership models with key suppliers e.g. drilling services | Chairman |

# Principal Risks and Uncertainties continued

| 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<br>• Insufficient working capital to sustain the business as a going concern | • Active engagement with capital markets and financing streams to raise capital<br>• Long-term cash flow management<br>• Finances are controlled through annual planning process with regular forecast updates. Monthly MI measures performance against plan<br>• Risk transfer through farm-ins, joint ventures and/or partnering funding arrangements<br>• Active contract management and tracking for main contracts | Chairman |
| **8 Capital project cost inflation and procurement tightening due to global economic shifts related to Covid-19 and the Ukraine war** | • Delay in implementation of Phase 1 and Phase 2 developments<br>• Diminution in value of capital projects due to cost escalation and additional project management | • Monitor and maintain contractual arrangements<br>• Apply disciplined cost control and project management<br>• Explore contingent funding options | Chairman |
| **9 Requirement to pay substantial Moroccan tax demand**<br>The Company was issued notifications 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, investment capital and cash flow<br>• Reduced appetite for investment in the Company and in Morocco | • Manage Moroccan tax assessment process taking appropriate legal and tax advice to resolve through court, and/or out of court, as the Company believes this arises from a misunderstanding of historical licensing events<br>• Lobbying with Moroccan tax authority, industry regulator and within UK and Moroccan governments<br>• Post period settlement with Moroccan tax authority (page 98) | Chairman |
| **10 Delayed execution of Phase 1** | • LNG SPA exposure due to late delivery<br>• Delayed revenues due to delayed gas sales | • Regular monthly reporting and contract management<br>• Close collaboration with gas buyer and key suppliers<br>• Effective project management in place | COO |

The Strategic Report was approved by the Board of Directors on 3 May 2023 and signed on its behalf by:

**Graham Lyon**

**Executive Chairman**

3 May 2023

# Governance Report



# Chairman's Corporate Governance Statement

"ESG is integral to all we do. Our AIM listing and the QCA corporate governance code provide a robust framework, and we are fortunate that management lead the company with authority and a demonstrable commitment to the highest levels of governance."

**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, looks to instil a culture across the Company and throughout the business, delivering strong values and behaviours. 2022, like 2021, has again been a challenging year, with 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.

We value our shareholders and look forward to our interactions with them. We balance our engagement using both virtual and in-person sessions. During the year we held Q&A sessions, produced short videos on new team members as well as operational updates.

We met with shareholders in person at our AGM and look forward to doing this again in 2023.

**Graham Lyon**
Executive Chairman

# QCA Code **Principles**

## Introduction

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

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

| QCA Code | Required disclosure | Reference |
|---|---|---|
| 1 | Establish a strategy and business model that promotes long-term value for shareholders. | See pages 16 to 17 of 2022 Annual Report. |
| 2 | Seek to understand and meet shareholder needs and expectations.<br><br>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.<br><br>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 34 to 36 of 2022 Annual Report. |
| 5 | Maintain the Board as a well-functioning balanced team led by the Chair. | See pages 42 to 43 of 2022 Annual Report. |
| 6 | Ensure that, between them, the Directors have the necessary up-to-date experience, skills and capabilities. | See pages 42 to 43 of 2022 Annual Report. See website disclosures: Principle Six under AIM Rule |
| 7 | Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.<br><br>A description of the Board performance evaluation process. | See pages 44 to 45 of 2022 Annual Report. See website disclosures: Principle Seven under AIM Rule 26. |
| 8 | Promote a corporate culture that is based on ethical values and behaviours.<br><br>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.<br><br>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.<br><br>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 46 to 47 of 2022 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.

It also ensures that incidents that occur are dealt with correctly and lessons learnt and exercises are 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.

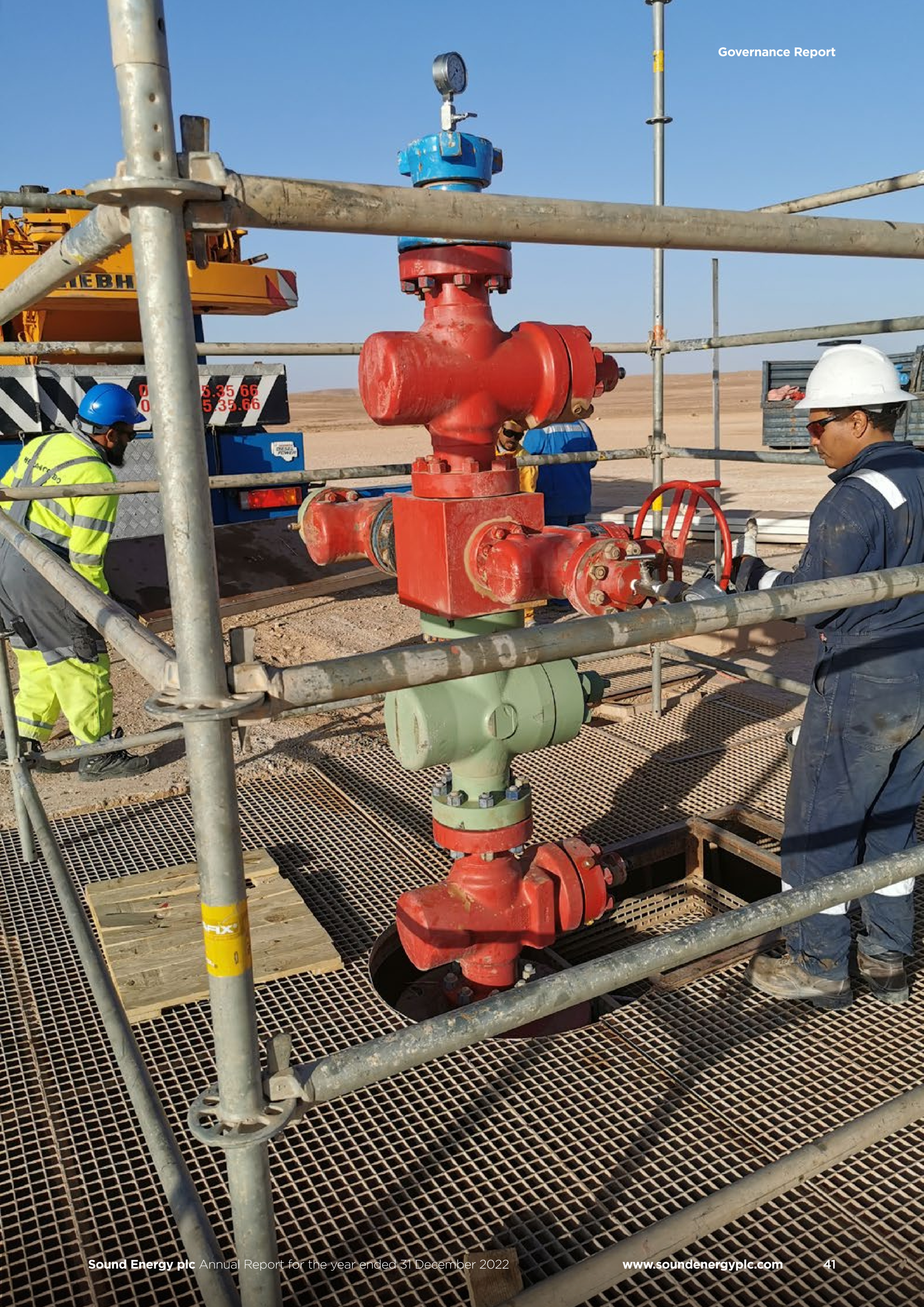
**Remuneration and Nominations Committee**

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's 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.**



# Board of Directors

## 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 has a background in Petroleum Engineering.

### Significant current external commitments
- Clarion Petroleum Limited
- Soncer Limited
- Soncer Bel BV
- Soncer Cyp Limited
- Seal Lion Power (PVT) 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 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 continues to manage all the subsidiaries in Morocco.

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

### Significant 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.

### Significant current external commitments
- Director – CB Exploration Limited
- Director – Adveneq Holdings Limited (registered in Ireland)

## 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.

### Significant current external commitments
- Non-Executive Director – Ascent Resources plc
- Director – C4 Energy Limited
- 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 Limited, a UK private E&P company (formerly Petroceltic International), and in recent years, has been a Non-Executive Director of Gulf Marine Services plc, an 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.

### Significant current external commitments
- Director – Philipshill Consulting Limited
- Director – Hodgemoor Investments Limited
- CFO – Sunny Hill Energy Limited

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.

**Key:**

A Audit Committee

R Remuneration and Nominations Committee

H HSSE

# 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 the 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 2022, the Board comprised of the Executive Chairman, three Non-Executive Directors and one Executive Director.

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. 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 whom two are independent, it is believed there is a strong voice of independence.

## Board Composition %

### Attendance at Meetings:

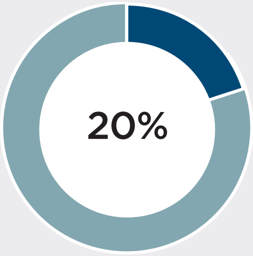
A schedule of the Board and Board Committee meetings held during the year ended 31 December 2022 is noted below. Key Executives and advisors have attended these meetings, where appropriate, to present and provide feedback on actions throughout the year.

| | Year ended 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | Board meetings | | | | |
| Name of the Director | Scheduled | Ad hoc[1] | Audit Committee | Remuneration and Nominations Committee | HSSE |
| **Total number of meetings held** | **5** | **5** | **2** | **2** | **6** |
| Graham Lyon (Executive Chairman) | 5 | 5 | N/A | N/A | N/A |
| Mohammed Seghiri (COO) | 5 | 3 | N/A | N/A | 6 |
| David Blewden | 5 | 5 | 2 | 2 | N/A |
| Marco Fumagalli | 5 | 4 | 2 | 2 | N/A |
| Christian Bukovics | 5 | 4 | N/A | 2 | 6 |

[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

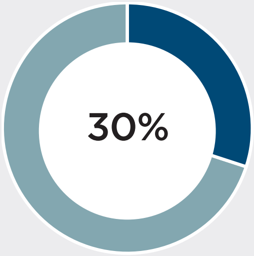
All Directors attended the meetings they were expected to attend.

