

Registered Number: 10171798

**Sound Energy Meridja Limited**

**Annual Report and Financial Statements for the year ended 31 December 2018**



**SOUND ENERGY MERIDJA LIMITED**  
**COMPANY INFORMATION**

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**Directors**

B Mitchener (Appointed 16 April 2018)  
JJ Traynor (Appointed 16 April 2018)  
J Parsons (Appointed 10 May 2016 and resigned 16 April 2018)  
L Madeddu (Appointed 10 May 2016 and resigned 16 April 2018)  
M Seghiri (Appointed 24 April 2017)

**Company Number**

10171798

**Registered Office**

1<sup>st</sup> Floor, 4 Pembroke Road  
Sevenoaks  
Kent  
TN13 1XR

**Auditors**

Crowe U.K. LLP  
St Bride's House  
10 Salisbury Square  
London  
EC4Y 8EH

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The Directors present their report and the accounts for the year ended 31 December 2018.

**Principal activities**

The Company has a branch in Morocco whose principal activity is the exploration, appraisal and development of oil and gas assets to first production and the operation of producing assets.

**Results**

The loss for the year, after taxation, amounted to £121,000 (2017: £24,000). The Directors do not recommend the payment of a dividend.

**Going Concern**

The Company expects to continue with its exploration, appraisal and development activities for oil and gas assets in the foreseeable future. The Company has the ongoing support of its directors and shareholders. The Directors have reasonable expectations that the Company, with ongoing financial support from its parent Company Sound Energy plc, has adequate resources to continue in operational existence for the foreseeable future. The going concern basis of accounting has therefore been adopted in preparing the financial statements.

**Post Balance Sheet Events**

Post balance sheet events are disclosed on note 18 to the financial statements.

**Directors**

The Directors who served during the year were:

J Parsons (Appointed 10 May 2016 and resigned 16 April 2018)  
L Madeddu (Appointed 10 May 2016 and resigned 16 April 2018)  
M Seghiri (Appointed 24 April 2017)  
B Mitchener (Appointed 16 April 2018)  
JJ Traynor (Appointed 16 April 2018)

### Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 of the profit or loss of the Company 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 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 disclose with reasonable accuracy at any time the financial position of the Company and 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.

### Provision of information to auditors

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- that the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the company's Auditor in connection with preparing his report and to establish that the Company's Auditor is aware of that information.

The Directors have prepared this report in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

This report was approved by the board and signed on its behalf by:

JJ Traynor

Director



Date:

15 May 2019

## **Opinion**

We have audited the financial statements of Sound Energy Meridja Limited for the year ended 31 December 2018 which comprise Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at ended 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been prepared in accordance 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 company 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.

## **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 directors**

As explained more fully in the directors' responsibilities statement set out on page 3, 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 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 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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**SOUND ENERGY MERIDJA LIMITED**  
**INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF SOUND ENERGY MERIDJA LIMITED**

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**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.



Matthew Stallabrass  
Senior Statutory Auditor  
For and on behalf of  
**Crowe U.K. LLP**  
Statutory Auditor  
St Bride's House  
10 Salisbury Square  
London  
EC4Y 8EH

Date: 20 May 2019

**Statement of Comprehensive Income**  
for the year ended 31 December 2018

	Notes	2018 £'000s	2017 £'000s
Administrative expenses	3	(121)	(24)
<b>Operating loss for the year</b>		<b>(121)</b>	<b>(24)</b>
Foreign exchange loss		–	–
<b>Loss for the year after taxation</b>		<b>(121)</b>	<b>(24)</b>
Other comprehensive income (that may be reclassified to profit or loss)			
Foreign currency translation		(4)	1
<b>Total comprehensive loss for the year</b>		<b>(125)</b>	<b>(23)</b>
<b>Loss for the year attributable to:</b>			
Owners of the company		(125)	(23)
Non-controlling interests		–	–

