SOUND ENERGY PLC

ANNUAL REPORT & ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2023

Company Number 05344804

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Chairman's Statement

Introduction

2023 was a year of continued progress, advancing the Tendrara concession development on all fronts: the Phase 1 Micro LNG (mLNG) development, the Phase 2 Pipeline development and funding, and the announcement of our potential asset partner, in Eastern Morocco.

Phase 1 of the development, the mLNG project, progressed with equipment fabrication, site preparation and construction works undertaken. Materials were purchased, contracts awarded and the two well recompletion preparation work commenced.

Fabrication of equipment and site preparation for the Phase 1 mLNG facility proceeded, delivery and installation work slowed in the second half of 2023 due to the main contractor (Italfluid Geoenergy S.r.l ("Italfluid")) experiencing cost increases and supply chain issues. Italfluid took steps to mitigate its financing obligations and phase its expenditures. The updated schedule shows that the LNG storage tank erection work remains on the critical path and that mechanical completion and commissioning of the processing equipment should occur in 2024 and LNG sales thereafter. Sound Energy is evaluating temporary LNG storage facilities to facilitate LNG sales.

The Phase 2 pipeline gas project requires financing to be arranged and finalised prior to taking a Final Investment Decision (FID). In October 2023, the Company announced an extension to its approximately $235 million debt funding term sheet with Attijariwafa bank, Morocco's largest bank, subject to certain key conditions being concluded. At year end whilst project debt financing, a gas sales agreement and an equity partner had been identified and matured, the associated legal documentation and/or conditions precedent had not been completed or satisfied. 2024 requires that these key agreements are finalised and are unconditional such that financing of the pipeline project can be concluded. During 2024, the Company also plans to refresh the FEED (front end engineering design) that was completed in 2019 before tendering for Phase 2 engineering, procurement and construction (EPC) services in readiness for FID. The Company also announced an extension to the conditional gas sale and purchase agreement with ONEE (Office National de l'Electricité et de l'Eau potable).

As part of our wider efforts to bring funding into our plans for Phase 2, it was announced in June, that the Company had identified Calvalley as a partner for the Tendrara Production Concession and the surrounding Grand Tendrara exploration permits. As at year end, the definitive contractual documentation with Calvalley had not concluded although the process was advancing. The transaction would see Calvalley enter the Concession and Grand Tendrara exploration permits in exchange for development and exploration financing. Returning to exploration offers the near-term opportunity to expand the Company's resource base and unlock its significant basin potential.

It was agreed with ONHYM that all exploration permits were either extended or advanced into the first Complementary Period (at year end we are awaiting the various Authorities final approval of the agreed licences amendments).

We were pleased that the long-running dispute with the Moroccan authorities over tax was settled mid-year, with modest payments phased over a six-year period. The removal of this tax overhang helped unlock financing and partnering opportunities at Tendrara, smoothing the pathway towards Phase 2 FID and, hopefully, further exploration success.

Corporate

In June, we successfully raised £2.5 million through a convertible equity issue, which was priced at 2.25 pence per share (a premium to the prevailing share price at the time), with the funds earmarked for pre-FID activities on Phase 2, new ventures activities and corporate G&A. In line with the terms of debt issue, the

Company issued shares following the conversion of £2.25 million into shares during the second half of the year. In December, the Company successfully gained noteholders' support to modify the Euro bond amortisation obligation (in respect of its Company's Luxembourg listed EUR 28.8m 5.0% senior secured notes), such that the bond will now not be fully redeemed until December 2027 rather than partially from December 2023. This, in turn, improved the Company's working capital position as it moves towards first gas and first revenue, on its Phase 1 project.

Preparing key elements for Phase 2 documentation for the Final Investment Decision, has taken longer than expected, but we anticipate the final stages to be completed in 2024. We have appreciated the ongoing support of our stakeholders and investors throughout the process.

ESG and keeping our people safe sits at the heart of our business and, as operations continued, we have actively monitored and taken timely action on safety or environmental issues, reports or alerts, as they have arisen. The Company has a robust health and safety management system in place and works hand in hand with our contractors and under the umbrella of our corporate environmental and safety standards. Thanks to strong monitoring and constant improvement of working practices, we have had no serious accidents over the year. Any environmental issues are also recorded and monitored. Finally, we engage proactively with our local communities and have taken steps not only to employ locals where we can, but to keep relevant stakeholders and communities in Morocco informed about our activities. Good corporate governance is maintained at all levels in particular, we note the new amendments to the QCA governance code and will implement these in due course.

The Company continues to manage its financial resources prudently whilst making significant capital investments in pursuing its strategy. The bridge to fund the company until first revenues from Phase 1 is always under review and a variety of working capital sources evaluated.

Board

During 2023, the Board continued to meet regularly and oversee effective implementation of the Company's strategy. A review of the Board's effectiveness was conducted in 2022. Scope for improvement was identified, and with many resultant initiatives implemented in the Board's 2023 activities. For example, the Board undertook a focused strategy review session during 2023 reviewing all aspects of the Company business, reflecting on its position in the market, risk profile, asset opportunity, structuring, and scenario planning.

We welcomed Simon Ashby-Rudd as new independent director as Marco Fumagalli stepped down. Simon brings a wealth of knowledge, financial skills and deal-making experience to the Company. We thank Marco for his 9 years of valued service, advice, and support to the Company.

Summary

Whilst substantial progress had been made in advancing mLNG and the financial foundations for Phase 2, execution and closing of documentation experienced delays. However, timely conclusion of the proposed partnering arrangement and bank debt financing in 2024 will facilitate progress on the pipeline development at Tendrara, as well as funding for further exploration on Grand Tendrara.

The micro-LNG development at Tendrara construction has suffered from supplier delays and is now expected to be ready to receive gas into the plant by the end of 2024 with LNG sales thereafter. The Company continues to uphold strong ESG values and deliver our work in a manner commensurate with our principles. We are pleased to have settled our outstanding tax matters such that we can optimise our resources on field development.

We have enjoyed a supportive working relationship with ONHYM, the Ministry and our various contractors in Morocco, and, most importantly, we continue to benefit from the hard work and dedication of our own staff. We will continue to work diligently to deliver value and progress for all our stakeholders during 2024 and beyond, as we focus on delivering material developments in transition energy.

Graham Lyon
Executive Chairman

Our Marketplace

Gas and the Energy Transition

The market opportunity

As the global community progresses the deployment of capital and technology to deliver the energy transition, the two weeks at the United Nations COP28 concluded with a consensus to accelerate climate action. The urgency the world faces in securing fewer carbon-intensive fuels as part of the energy mix and transitioning away from all fossil fuels in energy systems in “a just, orderly and equitable manner” has genuine international momentum. Gas is firmly seen as bridge to a future lower carbon energy mix.

Coupled with that, Sound Energy’s combined position of having the largest discovered onshore gas resource in Morocco and extensive unrisked muti-TCF exploration potential across Eastern Morocco and Sidi Moktar, positions us favourably to capture a significant foothold in the Moroccan gas market – a market that is both short on discovered indigenous gas resources and that offers significant growth potential across its industrial sector, its gas-to-power sector and, potentially, the European gas market via the Gazudoc-Maghreb Europe (GME) gas pipeline.

Gas and the opportunity for Sound Energy

Transitioning away from carbon-intensive energy supply requires the replacement of high carbon density fuel stocks such as coal to fuels with relatively lower carbon emissions such as Liquified Natural Gas (LNG) or piped gas. This is the opportunity for Sound Energy to connect industrial and power users to gas resources previously seen as isolated from gas market supply or reliant on foreign imports. The gas market that Sound Energy seeks to service and develop throws up considerable opportunity:

- Spanish natural gas consumption in 2022 was 31.5 BCM (1.1 Tcf)[1], more than 30 times larger than Morocco’s. In 2022, over 99% of Spanish gas demand[1] is met by imports, from countries including USA, Algeria, Nigeria, Russia France, Qatar and Egypt
- Following the cessation of gas exports to Morocco from Algeria in November 2021, the case for enhanced supply security and indigenous gas production has become even greater. Our proposed Phase 2 gas development to produce for the gas-to-power market is a key element of Morocco’s energy strategy. Clearly, with the significant exploration potential within Sound Energy’s portfolio, we are very well-positioned to meet Morocco’s heightened and growing need for gas should the company discover further gas resources.
- In the Moroccan National Energy Strategy, Sound Energy has been referred to as important in plugging the supply demand imbalance for gas as it becomes the replacement fuel for coal in Morocco.
- As Morocco continues to grow both industrially and domestically, and as other fuel sources become more scarce in-country, there is a further opportunity to supply more of the energy mix.
- Morocco’s imports of natural gas from Spain through the GME pipeline rose by a 403% during 2023. In 2022 Spain exported only about 1,881 GWh (0.16 BCM, 5.8 Bcf) of natural gas to Morocco, 2023 exports climbed to about 9,472 GWh (0.82 BCM, 29 Bcf)[2].
- Moroccan LPG market demand ranks top globally and is equivalent to 3.3 BCM (116 bcf) p.a. of natural gas. Commencing in April 2024, the Moroccan Government intends to reduce subsidies on LPG to ease the financial burden on the State, which provided in excess of US$ 2 Billion of LPG subsidies in 2022[3.]

Our Phase 1 mLNG project is the means to for the Company to generate strong and stable revenue in the short term. There is strong and growing demand for our LNG within Morocco. For shareholders this is a key phase for the business and will allow us to be less reliant on external sources of funding, through long term revenue generation in a low (hydrocarbon) taxation country.

Building on Phase 1, the Phase 2 pipeline gas project will allow the company to layer on growth, generate increased revenues whilst servicing the burgeoning gas market.

[1] https://www.cores.es/en/estadisticas (Natural gas consumption data)

[2] https://www.cores.es/en/estadisticas (Corporación de Reservas Estratégicas de Productos Petrolíferos data 2023)

[3] OPIS, a Dow Jones Company, 19 December 2023 Interview with Mohammed Rachid Idrissi Kaitouni, President of the Energy Federation in Morocco

Our Strategic Partnerships

Our key partners allow Sound Energy to achieve more than we could do alone. Our partners support us from investment funding to project execution and delivery.

Afriquia Gaz
Phase 1
Funding/offtaker/investor

The partnership commits SEMEL (Sound Energy Morocco East Ltd) on behalf of the Concession Joint Venture, under a binding Gas Sales Agreement (GSA) to produce, process, liquefy and sell, to Afriquia Gaz, an annual contractual quantity of not less than 171,000 cubic metres of LNG per year (approximately 100 million cubic metres a year of gas) for 10 years from first gas. SEMEL commits to providing Afriquia a daily quantity of between 475 and 546 cubic metres of LNG, and Afriquia will commit to an annual minimum "Take or Pay" quantity of 475 cubic metres per day of LNG for 360 days of each year over the term of the GSA. Afriquia Gaz underpinned its partnership with Sound Energy plc by acquiring a 9.8% shareholding through a £2 million placing in 2021 and entered into a $18 million loan note agreement with the Company, also in 2021, which meets the capital funding requirements of Sound Energy's Joint Venture Concession participants to bring the Phase 1 project onstream. As at 31 December 2023, Afriquia Gaz had an interest in, approximately, 8.996% of Sound Energy's current issued share capital.

Italfluid Geoenergy S.r.l
Phase 1
Design/construct/commission/operate/maintain and fund

In 2022, Sound Energy Morocco East Limited (SEMEL) entered into a binding contract with Italfluid S.R.L. in which Italfluid will design, construct, install, commission, operate, maintain and lease to SEMEL, a gas processing and liquefaction plant over a 10-year period.

Italfluid is an international integrated service Company, which provides certain upstream petroleum services, including the design, construction, commissioning and maintenance of process plants and hydrocarbon processing, including gas liquefaction to produce liquified natural gas. It has been operating in the oil and gas industry for over 30 years. Its previous clients include Total, Edison, British Gas and Eni.

Italfluid, through a vendor financing financial structure with Sound Energy, is aligned with delivering plant operation and maintenance services to the Phase 1 mLNG Project, such that LNG deliveries are guaranteed to market as required Take or Pay, and Send or Pay, contractual obligations.

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

Oil and Gas Investment fund
Investment

In January 2017, Sound Energy acquired the Eastern Morocco portfolio of Oil and Gas Investment Fund ("OGIF"), and introduced OGIF as a second cornerstone investor:

- Consolidated interest in Eastern Morocco's prospective acreage.
- Strengthened Sound Energy's position in Morocco: OGIF is a Moroccan fund, owned by the seven largest Moroccan financial institutions.
- As at 31 December 2023, OGIF had an interest in, approximately, 13.52% of Sound Energy's current issued share capital.

National Office of Hydrocarbons and Mines
Permits/funding

- The National Office of Hydrocarbons and Mines (“ONHYM”) is another key partner for Sound Energy. The department was established in August 2005 by the merger of the Bureau of Research and Mining Participations (“BRPM”) and the National Office for Research and Petroleum Explorations (“ONAREP”).
- ONHYM is a public institution with legal personality and financial autonomy under state supervision and is responsible for the monitoring of permits for exploration and for funding the development jointly with private partners in Morocco.
- Sound Energy has a good relationship with ONHYM through 4 Joint Ventures with ONHYM formalised through the 4 Petroleum Agreements (PA) below:
  1. Tendrara-Lakbir PA which rules Tendrara Concession JV
  2. Grand Tendrara PA which rules the exploration work over Grand Tendrara exploration permits area
  3. Anoual which rules the exploration work over Anoual exploration permits area
  4. Sidi Mokhtar which rules the exploration work over Sidi Mokhtar exploration permits area

Office National de l'Electricité et de l'Eau Potable (ONEE)
Phase 2
Offtaker

The Company is maturing the second phase of pipeline led development of the Tendrara Production Concession (Phase 2 development).

The joint venture partners entered into a binding GSA in respect of the Phase 2 development with Morocco's state-owned power Company ONEE for the sale of natural gas from the Tendrara Production Concession over a 10-year period. Under the GSA, the joint venture partners conditionally committed to producing, processing and delivering gas from the Tendrara Production Concession, in accordance with required ONEE gas specifications, to the GME Pipeline, for an annual contractual volume up to 350 million cubic meters of natural gas per year for a period of 10 years, with an annual take or pay volume of 300 million cubic meters at a fixed sales price.

As part of Phase 2 development financing the joint venture partners are re-negotiating the GSA with ONEE under the auspices of the Ministry of Energy.

Business Model

Delivering sustainable value through the energy transition.

Fuelling the energy transition

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

Relationships and partnering

Strategic relationships

Sound Energy recognises that it can achieve more than we can alone by developing high-impact and sustainable strategic industry relationships. These relationships allow us to leverage technical, financial, and commercial expertise to enhance our business and deliver on our objectives, whilst de-risking our opportunities and accessing capital to fund our operations. We believe the creation of mutually beneficial partnerships allows us and our partners to enhance, and deliver, our business strategies.

Governmental relationships

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

Investors

The support of Sound Energy's investors, lenders and shareholders provides us with a firm financial foundation to deliver our strategy. We regularly engage with our shareholders, and we collaborate with our investors who bring insight, knowledge and business skills, which offers an additional layer of value to help us achieve success within the business. The Company's growth focused strategy is centred on:

Short-term Organic growth

- Tendrara Phase 2 gas development
- Tendrara Phase 1 and Phase 2 expansions, more LNG and 2C resources gas sold
- Commercialising known discoveries (e.g. SBK-1, TE-4 Horst)
- Exploration potential surrounding the developments

Medium and Long-term Inorganic growth

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

A sustainable business model with ESG at its core

EVALUATE

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

DEVELOP

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

PRODUCE

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

RECYCLE AND GROW

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

GOVERNANCE AND ETHICS

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

PEOPLE

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

SOCIAL RESPONSIBILITY

- Creating local employment in developing countries
-

ENVIRONMENT

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

Partnering through the Value Chain

Phase 1

Micro liquified natural gas development plan for the TE-5 Horst Development

Micro LNG Value Chain	Sound Energy	Italfluid	Afriquia Gaz
Production	Production Development drilling	• Design • Commission • Operate and maintain	
Small-scale LNG production	Small-scale LNG production	• Design • Commission • Operate and maintain	
Transport via truck			Transport via truck
Local storage & regasification			Local storage& regasification
Distribution			Distribution
Marketing & sales			Marketing & sales

Progress

- 10-year Gas Sales Agreement signed with Afriquia Gaz
- Italfluid Geoenergy Srl selected as contractor to engineer, procure, construct, operate and maintain the micro-LNG Plant based on a lease contract structure
- Contract for civil works for the micro-LNG facilities awarded (via Italfluid) and works commenced with the construction of the LNG storage tank and processing units' foundation pads
- Detailed design engineering within primary subcontractors progressing
- Commenced TE-6 and TE-7 well-works ahead of replacement of tubing and trees in 2024

Next steps

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

Phase 2

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

Full field Value Chain	Sound Energy	ONEE
Production	Production	
Gas processing	Gas processing	
Transport via pipeline	Transport via Spurline	Transport via GME pipeline
Distribution	Distribution	
Marketing and sales	Marketing and sales	Purchaser

Progress

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

Next steps

- Finance, engage with potential suppliers for the design and build of the CPF, undertake FID

Reserves and Resources

Resources

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

Contingent Resources are those quantities of petroleum[1] estimated, at a given date, that are potentially recoverable from known subsurface accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies.

The Tendrara Production Concession contains Contingent Resources[2]. In late 2017, Sound Energy undertook a resource evaluation exercise for the Tendrara discovery. This exercise was conducted by a leading independent technical consultancy, RPS Energy Consultants Ltd ("RPS"). The results of the resource evaluation were presented in a Competent Persons Report ("CPR"). The table below summarises the Discovered Gas Originally in Place and the Contingent Resources[2] for the Tendrara TE-5 Horst within the Concession certified by RPS, as announced by the Company on 20 December 2017 and 23 January 2018, and the net interest to the Company[3].

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

Summary table showing the range of Discovered Gas Initially In Place and Contingent Resources, gross, for the Tendrara TE-5 Horst accumulation (TAGI Reservoir), within the Tendrara Production Concession.

