SOUND ENERGY PLC

# HALF YEARLY REPORT 2020

# Contents

## Statement from the Executive Chairman

Despite the challenging business environment brought on by the Covid-19 global pandemic and exacerbated in the oil and gas sector by a dispute between Russia and Saudi Arabia which led to an increase in supply just as demand was falling due to the economic impact of the pandemic, the first half of 2020 was an active and productive period for the Company as it reset its strategy to transition towards becoming a cash generating Company with significant exploration potential. The period concluded with the announcement of a key milestone, that the Company had entered into a heads of terms with, and granted exclusivity to, a Moroccan conglomerate, to provide partial financing for its Phase 1 micro LNG project and for the purchase of the liquefied natural gas (''LNG'') produced from the TE-5 Horst under the first phase of development. In addition during the period, the Company also received Environmental Impact Assessment (''EIA'') approval for the Tendrara Gas Export Pipeline and Central Processing Facility (''CPF'') whilst continuing to progress the finalisation of binding terms for the proposed Gas Sales Agreement (''GSA'') with Office National de l'Electricité et de l'Eau Potable (''ONEE'') for the second phase of development of the TE-5 Horst.

### Eastern Morocco Partial Disposal

The Company announced in July 2020 that it is no longer in discussions with the previously proposed purchaser in relation to the potential partial disposal of its Eastern Morocco portfolio, however, having announced its phased development strategy for the Tendrara Production Concession, the Company continues to engage with other parties who have expressed interest in participating in the Company's strategy by way of a potential farm-in. Whilst a partial disposal of its Eastern Morocco portfolio is not a strategic priority of the Company, normal business development discussions are ongoing in this regard. There is no certainty that any of these discussions will advance and the Company's current key priority is to deliver a final investment decision on its proposed Phase 1 development of the Tendrara Production Concession during 2020.

### Phase 1 Micro LNG Development

In June, the Company was pleased to announce that heads of terms had been entered into with a Moroccan conglomerate to permit exclusive discussions to negotiate definitive agreements for both the purchase of LNG to be produced from the TE-5 Horst as well as partial financing for the Phase 1 development by the Moroccan conglomerate. An LNG Gas Sales Agreement is currently being negotiated pursuant to which the joint venture will commit over a 10 year period, to supply an annual contractual quantity of 100 million standard cubic metres of (liquefied) gas from the Phase 1 development, based upon the key commercial terms set out in the heads of terms.

### Phase 2 Tendrara TE-5 Development

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

### EIA of the Tendrara Gas Export Pipeline and CPF

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

### Structural Cost Reductions

The Company continues to manage its cash resources prudently and, accordingly, having paused its operational programme in 2019, the Company continued a structural cost reduction programme aimed at materially reducing the Company’s ongoing operating expenditure, including reductions in staff numbers, executive remuneration and other business costs. By the end of the reporting period, the cost reduction initiatives that have been implemented delivered a reduction in general and administrative expenses by 57% compared with the first half of 2019.

### Licensing

The Company announced in July that it had successfully concluded a renegotiation of the terms of its Anoual Exploration Permit in order to realign the Company’s committed exploration work programme in Eastern Morocco so that it dovetails more efficiently with the proposed phasing of our Phase 1 Development Plan at the Tendrara Production Concession in a manner that underscores both our confidence in the potential of the basin as a future significant gas producing province and our ability to deploy capital judiciously across the portfolio.

### Corporate

In February, the Company announced the appointment of myself, Graham Lyon, as Executive Chairman. The Company was pleased to subsequently appoint Mohammed Seghiri as Chief Operating Officer in April. Mohammed brings extensive technical and commercial experience, as well as Moroccan knowledge and relationships which will be utilised in particular to drive forward the Company’s phased development strategy in Eastern Morocco. In July, the Company announced further board strengthening with the appointment of David Blewden as an Independent non-executive director. David brings a wealth of experience from the financial side of oil and gas sector and specific experience around debt restructuring which is a key priority for the Company in the coming period. As at 30 June 2020, the Company had total cash balances of £4.2 million and subsequent to the period end, the Company placed 163,529,411 new ordinary shares at a price of 2.125 pence per share to raise £3.2 million after costs in August 2020.