**SOUND ENERGY MERIDJA LIMITED**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

**Balance Sheet**

as at 31 December 2018


	Notes	2018 £'000s	2017 £'000s
<b>Non-current assets</b>			
Property, plant and equipment	8	128,943	—
Intangible assets	7	15,820	134,329
		<b>144,763</b>	<b>134,329</b>
<b>Current assets</b>			
Other receivables	9	506	—
Cash and short-term deposits	10	3	3
		<b>509</b>	<b>3</b>
<b>Total assets</b>		<b>145,272</b>	<b>134,332</b>
<b>Current liabilities</b>			
Trade and other payables	11	145,420	134,355
<b>Total liabilities</b>		<b>145,420</b>	<b>134,355</b>
<b>Net liabilities</b>		<b>(148)</b>	<b>(23)</b>
<b>Capital and reserves</b>			
Share capital	12	—	—
Foreign currency reserve		(3)	1
Accumulated deficit		(145)	(24)
<b>Total equity</b>		<b>(148)</b>	<b>(23)</b>

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

JJ Traynor

Director

Date:

  
15 May 2019

The accounting policies and notes on pages 11 to 20 form part of these financial statements.

# Statement of Changes in Equity

for the year ended 31 December 2018

	Notes	Share capital £'000s	Accumulated deficit £'000s	Foreign currency reserves £'000s	Total equity £'000s
<b>At 1 January 2018</b>		–	(24)	1	(23)
Total loss for the year		–	(121)	–	(121)
Other comprehensive income		–	–	(4)	(4)
Total comprehensive loss		–	(121)	(4)	(125)
<b>At 31 December 2018</b>		–	(145)	(3)	(148)

	Notes	Share capital £'000s	Accumulated deficit £'000s	Foreign currency reserves £'000s	Total equity £'000s
<b>At 1 January 2017</b>		–	–	–	–
Total loss for the year		–	(24)	–	(24)
Other comprehensive income		–	–	1	1
Total comprehensive loss		–	(24)	1	(23)
<b>At 31 December 2017</b>		–	(24)	1	(23)

## Cash Flow Statement

for the year ended 31 December 2018

	Notes	2018 £'000s	2017 £'000s
<b>Cash flow from operating activities</b>			
Cash flow from operations		–	(24)
<b>Net cash flow from operating activities</b>		–	(24)
<b>Cash flow from investing activities</b>			
Advances to group companies		(557)	–
Capital expenditure and disposals		(563)	–
Exploration expenditure		(2,040)	(1,006)
<b>Net cash flow from investing activities</b>		(3,160)	(1,006)
<b>Cash flow from financing activities</b>			
Funding from group companies		3,080	1,031
<b>Net cash flow from financing activities</b>		3,080	1,031
Net increase in cash and cash equivalents		(80)	1
Net foreign exchange difference		80	2
Cash and cash equivalents at the beginning of the year		3	–
<b>Cash and cash equivalents at the end of the year</b>	10	3	3

There were no non-cash transactions during the year ended 31 December 2018. Non-cash transactions in 2017 included £133.3 million consideration for the acquisition of Oil and Gas Investment Fund (OGIF)'s interests in Morocco licences.

## NOTES TO THE CASH FLOW

	Notes	2018 £'000s	2017 £'000s
<b>Cash flow from operations reconciliation</b>			
Loss for the year/period before tax		(121)	(24)
Expected credit loss allowance on advances to group companies		51	–
Depreciation/amortisation		70	–
<b>Cash flow from operations</b>		–	(24)

## Notes to the Financial Statements

### 1 General information

The Company is a private limited company, incorporated in England and Wales on 10 May 2016 with the registration number 10171798 and its registered office is 1st Floor, 4 Pembroke Road, Sevenoaks, Kent, England, TN13 1XR. The Company's principal activities are exploration, appraisal and development of oil and gas assets to first production and the operation of producing assets.

### 2 Accounting policies

#### (a) Basis of preparation

The financial statements of the Company have been prepared in accordance with:

1. International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC Interpretations; and
2. those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, except to the extent that the following policies require fair value adjustments.

