SOUND ENERGY PLC

Exploration & Production

HALF YEARLY REPORT 2018

Stock Code: SOU

TRANSFORMATIONAL MOROCCAN EXPLORATION AND DEVELOPMENT

2018 HALF YEARLY REPORT

Sound Energy is a well-funded exploration-focused onshore gas company, listed on AIM (LSE:SOU), with access to a low cost onshore gas play in a top tier emerging market (Morocco) and key industry partnerships.

OUR INVESTMENT PROPOSITION

REGIONAL GAS STRATEGY UNDERPINNED BY

- Strong gas demand and local pricing
- Moroccan Cornerstone Investor (OGIF)
- Multiple strategic partners

LOW COST 0.65 TCF DEVELOPMENT IN EASTERN MOROCCO

SIGNIFICANT EXPLORATION POTENTIAL

- Eastern Morocco up to 34 Tcf
- Southern Morocco up to 11 Tcf

PRIVATE INVESTOR CENTRIC

THREE BOLD EXPLORATION WELLS

- New 2D seismic de-risking structures
- TE-9/10/11 (all multi Tcf potential))

DE-RISKING EXISTING DISCOVERY

- Gas Sales Agreement
- Development Funding
- Production Concession

FURTHER CONSOLIDATION MOROCCO

STRONG THEMATIC POSITIONING

- Oil Price recovery refocusing sector on exploration
- Carbon consciousness driving transition to gas

"Our priority this year has been the de-risking in Eastern Morocco of both our existing discovery and our significant exploration potential. The Company is now ready for this next, potentially transformational, period of exploration drilling."

James Parsons
Chief Executive Officer

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Corporate website

Visit **www.soundenergyplc.com** for the latest news, reports, presentations and videos

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Sound Energy plc

HALF YEAR HIGHLIGHTS

Morocco

- Completion of 2,850 line kilometre seismic programme in Eastern Morocco, fully funded by Schlumberger
- Application for Production Concession for Tendrara gas discovery (subsequently awarded post period end)
- Approval of Environmental Impact Assessment for TE-9 and TE-10 wells at the Tendrara-Labkir permit, with ground works now under way at TE-9
- Heads of terms with a consortium for the front end engineering and design, construction and financing of a 20 inch pipeline and associated facilities under a 'build-own-operate-transfer' (BOOT) structure.

£27.2 million

carried seismic programme

Corporate

- Continued strong safety record
- Cash balance at 30 June 2018 of £14.7 million plus successful equity raise of US$15 million (£11.4 million) (before costs) in July 2018
- Completion of Italy exit with consideration shares in Coro Energy plc distributed directly to Sound Energy shareholders
- David Clarkson appointed as non-executive director; JJ Traynor appointed as executive director

Distribution of Coro Energy Plc Shares

FUTURE FOCUS

Upcoming Newsflow

1. **Ongoing**
   Morocco Consolidation
2. **Q3 2018**
   Concession award
3. **Q3 2018**
   GSA heads for existing discovery
4. **Oct 2018**
   TE-9
5. **Q4 2018**
   TE-10
6. **Q1 2019**
   TE-11

STATEMENT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Richard Liddell
Non-executive Chairman

James Parsons
Chief Executive Officer

"Our priority so far this year has been the de-risking in Eastern Morocco of both our existing discovery and our significant exploration potential. The Company is now ready for this next, potentially transformational, period of exploration drilling."

The Company continues to believe that the TAGI and Paleozoic plays across Tendrara, Anoual and Matarka have the potential to become a material hydrocarbon province transforming both the Company and the Moroccan gas industry. The first half of 2018 has been an incredibly busy period, albeit largely behind the scenes.

The Company has made progress in both developing the existing discovery and in de-risking the exploration potential, including

- the closing out of the Eastern Morocco seismic programme, where early results have already enabled the finalisation of the TE-9 and TE-10 well locations
- securing of a new 8 year licence combining Tendrara and Matarka
- formal submission of the production concession application for the existing discovery at Tendrara (subsequently awarded in September 2018)
- award of FEED and signing of a Heads of Terms covering the infrastructure, including a 20 inch pipeline, with a consortium including Enagas
- commencement of the process to introduce Schlumberger directly onto the Eastern Morocco licences
- award of a new Petroleum Agreement for Sidi Moktar

Eastern Morocco

We continue to deepen our knowledge of the Eastern Morocco basin through, in part, the recently completed US$27.2 million seismic programme fully funded by Schlumberger, one of our strategic partners. This work, completed in August 2018, has supported our new Eastern Morocco basin model and is critical to minimising the risk of our rapidly approaching drill programme. Preparations for the first well, TE-9, targeting the A1 structure at Tendrara are complete with the EIA approval secured, a successful CPR issued and ground works now well under way. The Company hopes that the A1 prospect will unlock significant value for the Company, reduce the risk on nearby leads and increase further our overall confidence in the broader TAGI structural play. Preparations also continue apace on the subsequent TE-10 and TE-11 wells.