## What the Board did in 2022



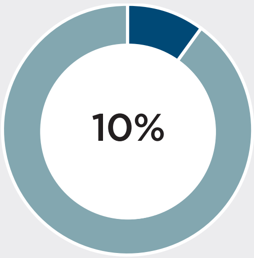

### Governance and Risk – 20%

- 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
- Review of insider dealing requirements and individual persons closely associated to PDMRs
- Updates from Board Committees following every Committee meeting
- Board Evaluation Exercise
- Updates from the Group Auditor via the Audit Committee
  - Review of Committee structures and composition



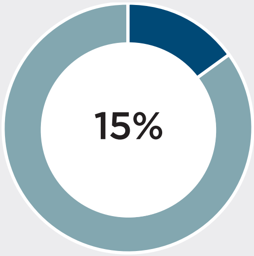

### Strategy – 30%

- Reviewed and endorsed potential corporate actions
- Morocco investment
- Project partnering



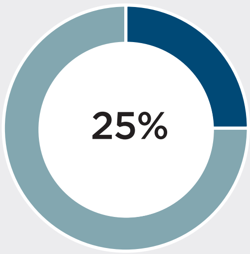

### People, Visions, Values – 10%

- Staffing retention
- Resourcing
- Behaviour reviews




### Investor Engagement – 15%

- Attend shareholders relations meetings in person
- Close liaising with the Company's major shareholders.
- AGM proxy figures counted and disclosed




### Performance Monitoring – 25%

- 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
- As the Company has moved to the project execution phase, the Board is spending more time in performance monitoring

# Health, Safety, Security & Environment Committee

"As construction work returned to Sound, close guidance to HSSE policy was supported and prioritised."

**Christian Bukovics**
**Chairman of the Health, Safety, Security & Environment Committee**

## Committee Members and Participants

During 2022, the HSSE Committee comprised of Christian Bukovics (Chair) and Mohammed Seghiri and other members of the Executive team, and those within the business responsible for matters pertaining to HSSE, are invited to join and present to the Committee as appropriate.

## Health, Safety, Security & Environment (HSSE) Committee Activities

During the year under review, the Committee met on six occasions to discuss matters pertaining to Health, Safety and Environmental issues. The Committee is primarily focused on ensuring that comprehensive and fit-for-purpose HSSE policies are adopted and applied consistently across the Group.

A full report of the activities of the HSSE Committee can be found on page 31.

## 2022 Activities

- The main challenge in 2022 was the fact that after a long hiatus, field operations resumed in Tendrara, which included major civil works (road upgrades and the preparation of sites) and the start of construction work for the mini LNG plant, in particular construction of a large LNG tank.
- Following a careful selection process, two safety supervisors, working back-to-back, were contracted to ensure 24/7 on site supervision by Sound Energy.
- In addition, major emphasis was put on ensuring that the main contractors had their own safety managers on site.
- The HSSE Focus group continued to meet during the year to review the ongoing HSSE procedures and culture.
- Continual reviews were completed to ensure safe working measures were implemented both within the UK and Morocco.
- An Action Plan was developed for the improvement of the Company's HSSE Management Systems to address areas identified for improvement to our Policies, Procedures and Standards and implementation was monitored.
- HSSE KPIs were developed along with an annual plan to report back to the Committee. An HSSE Plan and HSSE KPIs were developed to ensure the tracking of Company goals for 2022.
- The above efforts were rewarded with an outstanding safety performance during the full year in 2022. In total, 116,403 man-hours were worked by Sound Energy plc staff, contractors and sub-contractors, without any injuries. 110 Safety Hazard Observation Cards, 146 JSAs and 200 Tool box Talks were completed at site

## 2023 Looking Forward

- Ensure HSSE policies and procedures remain effective and purposeful for the activities of the business, which will increase further as the mini LNG plant construction swings into full gear.
- Finalise, implement, and communicate the HSSE action plan and KPIs for 2023.
- Continuously monitor effectiveness of Company Safety programmes to ensure they are relevant to Company activities and understood by all Company Employees and Contractors. Ensure tracking for the closure of Action items raised during HSSE Committee meetings.
- HSSE management system and resources to be kept under review.
- Ensure ongoing transparent reporting to the HSSE Committee with updates provided to the Board.
- Begin the implementation of the company ESG Strategy in line with UN Sustainable Development Goals.

**Christian Bukovics**
**Chairman of the Health, Safety, Security & Environment Committee**


06 67 75 35 66
06 17 30 88 99

# Audit Committee Report

"Close attention to the company finances is required at all times."

**David Blewden**
Chairman of the Audit Committee

## Committee Members and Participants

During 2022, the Company's Audit Committee comprised David Blewden (Chair) and Marco Fumagalli. 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 three occasions in 2022 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 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.

## 2022 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 UK LLP, including fee structure.
- Review of the Company's principal risks and uncertainties.
- Discussions on controls and policies in place and related training to prevent bribery, corruption and insider dealing.
- Ongoing monitoring of the going concern status of the business.
- Reviewed and approved the update to the manual of authorities.
- Reviewed and updated the Committee's Terms of Reference, to ensure they reflect the current statutory requirements and best practice proportionate to a company of Sound's size and nature.

## 2023 Looking Forward

- Keep under review the Company's existing control framework.
- Ensure continued risk management procedures and controls are appropriate.
- Ongoing monitoring of the Company's going concern status.
- 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

Based on the financial statements, the Audit Committee reviews and evaluates 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 72.

## 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 34.

## Conflicts of Interest

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

## Auditor

While Crowe UK LLP has been the Group's statutory auditor for 13 years; the Committee are comfortable that their audit remains independent.

**David Blewden**

**Chairman of the Audit Committee**

# Nominations and Remuneration Committee Report

"Resourcing in a growth period requires specific people with experience and the correct attitude."

**Christian Bukovics**
**Chairman of the Nominations and Remuneration Committee**

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 the 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 devised a policy that aligns Executives' rewards for delivery of the success of the business with shareholders. The framework of the policy aims to incentivise and drive the Executive team to strive for success, but also aligns 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 was awarded by the use nil cost options and long-term incentive plan awards. The Committee assessed the ongoing use of the previously existing Restricted Stock Option (RSU) scheme and put in place a LTIP (Long-Term Incentive Plan) scheme, which is considered 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

## 2022 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.<br><br>Provide the basis for a competitive remuneration package. | Determined by reference to market data and advice from external remuneration advisor.<br><br>Reflects individual experience, skills and role.<br><br>Paid monthly.<br><br>Reviewed annually. | Increases will be made at the discretion of the Committee, or for Non-Executive Directors, the Executive Directors, considering:<br>• increase in responsibility, particularly as the Company grows and expands<br>• development and performance in the role<br>• alignment to market level | There are performance measures in place, and the performance of the individual is considered when setting and reviewing salaries annually. |
| **Pension** | | | |
| Provide a level of pension provision that 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.<br><br>No element other than salary is pensionable. | None. Pension contribution is set at the 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 that provides a sufficient benefit. | None. |
| **Bonus Awards** | | | |
| The payment of bonus awards is in form of nil stock options, which replaced the restricted stock unit plan. 2021 and 2022 annual cash bonuses were awarded in the form of nil cost options. Any future cash payments made by the Company will be made at the sole discretion of the Remuneration Committee.<br><br>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.<br><br>Performance measures are both quantitative and qualitative, and both financial and non-financial.<br><br>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. |

# Directors' Remuneration Report continued

| 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.<br><br>Long-term performance measurement discourages excessive risk-taking and inappropriate short-term behaviours, and aligns Executive interests with those of shareholders.<br><br>The LTIP is designed to retain Senior Executives over the performance period of the awards. | LTIP awards are made by the Committee for the CEO and for Executives by the Committee based on CEO recommendations.<br><br>At vesting, the LTIP awards are satisfied in Sound Energy shares.<br><br>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.<br><br>In the event of a change in control of the Company, decisions relating to the extent to which any vesting conditions have been fulfilled and the level of vesting will be taken by the Committee, as constituted immediately prior to the date on which control passes. | The opening price, against which the performance is measured and the below multiples were chosen, is the price at 30 April 2022 (2.40)p | Vesting of the LTIP Options will be subject to: (a) the Company's share price on the third anniversary of the date of grant (the "Performance Testing Date"); and (b) to the grantee remaining an executive employee of the Company on the Performance Testing Date. Actual vesting of the LTIP Options, the number of which is determined on the Performance Testing Date, will then occur in three tranches on the third (25%), fourth (35%) and fifth (40%) anniversaries of grant. The number of LTIP Options vesting on the Performance Testing Date will be calculated as follows, with a linear relationship between vesting thresholds:<br><br>In the event the LTIP Options vest, in whole or in part, then they will be exercisable at a price of 2.4 pence per new ordinary share. |

| Share price on Performance Testing Date | % Options Vesting |
|---|---|
| ≥ 5.38p | 50% |
| ≥ 10.75p | 100% |

| 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.<br><br>The fee is paid monthly in cash, and is inclusive of all Committee roles. | Set at a level that 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.<br><br>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 that are outside the standard policy.

## Director Shareholding Guidelines

Executive Directors and Senior Managers will be expected to build up, over a period not exceeding five years, and retain a personal shareholding in the company equivalent to 70% and 30%, respectively, of their base annual salary.

Vested shares awarded under an LTIP may be taken into account for the purposes of determining whether the required shareholding has been achieved.

The Committee has discretion to change the shareholding targets.

## Executive Director Employment Contracts and Termination Payments

The Executive Chairman has an employment contract and the COO an employment contract, which entitles them to the fixed elements of remuneration and to consideration for variable remuneration each year. Their contracts are terminable by the Company on not more than six months' written notice.

## 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 Non-Executive Directors are appointed under employment contracts with a notice period for termination of six 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 six months' salary.

All of the Company's current share plans contain provisions relating to a change of control.