The 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 for the reporting period presented in these financial statements, 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 company's financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 15 May 2019.

The Directors have received assurances from the ultimate parent undertaking, Sound Energy plc, that it will continue to support the Company, including not recalling any intercompany balances due where such a recall might cause the company not to continue as a going concern, to enable it to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements. Should the Company be unable to continue trading, adjustments might be required to reduce the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets as current assets.

#### *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. Actual outcomes could differ from those estimates.

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).

When considering whether E&E assets are impaired the Company first considers IFRS 6 in note 7. The making of this assessment involves judgement concerning the Company's future plans and current technical and legal assessments. If those indicators are met a full impairment test is performed.

Following the award of a production concession in Morocco, judgement was required in determining the date of and quantum of the E&E expenditure transferred to development. In making assessment for impairment prior to transfer of the E&E expenditure to development (see note 7), the inputs used in the valuation model included expected gas price, production volume, discount rate and tax rate which are not considered likely to be subject to material change in the coming 12 months.

## **2 Accounting policies (continued)**

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset and chooses a suitable discount rate in order 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 7.

Other sources of estimate concern IFRS 9 on advance to group companies (note 9) but are not considered likely subject to material change in the coming 12 months.

### **(b) Foreign currency translation**

The functional currency of the Company is US dollar. Sterling is the presentation currency of the Company.

For the purposes of presenting the financial statements, the assets and liabilities of the Company are translated into sterling at exchange rates 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, the deferred cumulative exchange difference is recognised in the income statement.

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.

### **(c) Oil and gas assets**

The Company's capitalised oil and gas costs principally relate to properties that are in the exploration and evaluation stage.

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

The Company will continue to monitor the application of these policies in the light of expected future guidance on accounting for oil and gas activities.

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

#### ***Exploration and evaluation assets***

Under the successful efforts method of accounting, all licence 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.

#### ***Exploration and evaluation costs***

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 licence/prospect are carried forward, until the existence (or otherwise) of commercial reserves has been determined subject to certain limitations including 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 conclusion of appraisal activities.

#### ***Acquisitions, asset purchases and disposals***

Acquisitions of oil and gas properties are accounted for under the purchase method where the transaction meets the definition of a business combination or joint venture.

## 2 Accounting policies (continued)

Transactions involving the purchase of an individual field interest, or a group of field 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 field 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.

### (d) Expenses recognition

Expenses are recognised on the accruals basis unless otherwise stated.

### (e) Property, plant and equipment

Fixtures, fittings and equipment are recorded at cost as tangible assets.

The straight-line method of depreciation is used to depreciate the cost of these assets over their estimated useful lives, which is estimated to be four years.

### (f) Borrowing costs

Borrowing costs 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 includes restricted cash that has been placed as guarantees for work commitments on licences.

### (i) Financial instruments

Financial assets and financial liabilities are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Trade and other receivables are initially measured at fair value and are subsequently reassessed at the end of each accounting period. 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 Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability

## 2 Accounting policies (continued)

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 method. 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 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 recorded at their fair value on issue and are not subsequently remeasured.

### (j) Standards, interpretations and amendments to published standards

#### New standard adopted

The Company applied IFRS 9 'Financial instruments' for the first time. The Company applied IFRS 9 prospectively with the initial application date of 1 January 2018.

The impact of the adoption was the recognition of expected credit loss on the Company's advances to group companies.

	Income Statement £'000s	Advances to group companies £'000s	Accumulated deficit £'000s
Expected credit loss allowance (note 9)	51	(51)	—

The Company had no advances to group companies as at 1 January 2018 hence no recognition of expected credit loss allowances as at 1 January 2018. During the year, advances were made to group companies and a credit loss allowance of £0.1 million was recognised in the income statement during the year.

IFRS 15, 'Revenue from contracts with customers' and several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the Company's financial statements.

#### Standards not yet effective

A number of new standards and amendments to standards and interpretations have been issued but not yet effective and in some cases have not yet been adopted by the EU. The most significant new standard impacting the Company is IFRS 16, 'Leases'.