Excellent progress has also been made on the development of our existing discovery. The Company submitted the production concession application in June 2018 and the production concession was subsequently awarded in September 2018. A Heads of Terms for front end engineering and design (FEED) for a 20 inch pipeline and production facilities was signed with the consortium of Enagas, Elecnor and Fomento who bring strong industry expertise and capabilities. Following this competitive process and negotiation an innovative 'build-own-operate-transfer' (BOOT) structure was agreed with the consortium which further underpins the financial robustness of the development. Positive discussions continue to agree the gas sales agreement (GSA) for offtake which forms a key building block to support project sanction.

The Company continues to maintain a strong focus on health, safety, environment and the community, and work has recently begun in partnership with a local charity on the renovation of the Matarka health care centre.

Sidi Moktar

The Company views our Sidi Moktar licences as an exciting opportunity to explore for high impact prospectivity, within the pre-salt Triassic and Palaeozoic plays in the underexplored Essaouira Basin. In June we were delighted to receive Ministerial approval of a new 8 year Sidi Moktar Onshore Petroleum Agreement. The Company continues to progress a potential farm down, whilst retaining operatorship of the permits, ahead of further exploration operations in 2019.

Italy

The sale of the Company's Italian assets was completed in April. Work continues with the new owners on the preparation of the Badile land, to which the Company retains its economic rights to receive the proceeds, for a future sale.

Corporate

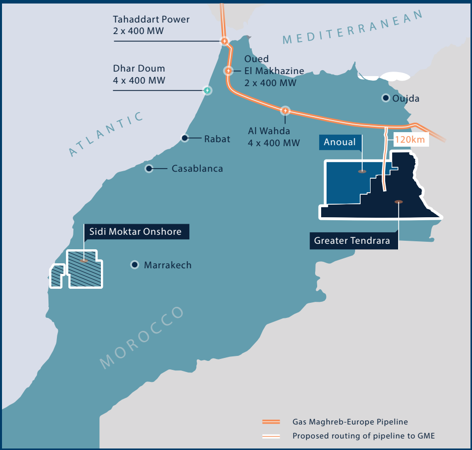
The Company remains in a strong financial position for the second half of 2018 with 30 June 2018 cash balances of US$19.4 million and, following the period end, the Company successfully completing an equity placing of US$15 million before expenses.

The Company has significantly strengthened the Board during 2018 with Richard Liddell being appointed as Non-Executive Chairman, David Clarkson joining as a non-executive director and JJ Traynor, the Company's Chief Financial Officer, joining the Board.

James Parsons
Chief Executive Officer

Richard Liddell
Non-Executive Chairman

EASTERN MOROCCO



GREATER TENDRARA		
47.5% interest Operated	Exploration permit	14,559 km² acreage, 10 wells drilled
ANOUAL		
47.5% interest Operated	Exploration permit	8,873 km²

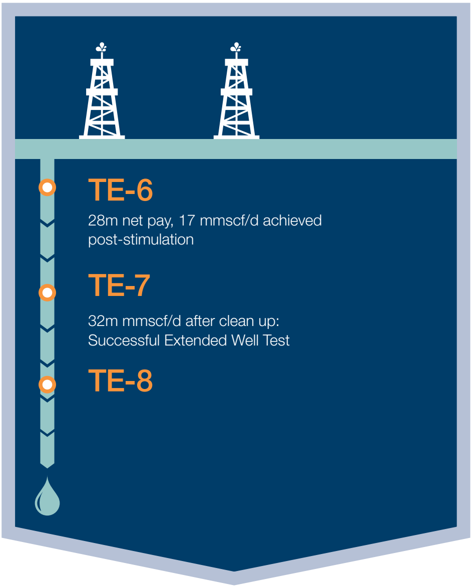
Our Eastern Morocco Licences position the Company in a region containing a continuity of the established petroleum plays of Algerian Triassic Province and Saharan Hercynian Platform. The presence of the key geological elements to the Algerian TAGI gas play are already proven within the licence areas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

This year we have completed further geological and geophysical studies including integration of the 2017 airborne FTG Gravity survey results with new laboratory analyses into a new and far more sophisticated Basin Model. The model predicts the presence of sufficient gas charge available to fill the high graded TAGI prospects, predominantly generated from a carbonate rich marine source rock, attributed to the regionally significant Devonian succession. The model enabled us to update our internal view of the estimated volumes for the exploration potential, expressed as unrisked gross gas originally in place, of a low case of 7 Tcf, a mid-case of 20 Tcf and a high case of 34 Tcf. The model also predicts the potential for an oil play within the Palaeozoic on the Anoual permit area.

