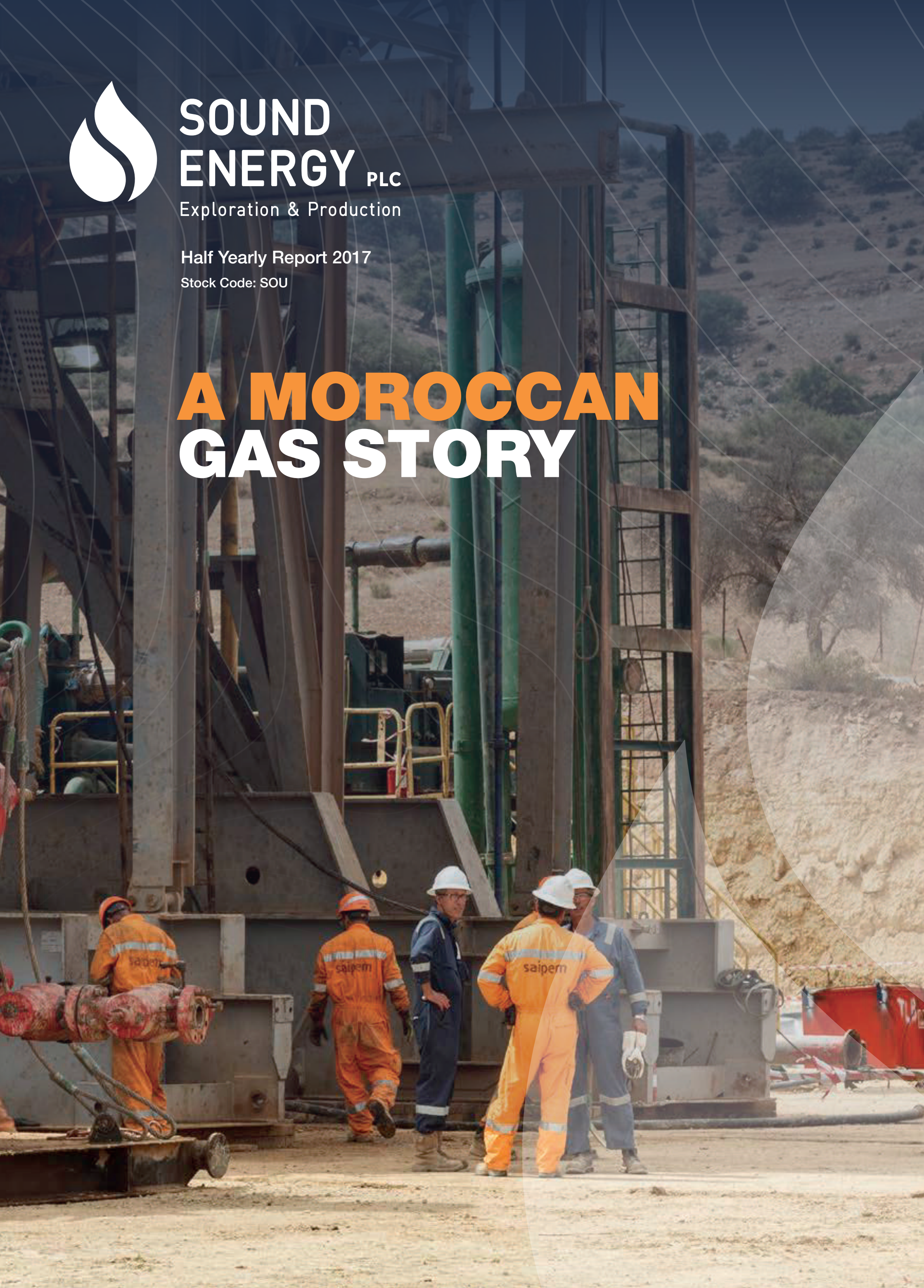
SOUND ENERGY PLC

Exploration & Production

Half Yearly Report 2017

Stock Code: SOU

# A MOROCCAN GAS STORY



# 2017 HALF YEARLY REPORT

**Sound Energy** is a growing Moroccan gas company with a low cost development opportunity, multi-tcf exploration potential, a supportive investor base and a strategic partnership with Schlumberger.

## Our Investment Proposition

### Regional **gas strategy** underpinned by

- Strong European gas demand and local pricing
- Strategic Partnership with Schlumberger
- Supportive Cornerstone Investors
- Experienced team

### **Strong** thematic positioning

- Carbon consciousness and global warming driving transition to gas

### **Low cost** development opportunity in Eastern Morocco

### Further **consolidation opportunities** in Morocco

### Multi-TCF exploration **potential**

- Eastern Morocco up to 31 Tcf
- Southern Morocco up to 9 Tcf

“Having long shifted the axis of our activities to play-opening work in Eastern Morocco, Sound continues to rapidly build a Moroccan exploration-focused onshore gas business hinged on strong European gas fundamentals, a strategic partnership with Schlumberger and our existing low cost, multi Tcf potential, portfolio.”