IFRS 16 provides a new model for lease accounting in which all leases, other than short-term, will be accounted for by recognition in the balance sheet of a right-to-use asset and a lease liability. The right-to use asset is initially measured at cost and subsequently at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments as well as the impact of lease modifications, amongst others. IFRS 16 is effective for accounting periods beginning on or after 1 January 2019.

The Company has no assets on lease and therefore adoption of IFRS 16 is not expected to have an impact on the Company's financial statements.

### 3 Loss for the year before taxation

	2018 £'000s	2017 £'000s
Loss for the year is stated after charging:		
Expected credit loss allowance on advances to group companies	51	—
Depreciation	70	—
Employee costs	—	24

### 4 Auditor's remuneration

Auditors remuneration are borne by the ultimate parent company.

### 5 Employees

	2018 £'000s	2017 £'000s
Wages and salaries	—	21
Social security costs	—	3
<b>Total</b>	<b>—</b>	<b>24</b>

The Company had no employees during the year. The directors' remuneration was borne by other group companies.

### 6 Taxation

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

	2018 £'000s	2017 £'000s
<b>Current tax</b>		
UK corporation tax (charge)/credit	—	—
Adjustment to tax expense in respect of prior years	—	—
Overseas tax	—	—
<b>Total current tax (charge)/credit</b>	<b>—</b>	<b>—</b>
Deferred tax credit arising in the current year	—	—
<b>Total tax (charge)/credit</b>	<b>—</b>	<b>—</b>

#### (b) Reconciliation of tax charge

	2018 £'000s	2017 £'000s
Loss before tax	(121)	(24)
Tax (charge)/credit charged at UK corporation tax rate of 19% (2017: 19.25%)	23	5
Tax effect of:		
Temporary differences not recognised	(8)	(2)
Differences in overseas tax rates	(15)	(3)
<b>Total tax (charge)/credit</b>	<b>—</b>	<b>—</b>

## 7 Intangibles

	Software £'000s	Exploration & Evaluation Assets £'000s	2018 £'000s
<b>Cost</b>			
At 1 January 2018	–	134,329	134,329
Additions	50	2,092	2,142
Transfer to development and production assets	–	(125,420)	(125,420)
Exchange adjustments	–	4,809	4,809
At 31 December 2018	50	15,810	15,860
<b>Impairment/amortisation</b>			
At 1 January 2018	–	–	–
Charge for the year	40	–	40
At 31 December 2018	40	–	40
<b>Net book amount at 31 December 2018</b>	<b>10</b>	<b>15,810</b>	<b>15,820</b>

	Exploration & Evaluation Assets £'000s	2017 £'000s
<b>Cost</b>		
At 1 January 2017	–	–
Additions	134,329	134,329
At 31 December 2017	134,329	134,329
<b>Impairment</b>		
At 1 January 2017	–	–
Charge for the year	–	–
At 31 December 2017	–	–
<b>Net book amount at 31 December 2017</b>	<b>134,329</b>	<b>134,329</b>

### Transfer to Development and Productions assets

In September 2018, the Company was granted a production concession award by the Moroccan Ministry of Energy, covering an area of approximately 133.5 km<sup>2</sup> in the Tendrara licence. The Company considers the discoveries included in the production concession award area to be commercial and following the award of the concession, the exploration and evaluation expenditure of £5.0 million was transferred to development after an assessment for impairment which indicated that there was no impairment. The key assumptions used in the impairment assessment valuation model included; Company's share of the reserves estimated to be 169.5 bscf, a discount rate of 10% and an implicit oil price of 65 US\$/bbl.

### Exploration and Evaluation Assets

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 2017 the Directors have;

- reviewed the time period that the Company has the right to explore the area and noted no instances of expiration, or licences that are expected to expire in the near future;
- determined that further exploration or evaluation expenditure is either budgeted or planned for all licences and;
- not decided to discontinue exploration activity due to there being a lack of quantifiable mineral resource;

## 7 Intangibles (continued)

- d) not identified any instances where sufficient data exists to indicate that there are licences 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.