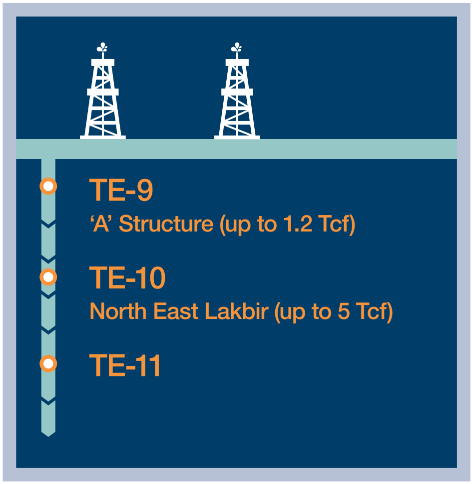
The large scale 2D seismic acquisition and reprocessing programme, fully carried by Schlumberger, designed to derisk exploration drilling opportunities outward of the 3D seismic area and TE-5 Horst gas development was successfully completed within budget and to ‘best in class’ international safety standards throughout with zero lost time incidents. The survey was designed to target a set of established prospective leads to mature them to drillable prospects and acquire new data across the fairway of the Anoual Palaeozoic oil play.

As we look forward, the further exploration of our Eastern Morocco portfolio remains the Company’s absolute priority. During the remainder of the year we will commence a three well drilling programme targeting three separate plays. Fast tack processing has enabled us to define and optimise specific locations for the first two exploration wells of this three well campaign (TE-9 and TE-10) and presented a range of options for the third well with improved seismic imaging of the deeper Palaeozoic sequences. It is anticipated that the Company will be ready for further hi-impact exploration drilling later in the year.

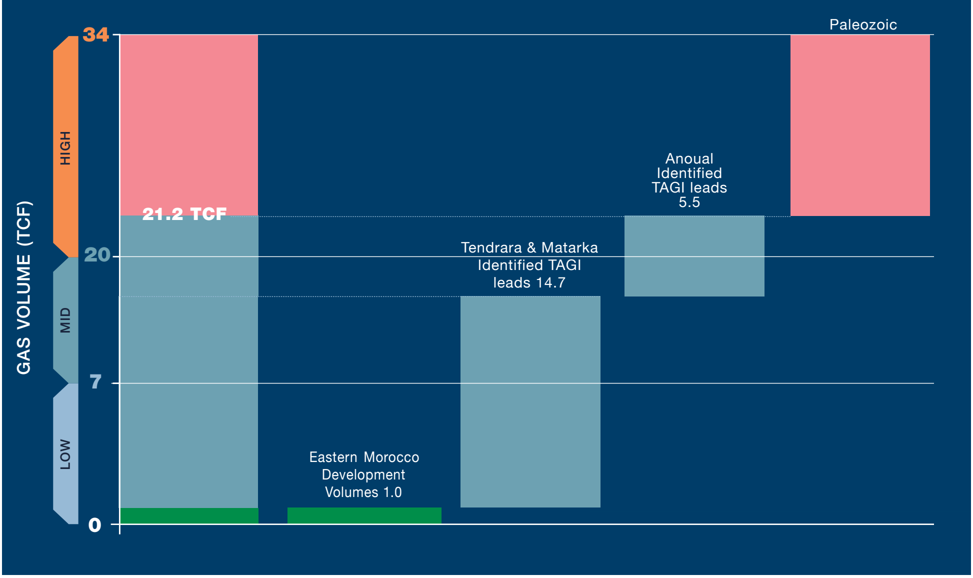
Existing Wells



Forthcoming Exploration Wells



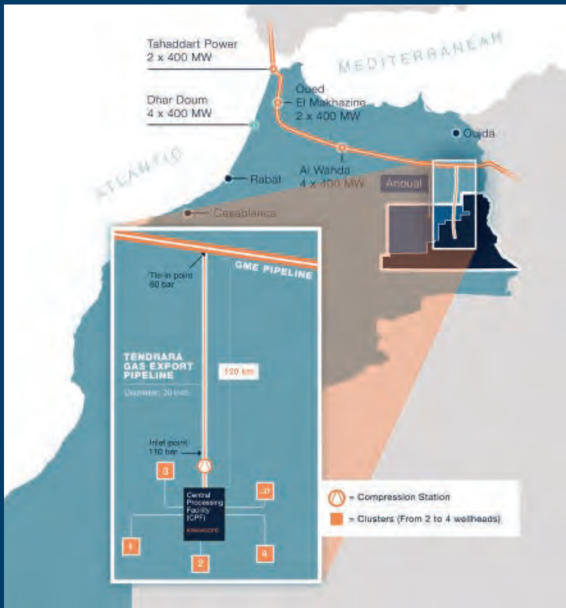
Tendrara: Prospects, Leads and Resources