Graham Lyon
Chairman (Executive)

**Eastern Morocco**

| | | |
|---|---|---|
| **TENDRARA CONCESSION**<br>– 25 years remaining | | |
| 47.5% interest Operated | Production permit | 144 km$^2$ acreage, 3 wells drilled |

During 2020 we made continued progress on the development of the TE-5 Horst gas discovery. On 17 February 2020 the Company announced its plan to pursue the first phase of TE-5 Horst development at the Tendrara Production Concession (the "Concession") via a LNG production plan. Negotiations are ongoing with equipment providers for the LNG production facility solution. The Company completed and received approval of the Environmental Impact Assessments for both the proposed gas treatment plant and compression station and the 120 km 20 inch Tendrara Gas Export Pipeline ("TGEP") connecting the CPF to the GME. Following discussions with representatives of Morocco's Ministry of Interior and of the Forestry Department to obtain rights through a long-term lease agreement for a 50m wide corridor along the entire 120 km length of the TGEP, formal land access approvals have been received from the Ministry of Interior and the Forestry Department and the Company will now seek to agree the tariff for the land access with the Ministry. The land access approvals now received relate to land covering 99.9% of the entire length of the 50m wide TGEP corridor and the remaining land approvals required, covering land required for the three principal blacktop roads and five river crossings along the TGEP route, are to be sought at a later date, after Final Investment Decision is taken.

On 26 June 2020, we agreed heads of terms with a Moroccan conglomerate with significant liquified petroleum gas, butane and propane distribution and marketing operations in Morocco (the "Partner"),, and we have now entered into exclusive discussions in order to enter into agreements for both the purchase of LNG to be produced from the TE-5 Horst development, as well as the partial financing of the micro LNG development. Under the heads of terms negotiations will focus on a gas sales agreement the Concession joint venture partners, will commit, over a period of 10 years from first gas, to produce, process, liquefy and sell an annual contractual quantity of 100 million standard cubic metres of gas (approximately 4 billion standard cubic feet of gas per year), and the purchaser will commit to an annual minimum "Take or Pay" quantity of 90 million standard cubic meters of gas, priced within a range of $7 to $9 per mmBTU with an indexed formula using a combination of the European Title Transfer Facility and United States Henry Hub benchmark indexes. In order to accelerate the delivery of first gas the supplier has also agreed to conclude definitive agreements in respect of a proposed partial financing for the micro LNG development through:

· a £2 million subscription by the Partner for 159,731,651 new Sound Energy ordinary shares at a price of 1.2521 pence per new ordinary share, and

· a secured commercial loan of $13.5 million provided by the Partner to the Company in respect of the Phase 1 Development, with an 11.5% coupon and 12 year term.

The Company continues to progress negotiations with potential service providers in relation to the design, procurement, construction and operation of the gas processing and liquefaction unit required for the first phase of the development of the TE-5 Horst and have discussions with additional funding providers for the balance of the finance required.

| | | |
|---|---|---|
| **GREATER TENDRARA**<br>– 8 years remaining | | |
| 47.5% interest Operated | Exploration permit | 14,559 km$^2$ acreage, 8 wells drilled |
| **ANOUAL**<br>– 8 years remaining | | |
| 47.5% interest Operated | Exploration permit | 8,873 km$^2$, 1 well drilled |

Our Eastern Morocco exploration 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.

Last year we completed the geological and geophysical studies required to mature a set of established leads into drillable prospects. We drilled two hi-impact exploration wells TE-9 and TE-10 to test two independent elements of the TAGI gas play outward of the TE-5 Horst discovery. Both wells were completed with zero lost time incidents but neither encountered sufficient qualities of gas for commerciality.

However, subsequent analysis of the sampled drill gas in both wells across the TAGI and Palaeozoic intervals provided evidence of the working petroleum system supporting the Basin Model.

Rothschild & Co continued to support the marketing the Eastern Moroccan portfolio into 2020 with a view to assessing a sale, prior to FID. On 17 February 2020, following expiry of exclusivity on the partial divestment of the Eastern Morocco Portfolio with a preferred bidder, the Company announced its intention to pursue a micro Liquified Natural Gas first phase production plan for the TE-5 Horst having identified micro-LNG development as an attractive route to cash flows from the Tendrara Production Concession. Generated cash flows are intended to be reinvested into a future exploration drilling programme on our Eastern Morocco permits and with that view we successfully concluded a re-negotiation of the terms of its Anoual Exploration permit with Morocco's National Office of Hydrocarbons and Mines ("ONHYM") which aligns the work programme commitments on this permit with the micro-LNG development on the Tendrara Production Concession. The amended work programme commitments under this permit now includes the substitution of the 150 square 3D seismic acquisition with one exploration well with a Triassic objective to be scheduled in 2021. We have continued our geological and geophysical studies, incorporating the learning of both TE-9 and TE-10, to identify a number of drilling targets across both the Greater Tendrara and Anoual permits.

