



**SOUND
ENERGY** PLC

Continuing to Fuel the Energy Transition

Half Yearly Report 2023



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Sound Energy plc

Statement from the Executive Chairman

Continuing to execute on our strategy to deliver revenue generation

Our strategy of the phased development of the Tendirra gas discovery is well defined and whilst the economic and geo-political environment continued to present challenges, the Company continues to make progress towards revenue generation.

Phase 1 Tendirra Micro LNG Project (mLNG)

Post the completion of site preparation in March 2023, the Company finalised the main civil works including the mLNG tank foundations by May 2023. Additionally, activities such as well head inspection and servicing tool fabrication, flowlines concept selection, engineering and owners engineering support have been ongoing and are well advanced.

Currently, there is extensive activity taking place offsite with our contractor Italfiuid Geoenery S.r.l and its sub-contractors designing and constructing plant equipment for delivery to site in early 2024. In addition to Italfiuid's project scope of work, Sound Energy is to undertake well head and flow line preparation, including workovers of TE-6 and TE-7. Afriquia Gaz S.A is to procure and put in place the LNG transportation trucking, local storage and regasification facilities. Once on site, the processing and liquefaction equipment will be commissioned and integrated with the wells and trucking systems. Whilst the mLNG storage tank fabric has been manufactured, there has been some supply chain disruption leading to later than planned delivery to site which remains on the critical path. Despite this, the Company remains committed to commencing production in 2024.

Phase 2 Tendirra Processing and Pipeline Project

Progress continued to be made with the Phase 2 development project in 2023.

Crucially, significant progress has been made regarding Project funding with Attijariwafa Bank, Morocco's largest bank, as exclusive lead arranger of a senior debt financing issuing a binding conditioned term sheet. The bank completed legal and technical due diligence in respect of the proposed financing in March, and in June made a conditioned offer for a maximum financing of MAD 2.365 billion (approximately US\$237 million), proposed to be 100% underwritten by the bank, and subject to certain conditions being met such as Governmental approvals, Gas Sales agreement amendments, further engineering and Contractor contracts being in place.

Corporate

Following the commencement in 2022 of a process to secure participation of a strategic partner, in June the Company entered into a period of exclusivity and non-binding term sheet with Calvalley Petroleum (Cyprus) Limited ("Calvalley") for a partial divestment of a net 40% working interest in the Tendirra Exploitation Concession and the Grand Tendirra Exploration Permit which will result in, subject to agreement of definitive transaction documentation:

- Funding of the first US\$48 million of Sound Energy and Calvalley's Phase 2 equity funded development costs by Calvalley, subject to final investment decision
- Funding of 100% of the TE-4 Horst well costs by Calvalley up to a cap of US\$7 million
- Funding of 40% share of Phase 1 costs, including back costs net to Calvalley of approximately US\$8 million (through to July 2023)

Advancement to Sound Energy of additional Phase 1 and Phase 2 costs, if necessary, and at the Company's election, repayable out of future revenue. Post the period, definitive documents are being negotiated with the aim to conclude the transaction in 2023.

The combination of closing the transactions with Calvalley and Attijariwafa Bank will allow the Company to take the Final Investment decision and begin activities to construct the much-needed pipeline infrastructure at Tendirra.

In June the Company received of court papers confirming the withdrawal of cases between the Company and the Moroccan Tax authority for matters with respect to claims against Sound Energy Morocco East and Sound Energy Morocco SARL AU.

In June the Company raised up to £4.0 million by way of a senior unsecured convertible bond instrument. The proceeds will, if fully drawn, provide funds for the Company to continue to execute its Phase 1 development of the Tendirra Production Concession and bridge group working capital liquidity ahead of receipt of a receivable as disclosed in the year end results

and/or receipt of Phase 1 back costs from Calvalley if a partial divestment is ultimately completed. The term of the Convertible Notes is five years from draw down date, with interest of 15% per annum, payable bi-annually in cash or capitalised to the

Sound Energy plc Statement from the Executive Chairman

principal, at the Company's election. Post the period the Company announced a partial conversion of the Convertible Loan Note.

Subject to the draw down in full of the Convertible Notes, the Company is now funded for its near-term working capital requirements until year end 2023.

Board Changes

In May, Mr Marco Fumagalli announced that he would be stepping down in June a Non-Executive Director and former Acting Chairman of the company in order to pursue other business opportunities.