## 8 Property, plant and equipment

	2018 £'000s	2017 £'000s
<b>Development and production assets</b>		
<b>Cost</b>		
At start of the year	–	–
Transfer from intangible assets	125,420	–
Additions	397	–
Exchange adjustments	3,043	–
At end of the year	128,860	–
<b>Depreciation</b>		
At start of the year	–	–
Charge for the year	–	–
Exchange adjustments	–	–
At end of the year	–	–
Net book amount	128,860	–
<b>Fixtures, fittings and office equipment</b>		
<b>Cost</b>		
At start of the year	–	–
Additions	116	–
Exchange adjustments	–	–
At end of the year	116	–
<b>Depreciation</b>		
At start of the year	–	–
Charge for the year	30	–
Exchange adjustments	3	–
At end of the year	33	–
Net book amount	83	–
<b>Total net book amount</b>	<b>128,943</b>	<b>–</b>

## 9 Other receivables

	2018 £'000s	2017 £'000s
Advances to group companies	557	–
Credit loss allowance	(51)	–
	<b>506</b>	<b>–</b>

The Company applies IFRS9 in calculating expected credit losses on advances to group companies and recognises a loss allowance based on lifetime expected credit loss at each reporting date. The Company considered available external data on oil and gas industry default rates and used a cumulative default rate of 9% obtained from publicly available data published by a leading credit rating agency. £51 thousand expected credit loss allowance was recognised in the income statement during the year and the total outstanding expected credit loss allowance was £51 thousand as at 31 December 2018.

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**10 Cash and cash equivalents**

	<b>2018</b>	<b>2017</b>
	<b>£'000s</b>	<b>£'000s</b>
Cash at bank and in hand	3	3
<b>Carrying amount 31 December</b>	<b>3</b>	<b>3</b>
Being in:		
Moroccan dirham	3	3

**11 Trade & other payables**

	<b>2018</b>	<b>2017</b>
	<b>£'000s</b>	<b>£'000s</b>
Amounts due to group companies	145,420	134,355
	<b>145,420</b>	<b>134,355</b>

**Currency analysis**

	<b>2017</b>	<b>2017</b>
	<b>£'000s</b>	<b>£'000s</b>
US Dollar	145,420	134,334
Moroccan dirham	–	21
<b>Total</b>	<b>145,420</b>	<b>134,355</b>

**12 Capital and reserves**

	<b>2017 and 2016</b>	
	<b>Number</b>	<b>£'000s</b>
	<b>of shares</b>	
Ordinary shares – 1 pound	1	–

**13 Related party disclosures**

**Key management**

As at 31 December 2018, the key management personnel were the directors of the Company. The directors' remuneration was borne by other group companies.

**14 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 Company's financial instruments comprise cash and short-term deposits, other receivables and trade and other payables. The main purpose of the financial instruments is to finance the Company's operations. The fair value of the financial instruments is their carrying value, with the carrying value amounts included in the Balance Sheet with further analysis in note 9 (other receivables), note 10 (cash and cash equivalents) and note 11 (trade and other payables).

#### 14 Financial instruments risk management objectives and policies (continued)

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

	2017 £'000s	2017 £'000s
<b>Financial assets</b>		
Other receivables	506	—
Cash and short- term deposits	3	3
	509	3
<b>Financial liabilities</b>		
Trade and other payables	145,420	134,355
	145,420	134,355

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

##### Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's deposits.

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

##### Capital management

The Company is reliant on its ultimate parent to fund its operations and settle its liabilities as they fall due. The Company reviews its expenditure commitments on a regular basis and seeks funding from the Ultimate parent as required.

#### 15 Foreign currency and other risks

The Company's functional currency is US dollar (USD). The Company also undertakes transactions in Moroccan dirham (MAD). The Company's balance sheet can be impacted by movements in these exchange rates against USD. Movement in exchange rates will result in book gains or losses which are unrealised and will be offset if the currencies involved move in the opposite direction.