### Southern Morocco

| **SIDI MOKTAR ONSHORE**<br>– 8 years remaining<br>– Effective date 9/04/2018 | | |
|---|---|---|
| 75% interest Operated | Exploration permit | 4,712 $km^2$ |

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

The Company views our Sidi Moktar permit 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.

The Sidi Moktar permit hosts a variety of proven plays. Previous exploration has focused on the shallower post salt plays despite the presence of the close proximity of the Meskala Field to the permit that produces gas and condensate from a pre-salt Triassic reservoir. Therefore 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 Palaeozoic leads in a variety of hydrocarbon trap types. In addition, the Sidi Moktar permit 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 new, high quality 2D seismic data in 2021, focused on improving trap imaging. Preparations for this survey have commenced with the approval of an EIA. The COVID-19 pandemic has disrupted to our schedules and we had to extend the timeline of the tender process and we are working closely with our state-owned partner and regulator, ONHYM, to ensure we fully meet our obligations**.** This work will culminate in an exploration well, targeting a deep prospect towards the end of 2021.

The company has an on-going 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.

# Sound Energy plc

## Independent Review Report

### Introduction

We have been engaged by the Company to review the interim financial statements in the interim financial report for the 6 months ended 30 June 2020 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 half yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim 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 conclusion 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 for Companies.

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 interim 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 interim 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 interim financial statements in the interim financial report for the 6 months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM rules for companies.

### Emphasis of matter: Material uncertainty in relation to going concern

We draw attention to Note 1 in the financial statements. The Company's cash flow forecast for the twelve-month period to September 2021, indicates that additional funding will be required to enable the Company to meet its obligations.

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

Crowe U.K. LLP
Statutory Auditor
London
10 September 2020

## Sound Energy plc

### Condensed Interim Consolidated Income Statement

| | Notes | **Six months ended 30 June 2020 Unaudited £'000s** | Six months ended 30 June 2019 Unaudited £'000s | Year ended 31 Dec 2019 Audited £'000s |
|---|---|---|---|---|
| Exploration costs | | **–** | (6,494) | (6,570) |
| **Gross loss** | | **–** | (6,494) | (6,570) |
| Administrative expenses | | **(1,700)** | (3,995) | (6,064) |
| **Group operating loss from continuing operations** | | **(1,700)** | (10,489) | (12,634) |
| Finance revenue | | **26** | 57 | 102 |
| Foreign exchange gain/(loss) | | **2,890** | 116 | (1,101) |
| External interest costs | | **(1,596)** | (1,151) | (2,787) |
| **Loss for period before taxation** | | **(380)** | (11,467) | (16,420) |
| Tax expense | | **–** | – | – |
| **Loss for period after taxation** | | **(380)** | (11,467) | (16,420) |
| | | | | |
| **Other comprehensive (loss)/income** | | | | |
| Items that may be subsequently be reclassified to profit and loss account: | | | | |
| Foreign currency translation income/(loss) | | **8,044** | 349 | (4,256) |
| **Total comprehensive income/(loss) for the period attributable to equity holders of the parent** | | **7,664** | (11,118) | (20,676) |

| | | **Pence** | Pence | Pence |
|---|---|---|---|---|
| Basic and diluted loss per share for the period attributable to equity holders of the parent | 3 | **(0.03)** | (1.08) | (1.54) |