In June, Sound appointed Mr Simon Ashby-Rudd to the Board as Independent Non-Executive Director. Mr Ashby-Rudd is an international energy banking specialist with more than 35 years of experience.

I thank Marco for his contribution over the years and look forward to working with Mr Ashby-Rudd going forward.

Conclusion

I am grateful for continued support of all our shareholders and can say that the first half of 2023 saw significant advances preparing the Company for revenue generation. Significantly, we have laid out a funding plan for Phase 2; have made steady progress on Phase 1 with mLNG tank construction and tank site preparation, well preparation and design engineering; have identified a potential partner to enter the Tendirara area to work alongside us; removed the tax claim overhang; brought in new bridge funding and collected the receivables. All in all, a busy first half of the year.

There is much to do in closing and completing on these various initiatives and in positioning the Company for production and for further growth. As our key project in Morocco is considered of strategic importance in the country all efforts must be placed in ensuring a safe and efficient execution of our business plan within the resources available.

I would like to thank the Ministries in Morocco and ONHYM, our state partner for their continued co-operation and increased support.

Graham Lyon
Chairman (Executive)

Sound Energy plc Operations review

Tendrarra Development: Micro LNG

Sound Energy is pursuing the Field Development Plan underpinning the Concession centred around the TE-5 Horst gas discovery. The development is progressing in two phases. Phase 1, targeting industrial consumers, is intended to prioritise early first cash flows from the Concession via a mLNG production scheme. The planned Phase 2 development provides gas to power via state energy power stations. It is centred around the installation of a 120km gas export pipeline to help fully unlock the gas potential of this region and lower the cost of development for future discoveries. Both phases address different markets in Morocco; the industrial energy user and the state power producer, both of which have strong and growing demand, with Tendrarra gas playing an important role in supporting Morocco's strategy to lower carbon emissions.

Progress of the Phase 1 Development Project

This first phase focuses on the existing TE-6 and TE-7 wells of the TE-5 Horst. First gas will be achieved by tying the currently suspended TE-6 and TE-7 gas wells with flowlines connected to the inlet of a skid mounted, combined gas processing and mLNG plant.

In 2021, the Company entered into a contract with Italfiuid Geoenery S.r.l. ("Italfiuid") for the design, construction, commissioning, operation, and maintenance of the mLNG facilities under a 10-year lease arrangement. The mLNG facilities, which will also treat, and process raw gas produced from the wells prior to liquefaction, is the principal part of the surface facilities required to be built and operated as part of this first phase of development. LNG will be delivered to on-site storage from the outlet of the mLNG facilities whereupon Afriquia Gaz will lift and take title for LNG for transportation, distribution and sale to the Moroccan industrial market.

Groundworks for the construction of the mLNG facility commenced March 2022 following completion of surveying and remediation works to the access road for the facility. The raised foundation platform for the LNG storage tank, and pads for the skid mounted units, including the compressor package, have been completed. The necessary piping and cabling for the firefighting system have been installed along with fencing and lighting towers. Facilities engineering will continue to progress throughout the year with major vendors and Italfiuid has placed purchase orders for the gas processing and liquefaction packages which is ready for factor testing now. Whilst the mLNG storage tank fabric has been manufactured, there has been some supply chain disruption leading to later than planned delivery. Despite this, the Company remains committed to commencing production in 2024.

The Company has also completed preliminary engineering of the wellhead facilities, flowlines and manifold system required to bring the raw gas from the TE-6 and TE-7 wellheads. This work was completed by Kellogg Brown and Root Ltd alongside the flow assurance work. Inspection and routine maintenance of the wellhead Christmas tree assemblies on TE-6 and TE-7, was successfully completed by Petroleum Equipment Supply Engineering Company Ltd.

The Company engaged Bedrock Drilling Ltd to design, plan and execute the necessary work overs of the TE-6 and TE-7 wells in preparation for turning these appraisal gas wells into long term gas producers. These works are planned to be undertaken during Q4 2023 and Q1 2024 in preparation for first gas.

The next key steps to progress the project include final design, engineering, procurement and installation of the flowline system and associated well head facility equipment for the gas gathering system to transport the gas from the well heads to the mLNG plant. Additionally, Italfiuid continues to progress detailed design, place its remaining purchase orders for equipment packages and bulks, now the site preparation and commence civils foundation works have been completed.

Italfiuid, Sound Energy and Afriquia Gaz are working together, to supply LNG to the local industry in 2024 in a safe and efficient manner.