**James Parsons**
**Chief Executive Officer**

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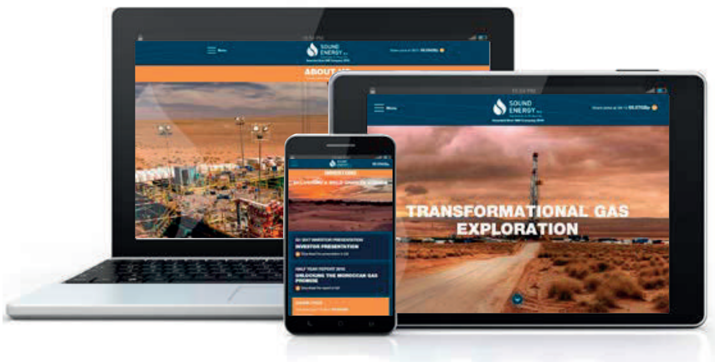


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# HIGHLIGHTS

## Morocco

- Farm out of Anoual to Schlumberger for US$27.5m carried exploration programme
- TE-8 well opening Palaeozoic play
- Ongoing 2D Seismic acquisition and aerial radiometry

## Corporate

- Cash balance at 30 June 2017 of USD $50.1 million
- Strong safety record following the safe drilling of 3 complex wells

# FUTURE FOCUS


## Ongoing
**Tendrara**: **2D seismic** – 2D seismic and aerial gradiometry

## September 2017
**Eastern Morocco** – Work programme update

## Q4 2017
**Sidi Moktar: Koba-1 (Argovian)** – Well test

## Q1 2018
**Tendrara: Drilling** – Further multi Tcf exploration drilling

## Early 2018
**Tendrara: Concession & FDP** – Concession application

## 2018
**Sidi Moktar: 2D Seismic**

# STATEMENT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

**Stephen Whyte**
**Non-Executive Chairman**

**James Parsons**
**Chief Executive Officer**

"Having long shifted the axis of our activities to play-opening work in Eastern Morocco, Sound continues to rapidly build a Moroccan exploration-focused onshore gas business hinged on strong European gas fundamentals, a strategic partnership with Schlumberger and our multi Tcf opportunity set."

Our journey so far, including the first half of 2017, has been a busy and exciting one, encompassing all the usual highs and lows of the exploration business. Crucially, and behind the scenes, we continue to grow our core Net Asset Value in Morocco and remain hugely excited about the company's prospects over the next year or two.

Following the disappointing result at Badile the board is currently reviewing the Company's Italian Portfolio. It is important to put this into context; having long shifted the axis of our activities to play-opening work in Eastern Morocco, Sound continues to rapidly build a Moroccan exploration-focused onshore gas business hinged on strong European gas fundamentals, a strategic partnership with Schlumberger and our multi Tcf opportunity set. We are clear in our goals strategically, strong financially, and on the path to firming up the very significant upside on our acreage.

So far in 2017 we have drilled three complex wells safely, re-entered Sidi Moktar with gas flared to surface to fulfill the licence commitment, secured a further US$27.5 million farm out of select Eastern Morocco licences to Schlumberger, established the deeper Paleozoic play in Eastern Morocco and, finally, secured the acquisition of Oil and Gas Investment Fund's ("OGIF") interests in Morocco.

As we look forward, the further exploration and development of our Eastern Morocco portfolio (Tendrara, Anoual and Matarka) remains the Company's absolute priority. Here the exploration potential is being de-risked by a combination of aerial gradiometry, reprocessed seismic and 2,644 Km of new 2D seismic which are all underway and fully carried by Schlumberger. It is anticipated that the Company should be ready for further hi-impact exploration drilling shortly underpinned by the recently completed OGIF transaction. Meanwhile the field development planning for the already proven volumes continues apace, most recently with the reciept of an indicative offer from AFG to fund the main pipeline. Final Investment Decision is now expected early 2018. These will be important catalysts as we continue to move the company forward and build value.

We continue steadfast in our belief that the Eastern Morocco TAGI and Paleozoic is a completely new play for our industry and one which will over the next year or two prove both the making of our company and the making of the Moroccan Oil and Gas sector.

**James Parsons**
Chief Executive Officer

**Stephen Whyte**
Non-Executive Chairman

# FLAGSHIP EASTERN MOROCCO DEVELOPMENT

| **Tendrara*** | | |
|---|---|---|
| 47.5% interest Operated | 8 exploration permits | 14,500 km² acreage, 7 wells drilled |
| **Anoual*** | | |
| 47.5% interest Operated | Exploration permit | 8,863 km² |
| **Matarka*** | | |
| 47.5% interest Operated | Reconnaissance licence | 5,185 km² |

**Continuity** of the Algerian Triassic Province and Saharan Hercynian platform

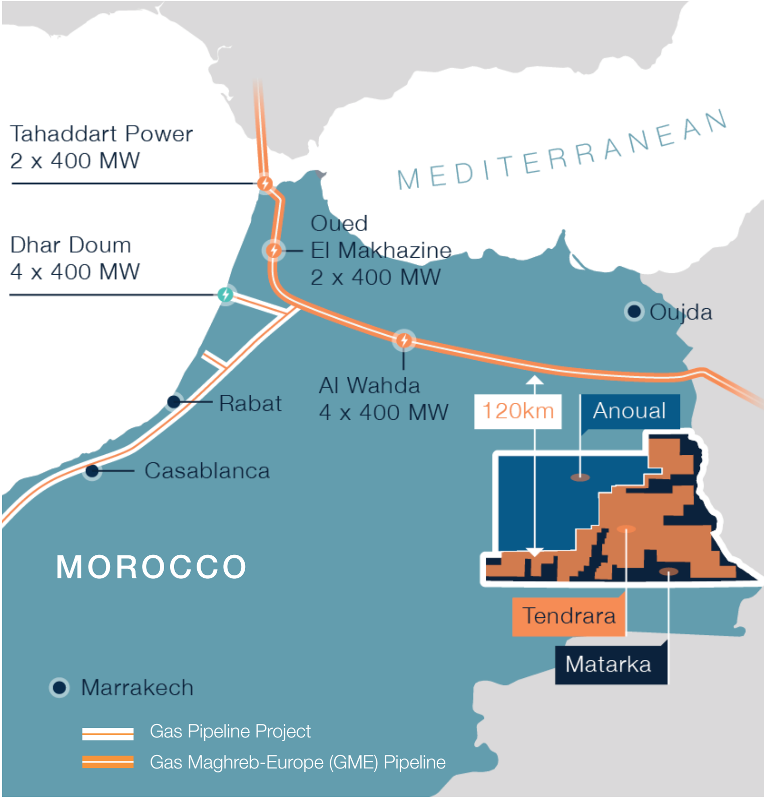
**Play type**: gas discovery with condensate-light oil shows in the Lower Triassic sequence