1. Petroleum is a naturally occurring mixture consisting of, but not limited to, hydrocarbons in the gaseous, liquid or solid phase. Petroleum may also contain non-hydrocarbon compounds, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide, and sulfur.
2. Contingent Resources are technical volumes, i.e. no economic limit test applied
3. Under the principal terms of a Profit Sharing Deed, the Company, together with its subsidiaries, will pay to Schlumberger Holdings II Limited, an amount equivalent to between 8% and 11% of total net profits (after costs, taxes and other applicable deductions) arising from the Concession over a period of 12 years from first commercial production from the Concession

At the point of the Final Investment Decision ("FID") for each phase of the Tendrara TE-5 Horst development project, it is permissible that a portion of these Contingent Resources can be converted into Reserves (although the Company has not yet elected to do so following FID on Phase 1). Projects that are classified as Reserves will meet the following criteria:

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

Exploration Potential for Eastern Morocco (Grand Tendrara and Anoual permit)

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

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

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

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

The range of unrisked gas initially in place volume estimates from the basin model has been used to constrain and consolidate the exploration inventory of features across the permit in addition to the resources of the Tendrara Production Concession. The volumes are spread across a portfolio of prospects, leads and concepts with varying degrees of technical maturity. The portfolio includes an estimate of volumes for features identified from previous operators’ studies, plus new volumes identified by Sound Energy from geophysical data acquisition, processing and interpretation exercise, including the recent evaluation of the TE-4 Horst, SBK-1 Structure and M5 Prospect. These are all potential near term subsalt drilling opportunities within the Trias Argilo-Gréseux Inférieur ("TAGI") gas reservoir, the proven reservoir of the Tendrara TE-5 Horst gas accumulation within the Tendrara Production Concession.

Both SBK-1 and TE-4, drilled in 2000 and 2006 respectively, encountered gas shows in the TAGI reservoir. SBK-1 flowed gas to surface during testing in 2000 at a peak rate of 4.41 mmscf/d post acidification but was not tested with mechanical stimulation. TE-4 was tested in 2006 but did not flow gas to the surface. Mechanical stimulation has proven to be a key technology to commercially unlock the potential of the TAGI gas reservoir in the TE-5 Horst gas accumulation and, accordingly, the Company believes this offers potential to unlock commerciality elsewhere in the basin.

Commercial discoveries in the Grand Tendrara and Anoual Exploration Permits would have the potential to be commercialised through the proposed development infrastructure centred on the Tendrara TE-5 Horst, with sufficient capacity in the planned Tendrara Export Pipeline or as standalone projects.

. The table below summarises the exploration potential in these three planned drilling targets, expressed as Gas Initially In Place.

Target name	**Unrisked Volume Potential Gas Initially-In-Place (Bcf) Gross (100%) basis**				**Chance of success**
	Low	Best	High	Mean	
TE-4 Horst Appraisal	153	260	408	273	36%
SBK-1 Appraisal	71	130	225	140	50%
M5 Exploration	332	800	1728	943	21%

Summary table showing the range of Unrisked Gas Initially In place, gross, for the Prospects TE-4 Horst, SBK-1 Structure and M5 with the corresponding geological Chance of Success.

Our Strategy

Today

FOCUSED

Moroccan gas development and monetisation strategy

COMPELLING

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

DEVELOPING

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

FINANCED

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

PHASE 2

Pipeline gas-to-power generation providing an alternative to coal use. Financing solutions progressing

GAS EXPLORATION

Portfolio offers potential for transformational growth

STRONG ESG

Lower carbon footprint fuel, strong corporate governance, track record of supporting our local communities

The future

TRANSITION ENERGY

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

PORTFOLIO DIVERSIFICATION

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

SHAREHOLDER RETURNS

Delivered through sustainable cash generation and capital growth

Portfolio Review

A blended portfolio of gas assets

Eastern Morocco
Tendrara Production Concession

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

Geology
The gas is trapped within the Triassic TAGI1 reservoir within the structural fault block, termed the Tendrara TE-5 Horst, and sealed by the overlying salt. Reservoir characteristics are significantly enhanced by application of proven hydraulic stimulation techniques to increase gas flow rates.

Ongoing and Planned Developments

Planned development of our discovered TE-5 gas to address gas demand in a phased manner is progressing, with Phase I being the implementation of a micro-LNG development scheme (currently underway) and a future Phase 2I being the development of a larger scale central processing facility ("CPF") and gas export pipeline to GME.

Phase 1

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

Phase 1 Micro LNG Development – Funding arranged to meet Sound Energy's share of sanctioned pre first gas development costs

Deployment of field gas treatment, processing, liquefaction and storage facilities to deliver mobile LNG to buyer at site. The LNG buyer will distribute and sell on to its growing Moroccan industrial consumers within the domestic gas market. Supplies of LNG are to be an annual contractual quantity equivalent to approximately 100 million Normal cubic metres of gas (approximately 3.5 billion standard cubic feet of gas per year) over a ten-year period.

Binding gas sales agreement and associated funding are in place with Afriquia Gaz, one of the largest LPG distributor in Morocco. A ten-year commitment from first gas to sell annual contractual quantity of 100 million Normal cubic metres per annum with take or pay agreement priced at $6–$8.346 per mmBTU ex plant.

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

LNG Central Processing Facility is under construction by Italfluid

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

Lease structure (with option to buy):
- Minimal LNG tank construction capital payments at and from FID, and following successful completion of Micro LNG Plant commissioning (including production build-up)
- Leasing solution substantially lowers capital investment requirements of Phase 1 development
- Daily rental payment paid to Italfluid on guaranteed daily volume only
- Performance guarantees on plant availability

Phase 2- Tendrara TE-5 Development

Concept – Processed gas as a transition fuel flowing to the GME pipeline:

- 20 inch, 120km Tendrara Gas Export Pipeline ("TGEP")
- Tie-in to existing GME pipeline (Station M04), approved by the GME operator ONHYM, which took over the GME operatorship at the end of Q4 2021
- Pipeline EIA permit approved and pipeline corridor fully secured. Lease agreements signed with the landowners and the first lease payments have been paid
- CPF EIA permit approved
- Gas Sales Agreement ("GSA") with ONEE (Office National de l'Electricité et de l'Eau potable) signed November 2021 for domestic power plants for gas-to-power generation (transit via GME line), minimum volume of 0.3 bcm/year (approximately 10.5 billion standard cubic feet of gas per year) at a fixed sale price over a ten-year term. Extended in 2023.
- Up to six horizontal wells planned to achieve First Gas (Phase 2)
- Exclusive partnership with Attijariwafa Bank (which is one of the top banks in Morocco and in Africa and which is part of the Moroccan King's holding MADA) acting as Lead Debt Arranger in order to fund a substantial part of Phase 2 project. Technical and Legal Due Diligence completed.

Exploration

Grand Tendrara – two Triassic TAGI[1] discoveries

Permit Details	
Area	14,411 km^2
Status	Petroleum Agreement: Exploration
Effective date	1 October 2018
Term	8 years
Resource Potential	Exploration potential in the Triassic TAGI reservoir of 7.52 Tcf gross/5.64 Tcf net (arithmetical sum of mid-case un-risked GIIP) identified in sub-salt concepts, leads and prospects.

Permit Area

Surrounds the Tendrara Production Concession.

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

Geology

Only eight wells drilled across the entire area, all encountered evidence of a petroleum system. The primary reservoir is the Triassic TAGI1 charged from Palaeozoic petroleum source rocks and sealed by the overlying Triassic salt, which is present across much of the basin. This petroleum play is regionally extensive and extends into Morocco from Algeria.

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

- SBK-1 tested by the previous permit holder at a peak rate of 4.41 mmscf/d in July 2000
- TE-10 flowed gas at non-commercial rates in May 2019

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

Future Developments

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

The gross exploration potential of these high-graded structures, expressed as GIIP[2], is as follows:

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

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

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

1. Trias Argilo-Gréseux Inférieur (“TAGI”) are sandstones deposited in a fluvial-alluvial environment and are significant oil and gas reservoirs across Algeria, extending into Morocco
2. Internal exploration potential estimates, arithmetical sum of mid-case unrisked Gas Initially In Place (“GIIP”)

Anoual

Permit Details

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

Permit Area

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

Geology

Only one well drilled across the entire area. The primary reservoir is the Triassic TAGI[1] charged from Palaeozoic petroleum source rocks and sealed by the overlying Triassic salt, which is present across much of the basin. This petroleum play is regionally extensive and extends into Morocco from Algeria. Committed geophysical surveying completed with a single well commitment remaining. Exploration potential in the Triassic TAGI reservoir of 11.51 Tcf gross/8.63 Tcf net (mid-case un-risked GIIP[2]) identified in sub-salt concepts, leads and prospects.

Future Developments

"M5" prospect high graded for drilling a TAGI[1] target, operational planning is progressing. The Company's estimation of the gross exploration potential of the M5 exploration prospect, a possible candidate for the exploration well, expressed in GIIP[2], is as follows:

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

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

2. Internal exploration potential estimates, arithmetical sum of mid-case unrisked Gas Initially In Place ("GIIP")

Sidi Mokhtar

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

Permit Area

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

In July 2017, the Company reported the results of the re-entry, completion, perforation and flow testing of the existing Koba-1 well, with a focus on previously producing relatively shallow gas reservoir.

Strategically, the Company has shifted its focus on the Sidi Mokhtar area towards what it believes has the potential to be the most significant opportunity amongst the deeper Triassic TAGI[1] and Palaeozoic gas plays in the region already demonstrated by the gas and condensate producing adjacent Meskala Field operated by our partner ONHYM.

In June 2018, the Company was awarded a new eight-year Petroleum Agreement and is now actively seeking a partner to participate in a geophysical survey programme focused on these deeper objectives.

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

Geology

There is initial un-risked exploration potential of up to 8.9 Tcf gross gas following interpretation of the historical 2D seismic. The Company believes the pre-salt plays have been overlooked in the region with limited drilling to specifically target these deeper successions.

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

Future Developments

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

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

2. Internal exploration potential estimates, arithmetical sum of mid-case unrisked Gas Initially In Place (“GIIP”)

Micro LNG Project Review

Progress in 2023

Sound Energy is a pioneer in Morocco in establishing an onshore small scale LNG solution providing gas to the local market in Africa, assisting Moroccan industry in energy transition, reducing the use of more polluting fuels and CO_2 emissions.

The micro LNG project involves three main parties:

- Afriquia Gaz, are responsible for taking the LNG produced by the facility to customers located in Morocco. This will be achieved by the use of a dedicated fleet of LNG transport trucks. The majority of customers are located on the Atlantic seaboard of Morocco some 1000 km to the west of the Tendrara field.
- Italfluid GeoEnergy (Italfluid), are responsible for the construction, commissioning, operation and maintenance of the gas processing and liquefaction plant through a lease arrangement.
- Sound Energy and its Concession partners including ONHYM, are responsible for the delivery of the following aspects of the project. Firstly, the raw gas gathering system from the wells TE-6 and TE-7 to the mLNG facility, including the re-completion and upgrade of the wells. Secondly, the construction of the access road to the facility for the LNG transport trucks. Thirdly, the drilling of a third production well (TE-112) to be scheduled post first gas production.

On behalf of the Concession partners, Sound Energy released the Notice to Proceed (NtP) to Italfluid on 15 February 2022. The original target is to start LNG production in 2024. Since the NtP there have been significant supply chain disruptions and cost escalation due to the events, principally the war in Ukraine and Middle East, global inflation as a result of the COVID pandemic and the resultant effect on global supply chains. These combined factors have placed significant scheduling and cost pressures on the contractor Italfluid and the project delivery.

Sound Energy has worked with its project partners to mitigate the effects of external global events to ensure that the project can progress promptly. The components of the mLNG facility are being manufactured and shipped from the USA, Asia and Europe by multiple subcontractors which has posed significant challenges. These challenges have now been mostly overcome but resulted in a slip in the fully commissioned project.

In Q1 2023 Italfluid completed the work on the LNG storage tank foundations and its subcontractor CryoSpain completed the manufacturing the main components of the outer and inner LNG storage tank.

Sound Energy advanced construction of the access road in in Q3 2023 which is scheduled for completion in 2024.

The production wells of TE-6 and TE-7 require specialised metallurgy for the production completions prior to gas production due to the corrosive composition of the raw gas. This requires replacement of the carbon steel production tubing with corrosion resistant Cr_{13} steel. The procurement of equipment related to the TE-6 and TE-7 well upgrade operation was started in Q2 2023.

The initial well work over operation of setting packers in each well was successfully completed in Q4 2023 to enable the re-completion work to go ahead safely in 2024. The Cr_{13} steel tubing was delivered to site in late 2023. Star Valley Drilling were contracted in Q4 2023 to perform the well workovers in 2024.

Operational progress

2024 is a key year for the project when all of the equipment packages are to be delivered to site from the different manufactures around the world for installation and commissioning by Italfluid.

With the challenges of 2023 mostly behind us progress continues to be made with several major project milestones scheduled for completion in 2024. Notwithstanding the current disruption to supply chain shipping routes caused by the conflicts in the Middle East the following significant activities are scheduled for 2024:

1. **Recompletion of TE-6 and TE-7:**
   Replacement of the carbon steel production tubing replacement with Cr_{13} Steel.
2. **LNG storage tank erection work:** Italfluid have contracted LNG storage tank manufacturer to erect the tank.
3. **Delivery and installation of mLNG plant processing packages:** Equipment packages, gas processing, power generation and refrigeration plant components will be delivered to Tendrara for installation on the completed site foundations. These deliveries are subject to approval for import from the Ministry of Energy, including derogation to make some pressure tests in the manufacturers' premises in a safe environment. Sound Energy is working with the Ministry to facilitate the importation of the equipment. Italfluid have contracted LNG storage tank manufacturer to erect the tank.
4. **Engineering, procurement and installation of the raw gas gathering system, to connect the two production wells to the mLNG plant:** Sound Energy has selected Gas to Liquid Equipment (GLE) on an EPCM basis to supply the first raw gas to the mLNG plant.
5. **Commissioning of all equipment with live hydrocarbons and commencement of LNG sales thereafter.**

Financial Review

Income Statement

The pre-tax loss for the year from continuing operations was £7.2 million (2022: £6.6 million, profit). Results of an impairment test on the Tendrara Production Concession carrying amount indicated that no impairment charge was required (2022: £5.7 million impairment reversal). The discount rate and forecast gas price are the significant estimates used by the Company to determine the recoverable amount when undertaking impairment testing of the Company's Tendrara Production Concession.

Administrative costs at £2.4 million were lower than 2022 administration costs (£3.2 million) as no nil cost options were issued to staff in 2023, as was the case in 2022.

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

Cash Flow/Financing

During 2023, proceeds from borrowings were approximately £4.4 million (2022: £7.2 million) net of issue costs. There were no proceeds from equity issues during the year (2022: £3.7 million).

Financing costs during the year were £2.0 million (2022: £1.4 million), primarily due to the amortised costs of the Company's Euro denominated loan notes, the US dollar Afriquia loan note facility and Convertible Bonds facility drawdowns, net of interest capitalised to the development and exploration permits of £0.3 million (2022: £0.1 million). The increase in finance costs arose due to a further $2.5 million drawdown from the Afriquia facility and £2.5 million drawdown from a convertible loan note facility that was entered into during the year. The convertible loan note facility has a term of five years with interest of 15% per annum, payable bi-annually in cash or capitalised to the principal, at the Company's election. The first tranche of the Convertible Notes comprised £2.5 million with a fixed conversion price of 2.25 pence per ordinary share, a premium of approximately 28% to the closing price of 1.76 pence per ordinary share on 12th June 2023. In connection to the drawdown of the first tranche, the Company issued 33,333,333 warrants (to the investors) to subscribe for new ordinary shares in the Company at an exercise price of 2.25 pence per ordinary share with a term of three years. The Company successfully restructured its Euro denominated loan notes leading to removal of 5% semi-annual partial repayment of the principal amount that was due to commence in December 2023.

The Group spent £2.9 million (2022: £6.2 million) on investing activities during 2023 primarily related to the Group's Micro-LNG project with the balance relating to expenditure on the Group's exploration permits in Morocco and capitalised general and administrative expenses. As part of the 2018 Italy divestment agreement, the Company was entitled to receive the proceeds, upon sale, of land associated with the former Badile onshore Exploration Permit (''Badile land''). The sale of the remaining area of Badile land completed in Q2 2023 and the Company received net proceeds of approximately €153,000 (£134,000).

Balance Sheet

As at 31 December 2023, the carrying amount of property, plant and equipment was £157.9 million (2022: £163.4 million), primarily related to the development and production assets in Morocco with a carried value of £157.8 million (2022: £163.1 million) after taking account of impairment reversal, additions and foreign exchange movement.

Intangible assets, with a carrying amount of £35.0 million (2022: £36.0 million), primarily relates to the Group's investment in its exploration permits in Morocco.

The addition of £0.7 million to intangible assets primarily consisted of capitalised general and administrative expenses and £1.8 million foreign exchange movement recognised.

Non-current prepayments of £5.1 million (2022: £4.3 million) relate to the Group's Phase 1 mLNG project. Other receivables, amounting to £0.9 million (2022: £2.8 million), primarily related to receivables from our partners in Morocco permits and recoverable VAT in Morocco.

Trade and other payables amounting to £2.5 million (2022: £1.9 million) primarily related to payables and accruals for the operations in the Group's permits in Morocco, where the Group, as operator, recognises 100% of the liability and receives funds from partners to pay the partners' share.

During 2023, the Company issued 114,420,005 ordinary shares which were all non-cash share issues. The primary non-cash share issues related to 99,9999,994 new shares issued following the conversion of £2.25 million of Convertible bonds into shares.

Going Concern

As detailed in note 1 on page 68, the Company's cash flow forecasts, for the next twelve-month period to April 2025, indicate that additional funding will be required to enable the Company to continue to meet its obligations. This condition indicates the existence of a material uncertainty regarding the Company's ability to continue as a going concern.

Garry Dempster
Chief Financial Officer

S172 statement

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

Section 172 (1) of the Companies Act 2006 obliges the Directors to promote the success of the Company for the benefit of the Company's members as a whole.

The section specifies that the Directors must act in good faith when promoting the success of the Company and, in doing so, have regard (amongst other things) to:

a. the likely consequences of any decision in the long term;

b. the interests of the Company's employees;

c. the need to foster the Company's business relationship with suppliers, customers and others;

d. the impact of the Company's operations on the community and environment;

e. the desirability of the Company maintaining a reputation for high standards of business conduct; and

f. the need to act fairly as between members of the Company.

The Board of Directors is, collectively, responsible for the decisions made towards the long-term success of the Company and details of how the strategic, operational and risk management decisions have been implemented throughout the business are included in the Strategic Report on pages 2 to 34.

Employees

Our employees are a primary asset of our business, and the Board recognises that our employees are the key resource that enables the delivery of the Company's vision and goals. Annual pay and benefit reviews are carried out to determine whether all levels of employees are benefitted equally, and to retain and encourage skills vital for the business. The Remuneration Committee oversees and makes recommendations for Executive remuneration and long-term share awards. The Board encourages management to improve employee engagement and to provide necessary training in order to use their skills in the relevant areas in the business. The Board, periodically, reviews the Health, Safety, Security and Environmental measures implemented in the business premises and improvements are recommended for better practices.