## Sound Energy plc

### Condensed Interim Consolidated Balance Sheet

| | Notes | **30 June 2020 Unaudited £'000s** | 30 June 2019 Unaudited £'000s | 31 Dec 2019 Audited £'000s |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 4 | **157,490** | 152,844 | 147,342 |
| Intangible assets | 5 | **33,434** | 30,996 | 30,784 |
| Interest in Badile land | | **1,002** | 985 | 936 |
| | | **191,926** | 184,825 | 179,062 |
| **Current assets** | | | | |
| Inventories | | **1,084** | 1,020 | 1,014 |
| Other receivables | | **1,669** | 1,963 | 1,492 |
| Prepayments | | **51** | 126 | 41 |
| Cash and short-term deposits | 6 | **4,206** | 11,091 | 4,608 |
| | | **7,010** | 14,200 | 7,155 |
| **Total assets** | | **198,936** | 199,025 | 186,217 |
| **Current liabilities** | | | | |
| Trade and other payables | | **3,028** | 6,243 | 2,444 |
| Lease liabilities | | **156** | 181 | 183 |
| Loans and borrowings | 7 | **23,845** | – | – |
| | | **27,029** | 6,424 | 2,627 |
| **Non-current liabilities** | | | | |
| Lease liabilities | | **–** | 151 | 42 |
| Loans and borrowings | 7 | **–** | 21,337 | 21,235 |
| | | **–** | 21,488 | 21,277 |
| **Total liabilities** | | **27,029** | 27,912 | 23,904 |
| **Net assets** | | **171,907** | 171,113 | 162,313 |
| **Capital and reserves** | | | | |
| Share capital and share premium | | **26,294** | 24,835 | 24,835 |
| Warrant reserve | | **4,090** | 4,090 | 4,090 |
| Foreign currency reserve | | **5,951** | 2,512 | (2,093) |
| Accumulated surplus | | **135,572** | 139,676 | 135,481 |
| **Total equity** | | **171,907** | 171,113 | 162,313 |

The financial statements were approved by the Board and authorised for issue on 10 September 2020 and were signed on its behalf by:

Mohammed Seghiri, Director

Graham Lyon, Director

## Sound Energy plc

### Condensed Interim Consolidated Statement of Changes in Equity

| | **Share capital £'000s** | **Share premium £'000s** | **Accumulated surplus £'000s** | **Warrant reserve £'000s** | **Foreign currency reserves £'000s** | **Total equity £'000s** |
|---|---|---|---|---|---|---|
| **At 1 January 2020** | **10,796** | **14,039** | **135,481** | **4,090** | **(2,093)** | **162,313** |
| Total loss for the period | **–** | **–** | **(380)** | **–** | **–** | **(380)** |
| Other comprehensive income | **–** | **–** | **–** | **–** | **8,044** | **8,044** |
| Total comprehensive income for the period | **–** | **–** | **(380)** | **–** | **8,044** | **7,664** |
| Issue of share capital | **822** | **816** | **–** | **–** | **–** | **1,638** |
| Share issue costs | **–** | **(179)** | **–** | **–** | **–** | **(179)** |
| Share based payments | **–** | **–** | **471** | **–** | **–** | **471** |
| **At 30 June 2020 (unaudited)** | **11,618** | **14,676** | **135,572** | **4,090** | **5,951** | **171,907** |

| | | | | | | |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 10,551 | 12,049 | 150,242 | 4,090 | 2,163 | 179,095 |
| Total loss for the year | – | – | (16,420) | – | – | (16,420) |
| Other comprehensive loss | – | – | – | – | (4,256) | (4,256) |
| Total comprehensive loss | – | – | (16,420) | – | (4,256) | (20,676) |
| Issue of share capital | 245 | 2,228 | – | – | – | 2,473 |
| Share issue costs | – | (238) | – | – | – | (238) |
| Share based payments | – | – | 1,659 | – | – | 1,659 |
| At 31 December 2019 | 10,796 | 14,039 | 135,481 | 4,090 | (2,093) | 162,313 |

| | Share capital £'000s | Share premium £'000s | Accumulated surplus £'000s | Warrant reserve £'000s | Foreign currency reserves £'000s | Total equity £'000s |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 10,551 | 12,049 | 150,242 | 4,090 | 2,163 | 179,095 |
| Total loss for the period | – | – | (11,467) | – | – | (11,467) |
| Other comprehensive income | – | – | – | – | 349 | 349 |
| Total comprehensive loss for the period | – | – | (11,467) | – | 349 | (11,118) |
| Issue of share capital | 245 | 2,228 | – | – | – | 2,473 |
| Share issue costs | – | (238) | – | – | – | (238) |
| Share based payments | – | – | 901 | – | – | 901 |
| At 30 June 2019 (unaudited) | 10,796 | 14,039 | 139,676 | 4,090 | 2,512 | 171,113 |

