

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulation ("MAR") (EU) No. 596/2014, as incorporated into UK law by the European Union (Withdrawal) Act 2018. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

13 June 2023

Sound Energy plc
("Sound Energy" or the "Company")

**Corporate Update
and
Issue of Convertible Bonds and Issue of Warrants**

Sound Energy (AIM: SOU), the transition energy company, is pleased to provide a corporate update in relation to the entry into exclusivity for the partial divestment of the Tendirara Exploitation Concession and the Grand Tendirara Exploration Permit, and a financing of up to £4.0 million by way of a fixed price, senior unsecured convertible bond instrument.

Key Highlights

- Binding 45 day period of exclusivity and non-binding term sheet entered into with Calvalley Petroleum (Cyprus) Limited ("Calvalley") for a partial divestment of a 40% working interest in the Tendirara Exploitation Concession and the Grand Tendirara Exploration Permit which will see, 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
- Up to £4.0 million funding through the issue of senior unsecured convertible loan notes to provide the Company with liquidity ahead of receipt of outstanding receivables and/or receipt of Phase 1 back costs from Calvalley, if a partial divestment is ultimately completed.

Partner and Potential Partial Divestment Update

The Company announced on 9 August 2022 that it had initiated a formal farm-out process to identify a partner for the Tendirara Production Concession and the surrounding Grand Tendirara and Anoual exploration permits. The Company is pleased to announce that it has now entered into exclusivity for a period of 45 days ("Exclusivity") on the basis of an otherwise non-binding term sheet ("Term Sheet") with Calvalley, an associated company of Octavia Energy Corporation Limited ("Octavia").

Whilst the terms of the Term Sheet, outside of Exclusivity, are non-binding and subject to, inter alia, agreement of definitive transaction documentation between the parties, if a transaction is concluded, 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 well, with an estimated exploration potential of 273 Bcf gross Pmean GIIP.

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 at the TE-4 Horst, which sits adjacent to the TE-5 Horst and could be tied-in in the future for further development of the area.

Target name	Unrisked Volume Potential Gas Initially-in-Place (Bcf)				Chance of Success
	Gross (100%) basis				
	Low	Best	High	Mean	
TE-4 Horst Well	153	260	408	273	36%

Calvalley was previously listed on the Toronto Stock Exchange and was taken private in 2016. Today, Octavia and its associated companies operate Block S-1 and Block 9 in Yemen with gross production of approximately 6,200 bopd (3,100 bopd net). Calvalley is backed by a consortium of private investors who draw on a strong financial capability from many successful businesses across many sectors in the Middle East, Africa, and Asia.

Under the Term Sheet, Calvalley would acquire a 40% working interest in the Tendirara Exploitation Concession and the Grand Tendirara Exploration Permit, with Sound Energy retaining a 35% working interest and operatorship. Contingent upon the Phase 2 Final Investment Decision, Calvalley would fund the first US\$48 million of Sound Energy and Calvalley's Phase 2 equity funded development costs (a US\$22.4 million net carry to the Company), being the Company's estimate of equity funded costs to first gas under Phase 2 after the expected amounts available under the project debt financing. The Term Sheet also envisages Calvalley funding the first US\$7 million of exploration costs on the Grand Tendirara Exploration Permit (a US\$3.3 million net carry to the Company), being the estimated costs of drilling the TE-4 Horst well. In addition, Calvalley will fund its 40% working interest share of all Phase 1 costs to a cap of US\$16.4 million (net to the 40% working interest), which will include payment of its 53.33% share of back costs payable on completion, comprising approximately US\$8 million through to July 2023.

In the event Phase 1 costs exceed US\$41 million gross (being US\$16.4 million net to the 40% working interest), Calvalley would advance the Company up to US\$11.65 million and Calvalley will be entitled to receive revenues equivalent to 0.9% above its 40% working interest share of revenue for every US\$1 million of advancement drawn down by the Company (at its sole election) for a period of five years from first production from Phase 1. Likewise, in the event the Phase 2 pre-production costs exceed the current estimate, Calvalley would advance Sound Energy up to US\$10 million and Calvalley will be entitled to receive revenues equivalent to 0.9% above its 40% working interest share of revenue for every US\$1 million of advancement drawn down by Sound Energy (at its sole election) for a period of two years from first production from Phase 2.

During the due diligence period Calvalley will complete its confirmatory due diligence and the parties will seek to agree binding transaction documentation.

The Company cautions that there can be no assurance that binding transaction documentation will be entered into in respect of a partial divestment with Calvalley, or any other party, and further announcements will be made, as appropriate, in due course.

Issue of Convertible Notes and Warrants

The Company is also pleased to announce that it has raised up to £4.0 million by way of a senior unsecured convertible bond instrument (the "Convertible Notes") with an institutional investor (the "Investor"). The proceeds of the Convertible Notes will, if fully drawn, provide funds for the Company to continue to execute its Phase 1 development of the Tendirara 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 first tranche of the Convertible Notes comprises £2.5 million with a fixed conversion price of 2.25 pence per ordinary share, a premium of approximately 28% to the closing price of 1.76 pence per ordinary share on 12th June 2023.