EASTERN MOROCCO continued

Commercialisation

The company continued to make good progress commercialising its Eastern Morocco licence position. In June, the company was pleased to enter into a binding Heads of Terms with a Spanish Consortium led by the Spanish midstream gas company, Enagas, for the provision of Build Own Operate Transfer services for the key infrastructure (processing and treatment facilities and gas export pipeline) associated with its proposed development of the TE-5 discovery. The agreement sets out the terms upon which the consortium will undertake and finance front end engineering design (FEED) and the conditional terms upon which the development and financing of the facilities will be undertaken by the consortium. FEED is now underway and is expected to complete in early 2019 prior to entering into a definitive BOOT Agreement ahead of the Company taking a Final Investment Decision (FID) on the project.



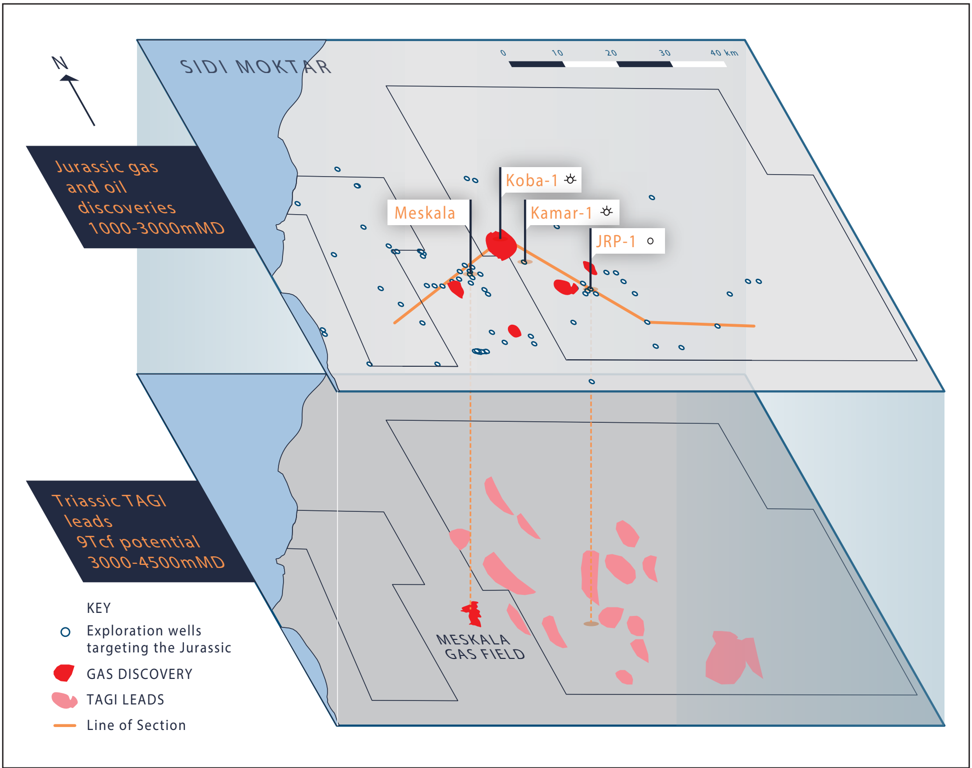
Also in June, the Company submitted its TE-5 development concession to the Moroccan authorities, which is now progressing through the advanced consultation and approvals stages with the Moroccan government.

The Company is in the advanced stages of detailed discussions to sell the gas that will be produced from the TE-5 development and anticipates being in a position to enter into binding terms later this year.

In July, the Company announced that its strategic partner in Eastern Morocco, Schlumberger had initiated the process to convert its synthetic interest across the Eastern Morocco licence to participating licence interests. Following the relevant joint venture and ministerial approvals processes, which are expected to complete later this year, Schlumberger will hold a 27.5% participating interest across the Tendrara, Anoual and Matarka licences and permits. The conversion process further reinforces the close cooperation and strong alignment between Sound Energy and Schlumberger.

SOUTHERN MOROCCO

Sidi Moktar



LICENCE DETAILS	
Area	4,712km^2
Status	Exploration Permits
Effective date	9/04/2018
Term	8 years
Interest	75%

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

SOUTHERN MOROCCO continued

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

The Sidi Moktar permit hosts a variety of proven plays. Previous exploration has focused on the shallower post salt plays. We believe that the deeper, pre-salt Triassic and Palaeozoic plays may contain significant prospective resources, in excess of any discovered volumes in the shallower stratigraphy.