In the event of a change in control of the Company, decisions relating to the extent to which any vesting conditions of the LTIP have been fulfilled and the level of vesting will be taken by the Remuneration Committee, as constituted immediately prior to the date on which control passes.

## Summary of Actual Remuneration of Directors

| | Salary £'000 | Special bonus paid in shares £'000 | 2021 bonus paid in nil cost options £'000 | 2020 bonus paid in nil cost Options £'000 | Company pension £'000 | Benefits in Kind £'000 | Total 2022 £'000 | Total 2021 £'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive Chairman & Executive Director** | | | | | | | | |
| Graham Lyon | 255 | – | 77 | 109 | – | – | 441 | 250 |
| Mohammed Seghiri | 204 | 324 | 45 | 59 | 3 | 14 | 649 | 212 |
| **Non-Executive Directors** | | | | | | | | |
| Richard Liddell | – | – | – | – | – | – | – | 46 |
| Marco Fumagali | 44 | – | – | – | – | – | 44 | 46 |
| David Blewden | 44 | – | – | – | – | – | 44 | 46 |
| Christian Bukovics | 44 | – | – | – | – | – | 44 | 4 |
| Total for all Directors | 591 | 324 | 122 | 168 | 3 | 14 | 1,222 | 604 |

During the year, the Company adopted a new long term incentive plan (the "LTIP"), designed to reward, incentivise and retain the Company's executives and senior management to deliver sustainable growth for shareholders.

# Directors' Remuneration Report continued

### LTIP Awards

| | Date of grant | Exercisable date | Acquisition price per share (pence) | Options held at 1 January 2022 | Options held at 31 December 2022[i] |
|---|---|---|---|---|---|
| Graham Lyon | 03.05.22 | 03.05.25–03.05.32 | 2.4 | – | 12,218,879 |
| Mohammed Seghiri | 03.05.22 | 03.05.25–03.05.32 | 2.4 | – | 7,331,327 |

[i] The LTIP Awards include 1,250,000 awards each qualifying under HMRC's tax advantaged Company Share Option Plan (CSOP).

Previously existing share options expired.

### Share Options

| | Date of grant | Exercisable date | Acquisition price per share (pence) | Options held at 1 January 2022 | Options held at 31 December 2022 |
|---|---|---|---|---|---|
| Mohammed Seghiri | 18.01.17 | 18.01.20–18.01.22 | 70.00 | 1,500,000 | – |

### RSU Awards

| | Date of grant | Settlement date | RSU Awards held at 1 January 2022 | RSU Awards held at 31 December 2022 |
|---|---|---|---|---|
| Mohammed Seghiri | 26.04.18 | 01.01.21 | 126,501 | – |
| | 21.06.19 | 01.01.22 | 195,591 | – |

The Company issued shares to settle the previously vested RSU awards.

### Directors' Shareholdings and Interests in Shares

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 2022:

| | No. of shares |
|---|---|
| Graham Lyon (Chairman) | 2,066,962 |
| Mohammed Seghiri (COO) | 11,083,316 |
| David Blewden | 5,693,877 |
| Marco Fumagalli | 1,676,471 |
| Christian Bukovics | 500,000 |

### Nil cost options

| | Date of grant | Exercisable date | Nil cost options held at 1 January 2022 | Nil cost options held at 31 December 2022 |
|---|---|---|---|---|
| Graham Lyon | 03.05.22 | 03.05.22–03.05.27 | – | 7,740,943 |
| Mohammed Seghiri | 03.05.22 | 03.05.22–03.05.27 | – | 4,308,017 |

During the year, the Company granted nil cost options to Executives and staff in settlement of 2020 and 2021 bonus awards.

### Movements in Share Price During the Year

The Company's share price at the end of the financial year were 0.875 pence and the range of mid-market prices during the year was between 0.875 pence and 2.9 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 2022, was approximately £600 and £28,550 in the year 2021.

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 3 May 2023 and signed on its behalf by:

**Christian Bukovics**

**Chairman of the Nominations and Remuneration Committee**

Governance Report

# Directors' Report

## Other Disclosures
Pages 42 to 57 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 36 and forms part of this report.

## Results and Dividends
The profit for the year after tax was £6.6 million (2021: £2.4 million). The Directors do not recommend the payment of a dividend.

## Going Concern
Disclosure on going concern is included in note 1 to the financial statements. See page 72.

## 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 UK 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 (2021: £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 54.

## Board of Directors
The names of the present Directors and their biographical details are shown on pages 42 to 43.

The Directors who served during the year were as follows:

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

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 2022 are set out in the Directors' Remuneration Report.

## Powers Given to Directors
The powers given to the Directors are contained in the Articles of Association (the "Articles") and are subject to relevant legislation and, in certain circumstances (including

# Directors' Report continued

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 2022, the Company had 1,848,702,674 ordinary shares in issue as shown in note 18 to the consolidated financial statements. There are no restrictions on the transfer of the Company's ordinary shares other than certain restrictions that may be imposed by law, for example, insider trading law and the Company's share dealing code. Each ordinary share carries the right to one vote at General Meetings of the Company. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

## Substantial Shareholding

The Company was advised of the following significant direct and indirect interests in the issued ordinary share capital of the Company as at 31 December 2022 and up to the date of this report.

Oil & Gas Investment Fund SAS hold 265,508,651 shares, representing a 14.36% interest.

Afriquia Gaz S.A held 176,606,651 shares, representing a 9.55% interest.

## Financial Instruments

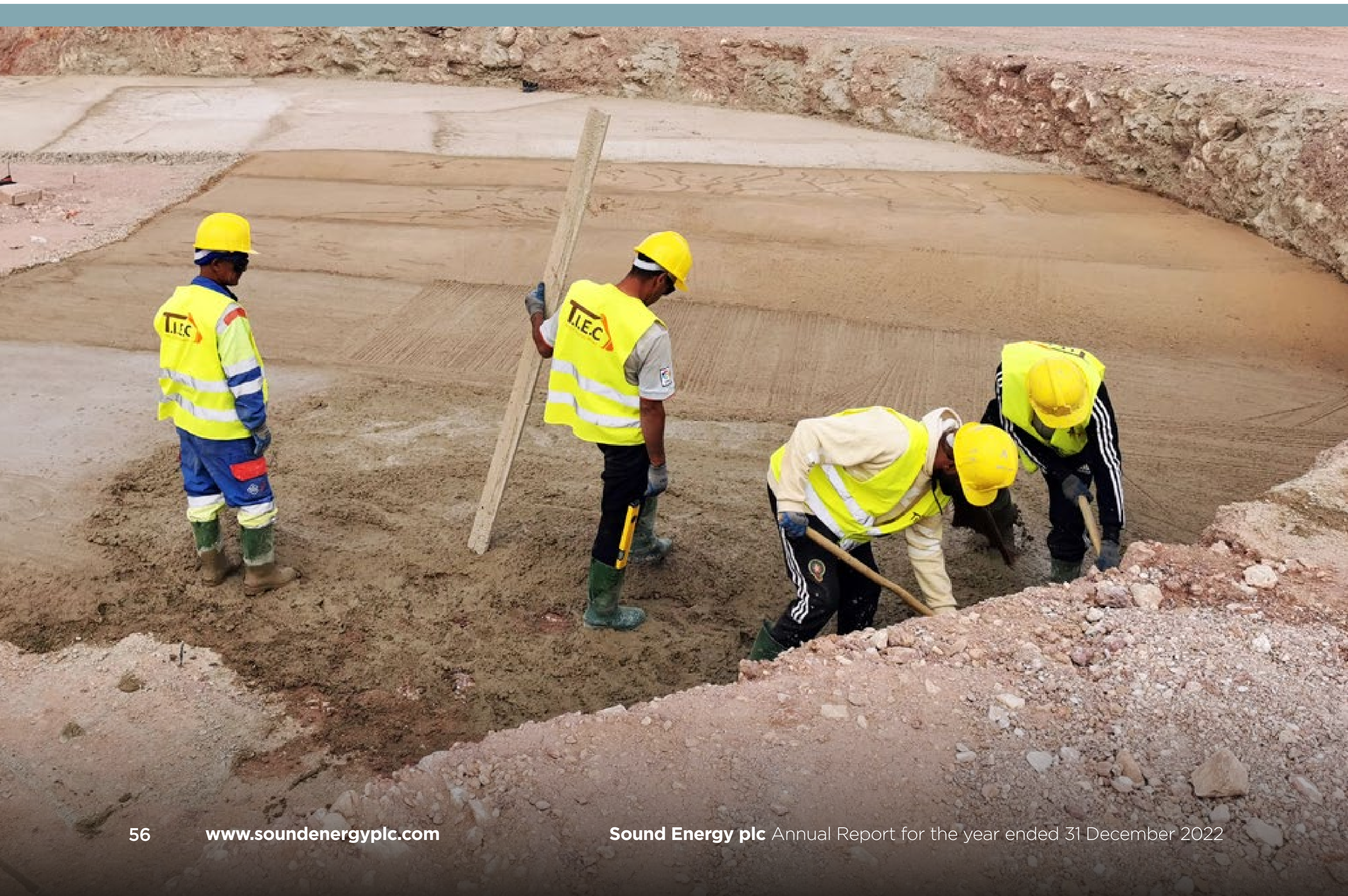
The information relating to the Group's financial assets and its financial risk management can be found in note 20 to the consolidated financial statements.

## Subsequent Events

See note on page 98.

**Graham Lyon**
**Executive Chairman**

3 May 2023



# 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 UK adopted international accounting standards 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 to 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**

3 May 2023

# 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 2022, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2022;
- the Group and Company balance sheets as at 31 December 2022;
- the Group and Company statements of changes in equity for the year then ended;
- the Group and Company statements of cash flows for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted International Accounting Standards.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards as applied in accordance with the provisions of the Companies Act 2006.;
- 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 as applied to listed entities, 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 Group and Company's cash flow for the next twelve-month period to May 2024, 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 £2.2m (2021: £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 group materiality for these areas should be £285,000.

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 £44,000. 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 visited Morocco to perform an audit of the accounting systems operating locally.