Employees are informed of the results and important business decisions and are encouraged to feel engaged and to improve their potential.

Suppliers, customers and regulatory authorities

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

Community and the Environment

The Board upholds high standards of care towards the community and environment and is conscious of the fact that the nature of the Company's business requires strong measures to protect the environment. At its meetings, the Board receives HSSE updates from the HSSE Committee and considers the impact of the Company's operations on the environment and the neighbouring Community. The Company provides training and employment opportunities to members of the communities in the areas in which it operates.

Maintaining High Standards of Business Conduct

The Company is incorporated in the UK and governed by the Companies Act 2006. The Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code") and is aware of the updates to the QCA code made in 2023 which will apply to the Company from 1 January 2025. The Board recognises the importance of maintaining a good level of corporate governance, which, together with the requirements to comply with the AIM Rules, ensures that the interests of the Company's stakeholders are safeguarded. Anti-corruption and anti-bribery training are compulsory for all staff and contractors, and the anti-bribery statement and policy are contained in the Company's Employee Manual. The Company's expectation of honest, fair and professional behaviour is reflected by this and there is zero tolerance for bribery and unethical behaviour by anyone related to the Company.

The importance of making all staff feel safe in their environment is maintained and a Whistleblowing policy is in place to enable staff to confidentially raise any concerns freely, and to discuss any issues that arise. Strong financial controls are in place and are well documented.

Shareholders

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

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

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

The Board acknowledges that encouraging effective two-way communication with shareholders encourages mutual understanding and better connection with them. The benefits include improved transparency of information on the business and its performance, appropriate consideration of all shareholders' views, and instilling trust and confidence to allow informed investment decisions to be made by the Board.

Sustainable and Responsible Business

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

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

In 2023 we defined the metrics we measure to demonstrate our commitment to the outcome of the ESG materiality assessment we undertook in 2022 against the United Nations Sustainable Development Goals.

Those metrics are defined as:

1. CO_2 Emissions
2. Environmental Impact Assessment compliance monitoring
3. Local Content
4. Stakeholder Engagements
5. Community Grievances
6. Local Community Monitoring
7. Compliance Training and Compliance Risk Assessments

We began gathering the data for the defined metrics in Q2 2023 and are seeking to continually improve our systems to better inform future decision making.

Environmental

CO_2 Emissions

117.76 m3 of diesel was used within our operations in 2023, which corresponds to 317.83 tCO2e. Our diesel consumption was primarily from heavy plant and equipment used in the mLNG facility civil construction / ground works, dozers, graders, compactors and concreting equipment.

We expect our carbon impact to increase as we move towards being fully operational on site but are committed to monitoring our output and continually searching for ways to reduce our emissions. For example, we are exploring the opportunity to capture and monitise the CO_2 emissions that will result from the removal of CO_2 from the gas processed by the mLNG plant in the production phase of the project. We work with carbon accounting and measurement company Redigo: www.redigocarbon.com

Environmental Impact Assessment Monitoring

Our Tendrara mLNG development project is has an Environmental and Social Impact Assessment and PSSE (Program de Surveillance et de Suivi Environnmental) approved by the Moroccan Ministry of Energy, Mines and the Environment (now the Ministry of Energy Transition and Sustainable Development). Our environmental consultant in Morocco, Resing, conduct monthly compliance audits of the approved environmental management plan.

Social

Local Content

Our workforce in Morocco including subcontractors are over 98% Moroccan nationals. We try and use local labour and supply chains wherever we can. We have developed an approved hiring process with the local authorities in Maatarka and Bouafa to ensure any opportunities for local employment and contracts are divided between the communes. Our current contractors TIEC and Italfluid have both hired personnel from the local community in 2023.

We supported the training in the NEBOSH International General Certificate for one of our Field HSSE Advisors in 2023.

Stakeholder Engagement

We record the number of stakeholder engagements with the local authorities and representatives in the area in which are impacted by our operations. Regular updates, briefings and feedback sessions occur.

We donated fire extinguishers and provided training in their use to a local school in 2023.

Community Grievances

We received no grievances from the local community in which we operate in 2023. If any grievances were to occur, we a have a process involving the local authorities to ensure a satisfactory resolution.

Local Community Monitoring

As the area in which we operate is inhabited by semi-nomadic herders we regularly monitor the movements of the local population to ensure our operations are not having a detrimental effect on the local population.

Governance

Compliance Training and Compliance Risk Assessments

We conduct regular compliance training with our staff covering:

- Whistle Blowing Policy
- Securities Dealing Code
- Statement of Ethics
- Anti Bribery and Corruption

All of our contracts include clauses that require the highest ethical behavior form our contractors.

Health, Safety, Security and Environment

2023 Overview

2023 saw a significant increase in operational activity at Tendrara.

Italfluid finalised the foundations for the mLNG plant processing packages and the significant foundation required for the 6200m3 insulated LNG storage tank, which involved excavations and the pouring of reinforced concrete.

TIEC started work on the construction of the site access road which will join the mLNG processing facility with the R604 and N19 national roadwork. This involved constructing reinforced bridges and culverts prior to laying a subbase and finally black topping the 8km road to permit the LNG transport tankers to access the site.

Schlumberger were contracted to conduct packer setting operations on production wells TE6 and TE7 prior to running the production tubing in Q1 2024 in readiness for gas production operations.

Health

Field medical support continued to be our focus ensuring the constant presence of a doctor and ambulance at our fully equipped emergency medical clinic at Tendrara to cover our remote area operations. Medical fitness for work certificates are required for all personnel working in Tendrara.

Safety

We place constant focus of the safety aspects of our operations at Tendrara. The greatest risk we faced in 2023 and will continue to face in 2024 are associated with land transport and mechanical lifting operations. There were no land transport related incidents in 2023. All Sound Energy vehicles are fitted with IVMS (internal vehicle monitoring systems) and satellite tracking. We did suffer a high potential near miss incident involving a concrete bucket and an excavator when the bucket dropped to the ground. The results of the incident investigation revealed that the personnel involved were found to have violated Sound Energy's Life Saving Rules associated with mechanical lifting and faced disciplinary action.

In October 2023 we unfortunately had a Lost Time Incident occur when a contractor was removing nails from concrete shuttering. A nail released from the shuttering more easily than the worker anticipated and his elbow hit a wooden board behind where he was positioned resulting in a minor fracture. The worker received 10 days sick leave. This incident resulted in a Lost Time Frequency Rate of 6.45 at the end of 2023. The incident was not indicative of unsafe behavior, lack of work planning or control and so did not indicate a system failure.

Security

2 security review visits were conducted in 2023. Frequent liaison with local security authorities in the area is conducted and we have day and night access control and overwatch of our assets in Tendrara. The security situation in Morocco remains stable with no threats to Sound Energy assets in country.

HSSE Reporting Data

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

Total Man-hours 2023 – 155553 (2022: 116403)
Sound Energy & Contractors

1. Lagging Indicators

	2023	2022
Fatality	**0**	0
Lost Time Injury	**1**	0
Restricted Work Case	**0**	0
Medical Treatment Case	**0**	0
First Aid Case	**2**	0
Property Damage	**2**	2
Environmental Incident	**0**	0
Near Miss	**2**	2
High Potential Incident	**1**	1
Lost Workdays	**10**	0

Lagging indicators show similar results to 2022 despite having worked 25% more hours. We are committed to improving in 2024.

2. Leading indicators

	2023	2022
Audits & Inspections	**284**	86
HSSE Meetings	**24**	10
Inductions	**86**	73
Emergency Drills	**9**	2
Job Safety Analysis	**540**	160
Toolbox Talks	**372**	200
SHOC Cards	**209**	110
Management Tours	**3**	3

Leading indicators showed a significant improvement in 2023 in comparison to 2022.

3. Environmental Data

	2023	2022
Diesel Consumed (m^3)	**117.76**	275.9
Water Consumed (m^3)	**13,740.3**	725.6
Total Barrels Spilled	**0**	0
CO_2 Produced (tCO_2e)	**317.83**	101.9

No environmental incidents occurred in 2023 and the increased levels of consumption are associated with the increase activity at site.

Principal Risks and Uncertainties

Risk management is a key component of the Company's Control Framework and is a cornerstone element in enabling the delivery of the Group's strategy and delivering long-term value to shareholders. The Board, its Committees and the Executive team are actively engaged in assessing the Company's risk appetite as well as managing both risks and opportunities to the Group.

Definition of Risk

Risk is defined as a potential future event that may influence the achievement of business objectives. This includes both "upside" (opportunity) and "downside" (threat) risks. Risks and opportunities can come from a variety of sources and can be directly related to the Company's operational and commercial activities and support functions, or they can arise externally, from third parties such as joint venture partners, suppliers, regulators, competitors and from the economic environment or political climate.

Risk Management

The Group operates to ensure that risks are identified, understood, agreed, communicated and acted upon in a timely and consistent manner. It enables informed resource allocation and the delivery of expected results by providing a structured way to foresee the unexpected and be prepared for it. The main objectives for the Group risk management system are:

- Support the achievement of business objectives and safeguard Company assets;
- Integrate consistent risk management methodology into key business processes;
- Create a risk-aware culture in which staff actively identify and respond to risks and opportunities; and
- Ensure compliance with legal, regulatory, and ethical requirements.

Identifying Risk and Ownership

Risk management is actively promoted from both a top-down and bottom-up approach through which all individuals in the organisation are empowered to highlight risks and opportunities to the business. All agreed risks are allocated to an individual risk owner with mitigations and actions followed up through monthly reporting to the Senior Leadership team and bi-annual reporting to the Audit Committee. Our principal risks have been categorised as strategic, operational and financial, although many risks impact more than one aspect of the business.

Changes to Risks in the Year

Several factors have impacted the Company risk register through 2023, including changes in the global economic and business landscape and progression of the TE-5 Horst development project.

Removed or Changed:

Requirement to pay substantial Moroccan Tax Demand

Agreement reached with Moroccan tax authority in May 2023 to settle tax dispute by way of a phased payment schedule of approximately US$2.5 million, back ended over 6 years as a full and final settlement against a claim of approximately US$23.95 million.

Risk	Impact	Control measure	Owner
1 Limited diversification The Company operates in a single country and thus the business may be significantly adversely impacted by political, fiscal and regime changes. The Company portfolio is not currently balanced across the oil and gas lifecycle	• Profitability and cash flow • Increased risk profile • Limited platform for growth • Reduced appetite for investment in the Company	• Build strong relationships with partners, advisors, governments, local authorities, local population and other stakeholders • Active new business development programme • Working with financial advisor to screen opportunities	Chairman
2 Facilities funding Inability/delay in securing funding for Project development of the Tendrara TE-5 Horst results in delays or inability to take FID	• Company investment profile and ability to generate cash is impaired as a consequence	• Mature vendor financing, equity financing (gas buyers) options • Progress senior debt funding proposal with Attijariwafa Bank • Mature permit partnering options	Chairman
3 Reservoir uncertainty	• Exploration play risk in relation to basin understanding, reservoir distribution and effectiveness. Hydrocarbon volume available to charge the structures in the basin, in order to deliver the exploration potential across our exploration permits • Reservoir distribution and effectiveness, hydrocarbon saturation and H2S risk in respect of Jurassic carbonate reservoirs in Sidi Moktar	• Comprehensive geophysical surveying, data analysis, and modelling integrated with geological and reservoir engineering studies to improve reservoir understanding throughout the basin • Independent resources certification	Chairman
4 Share price weakness	• Vulnerability to hostile takeover • Difficulty raising finance to support and grow business	• Strengthen investor appetite and share price through delivery of business plan, diversification and growth	Chairman

Risk	Impact	Control measure	Owner
5 Major HSSE event	• Loss of life or injury to personnel • Environmental impact • Reputational damage • Exposure to litigation • Financial and operational losses	• Highly skilled, competent, and qualified personnel and subcontractors. Training provided as required • Management and Board commitment. Experienced corporate HSSE Manager • Robust operational HSSE processes and procedures • HSSE Committee reviews and regular HSSE meetings and engagements • Insurance cover	Chairman
6 Loss of, or inability to secure, key personnel	• Loss of shareholder confidence • Lack of direction and leadership within the Company • Loss of expertise and knowledge • Unable to secure required expertise to deliver the work programme	• Competitive remuneration package in place for key Executives, benchmarked relative to the market • Succession planning • Programme to identify and source additional expertise as and when required • Resourcing partnership models with key suppliers e.g. drilling services	Chairman
7 Insufficient funds to operate and sustain the business	• Capital constraints due to insufficient funding of work programme, potential impact to long-term viability of business • Insufficient working capital to sustain the business as a going concern	• Active engagement with capital markets and financing streams to raise capital • Long-term cash flow management • Finances are controlled through annual planning process with regular forecast updates. Monthly MI measures performance against plan • Risk transfer through farm-ins, joint ventures and/or partnering funding arrangements • Active contract management and tracking for main contracts	Chairman

Risk	Impact	Control measure	Owner
8 Capital project cost inflation	• Delay in implementation of Phase 1 and Phase 2 developments • Diminution in value of capital projects due to cost escalation and additional project management	• Monitor and maintain contractual arrangements • Apply disciplined cost control and project management • Explore contingent funding options	Chairman
9 Failure of proposed Eastern Morocco farm-out	Funding gap for equity component of Phase 2 capital funding leads to project delay Funding gap in executing potential Anoual and Grand Tendrara exploration and appraisal	Manage due diligence process and contractual negotiations effectively Maintain optionality with alternatives farminees	Chairman
10 Delayed execution of Phase 1	• LNG SPA exposure due to late delivery (potential penalties) • Delayed revenues due to delayed gas sales	• Regular monthly reporting and contract management • Close collaboration with gas buyer and key suppliers • Effective project management in place	COO
11 Failure to satisfy Exploration permit commitments	• Delay or inability to unlock exploration and appraisal potential within Moroccan portfolio • Penalties for inability to satisfy permit commitments	• Active farm-out discussions ongoing to seek a partner • Close collaboration with ONHYM to extend or amend permit terms • Effective project management in place	COO
12 Escalation of tensions with Algeria in border area	• Potential for escalation to reduce investment appetite, delay projects, harm people	• Actively monitor geopolitical events • Emergency evacuation plan in place and communicated to key personnel	COO

The Strategic Report was approved by the Board of Directors on 23 April 2024 and signed on its behalf by:

Graham Lyon
Executive Chairman

CORPORATE GOVERNANCE

Chairman's Corporate Governance Statement

Dear shareholders

As Executive Chair of the Company, it is within my role to ensure that standards of governance are maintained. It is my responsibility to work with my fellow Board members to support such standards of corporate governance instilling a culture across the Company and throughout the business, delivering strong values and behaviours. My role as Executive Chair is to provide leadership of the Board and ensure its effectiveness. The Board has an effective, robust and fit-for-purpose corporate governance framework across the business, cascading from Executive level throughout the business. 2023, much like the previous two years, has again been a challenging year due to external global events, however, the Company has continued to work hard to drive forward its strategy to transition the business towards becoming a cash generative Company.

This report, together with the reports of the Audit, HSSE and Remuneration & Nomination Committees, seeks to demonstrate our commitment to high standards of governance.

The Company adopts the Quoted Companies Alliance Corporate Governance Code 2018 (the 'QCA Code') which it believes to be the most appropriate recognised corporate governance code for the Company with shares admitted to trading on the AIM market of the London Stock Exchange. It is believed that the QCA Code provides the Company with the framework to help ensure that an appropriate level of governance is maintained, enabling the Company to embed the governance culture that exists within the organisation as part of building a successful and sustainable business for all its stakeholders. The Board noted that the QCA published a revised QCA Corporate Governance Code (QCA Code 2023) in November 2023 which will first apply to the Company for the financial year commencing on 1 January 2025. The Company is working towards preparing for the adoption of the revised principles during the next financial year and will report progress in the 2024 Annual Report.

The importance of a united Board working to ensure that the Group continues to deliver for its shareholders whilst maintaining high standards of employee welfare, safety, corporate governance and commitment to environmental issues is imperative to the continuing success of the business. We value our shareholders and look forward to our interactions with them. The Board strives to ensure that there are opportunities for investors to engage with both the Board and Executive Directors and we balance our engagement using both virtual and in-person sessions. During the year we held two live question and answer sessions, recorded video interviews and held a face to face meeting with shareholders after the AGM with around 50 shareholders attending.

We enjoyed meeting with our shareholders and stakeholders in person at our AGM and look forward to doing this again in 2024.

Graham Lyon
Executive Chairman

QCA Code Principles

Introduction

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

The QCA Code applicable for 2023 has ten principles of corporate governance that the Company has committed to apply within the foundations of the business. These principles are:

QCA Code	Required disclosure	Reference
1	Establish a strategy and business model that promotes long-term value for shareholders.	See pages 9 and 15 of 2023 Annual Report.
2	Seek to understand and meet shareholder needs and expectations. Explain the ways in which the Company seeks to engage with shareholders.	See website disclosures: Principle Two under AIM Rule 26.
3	Take into account wider stakeholder and social responsibilities and their implications for long-term success. Explain how the business model identifies the key resources and relationships on which the business relies. Explain how the Company obtains feedback from stakeholders.	See website disclosures: Principle Three under AIM Rule 26.
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation.	See pages 31 to 34 of 2023 Annual Report.
5	Maintain the Board as a well-functioning balanced team led by the Chair.	See pages 39 to 40 of 2023 Annual Report.
6	Ensure that, between them, the Directors have the necessary up-to-date experience, skills and capabilities.	See pages 39 to 40 of 2023 Annual Report. See website disclosures: Principle Six under AIM Rule
7	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement. A description of the Board performance evaluation process.	See pages 41 to 42 of 2023 Annual Report. See website disclosures: Principle Seven under AIM Rule 26.
8	Promote a corporate culture that is based on ethical values and behaviours. Explain how the Board ensures that the Company has the means to determine ethical values and behaviours.	See website disclosures: Principle Eight under AIM Rule 26.

QCA Code Principles (continued)

QCA Code	Required disclosure	Reference
9	Maintain governance structures and processes that are fit for purpose and support good decision making by the Board. Roles and responsibilities of the Chair, CEO and other Directors with commitments. Describe the roles of the Committees.	See website disclosures: Principle Nine under AIM Rule 26.
10	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders. Outcomes of votes cast by shareholders to be disclosed in a clear and transparent manner. If a significant number of votes were cast against a resolution put to a general meeting (20%) explain the reasons behind the votes cast.	See pages 26 to 30 of 2023 Annual Report. See website disclosures: Principle Ten under AIM Rule 26.