**TAGI** and **Paleozoic** sand objectives

**Strategic Partnership** where Schlumberger own 27.5% and co-fund and technically de-risk the asset

**Geophysical Survey** (including seismic) with gross cost $27.2m fully carried by Schlumberger

*Transaction completed post balance sheet on 12th September 2017

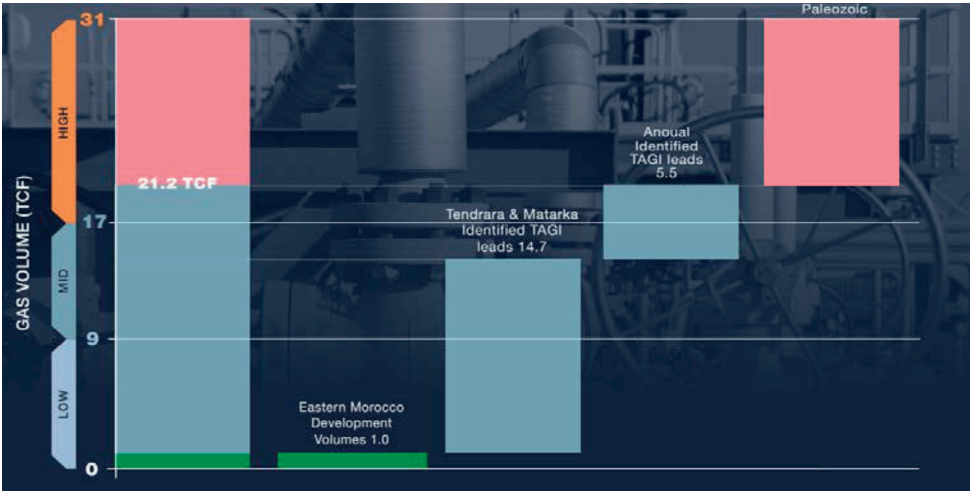



The Tendrara field will connect to the GME pipeline near Ain Beni Mathar village, a few km from the Morocco-Algeria border via a new Pipeline

Offtake expected to be either domestic power plants for gas-to-power generation (transit via GME line) or export to Southern Europe

The GME can accommodate c.200 mmscfd of Moroccan-source gas immediately, additional capacity opening in the short-term with contracted exports

## Tendrara: Prospects, Leads and Resources

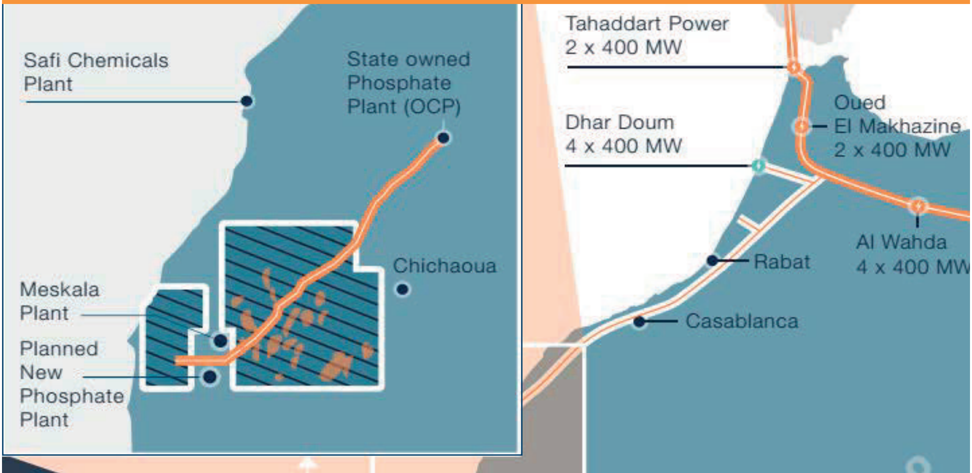



## Future focus

Forward plans for Tendrara are two fold; taking the discovered gas on the Te-5 horst to FID and delivering an exploration well programme beginning Q1 2018. The exploration programme begins in August 2017 with a gradiometry survey and 2644km of 2D seismic over the highgraded licence areas of interest, with the aim of developing a ranked portfolio of prospects by early 2018.