# 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** | |
| Refer to page 65, (Consolidated statement of comprehensive income), pages 72-98 (Notes to accounts to the Consolidated financial statements), Note 11, page 84 (financial disclosures)<br><br>The Group's primary focus is on exploration activities in Eastern and Southern Morocco. Exploration expenditure in the current year was significant and totalled £0.8m. The carrying value of the exploration and evaluation assets was £36m at 31 December 2022.<br><br>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 for indicators of Impairment assessment and conclusion that there are no facts or circumstances that indicate the carrying amount of the assets exceeds the recoverable amount.<br><br>In considering this assessment we performed the following:<br>• 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<br>• Reviewed the controls with respect to budgets and controls in preparation and review of impairments workings.<br>• Obtained evidence of continued legal title<br>• Reviewed current well and licence reserve appraisals<br>• Discussed and critically analysed plans and intentions with management. |
| **Impairment of development and production assets** | |
| Refer to page 65, (Consolidated statement of comprehensive income), pages 72-98 (Notes to accounts to the Consolidated financial statements), Note 10, page 83 (financial disclosures)<br><br>The Group has a significant amount of development and production assets which totalled £163.4m at 31 December 2022, including a reversal of an impairment of £5.6m.<br><br>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 £5.6m and concluded that there are no facts or circumstances that indicate the carrying amount of the assets exceeds the recoverable amount.<br><br>In considering this assessment we performed the following:<br>• Obtained management's impairment assessment carried out during the year<br>• Challenged management's inputs into the valuation model to available market data and other sources of evidence. This included the assessment of:<br>– the discount rate;<br>– implicit gas price including its appropriateness and;<br>– reserves<br>• Reviewed the board minutes, budgets and other operational plans setting out the Group's plans in regard to the exclusivity award<br>• Discussed and critically analysed plans and intentions with management |

| Key audit matter | How the scope of our audit addressed the key audit matter |
|---|---|
| **Taxation** | |
| Refer to page 65, (Consolidated statement of comprehensive income), pages 72-98 (Notes to accounts to the Consolidated financial statements), Note 8, page 81 (financial disclosures)<br><br>The Group received a claim from the Moroccan tax authority in August 2020 for approximately $21.4m (excluding penalties and interest) which has been upheld by the next level of authorities in September 2022. and on a separate case a claim has been received in May 2021 for $2.5m by Moroccan tax authorities, which is also upheld by the next level of authorities in December 2022<br><br>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.<br><br>In considering this assessment we performed the following:<br><br>• Reviewed the initial claim from the Moroccan tax authority and the independent professional advice received by management<br>• Obtained an independent view from our local tax experts<br>• 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

3 May 2023

# Financial Statements



# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2022

| | Notes | 2022 £'000s | 2021 £'000s |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | | **–** | – |
| Other income | 3 | **43** | 223 |
| Reversal of impairment on development assets and exploration costs | | **5,678** | 4,024 |
| **Gross profit** | | **5,721** | 4,247 |
| Administrative expenses | | **(3,175)** | (1,695) |
| **Group operating profit from continuing operations** | 4 | **2,546** | 2,552 |
| Finance revenue | 7 | **13** | 4 |
| Foreign exchange gain | | **5,462** | 2,210 |
| Finance expense | 25 | **(1,446)** | (2,306) |
| **Profit for the year before taxation** | | **6,575** | 2,460 |
| Tax expense | 8 | **(1,602)** | (42) |
| **Profit for the year after taxation** | | **4,973** | 2,418 |
| **Other comprehensive income** | | | |
| Items that may subsequently be reclassified to the profit and loss account | | | |
| Foreign currency translation gain | | **13,373** | 1,179 |
| **Total comprehensive profit for the year** | | **18,346** | 3,597 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **18,346** | 3,597 |

| | Notes | 2022 Pence | 2021 Pence |
|---|---|---|---|
| Basic and diluted profit per share for the year attributable to the equity shareholders of the parent (pence) | 9 | **0.28** | 0.16 |

# Consolidated
# Balance Sheet

as at 31 December 2022

| | Notes | 2022 £'000s | 2021 £'000s |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **163,362** | 139,666 |
| Intangible assets | 11 | **36,007** | 31,598 |
| Prepayments | 12 | **4,272** | – |
| Interest in Badile land | 26 | **637** | 663 |
| | | **204,278** | 171,927 |
| **Current assets** | | | |
| Inventories | | **963** | 871 |
| Other receivables | 14 | **2,815** | 852 |
| Prepayments | | **139** | 31 |
| Cash and short-term deposits | 15 | **3,861** | 2,913 |
| | | **7,778** | 4,667 |
| **Total assets** | | **212,056** | 176,594 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **1,868** | 1,500 |
| Tax liabilities | 8 | **126** | – |
| Lease liabilities | 17 | **162** | – |
| Loans and borrowings | 25 | **1,121** | – |
| | | **3,277** | 1,500 |
| **Non-current liabilities** | | | |
| Lease liabilities | 17 | **121** | – |
| Tax liabilities | 8 | **1,505** | – |
| Loans and borrowings | 25 | **29,068** | 20,039 |
| | | **30,694** | 20,039 |
| **Total liabilities** | | **33,971** | 21,539 |
| **Net assets** | | **178,085** | 155,055 |
| **Capital and reserves** | | | |
| Share capital and share premium | | **38,621** | 34,573 |
| Shares to be issued | | **404** | – |
| Accumulated surplus | | **129,004** | 123,872 |
| Warrant reserve | | **1,607** | 1,534 |
| Foreign currency reserve | | **8,449** | (4,924) |
| **Total equity** | | **178,085** | 155,055 |

The financial statements were approved by the Board and authorised for issue on 3 May 2023 and were signed on its behalf by:

**Mohammed Seghiri** Director

**Graham Lyon** Director

The accounting policies on pages 72 to 77 and notes on pages 72 to 98 form part of these financial statements.

# Company
# Balance Sheet

as at 31 December 2022

| | Notes | 2022 £'000s | 2021 £'000s |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | 5 | 5 |
| Right of use assets | 10 | 274 | – |
| Interest in Badile land | 26 | 637 | 663 |
| Investments in subsidiaries | 13 | 197,132 | 164,498 |
| | | 198,048 | 165,166 |
| **Current assets** | | | |
| Other receivables | 14 | 67 | 45 |
| Prepayments | | 26 | 23 |
| Cash and short-term deposits | 15 | 1,521 | 595 |
| | | 1,614 | 663 |
| **Total assets** | | 199,662 | 165,829 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 765 | 630 |
| Leases liabilities | 17 | 162 | – |
| Loans and borrowings | 25 | 1,121 | – |
| | | 2,048 | 630 |
| **Non-current liabilities** | | | |
| Leases liabilities | 17 | 121 | – |
| Loans and borrowings | 25 | 29,068 | 20,039 |
| | | 29,189 | 20,039 |
| **Total liabilities** | | 31,237 | 20,669 |
| **Net assets** | | 168,425 | 145,160 |
| **Capital and reserves** | | | |
| Share capital and share premium | | 38,621 | 34,573 |
| Shares to be issued | | 404 | – |
| Accumulated surplus | | 127,793 | 109,053 |
| Warrant reserve | | 1,607 | 1,534 |
| **Total equity** | | 168,425 | 145,160 |

The Company's accumulated surplus includes profit for the year of £18.6 million (2021: profit of £3.3 million).

The financial statements were approved by the Board and authorised for issue on 3 May 2023 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 2022

## Group

| | Notes | Share capital £'000s | Share premium £'000s | Shares to be issued £'000s | Accumulated surplus £'000s | Warrant reserve £'000s | Foreign currency reserves £'000s | Total equity £'000s |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2022** | | 16,292 | 18,281 | – | 123,872 | 1,534 | (4,924) | 155,055 |
| Total profit for the year | | – | – | – | 4,973 | – | – | 4,973 |
| Other comprehensive income | | – | – | – | – | – | 13,373 | 13,373 |
| Total comprehensive income | | – | – | – | 4,973 | – | 13,373 | 18,346 |
| Issue of share capital | 18 | 2,195 | 2,246 | – | – | – | – | 4,441 |
| Share issue costs | | – | (393) | – | – | – | – | (393) |
| Fair value of warrants issued during the year | | – | – | – | – | 73 | – | 73 |
| Vested nil options bonus awards | | – | – | 404 | – | – | – | 404 |
| Share-based payments | 23 | – | – | – | 159 | – | – | 159 |
| **At 31 December 2022** | | **18,487** | **20,134** | **404** | **129,004** | **1,607** | **8,449** | **178,085** |

## Company

| | Notes | Share capital £'000s | Share premium £'000s | Shares to be issued £'000s | Accumulated surplus £'000s | Warrant reserve £'000s | Total equity £'000s |
|---|---|---|---|---|---|---|---|
| **At 1 January 2022** | | 16,292 | 18,281 | – | 109,053 | 1,534 | 145,160 |
| Total profit for the year | | – | – | – | 18,581 | – | 18,581 |
| Issue of share capital | | 2,195 | 2,246 | – | – | – | 4,441 |
| Share issue costs | | – | (393) | – | – | – | (393) |
| Fair value of warrants issued during the year | | – | – | – | – | 73 | 73 |
| Vested nil options bonus awards | | – | – | 404 | – | – | 404 |
| Share-based payments | 23 | – | – | – | 159 | – | 159 |
| **At 31 December 2022** | | **18,487** | **20,134** | **404** | **127,793** | **1,607** | **168,425** |

## 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 | 18 | 3,030 | 2,004 | – | – | – | 5,034 |
| Share issue costs | | – | (1) | – | – | – | (1) |
| Fair value of warrants issued during the year | 25 | – | – | – | 1,534 | – | 1,534 |
| Reclassification on expiry of warrants | | – | – | 4,090 | (4,090) | – | – |
| Share-based payments | 23 | – | – | 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 | 25 | – | – | – | 1,534 | 1,534 |
| Reclassification on expiry of warrants | | – | – | 4,090 | (4,090) | – |
| Share-based payments | 23 | – | – | 30 | – | 30 |
| At 31 December 2021 | | 16,292 | 18,281 | 109,053 | 1,534 | 145,160 |