Board Overview

Leadership

The Company remains committed to achieving high standards in all we do. Our business and processes are aligned around a robust governance framework. The Company applies and seeks to adhere to the ten principles of the QCA Code, and the requirements of the AIM market of the London Stock Exchange. The Board is aware of the changes recently made to the QCA code and will work to adopt the revised principles during the next financial year and will report on how it complies in the 2024 Annual Report.

The Directors develop policies and procedures in line with the QCA Code and these policies and procedures are monitored on a regular basis.

While building a solid governance framework, we also try to ensure that we take a proportionate approach and that our processes remain fit for purpose as well as embedded within the culture of our organisation. We continue to evolve our approach and make ongoing improvements as part of building a successful and sustainable Company.

Good governance provides a framework that allows the right decisions to be taken by the right people at the right time.

Shareholders and other stakeholders

Board

Set strategy and deliver value to shareholders. Review performance against plan.

Health, Safety, Security and Environment Committee

The Committee is primarily focused on ensuring that the HSSE policies are adopted and applied across the Group.

It also ensures that incidents that occur are dealt with correctly and lessons learnt, and exercises are carried out to prevent repeats.

Audit Committee

The main responsibility of the Audit Committee is to monitor the integrity of the Company's financial statements and other formal announcements relating to the Company's financial performance. The Committee ensures that the Company has effective risk management and appropriate internal controls in place. The responsibility for the enforcement of the Company's code of conduct, and the adequacy and security of the anti-bribery and corruption policy, also rests with the Audit Committee. The Committee is mindful of the guidance from the QCA with respect to the function and duties of the Audit Committee within the business.

Remuneration and Nominations Committee

The Committee is responsible for all material elements of remuneration policy, including Directors' remuneration and assessing Directors' performance. The Committee will consider recruitment of Board members and members of the Executive team, together with consideration of succession planning.

The Committee assesses Executive Directors' performance based on an annually approved scorecard.

Executive Committee

The Executive team supports the Executive Chair and Board's decision making particularly around assurance at project decision gates and new business opportunities. The Executive team is accountable for implementation of the strategy, the performance of the business, and designing and implementing the culture and tone of the organisation.

Board of Directors

1) Graham Lyon- Executive Chair

Appointed to Board

25 February 2020

Background

Graham Lyon was appointed Executive Chairman on 25 February 2020. Graham is an experienced oil and gas energy Executive with 40 years' experience across technical, operational, commercial and leadership roles. Graham has chaired or sat on the board of AIM, TSX, ASX and AQSE growth companies. Graham holds a BSc (Eng) Hons from Imperial College in Petroleum Engineering.

Current external commitments

- Clarion Petroleum Limited
- Soncer Limited
- Soncer Bel BV
- Soncer Cvp Limited
- Sea Lion Power (pvt) Ltd

2) Mohammed Seghiri- Chief Operating Officer

Appointed to Board

23 January 2020

Background

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

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

Current external commitments

- les Vergers De Targa

3) Christian Bukovics- Director (Senior Independent Non-Executive)

Appointed to Board

2 December 2021

Background

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

Christian holds a doctorate in experimental Physics from the University of Vienna.

current external commitments

- Director – CB Exploration Limited
- Director- Irbis Energy Group Limited

4) David Blewden-Director (Independent Non-Executive)

Appointed to Board

1 July 2020

Background

David Blewden joined the Board as a Non-Executive Director in July 2020. David is a senior oil and gas sector Executive with 40 years of international experience working as a petroleum engineer, an energy investment banker and in energy industry finance roles. He is currently CFO of Sunny Hill Energy Limited, a UK private E&P company (formerly Petroceltic International), and in recent years, has been a Non-Executive Director of Gulf Marine Services plc, an LSE premium listed oil services company and New Age (African Global Energy) Limited, a private E&P company. From 2010 to 2016, he was CFO of Sterling Resources Ltd, a TSX-V listed Canadian E&P company. David holds an MA in Natural Sciences from the University of Cambridge.

Current external commitments

- Director – Philipshill Consulting Limited
- Director – Hodgemoor Investments Limited
- CFO – Sunny Hill Energy Limited

5) Simon Ashby- Rudd -Director (Independent Non-Executive)

Appointed to Board

26 June 2023

Background

Simon Ashby-Rudd joined the Board as a Non-Executive Director in June 2023. Simon is an international energy banking specialist with more than 35 years of experience spanning the globe. His career includes 30 years in investment banking roles with both large financial institutions. Mr Ashby-Rudd's career has focused on corporate strategy and capital structuring. In 2020, Mr Ashby-Rudd established Treyford Energy Limited which today provides independent advice to growth orientated energy companies both in the traditional hydrocarbon space and increasingly in the emerging energy transition sector. Simon holds a B.Sc. in Economics from University College London.

Current external commitments

- Director - Treyford Energy Limited
- Director – Europa Oil & Gas (Holdings) plc

6) Marco Fumagalli- Director (Non-Executive) – During 2023, Marco Fumagalli resigned from the Board after joining in 2014.

Board Activities

Effectiveness

The Board retains full and effective control over the Company and holds regular meetings at which financial, operational and other reports are considered and, where appropriate, voted upon. The Board is responsible for the Group's strategy and key financial and compliance issues.

The key matters reserved for the Board:

- Approval of the Group's strategic aims and objectives
- Approval of the Group's annual operating and capital expenditure budgets and any material changes to them
- Review of Group performance and ensuring that any necessary corrective action is taken
- Extension of the Group's activities into new business or geographical areas
- Any decision to cease to operate all or any material part of the Group's business
- Major changes to the Group's corporate structure and management and control structure
- Any changes to the Company's listing
- Changes to governance and key business policies
- Ensuring the maintenance of a sound system of internal control and risk management
- Approval of half-yearly and Annual Report and Accounts and preliminary announcements of final year results
- Reviewing material contracts and contracts not in the ordinary course of business
- Reviewing the effectiveness of the Board and its Committees.

The Board delegates matters not reserved for the Board, concerning the management of the Group's business, to the Executive team.

Composition and independence of the Board:

As at 31 December 2023, the Board comprised of the Executive Chair, three Independent Non-Executive Directors and one Executive Director.

The current Board has a good level of industry, financial, banking, public markets and governance experience, possessing the necessary mix of experience, skills, personal qualities and capabilities to deliver the strategy of the Company for the benefit of the shareholders over the medium term. The Company has an Executive Chair who provides a bridge of the Chair and Chief Executive Officer role. The Company has a good balance of Executive and Non-Executive Directors, with a strong level of independence within the Board.

The Executive Chair is responsible for leading the Board and Executive team, ensuring that the Board discharges its responsibilities; the Chair is also responsible for facilitating full and constructive contributions from each member of the Board in the determination of the Group's strategy and overall commercial objectives. Without a Chief Executive Officer, the Executive Chair, with the support of the Chief Operating Officer and other members of the Executive team, leads the business, ensuring that strategic and commercial objectives set by the Board are met. He is accountable to the Board for the operational and financial performance of the business. The Board continues to believe, given the current stage of the business, that the continuation of the Executive Chair is right for the Company. At present, there is no Chief Executive Officer; however, with three independent Non-Executive Directors, it is believed there is a strong voice of independence. The situation is under review for 2024.

Board Composition
Attendance at Meetings:

A schedule of the Board and Board Committee meetings held during the year ended 31 December 2023 is noted below. Key Executives and advisors have attended these meetings, where appropriate, to present and provide feedback on actions throughout the year.

	Year ended 31 December 2023				
	Board meetings				
Name of the Director	**Scheduled**	**Ad hoc[1]**	**Audit Committee**	**Remuneration and Nominations Committee**	**HSSE**
Total number of meetings held	**5**	**15**	**3**	**2**	**4**
Graham Lyon (Executive Chair)	5	15	N/A	N/A	N/A
Mohammed Seghiri (COO)	5	12	N/A	N/A	4
David Blewden	5	14	3	2	N/A
*Marco Fumagalli	3	9	1	1	N/A
Christian Bukovics	5	13	N/A	2	4
**Simon Ashby-Rudd	2	4	2	1	N/A

1 Ad hoc meetings: Additional meetings called for a specific business matter or of a more general administration nature, not necessarily requiring full Board attendance.

*Marco Fumagalli resigned during the year
**Simon Ashby-Rudd was appointed during the year

What the Board did in 2023

Governance and Risk – 20%

- Ongoing consideration of the Quoted Companies Alliance Corporate Governance Code and a review of the requirements of the Code
- AIM training carried out by the Company's Nominated Advisor to Directors to ensure that the Board is up to date with regard to their regulatory requirements
- Appointed a new Independent Non-Executive Director
- Updates from Board Committees following every Committee meeting
- Board Evaluation progress Review
- Updates from the Group Auditor via the Audit Committee

Strategy – 20%

- Held a dedicated Strategy day
- Reviewed Corporate scenarios

Investor Engagement – 15%

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

People, Visions, Values – 15%

- Reviewed Staffing levels
- Assed staff performance
- Benchmarked Corporate values

Performance Monitoring – 30%

- Updates from the Chairman of the Audit, Remuneration and HSSE Committees
- Weekly reports received by the Board
- Approval full and half-year results

Health, Safety, Security & Environment Committee

Committee Members and Participants

During 2023, the HSSE Committee comprised of Christian Bukovics (Chair) and Mohammed Seghiri. Those within the business responsible for matters pertaining to HSSE, are invited to join and present to the Committee as appropriate.

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

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

A full report of the activities of the HSSE Committee can be found on pages 28 to 30.

2023 Activities

- The Sound Energy plc HSSE Committee met on 4 occasions in 2023, January, March, September and November.

- Each meeting follows a set agenda where HSSE performance, progress on annual objectives and any required adjustment to strategy are discussed. Specific issues and challenges are discussed as they arise, and appropriate responses recommended.

- Key focus was placed upon safe operations and the avoidance of any environmental damage during civil construction activities. This was done by ensuring full time safety supervision at Tendrara and monthly evaluation of conformance with our environmental impact assessment. The activity leading to most accidents in the oil and gas industry, road transport, received continuing attention.

- Continual reviews were completed to ensure safe working measures were implemented both within the UK and Morocco.

- An HSSE Plan and HSSE KPIs were developed to ensure the tracking of Company goals for 2023 and reporting back to the Committee.

- A specific problem arose when the subcontractor selected by the main micro-LNG contractor ITF for erection of the LNG tank turned out to be unable to execute this task in a safe and efficient way. Eventually Sound and ITF agreed to assign full responsibility for the erection of the LNG tank to its manufacturer Cryospain.

- The above efforts were rewarded with a good safety performance during the full year in 2023. In total,155553 man-hours were worked by Sound Energy Plc staff, contractors and sub-contractors, without only one recorded minor injury. 209 Safety Hazard Observation Cards, 540 JSAs and 372 Toolbox Talks were completed at site.

2024 Looking Forward

- The Committee has developed KPIs relevant to the 2024 works scope at Tendrara, which includes well-related work utilising a drilling rig, LNG storage tank construction under Cryospain supervision and the arrival and installation of mLNG procession packages which will involve multiple mechanical lifting operations. The Committee will continue to focus on supporting the Sound organisation to secure sufficient own capabilities and capacities to manage the main contractors and to ensure that these contractors in turn mobilise fit-for-purpose project organisations capable of delivering the project in a safe and efficient manner.

- Continuously monitor the effectiveness of Company Safety programs to ensure they are relevant to Company activities and understood by all Company Employees and Contractors. Ensure tracking for the closure of Action items raised during HSSE Committee meetings.
- HSSE management system and resources to be kept under review.
- Ensure ongoing transparent reporting to the HSSE Committee with updates provided to the Board.
- Continuing to proactively monitor and adjust strategy throughout 2024.

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

Audit Committee Report

Committee Members and Participants

During 2023, the Company's Audit Committee comprised David Blewden (Chair), Marco Fumagalli (until June 2023) and Simon Ashby-Rudd (from June 2023 onwards). The CFO and Group Financial Controller are also invited to attend parts of most meetings and the external auditor is invited to attend parts of meetings regarding preparation and approval of financial reporting.

Audit Committee Activities

The Audit committee met on three occasions in 2023 regarding financial reporting, audit and risk management.

Responsibilities

The main responsibilities of the Audit Committee are to monitor the integrity of the Group's financial statements and other formal announcements relating to financial performance. The Committee approves the risk management policy, strategic risks and mitigation actions allocated to the Executive team. Follow-up reviews are undertaken throughout the year to ensure effective risk management and appropriate internal controls are in place. The responsibility for the enforcement of the Company's code of conduct, and the adequacy and security of the anti-bribery and corruption policy, also rests with the Audit Committee.

2023 Review

- Approved audited and interim financial statements, including key judgements and policies to ensure they are fair, balanced and understandable for our shareholders.
- Reviewed and recommended the reappointment of our external Auditor Crowe UK LLP, including fee structure.
- Review of the Company's principal risks and uncertainties.
- Ongoing monitoring of the going concern status of the business.
- Ensured that necessary financial controls were in place and had been tested.

2024 Looking Forward

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

Financial and Business Reporting

Based on the financial statements, the Audit Committee reviews and evaluates whether the Company is a going concern and communicates to the Board its findings and recommendations. The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects. The statement setting out the reasons why the Board continues to adopt the going concern basis for preparing the financial statements is included in note 1 to the financial statements on page 68.

Risk and Controls

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

A summary of our approach and strategic risks is covered in detail on pages 31 to 34.

Conflicts of Interest

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

Auditor

While Crowe UK LLP has been the Group's statutory auditor for 14 years, the Committee are comfortable that their audit remains independent.

David Blewden
Chairman of the Audit Committee

Nominations and Remuneration Committee Report

The Committee and the wider Board recognise the importance of attracting, retaining and motivating talent within the Board and wider Executive team to promote the successful growth of the Group. As Sound Energy continues to develop, the Company's remuneration policy and framework has evolved to ensure that Directors and Executives are rewarded for achieving strategic targets and creating value for shareholders. We have created a remuneration framework that is appropriately aligned, both to our business and to the interests of our shareholders. The Committee ensures that the policy is fit for purpose and transparent.

Principles For Executive Remuneration

The main principles of the Senior Executive remuneration policy are set out below:

- Attract and retain high-calibre Executives in a competitive international market, and remunerate Executives fairly and responsibly;
- Motivate the delivery of our key business strategies and encourage a strong performance-oriented culture;
- Reward achievement over the short and long term;
- Support both near-term and long-term success and sustainable shareholder value;
- Align the business strategy and achievement of planned business objectives;
- Be compatible with the Company's risk policies and systems;
- Ensure that a proportion of remuneration is performance related; and
- Take into consideration the views of shareholders and best practice guidelines.

As set out in last year's Annual Report, the Remuneration Committee revised the Company's remuneration policy in 2022 which ensured alignment of Executives' rewards for delivery of the success of the business with shareholders. The framework of the policy incentivises and drives the Executive team to strive for success, but also aligns them clearly with the aspirations of shareholders for capital growth and ultimately long-term value to the business for all stakeholders.

Fixed remuneration comprises salary, pension and benefits. Variable pay includes the potential for an annual bonus and a longer-term incentive plan. As was reported in last year's Annual Report, the Committee assessed the ongoing use of the previously existing Restricted Stock Option (RSU) scheme and replaced it with a LTIP (Long-Term Incentive Plan) scheme, which was considered more appropriate. The Committee continues to recognise that it may be necessary, on occasion, to use its discretion to make remuneration decisions outside the standard remuneration policy, such as agreeing a sign-on payment, to attract and retain talent. However, no such discretion was exercised in 2023.

Christian Bukovics
Chairman of the Nominations and Remuneration Committee

Directors' Remuneration Report

Remuneration Policy

Purpose	Operation	Maximum opportunity	Performance measures
Salary			
Attract and retain the right calibre of staff required to support the long-term success of the business. Provide the basis for a competitive remuneration package.	Determined by reference to market data and advice from external remuneration advisor. Reflects individual experience, skills and role. Paid monthly. Reviewed annually.	Increases will be made at the discretion of the Committee, or for Non-Executive Directors, the Executive Directors, considering: • increase in responsibility, particularly as the Company grows and expands • development and performance in the role • alignment to the market level	There are performance measures in place, and the performance of the individual is considered when setting and reviewing salaries annually.
Pension			
Provide a level of pension provision that is compliant with regulation and allows staff to build long-term retirement savings.	Defined contribution based on a percentage of salary. Executives may elect to take part of their pension contribution as salary.	4.5% of base salary. No element other than salary is pensionable.	None. Pension contribution is set at the commencement of an individual's contract.
Benefits			
Protect against risks and provide other benefits reflecting the international aspects of roles.	Private medical and dental insurance in the UK, permanent health insurance and life assurance cover.	Set at a level that provides sufficient benefit.	None.
Bonus Awards			
Provide a direct link between measurable individual performance and rewards. Encourage the achievement of outstanding results aligned to Group strategy and achievement of business objectives	An individual Executive bonus is based on performance measured against Group and personal objectives. Performance measures are both quantitative and qualitative, and both financial and non-financial. The payment of bonus awards is in form of nil stock options, which replaced the restricted stock unit plan. Any cash payments made by the Company is made at the sole discretion of the Remuneration Committee.	The value of any bonus is at the discretion of the Remuneration Committee.	Performance is assessed using specific metrics set by the Remuneration Committee, including the delivery of the Company scorecard and the share price performance.

<table>
<tr><th>Purpose</th><th>Operation</th><th>Maximum Opportunity</th><th>Performance measures</th></tr>
<tr><td colspan="4">Long-Term Incentive Plan (LTIP)</td></tr>
<tr>
<td>Reward execution of Group strategy and growth in shareholder value over a multiple-year period.

Long-term performance measurement discourages excessive risk-taking and inappropriate short-term behaviours and aligns Executive interests with those of shareholders.

The LTIP is designed to retain Senior Executives over the performance period of the awards.</td>
<td>LTIP awards are made by the Committee for the CEO and for Executives by the Committee based on CEO recommendations.

At vesting, the LTIP awards are satisfied in Sound Energy shares.

Awards will, typically, lapse on termination of employment, although the Committee may determine that awards may vest after termination of employment, in accordance with the plan rules and taking into account performance during the date of grant and date of termination of employment.