The second tranche of the Convertible Notes comprises a further £1.5 million, which can be drawn at Sound Energy's election on 13 December 2023 (being six months from the first tranche draw down) and can be drawn sooner if mutually agreed by the Company and the Investor. The second tranche can be drawn subject to the Company's closing mid-price of its ordinary shares on the business day immediately preceding the proposed issue date being at least 1.32 pence per ordinary share. The second tranche conversion price will be fixed at the time of draw down at a 25% premium to the five-day volume weighted average price ("VWAP") from the business day immediately preceding the second tranche drawdown date.

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 principal, at the Company's election.

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

Other key terms of the Convertible Notes:

- Issue price and redemption price on maturity: 100% of par value
- Early redemption/change of control: callable in cash by the Company at any time after draw down or in the event of a change of control of the Company at 110% of par value together with all unpaid interest. If the Convertible Notes 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 of the relevant issue date will be 15% of the Convertible Notes, and in respect of any early redemption occurring after the second anniversary of the relevant issue date will be 10% of the Convertible Notes. The Investor shall have two trading days to elect to convert some or all of outstanding amounts or accept the early redemption. In the event of default, Convertible Notes will be redeemable immediately at 120% of par value of outstanding Convertible Notes plus accrued interest.
- Conversion: convertible into Sound Energy ordinary shares at each tranche's fixed conversion price in whole or in part. Upon conversion, interest shall be rolled up and paid as if the Convertible Notes were held to the redemption date (being five years from draw down), with such interest convertible at the lower of the applicable fixed conversion price and the average of the five daily VWAP calculations selected by the Investor out of the 15 trading days prior to the conversion date.
- Other conversion terms: any conversion notice must be for minimum of £250,000. No more than 20% of the initial principal of the Convertible Notes may be converted in any given calendar month. If the Company's five-day VWAP exceeds 3.00 pence per ordinary share in any given month, the conversion limit will be increased for the relevant month to 50% of each draw down amount. If the Company's five-day VWAP exceeds 3.50 pence per ordinary share in any given month, the conversion limit will be removed for the relevant month.
- Second tranche draw down condition: the Company must maintain available share issuance authority headroom and disapplication of pre-emption rights to cover 150% of any draw down amount divided by the VWAP on the day immediately preceding a draw down.
- Warrants: 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 three years. If the second tranche is drawn down, additional warrants over such number of new ordinary shares as represents 30% of the par value of tranche 2 Convertible Notes drawn down, with an exercise price at the conversion price of the tranche 2 Convertible Notes and a term of three years.

Commenting, Graham Lyon (Executive Chairman) said:

"We are very pleased to have entered into exclusivity and a term sheet with Calvalley, who have operations in the Middle East and are supported by a very large conglomerate. The envisaged arrangement would fund the further development of Tendirra Concession and the drilling of a well on the nearby TE-4 Horst. The companies will now work towards signing definitive transaction documentation which upon completion will enable the parties together to jointly progress to the Final Investment Decision.

I am also pleased that we have raised financing for the Company using a fixed price convertible debt facility, convertible at a premium to the prevailing share price, which provides the Company with additional resources with which to continue to execute its Phase 1 development and to progress the Phase 2 development."

Fee Shares and Warrant Issuance

In connection with the issue of the Convertible Notes, the Company has agreed to issue 11,404,221 new ordinary shares in lieu of cash fees ("Fee Shares") to the Investor and Gneiss Energy Limited ("Gneiss"), the Company's financial adviser, at an effective issue price of 1.76 pence per new ordinary share (the "Fee Shares") and warrants over a total of 40,476,190 new ordinary shares in total to the Investor and Gneiss, exercisable at 2.25 pence per ordinary share for a period of three years.

Admission and Total Voting Rights

Application has been made for admission of the Fee Shares to trading on AIM, and it is expected that admission will occur on or around 19th June 2023 ("Admission"). The Fee Shares will rank pari passu with the Company's existing ordinary shares.

On Admission, the total issued share capital of the Company will consist of 1,860,106,895 ordinary shares. The Company does not hold any ordinary shares in treasury. Therefore, the total number of voting rights in the Company is 1,860,106,895 and this figure may be used by shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change in their interest in, the share capital of the Company under the FCA's Disclosure Guidance and Transparency Rules.

For further information visit www.soundenergyplc.com follow on twitter @soundenergyplc

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The information contained in this announcement has been reviewed by Sound Energy's Vice President, Geoscience, Dr John Argent, who is a Chartered Geologist, a Fellow of the Geological Society of London and a Member of the Petroleum Exploration Society of Great Britain, with 25 years of experience in petroleum geology and management and who is the qualified person as defined in the guidance note for mining, oil and gas companies issued by the London Stock Exchange in respect of AIM companies.

Gas Initially-in-Place (GIIP) is the total quantity of gaseous petroleum that is estimated to exist originally in naturally occurring reservoirs, as of a given date.

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