# Group Statement of Cash Flows

for the year ended 31 December 2022

| | Notes | 2022 £'000s | 2021 £'000s |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash flow from operations | | **(3,928)** | (1,513) |
| Interest received | | **13** | 4 |
| Tax paid | | **(7)** | (42) |
| **Net cash flow from operating activities** | | **(3,922)** | (1,551) |
| **Cash flow from investing activities** | | | |
| Capital expenditure | | **(1,519)** | (959) |
| Exploration expenditure | | **(399)** | (454) |
| Prepayment for Phase 1 the mLNG project | | **(4,272)** | – |
| Receipt from interest in Badile land | | **–** | 218 |
| **Net cash flow from investing activities** | | **(6,190)** | (1,195) |
| **Cash flow from financing activities** | | | |
| Net proceeds from equity issue | | **3,680** | 2,000 |
| Loan drawdown | 25 | **7,233** | – |
| Interest payments | 25 | **(431)** | (878) |
| Lease payments | | **(58)** | (31) |
| **Net cash flow from financing activities** | | **10,424** | 1,091 |
| Net increase/(decrease) in cash and cash equivalents | | **312** | (1,655) |
| Net foreign exchange difference | | **636** | 100 |
| Cash and cash equivalents at the beginning of the year | | **2,913** | 4,468 |
| **Cash and cash equivalents at the end of the year** | 15 | **3,861** | 2,913 |

# Note to Statement of Cash Flows

for the year ended 31 December 2022

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| **Cash flow from operations reconciliation** | | |
| Profit for the year before tax | **6,575** | 2,460 |
| Finance revenue | **(13)** | (4) |
| (increase)/decrease in drilling inventories | **(92)** | 41 |
| (Increase)/decrease in receivables and prepayments | **(2,071)** | 511 |
| Increase/(decrease) in accruals and short-term payables | **190** | (841) |
| Reversal of impairment on development assets and exploration costs | **(5,678)** | (4,024) |
| Impairment of interest in Badile land | **107** | 50 |
| Depreciation | **101** | 168 |
| Share-based payments charge and remuneration paid in shares | **969** | 30 |
| Finance costs and exchange adjustments | **(4,016)** | 96 |
| **Cash flow from operations** | **(3,928)** | (1,513) |

Non-cash transactions during the period included the issue of 17,901,146 ordinary shares, to members of staff and former employees of the Company in settlement of vested Restricted Stock Units (RSU) awards, a one-time bonus to one member of staff, and vested nil cost options. 1,617,621 ordinary shares were issued to third parties in settlement of £25,000 due for services provided.

The Group has provided collateral of $2.5 million (2021: $1.75 million) to the Moroccan Ministry of Petroleum to guarantee the Group's minimum work programme obligations for the Anoual, Greater Tendrara 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 2022

| | Notes | 2022 £'000s | 2021 £'000s |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash flow from operations | | **(2,931)** | (3,099) |
| Interest received | | **11** | 2 |
| **Net cash flow from operating activities** | | **(2,920)** | (3,097) |
| **Cash flow from investing activities** | | | |
| Receipt from interest in Badile land | | **–** | 218 |
| Advances to subsidiaries | | **(7,947)** | – |
| Cash received from subsidiaries | | **991** | 162 |
| **Net cash flow from investing activities** | | **(6,956)** | 380 |
| **Cash flow from financing activities** | | | |
| Net proceeds from equity issue | | **3,680** | 2,000 |
| Loan drawdown | | **7,233** | – |
| Interest payments | | **(431)** | (878) |
| Lease payments | | **(58)** | (31) |
| **Net cash flow from financing activities** | | **10,424** | 1,091 |
| Net increase/(decrease) in cash and cash equivalents | | **548** | (1,626) |
| Net foreign exchange difference | | **378** | (27) |
| Cash and cash equivalents at the beginning of the year | | **595** | 2,248 |
| **Cash and cash equivalents at the end of the year** | 15 | **1,521** | 595 |

# Note to Statement of Cash Flows

for the year ended 31 December 2022

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| **Cash flow from operations reconciliation** | | |
| Profit before tax | **18,581** | 3,309 |
| Impairment of interest in Badile land | **107** | 50 |
| Intragroup recharges | **(1,179)** | (1,042) |
| Finance revenue | **(11)** | (2) |
| Increase in receivables and prepayments | **(25)** | (59) |
| Increase/(decrease) in accruals and short-term payables | **135** | (509) |
| Depreciation | **58** | 32 |
| Share-based payments charge and remuneration paid in shares | **969** | 30 |
| Decrease in impairment and expected credit loss allowance on intercompany loans | **(2,501)** | (3,779) |
| Finance costs and exchange adjustments | **(19,065)** | (1,129) |
| **Cash flow from operations** | **(2,931)** | (3,099) |

Non-cash transactions during the period included the issue of 17,901,146 ordinary shares, to members of staff and former employees of the Company in settlement of vested Restricted Stock Units (RSU) awards, a one-time bonus to one member of staff, and vested nil cost options. 1,617,621 ordinary shares were issued to third parties in settlement of £25,000 due for services provided.

# Notes to the Financial Statements

for the year ended 31 December 2022

## 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 Accounting Standards.

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 2022 were authorised for issue by the Board of Directors on 3 May 2023.

### Going concern

As at 31 March 2023, the Group's cash balance was £2.6 million (including approximately £2.0 million held as collateral for a bank guarantee against licence commitments). The Directors have reviewed the Company's cash flow forecasts for the next 12-month period to May 2024. The Company's forecasts and projections indicate that, to fulfil its other obligations, the Company will require additional funding. The Company commenced its Phase 1 of the Concession upon taking FID on the micro-LNG project, and has continued to actively monitor the project schedule, costs and financing. The Company is progressing Phase 2, pipeline led development of the Concession, and is in the process of arranging financing and other elements necessary to enable the taking of Phase 2 FID. The Company continues to engage with its partner, ONHYM, for payment of approximately £2.1 million for ONHYM's share of expenditure on the Tendrara Production Concession as at 31 December 2022.

The need for additional financing indicates the existence of a material uncertainty, which may cast significant doubt about the Group and 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 rigorous cost control to conserve cash resources, and the Directors believe that there are several corporate funding options available to the Company, including a farm-down on some of the Company's licences, various debt funding options together with settlement of outstanding Tendrara Production Concession receivable balance from ONHYM. Furthermore, based upon the Company's proven success in raising capital in the London equity market, and based on feedback from ongoing financing discussions, 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.

### Estimation and assumptions

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

## 1 Accounting Policies continued

impairment 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 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 2022, the Company's market capitalisation was £16.2 million, which is below the Group and Company's net asset value of £179.8 million and £168.4 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 the latest budgets, expenditure and price data in signed gas sales agreements (for contracted gas sales volumes), market based price data (for uncontracted gas sales volumes), project contract or agreed heads of terms, and the latest management plans on project phasing. The recoverable amount is sensitive to the discount rate and gas price assumption 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 £5.1 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 payments**
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 19).

**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 continues to believe that the Morocco tax authority has misunderstood or misinterpreted the underlying transactions and appealed against the assessment. The matter is in Court. In May 2021, the Group received notification from the Morocco tax authority of its 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. Subsequent to period end, a settlement on the tax cases was agreed upon as disclosed 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 13) 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 2022

## 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 relate to properties that are in the development, 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 a 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 the 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 the 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 when 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 an 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 that are 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 2022

## 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 a 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 long term incentive plan 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 the 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 an expense in the period during 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 is 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 an 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 they 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 the 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 2022

## 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 2022, the Group's development, 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 2022:

| | Corporate £'000s | Development and production £'000s | Exploration and appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Other income | – | – | 43 | 43 |
| Reversal of impairment of development assets and exploration costs | – | 5,678 | – | 5,678 |
| Administration expenses | (3,175) | – | – | (3,175) |
| **Operating profit/(loss) segment result** | (3,175) | 5,678 | 43 | 2,546 |
| Interest receivable | 13 | – | – | 13 |
| Finance costs and exchange adjustments | 4,016 | – | – | 4,016 |
| **Profit/(loss) for the period before taxation from continuing operations** | 854 | 5,678 | 43 | 6,575 |

The segments assets and liabilities at 31 December 2022 is as follows:

| | Corporate £'000s | Development and production £'000s | Exploration and appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Non-current assets | 944 | 167,346 | 35,988 | 204,278 |
| Current assets | 4,224 | 2,141 | 1,413 | 7,778 |
| Liabilities attributable to continuing operations | (23,024) | (8,301) | (2,646) | (33,971) |

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

| | Europe £'000s | Morocco £'000s |
|---|---|---|
| Development and production assets | – | 163,074 |
| Interest in Badile land | 637 | – |
| Fixtures, fittings and office equipment | 5 | 9 |
| Right of use assets | 274 | – |
| Software | – | 19 |
| Prepayments | – | 4,272 |
| Exploration and evaluation assets | – | 35,988 |
| **Total** | 916 | 203,362 |

## 2 Segment Information continued

Segment results for the year ended 31 December 2021 were as follows:

| | 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 were 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 |

## 3 Other Income

| | **2022 £'000s** | 2021 £'000s |
|---|---|---|
| Research and development expenditure credit | **43** | 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 in prior years.

## 4 Operating Profit/(Loss)

| | **2022 £'000s** | 2021 £'000s |
|---|---|---|
| Operating profit/(loss) is stated after charging: | | |
| Depreciation | **101** | **168** |
| Employee costs | **1,860** | **780** |
| Reversal of impairment of development assets and exploration costs | **(5,678)** | **(4,024)** |

# Notes to the Financial Statements continued

for the year ended 31 December 2022

## 5 Auditor's Remuneration

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | **60** | 51 |
| 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 |
| Tax services | **7** | 7 |
| | **72** | 70 |

## 6 Employee Costs

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Staff costs, including the Executive Chairman and Executive Directors | | |
| Share-based payments | **969** | 30 |
| Wages and salaries | **1,437** | 993 |
| Social security costs | **214** | 100 |
| Employee benefits | **93** | 77 |
| Employee costs capitalised to development and intangible assets | **(853)** | (420) |
| **Total** | **1,860** | 780 |

| | 2022 Number | 2021 Number |
|---|---|---|
| The average monthly number of employees (including the Executive Chairman and Executive Directors) was: | | |
| Technical and operations | **4** | 4 |
| Management and administration | **10** | 8 |
| **Total** | **14** | 12 |

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 £0.8 million (2021: £0.4 million) of the employee costs was capitalised.