In the event of a change in control of the Company, decisions relating to the extent to which any vesting conditions have been fulfilled and the level of vesting will be taken by the Committee, as constituted immediately prior to the date on which control passes.</td>
<td>The opening price, against which the performance is measured, and the below multiples were chosen, is the price at 30 April 2022 (2.40) p</td>
<td>Vesting of the LTIP Options will be subject to: (a) the Company's share price on the third anniversary of the date of grant (the "Performance Testing Date"); and (b) to the grantee remaining an executive employee of the Company on the Performance Testing Date. Actual vesting of the LTIP Options, the number of which is determined on the Performance Testing Date, will then occur in three tranches on the third (25%), fourth (35%) and fifth (40%) anniversaries of grant. The number of LTIP Options vesting on the Performance Testing Date will be calculated as follows, with a linear relationship between vesting thresholds:

In the event the LTIP Options vest, in whole or in part, then they will be exercisable at a price of 2.4 pence per new ordinary share.

<table>
<tr><th>Share price on Performance Testing Date</th><th>% Options Vesting</th></tr>
<tr><td>≥ 5.38p</td><td>50%</td></tr>
<tr><td>≥ 10.75p</td><td>100%</td></tr>
</table>
</td>
</tr>
<tr><td colspan="4">Chairman and Non-Executive Director Fees</td></tr>
<tr>
<td>Provide an appropriate reward to attract and retain high calibre individuals.</td>
<td>The fee for the Chairman and Non-Executive Directors reflects the level of commitment and responsibility of the role.

The fee is paid monthly in cash and is inclusive of all Committee roles.</td>
<td>Set at a level that reflects the commitment and contribution expected from the Chairman and Non-Executive Directors and is appropriately positioned against comparable roles in companies of a similar size and complexity.

Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.</td>
<td>Benchmarked externally from time to time as appropriate.</td>
</tr>
</table>

Recruitment Remuneration Arrangements

When recruiting a new Executive Director, whether from within the organisation or externally, the Committee will take into consideration all relevant factors to ensure that remuneration arrangements are in the best interests of the Company and its shareholders without paying more than is necessary to recruit an Executive of the required calibre. The Committee will seek to align the remuneration package offered with the remuneration policy outlined above but retains discretion to make proposals on hiring that are outside the standard policy.

Director Shareholding Guidelines

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

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

The Committee has discretion to change the shareholding targets.

Executive Director Employment Contracts and Termination Payments

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

External Appointments

It has been expressly agreed that the Executive Chairman must obtain agreement from the Board before accepting additional commitments that might affect the time, he is able to devote as Chair of the Company.

Remuneration Policy for the Chairman and Non-Executive Directors

The Non-Executive Directors are appointed under employment contracts with a notice period for termination of six months. The Service Contracts cover such matters as duties, time commitment and other business interests.

Loss of Office and Change of Control Provisions

In the event of a change of control of the Company occurring during their employment, Mohammed Seghiri, COO, has the option to give notice and receive a lump sum equivalent to six months' salary.

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

Summary of Actual Remuneration of Directors

	Salary £'000	**Bonus £'000**	**Company pension £'000**	**Benefits in Kind £'000**	**Total 2023 £'000**	Total 2022 £'000
Executive Chairman & Executive Director						
Graham Lyon	261	19	–	1	281	441
Mohammed Seghiri	209	–	3	8	220	649
Non-Executive Directors						
Marco Fumagali (i)	18	–	–	–	18	44
David Blewden	45	–	–	–	45	44
Christian Bukovics	45	–	–	–	45	44
Simon Ashbury-Rudd (ii)	24	–	–	–	24	–
Total for all Directors	602	19	3	9	633	1,222

(i) Marco Fumagali retired during the year
(ii) Salary from the date of appointment

In 2022, the Company adopted a new long term incentive plan (the ''LTIP''), designed to reward, incentivise and retain the Company's executives and senior management to deliver sustainable growth for shareholders.

LTIP Awards

	Date of grant	**Exercisable date**	**Acquisition price per share (pence)**	**Options held at 1 January 2023**	**Options held at 31 December 2023(i)**
Graham Lyon	03.05.22	03.05.25–03.05.32	2.4	12,218,879	12,218,879
Mohammed Seghiri	03.05.22	03.05.25–03.05.32	2.4	7,331,327	7,331,327

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

Directors' Shareholdings and Interests in Shares

Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company as at 31 December 2023:

	No. of shares
Graham Lyon (Chairman)	2,066,962
Mohammed Seghiri (COO)	11,083,316
David Blewden	1,676,471
Christian Bukovics	500,000
Simon Ashby-Rudd	–

Nil cost options

	Date of grant	**Exercisable date**	**Nil cost options held at 1 January 2023**	**Nil cost options held at 31 December 2023**
Graham Lyon	03.05.22	03.05.22–03.05.27	7,740,943	7,740,943
Mohammed Seghiri	03.05.22	03.05.22–03.05.27	4,308,017	4,308,017

Nil cost options to Executives and staff were granted in 2022 in settlement of 2020 and 2021 bonus awards.

Movements in Share Price During the Year

The Company's share price at the end of the financial year was 0.715 pence and the range of mid-market prices during the year was between 0.670 pence and 2.05 pence.

Advice Received by the Committee

The Committee has access to advice when it is considered appropriate. The Committee engages a consultant to review the existing Company's Directors' remuneration when necessary. In 2023, no amount was paid for such consultancy for services provided (2022: £600).

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 23 April 2024 and signed on its behalf by:

Christian Bukovics
Chairman of the Nominations and Remuneration Committee

Directors' Report

Other Disclosures

Pages 39 to 55 inclusive (together with sections of the Annual Report incorporated by reference) constitute a Directors' Report that has been drawn up and presented in accordance with applicable UK Company law, and the liabilities of the Directors in connection with that report are subject to the limitations and restrictions provided by that law.

Principal Activities and Business Review

Sound Energy plc is the holding Company for a group of transition energy focused companies whose principal activities are currently the exploration, appraisal and development of gas assets. The Group's current principal area of activity is Morocco and has recently pivoted its monetisation strategy from exploration towards development of its existing discovery in Eastern Morocco. A review of the performance and future development of the Group's business is contained on pages 2 to 34 and forms part of this report.

Results and Dividends

The loss for the year after tax was £7.0 million (2022: £5.0 million). The Directors do not recommend the payment of a dividend.

Going Concern

Disclosure on going concern is included in note 1 to the financial statements. See page 68.

Auditor

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

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

Political Donations

No political donations were made during the year (2022: £nil).

Takeover Directive

The Company has only one class of ordinary share and these shares have equal voting rights. The nature of individual Directors' holdings is disclosed on page 51.

Board of Directors

The names of the present Directors and their biographical details are shown on pages 39 to 40.

The Directors who served during the year were as follows:

- Graham Lyon
- David Blewden
- Marco Fumagalli
- Mohammed Seghiri
- Christian Bukovics
- Simon Ashby-Rudd

None of the Directors had any interest during, or at the end of, the year in any contract of significance in relation to the business of the Company or its subsidiary undertakings.

Full details of the interests in the ordinary share capital of the Company of those Directors holding office on 31 December 2023 are set out in the Directors' Remuneration Report.

Powers Given to Directors

The powers given to the Directors are contained in the Articles of Association (the "Articles") and are subject to relevant legislation and, in certain circumstances (including in relation to the issuing or buying back by the Company of its ordinary shares), subject to authority being given to the Directors by shareholders in a general meeting. The Articles also govern the appointment and replacement of Directors. The Articles, which may only be amended with shareholders' approval in accordance with relevant legislation, can be found on our website.

Indemnities

Insurance cover also remains in place to protect all Directors and senior management in the event of a claim being brought against them in their capacity as Directors or officers of the Company and its subsidiaries.

Share Capital

At 31 December 2023, the Company had 1,963,122,679 ordinary shares in issue as shown in note 18 to the consolidated financial statements. There are no restrictions on the transfer of the Company's ordinary shares other than certain restrictions that may be imposed by law, for example, insider trading law and the Company's share dealing code. Each ordinary share carries the right to one vote at General Meetings of the Company. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Substantial Shareholding

The Company was advised of the following significant direct and indirect interests in the issued ordinary share capital of the Company as at 31 December 2023 and up to the date of this report.

Oil & Gas Investment Fund SAS of Morocco holds 265,508,651 shares, representing a 13.52% interest.

Financial Instruments

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

Subsequent Events

See note on page 95.

Graham Lyon
Executive Chairman
23 April 2024

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with UK adopted international accounting standards and applicable law. Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group, and of the profit or loss of the Group, for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and to disclose, with reasonable accuracy, at any time, the financial position of the Company, and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are further responsible for ensuring that the Strategic Report and the Directors' Report and other information included in the Annual Report and financial statements are prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of Sound Energy plc's website is the responsibility of the Directors; the work carried out by the auditor does not involve the consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in the Annual Report may differ from legislation in other jurisdictions.

Graham Lyon
Executive Chairman
23 April 2024

Independent Auditor's Report

to the members of Sound Energy plc

Opinion

We have audited the financial statements of Sound Energy plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2023, which comprise:

- the Group statement of comprehensive income for the year ended 31 December 2023;
- the Group and Company balance sheets as at 31 December 2023;
- the Group and Company statements of changes in equity for the year then ended;
- the Group and Company statements of cash flows for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK-adopted international accounting standards.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2023 and of the Group's loss for the year then ended;
- the group and company financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the financial statements have been prepared with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty in relation to going concern

We draw attention to Note 1 in the financial statements. The Group's cash flow for the next twelve-month period to April 2025, indicate that additional funding will be required to enable the Group to meet its obligations.

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

In auditing the financial statements, we have concluded that the directors use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the director's assessment of the group and company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the cash flow requirements of the Group and Company over the duration of the assessment period based on budgets and forecasts.
- Understanding what forecast expenditure is committed and what could be considered discretionary.
- Considering potential downside scenarios and the resultant impact on available funds.
- Testing the mathematical accuracy of the forecasts

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £2.0m (2022: £2.2m) and the overall materiality for the parent company is £1.9m (2022: £1.6m), based on 1% of assets.

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

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality of £1.2m (2022: £1.2m) is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.
Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £40,000 (2022: £44,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The head office of the Group is located in the UK which has an accounting function for group reporting as well as the head office costs and certain exploration activities.

The Group also has operations in Morocco which has a separate accounting function. We have performed a remote audit of the accounting systems operating locally in Morocco in order to perform the required audit work.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to going concern which is described in the Material uncertainty in relation to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	***How the scope of our audit addressed the key audit matter***
Impairment of exploration and evaluation assets The Group's primary focus is on exploration activities in Eastern and Southern Morocco. Exploration expenditure in the current year was significant and totalled £0.7m. The carrying value of the exploration and evaluation assets was £35m at 31 December 2023 (note 11). Management are required to assess these	We reviewed management's assessment which concluded that there are no facts or circumstances that indicate the carrying amount of the assets exceeds the recoverable amount. In considering this assessment we performed the following: • Challenged management's assessment with respect to the indicators of impairment as outlined under IFRS 6 • Reviewed the board minutes, budgets and other operational plans setting out the Group's current plans for the continued commercial appraisal of each exploration asset • Obtained evidence of continued legal title

assets for impairment under IFRS 6 which requires significant management judgement and various assumptions. As these amounts are material and the group are still developing these assets with their recoverability subject to a number of factors, there is a risk that they could be impaired.	• Reviewed current well and licence reserve appraisals • Discussed and critically analysed plans and intentions with management

Impairment of development and production assets
 	
The Group has a significant amount of development and production assets which totalled £157.8m at 31 December 2023 (note 10).
 	
Management are required to assess these assets for impairment which requires significant management judgement and various assumptions. As these amounts are material and the group are still developing these assets with their recoverability subject to a number of factors, there is a risk that they could be impaired.
	We reviewed management's assessment which included their internal model, including the consideration of whether the assets are impaired and concluded that there are no facts or circumstances that indicate the carrying amount of the assets exceeds the recoverable amount.
	
	In considering this assessment we performed the following:
	• Obtained management's impairment assessment carried out during the year
	• Challenged management's inputs into the valuation model to available market data and other sources of evidence. This included the assessment of:
	  ◦ the discount rate;
	  ◦ implicit oil price and;
	  ◦ reserves
	• Reviewed the board minutes, budgets and other operational plans setting out the Group's plans in regard to the exclusivity award
	• Discussed and critically analysed plans and intentions with management

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below however the primary responsibility for the prevention and detection of fraud lies with management and those charged with governance of the company.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and the procedures in place for ensuring compliance. The most significant identified were the Companies Act 2006 and UK and Moroccan taxation legislation. Our work included, reviewing board and relevant committee minutes and inspection of correspondence and HSE reports.

- As part of our audit planning process we assessed the different areas of the financial statements, including disclosures, for the risk of material misstatement. This included considering the risk of fraud where direct enquiries were made of management and those charged with governance concerning both whether they had any knowledge of actual or suspected fraud and their assessment of the susceptibility of fraud. We considered the risk was greater in areas involve significant management estimate or judgement. Based on this assessment we designed audit procedures to focus on the key areas of estimate or judgement, including impairment, this included specific testing of journal transactions, both at the year end and throughout the year.

- We used analytics to identify any unusual transactions or unexpected relationships, including considering the risk of undisclosed related party transactions.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

These inherent limitations are particularly significant in the case of misstatement resulting from fraud as this may involve sophisticated schemes designed to avoid detection, including deliberate failure to record transactions, collusion or the provision of intentional misrepresentations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Leo Malkin (Senior Statutory Auditor)
for and on behalf of
Crowe U.K. LLP
Statutory Auditor
London
23 April 2024

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	**2023 £'000s**	2022 £'000s
Continuing operations			
Revenue		**–**	–
Other income	3	**42**	43
Reversal of impairment on development assets and exploration costs		**–**	5,678
Gross profit		**42**	5,721
Administrative expenses		**(2,396)**	(3,175)
Group operating (loss)/profit from continuing operations	4	**(2,354)**	2,546
Finance revenue	7	**42**	13
Foreign exchange (loss)/gain		**(2,846)**	5,462
Finance expense	25	**(1,994)**	(1,446)
(Loss)/profit for the year before taxation		**(7,152)**	6,575
Tax expense	8	**(8)**	(1,602)
(Loss)/profit for the year after taxation		**(7,160)**	4,973
Other comprehensive income			
Items that may subsequently be reclassified to the profit and loss account			
Foreign currency translation (loss)/gain		**(6,555)**	13,373
Total comprehensive (loss)/profit for the year		**(13,715)**	18,346
(Loss)/profit for the year attributable to:			
Owners of the Company		**(13,715)**	18,346

	Notes	**2023 Pence**	2022 Pence
Basic and diluted (loss)/profit per share for the year attributable to the equity shareholders of the parent (pence)	9	**(0.38)**	0.28

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2023

	Notes	2023 £'000s	2022 £'000s
Non-current assets			
Property, plant and equipment	10	**157,927**	163,362
Intangible assets	11	**35,002**	36,007
Prepayments	12	**5,092**	4,272
Interest in Badile land	26	–	637
		198,021	204,278
Current assets			
Inventories		**915**	963
Other receivables	14	**924**	2,815
Prepayments		**1,342**	139
Cash and short-term deposits	15	**3,016**	3,861
		6,197	7,778
Total assets		**204,218**	212,056
Current liabilities			
Trade and other payables	16	**2,495**	1,868
Tax liabilities	8	**199**	126
Lease liabilities	17	**121**	162
Loans and borrowings	25	–	1,121
		2,815	3,277
Non-current liabilities			
Lease liabilities	17	–	121
Tax liabilities	8	**1,410**	1,505
Loans and borrowings	25	**33,285**	29,068
		34,695	30,694
Total liabilities		**37,510**	33,971
Net assets		**166,708**	178,085
Capital and reserves			
Share capital and share premium		**39,898**	38,621
Shares to be issued		**374**	404
Accumulated surplus		**122,443**	129,004
Warrant reserve		**2,071**	1,607
Convertible bond reserve		**28**	–
Foreign currency reserve		**1,894**	8,449
Total equity		**166,708**	178,085

The financial statements were approved by the Board and authorised for issue on 23 April 2024 and were signed on its behalf by:

Graham Lyon- Director

The accounting policies on pages 68 to 74 and notes on pages 68 to 95 form part of these financial statements.

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2023

	Notes	**2023 £'000s**	2022 £'000s
Non-current assets			
Property, plant and equipment		**4**	5
Right of use assets	10	**101**	274
Software		**18**	–
Interest in Badile land	26	**–**	637
Investments in subsidiaries	13	**190,149**	197,132
		190,272	198,048
Current assets			
Other receivables	14	**59**	67
Prepayments		**29**	26
Cash and short-term deposits	15	**233**	1,521
		321	1,614
Total assets		**190,593**	199,662
Current liabilities			
Trade and other payables	16	**421**	765
Leases liabilities	17	**121**	162
Loans and borrowings	25	**–**	1,121
		542	2,048
Non-current liabilities			
Leases liabilities	17	**–**	121
Loans and borrowings	25	**33,285**	29,068
		33,285	29,198
Total liabilities		**33,827**	31,237
Net assets		**156,766**	168,425
Capital and reserves			
Share capital and share premium		**39,898**	38,621
Shares to be issued		**374**	404
Accumulated surplus		**114,395**	127,793
Warrant reserve		**2,071**	1,607
Convertible bond reserve		**28**	–
Total equity		**156,766**	168,425

The Company's accumulated surplus includes a loss for the year of £14.0 million (2022: profit of £18.6 million).