Throughout 2023 and early 2024 the equipment packages are to be completed and tested in the workshops and later be brought from workshops located around the world, delivered to site via the main ports in Morocco and assembled on site.

Progress of the Phase 2 Development Project

On 13 June the Company announced that it has now entered into exclusivity for a period of 45 days on the basis of an otherwise non-binding term sheet with Calvalley, an associated company of Octavia Energy Corporation Limited. Whilst the exclusivity has expired the Company continues to support the ongoing due diligence by Calverley. The terms of the term sheet would provide Sound Energy, together with the envisaged project debt financing and under current cost estimates, with the required funds to achieve first gas under its Phase 2 development plan whilst also funding the costs of drilling the TE-4 Horst appraisal well, with an estimated unrisksed exploration potential of 273 Bcf gross Pmean Gas Initially in Place ('GIIP').

Sound Energy plc Operations review

In June 2023, following a period of due diligence and further discussions between the bank, the Company announced on 28 June 2023 that, on behalf of the Tendirara Production Concession partners, it had received a conditioned offer from Attijariwafa Bank for a maximum financing of MAD 2.365 billion (c.US\$237 million), proposed to be 100% underwritten by the bank, subject to the conditions precedent to the conditioned offer being satisfied prior to 30 September 2023.

Eastern Morocco

Eastern Morocco licences

TENDRARA CONCESSION		
– 25 years from September 2018		
75% interest Operated	Production permit	133.5 km ² acreage
GREATER TENDRARA		
– 8 years from September 2018		
75% interest Operated	Exploration permit	14,411 km ² acreage
ANOUAL		
– 10 years from September 2017		
75% interest Operated	Exploration permit	8,873 km ²

Exploration

Our Eastern Morocco Licences comprising the Concession together with the Anoual and Greater Tendirara exploration permits are positioned in a region containing a potential extension of the established petroleum plays of Algerian Triassic Province and Saharan Hercynian Platform. The presence of the key geological elements of the Algerian Trias Argilo-Gréseux Inférieur or 'TAGI' gas play are already proven within the licence areas with the underlying Palaeozoic, representing a significant upside opportunity to be explored.

These licences cover a surface area of over 23,000 square kilometres, but so far only thirteen wells have been drilled, of which six are either located within or local to the Concession. Exploration drilling beyond the region of the Concession has been limited and the Group maintains a portfolio of features identified from previous operators' studies, plus new targets identified by Sound Energy from the recent geophysical data acquisition, subsequent processing and ongoing interpretation studies. These features are internally classified as either prospects, leads or concepts based upon their level of technical maturity and represent potential future exploration drilling targets.

Whilst the Company has strategically prioritised its gas monetisation strategy through the phased development of the TE-5 Horst (Tendirara Production Concession), the Company has also re-evaluated its extensive exploration portfolio within the Greater Tendirara and Anoual exploration permits surrounding the Concession. By integrating the acquired data and learnings from previous drilling campaigns with acquired and reprocessed seismic datasets, the Company has high graded several potential near term subsalt drilling opportunities within the TAGI gas reservoir, the proven reservoir of the TE-5 Horst gas accumulation.

In August 2022, the Company launched a farm-out process in the underexplored but highly prospective Tendirara Basin in Eastern Morocco. This opportunity provides access to high impact, short term exploration opportunities, in a stable country with very attractive fiscal terms. The Company has high graded three potential near term sub-salt drilling opportunities where, importantly, future discoveries have the potential to be commercialised through the planned infrastructure of Phase 2. The Company's intention is to seek to secure an ambitious strategic partner for both the ongoing and planned development of the Concession together with exploration and appraisal of the Eastern Morocco exploration permits.

Near term drillable targets include the exploration prospect 'M5' located on the Anoual permits, together with the potential of the structures previously drilled on the Greater Tendirara permits, SBK-1 and TE-4. Both SBK-1 and TE-4, drilled in 2000 and

Sound Energy plc Operations review

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.

Southern Morocco

Southern Morocco licence

SIDI MOKTAR ONSHORE		
– 8 years remaining		
– Effective date 9/04/2018		
75% interest Operated	Exploration permit	4,712 km ²

Southern Morocco Exploration

The Sidi Moktar licence is located in the Essaouira Basin, in Southern Morocco. The licence covers a combined area of 4,712 km². The Group views the Sidi Moktar licences as an exciting opportunity to explore high impact prospectivity within the sub-salt Triassic and Palaeozoic plays in the underexplored Essaouira Basin in the West of Morocco.