## 7 Finance Revenue

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Interest on cash at bank and short-term deposits | **13** | 4 |
| | **13** | 4 |

## 8 Taxation

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

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Current tax | | |
| UK corporation tax | – | – |
| Adjustment to tax expense in respect of prior years | (7) | (42) |
| Tax cases settlement (overseas tax) | (1,595) | – |
| **Total current tax (charge)/credit** | (1,602) | (42) |
| Deferred tax credit arising in the current year | – | – |
| **Total tax (charge)/credit** | (1,602) | (42) |

### (b) Reconciliation of tax charge

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Profit before tax | 6,575 | 2,460 |
| Tax (charge)/credit charged at UK corporation tax rate of 19% (2021: 19%) | (1,249) | (467) |
| Tax effect of: | | |
| Expenses not deductible for tax purposes | (49) | (38) |
| Settlement of tax cases | (1,595) | – |
| Temporary differences not recognised | 1,276 | 451 |
| Differences in overseas tax rates | 15 | 12 |
| **Total tax (charge)/credit** | (1,602) | (42) |

Deferred tax assets have not been recognised in respect of tax losses available due to the uncertainty of the utilisation of those assets. Unrecognised tax losses as at 31 December 2022 were estimated to be approximately £8.8 million (2021: £6.1 million).

In September 2022, Sound Energy Morocco SARL AU ("SARL AU") a wholly owned subsidiary of Sound Energy Morocco East Limited ("SEME") received findings of the Local Tax Committee ("LTC") that upheld the tax authority's intended assessment of approximately $21.4 million (excluding penalties and interest that may be levied) relating to the fiscal years 2016 and 2017. The Group, having taken legal and tax advice, continues to believe that the assessment arises from a misunderstanding of the historical licence relinquishment and intercompany funding arrangements and has appealed to the Court where the case has been progressing.

On a separate tax case, in December 2022, SEME was notified of the judgement by the Court indicating that SEME's demand for the annulment of the LTC finding was rejected. The LTC had upheld the tax authority's claim of tax liabilities of approximately $2.5 million (excluding penalties and interests that may be levied), relating to the fiscal years 2016 to 2018, alleging that there was a disposal of assets by SEME to its partner, Schlumberger, on entry to a brand-new petroleum agreement for exploration at Grand Tendrara. In January 2023, SEME appealed against the judgement and the case has been progressing in Court.

Post period end, in May 2023, the Company entered into a phased payment schedule with Morocco tax authority for full and final settlement of the tax cases for undiscounted amount of approximately $2.45 million (£2.0 million). The discounted amount is approximately $1.97 million (£1.63 million) with a current liability of approximately $152k (£126k) and non current liability of approximately $1.82 million (£1.5 million). The tax settlement is subject to the Court agreeing that the cases can be withdrawn.

# Notes to the Financial Statements continued

for the year ended 31 December 2022

## 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 the 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:

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| **Profit for the year after taxation** | **4,973** | 2,418 |

| | 2022 Million | 2021 Million |
|---|---|---|
| **Basic weighted average shares in issue** | **1,752** | 1,494 |
| Dilutive potential ordinary shares | **7** | 1 |
| **Diluted weighted average number of shares** | **1,759** | 1,495 |

| | 2022 Pence | 2021 Pence |
|---|---|---|
| **Basic profit per share** | **0.28** | 0.16 |
| **Diluted profit per share** | **0.28** | 0.16 |

Dilutive potential ordinary shares included in the calculation of diluted weighted average number of shares relates to nil options granted during the year. LTIP options awards and warrants totalling 138.8 million (2021: 105 million) were all anti-dilutive and were not included in the calculation of diluted weighted average number of shares.

## 10 Property, Plant and Equipment

| | Development and production assets £'000s | Fixtures, fittings and office equipment £'000s | Right-of-use assets £'000s | **2022 £'000s** |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2022 | 144,735 | 626 | – | **145,361** |
| Additions | 1,597 | 4 | 331 | **1,932** |
| Disposal | – | (3) | – | **(3)** |
| Exchange adjustments | 16,742 | 29 | – | **16,771** |
| At 31 December 2022 | 163,074 | 656 | 331 | **164,061** |
| **Impairment and depreciation** | | | | |
| At 1 January 2022 | 5,107 | 588 | – | **5,695** |
| (Reversal)/charge for period | (5,678) | 30 | 57 | **(5,591)** |
| Disposal | – | (2) | – | **(2)** |
| Exchange adjustments | 571 | 26 | – | **597** |
| At 31 December 2022 | – | 642 | 57 | **699** |
| Net book amount | 163,074 | 14 | 274 | **163,362** |

| | 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 |

### Change in estimate

The discount rate and forecast gas price are significant estimates used by the Company to determine the recoverable amount when undertaking impairment testing of the Company's TE-5 Horst concession. The Company has taken account of changes in the market conditions during 2022 and has, accordingly, revised the discount rate to 12.5% as at 31 December 2022 (2021: 10%). The Company previously used forecast gas price indexed to the Brent price for pricing the forecast uncontracted gas sales volumes. Following significant changes in market conditions during the year, the Company concluded that an average forecast gas price referenced to the Title Transfer Facility ("TTF") in the Netherlands and the UK National Balancing Point ("NBP") is more representative of the conditions in the gas market instead of indexation to the Brent price. Accordingly, the Company used an average of TTF and NBP forecast gas price for its impairment testing as at 31 December 2022.

# Notes to the Financial Statements continued

for the year ended 31 December 2022

## 10 Property, Plant and Equipment continued

The Company's market capitalisation was £16.2 million as at 31 December 2022, which is below the Group's net assets of £179.7 million and the Company's net assets of £168.4 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 $207.9 million (£171.8 million) which when compared to the carrying amount of the development expenditure of £163.1 million indicated that no impairment was required and as a result a reversal of previously recognised impairment of approximately £5.7 million was made.

The Model covers the period 2023 to 2049. The input to the Model included a discount rate of 12.5% 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 TTF 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 uncontracted volumes referenced to an average forecast price of TTF and NBP with price range of $37.05 per mmBTU in 2023 and $17.41 per mmBTU in 2033, 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 ten years. The production volumes data was based on the 2018 CPR for TE-5 Horst.

The well cost 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 forecast covered the period to 2027, but the model extends to 2049, as that is the period required to produce the gas resources at TE-5 Horst concession and the economic cut-off. A change in the discount rate by 1% has a $22.4 million (£18.5 million) impact on the NPV and change in average TTF and NBP forecast gas price by $1/bbl has a $9.4 million (£7.8 million) impact on the NPV.

## 11 Intangibles

| | Software £'000s | Exploration & Evaluation Assets £'000s | 2022 £'000s |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2022 | 352 | 42,204 | 42,556 |
| Additions | 23 | 813 | 836 |
| Exchange adjustments | – | 3,577 | 3,577 |
| At 31 December 2022 | 375 | 46,594 | 46,969 |
| **Impairment and depreciation** | | | |
| At the start of the year | 352 | 10,606 | 10,958 |
| Charge for the year | 14 | – | 14 |
| Exchange adjustments | (10) | – | (10) |
| At 31 December 2022 | 356 | 10,606 | 10,962 |
| **Net book amount** | 19 | 35,988 | 36,007 |

## 11 Intangibles continued

| | 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 the 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 |

### 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 2022, 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 (2021: £0.1 million).

## 12 Prepayments

Non-current prepayment of £4.3 million relates to activities of the Company's Phase 1 mLNG Project in the Concession.

# Notes to the Financial Statements continued

for the year ended 31 December 2022

## 13 Investment in Subsidiaries

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | 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 | **186,687** | **–** | **186,687** | 183,819 | – | 183,819 |
| Additions | **8,754** | **–** | **8,754** | 1,138 | – | 1,138 |
| Repayment of intercompany loans | **(991)** | **–** | **(991)** | (162) | – | (162) |
| Exchange adjustment | **22,369** | **–** | **22,369** | 1,892 | – | 1,892 |
| At 31 December | **216,819** | **–** | **216,819** | 186,687 | – | 186,687 |
| **Credit loss allowance and impairment** | | | | | | |
| At 1 January | **22,189** | **–** | **22,189** | 25,968 | – | 25,968 |
| Increase in credit loss | **2,605** | **–** | **2,605** | 318 | – | 318 |
| Impairment reversal | **(5,107)** | **–** | **(5,107)** | (4,097) | – | (4,097) |
| At 31 December | **19,687** | **–** | **19,687** | 22,189 | – | 22,189 |
| Net book amount at 31 December | **197,132** | **–** | **197,132** | 164,498 | – | 164,498 |

The subsidiary companies of the Company at 31 December 2022, 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 £5.1 million (2021: £4.1 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 the 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. Annually, 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 9.1% (2021: 9.0%), obtained from publicly available data published by leading credit rating agencies. A loss of £2.6 million (2021: £0.3 million loss) 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.