The financial statements were approved by the Board and authorised for issue on 23 April 2024 and were signed on its behalf by:

Graham Lyon – Director

GROUP AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

Group

	Notes	Share capital £'000s	Share premium £'000s	Shares to be issued £'000s	Accumulated surplus £'000s	Warrant reserve £'000s	Convertible Bond reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2023		**18,487**	**20,134**	**404**	**129,004**	**1,607**	**–**	**8,449**	**178,085**
Total loss for the year		–	–	–	(7,160)	–	–	–	(7,160)
Other comprehensive loss		–	–	–	–	–	–	(6,555)	(6,555)
Total comprehensive loss		–	–	–	(7,160)	–	–	(6,555)	(13,715)
Issue of share capital on conversion of bond	25	1,000	46	–	–	–	–	–	1,046
Other share capital issues	18	114	87	–	–	–	–	–	201
Transfer to share capital on issue of shares	18	30	–	(30)	–	–	–	–	–
Fair value of warrants issued during the year		–	–	–	–	464	–	–	464
Equity component of convertible bond		–	–	–	–	–	562	–	562
Cost of issue allocated to equity component		–	–	–	–	–	(174)	–	(174)
Transfer to accumulated surplus on bond conversion to shares		–	–	–	360	–	(360)	–	–
Share-based payments	23	–	–	–	239	–	–	–	239
At 31 December 2023		**19,631**	**20,267**	**374**	**122,443**	**2,071**	**28**	**1,894**	**166,708**

Company

	Notes	Share capital £'000s	Share premium £'000s	Shares to be issued £'000s	Accumulated surplus £'000s	Warrant reserve £'000s	Convertible bond reserve £'000s	Total equity £'000s
At 1 January 2023		**18,487**	**20,134**	**404**	**127,793**	**1,607**	**–**	**168,425**
Total loss for the year		–	–	–	(13,997)	–	–	(13,997)
Issue of share capital on conversion of bond		1,000	46	–	–	–	–	1,046
Other issue of share capital		114	87	–	–	–	–	201
Transfer to share capital on issue of shares		30	–	(30)	–	–	–	–
Fair value of warrants issued during the year		–	–	–	–	464	–	464
Equity component of convertible bond		–	–	–	–	–	562	562
Cost of issue allocated to equity component		–	–	–	–	–	(174)	(174)
Transfer to accumulated surplus on bond conversion to shares		–	–	–	360	–	(360)	–
Share-based payments	23	–	–	–	239	–	–	239
At 31 December 2023		**19,631**	**20,267**	**374**	**114,395**	**2,071**	**28**	**156,766**

GROUP AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

Group

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

Company

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

GROUP STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	**2023 £'000s**	2022 £'000s
Cash flow from operating activities			
Cash flow from operations		**(1,403)**	(3,928)
Interest received		**42**	13
Tax paid		**(134)**	(7)
Net cash flow from operating activities		**(1,495)**	(3,922)
Cash flow from investing activities			
Capital expenditure		**(1,600)**	(1,519)
Exploration expenditure		**(660)**	(399)
Prepayment for Phase 1 the mLNG project		**(820)**	(4,272)
Receipt from interest in Badile land		**134**	–
Net cash flow from investing activities		**(2,946)**	(6,190)
Cash flow from financing activities			
Net proceeds from equity issue		**–**	3,680
Net proceeds from borrowings		**4,442**	7,233
Interest payments	25	**(441)**	(431)
Lease payments		**(180)**	(58)
Net cash flow from financing activities		**3,821**	10,424
Net (decrease)/increase in cash and cash equivalents		**(620)**	312
Net foreign exchange difference		**(225)**	636
Cash and cash equivalents at the beginning of the year		**3,861**	2,913
Cash and cash equivalents at the end of the year	15	**3,016**	3,861

Note to Statement of Cash Flows

for the year ended 31 December 2023

	2023 £'000s	2022 £'000s
Cash flow from operations reconciliation		
(Loss)/profit for the year before tax	**(7,152)**	6,575
Finance revenue	**(42)**	(13)
Decrease/(increase) in drilling inventories	**48**	(92)
Decrease/(increase) in receivables and prepayments	**688**	(2,071)
(Decrease)/increase in accruals and short-term payables	**(343)**	190
Reversal of impairment on development assets and exploration costs	**–**	(5,678)
Impairment of interest in Badile land	**125**	107
Depreciation	**194**	101
Share-based payments charge and remuneration paid in shares	**239**	969
Finance expense and exchange adjustments	**4,840**	(4,016)
Cash flow from operations	**(1,403)**	(3,928)

Non-cash transactions during the period included the issue of 99,999,994 ordinary shares, following partial conversion of the convertible bond. 11,404,221 ordinary shares were issued to third parties in settlement of approximately £0.2 million due for services provided and 3,015,790 ordinary shares were issued following the exercise of nil cost options by a member of staff. The Group has provided collateral of $1.75 million (2022: $2.5 million) to the Moroccan Ministry of Petroleum to guarantee the Group's minimum work programme obligations for the Anoual, and Sidi Mokhtar permits. The cash is held in a bank account under the control of the Company and, as the Group expects the funds to be released as soon as the commitment is fulfilled, on this basis, the amount remains included within cash and cash equivalents.

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	**2023 £'000s**	2022 £'000s
Cash flow from operating activities			
Cash flow from operations		**(3,253)**	(2,931)
Interest received		**21**	11
Net cash flow from operating activities		**(3,232)**	(2,920)
Cash flow from investing activities			
Receipt from interest in Badile land		**134**	–
Advances to subsidiaries		**(2,418)**	(7,947)
Cash received from subsidiaries		**161**	991
Net cash flow from investing activities		**(2,123)**	(6,956)
Cash flow from financing activities			
Net proceeds from equity issue		**–**	3,680
Net proceeds from borrowings		**4,442**	7,233
Interest payments		**(441)**	(431)
Lease payments		**(180)**	(58)
Net cash flow from financing activities		**3,821**	10,424
Net (decrease)/increase in cash and cash equivalents		**(1,534)**	548
Net foreign exchange difference		**246**	378
Cash and cash equivalents at the beginning of the year		**1,521**	595
Cash and cash equivalents at the end of the year	15	**233**	1,521

Note to Statement of Cash Flows

for the year ended 31 December 2023

	2023 £'000s	2022 £'000s
Cash flow from operations reconciliation		
(Loss)/profit before tax	**(13,997)**	18,581
Impairment of interest in Badile land	**125**	107
Intragroup recharges	**(1,145)**	(1,179)
Finance revenue	**(21)**	(11)
Decrease/(increase) in receivables and prepayments	**5**	(25)
(Decrease)/increase in accruals and short-term payables	**(344)**	135
Depreciation	**174**	58
Share-based payments charge, and remuneration paid in shares	**239**	969
Decrease in impairment and expected credit loss allowance on intercompany loans	**(421)**	(2,501)
Finance expense and exchange adjustments	**12,132**	(19,065)
Cash flow from operations	**(3,253)**	(2,931)

Non-cash transactions during the period included the issue of 99,999,994 ordinary shares, following partial conversion of bond. 11,404,221 ordinary shares were issued to third parties in settlement of approximately £0.2 million due for services provided and 3,015,790 ordinary shares were issued following the exercise of nil cost options by a member of staff.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting Policies

Sound Energy plc is a public limited Company registered and domiciled in England and Wales under the Companies Act 2006. The Company's registered office is 20 St Dunstan's Hill, London EC3R 8HL.

a) Basis of preparation

The financial statements of the Group and its parent Company have been prepared in accordance with UK-adopted International Accounting Standards.

The consolidated financial statements have been prepared under the historical cost convention, except to the extent that the following policies require fair value adjustments. The Group and its parent Company's financial statements are presented in sterling (£) and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these consolidated financial statements and by all Group entities, unless otherwise stated. All amounts classified as current are expected to be settled/recovered in less than 12 months unless otherwise stated in the notes to these financial statements. The Group and its parent Company's financial statements for the year ended 31 December 2023 were authorised for issue by the Board of Directors on 23 April 2024.

Going concern

As at 31 March 2024, the Group's cash balance was £2.5 million (including approximately £0.8 million held as collateral for a bank guarantee against permit commitments). The Directors have reviewed the Company's cash flow forecasts for the next 12-month period to April 2025. The Company's forecasts and projections indicate that, to fulfil its other obligations, primarily the Company's exploration permits commitments, the Company will require additional funding. The Company commenced its Phase 1 of the Concession upon taking FID on the micro-LNG project, and has continued to actively monitor the project schedule, costs and financing. The Company is progressing towards a final investment decision for Phase 2, pipeline led development of the Concession and received a conditional offer for partial financing of the Phase 2 development and continue to work to satisfy the conditions precedents and other elements necessary for the taking of Phase 2 FID.

The need for additional financing indicates the existence of a material uncertainty, which may cast significant doubt about the Group and Company's ability to continue as a going concern. These financial statements do not include adjustments that would be required if the Company was unable to continue as a going concern. The Company continues to exercise rigorous cost control to conserve cash resources, and the Directors believe that there are several corporate funding options available to the Company, including a farm-down on some of the Company's permits, and various debt funding options. Furthermore, based upon the Company's proven track record in raising capital in the London equity market, and based on feedback from ongoing financing discussions, the Directors have a reasonable expectation that the Company and the Group will be able to secure the funding required to continue in operational existence for the foreseeable future, and have made a judgement that the Group will continue to realise its assets and discharge its liabilities in the normal course of business. Accordingly, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

Use of estimates and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Estimation and assumptions

The key sources of estimation uncertainty, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are the impairment of intangible exploration and evaluation ("E&E") assets, impairment of development and production assets, investments, warrants, and the estimation of share-based payment costs.

E&E, development and production assets

When considering whether E&E assets are impaired, the Group first considers the IFRS 6 indicators set out in note 11. The making of this assessment involves judgement concerning the Group's future plans and current technical and legal assessments. In considering whether development and production assets are impaired, the Group considers various impairment indicators and whether any of these indicates existence of an impairment. If those indicators are met, a full impairment test is performed.

Impairment test

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset and chooses a suitable discount rate to calculate the present value of those cash flows. In undertaking these value in use calculations, management is required to make use of estimates and assumptions similar to those described in the treatment of E&E assets above. Further details are given in note 11.

At 31 December 2023, the Company's market capitalisation was £14.0 million, which is below the Group and Company's net asset value of £166.7 million and £156.8 million, respectively. Management considers this to be a possible indication of impairment of the Group and Company's assets. A significant portion of the Group's net assets is the carrying value of the development and producing assets and disclosures relating to management's assessment of impairment for these assets and the investment in subsidiaries are included in note 10, on the basis that the recoverability of the investment in subsidiaries in the Company balance sheet is linked to the value of the development and producing assets as, ultimately, the cash flows these generate will determine the subsidiaries' ability to pay returns to the Company.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The fair value is estimated using a discounted cash flow model ('DCF model''). The cash flows are derived from the latest budgets, expenditure and price data in signed gas sales agreements (for contracted gas sales volumes), market based price data (for uncontracted gas sales volumes), project contract or agreed heads of terms, and the latest management plans on project phasing. The recoverable amount is sensitive to the discount rate and gas price assumption as well as the Brent price assumption that impacts condensate sales pricing in the DCF model. The impairment test indicated that there was sufficient headroom and therefore no impairment charge was recognized as at 31 December 2023. The key assumptions used to determine the recoverable amount of the development and production assets are disclosed in note 10.

Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen, and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the continuing participation of key employees (note 19).

Fair value of warrants

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

Fair value of convertible bonds

The calculation of fair value on convertible bonds requires estimation of the discount rate to use when discounting outstanding principal and interest amounts at each reporting date. The discount rate is a significant input into the discounted cashflow model used by the Company to estimate the fair value of the convertible bonds. The key assumptions used are disclosed under the fair value measurement section of Note 20.

Taxation

The Group seeks professional tax and legal advice to make a judgement on application of tax rules on underlying transactions within the Group or with third parties. Tax treatment adopted by the Group may be challenged by tax authorities. The Group had tax cases where Morocco Tax Authority had claimed taxes relating to the Group historical permits transfers and intragroup transactions. During 2023, a settlement on the tax cases was agreed upon as disclosed in note 8.

Intercompany loans

The Company has funded its subsidiaries through non-interest bearing loans payable on demand. Given that the Company has no intention to call in the loans in the foreseeable future, the loans are classified as non-current investments. Other sources of estimate concern IFRS 9 on intercompany loans at parent Company level (note 13).

(b) Basis of consolidation

The Group financial statements consolidate the income statements, balance sheets, statements of cash flows and statements of changes in equity and related notes of the Company and its subsidiary undertakings.

Investments in subsidiaries

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

Separate financial statements

The Company has no intention of recalling the intercompany loans in the foreseeable future and, therefore, classifies them as investments in the Company balance sheet. On adoption of IFRS 9, the Company calculated the expected credit losses on intercompany loans based on lifetime expected credit loss. The expected credit loss is re-evaluated when credit risk significantly changes. Annually, the Company uses available external data on oil and gas industry default rates, where available, or speculative bond default rates as the basis for determining expected credit loss.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group, until the date that control ceases.

(c) Foreign currency translation

The functional currency of the Company is GBP sterling. The Group also has subsidiaries whose functional currencies are US dollar.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

On consolidation, the assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year unless this is not a reasonable approximation of the rates on the transaction dates. The resulting exchange differences are recognised in other comprehensive income and held in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that foreign operation is recognised in the income statement.

(d) Oil and gas assets

The Group's capitalised oil and gas costs relate to properties that are in the development, exploration and evaluation stage.

As allowed under IFRS 6, the Group has continued to apply its existing accounting policy to exploration and evaluation activity, subject to the specific requirements of the standard.

The Group applies the successful efforts method of accounting for E&E costs.

Exploration and evaluation assets

Under the successful efforts method of accounting, all permit acquisition, exploration and appraisal costs are initially capitalised in well, field or specific exploration cost centres as appropriate, pending determination.

Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

Costs are initially capitalised as E&E assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as E&E assets.

Treatment of exploration and evaluation expenditure at the end of appraisal activities

Intangible E&E assets relating to each exploration permit/prospect are carried forward until the existence (or otherwise) of commercial reserves has been determined subject to certain limitations including a review for indications of impairment. If, however, commercial reserves have been discovered and development has been approved, the carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets. If, however, commercial reserves have not been found, the capitalised costs are charged to expense after the conclusion of appraisal activities.

Development and production assets

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

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

Impairment of development and production assets

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

The carrying value is compared with the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from the production of commercial reserves. The cash-generating unit applied for impairment test purposes is generally the permit, except that a number of permit interests may be grouped as a cash-generating unit where the cash flows of each permit are interdependent.

Acquisitions, asset purchases and disposals

Acquisitions of oil and gas properties are accounted for under the purchase method when the transaction meets the definition of a business combination or joint venture. Transactions involving the purchase of an individual permit interest, or a group of permits interests, that do not qualify as a business combination are treated as asset purchases, irrespective of whether the specific transactions involve the transfer of the permit interests directly, or the transfer of an incorporated entity. Accordingly, no goodwill arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis. Where asset purchases include the payment of additional variable payments, such as net profit interests based on future gas sales, a liability is recognised when the production and sale of gas commences.

(e) Expenses recognition

Expenses are recognised on an accruals basis unless otherwise stated.

(f) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that, necessarily, take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(g) Income tax

Current tax

The current tax expense is based on the taxable results for the year, using tax rates enacted or substantively enacted at the balance sheet date, including any adjustments in respect of prior years. Amounts are charged or credited to the income statement or equity, as appropriate.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable results will be available, against which the temporary differences can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Temporary differences arising from investments in subsidiaries give rise to deferred tax in the Company balance sheet, only to the extent that it is probable that the temporary difference will reverse in the foreseeable future, or the Company does not control the timing of the reversal of that difference.

Deferred tax is provided on unremitted earnings of subsidiaries to the extent that the temporary difference created is expected to reverse in the foreseeable future. Deferred tax is recognised in the income statement, except when it relates to items recognised directly in the statement of changes in equity, in which case it is credited or charged directly to retained earnings through the statement of changes in equity.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Cash and cash equivalents also include restricted cash that has been placed as a guarantee for commitments on the permits.

(i) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Trade receivables and other receivables are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Cash and cash equivalents comprise cash on hand and demand deposits, restricted cash and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Derivative financial instruments are measured at fair value. Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into, and the definitions of a financial liability and an equity instrument. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, except for the liability component of the convertible bond which is measured at fair value. Warrants issued are measured at their fair value on the date of issuance. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below. Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Shares issued are held at their fair value on issue and are not subsequently remeasured.

(j) Share-based payments

Group issues equity-settled share-based payments to certain employees. The fair value of each long term incentive plan option ("LTIP") at the date of the grant is estimated using the Black–Scholes option-pricing model based upon the exercise price, the share price at the date of issue, volatility and the life of the option. The estimated fair value of the option is recognised as an expense over the options' vesting period with a corresponding increase to equity. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested, irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

(k) Inventories

Inventories represent drilling equipment and materials remaining after drilling operations are completed. Inventory is valued at lower of cost and net realisable value. The value of the inventory used during drilling operations is determined on a weighted average basis.

(l) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

I. Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

II. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period during which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the unwinding of discount and is reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the assessment to purchase the underlying asset.

III. Short-term leases and leases of low value assets

The Group applies the short-term lease recognition exemption to its short-term leases of offices, vehicles and rented staff housing (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. below $5,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

(m) Standards, interpretations and amendments to published standards

Amendments to published standards

A number of amendments to standards and interpretations have been issued, but they had no material impact on the measurement, recognition, presentation or disclosure of items in the Group financial statements.

(n) Earnings per share

Earnings per share are calculated using the weighted average number of ordinary shares outstanding during the period per IAS 33. Diluted earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the period, plus the weighted average number of shares that would be issued on the conversion of all potentially dilutive shares to ordinary shares. It is assumed that any proceeds obtained on the exercise of any options and warrants would be used to purchase ordinary shares at the average price during the period. Where the impact of converted shares would be anti-dilutive, these are excluded from the calculation of diluted earnings.

2 Segment Information

The Group categorises its operations into three business segments based on corporate, exploration and appraisal, and development and production.

In the year ended 31 December 2023, the Group's development, exploration and appraisal activities were primarily carried out in Morocco.

The Group's reportable segments are based on internal reports about components of the Group, which are regularly reviewed and used by the Board of Directors, being the Chief Operating Decision Maker ("CODM"), for strategic decision making and resource allocation, in order to allocate resources to the segment and to assess its performance.

Details regarding each of the operations of each reportable segments are included in the following tables.

Segment results for the year ended 31 December 2023:

	Corporate £'000s	Development and production £'000s	Exploration and appraisal £'000s	Total £'000s
Other income	–	–	42	42
Impairment of development assets and exploration costs	–	–	–	–
Administration expenses	(2,396)	–	–	(2,396)
Operating (loss)/profit segment result	**(2,396)**	**–**	**42**	**(2,354)**
Interest receivable	42	–	–	42
Finance expense and exchange adjustments	(4,840)	–	–	(4,840)
(Loss)/profit for the period before taxation from continuing operations	**(7,194)**	**–**	**42**	**(7,152)**

The segments assets and liabilities at 31 December 2023 is as follows:

	Corporate £'000s	Development and production £'000s	Exploration and appraisal £'000s	Total £'000s
Non-current assets	137	162,908	34,976	198,021
Current assets	1,959	2,897	1,341	6,197
Liabilities attributable to continuing operations	(23,551)	(11,368)	(2,591)	(37,510)

2 Segment Information (continued)

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

	UK £'000s	**Morocco £'000s**
Development and production assets	**–**	**157,816**
Fixtures, fittings and office equipment	**4**	**6**
Right of use assets	**101**	**–**
Software	**18**	**8**
Prepayments	**–**	**5,092**
Exploration and evaluation assets	**–**	**34,976**
Total	**123**	**197,898**

Segment results for the year ended 31 December 2022 were as follows:

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

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

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

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

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

3 Other Income

	2023 £'000s	2022 £'000s
Research and development expenditure credit	**42**	43

During the year, the Company's subsidiaries received credit under the HMRC's Research and Development Expenditure Credit (RDEC) scheme for qualifying activities undertaken in prior years.