The Sidi Moktar permit hosts a variety of proven plays. The licence host 44 vintage wells drilled between the 1950s and the present. Previous exploration has been predominantly focused on the shallower post-salt plays. The licence is adjacent to the ONHYM operated Meskala gas and condensate field. The main reservoirs in the field are Triassic aged sands, directly analogous to the deeper exploration plays in the Sidi Moktar licence. The Meskala field and its associated gas processing facility is linked via a pipeline to a state-owned phosphate plant, which produces fertiliser both for domestic and export markets. This pipeline passes across the Sidi Moktar licence. The discovery of the Meskala field proved the existence of a deeper petroleum system in the basin. Specifically, Meskala provides evidence that Triassic clastic reservoirs are effective, proves the existence of the overlying salt seal and provides support for evidence of charge from deep Palaeozoic source rocks. Based on work undertaken by Sound Energy, the main focus of future exploration activity in the licence is expected to be within this deeper play fairway. The Company believes that the deeper, sub-salt Triassic and Palaeozoic plays may contain significant prospective resources, in excess of any discovered volumes in the shallower stratigraphy.

The Company's evaluation of the exploration potential of Sidi Moktar, following an independent technical review, includes a mapped portfolio of sub-salt, Triassic and Palaeozoic leads in a variety of hydrocarbon trap types. Sound Energy is developing a work programme to mature the licence with specific focus on the deeper, sub-salt plays. The Company believes additional seismic acquisition and processing is required to mature these leads into drillable exploration prospects.

Preparations for this seismic acquisition campaign have commenced with the completion and approval of an EIA in late 2019.

The Company continues to seek to progress a farm out process for this permit, offering an opportunity to a technically competent partner to acquire a material position in this large tract of prospective acreage. In parallel, the Company has engaged in dialogue with a number of seismic acquisition and processing contractors for potential services to undertake the survey.

Sound Energy plc
Independent auditor's review report to Sound Energy plc on the interim financial information for the six months ended 30 June 2023

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half yearly report for the 6 months ended 30 June 2023 which comprises the Condensed Interim Consolidated Income Statement, the Condensed Interim Consolidated Balance Sheet, the Condensed Interim Consolidated Statement of Changes in Equity, the Condensed Interim Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements in the half yearly financial report for the 6 months ended 30 June 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the AIM rules for companies.

Basis of Conclusion

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

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with UK adopted international accounting standard. The condensed set of financial statements included in this half yearly report has been prepared in accordance with UK adopted International Accounting Standard 34 "Interim Financial Reporting".

Material uncertainty in relation to going concern

We draw attention to Note 1 to the condensed interim consolidated financial statements. The Group's cash flow forecast for the twelve-month period to September 2024, indicates that additional funding will be required to enable the Group to fulfil its obligations.

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

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410, however future events or conditions may cause the Group to cease to continue as a going concern.

Directors' Responsibilities

The directors are responsible for preparing the half yearly report in accordance with UK adopted International Accounting Standard 34 and the AIM Rules for Companies.

In preparing the half-yearly financial report, the directors are responsible for assessing the Groups 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 to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our conclusion relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with the terms of our engagement and ISRE(UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an

Sound Energy plc
Independent auditor's review report to Sound Energy plc on the interim financial information for the six months ended 30 June 2023

independence review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report or for the conclusions we have formed.

Crowe U.K. LLP
Statutory Auditor
London
20 September 2023

Sound Energy plc
Condensed Interim Consolidated Income Statement

		Six months ended 30 June 2023 Unaudited £'000s	Six months ended 30 June 2022 Unaudited £'000s	Year ended 31 Dec 2022 Audited £'000s
	Notes			
Other income		4	41	43
(Impairment loss)/reversal of impairment on development assets and exploration costs	4	(4,213)	5,407	5,678
Gross (loss)/profit		(4,209)	5,448	5,721
Administrative expenses		(1,247)	(2,018)	(3,175)
Group operating (loss)/profit from continuing operations		(5,456)	3,430	2,546
Finance revenue		29	2	13
Foreign exchange (loss)/gain		(2,380)	5,896	5,462
Finance expense		(822)	(720)	(1,446)
(Loss)/profit for period before taxation		(8,629)	8,608	6,575
Tax expense		(1)	(7)	(1,602)
(Loss)/profit for period after taxation		(8,630)	8,601	4,973
Other comprehensive (loss)/income				
Items that may subsequently be reclassified to profit and loss account:				
Foreign currency translation (loss)/income		(5,735)	13,136	13,373
Total comprehensive (loss)/income for the period attributable to equity holders of the parent		(14,365)	21,737	18,346
		Pence	Pence	Pence
Basic and diluted (loss)/profit per share for the period attributable to equity holders of the parent	3	(0.47)	0.52	0.28