The USD cost of the assets being acquired with the MAD rises or falls pro rata to the currency movements, so the purchasing power of the respective currency remains the same. Wherever possible the company holds the same currency as our liabilities, thereby providing a natural hedge.

The effect of foreign currency movement had no material impact on the profit and loss account as at 31 December 2018 and 2017.

##### Liquidity risk

The Company is reliant on its ultimate parent to fund its operations and settle its liabilities as they fall due. The Company has received assurances from its ultimate parent that funding will be provided to the Company to enable it to meet its obligations as they fall due.

## **16 Financial instruments**

The Company's cash and cash equivalents are denominated in US dollars and Moroccan dirham and did not earn interest as at 31 December 2018 and 2017. Moroccan dirham cash balances have been converted at the exchange rate of MAD12.1940: £1.00 (2016: MAD12.6280: £1.00).

## **17 Commitment and guarantees**

At 31 December 2018, the Company had no material commitments or guarantees.

## **18 Post balance sheet events**

On 7 January 2019, the ultimate parent Company provided further update on the Company's TE-10 exploration well, confirmed the achievement of total depth, the potential identification of additional thin bedded net pay and the successful recovering of a gas sample to surface.

On 28 January 2019, the ultimate parent Company provided further update on the operations in Eastern Morocco and confirmed that the rig at TE-10 had been demobilised and that design, planning and procurement for the TE-10 testing programme was nearing completion.

On 18 February 2019, the ultimate parent Company announced an increase in net pay estimate on TE-10 well from up to 10.5m to up to 15.3m. The well testing and stimulation equipment has been mobilised from Libya and Tunisia and extra equipment mobilised from the USA.

On 7 March 2019, the ultimate parent Company confirmed that it was in continued positive discussions with Morocco's Office National de l'Electricité et de l'Eau Potable ("ONEE") and the Moroccan Minister of Energy in relation to a gas sales agreement ("GSA"), pursuant to which the Minister of Energy had confirmed his intention that the GSA covers all of the gas to be produced from the recently awarded Tendirara Production Concession, onshore Morocco.

On 25 March 2019, the ultimate parent Company announced that the latest pressure measurements reveal a current reservoir pressure of 413.4 bara at the TE-7 well location with the pressure continuing to increase towards the original reservoir pressure of 422.6 bara confirmed by the Company on 19 July 2017. The pressure build-up trend had allowed the Company to estimate the connected volume of in place gas ("GOIP") accessible by the TE-7 well. Analysis of the pressures measured in the well recorded over time had led to an increase in the Company's estimate of connected GOIP around TE-7 to a volume exceeding 115 Bscf. Historical analysis of the pressure trend, announced on 19 July 2017, had previously shown that the volume of connected GOIP around TE-7 exceeded 40 Bscf.

On 2 April 2019, the ultimate parent Company provided an updated on the TE-10 well test timing and noted that the Company was anticipating the arrival of Coiled Tubing from Tunisia prior to perforating and initiating the unstimulated tests, followed by the stimulated flow test.

On 29 April 2019, the ultimate parent Company provided a further update on the TE-10 well test and confirmed that the anticipated coiled tubing had arrived on site and that the Company would progress with the well test.

On 1 May 2019, the ultimate parent Company provided an update on Tendirara Gas Sales Agreement and confirmed receipt of a letter setting out a non-binding offer ("the Offer") from the Ministry of Energy and Mines for the Kingdom of Morocco. The Company will continue to negotiate the offer with a view to closing out a binding Heads document.

On 8 May 2019, the ultimate parent Company provided an update on the TE-10 well test and confirmed that the unstimulated test had been largely completed and interpretation of the tests was continuing.

## **19 Parent undertaking and ultimate controlling party**

The ultimate parent company is Sound Energy plc. Sound Energy plc is the largest and smallest group for which group accounts are drawn up. These can be obtained from 1st Floor, Pembroke Road, Sevenoaks, TN13 1XR. There is no ultimate controlling party.