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

Sound Energy is developing a work programme to mature the licence with specific focus on the deeper, pre salt plays. We aim to acquire an airborne FTG gravity survey and new, high quality 2D seismic data in early 2019, focused on improving trap imaging. This work will culminate in an exploration well, targeting a deep prospect towards the end of 2019.

The company has now initiated a formal farm out process for this permit, offering an opportunity to a technically competent partner to acquire a material position in this large tract of prospective acreage.

INDEPENDENT REVIEW 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 2018 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, 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 AIM Rules of the London Stock Exchange.

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 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 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Crowe U.K. LLP
Statutory Auditor U.K.

CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

	Notes	**Six months ended 30 June 2018 Unaudited £'000s**	Six months ended 30 June 2017 Unaudited £'000s	Year ended 31 Dec 2017 Audited £'000s
Continuing operations				
Administrative expenses		**(4,077)**	(3,976)	(8,458)
Group operating loss from continuing operations		**(4,077)**	(3,976)	(8,458)
Finance revenue		**35**	9	23
Foreign exchange gain		**1,885**	756	(914)
Other gains and (losses)				
– derivative financial instruments		**(80)**	182	(1,873)
External interest costs		**(1,195)**	(45)	(1,117)
Profit/(loss) for period from continuing operations before taxation		**(3,432)**	(3,074)	(12,339)
Tax credit/(expense)		**–**	–	–
Profit/(loss) for period from continuing operations after taxation		**(3,432)**	(3,074)	(12,339)
Discontinued operations				
Profit/(loss) from discontinued operations	8	**5,236**	(16,140)	(21,811)
Total profit/(loss) for the period		**1,804**	(19,214)	(34,150)
Other comprehensive (loss)/income				
Foreign currency translation income/(loss)		**2,872**	(167)	(5,361)
Total comprehensive profit/(loss) for the period attributable to equity holders of the parent		**4,676**	(19,381)	(39,511)
		Pence	Pence	Pence
Basic and diluted profit/(loss) per share for the period from continuing and discontinued operations attributable to equity holders of the parent	3	**0.17**	(2.73)	(4.28)
Basic and diluted loss per share for the period from continuing operations attributable to equity holders of the parent	3	**(0.34)**	(0.44)	(1.54)

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2018

	Notes	30 June 2018 Unaudited £'000s	30 June 2017 Unaudited £'000s	31 Dec 2017 Audited £'000s
Non-current assets				
Property, plant and equipment		**680**	1,811	372
Intangible assets	4	**170,585**	31,828	163,939
Land and buildings		**–**	1,581	–
		171,265	35,220	164,311
Current assets				
Inventories		**602**	705	628
Other receivables	5	**8,235**	6,087	3,526
Derivative financial instruments		**–**	2,135	80
Prepayments		**227**	201	117
Cash and short term deposits		**14,664**	38,532	21,198
		23,728	47,660	25,549
Assets of the Group held for sale		**–**	–	12,292
Total assets		**194,993**	82,880	202,152
Current liabilities				
Trade and other payables		**5,925**	10,649	6,601
Provisions		**–**	1,406	–
		5,925	12,055	6,601
Liabilities of the Group held for sale		**–**	–	4,492
Non-current liabilities				
Deferred tax liabilities		**–**	433	–
Loans due in over one year	6	**19,290**	17,632	18,566
Provisions		**–**	1,876	–
		19,290	19,941	18,566
Total liabilities		**25,215**	31,996	29,659
Net assets		**169,778**	50,884	172,493
Capital and reserves				
Share capital and share premium		**10,974**	147,371	287,829
Warrant reserve		**4,090**	4,090	4,090
Foreign currency reserve		**(2,579)**	1,276	(3,918)
Accumulated surplus/(deficit)		**157,293**	(101,853)	(115,508)
Total equity		**169,778**	50,884	172,493

The financial statements were approved by the Board and authorised for issue on 12 September 2018 and were signed on its behalf by:

J Parsons
Director

R Liddell
Director

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000s	Share premium £'000s	Shares to be issued £'000s	Accumulated surplus/ (deficit) £'000s	Warrant reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2018	10,159	277,670	–	(115,508)	4,090	(3,918)	172,493
Total profit for the period	–	–	–	1,804	–	–	1,804
Other comprehensive income	–	–	–	–	–	2,872	2,872
Total comprehensive income for the period	–	–	–	1,804	–	2,872	4,676
Reclassification to profit and loss account on Italy divestment	–	–	–	–	–	(1,533)	(1,533)
Reclassification on share premium account cancellation	–	(277,738)	–	277,738	–	–	–
Distribution to shareholders on Italy divestment	–	–	–	(7,994)	–	–	(7,994)
Issue of share capital	41	842	–	–	–	–	883
Share based payments	–	–	–	1,253	–	–	1,253
At 30 June 2018 (unaudited)	**10,200**	**774**	**–**	**157,293**	**4,090**	**(2,579)**	**169,778**