## Sound Energy plc

### Condensed Interim Consolidated Cash Flow Statement

| | **Six months ended 30 June 2020 Unaudited £'000s** | Six months ended 30 June 2019 Unaudited £'000s | Year ended 31 Dec 2019 Audited £'000s |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash flow from operations | **(630)** | (6,591) | (10,909) |
| Interest received | **26** | 57 | 102 |
| **Net cash flow from operating activities** | **(604)** | (6,534) | (10,807) |
| **Cash flow from investing activities** | | | |
| Capital expenditure and disposals | **(201)** | (963) | (1,011) |
| Exploration expenditure | **(528)** | (4,351) | (5,401) |
| Disposal of Italian operations | **–** | 761 | 761 |
| **Net cash flow from investing activities** | **(729)** | (4,553) | (5,651) |
| **Cash flow from financing activities** | | | |
| Net proceeds from equity issue | **1,352** | 2,235 | 2,235 |
| Interest payments | **(622)** | (627) | (1,266) |
| Lease payments | **(30)** | (83) | (195) |
| **Net cash flow from financing activities** | **700** | 1,525 | 774 |
| Net decrease in cash and cash equivalents | **(633)** | (9,562) | (15,684) |
| Net foreign exchange difference | **231** | 117 | (244) |
| Cash and cash equivalents at the beginning of the period | **4,608** | 20,536 | 20,536 |
| **Cash and cash equivalents at the end of the period** | **4,206** | 11,091 | 4,608 |

Notes to Cash Flow Statement

| | **Six months ended 30 June 2020 Unaudited £'000s** | Six months ended 30 June 2019 Unaudited £'000s | Year ended 31 Dec 2019 Audited £'000s |
|---|---|---|---|
| **Cash flow from operations reconciliation** | | | |
| Loss for the period before tax | **(380)** | (11,467) | (16,420) |
| Finance revenue | **(26)** | (57) | (102) |
| Exploration expenditure written off | **–** | 6,494 | 6,570 |
| Impairment of interest in Badile land | **–** | – | 616 |
| Increase/(decrease) in accruals and short-term payables | **550** | (4,365) | (7,773) |
| Depreciation | **198** | 266 | 425 |
| Share based payments charge and remuneration paid in shares | **579** | 901 | 1,659 |
| Increase in drilling inventories | **(70)** | (91) | (85) |
| Finance costs and exchange adjustments | **(1,294)** | 1,035 | 3,888 |
| (Increase)/decrease in short-term receivables and prepayments | **(187)** | 693 | 313 |
| **Cash flow from operations** | **(630)** | (6,591) | (10,909) |

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

## 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 2006. The financial information for the year ended 31 December 2019 is based on the statutory accounts for the year ended 31 December 2019. 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 2019 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.

### Going concern

The Company's Condensed Interim Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the settlement of liabilities and commitments in the normal course of operations. The Company is exploring funding options to enable it to restructure or refinance the Company's €28.8 million bond due for settlement on 21 June 2021. In August 2020, the Company raised through an equity placing, £3.2 million net of issue costs and at the end of August held cash and cash equivalents of £6.5 million including £1.3 million held as collateral for a bank guarantee of licence commitments. Cashflow forecasts for the twelve-month period to September 2021 indicates that additional funding will also be required to enable the Company to meet its obligations.

The COVID-19 pandemic has not had a material impact on the Company's operations. The consequential impact of a deterioration of the pandemic may delay the progress in completing activities necessary to restructure or refinance the Company's €28.8 million bond.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. These Condensed Interim Consolidated Financial Statements do not include adjustments that would be required if the Company was unable to continue as a going concern. The directors have formed a judgement based on the Company's proven success in raising capital and a review of the strategic options available to the Company, that the going concern basis should be adopted in preparing the Condensed Interim Consolidated 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 (''CODM''), for strategic decision making and resources allocation to the segment and to assess its performance. The segment results for the period ended 30 June 2020 are as follows:

**Segment results for the period ended 30 June 2020**

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Exploration costs | – | – | – | – |
| Administration expenses | **(1,700)** | – | – | **(1,700)** |
| **Operating loss segment result** | **(1,700)** | – | – | **(1,700)** |
| Interest receivable | **26** | – | – | **26** |
| Finance costs and exchange adjustments | **1,294** | – | – | **1,294** |
| **Loss for the period before taxation** | **(380)** | – | – | **(380)** |

The segments assets and liabilities at 30 June 2020 are as follows:

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Capital expenditure | **1,327** | **157,165** | **33,434** | **191,926** |
| Other assets | **4,442** | **785** | **1,783** | **7,010** |
| Total liabilities | **(25,148)** | – | **(1,881)** | **(27,029)** |