4 Operating (Loss)/profit

	2023 £'000s	2022 £'000s
Operating (loss)/profit is stated after charging:		
Depreciation	**194**	101
Employee costs	**1,215**	1,860
Impairment/(reversal) of impairment of development assets and exploration costs	**–**	(5,678)

5 Auditor's Remuneration

	2023 £'000s	2022 £'000s
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**63**	60
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**5**	5
Other assurance services	**–**	–
Tax services	**13**	7
	81	72

6 Employee Costs

	2023 £'000s	2022 £'000s
Staff costs, including the Executive Chairman and Executive Directors		
Share-based payments	**239**	969
Wages and salaries	**1,318**	1,437
Social security costs	**170**	214
Employee benefits	**93**	93
Employee costs capitalised to development and intangible assets	**(605)**	(853)
Total	**1,215**	1,860

6 Employee Costs (continued)

	2023 Number	2022 Number
The average monthly number of employees (including the Executive Chairman and Executive Directors) was:		
Technical and operations	**5**	4
Management and administration	**8**	10
Total	**13**	14

A proportion of the Group's employee costs is capitalised to the cost of development, exploration and appraisal under the Group's accounting policy for these assets. During the year, approximately £0.6 million (2022: £0.8 million) of employee costs was capitalised.

7 Finance Revenue

	2023 £'000s	2022 £'000s
Interest on cash at bank and short-term deposits	**42**	13
	42	13

8 Taxation

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

	2023 £'000s	2022 £'000s
Current tax		
UK corporation tax	**–**	–
Adjustment to tax expense in respect of prior years	**(8)**	(7)
Tax cases settlement (overseas tax)	**–**	(1,595)
Total current tax (charge)/credit	**(8)**	(1,602)
Deferred tax credit arising in the current year	**–**	–
Total tax (charge)/credit	**(8)**	(1,602)

(b) Reconciliation of tax charge

	2023 £'000s	2022 £'000s
(Loss)/profit before tax	**(7,152)**	6,575
Tax (charge)/credit charged at UK corporation tax rate of 23.5% (2022: 19%)	**1,681**	(1,249)
Tax effect of:		
Expenses not deductible for tax purposes	**(82)**	(49)
Settlement of tax cases	**–**	(1,595)
Tax losses not recognised	**(1,264)**	1,276
Change in UK tax rate	**(322)**	–
Differences in overseas tax rates	**(21)**	15
Total tax (charge)/credit	**(8)**	(1,602)

8 Taxation (continued)

Deferred tax assets have not been recognised in respect of tax losses available due to the uncertainty of the utilisation of those assets. Unrecognised tax losses as at 31 December 2023 were estimated to be approximately £14.8 million (2022: £8.8 million).

The Group had tax cases where Morocco Tax Authority had claimed taxes relating to the Group historical permits transfers and intragroup transactions. In May 2023, the Company entered into a settlement agreement with Morocco Tax Authority on a phased payment schedule back ended over 6 years. The amount paid on entry into the settlement agreement was approximately £126k (after taking account of exchange rate movements). The discounted non-current liability amounted to approximately £1.6 million as at 31 December 2023.

The table below sets out the current and non-current tax liability and the movement during the year.

	2023	2022
	£'000s	£'000s
Amounts due within one year	**199**	126
Amounts due after more than one year	**1,410**	1,505
	1,609	1,631
The movement during the year is as below:		
As at 1 January	**1,631**	–
Tax settlement	**–**	1,631
Unwinding of discount	**101**	–
Tax payment	**(126)**	–
Exchange adjustment	**3**	–
As at 31 December	**1,609**	1,631

9 (Loss)/profit per Share

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

	2023	2022
	£'000s	£'000s
(Loss)/profit for the year after taxation	**(7,160)**	4,973

	2023	2022
	Million	Million
Basic weighted average shares in issue	**1,882**	1,752
Dilutive potential ordinary shares	**–**	7
Diluted weighted average number of shares	**1,882**	1,759
	2023	2022
	Pence	Pence
Basic (loss)/profit per share	**(0.38)**	0.28
Diluted (loss)/profit per share	**(0.38)**	0.28

9 (Loss)/profit per Share (continued)

Due to loss during the year, the effect of the potential dilutive shares on the earnings per share would have been anti-dilutive and therefore were not included in the calculation of the dilutive earnings per share. In 2022, LTIP options awards and warrants totalling 138.8 million were all anti-dilutive and were not included in the calculation of diluted weighted average number of shares.

10 Property, Plant and Equipment

	Development and production assets £'000s	Fixtures, fittings and office equipment £'000s	Right-of-use assets £'000s	**2023 £'000s**
Cost				
At 1 January 2023	163,074	656	331	**164,061**
Additions	2,737	2	–	**2,739**
Exchange adjustments	(7,995)	(14)	–	**(8,009)**
At 31 December 2023	157,816	644	331	**158,791**
Impairment and depreciation				
At 1 January 2023	–	642	57	**699**
(Reversal)/charge for period	–	4	173	**177**
Exchange adjustments	–	(12)	–	**(12)**
At 31 December 2023	–	634	230	**864**
Net book amount	157,816	10	101	**157,927**

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

10 Property, Plant and Equipment (continued)

Change in estimate

The discount rate and forecast gas price are significant estimates used by the Company to determine the recoverable amount when undertaking impairment testing of the Company's Tendrara Production Concession. The Company has taken account of changes in market conditions and certain corporate parameters during the period and accordingly revised the discount rate to 11.25% as at 31 December 2023 from 12.5% at 31 December 2022. The Company at 31 December 2022 used an average of forecast gas price referenced to the Title Transfer Facility (''TTF'') in the Netherlands and the UK National Balancing Point (''NBP'') for pricing the forecasted uncontracted gas sales volumes for impairment testing. At 31 December 2023 the Company has used average TTF prices only since future gas sales contracts the Company is likely to enter into are expected to be priced in reference to TTF and in addition, the Company received an indicative non-binding gas pricing term sheet referenced to TTF. For the impairment testing, the average TTF gas price projections, from leading independent industry consultants, used for the period to 2032 (and increasing at 2% inflationary rate thereafter) was 14.39 US$/MMBtu. The average TTF and NBP gas price projections for the period to 2032 was 14.45 US$/MMBtu.

The Company's market capitalisation was £14.0 million as at 31 December 2023, which is below the Group's net assets of £166.7 million and the Company's net assets of £156.8 million. An impairment indicator therefore exists. The Company is pursuing a micro-LNG development (phase 1) followed by full field development (phase 2) of its TE-5 Horst concession at the Group's Tendrara permit and an impairment test was undertaken on the carrying amount of the Tendrara Production Concession. The Company used a DCF model ('Model'') to calculate the recoverable amount for the Company's share of the Tendrara Production Concession. The Model has an NPV of $204.0 million (£160.2 million) which when compared to the carrying amount of the development expenditure of £157.8 million indicated that no impairment was required.

The Model covers the period 2024 to 2049. The input to the Model included a discount rate of 11.25% and phase 1 gas price of $8.0 per mmbtu rising to the phase 1 gas price ceiling of $8.346 per mmbtu, indexed using a combination of the TTF and United States Henry Hub benchmark indexes. Phase 2 gas price used is a fixed price for the first 10 years for annual volume of 0.3 bcm and the price for uncontracted volumes referenced to an average forecast price of TTF and NBP with price range of US$12.10 per mmBTU in 2024 and $14.68 per mmBTU in 2033, increasing at 2% per annum thereafter, consistent with published sources. The base gas prices used are consistent with LNG GSA for the Phase 1 development and Phase 2 gas price is based on GSA signed with ONEE for the first ten years. The production volumes data was based on the 2018 CPR for Tendrara TE-5 Horst.

The well cost assumptions used were based on management's past experience; mLNG plant leasing costs were based on contract with the micro-LNG plant contractor; and pipeline related costs were based on Head of Terms entered into with a consortium of partners that had offered to provide a build, own, operate and transfer (''BOOT'') solution for the Phase 2 of the development. The Company's latest forecast covered the period to 2027, but the model extends to 2049, as that is the period required to produce the gas resources at Tendrara Production Concession and the economic cut-off. A change in the discount rate by 1% has a $23.2 million (£18.3 million) impact on the NPV and change in average TTF and NBP forecast gas price by $1/bbl has a $11.4 million (£9.0 million) impact on the NPV.

11 Intangibles

	Software £'000s	Exploration & Evaluation Assets £'000s	2023 £'000s
Cost			
At 1 January 2023	**375**	**46,594**	**46,969**
Additions	**22**	**729**	**751**
Exchange adjustments	**(15)**	**(1,741)**	**(1,756)**
At 31 December 2023	**382**	**45,582**	**45,964**
Impairment and depreciation			
At the start of the year	**356**	**10,606**	**10,962**
Charge for the year	**17**	**–**	**17**
Exchange adjustments	**(17)**	**–**	**(17)**
At 31 December 2023	**356**	**10,606**	**10,962**
Net book amount	**26**	**34,976**	**35,002**

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

Exploration and evaluation assets

Details regarding the geography of the Group's E&E assets is contained in note 2. The Directors assess for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. In making this assessment, the Directors have regard to the facts and circumstances noted in IFRS 6 paragraph 20. In performing their assessment of each of these factors, at 31 December 2023, the Directors have:

a. reviewed the time period that the Group has the right to explore the area and noted no instances of expiration, or permits that are expected to expire in the near future and not be renewed;
b. determined that further E&E expenditure is either budgeted or planned for all permits;
c. not decided to discontinue exploration activity due to there being a lack of quantifiable mineral resource; and
d. not identified any instances where sufficient data exists to indicate that there are permits where the E&E spend is unlikely to be recovered from successful development or sale.

On the basis of the above assessment, the Directors are not aware of any facts or circumstances that would suggest the carrying amount of the E&E asset may exceed its recoverable amount. During the year, the Group had capitalised interest costs of approximately £0.3 million (2022: £0.1 million).

12 Prepayments

Non-current prepayment of £5.1 million (2022: £4.3 million) and current prepayment of £1.3 million (2022; nil) relates to activities of the Company's Phase 1 mLNG Project in the Concession.

13 Investment in Subsidiaries

	2023			2022		
	Intercompany loans £'000s	**Cost of shares in subsidiaries £'000s**	**Total £'000s**	Intercompany loans £'000s	Cost of shares in subsidiaries £'000s	Total £'000s
Cost						
At 1 January	**216,819**	**–**	**216,819**	186,687	–	186,687
Additions	**3,641**	**–**	**3,641**	8,754	–	8,754
Repayment of intercompany loans	**(161)**	**–**	**(161)**	(991)	–	(991)
Exchange adjustment	**(10,884)**	**–**	**(10,884)**	22,369	–	22,369
At 31 December	**209,415**	**–**	**209,415**	216,819	–	216,819
Credit loss allowance and impairment						
At 1 January	**19,687**	**–**	**19,687**	22,189	–	22,189
(Decrease)/increase in credit loss	**(421)**	**–**	**(421)**	2,605	–	2,605
Impairment reversal	**–**	**–**	**–**	(5,107)	–	(5,107)
At 31 December	**19,266**	**–**	**19,266**	19,687	–	19,687
Net book amount at 31 December	**190,149**	**–**	**190,149**	197,132	–	197,132

The subsidiary companies of the Company at 31 December 2023, which are all 100% owned by the Company, are:

Name	**Incorporated**	**Principal activity**	**Registered addresses**
Sound Oil International Limited	British Virgin Isles	Holding Company	PO Box 173, Kingston, Chambers Road, Tortola, VG 1110, British Virgin Islands
Sound Oil (Asia) Limited	British Virgin Isles	Holding Company	PO Box 173, Kingston, Chambers Road, Tortola, VG 1110, British Virgin Islands
Arran Energy Holdings Limited	British Virgin Isles	Exploration Company	PO Box 662, Road Town, Tortola, VG 1110, British Virgin Islands
Mitra Energia Citarum Limited*	Mauritius	Exploration Company	Fifth Floor, Ebene, Esplanade, 24 Cybercity, Ebene, Mauritius
Sound Energy Morocco SARLAU**	Morocco	Exploration Company	Espace Les Patios, Avenue Anakhil, Batiment 2, 1 er Etage, Hay Ryad, Rabat
Sound Energy New Ventures Limited	UK	Dormant	20 St Dunstan's Hill, London EC3R 8HL UK

13 Investment in Subsidiaries (continued)

Name	Incorporated	Principal activity	Registered addresses
Sound Energy Sustainables Limited	UK	Renewable Energy	20 St Dunstan's Hill, London EC3R 8HL UK
Sound Energy Morocco East Limited	UK	Exploration Company	20 St Dunstan's Hill, London EC3R 8HL UK
Sound Energy Morocco South Limited	UK	Exploration Company	20 St Dunstan's Hill, London EC3R 8HL UK
Sound Energy Meridja Limited	UK	Exploration Company	20 St Dunstan's Hill, London EC3R 8HL UK

* The investment in Mitra Energia Citarum Limited is held, indirectly, via Sound Oil International Limited.

** The investment in Sound Energy Morocco SARLAU is held, indirectly, via Sound Energy Morocco East Limited.

On the basis that the recoverability of the investment in subsidiaries in the Company balance sheet is linked to the value of the development and production assets, as, ultimately, the cash flows these generate will determine the subsidiaries ability to pay returns to the Company, an impairment reversal of nil (2022: £5.1 million) was recognised for the investment in subsidiaries following the recognition of a reversal of impairment in the development and production assets (note 10).

On the adoption of IFRS 9, the Company calculated the expected credit losses on intercompany loans based on lifetime expected credit loss. The expected credit loss is re-evaluated when credit risk significantly changes. Annually, the Company uses available external data on oil and gas industry default rates, where available, or speculative bond default rates. The Company used a cumulative default rate of 9.2% (2022: 9.1%), obtained from publicly available data published by leading credit rating agencies. A reduction of credit loss of £0.4 million (2022: £2.6 million increase) was recognised in the income statement.

The Company has funded its subsidiaries through non-interest bearing loans payable on demand. Given that the Company has no intention to call in the loans in the foreseeable future, the loans are classified as non-current investments.

Composition of the Group

Information about the composition of the Group at the end of the reporting period is as follows:

Principal activity	Place of incorporation	Place of operation	**2023 Number**	2022 Number
Gas exploration	UK	Morocco	**3**	3
Holding companies	UK	UK	**1**	1
Dormant	UK	UK	**1**	1
Renewable energy	UK	Morocco	**1**	1
Holding companies	British Virgin Isles	British Virgin Isles	**2**	2
Gas exploration	British Virgin Isles	Morocco	**1**	1
Holding companies	Mauritius	Mauritius	**1**	1
Gas exploration	Morocco	Morocco	**1**	1

14 Other Receivables

Group

	2023	2022
	£'000s	£'000s
UK VAT	**23**	32
Morocco VAT	**426**	450
Other receivables	**475**	2,333
	924	2,815

Company

	2023	2022
	£'000s	£'000s
UK VAT	**23**	32
Other receivables	**36**	35
	59	67

15 Cash and Cash Equivalents

Group

	2023	2022
	£'000s	£'000s
Cash at bank and in hand	**1,453**	361
Cash equivalents:		
Short-term deposits	**1,563**	3,500
Carrying amount 31 December	**3,016**	3,861
Being:		
In US dollar	**2,734**	2,309
In euros	**13**	48
In sterling	**243**	1,472
In Moroccan dirham	**26**	32
Total	**3,016**	3,861

Company

	2023	2022
	£'000s	£'000s
Cash at bank and in hand	**45**	88
Cash equivalents:		
Short-term deposits	**188**	1,433
Carrying amount 31 December	**233**	1,521
Being:		
In US dollar	**6**	15
In euros	**13**	48
In sterling	**214**	1,458
Total	**233**	1,521

The Group has provided collateral of $1.75 million (£1.4 million) (2022: $2.5 million (£2.1 million)) to the Morocco Ministry of Petroleum to guarantee the Group's minimum work programme obligations. The cash is held in a bank account under the control of the Company and, as the Group expects the funds to be released as soon as the commitment is fulfilled, on this basis, the amount remains included within cash and cash equivalents.

16 Trade and Other Payables

Group

	2022 **£'000s**	2022 £'000s
Trade payable	**716**	713
Payroll taxes and social security	**145**	95
Accruals	**1,634**	1,060
	2,495	1,868

Company

	2023 **£'000s**	2022 £'000s
Trade payable	**102**	98
Payroll taxes and social security	**135**	89
Accruals	**184**	578
	421	765

17 Lease Liabilities

	2023 **£'000s**	2022 £'000s
Amounts due within one year	**121**	162
Amounts due after more than one year	**–**	121
	121	283
The movement during the year is as below:		
As at 1 January	**283**	–
Office lease entry	**–**	331
Unwinding of discount	**18**	10
Payments	**(180)**	(58)
As at 31 December	**121**	283

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

The right-of-use assets are reported within property, plant and equipment (note 10). During the year ended 31 December 2023, the amount recognised as short-term lease expenses, for the office lease in Morocco, was approximately £49,000 (2022: £45,000).

18 Capital and Reserves

Group and Company

	2023 Number of shares	**£'000s**	2022 Number of shares	£'000s
Ordinary shares – 1p	**1,963,122,679**	**19,631**	1,848,702,674	18,487

	2023 Number of shares	2022 Number of shares
At 1 January	**1,848,702,674**	1,629,183,907
Issued during the year for cash	**–**	200,000,000
Non-cash share issue	**114,420,005**	19,518,767
At 31 December	**1,963,122,679**	1,848,702,674

The share issues described below were all non-cash transactions.

Share issues

In June 2023, the Company issued 11,404,221 shares to third parties in settlement of services provided to the Company amounting to approximately £0.2 million.

In July 2023, the Company issued 3,015,790 shares following the exercise of nil cost options by a member of staff.

In August 2023, the Company issued 22,222,221 shares following a partial conversion amounting to £500,000 by the holders of the Company's £2.5 million convertible bonds (''the convertible bonds'').

In September 2023, the Company issued 22,222,221 shares following a partial conversion amounting to £500,000 by the holders of the convertible bonds.

In October 2023, the Company issued 22,222,221 shares following a partial conversion amounting to £500,000 by the holders of the convertible bonds.

In November 2023, the Company issued 22,222,221 shares following a partial conversion amounting to £500,000 by the holders of the convertible bonds.

In December 2023, the Company issued 11,111,110 shares following a partial conversion amounting to £250,000 by the holders of the convertible bonds.

Reserves

In 2018, the Company sought, and was granted, a court order approving a capital reduction following the cancellation of the share premium account. This resulted in the transfer of £277.7 million to distributable reserves.