Sound Energy plc
Condensed Interim Consolidated Balance Sheet

	Notes	30 June 2023 Unaudited £'000s	30 June 2022 Unaudited £'000s	31 Dec 2022 Audited £'000s
Non-current assets				
Property, plant and equipment	4	152,964	161,631	163,362
Intangible assets	5	34,834	35,434	36,007
Interest in Badile land		–	619	637
Prepayments	6	4,082	3,087	4,272
		191,880	200,771	204,278
Current assets				
Inventories		920	969	963
Other receivables		3,042	2,345	2,815
Prepayments		165	233	139
Cash and short term deposits		3,733	10,513	3,861
		7,860	14,060	7,778
Total assets		199,740	214,831	212,056
Current liabilities				
Trade and other payables		1,899	6,184	1,868
Tax liabilities	7	–	–	126
Lease liabilities		174	–	162
Loans and borrowings	8	2,122	–	1,121
		4,195	6,184	3,277
Non-current liabilities				
Lease liabilities		31	–	121
Tax liabilities	7	1,534	–	1,505
Loans and borrowings	8	29,088	27,271	29,068
		30,653	27,271	30,694
Total liabilities		34,848	33,455	33,971
Net assets		164,892	181,376	178,085
Capital and reserves				
Share capital and share premium		38,822	38,621	38,621
Shares to be issued		404	404	404
Warrant reserve		2,071	1,607	1,607
Convertible bond reserve		388	–	–
Foreign currency reserve		2,714	8,212	8,449
Accumulated surplus		120,493	132,532	129,004
Total equity		164,892	181,376	178,085

The financial statements were approved by the Board and authorised for issue on 20 September 2023 and were signed on its behalf by:

Mohammed Seghiri, Director

Graham Lyon, Director

Sound Energy plc
Condensed Interim Consolidated Statement of Changes in Equity

	Share capital £'000s	Share premium £'000s	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 period	–	–	–	(8,630)	–	–	–	(8,630)
Other comprehensive loss	–	–	–	–	–	–	(5,735)	(5,735)
Total comprehensive loss for the period	–	–	–	(8,630)	–	–	(5,735)	(14,365)
Issue of share capital	114	87	–	–	–	–	–	201
Fair value of warrants issued during the period	–	–	–	–	464	–	–	464
Equity component of convertible bond	–	–	–	–	–	388	–	388
Share based payments	–	–	–	119	–	–	–	119
At 30 June 2023 (unaudited)	18,601	20,221	404	120,493	2,071	388	2,714	164,892

	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 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 for the year	–	–	–	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 period	–	–	–	–	73	–	–	73
Vested nil options bonus awards	–	–	404	–	–	–	–	404
Share based payments	–	–	–	159	–	–	–	159
At 31 December 2022 (audited)	18,487	20,134	404	129,004	1,607	–	8,449	178,085

Sound Energy plc
Condensed Interim Consolidated Statement of Changes in Equity

	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 2022	16,292	18,281	–	123,872	1,534	–	(4,924)	155,055
Total profit for the period	–	–	–	8,601	–	–	–	8,601
Other comprehensive income	–	–	–	–	–	–	13,136	13,136
Total comprehensive loss for the period	–	–	–	8,601	–	–	13,136	21,737
Issue of share capital	2,195	2,246	–	–	–	–	–	4,441
Share issue costs	–	(393)	–	–	–	–	–	(393)
Fair value of warrants issued during the period	–	–	–	–	73	–	–	73
Vested nil options bonus awards	–	–	404	–	–	–	–	404
Share based payments	–	–	–	59	–	–	–	59
At 30 June 2022 (unaudited)	18,487	20,134	404	132,532	1,607	–	8,212	181,376