# SOUTHERN MOROCCO STRATEGIC PLAY

## Sidi Moktar




### Licence details

| | |
|---|---|
| **Area** | 2,699.7 Km² |
| **Status** | Exploration Permits |
| **Effective date** | 28/08/2009 |
| **Term** | 8 years |
| **Resource potential** | Up to 9Tcf in pre-salt |
| **Interest** | 75% |

- The Sidi Moktar permit is located in the Essaouira Basin in central Morocco (Western sea border) and is sub-divided into three blocks (North, South and West) with a combined area of 4,500 square km.
- Adjacent to and surrounding the Permit is the Meskala Field, a gas/condensate discovery, which has been producing since the late 1980s and represents one of the most significant discoveries in Morocco to date.
- The Sidi Moktar permit itself hosts some 40 wells, a pipeline and production facilities for gas and condensate.
- Asset located 10km from the Meskala gas processing plant and close to state owned phosphate plant.

### Sidi Shallow (1,000m to 3,000m)

- Gas discovery (Kechoula) in the Argovian and Lower Liassic with 2 wells on structure (Koba-1 and Kamar-1)
- Recent success perforating and clean up test of Argovian in Kechoula discovery (Koba-1 well)

### Sidi Deep (3,000m to 4,500m)

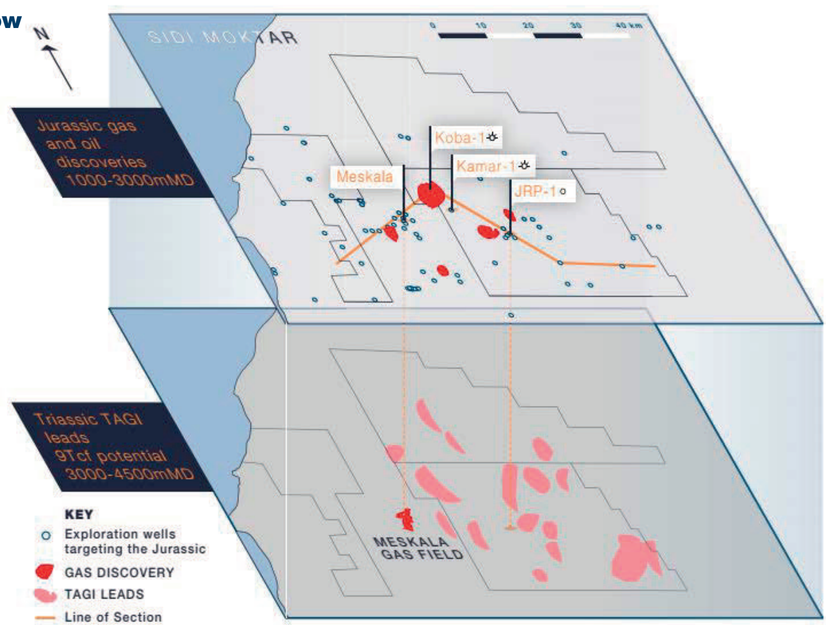
- Deeper pre-salt potential up to 9 Tcf unrisked
- 2D seismic programme planned for 2018, focused on pre-salt
- Drilling pre-salt thereafter

### Future development

Forward plans for Sidi Moktar following the initial tests of the remaining potential of Kechoula are focused on exploring the deep potential of the Triassic TAGI and Paleozoic reservoirs. The exploration seismic programme will follow on from Tendrara in the second half of 2018 with the aim of delivering a well programme for mid 2019.

**Sidi Shallow (1000m to 3000m)**

**Sidi Deep (3000m to 4500m)**



# AUDITOR'S REPORT

## Introduction

We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the 6 months ended 30 June 2017 which comprises the Condensed Interim Consolidated Income Statement, the Condensed Interim Consolidated Balance Sheet, the Condensed Interim Consolidated Statement of Changes in Equity, the Condensed Interim Consolidated Cash flow Statement and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company, as a body, in accordance with our instructions. Our review has been undertaken so that we might state to the company those matters we are required to state to them in a review 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, for our work, for this report, or for the opinions we have reached.

## Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note one, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

## Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

## Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the 6 months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

**Crowe Clark Whitehill LLP**
**Statutory Auditor**

# CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

| | Notes | **Six months ended 30 June 2017 Unaudited £'000s** | Six months ended 30 June 2016 Unaudited £'000s | Year ended 31 Dec 2016 Audited £'000s |
|---|---|---|---|---|
| **Revenue** | | **378** | 529 | 833 |
| **Other income** | | **–** | 715 | 715 |
| Operating costs | | **(169)** | (801) | (1,110) |
| Impairment of producing assets | | **–** | – | (5,455) |
| Impairment of goodwill | | **–** | – | (1,704) |
| Exploration costs | 4 | **(15,124)** | (28) | (2,334) |
| **Gross profit/(loss)** | | **(14,915)** | 415 | (9,055) |
| Administrative expenses | | **(5,161)** | (2,346) | (6,241) |
| **Group operating loss from continuing operations** | | **(20,076)** | (1,931) | (15,296) |
| **Finance revenue** | 5 | **37** | 2,717 | 1,364 |
| Foreign exchange gain | | **759** | 807 | 1,935 |
| Other gains and (losses) | | | | |
| – derivative financial instruments | | **182** | – | 583 |
| External interest costs | | **(116)** | (1,183) | (3,769) |
| **Profit/(loss) for period before taxation** | | **(19,214)** | 410 | (15,183) |
| Tax credit/(expense) | | **–** | – | 1,744 |
| **Profit/(loss) for period after taxation** | | **(19,214)** | 410 | (13,439) |
| Other comprehensive (loss)/income | | | | |
| Foreign currency translation income/(loss) | | **(167)** | 631 | 375 |
| **Total comprehensive profit/(loss) for the period** | | **(19,381)** | 1,041 | (13,064) |
| **Profit/(loss) for the period attributable to:** | | | | |
| Equity holders of the parent | | **(19,381)** | 1,041 | (13,064) |
| Basic and diluted profit/(loss) per share for the period attributable to the equity holders of the parent (pence) | 3 | **(2.73)** | 0.08 | (2.52) |

# CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

## As at 30 June 2017

| | Notes | **30 June 2017 Unaudited £'000s** | 30 June 2016 Unaudited £'000s | 31 Dec 2016 Audited £'000s |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | | **1,811** | 6,952 | 1,729 |
| Intangible assets | 4 | **31,828** | 14,204 | 28,060 |
| Land and buildings | | **1,581** | 1,493 | 1,535 |
| | | **35,220** | 22,649 | 31,324 |
| **Current assets** | | | | |
| Inventories | | **705** | 327 | 331 |
| Other receivables | | **6,087** | 14,147 | 8,777 |
| Derivative financial instruments | | **2,135** | – | 2,545 |
| Prepayments | | **201** | 116 | 320 |
| Cash and short term deposits | | **38,532** | 14,466 | 46,809 |
| | | **47,660** | 29,056 | 58,782 |
| **Total assets** | | **82,880** | 51,705 | 90,106 |
| **Current liabilities** | | | | |
| Trade and other payables | | **10,649** | 10,028 | 12,604 |
| Loans repayable in under one year | 5 | **–** | 7,704 | 986 |
| Provisions | 4 | **1,406** | – | – |
| | | **12,055** | 17,732 | 13,590 |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | | **433** | 2,160 | 433 |
| Loans due in over one year | 5 | **17,632** | 9,152 | 16,455 |
| Provisions | | **1,876** | 1,780 | 2,049 |
| | | **19,941** | 13,092 | 18,937 |
| **Total liabilities** | | **31,996** | 30,824 | 32,527 |
| **Net assets** | | **50,884** | 20,881 | 57,579 |
| **Capital and reserves** | | | | |
| Share capital and share premium | | **147,371** | 86,868 | 135,667 |
| Shares to be issued | | **–** | – | 223 |
| Warrant reserve | | **4,090** | 3,209 | 4,459 |
| Foreign currency reserve | | **1,276** | 1,699 | 1,443 |
| Accumulated deficit | | **(101,853)** | (70,895) | (84,213) |
| **Total equity** | | **50,884** | 20,881 | 57,579 |

The financial statements were approved by the Board and authorised for issue on 13 September 2017 and were signed on its behalf by:

**J Parsons**
**Director**

**S Whyte**
**Director**

# CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital £'000s | Share premium £'000s | Shares to be issued £'000s | Accumulated deficit £'000s | Warrant reserve £'000s | Foreign currency reserves £'000s | Total equity £'000s |
|---|---|---|---|---|---|---|---|
| **At 1 January 2017** | 6,651 | 129,016 | 223 | (84,213) | 4,459 | 1,443 | 57,579 |
| Total loss for the period | – | – | – | (19,214) | – | – | (19,214) |
| Other comprehensive income | – | – | – | – | – | (167) | (167) |
| Total comprehensive income for the period | – | – | – | (19,214) | – | (167) | (19,381) |
| Reclassification on debt settlement | – | – | – | 369 | (369) | – | – |
| Reclassification on share issue | 18 | 205 | (223) | – | – | – | – |
| Issue of share capital | 646 | 10,835 | – | – | – | – | 11,481 |
| Share based payments | – | – | – | 1,205 | – | – | 1,205 |
| **At 30 June 2017 (unaudited)** | **7,315** | **140,056** | **–** | **(101,853)** | **4,090** | **1,276** | **50,884** |

| | Share capital £'000s | Share premium £'000s | Shares to be issued £'000s | Accumulated deficit £'000s | Warrant reserve £'000s | Foreign currency reserves £'000s | Total equity £'000s |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | 5,039 | 81,276 | – | (71,593) | 369 | 1,068 | 16,159 |
| Total loss for the period | – | – | – | (13,439) | – | – | (13,439) |
| Other comprehensive income | – | – | – | – | – | 375 | 375 |
| Total comprehensive income/(loss) | – | – | – | (13,439) | – | 375 | (13,064) |
| Issue of share capital | 1,612 | 50,425 | – | – | – | – | 52,037 |
| Share issue costs | – | (2,685) | – | – | – | – | (2,685) |
| Shares to be issued | – | – | 223 | – | – | – | 223 |
| Fair value of warrants issued with bonds | – | – | – | – | 4,090 | – | 4,090 |
| Share based payments | – | – | – | 819 | – | – | 819 |
| At 31 December 2016 | 6,651 | 129,016 | 223 | (84,213) | 4,459 | 1,443 | 57,579 |

| | Share capital £'000s | Share premium £'000s | Accumulated deficit £'000s | Warrant reserve £'000s | Foreign currency reserves £'000s | Total equity £'000s |
|---|---|---|---|---|---|---|
| At 1 January 2016 | 5,039 | 81,276 | (71,593) | 369 | 1,068 | 16,159 |
| Total profit for the period | – | – | 410 | – | – | 410 |
| Other comprehensive income | – | – | – | – | 631 | 631 |
| Total comprehensive income for the period | – | – | 410 | – | 631 | 1,041 |
| Fair value of warrants issued with bonds | – | – | – | 2,840 | – | 2,840 |
| Issue of share capital | 53 | 500 | – | – | – | 553 |
| Share based payments | – | – | 288 | – | – | 288 |
| At 30 June 2016 (unaudited) | 5,092 | 81,776 | (70,895) | 3,209 | 1,699 | 20,881 |

# CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT

| | **Six months ended 30 June 2017 Unaudited £'000s** | Six months ended 30 June 2016 Unaudited £'000s | Year ended 31 Dec 2016 Audited £'000s |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash flow from operations | **(3,308)** | (704) | (2,826) |
| Interest received | **37** | 51 | 96 |
| **Net cash flow from operating activities** | **(3,271)** | (653) | (2,730) |
| **Cash flow from investing activities** | | | |
| Capital expenditure and disposals | **(370)** | (470) | (945) |
| Exploration and development expenditure | **(14,345)** | (3,173) | (10,882) |
| **Net cash flow from investing activities** | **(14,715)** | (3,643) | (11,827) |
| CSTI funding contract | **–** | (13) | (14) |
| Net proceeds from debt | **–** | 5,292 | 10,248 |
| Repayment of borrowings | **–** | (2,724) | (5,435) |
| Net proceeds from equity issue | **9,813** | 553 | 40,247 |
| Interest payments | **(645)** | (461) | (1,108) |
| **Net cash flow from financing activities** | **9,168** | 2,647 | 43,938 |
| Net (decrease)/increase in cash and cash equivalents | **(8,818)** | (1,649) | 29,381 |
| Net foreign exchange difference | **541** | 875 | 2,188 |
| Cash and cash equivalents at the beginning of the period | **46,809** | 15,240 | 15,240 |
| **Cash and cash equivalents at the end of the period** | **38,532** | 14,466 | 46,809 |

| | **Six months ended 30 June 2017 Unaudited £'000s** | Six months ended 30 June 2016 Unaudited £'000s | Year ended 31 Dec 2016 Audited £'000s |
|---|---|---|---|
| **Cash flow from operations reconciliation** | | | |
| Profit/(loss) before tax | **(19,214)** | 410 | (15,183) |
| Finance revenue | **(37)** | (2,717) | (1,364) |
| Impairment of goodwill | **–** | – | 1,704 |
| Exploration expenditure written off and impairment of assets | **15,124** | – | 7,789 |
| (Decrease)/increase in accruals and short term payables | **(2,327)** | 7,104 | 9,035 |
| Depreciation | **331** | 181 | 272 |
| Share based payments charge | **1,205** | 288 | 819 |
| Increase in drilling inventories | **(374)** | (327) | (331) |
| Gain on derivative financial instruments | **(182)** | – | (583) |
| Finance costs and exchange differences | **(643)** | 376 | 1,508 |
| Decrease/(Increase) in short term receivables | **2,809** | (6,019) | (6,492) |
| **Cash flow from operations** | **(3,308)** | (704) | (2,826) |

The primary non-cash transactions during the period related to the exercise of 9.6 million of 10.4p warrants in settlement of £1.0 million debt and issue of 830,565 shares as part settlement of the drilling services at the Badile licence, onshore Italy.

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of preparation

The condensed interim consolidated financial statements do not represent statutory accounts within the meaning of section 435 of the Companies Act 2016. The financial information for the year ended 31 December 2016 is based on the statutory accounts for the year ended 31 December 2016. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The condensed interim financial information is unaudited and has been prepared on the basis of the accounting policies set out in the Group's 2016 statutory accounts and in accordance with IAS 34 Interim Financial Reporting.

The seasonality or cyclicality of operations does not impact on the interim financial statements.

## 2. Segment information

The Group categorises its operations into three business segments based on Corporate, exploration and appraisal and development and production. The Group's exploration and appraisal activities are carried out in Morocco and Italy. The Group's reportable segments are based on internal reports about the components of the Group which are regularly reviewed by the Board of Directors, being the Chief Operating Decision Maker ("COMD"), for strategic decision making and resources allocation to the segment and to assess its performance. Sales during the period arose from producing licences in Italy. The segment results for the period ended 30 June 2017 are as follows:

### Segment results for the period ended 30 June 2017

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Sales and other operating revenues | – | 378 | – | 378 |
| Operating costs | – | (169) | – | (169) |
| Exploration costs | – | – | (15,124) | (15,124) |
| Administration expenses | (5,161) | – | – | (5,161) |
| **Operating loss segment result** | **(5,161)** | **209** | **(15,124)** | **(20,076)** |
| Finance revenue | 37 | – | – | 37 |
| Gain on derivative financial instruments | 182 | – | – | 182 |
| Finance costs and exchange gains | 643 | – | – | 643 |
| **Profit/(loss) for the period before taxation** | **(4,299)** | **209** | **(15,124)** | **(19,214)** |

The segments assets and liabilities at 30 June 2017 are as follows:

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Capital expenditure | 609 | 1,202 | 33,409 | 35,220 |
| Other assets | 41,343 | 30 | 6,287 | 47,660 |
| Total liabilities | (18,980) | (1,780) | (11,236) | (31,996) |

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 2. Segment information (continued)

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

| | UK £'000s | Italy £'000s | Morocco £'000s |
|---|---|---|---|
| Development and production assets | – | 1,202 | – |
| Land and buildings | – | 1,581 | – |
| Fixtures, fittings and office equipment | 192 | 185 | 232 |
| Goodwill | – | 433 | – |
| Exploration and evaluation assets | – | 4,539 | 26,622 |
| Software | 88 | 5 | 141 |
| Total | 280 | 7,945 | 26,995 |