**2. Segment information (continued)**

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

| | Europe £'000s | Morocco £'000s |
|---|---|---|
| Development and production assets | **–** | **157,165** |
| Interest in Badile land | **1,002** | **–** |
| Fixtures, fittings and office equipment | **19** | **166** |
| Right-of-use assets | **61** | **79** |
| Exploration and evaluation assets | **–** | **33,333** |
| Software | **–** | **101** |
| Total | **1,082** | **190,844** |

**Segment results for the period ended 30 June 2019**

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Exploration costs | – | – | (6,494) | (6,494) |
| Administration expenses | (3,995) | – | – | (3,995) |
| Operating loss segment result | (3,995) | – | – | (10,489) |
| Interest receivable | 57 | – | – | 57 |
| Finance costs and exchange adjustments | (1,035) | – | – | (1,035) |
| Loss for the period before taxation | (4,973) | – | (6,494) | (11,467) |

The segments assets and liabilities at 30 June 2019 were as follows:

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Capital expenditure | 1,590 | 152,247 | 30,988 | 184,825 |
| Other assets | 12,490 | – | 1,710 | 14,200 |
| Total liabilities | (22,820) | – | (5,092) | (27,912) |

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

| | Europe £'000s | Morocco £'000s |
|---|---|---|
| Development and production assets | – | 152,247 |
| Interest in Badile land | 985 | – |
| Fixtures, fittings and office equipment | 75 | 198 |
| Right-of-use assets | 120 | 204 |
| Exploration and evaluation assets | – | 30,824 |
| Software | 8 | 164 |
| Total | 1,188 | 183,637 |

**Segment results for the year ended 31 December 2019**

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Exploration costs | – | – | (6,570) | (6,570) |
| Administration expenses | (6,064) | – | – | (6,064) |
| Operating loss segment result | (6,064) | – | (6,570) | (12,634) |
| Interest receivable | 102 | – | – | 102 |
| Finance costs and exchange adjustments | (3,888) | – | – | (3,888) |
| Loss for the period before taxation from continuing operations | (9,850) | – | (6,570) | (16,420) |

**2. Segment information (continued)**

The segments assets and liabilities at 31 December 2019 were as follows:

| | Corporate £'000s | Development & Production £'000s | Exploration & Appraisal £'000s | Total £'000s |
|---|---|---|---|---|
| Non-current assets | 1,530 | 146,876 | 30,656 | 179,062 |
| Current assets | 4,795 | – | 2,360 | 7,155 |
| Total liabilities | (22,636) | (9) | (1,259) | (23,904) |

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

| | Europe £'000s | Morocco £'000 |
|---|---|---|
| Development and production assets | – | 146,876 |
| Interest in Badile land | 936 | – |
| Fixtures, fittings and office equipment | 46 | 195 |
| Right-of-use assets | 90 | 135 |
| Exploration and evaluation assets | – | 30,656 |
| Software | 2 | 126 |
| Total | 1,074 | 177,988 |

**3.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, restricted stock units and warrants were converted into shares. Basic and diluted profit/(loss) per share is calculated as follows:

| | **30 June 2020 £'000** | 30 June 2019 £'000 | 31 December 2019 £'000 |
|---|---|---|---|
| Loss after tax from continuing operations | **(380)** | (11,467) | (16,420) |

| | **million** | million | million |
|---|---|---|---|
| Weighted average shares in issue | **1,155** | 1,057 | 1,068 |

| | **Pence** | Pence | Pence |
|---|---|---|---|
| Basic and diluted profit/(loss) per share from continuing operations | **(0.03)** | (1.08) | (1.54) |

Due to the loss for the period, the effect of the potential dilutive shares on the earnings per share from continuing operations would be anti-dilutive and therefore are not included in the calculation of diluted earnings per share from continuing operations.