	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 year	–	–	–	(34,150)	–	–	(34,150)
Other comprehensive loss	–	–	–	–	–	(5,361)	(5,361)
Total comprehensive loss	–	–	–	(34,150)	–	(5,361)	(39,511)
Issue of share capital	3,490	148,449	–	–	–	–	151,939
Reclassification on share issue	18	205	(223)	–	–	–	–
Reclassification on debt settlement	–	–	–	369	(369)	–	–
Share based payments	–	–	–	2,486	–	–	2,486
At 31 December 2017	10,159	277,670	–	(115,508)	4,090	(3,918)	172,493

	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

CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT

	Notes	**Six months ended 30 June 2018 Unaudited £'000s**	Six months ended 30 June 2017 Unaudited £'000s	Year ended 31 Dec 2017 Audited £'000s
Cash flow from operating activities				
Cash flow from operations		**(1,202)**	(3,308)	(11,849)
Interest received		**61**	37	102
Net cash flow from operating activities		**(1,141)**	(3,271)	(11,747)
Cash flow from investing activities				
Capital expenditure and disposals		**(382)**	(370)	(478)
Exploration and development expenditure		**(3,122)**	(14,345)	(23,482)
Cash disposed with Italian operations		**(2,655)**	–	–
Net cash flow from investing activities		**(6,159)**	(14,715)	(23,960)
Proceeds from derivative financial instruments		**–**	–	592
Net proceeds from equity issue		**607**	9,813	11,550
Interest payments		**(634)**	(645)	(1,293)
Net cash flow from financing activities		**(27)**	9,168	10,849
Net decrease in cash and cash equivalents		**(7,327)**	(8,818)	(24,858)
Net foreign exchange difference		**(20)**	541	60
Cash and cash equivalents at the beginning of the period		**22,011**	46,809	46,809
Cash and cash equivalents at the end of the period		**14,664**	38,532	22,011

	Notes	**Six months ended 30 June 2018 Unaudited £'000s**	Six months ended 30 June 2017 Unaudited £'000s	Year ended 31 Dec 2017 Audited £'000s
Cash flow from operations reconciliation				
Profit/(loss) before tax from continuing operations		**(3,432)**	(3,074)	(12,339)
Profit/(loss) before tax from discontinued operations		**5,236**	(16,140)	(21,866)
Total profit/(loss) for the period before tax		**1,804**	(19,214)	(34,205)
Finance revenue		**(61)**	(37)	(102)
Impairment of goodwill		**–**	–	55
Exploration expenditure written off and impairment of assets		**–**	15,124	19,833
Gain on disposal of Italian operations	8	**(3,967)**	–	–
Decrease in accruals and short term payables		**(379)**	(2,327)	(5,783)
Depreciation		**176**	331	406
Share based payments charge and bonuses paid in shares		**1,529**	1,205	2,486
Decrease/(Increase) in drilling inventories		**28**	(374)	(430)
Loss/(gain) on derivative financial instruments		**80**	(182)	1,873
Finance costs and exchange differences		**(690)**	(643)	2,158
Foreign currency translation gain reclassified from other comprehensive income	8	**(1,533)**	–	–
Decrease in short term receivables and prepayments		**1,811**	2,809	1,860
Cash flow from operations		**(1,202)**	(3,308)	(11,849)

Non-cash transaction during the period was the issue of 688,146 shares in lieu of cash bonuses at an issue price of approximately 40.08 pence per share.

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 2017 is based on the statutory accounts for the year ended 31 December 2017. 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 2017 statutory accounts, except for the adoption of IFRS 9, Financial instruments which did not have a material impact on the condensed interim financial information and in accordance with IAS 34 Interim Financial Reporting. IFRS 15, Revenue from contracts with customers and several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the condensed interim consolidated financial statements of the Group.

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. 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. The segment results for the period ended 30 June 2018 are as follows:

Segment results for the period ended 30 June 2018

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Administration expenses	(4,077)	–	–	(4,077)
Operating loss segment result	**(4,077)**	**–**	**–**	**(4,077)**
Finance revenue	35	–	–	35
Gain/(loss) on derivative financial instruments	(80)	–	–	(80)
Finance costs and exchange adjustments	690	–	–	690
Loss for the period before taxation	**(3,432)**	**–**	**–**	**(3,432)**

The segments assets and liabilities at 30 June 2018 are as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Capital expenditure	680	–	170,585	171,265
Other assets	19,999	–	3,729	23,728
Total liabilities	(21,080)	–	(4,135)	(25,215)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2. Segment information (continued)