### Segment results for the period ended 30 June 2016

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Sales and other operating revenues | – | 529 | – | 529 |
| Other income | 715 | – | – | 715 |
| Operating costs | – | (801) | – | (801) |
| Exploration costs | – | – | (28) | (28) |
| Administration expenses | (2,346) | – | – | (2,346) |
| Operating loss segment result | (1,631) | (272) | (28) | (1,931) |
| Finance revenue | 2,717 | – | – | 2,717 |
| Finance costs and exchange gains | (376) | – | – | (376) |
| Profit/(loss) for the period before taxation | 710 | (272) | (28) | 410 |

The segments assets and liabilities at 30 June 2016 were as follows:

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Capital expenditure | 274 | 6,678 | 15,697 | 22,649 |
| Other assets | 22,802 | 62 | 6,192 | 29,056 |
| Total liabilities | (11,546) | (1,938) | (17,340) | (30,824) |

## 2. Segment information (continued)

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

| | UK £'000s | Italy £'000s | Morocco £'000s |
|---|---|---|---|
| Development and production assets | – | 6,678 | – |
| Land and buildings | – | 1,493 | – |
| Fixtures, fittings and office equipment | 38 | 170 | 66 |
| Goodwill | – | 2,160 | – |
| Exploration and evaluation assets | – | 7,809 | 4,122 |
| Software | 103 | 8 | 2 |
| Total | 141 | 18,318 | 4,190 |

### Segment results for the year ended 31 December 2016

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Sales and other operating revenues | – | 833 | – | 833 |
| Other income | – | 715 | – | 715 |
| Operating costs | – | (1,110) | – | (1,110) |
| Exploration costs | – | – | (2,334) | (2,334) |
| Impairment of producing assets | – | (5,455) | – | (5,455) |
| Goodwill impairment | – | (524) | (1,180) | (1,704) |
| Administration expenses | (6,241) | – | – | (6,241) |
| Operating loss segment result | (6,241) | (5,541) | (3,514) | (15,296) |
| Interest receivable | 1,364 | – | – | 1,364 |
| Gain on derivative financial instruments | 583 | – | – | 583 |
| Finance costs and exchange gains | (1,834) | – | – | (1,834) |
| Loss for the period before taxation | (6,128) | (5,541) | (3,514) | (15,183) |

The segments assets and liabilities at 31 December 2016 were as follows:

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Non-current assets | 513 | 1,216 | 29,595 | 31,324 |
| Current assets | 52,526 | 22 | 6,234 | 58,782 |
| Total liabilities | (3,161) | (2,049) | (27,317) | (32,527) |

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 2. Segment information (continued)

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

| | UK £'000s | Italy £'000s | Morocco £'000 |
|---|---|---|---|
| Development and production assets | – | 1,216 | – |
| Land and buildings | – | 1,535 | – |
| Fixtures, fittings and office equipment | 194 | 171 | 148 |
| Goodwill | – | 433 | – |
| Exploration and evaluation assets | – | 8,511 | 18,876 |
| Software | 89 | 6 | 145 |
| Total | 283 | 11,872 | 19,169 |

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

| | Profit/(loss) after tax from continuing operations | | | Weighted average shares in issue | | | Profit/(loss) per share (basic) from continuing operations | | |
|---|---|---|---|---|---|---|---|---|---|
| | **June 2017 £'000s** | June 2016 £'000s | December 2016 £'000s | **June 2017 million** | June 2016 million | December 2016 million | **June 2017 pence** | June 2016 pence | December 2016 pence |
| Basic | **(19,214)** | 410 | (13,439) | **703** | 506 | 534 | **(2.73)** | 0.08 | (2.52) |

| | Profit/(loss) after tax from continuing operations | | | Weighted average shares in issue and dilutive potential ordinary shares | | | Profit/(loss) per share (diluted) from continuing operations | | |
|---|---|---|---|---|---|---|---|---|---|
| | **June 2017 £'000s** | June 2016 £'000s | December 2016 £'000s | **June 2017 million** | June 2016 million | December 2016 million | **June 2017 pence** | June 2016 pence | December 2016 pence |
| Diluted | **(19,214)** | 410 | (13,439) | **703** | 538 | 534 | **(2.73)** | 0.08 | (2.52) |

## 4. Intangibles

| | **Six months ended 30 June 2017 Unaudited £'000s** | Six months ended 30 June 2016 Unaudited £'000s | Year ended 31 Dec 2016 Audited £'000s |
|---|---|---|---|
| **Cost** | | | |
| At start of period | **42,386** | 20,198 | 20,198 |
| Additions | **18,186** | 4,000 | 21,352 |
| Exchange adjustments | **(284)** | 657 | 836 |
| At end of period | **60,288** | 24,855 | 42,386 |
| **Impairment and Depreciation** | | | |
| At start of period | **14,326** | 10,634 | 10,634 |
| Charge for period | **13,761** | 17 | 3,559 |
| Exchange adjustments | **373** | – | 133 |
| At end of period | **28,460** | 10,651 | 14,326 |
| Net book amount | **31,828** | 14,204 | 28,060 |

During the period there was an impairment charge of approximately £13.7 million in respect of the Badile licence, Italy, following sub-commercial well results and in addition, approximately £1.4 million for the well abandonment costs was provided for.