19 Related Party Disclosures

Key management

As at 31 December 2023, there were two key management personnel other than Directors of the Company (2022: two). Details of the Directors' remuneration are set out in the Report of Directors' Remuneration. The table below shows the total remuneration of key management personnel, including the Directors.

	2023	2022
	£'000s	£'000s
Salaries and employee benefits	**1,041**	935
Share-based payments	**239**	915
	1,280	1,850

Key management (including Executive Directors) interest in LTIP and nil cost options

LTIP options awards by key management (including Executive Directors), at 31 December 2023, have the following expiry dates and exercise prices:

	Expiry date	Exercise price Pence	**2023 Number**	2022 Number
2022	2032	2.4p	**31,769,085**	31,769,075

Nil cost bonus options awards by key management (including Executive Directors) at 31 December 2023 have the following expiry dates and exercise prices:

	Expiry date	**2023 Number**	2022 Number
2022	2027	**12,048,960**	15,064,750

Other expenses

During the year, Treyford Energy Limited, associated with Mr Simon Ashby-Rudd, was paid £13,733 being consultancy fees for services provided prior to his appointment as a Non-Executive Director of Sound Energy plc.

20 Financial Instruments Risk Management

Objectives and policies

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group's financial instruments comprise trade payables, loans and borrowings, receivables, interest in Badile land, cash and short-term deposits. The main purpose of the financial instruments is to finance the Group's operations. The fair value of the financial instruments is their carrying value, with the carrying value amounts included in the Group balance sheet with further analysis in note 14 (Other Receivables), note 15 (Cash and Cash Equivalents), note 16 (Trade and Other Payables) and note 25 (Loans and Borrowings).

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

20 Financial Instruments Risk Management (continued)

	2023 **£'000s**	2022 £'000s
Financial assets		
Cash and short-term deposits	**3,016**	3,861
Other receivables and interest in Badile land	**924**	3,452
	3,940	7,313
Financial liabilities		
Trade and other payables	**2,495**	1,868
Loans and borrowings	**33,285**	30,189
	35,780	32,057

Fair value measurements

The Company classifies the fair value of the financial instruments according to the following hierarchy, based on the amount of observable inputs used to value the instrument. The three levels of the fair value hierarchy are as follows:

- Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology are derived from quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for, substantially, the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be, substantially, observed or corroborated in the marketplace.
- Level 3 – inputs to the valuation methodology are not based on observable market data.

The convertible bond amount of £1.0m at year end was measured at fair value and falls in Level 2 above. A discounted cashflow method was used using a discount rate of 17.7% to discount the outstanding principal balance of approximately £0.3 million and outstanding interest of £1.9 million over the outstanding term of the bonds. The discount rate is made up of the coupon interest plus a premium of approximately 2.7%, determined by reference to default spread of the region in which the Company operates.

Risks

The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk (note 21). The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

Market risk

Interest rate risk

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

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

Capital management

The Group's objective, when managing capital, is to safeguard the Group's ability to continue as a going concern in order to provide return for shareholders, benefit for other stakeholders, and to maintain optimal capital structure and to reduce the cost of capital. Management considers as part of its capital, the financial sources of funding from shareholders and third parties. In order to ensure an appropriate return for shareholder capital invested in the Group, management thoroughly evaluates all material projects and potential acquisitions and have them approved by the Board of Directors where applicable.

20 Financial Instruments Risk Management (continued)

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

	2023 **£'000s**	2022 £'000s
Borrowings	**(33,285)**	(30,189)
Cash and cash equivalents	**3,016**	3,861
Net debt	**(30,269)**	(26,328)
Total capital excluding reserves:		
Equity share capital	**19,631**	18,487
Equity share premium	**20,267**	20,134
Shareholders' equity	**166,708**	178,085

21 Foreign Currency and Other Risks

Foreign currency risk arises from the Group's financial instruments (note 20). As a result of the majority of the Group's operations being denominated in US dollar (USD), the Group's balance sheet can be impacted by movements in the USD exchange rate against sterling (GBP). Such movements will result in book gains or losses, which are unrealised and will be offset if the exchange rate moves in the opposite direction.

The GBP cost of the assets being acquired with the USD rises or falls, pro rata, to the currency movement, so the purchasing power of the USD remains the same.

As the Group also holds some Moroccan dirham (MAD) and Euro (EUR) denominated assets at the end of the year, the following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR or MAD exchange rates, with all other variables held constant, of the Group's profit or loss before tax. Wherever possible, the Company holds the same currency as our liabilities, thereby providing a natural hedge.

		2023		2022	
	Increase/ (decrease) in rate	**Effect on profit or loss before tax £'000s**	**Effect on comprehensive income £'000s**	Effect on profit or loss before tax £'000s	Effect on comprehensive income £'000s
Increase in USD/GBP exchange rate	5%	**461**	**(7,065)**	240	(7,435)
Increase in EUR/GBP exchange rate	5%	**1,098**	**–**	1,027	–
Increase in MAD/GBP exchange rate	5%	**(25)**	**–**	(28)	–
Decrease in USD/GBP exchange rate	(5%)	**(461)**	**7,065**	(240)	7,435
Decrease in EUR/GBP exchange rate	(5%)	**(1,098)**	**–**	(1,027)	–
Decrease in MAD/GBP exchange rate	(5%)	**25**	**–**	28	–

The sensitivity table demonstrates the effect of a change in exchange rate assumptions, while other assumptions remain unchanged. In reality, such an occurrence is very unlikely due to the correlation between the factors. Furthermore, these sensitivities are non-linear, and larger or smaller impacts cannot easily be derived from the results. The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed and may vary at the time that any actual exchange rate movement occurs.

21 Foreign Currency and Other Risks (continued)

Credit risk

The maximum credit exposure at the reporting date of each category of financial assets is the carrying value as detailed in the relevant notes. The Group's management considers that the financial assets that are not impaired for each of the reporting dates are of good credit quality.

Liquidity risk

The Group and Company manage cash resources to ensure that sufficient funding is in place to settle obligations as they fall due. Disclosure on going concern consideration is provided in note 1. For further details on the maturity of financial liabilities, see note 25.

22 Financial Instruments

Cash and short-term deposits

	Floating rate £'000s	Fixed rate £'000s	Interest-free £'000s	Total £'000s	Weighted average rate %
2023					
Sterling	**218**	**–**	**25**	**243**	**1.3**
Euro	**–**	**–**	**13**	**13**	**–**
US dollar	**1,374**	**–**	**1,360**	**2,734**	**0.5**
Moroccan dirham	**–**	**–**	**26**	**26**	**–**
	1,592	**–**	**1,424**	**3,016**	
2022					
Sterling	438	1,009	25	1,472	2.47
Euro	–	–	48	48	–
US dollar	2,067	–	242	2,309	0.45
Moroccan dirham	–	–	32	32	–
	2,505	1,009	347	3,861	

Euro cash balances have been converted at the exchange rate of €1.1532: £1.00 (2022: €1.1298: £1.00). Moroccan dirham cash balances have been converted at the exchange rate of MAD12.589: £1.00 (2022: MAD12.589: £1.00). US dollar cash balances have been converted at the exchange rate of US$1.2731: £1.00 (2022: US$1.2097: £1.00).

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

23 Share-Based Payments

Group and Company

	2023 £'000s	2022 £'000s
Expense arising from equity settled LTIP	**239**	159
Bonuses paid in shares and nil cost options	**–**	810
	239	969

LTIP Awards

In 2022, the Company adopted a new long term incentive plan (the ''LTIP''), designed to reward, incentivise and retain the Company's Executives and senior management to deliver sustainable growth for shareholders.

23 Share-Based Payments (continued)

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

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

The fair value of LTIP awards granted was estimated at the date of grant using a Black-Scholes model, taking account of the terms and conditions upon which, the awards were granted. The expected life of the LTIP award is based on the maximum award period and is not necessarily indicative of exercise patterns that may occur. Expected volatility was determined by reference to the historical volatility of the Company's share price over a five-year period. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The valuation assumed an expected life of ten years and used the following additional assumptions for the LTIP awards granted during the year:

(i) Share price on grant date: n/a (2022: 2.53 pence)

(ii) Average risk free interest rate: n/a (2022: 1.79%)

(iii) Expected volatility: n/a (2022: 99.11%)

(iv) Assumed forfeitures: n/a (2022: 0%)

(v) Expected dividends: n/a (2022: nil)

No other features of the LTIP awards were incorporated into the measurement of fair value. The fair value of the LTIP award granted was n/a (2022: 2.26 pence). The remaining contractual life of the LTIP awards outstanding at 31 December 2023 is 8.3 years. If all the 31,769,085 LTIP awards were exercisable immediately, new ordinary shares equal to approximately 1.6% (2022: 1.7%) of the shares currently in issue, would be created.

Share options

All previously outstanding share options expired in 2022.

	2023 Number	**Weighted average exercise price Pence**	2022 Number	Weighted average exercise price Pence
Share options outstanding at the start of the year	**–**	**–**	5,450,000	66.47
Share options granted	**–**	**–**	–	–
Share options expired	**–**	**–**	(5,450,000)	22.29
Share options exercised	**–**	**–**	–	–
Share options outstanding at the end of the year	**–**	**–**	–	–

All RSU awards vested or expired in 2022.

	2023 Number	2022 Number
RSU awards outstanding at the start of the year	**–**	1,165,400
Granted during the year	**–**	–
Expired during the year	**–**	(108,189)
Vested during the year	**–**	(1,057,211)
RSU awards outstanding at the end of the year	**–**	–

23 Share-Based Payments (continued)

The weighted average share price at the date of vesting of the RSU awards was n/a (2022: 2.5 pence).

Warrants

As at 31 December 2023, the Company had the following outstanding warrants to subscribe to the Company's ordinary shares.

2023	**Exercise price Pence**	**Expiry date**	**Number at 1 January**	**Granted /(exercised)**	**Expired**	**Number at 31 December**
2023 Warrants	**2.25**	**13 June 2026**	**–**	**40,476,190**	**–**	**40,476,190**
2022 Warrants	**2.75**	**13 June 2025**	**7,056,875**	**–**	**–**	**7,056,875**
2021 Warrants	**2.75**	**21 December 2027**	**99,999,936**	**–**	**–**	**99,999,936**
			107,056,811	**40,476,190**	**–**	**147,533,001**

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

24 Commitment and Guarantees

At 31 December 2023, the Group's capital expenditure commitment on its permits was, approximately, £3.5 million, for the development, exploration and appraisal activities in the Group's permits in Morocco. The Group had placed $1.75 million collateral to guarantee to the Moroccan Oil Ministry for the minimum work commitments on its permits. In addition, the Company has granted a parent Company guarantee totalling, approximately, £8.2 million for the work commitments.

25 Loans and Borrowings

Group and Company

	Secured Bonds £'000s	**Loan note- Afriquia £'000s**	**Convertible Bonds £'000s**	**2023 Total £'000s**
Current liabilities				
At 1 January	**1,121**	**–**	**–**	**1,121**
Reclassification to non-current liability	**(1,121)**	**–**	**–**	**(1,121)**
At 31 December	**–**	**–**	**–**	**–**

25 Loans and Borrowings (continued)

	Secured Bonds £'000s	**Loan note-Afriquia £'000s**	**Convertible Bonds £'000s**	**2023 Total £'000s**
Non-current liabilities				
At 1 January	**20,855**	**8,213**	**–**	**29,068**
Gross amount of loan drawdown during the year	**–**	**2,017**	**2,500**	**4,517**
Amortised finance charges	**890**	**532**	**–**	**1,422**
Unwinding of discount	**–**	**–**	**137**	**137**
Interest payments	**(441)**	**–**	**–**	**(441)**
Gross equity component at date of issue	**–**	**–**	**(562)**	**(562)**
Debt conversion to equity	**–**	**–**	**(1,046)**	**(1,046)**
Exchange adjustments	**(445)**	**(486)**	**–**	**(931)**
Reclassification from current liabilities	**1,121**	**–**	**–**	**1,121**
At 31 December	**21,980**	**10,276**	**1,029**	**33,285**

	Secured bonds £'000s	Loan note-Afriquia £'000s	Total 2022 £'000s
Current liabilities			
At 1 January	–	–	–
Amount converted into ordinary shares of the Company	–	–	–
Fair value of warrants issued	–	–	–
Amortised finance charges	–	–	–
Interest payments	–	–	–
Exchange adjustments	–	–	–
Reclassification from/(to) non-current liability	1,121	–	1,121
At 31 December	1,121	–	1,121
Non-current liabilities			
At 1 January	20,039	–	20,039
Drawdown during the year	–	7,233	7,233
Amortised finance charges	1,245	324	1,569
Interest payments	(431)	–	(431)
Exchange adjustments	1,123	656	1,779
Reclassification (to)/from current liabilities	(1,121)	–	(1,121)
At 31 December	20,855	8,213	29,068

The Company has €25.32 million secured bonds (the "Bonds"). The Bonds mature on 21 December 2027. The outstanding principal amount of the Bonds was initially expected to partially repaid at a rate of 5% every six months, commencing on 21 December 2023, but this requirement was removed in early December 2023. Until maturity, the Bonds bear 2% cash interest paid per annum and a 3% deferred interest per annum to be paid at redemption. The Company has the right, at any time until 21 December 2024, to redeem the Bonds in full for 70% of the principal value

25 Loans and Borrowings (continued)

then outstanding together with any unpaid interest at the date of redemption. The Company issued to the Bondholders 99,999,936 warrants to subscribe for new ordinary shares in the Company at an exercise price of 2.75 pence per share. The warrants expire on 21 December 2027. The Bonds are secured on the issued share capital of Sound Energy Morocco South Limited. After taking account of the terms of the Bonds, the effective interest is approximately 6.5%.

The Company has drawn down $12.0 million from the Company’s $18.0 million 6% secured loan note facility with Afriquia Gaz maturing in December 2033 (the ‘‘Loan’’). The drawn down principal bears 6% interest per annum payable quarterly, but deferred and capitalised semi-annually, until the second anniversary of the issue of Notice to Proceed. Thereafter, principal and deferred interest will be repayable, annually, in equal installments commencing December 2028. The Loan is secured on the issued share capital of Sound Energy Meridja Limited. The weighted effective interest on the drawdowns made is approximately 6.2%.

In June 2023, the Company issued £2.5 million convertible bonds from a senior unsecured convertible bond facility of up to £4.0 million. The £2.5 million Convertible bonds have a fixed conversion price of 2.25 pence per ordinary share. The term of the Convertible bonds is 5 years from drawdown date, with interest of 15% per annum payable bi-annually in cash or capitalised to the principal, at the Company's election.

Other key terms of the Convertible bonds (‘‘Bonds’’) are:

1) Issue price and redemption price on maturity is 100% of par value;
2) Early redemption/change of control: callable in cash by the Company at any time after drawdown or in the event of a change of control of the Company at 110% of par value together with all unpaid interest. If the Bonds are redeemed by the Company, the maximum amount of future interest payable by the Company in respect of any early redemption occurring on or prior to the second anniversary will be 15% of the Bonds and after second anniversary, 10% of the Bonds;
3) Convertible into the Company's ordinary shares at the fixed conversion price. Upon conversion, interest shall be rolled up and paid as if the Bonds were held to the redemption date, with such interest convertible at the lower of the applicable fixed conversion price and the average of the 5 daily value weighted average price calculations selected by the holder out of the 15 trading days prior to the conversion date;
4) The Company issued to Bonds holders 33,333,333 warrants to subscribe for new ordinary shares in the Company at an exercise price of 2.25 pence per ordinary share with a term of 3 years.

During the year, the Company issued 99,999,994 new shares following the conversion of £2,250,000 of the Bonds. The carrying amount of the Bonds is stated at fair value and is measured using the discounted cashflow method. A discount rate of 17.7% was used to discount the outstanding principal and capitalised interest over the outstanding term of the bonds.

Reconciliation of liabilities arising from financing activities

			Non-cash changes			
2023	**1 January 2023 £’000s**	**Cash flows £’000s**	**Finance charges £’000s**	**Exchange adjustments £’000s**	**Convertible Bonds non-cash movements £’000s**	**31 December 2023 £’000s**
Long-term borrowings	**30,189**	**4,001**	**1,559**	**(931)**	**(1,533)**	**33,285**
Leases	**283**	**(180)**	**18**	**–**	**–**	**121**
Total liabilities from financing activities	**30,472**	**3,821**	**1,577**	**(931)**	**(1,533)**	**33,406**

25 Loans and Borrowings (continued)

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

Reconciliation of finance expense

	2023 £'000s	2022 £'000s
Amortised finance charges	**1,422**	1,569
Unwinding of discount	**256**	10
Bond issue costs expensed	**601**	–
Less capitalised interest	**(285)**	(133)
Total finance expense for the year	**1,994**	1,446

26 Interest in Badile land

In 2018, the Company completed the sale of its Italian operations. As part of the divestment agreement, the Company retained economic interest in Badile land (''Badile Area 1'' and ''Badile Area 2''). The Company was also obligated to fund the Badile land restoration for a fixed amount. A buyer for the land was identified and, in March 2021, Badile Area 1 was sold for €250,000 and, after taking account of the amount that had fallen due from the Company for remediation, the Company received net proceeds of, approximately, €183,000. The sale of Badile Area 2 was completed in Q2 2023 and the Company received net proceeds of approximately $153,000 (£134,000).

27 Post Balance Sheet Events

In March 2014, the Company announced that receipt of conversion notices to issue 30 million new ordinary shares (''Conversion Shares'') at a conversion price of 1 pence per share under the terms of an existing Convertible Loan Note Agreement (the ''Convertible Loan Note''). The Convertible Loan Note has a remaining principal outstanding of £250,000 and the issue of the Conversion Shares reduces the interest owing on the converted portion of the Convertible Loan Notes by £300,000 to £1,387,500. The Conversion Shares were admitted to trading on AIM in April 2024.

LIST OF PERMITS AND INTERESTS

				Key Project or Prospect		
Permit	Status	Name	Type	WI (%)	Area (km^2)	Operator
Grand Tendrara	Permit	Grand Tendrara	Exploration	75	14,411	Sound Energy Morocco East
Tendrara	Permit	Tendrara	Concession	75	133.5	Sound Energy Morocco East
Anoual	Permit	Anoual	Exploration	75	8,873	Sound Energy Morocco East
Sidi Mokhtar	Permit	Sidi Mokhtar	Exploration	75	4,712	Sound Energy Morocco South

SHAREHOLDER INFORMATION

Dealing Information

Stock code: SOU.LN

Financial Calendar

Meetings

Annual General Meeting – June 2024

Announcements

2024 Interim – September 2024

2024 Preliminary – March 2025

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