## 13 Investment in Subsidiaries continued

### 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 | 2022 Number | 2021 Number |
|---|---|---|---|---|
| Gas exploration | UK | Morocco | **3** | 3 |
| Holding companies | UK | UK | **1** | 1 |
| Dormant | UK | UK | **1** | 1 |
| Renewable energy | UK | Morocco | **1** | 1 |
| Holding companies | British Virgin Isles | British Virgin Isles | **2** | 2 |
| Gas exploration | British Virgin Isles | Morocco | **1** | 1 |
| Holding companies | Mauritius | Mauritius | **1** | 1 |
| Gas exploration | Morocco | Morocco | **1** | 1 |

## 14 Other Receivables

### Group

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| UK VAT | **32** | 10 |
| Morocco VAT | **450** | 455 |
| Other receivables | **2,333** | 387 |
| | **2,815** | 852 |

### Currency Analysis

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| US dollar | **2,141** | 244 |
| GBP sterling | **103** | 45 |
| Moroccan dirham | **571** | 563 |
| | **2,815** | 852 |

### Company

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| UK VAT | **32** | 10 |
| Other receivables | **35** | 35 |
| | **67** | 45 |

### Currency Analysis

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| GBP sterling | **67** | 45 |
| | **67** | 45 |

# Notes to the Financial Statements continued

for the year ended 31 December 2022

## 15 Cash and Cash Equivalents

### Group

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Cash at bank and in hand | **361** | 1,358 |
| Cash equivalents: | | |
| Short-term deposits | **3,500** | 1,555 |
| **Carrying amount 31 December** | **3,861** | 2,913 |
| Being: | | |
| In US dollar | **2,309** | 2,553 |
| In euros | **48** | 20 |
| In sterling | **1,472** | 298 |
| In Moroccan dirham | **32** | 42 |
| **Total** | **3,861** | 2,913 |

### Company

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Cash at bank and in hand | **88** | 336 |
| Cash equivalents: | | |
| Short-term deposits | **1,433** | 259 |
| **Carrying amount 31 December** | **1,521** | 595 |
| Being: | | |
| In US dollar | **15** | 291 |
| In euros | **48** | 20 |
| In sterling | **1,458** | 284 |
| **Total** | **1,521** | 595 |

The Group has provided collateral of $2.5 million (£2.1 million) (2021: $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.

## 16 Trade and Other Payables

### Group

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Trade payable | **713** | 671 |
| Payroll taxes and social security | **95** | 44 |
| Accruals | **1,060** | 785 |
| | **1,868** | 1,500 |

## 16 Trade and Other Payables continued

### Currency Analysis

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| US dollar | **1,044** | 794 |
| Euro | **375** | 370 |
| Sterling | **397** | 248 |
| Moroccan dirham | **52** | 88 |
| | **1,868** | 1,500 |

### Company

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Trade payable | **98** | 77 |
| Payroll taxes and social security | **89** | 38 |
| Accruals | **578** | 515 |
| | **765** | 630 |

### Currency Analysis

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Sterling | **390** | 260 |
| Euro | **375** | 370 |
| | **765** | 630 |

## 17 Lease Liabilities

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Amounts due within one year | **162** | – |
| Amounts due after more than one year | **121** | – |
| | **283** | – |
| The movement during the year is as below: | | |
| As at 1 January | **–** | 30 |
| Office lease entry | **331** | – |
| Interest accretion | **10** | 1 |
| Payments | **(58)** | (31) |
| **As at 31 December** | **283** | – |

The Company signed a two-year lease for its London offices.

The right-of-use assets are reported within property, plant and equipment (note 10). During the year ended 31 December 2022, the amount recognised as short-term lease expenses, for the office lease in Morocco, was approximately £45,000.

# Notes to the Financial Statements continued

for the year ended 31 December 2022

## 18 Capital and Reserves

### Group and Company

| | 2022 Number of shares | £'000s | 2021 Number of shares | £'000s |
|---|---|---|---|---|
| Ordinary shares – 1p | **1,848,702,674** | **18,487** | 1,629,183,907 | 16,292 |

| | 2022 Number of shares | 2021 Number of shares |
|---|---|---|
| At 1 January | **1,629,183,907** | 1,326,244,389 |
| Issued during the year for cash | **200,000,000** | 159,731,651 |
| Non-cash share issue | **19,518,767** | 143,207,867 |
| **At 31 December** | **1,848,702,674** | 1,629,183,907 |

Non-cash transactions during the period included the issue of 17,901,146 ordinary shares to members of staff and former employees of the Company in settlement of vested Restricted Stock Units (RSU) awards, a one-time bonus to one member of staff, and vested nil cost options. 1,617,621 ordinary shares were issued to third parties in settlement of £25,000 due for services provided.

### Share issues

In May 2022, the Company issued 13,419,891 shares as one-time bonus to the Company's Chief Operating Officer following the delivery of all elements required to take FID for Phase 1 of the Concession and for establishing the commercial framework for monetisation of Phase 2 of the Concession.

In May 2022, the Company issued 1,057,211 shares following vesting of historically awarded RSUs to members of staff and former employees of the Company.

In May 2022, the Company issued 1,617,621 shares to third parties in settlement of £25,000 for services provided to the Company.

In June 2022, the Company issued 200,000,000 shares at a price of 2 pence per share following an equity raise.

In June 2022, the Company issued 3,424,044 shares following the exercise of nil cost options by members of staff.

### 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.

## 19 Related Party Disclosures

### Key management

As at 31 December 2022, there were two key management personnel other than Directors of the Company (2021: 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 Directors.

| | **2022 £'000s** | 2021 £'000s |
|---|---|---|
| Salaries and employee benefits | **935** | 923 |
| Share-based payments | **915** | 24 |
| | **1,850** | 947 |

### Key management (including Executive Directors) interest in share options

LTIP options awards by key management (including Executive Directors), at 31 December 2022, have the following expiry dates and exercise prices:

| | Expiry date | Exercise price Pence | **2022 Number** | 2021 Number |
|---|---|---|---|---|
| 2022 | 2032 | 2.4p | **31,769,085** | – |

Nil cost bonus options awards by key management (including Executive Directors) at 31 December 2022 have the following expiry dates and exercise prices:

| | Expiry date | **2022 Number** | 2021 Number |
|---|---|---|---|
| 2022 | 2027 | **15,064,750** | – |

Share options held by the Executive members of the Board of Directors at 31 December 2022 have the following expiry dates and exercise prices:

| | Expiry date | Exercise price Pence | **2022 Number** | 2021 Number |
|---|---|---|---|---|
| 2017 | 2022 | 67p | **–** | 1,500,000 |

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

| | Expiry date | Exercise price Pence | **2022 Number** | 2021 Number |
|---|---|---|---|---|
| 2017 | 2022 | 67p | **–** | 300,000 |
| 2017 | 2022 | 52.25p | **–** | 500,000 |

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

| | Settlement date | **2022 Number** | 2021 Number |
|---|---|---|---|
| 2018 | 2021 | **–** | 310,548 |
| 2019 | 2022 | **–** | 520,992 |

# Notes to the Financial Statements continued

for the year ended 31 December 2022

## 20 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 14 (Other Receivables), note 15 (Cash and Cash Equivalents), note 16 (Trade and Other Payables) and note 25 (Loans and Borrowings).

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

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Financial assets | | |
| Cash and short-term deposits | **3,861** | 2,913 |
| Other receivables and interest in Badile land | **3,452** | 1,515 |
| | **7,313** | 4,428 |
| Financial liabilities | | |
| Trade and other payables | **1,868** | 1,500 |
| Loans and borrowings held at amortised costs | **30,189** | 20,039 |
| | **32,057** | 21,539 |

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 21). 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.

## 20 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.

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Borrowings | (30,189) | (20,039) |
| Cash and cash equivalents | 3,861 | 2,913 |
| Net debt | (26,328) | (17,126) |
| Total capital excluding reserves: | | |
| Equity share capital | 18,487 | 16,292 |
| Equity share premium | 20,134 | 18,281 |
| Shareholders' equity | 178,085 | 155,055 |

## 21 Foreign Currency and Other Risks

Foreign currency risk arises from the Group's financial instruments (note 20). 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.

| | | 2022 | | 2021 | |
|---|---|---|---|---|---|
| | 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% | 240 | (7,435) | (100) | (6,657) |
| Increase in EUR/GBP exchange rate | 5% | 1,027 | – | 986 | – |
| Increase in MAD/GBP exchange rate | 5% | (28) | – | (26) | – |
| Decrease in USD/GBP exchange rate | (5%) | (240) | 7,435 | 100 | 6,657 |
| Decrease in EUR/GBP exchange rate | (5%) | (1,027) | – | (986) | – |
| Decrease in MAD/GBP exchange rate | (5%) | 28 | – | 26 | – |

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 the 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 25.

# Notes to the Financial Statements continued

for the year ended 31 December 2022

## 22 Financial Instruments

### Cash and short-term deposits

| | Floating rate £'000s | Fixed rate £'000s | Interest-free £'000s | Total £'000s | Weighted average rate % |
|---|---|---|---|---|---|
| **2022** | | | | | |
| Sterling | **438** | **1,009** | **25** | **1,472** | **2.47** |
| Euro | **–** | **–** | **48** | **48** | **–** |
| US dollar | **2,067** | **–** | **242** | **2,309** | **0.45** |
| Moroccan dirham | **–** | **–** | **32** | **32** | **–** |
| | **2,505** | **1,009** | **347** | **3,861** | |
| 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 | |

Euro cash balances have been converted at the exchange rate of €1.1298: £1.00 (2021: €1.1912: £1.00). Moroccan dirham cash balances have been converted at the exchange rate of MAD12.589: £1.00 (2021: MAD12.526: £1.00). US dollar cash balances have been converted at the exchange rate of US$1.2097: £1.00 (2021: US$1.3512: £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.

## 23 Share-Based Payments

### Group and Company

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Expense arising from equity-settled LTIP and RSU awards | **159** | 30 |
| Bonuses paid in shares and nil cost options | **810** | – |
| | **969** | 30 |

### LTIP Awards

During the year, the Company adopted a new long term incentive plan (the ''LTIP''), designed to reward, incentivise and retain the Company's Executives and senior management to deliver sustainable growth for shareholders.

The maximum number of awards that may be issued under the LTIP from time to time will be limited to 3% of the Company's issued share capital on the date of grant of awards, and, together, with all other options issued by the Company under any employee share scheme from time to time, will not exceed an aggregate of 15% of the Company's issued ordinary share capital in a rolling ten year period. Awards granted under the LTIP will, generally, be subject to a three-year vesting period from the date of grant, the number of awards, ultimately, vesting dependent on the grantee's continued service and on additional performance conditions set by the Remuneration Committee.