**4: Property, plant and equipment**

| | **30 June 2020 £'000s** | 30 June 2019 £'000s | 31 Dec 2019 £'000s |
|---|---|---|---|
| **Cost** | | | |
| At start of period | **148,071** | 151,394 | 151,394 |
| Additions | **216** | 1,390 | 1,493 |
| Disposal | **–** | (1) | (2) |
| Exchange adjustments | **10,118** | 620 | (4,814) |
| **At end of period** | **158,405** | 153,403 | 148,071 |
| | | | |
| **Depreciation** | | | |
| At start of period | **729** | 389 | 389 |
| Disposals | **–** | – | (1) |
| Charge for period | **163** | 221 | 340 |
| Exchange adjustments | **23** | (51) | 1 |
| At end of period | **915** | 559 | 729 |
| Net book amount | **157,490** | 152,844 | 147,342 |

### 5. Intangibles

| | **30 June 2020 Unaudited £'000s** | 30 June 2019 Unaudited £'000s | 31 Dec 2019 Audited £'000s |
|---|---|---|---|
| **Cost** | | | |
| At start of period | **41,631** | 36,412 | 36,412 |
| Additions | **603** | 5,268 | 5,974 |
| Exchange adjustments | **2,094** | 383 | (755) |
| At end of period | **44,328** | 42,063 | 41,631 |
| **Impairment and Depreciation** | | | |
| At start of period | **10,847** | 4,404 | 4,404 |
| Charge for period | **35** | 6,539 | 6,655 |
| Exchange adjustments | **12** | 124 | (212) |
| At end of period | **10,894** | 11,067 | 10,847 |
| Net book amount | **33,434** | 30,996 | 30,784 |

### 6. Cash and cash equivalents

| | **30 June 2020 Unaudited £'000s** | 30 June 2019 Unaudited £'000s | 31 Dec 2019 Audited £'000s |
|---|---|---|---|
| Cash and short-term deposits | **4,206** | 11,091 | 4,608 |

The Group has provided collateral of $3.35 million (2019: $3.35 million) to the Moroccan Ministry of Petroleum to guarantee the Group's minimum work programme obligations. The cash is held in a bank account under the control of the Company and as the Group expects the funds to be released as soon as the commitment is fulfilled on this basis the amount remains included within cash and cash equivalents. Subsequent to the period end, in August 2020, $1.6 million of the collateral was released and became unrestricted.

### 7. Loans and borrowings

| | **30 June 2020 Unaudited £'000s** | 30 June 2019 Unaudited £'000s | 31 Dec 2019 Audited £'000s |
|---|---|---|---|
| **Current liability** | | | |
| 5-year secured bonds | **23,845** | – | – |
| **Non-current liability** | | | |
| 5-year secured bonds | **–** | 21,337 | 21,235 |

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.

### 8. Shares in issue and share based payments

As at 30 June 2020, the Company had 1,161,851,296 ordinary shares in issue. In January 2020, the Company issued 75 million shares at 2 pence per share following a placing announced in December 2019. The net proceeds of the placing were approximately £1.3 million. 1,425,000 shares were issued to a third party to settle fees relating to the placing.

During the period to 30 June 2020, approximately 0.9 million Restricted Stock Units (RSU) awards vested and approximately 1.0 million RSU expired. In addition, 8.4 million share options expired during the period.

### 9. Post Balance Sheet events

In July 2020, the Company confirmed that negotiations with Morocco's Office National de l'Electricité et de l'Eau Potable ("ONEE") in relation to the final gas sales agreement were continuing despite travel restrictions relating to COVID-19.

In July 2020, the Company announced that it had renegotiated the terms of its Anoual Exploration Permits (the "Permit') with Morocco's National Office of Hydrocarbons and Mines, which aligns the work programme commitments on the Permit and the Company's continued pursuit to unlock the exploration potential of the Eastern Morocco basin, with the expected phasing of the Company's recently announced Tendrara Production Concession Phase 1 development plan.

In July 2020, the Company issued of 863,682 new ordinary shares in respect of RSUs that had vested.

Subsequent to the period end, in August 2020 the Company placed 163,529,411 new ordinary shares at a price of 2.125 pence per share to raise £3.2 million after costs.

In August 2020 the Group received a notification from the tax authority in Morocco of its intention to assess Sound Energy Morocco East Limited for additional tax liabilities totalling approximately $14m. The Group believes that the assessment arises from a misunderstanding of the underlying transactions and consequently intends on appealing the assessment. Accordingly, no liability has been recognised in the financial statements but the amount is considered to be a contingent liability.

## Shareholder Information

**Dealing Information**
FT Share Price Index –
Telephone 0906 8433711
Stock code – SOU.LN

**Financial Calendar**
**Meetings**
Annual General Meeting – May 2020

**Announcements**
2020 Interim – September 2020
2020 Preliminary – March 2021

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