SOUND ENERGY PLC

Exploration & Production

ANNUAL REPORT & ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2017

DELIVERING THE MOROCCAN GAS PROMISE

2017 ANNUAL REPORT

Sound Energy is a well-funded exploration-focused onshore gas company, listed on AIM (LSE: SOU), with a low cost 0.65 Tcf gas discovery, a supportive investor base, a strategic partnership with Schlumberger and a potentially transformational drill programme. Our strategy is focused on the further exploration and development of our Moroccan portfolio.

Read more in our **Strategy and KPIs** on page 08

A MID-CAP MOROCCAN GAS COMPANY

REGIONAL GAS STRATEGY UNDERPINNED BY

- Strong European gas demand and local pricing
- Supportive Cornerstone Investors
- Private Investor Centricity

STRONG THEMATIC POSITIONING

- Carbon consciousness and global warming driving transition to gas

LOW COST 0.65 TCF DEVELOPMENT IN EASTERN MOROCCO WITH RECENT RESERVES CERTIFICATION

SIGNIFICANT EXPLORATION POTENTIAL

- Eastern Morocco up to 31 Tcf
- Southern Morocco up to 11.2 Tcf

FURTHER CONSOLIDATION OPPORTUNITIES IN MOROCCO

Getting around the Report

Read more content within this **Report**

View more content **Online**

“Our focus during 2017 has been building on our success in Morocco, both in terms of exploration and the development of our existing discovery.”

James Parsons
Chief Executive Officer

Corporate website

Visit **www.soundenergyplc.com** for the latest news, reports, presentations and videos

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OUR ASSET PORTFOLIO

Eastern Morocco

Asset	Interest	Status	Area
Tendrara	47.5% interest operated	8 year exploration permit	9,336km^2 acreage, 7 wells drilled
Anoual	47.5% interest operated	Exploration permit	8,873km^2
Matarka	47.5% interest operated	Reconnaissance permit	5,223km^2

Read more about Eastern Morocco in the **Operational Review** on pages 18 to 23

Southern Morocco

Asset	Interest	Status	Area
Sidi Moktar	75% interest	Exploration permit	4,499 km^2*

*** Subject to final approvals.**

Read more about Southern Morocco in the **Operational Review** on pages 18 to 23

HIGHLIGHTS

Morocco

- Successful TE-7 extended well test
- Acquisition of interests in OGIF (Oil & Gas Investment Fund) in Eastern Morocco
- US$27.2 million Schlumberger carried seismic programme
- Continued preparation for next exploration drilling, including ongoing 2D seismic acquisition and aerial gradiometry

US$27.2 million
carried seismic programme

Read more in our **Operational Review** on pages 18 and 23

Corporate

- Cash balance at 31 December 2017 of £21.2 million
- Strong safety record
- Disposal of Italian interests
- Appointment of new Chief Financial Officer

£21.2 million
cash balance at 31 December 2017

Read more in our **Financial Review** on pages 24 and 25

STATEMENT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Richard Liddell
Non-executive Chairman

James Parsons
Chief Executive Officer

"2017 has been a busy year for the Sound Energy business, consolidating and expanding our operations in Eastern Morocco, particularly through a significant seismic programme and bringing on board our cornerstone partner, OGIF."

2017 was a busy year for Sound Energy with a successful extended well test on TE-7, the acquisition of Oil & Gas Investment Fund's ("OGIF") interests in Morocco, two material exploration wells drilled safely, a further Schlumberger investment in Eastern Morocco and significant progress on a fully carried seismic programme.

Morocco Portfolio and Schlumberger Field Management Agreement ("FMA")
During 2017, the Company built on its early success in Tendrara with the acquisition from OGIF of a further 27.5% interest in Tendrara and a 75% interest in both the Anoual exploration permit and the Matarka reconnaissance licence.

The Company granted a 27.5% working interest in the Anoual permit and the Matarka reconnaissance (subject to definitive agreements) to Schlumberger. This has enabled a fully funded material seismic programme which we believe will prove to be critical in de-risking the forthcoming exploration drill programme.

Tendrara
During the period, the Company completed a successful extended well test on TE-7 and drilled a third well, TE-8, which was largely funded by Schlumberger under its carried arrangement. Drilling was completed in May 2017 and despite tighter TAGI sands than in TE-6 and TE-7, this well established the westward extension of the primary hydrocarbon system proven in Algeria into Morocco.

Building on the outstanding TE-6 and TE-7 well results in 2016 and 2017, the Company is progressing with the development of its existing discovery. As outlined in our recent resource certification, the discovery has a gross (100%) mid-case unrisked gas originally in place ("GOIP") of 651 Bcf with an 873 Bcf upside case and a 349 Bcf downside case. The Company intends to sign a Gas Sales Agreement, secure development funding and apply for a concession, all during 2018.

Seismic Programme
The Company continues to progress its 2,900 km 2D seismic programme which is now already more than 47% complete. The objective of the seismic is to de-risk the forthcoming three well exploration programme and provide line of sight on the potential of the province. The US$ 27.2 million cost of the programme is fully funded by Schlumberger.

Sidi Moktar
During 2017, the Company completed its licence obligations with a positive re-entry and work over of the Koba-1 well. Sound has recently received, subject to Ministerial approval, a new eight year exploration permit and is looking forward to further drilling in 2019 once a seismic programme is complete.

Italy
Following the safe but unsuccessful drilling of the Badile well in Italy, an agreement was signed with Saffron Energy PLC to divest of the Company's Italian portfolio. It is anticipated that this transaction will complete in early April 2018. The consideration shares in Saffron Energy PLC are to be distributed directly to Sound shareholders on the register on 3 April 2018.