Sound Energy plc
Condensed Interim Consolidated Statement of Cash Flows

	Six months ended 30 June 2023 Unaudited £'000s	Six months ended 30 June 2022 Unaudited £'000s	Year ended 31 Dec 2022 Audited £'000s
Cash flow from operating activities			
Cash flow from operations	(1,207)	(1,080)	(3,928)
Interest received	29	2	13
Tax paid	(125)	(7)	(7)
Net cash flow from operating activities	(1,303)	(1,085)	(3,922)
Cash flow from investing activities			
Capital expenditure	(751)	(770)	(1,519)
Exploration expenditure	(359)	(311)	(399)
Prepayment for Phase 1, mLNG Project	–	–	(4,272)
Receipt from interest in Badile land	134	–	–
Net cash flow from investing activities	(976)	(1,081)	(6,190)
Cash flow from financing activities			
Net proceeds from equity issue	–	3,680	3,680
Net proceeds from borrowings	2,425	5,532	7,233
Interest payments	(222)	(214)	(431)
Lease payments	(89)	–	(58)
Net cash flow from financing activities	2,114	8,998	10,424
Net (decrease)/increase in cash and cash equivalents	(165)	6,832	312
Net foreign exchange difference	37	768	636
Cash and cash equivalents at the beginning of the period	3,861	2,913	2,913
Cash and cash equivalents at the end of the period	3,733	10,513	3,861

Notes to Statement of Cash Flows

	Six months ended 30 June 2023 Unaudited £'000s	Six months ended 30 June 2022 Unaudited £'000s	Year ended 31 Dec 2022 Audited £'000s
Cash flow from operations reconciliation			
(Loss)/profit for the period before tax	(8,629)	8,608	6,575
Finance revenue	(29)	(2)	(13)
Decrease/(increase) in drilling inventories	43	(98)	(92)
Increase in short term receivables and prepayments	(253)	(666)	(2,071)
(Decrease)/Increase in accruals and short term payables	(108)	702	190
Impairment loss/(reversal of Impairment) on development assets and exploration costs	4,213	(5,407)	(5,678)
Impairment of interest in Badile land	125	60	107
Depreciation and amortisation	110	30	101
Share based payments charge and remuneration paid in shares	119	869	969
Finance costs and exchange adjustments	3,202	(5,176)	(4,016)
Cash flow from operations	(1,207)	(1,080)	(3,928)

Non-cash transactions during the period included the issue of 11,404,211 ordinary shares to third parties in settlement of fees for services provided amounting to approximately £0.2 million (note 9).

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

Sound Energy plc

Notes to the Condensed Interim Consolidated Financial Statements

1. Basis of preparation

The condensed interim consolidated financial statements do not represent statutory accounts within the meaning of section 435 of the Companies Act 2006. The financial information for the year ended 31 December 2022 is based on the statutory accounts for the year ended 31 December 2022. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The condensed interim financial information is unaudited and has been prepared on the basis of the accounting policies set out in the Group's 2022 statutory accounts and in accordance with IAS 34 Interim Financial Reporting as adopted by the United Kingdom.

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

Going concern

As at 31 August 2023, the Group's unaudited cash balance was approximately £4.0 million (including approximately £1.4 million held as collateral for a bank guarantee against licence commitments). The Directors have reviewed the Company's cash flow forecasts for the next 12-month period to September 2024. The Company's forecasts and projections indicate that, to fulfil its other obligations, primarily the Company's exploration licences commitments, the Company will require additional funding. The Company commenced its Phase 1 of the Concession upon taking FID on the mLNG project, and has continued to actively monitor the project schedule, costs, and financing. The Company is progressing towards a final investment decision for the Phase 2, pipeline led development of the Concession and has received a conditional offer for partial financing of the Phase 2 development and is working 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 Company's ability to continue as a going concern. These Interim condensed consolidated 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 signing of a term sheet with Calvalley for a potential farm-down on some of the Company's Eastern Morocco licences 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 Interim condensed consolidated financial statements.

2. Segment information

The Group categorises its operations into three business segments based on Corporate, Exploration and Appraisal and Development and Production. The Group's Exploration and Appraisal activities are carried out in Morocco. The Group's reportable segments are based on internal reports about the components of the Group which are regularly reviewed by the Board of Directors, being the Chief Operating Decision Maker ("CODM"), for strategic decision making and resources allocation to the segment and to assess its performance. The segment results for the period ended 30 June 2023 are as follows:

Segment results for the period ended 30 June 2023

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Other income	–	–	4	4
Impairment loss on development assets and exploration costs	–	(4,213)	–	(4,213)
Administration expenses	(1,247)	–	–	(1,247)
Operating profit segment result	(1,247)	(4,213)	4	(5,456)
Interest revenue	29	–	–	29
Finance costs and exchange adjustments	(3,202)	–	–	(3,202)
Profit for the period before taxation	(4,420)	(4,213)	4	(8,629)