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

	UK £'000s	**Morocco £'000s**
Fixtures, fittings and office equipment	**148**	**532**
Exploration and evaluation assets	**–**	**170,449**
Software	**45**	**91**
Total	**193**	**171,072**

Segment results for the period ended 30 June 2017

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Administration expenses	(3,976)	–	–	(3,976)
Operating loss segment result	(3,976)	–		(3,976)
Finance revenue	9	–	–	9
Gain on derivative financial instruments	182	–	–	182
Finance costs and exchange adjustments	711	–	–	711
Profit/(loss) for the period before taxation	(3,074)	–	–	(3,074)

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

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Capital expenditure	512	–	26,763	27,275
Other assets	38,561	–	3,371	41,932
Liabilities attributable to continuing operations	(18,980)	–	(5,689)	(24,669)

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

	UK £'000s	Morocco £'000s
Fixtures, fittings and office equipment	192	232
Exploration and evaluation assets	–	26,622
Software	88	141
Total	280	26,995

The segmental results as at 30 June 2017 excludes the results of discontinued operations.

2. Segment information (continued)

Segment results for the year ended 31 December 2017

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Administration expenses	(8,458)	–	–	(8,458)
Operating loss segment result	(8,458)	–	–	(8,458)
Interest receivable	23	–	–	23
Loss on derivative financial instruments	(1,873)	–	–	(1,873)
Finance costs and exchange adjustments	(2,031)	–	–	(2,031)
Loss for the period before taxation from continuing operations	(12,339)	–	–	(12,339)

The segments assets and liabilities at 31 December 2017 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	372	–	163,939	164,311
Current assets	21,701	–	3,848	25,549
Liabilities attributable to continuing operations	(20,165)	–	(5,002)	(25,167)

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

	UK £'000s	Morocco £'000
Fixtures, fittings and office equipment	177	195
Exploration and evaluation assets	–	163,737
Software	66	136
Total	243	164,068

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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:

	30 June 2018 £'000	30 June 2017 £'000	31 December 2017 £'000
Loss after tax from continuing operations	**(3,432)**	(3,074)	(12,339)
Profit/(loss) after tax from discontinued operations	**5,236**	(16,140)	(21,811)
Total profit/(loss) for the period	**1,804**	(19,214)	(34,150)

	million	million	million
Weighted average shares in issue	**1,019**	703	799
Dilutive potential ordinary shares	**33**	–	–
Diluted weighted average number of shares	**1,052**	703	799

Basic profit/(loss) per share

	Pence	Pence	Pence
Basic loss per share from continuing operations	**(0.34)**	(0.44)	(1.54)
Basic profit/(loss) per share from discontinued operations	**0.51**	(2.29)	(2.74)
Basic profit/(loss) per share from continuing and discontinued operations	**0.17**	(2.73)	(4.28)

Diluted profit/(loss) per share

	Pence	Pence	Pence
Diluted loss per share from continuing operations	**(0.34)**	(0.44)	(1.54)
Diluted profit/(loss) per share from discontinued operations	**0.50**	(2.29)	(2.74)
Diluted profit/(loss) per share from continuing and discontinued operations	**0.17**	(2.73)	(4.28)

The effect of the potential dilutive shares noted above on the earnings per share from continuing operations would be anti-dilutive and therefore are not included in the above calculation of diluted earnings per share from continuing operations.

4. Intangibles

	30 June 2018 Unaudited £'000s	30 June 2017 Unaudited £'000s	31 Dec 2017 Audited £'000s
Cost			
At start of period	**164,018**	42,386	42,386
Additions	**3,408**	18,186	165,762
Exchange adjustments	**3,304**	(284)	(5,986)
Reclassification to assets of disposal group held for sale	**–**	–	(38,144)
At end of period	**170,730**	60,288	164,018
Impairment and Depreciation			
At start of period	**79**	14,326	14,326
Charge for period	**64**	13,761	19,190
Exchange adjustments	**2**	373	(85)
Reclassified to assets of disposal group held for sale	**–**	–	(33,352)
At end of period	**145**	28,460	79
Net book amount	**170,585**	31,828	163,939

5. Other receivables

	30 June 2018 Unaudited £'000s	30 June 2017 Unaudited £'000s	31 Dec 2017 Audited £'000s
Italian Vat refundable	**2,730**	–	–
Badile land proceeds receivable	**1,592**	–	–
Other receivable	**3,913**	6,087	3,526
	8,235	6,087	3,526

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6. Loans and Borrowings

	30 June 2018 Unaudited £'000s	30 June 2017 Unaudited £'000s	31 Dec 2017 Audited £'000s
Non-current liability			
5-year secured bonds	**19,290**	17,632	18,566
	19,290	17,632	18,566

The Company has 5-year non-amortising secured bonds with an aggregate value of €28.8 million. The bonds are secured over the share capital of Sound Energy Morocco South Limited, have a 5% coupon and were issued at a 32% discount to par value. Alongside the bonds, the Company issued 70,312,500 warrants to subscribe for new ordinary shares in the Company at an exercise price of 30 pence per ordinary share and an exercise period of approximately five years, concurrent with the term of the bonds. The effective interest rate is approximately 16.3%. The 5-year secured bonds are due in June 2021.