## 5. Loans and Borrowings

| | **Six months ended 30 June 2017 Unaudited £'000s** | Six months ended 30 June 2016 Unaudited £'000s | Year ended 31 Dec 2016 Audited £'000s |
|---|---|---|---|
| **Current liability** | | | |
| Other loans | **–** | 7,704 | 986 |
| **Non-current liability** | | | |
| 5-year secured bonds | **17,632** | 8,125 | 16,455 |
| Other loans | **–** | 1,027 | – |
| | **17,632** | 9,152 | 16,455 |

On 21 June 2016, the Company announced that Greenberry S.A ("Greenberry") had subscribed for 5-year non-amortising secured bonds with an aggregate value of the issue of €28.8 million (the "bonds"). Alongside the bonds, the Company was to issue 70,312,500 warrants to subscribe for new ordinary shares in the Company at an exercise price of 30 pence per ordinary share and an exercise period of approximately five years, concurrent with the term of the bonds, to Greenberry ( the "warrants"). The bonds are secured over the share capital of Sound Energy Holdings Italy Limited. The bonds have a 5% coupon and were issued at a 32% discount to par value. A total cash fee of €1.1 million was payable by the Company.

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 5. Loans and Borrowings (continued)

The warrants were recorded within equity at their fair value on the date of issuance and the proceeds of the notes net of issue costs were recorded as non-current liability. Part of the proceeds of the bonds was used to settle an existing Reserve Based Lending facility from Greenberry of €7.0 million at a discount of 50% reported within finance revenue. The Company also settled £7.0 million debt that had been issued to Continental Investment Partners in 2014. The coupon rate of 5% for the bonds ensures that the Company's on-going cash out-flow on interest payments is low and which conserves the Company's cash resources. The effective interest rate is approximately 16.3%. The 5-year secured bonds are due in June 2021.

During the period to 30 June 2017, the Company settled £1.0 million debt that had been issued to Simon Davies in 2014 and had an annual coupon of 10%. The debt was settled through the exercise of 9.6 million warrants at 10.4p per share.

| | **30 June 2017 £'000s** | 30 June 2016 £'000s | 31 December 2016 £'000s |
|---|---|---|---|
| Liability component at 1 January | **986** | 7,118 | 7,118 |
| Interest and amortised issue costs | **44** | 620 | 1,413 |
| Interest paid | **(30)** | (306) | (545) |
| Debt paid | **(1,000)** | – | (7,000) |
| | **–** | 7,432 | 986 |

## 6. Shares in issue and share based payments

As at 30 June 2017, the Company had 731,514,432 ordinary shares in issue. In the period to 30 June 2016, a total of 54.2 million warrants were exercised for total proceeds of £9.8 million and 9.6 million warrants were exercised in settlement of a debt (note 5).

During the period to 30 June 2017, the Company granted 11.1 million share options to staff under its long term incentive plan. Approximately 3.8 million share options expired during the period.

## 7. Post Balance Sheet events

On 21 July 2017, the Company announced that it was progressing well with its acquisition of various licences in Eastern Morocco from OGIF (the "Acquisition") and is expecting completion of the Acquisition at the end of Q3 2017. On completion of the Acquisition OGIF will be issued with 272 million new ordinary shares in the Company which was approved by the Company's shareholders on 15 March 2017. The Company has entered into petroleum agreements with Morocco's Office National des Hydrocarbures des Mines ("ONHYM") for Anoual and Matarka licences, on shore Morocco. These agreements will come into force at the same time as completion of the Acquisition. A bank guarantee of US$2.95 million had been lodged by the Company and its partners to cover a proportion of the work commitments under the licences.

On 5 July 2017, the Company announced that the re-entry of the Koba-1 well at Sidi Moktar licence, onshore Morocco had been successfully complete and flared gas at surface. The Company expected to undertake a rigless extended well test.

On 1 August 2017, the Company announced that it had received written confirmation, from a local authority in Eastern Morocco, that preliminary approval had been provided for the proposed route of the gas export pipeline that will be necessary to transit gas from Sound Energy's Eastern Moroccan interests to the Gazoduc Maghreb Europe (GME) pipeline.

On 3 August 2017, the Company announced that it had received final approval for the Matarka Licence, which has been granted with an effective date of 27 July 2017. The Company expected to receive the remaining approvals in relation to the Anoual and Tendrara licence areas by the end of Q3 2017.

On 4 September 2017, the Company announced that it had received an indicative non-binding commercial proposal (the "Indicative Proposal") from Advisory & Finance Group Investment Bank ("AFG"). AFG is a Moroccan based financial institution which acts as fund manager to OGIF, the Company's partner in Morocco. The Indicative Proposal, subject to agreement of terms and contract, is for the provision of funding for the construction of the Tendrara Gas Export Pipeline ("TGEP") connecting Tendrara to the GME pipeline of between US$60 million and US$100 million. The Company currently estimates the gross capital cost of the TGEP pipeline to be approximately US$60 million for a 12 inch pipeline and US$100 million for a 20 inch pipeline.

On 12 September 2017, the Company announced the completion of the acqusition of various licenses in Eastern Morocco from OGIF (the "Acquisition") outline above. As a result, the Company now holds a net 47.5% position in the Tendara and Anoual petroleum agreements and Matarka reconnaissance exploration license, in exchange for 272 million new ordinary shares to OGIF.

# SHAREHOLDER INFORMATION

## Dealing Information

FT Share Price Index – Telephone 0906 8433711

SETS short code – SOU

## Financial Calendar

### Meetings

Annual General Meeting – May 2018

### Announcements

2018 Interim – September 2018

2018 Preliminary – March 2018

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# SHAREHOLDER NOTES

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#deliveringdreamsinthedesert