Sound Energy plc
Notes to the Condensed Interim Consolidated Financial Statements

2. Segment information (continued)

The segments assets and liabilities at 30 June 2023 are as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	201	156,854	34,825	191,880
Current assets	2,758	2,385	2,717	7,860
Liabilities attributable to continuing operations	(23,628)	(8,276)	(2,944)	(34,848)

The geographical split of non-current assets at 30 June 2023 is as follows:

	UK £'000s	Morocco £'000s
Development and production assets	–	152,772
Right of use assets	188	–
Fixtures, fittings and office equipment	4	–
Software	–	9
Prepayment	–	4,082
Exploration and evaluation assets	–	34,825
Total	192	191,688

Segment results for the period ended 30 June 2022

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Other income	–	–	41	41
Reversal of impairment of development assets and exploration costs	–	5,407	–	5,407
Administration expenses	(2,018)	–	–	(2,018)
Operating profit segment result	(2,018)	5,407	41	3,430
Interest revenue	2	–	–	2
Finance costs and exchange adjustments	5,176	–	–	5,176
Profit for the period before taxation	3,160	5,407	41	8,608

The segments assets and liabilities at 30 June 2022 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	632	164,705	35,434	200,771
Current assets	4,383	6,625	3,052	14,060
Liabilities attributable to continuing operations	(17,629)	(10,446)	(5,380)	(33,455)

The geographical split of non-current assets at 30 June 2022 was as follows:

	Europe £'000s	Morocco £'000s
Development and production assets	–	161,618
Interest in Badile land	619	–
Fixtures, fittings and office equipment	5	8
Prepayment	–	3,087
Exploration and evaluation assets	–	35,434
Total	624	200,147

Sound Energy plc
Notes to the Condensed Interim Consolidated Financial Statements

2. Segment information (continued)

Segment results for the year ended 31 December 2022

	Corporate £'000s	Development and production £'000s	Exploration and appraisal £'000s	Total £'000s
Other income	–	–	43	43
Reversal of impairment of development assets and exploration costs	–	5,678	–	5,678
Administration expenses	(3,175)	–	–	(3,175)
Operating profit/(loss) segment result	(3,175)	5,678	43	2,546
Interest revenue	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 at 31 December 2022 was 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

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Notes to the Condensed Interim Consolidated Financial Statements

3. Profit/(loss) per share

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

	30 June 2023 £'000	30 June 2022 £'000	31 December 2022 £'000
Profit/(loss) after tax from continuing operations	(8,630)	8,601	4,973
	million	million	million
Weighted average shares in issue	1,849	1,650	1,752
Dilutive potential ordinary shares	–	9	7
Diluted weighted average number of shares	1,849	1,659	1,759
	Pence	Pence	Pence
Basic profit/(loss) per share from continuing operations	(0.47)	0.52	0.28
Diluted profit/(loss) per share from continuing operations	(0.47)	0.52	0.28

4. Property, plant and equipment

	30 June 2023 £'000s	30 June 2022 £'000s	31 December 2022 £'000s
Cost			
At start of period	164,061	145,361	145,361
Additions	969	795	1,932
Disposal	–	(3)	(3)
Exchange adjustments	(7,179)	16,119	16,771
At end of period	157,851	162,272	164,061
Impairment and depreciation			
At start of period	699	5,695	5,695
Charge/(reversal) for period	4,309	(5,377)	(5,591)
Disposal	–	(2)	(2)
Exchange adjustments	(121)	325	597
At end of period	4,887	641	699
Net book amount	152,964	161,631	163,362

Change in estimation

The discount rate and forecast gas price are significant estimates used by the Company to determine the recoverable amount when undertaking impairment testing of the Company's TE-5 Horst concession. The Company has taken account of changes in the market conditions and certain corporate parameters during the period and accordingly revised the discount rate to 11.6% as at 30 June 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 30 June 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 15.03 US\$/MMBtu. The average TTF and NBP gas price projections for the period to 2032 was 14.45 US\$/MMBtu.

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Notes to the Condensed Interim Consolidated Financial Statements

4. Property, plant and equipment (continued)

After taking account of the changes to the discount rate and referenced forecast gas price, an impairment charge of approximately £4.2 million (net of foreign exchange movements) has been recognised.