7. Shares in issue and share based payments

As at 30 June 2017, the Company had 1,019,954,543 ordinary shares in issue. In the period to 30 June 2018, a total of 0.9 million warrants were exercised for total proceeds of £0.2 million.

During the period to 30 June 2018, the Company granted 2.8 million restricted stock units awards to staff under its long term incentive plan. Approximately 2.5 million share options were exercised and 2.2 million expired during the period.

8. Discontinued operations

On 5 October 2017, the Company announced that it had entered into non-binding conditional heads of terms with Saffron Energy plc ("Saffron") and Po Valley Energy Limited under which it was proposed that the Company disposed of its portfolio of Italian interests and permits through the sale of Sound Energy Holdings Italy ("SEHIL") and Apennine Energy SpA ("APN") (the "disposal") for the consideration of 185,907,500 new ordinary shares in Saffron (subsequently renamed Coro Energy plc) issued directly to the Company's shareholders. On 23 January 2018, the Company announced that it had entered into a binding agreement with Saffron for the disposal and the transaction completed on 9 April 2018. The value of the 185, 907, 500 Coro Energy plc shares distributed to the Company's shareholders was £8.0 million using the completion date share price of 4.3 pence.

8. Discontinued operations (continued)

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

	Six months ended 30 June 2018* Unaudited £'000	Six months ended 30 June 2017 Unaudited £'000	Twelve months ended 31 December 2017 Audited £'000
Revenue	140	378	708
Operating costs	(170)	(169)	(697)
Impairment of Intangible assets and goodwill	–	(13,761)	(19,073)
Exploration costs	(25)	(1,362)	(761)
Gross loss	**(55)**	(14,914)	(19,823)
Administrative expenses	(235)	(1,186)	(1,995)
Operating loss from discontinued operations	**(290)**	(16,100)	(21,818)
Finance revenue	26	28	79
Foreign exchange gain	–	4	4
Finance costs	–	(72)	(131)
Foreign currency translation gain reclassified from other comprehensive income	1,533	–	–
Gain on disposal of Italian operations	3,967	–	–
Profit/(loss) for the period before taxation from discontinued operations	**5,236**	(16,140)	(21,866)
Deferred tax credit	–	–	55
Profit/(loss) for the period after taxation from discontinued operations	**5,236**	(16,140)	(21,811)

*Represent the results for the period to divestment on 9 April 2018.

The net cash flows for the period were as follows:

Net cash flow from operating activities	1,897	1,049	(2,513)
Net cash flow from investing activities	–	(9,649)	(13,962)
Net cash flow from financing activities	–	–	–
Net cash outflow	**1,897**	(8,600)	(16,475)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9. Post Balance Sheet events

On 2 July 2018, the Company announced that it had placed 30,829,308 new ordinary shares of 1p each at a placing price of 37p to raise approximately US$15 million before costs (approximately US$14.25 million after costs).

On 23 July 2018, the Company announced the initiation of the process of converting the existing 27.5% synthetic interests held by an affiliate of Schlumberger in the Tendrara Lakbir permits, the Anoual permits and the Matarka reconnaissance licence ("Eastern Morocco Portfolio") into 27.5% participating interests in the Eastern Morocco contract area. Sound Energy will remain the operator.

On 31 August 2018, the Company announced that it had signed a new 8 year petroleum agreement uniting the areas previously covered by the Tendrara petroleum agreement and the Matarka reconnaissance licence ("Greater Tendrara"). The agreement will become effective on approval of the Moroccan Energy and Finance Ministries. The Company will hold an operated 47.5% interest, Schlumberger 27.5% interest and the remaining 25% by L'Office National des Hydrocarbures et des Mines ("ONHYM"),the Moroccan state regulator for petroleum operations.

On 6 September 2018, the Company announced the award by the Moroccan Ministry of Energy of the production concession relating to the Tendrara gas discovery in Eastern Morocco. The production concession award covers an area of 133.5 km^2.

SHAREHOLDER INFORMATION

Dealing Information

FT Share Price Index – Telephone 0906 8433711

SETS short code – SOU

Financial Calendar

Meetings
Annual General Meeting – May 2019

Announcements
2019 Interim – September 2019

2019 Preliminary – March 2020

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