The Company issued 48,875,515 options to subscribe for new ordinary shares under the LTIP, out of which 31,769,085 options were allocated to qualifying Executives and senior management and the balance of 17,106,430 was retained for future allocations. The LTIP awards are exercisable at 2.4 pence per share and expire ten years after the grant.

The fair value of LTIP awards granted was estimated at the date of grant using a Black-Scholes model, taking account of the terms and conditions upon which the awards were granted.

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

(i) Share price on grant date: 2.53 pence

(ii) Average risk free interest rate: 1.79%

## 23 Share-Based Payments continued

(iii) Expected volatility: 99.11%

(iv) Assumed forfeitures: 0%

(v) Expected dividends: nil

No other features of the LTIP awards were incorporated into the measurement of fair value. The fair value of the LTIP award granted was 2.26 pence. The remaining contractual life of the LTIP awards outstanding at 31 December 2022 is 9.3 years. If all the 31,769,085 LTIP awards were exercisable immediately, new ordinary shares equal to approximately 1.7% of the shares currently in issue, would be created.

### One time bonus and nil-cost options

In May 2022, the Company issued 13,419,891 shares as one-time bonus to a staff member and also granted 20,236,628 nil-cost options to employees in settlement of bonus awards. The nil-cost options vested immediately and expire five years from the date of grant. The nil-cost options were recognised at fair value on grant date by reference to the closing share price of the Company's shares on the trading day prior to the grant of the options.

### Share options

All previously outstanding share options expired during the year.

| | **2022 Number** | **Weighted average exercise price Pence** | 2021 Number | Weighted average exercise price Pence |
|---|---|---|---|---|
| Share options outstanding at the start of the year | **5,450,000** | **66.47** | 8,950,000 | 44.93 |
| Share options granted | **–** | **–** | – | – |
| Share options expired | **(5,450,000)** | **66.47** | (3,500,000) | 22.29 |
| Share options exercised | **–** | **–** | – | – |
| Share options outstanding at the end of the year | **–** | **–** | 5,450,000 | 66.47 |

### RSU awards

All RSU awards vested or expired during the year.

| | **2022 Number** | 2021 Number |
|---|---|---|
| RSU awards outstanding at the start of the year | **1,165,400** | 1,487,765 |
| Granted during the year | **–** | – |
| Expired during the year | **(108,189)** | – |
| Vested during the year | **(1,057,211)** | (322,365) |
| RSU awards outstanding at the end of the year | **–** | 1,165,400 |

The weighted average share price at the date of vesting of the RSU awards was 2.5 pence (2021: 1.9 pence).

### Warrants

As at 31 December 2022, the Company had the following outstanding warrants to subscribe to the Company's ordinary shares.

| **2022** | **Exercise price Pence** | **Expiry date** | **Number at 1 January** | **Granted/ (exercised)** | **Expired** | **Number at 31 December** |
|---|---|---|---|---|---|---|
| 2022 Warrants | 2.75 | 13 June 2025 | – | 7,056,875 | – | 7,056,875 |
| 2021 Warrants | 2.75 | 21 December 2027 | 99,999,936 | – | – | 99,999,936 |
| | | | **99,999,936** | **7,056,875** | **–** | **107,056,811** |

| 2021 | Exercise price Pence | Expiry date | Number at 1 January | Granted/ (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 |

# Notes to the Financial Statements continued

for the year ended 31 December 2022

## 24 Commitment and Guarantees

At 31 December 2022, the Group's capital expenditure commitment on its licences was, approximately, £8.1 million, for the development, exploration and appraisal activities in the Group's licences in Morocco. The Group had placed $2.5 million collateral to guarantee to the Moroccan Oil Ministry for the minimum work commitments on its licences. In addition, the Company has granted a parent Company guarantee totalling, approximately, £4.1 million for the work commitments.

## 25 Loans and Borrowings

### Group and Company

| | Secured bonds £'000s | Loan note-Afriquia £'000s | Total 2022 £'000s | 2021 £'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 |
| Interest payments | – | – | – | (389) |
| Exchange adjustments | – | – | – | (919) |
| Reclassification from/(to) non-current liability | 1,121 | – | 1,121 | (20,431) |
| At 31 December | 1,121 | – | 1,121 | – |
| | | | | |
| **Non-current liabilities** | | | | |
| At 1 January | 20,039 | – | 20,039 | – |
| Drawdown during the year | – | 7,233 | 7,233 | – |
| Amortised finance charges | 1,245 | 324 | 1,569 | 810 |
| Interest payments | (431) | – | (431) | (489) |
| Exchange adjustments | 1,123 | 656 | 1,779 | (713) |
| Reclassification (to)/from current liabilities | (1,121) | – | (1,121) | 20,431 |
| At 31 December | 20,855 | 8,213 | 29,068 | 20,039 |

The Company has €25.32 million secured bonds (the "Bonds"). The Bonds mature on 21 December 2027. The outstanding principal amount of the Bonds will be partially repaid, at a rate of 5% every six months, commencing on 21 December 2023. Until maturity, the Bonds bear 2% cash interest paid per annum and a 3% deferred interest per annum to be paid at redemption. The Company has 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. 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. The Bonds are secured on the issued share capital of Sound Energy Morocco South Limited. After taking account of the terms of the Bonds, the effective interest is approximately 6.2%.

During the year, the Company made drawdowns totaling $9.5 million from the Company's $18.0 million 6% secured loan note facility with Afriquia Gaz maturing in December 2033 (the "Loan"). The drawn down principal bears 6% interest per annum payable quarterly, but deferred and capitalised semi-annually, until the second anniversary of entry of the Loan agreement. Thereafter, principal and deferred interest will be repayable, annually, in equal installments commencing December 2028. The Loan is secured on the issued share capital of Sound Energy Meridja Limited. The weighted effective interest of the drawdowns made during the year is, approximately, 6.2%.

## 25 Loans and Borrowings continued

### Reconciliation of liabilities arising from financing activities

| 2022 | 1 January 2022 £'000s | Cash flows £'000s | Non-cash changes: Amortised finance charges £'000s | Non-cash changes: Exchange adjustments £'000s | Non-cash changes: Office lease entry £'000s | 31 December 2022 £'000s |
|---|---|---|---|---|---|---|
| Long-term borrowings | 20,039 | 6,802 | 1,569 | 1,779 | – | **30,189** |
| Leases | – | (58) | 10 | – | 331 | **283** |
| Total liabilities from financing activities | 20,039 | 6,744 | 1,579 | 1,779 | 331 | **30,472** |

| 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 £'000s | 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 |

### Reconciliation of finance expense

| | 2022 £'000s | 2021 £'000s |
|---|---|---|
| Amortised finance charges | **1,569** | 2,375 |
| Unwinding of discount on lease | **10** | – |
| Less capitalised interest | **(133)** | (69) |
| **Total external interest for the year** | **1,446** | 2,306 |

## 26 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 buyer for the land was 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 2023. The sale of Badile Area 2 contemplates that the buyer takes over the remaining obligation relating to the land restoration. The Company has taken account of the terms offered by the buyer and amounts that have fallen due from the Company for remediation, and recognised an impairment charge of £107k as at 31 December 2022.

# Notes to the Financial Statements continued

for the year ended 31 December 2022

## 27 Post Balance Sheet Events

In March 2023, the Company provided an update on progress being made in securing financing for the Company's Phase 2 development of the Concession. Significant progress had been made by the Company's mandated lead finance arranger, who had completed legal and technical due diligence in respect of the proposed financing. Whilst other aspects of pre-financing were continuing, the parties were progressing to detailed financial structuring and had entered a further amendment to the mandate and extended the deadline by which the parties would seek to negotiate binding terms for the proposed financing to 28 April 2023. In April 2023, the Company announced that the lead finance arranger's credit committee consideration had been delayed and was not expected to be held prior to 28 April 2023. With the lead arranger's credit committee consideration of the financing re-scheduled, the parties continue to work in good faith in advancing the financing.

Post period end, in May 2023, the Company entered into a phased payment schedule with Morocco tax authority for full and final settlement of the tax cases for undiscounted amount of approximately $2.45 million (£2.0 million). The discounted amount is approximately $1.97 million (£1.63 million) with a current liability of approximately $152k (£126k) and non current liability of approximately $1.82 million (£1.5 million) (note 8). The tax settlement is subject to the Court agreeing that the cases can be withdrawn.

# 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 | 14,411 | Sound Energy Morocco East |
| Tendrara | Permit | Tendrara | Exploration | 75 | 133.5 | Sound Energy Morocco East |
| Anoual | Permit | Anoual | Exploration | 75 | 8,873 | Sound Energy Morocco East |
| Sidi Mokhtar | Permit | Sidi Mokhtar | Exploration | 75 | 4,712 | Sound Energy Morocco South |

# Shareholder Information

## Dealing Information
Stock code: SOU.LN

## Financial Calendar
### Meetings
Annual General Meeting – June 2023

### Announcements
2023 Interim – September 2023
2023 Preliminary – March 2024

## Addresses
### Registered Office
Sound Energy plc
20 St Dunstan's Hill
London
EC3R 8HL
United Kingdom

### Business Address
Sound Energy plc
20 St Dunstan's Hill
London
EC3R 8HL
United Kingdom

### Company Secretary
AMBA Secretaries Limited
400 Thames Valley Park Road
Reading
RG6 1PT

### Website
www.soundenergyplc.com

### Auditor
Crowe U.K. LLP
55 Ludgate Hill
London
EC4M 7JW

### Stockbroker
SP Angel Corporate Finance LLP
35 Maddox St
Mayfair
London
W1S 2PP

### Nominated Advisers
Cenkos Securities plc
6, 7, 8 Tokenhouse Yard
London
EC2R 7AS

### Registrars
Link Asset Services
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

Consultancy, design and production by:
jonesandpalmer.co.uk

**Sound Energy plc**

20 St Dunstan's Hill
London
EC3R 8HL
United Kingdom