5. Intangibles

	30 June 2023 Unaudited £'000s	30 June 2022 Unaudited £'000s	31 December 2022 Audited £'000s
Cost			
At start of period	46,969	42,556	42,556
Additions	400	401	836
Exchange adjustments	(1,573)	3,466	3,577
At end of period	45,796	46,423	46,969
Impairment and Depreciation			
At start of period	10,962	10,958	10,958
Charge for period	14	–	14
Exchange adjustments	(14)	31	(10)
At end of period	10,962	10,989	10,962
Net book amount	34,834	35,434	36,007

6. Prepayments

Non-current prepayment of £4.1 million relates to activities of the Company's Phase 1 mLNG Project in the Concession.

7. Tax liabilities

	30 June 2023 Unaudited £'000s	30 June 2022 Unaudited £'000s	31 December 2022 Audited £'000s
Current liability			
Taxes payable	–	–	126
	–	–	126
Non-current liability			
Taxes payable	1,534	–	1,505
	1,534	–	1,505

The Group had tax cases where Morocco Tax Authority had claimed taxes relating to the Group historical licences 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 £124k (after taking account of exchange rate movements). The discounted non-current liability amounted to approximately £1.5 million as at 30 June 2023.

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Notes to the Condensed Interim Consolidated Financial Statements

8. Loans and borrowings

	30 June 2023 Unaudited £'000s	30 June 2022 Unaudited £'000s	31 December 2022 Audited £'000s
Current liability			
Secured bonds	2,122	–	1,121
	2,122	–	1,121
Non-current liability			
Secured bonds	19,652	20,941	20,855
Loan note- Afriquia	8,083	6,330	8,213
Convertible bonds	1,353	–	–
	29,088	27,271	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 will be partially settled, at a rate of 5% every six months, commencing on 21 December 2023. The Bonds bear until maturity 2% cash interest paid per annum and 3% deferred interest per annum to be paid at redemption. The Company has the right, at any time until 21 December 2024, to redeem the Bonds in full for 70% of the principal value then outstanding together with any unpaid interest at the date of redemption. The Company issued to the Bondholders 99,999,936 warrants to subscribe for new ordinary shares in the Company at an exercise price of 2.75 pence per share. The warrants expire on 21 December 2027. The Bonds are secured on the issued share capital of Sound Energy Morocco South Limited. After taking account of the terms of the Bonds, the effective interest is approximately 6.2%.

The Company has drawn down \$9.5 million from the Company's \$18.0 million 6% secured loan note facility with Afriquia Gaz maturing in December 2033 (the "Loan"). The drawn down principal bears 6% interest per annum payable quarterly but deferred and capitalised semi-annually until the second anniversary of the issue of Notice to Proceed. Thereafter, principal and deferred interest will be repayable annually in equal instalments commencing December 2028. The loan is secured on the issued share capital of Sound Energy Meridja Limited. The effective interest on the drawdown amount 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.

Sound Energy plc
Notes to the Condensed Interim Consolidated Financial Statements

9. Shares in issue and share based payments

As at 30 June 2023, the Company had 1,860,106,895 ordinary shares in issue.

Share issues during the period

In June 2023, the Company issued 11,404,211 shares to third party advisers being settlement for services provided relating to the Company's convertible bonds issue.

Warrants

In June 2023 as part of the Convertible bonds issue, the Company issued warrants to Convertible bonds holders and advisors over a total of 40,476,190 ordinary shares exercisable at 2.25 pence per share for a period of 3 years.

10. Post Balance Sheet events

In July 2023, the Company announced that it has received conversion notices to issue 22,222,222 Ordinary Shares ("Shares") at a conversion price of 2.25 pence per Share under its Convertible bonds agreement ("Partial Conversion"). The Partial Conversion reduced the amount owing on the Convertible bonds by £500,000, with £2,000,000 remaining.

In September 2023, the Company announced that it has received conversion notices to issue 22,222,221 Shares at a conversion price of 2.25 pence per Share as a Partial Conversion. The Partial Conversion reduced the amount owing on the Convertible bonds by £500,000, with £1,500,000 remaining.

Sound Energy plc Shareholder Information

Dealing Information

FT Share Price Index –
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Stock code – SOU.LN

Financial Calendar

Meetings

Annual General Meeting – June 2023

Announcements

2023 Interim – September 2023
2023 Preliminary – March 2024

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