Corporate
The Company remains in a solid financial position as it enters 2018. Funding through the Schlumberger seismic carry, and cash balance of £21.2 million as at 31 December 2017 will support the forthcoming exploration well programme. We continue to work with strategic partners to technically and financially de-risk our portfolio.

During 2017, we also continued to broaden and deepen the team and we were delighted to welcome JJ Traynor to the Company (and soon to the Board) as Chief Financial Officer.

Summary
The Company continues to believe that the TAGI and Paleozoic plays across Tendrara, Anoual and Matarka have the potential to become a material hydrocarbon province on a regional scale and therefore transform both Sound Energy and the Moroccan gas industry.

Unlocking such a province requires time and technical skill and none of this would be possible without the efforts of our people, our shareholders and other stakeholders.

We remain hugely excited about our future and look forward to success together.

Richard Liddell
Chairman

James Parsons
Chief Executive Officer

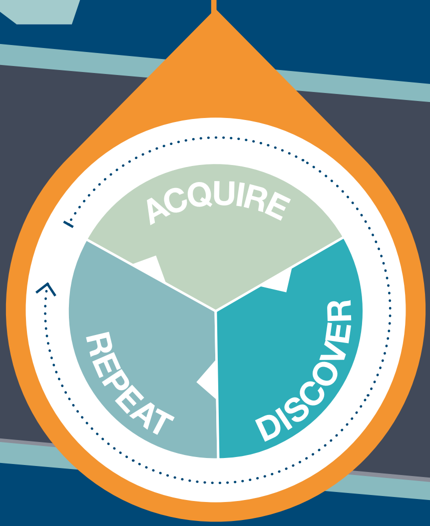
Pictured below:
Part of the exploration team in the South Sevenoaks office.

BUSINESS MODEL

Key Partners

1. Strategic Industry Partnerships
2. Cornerstone Investors

Operational Model



The building blocks of the business

Our business model is underpinned by a series of fundamental building blocks that we must have in place to manage our risks and provide us with our licence to operate. These include:

- An engaged, industry experienced and entrepreneurial team with a balance of technical, commercial and financial skills.
- Strong governance coupled with effective risk management.
- A culture of safe and sustainable operations, enabling us to achieve high standards of health and safety and minimise our environmental and social impact.

Key Partners

1 Strategic Industry Partnerships

Our strategic industry partnerships allow Sound Energy to achieve more than we could alone. Our partners enable scale, help to technically de-risk assets and provide funding for our activities. We contribute our ability to move quickly and take advantage of opportunities, as well as our own creative technical, commercial and financial expertise. The partnerships we create are mutually beneficial, enhancing both our, and our partners', businesses. We play to our strengths and are stronger together.

2 Cornerstone Investors

Our cornerstone investors give Sound Energy a strong financial foundation, bringing to the table both asset opportunities and the funds to develop discoveries. Having our cornerstone investors represented on the Board helps align management and shareholders, ensuring that our strategy plays to our strengths and delivers value. Our cornerstone investors bring more than just funds to the business – their skills, knowledge and relationships help us deliver successful outcomes.

Operational Model

ACQUIRE

Sound is continually looking for new opportunities to diversify our portfolio. We screen for corporate and asset acquisitions which fit with our high impact exploration strategy, onshore or shallow water, in countries with attractive fiscal terms. We have demonstrated our deal-making capability to enter assets pre-discovery and can apply the same skills to gas commercialisation and asset or corporate exit as required. We can move quickly to take advantage of the attractive opportunities identified by our team under current market conditions.

DISCOVER

We are well-positioned in this environment to take advantage of our exciting exploration acreage and the significantly reduced cost of drilling to deliver material gains to shareholders. We are permanently placing emphasis on efficient exploration and low-cost reserves. We have demonstrated our capability to discover major fields and deliver wells, and carefully manage our technical and financial risk.

REPEAT

Our business model, like the oil and gas industry, is cyclical. We acquire, discover and deliver value to our shareholders. Building on our strong technical experience, we are agile and innovative. Through these attributes we are able to look for and quickly create new opportunities for the Company. Our primary goal is to deliver returns to shareholders.

Read more on our **Portfolio** on pages 18 to 23

Read more on our **Risks** on pages 30 to 34

Read more on our **Strategy** on pages 2 to 34

STRATEGY AND KPIs

The Journey So Far . . .

1 Introduction of Cornerstone Investors

- Continental Investment Partners
- Oil and Gas Investment Fund (OGIF)

2 Acquisition of Moroccan onshore gas portfolio

- Eastern Morocco (Tendrara, Anoual, Matarka)
- Southern Morocco (Sidi Moktar)

3 Introduction of Strategic Partner

- Schlumberger

4 Successful drilling and appraisal in Eastern Morocco

- TE-6 – 28m net pay, 17mmscf/d achieved post stimulation
- TE-7 – 32 mmscf/d after clean up, successful extended well test
- TE-8 – Paleozoic Play Opener and extension of TAGI reservoir
- Start of Tendrara aerial gradiometry and seismic programme

5 Sidi Moktar Work Programme

- Workover and test of Koba-1

We measure our performance based on the achievement of desired outcomes. At the beginning of each year, we create a vision of what strategic success looks like and capture this in a corporate scorecard.

Sound's scorecard is made up of a collection of key performance indicators (KPIs) across a range of operational and financial metrics. Each objective measured has a percentage weighting and a desired outcome. Progress is tracked throughout the year and the Board's and Executives' performance is judged on the delivery of desired outcomes. We disclosed the summary of our targets in our 2016 Annual Report. They are listed below, along with associated KPIs, and our performance against these targets.

2017 KPI	Measurement	2017 Performance
Continued diversification and further build out of Sound's Eastern Morocco position.	• New acreage in Morocco.	Detailed work on new play opportunities in Morocco has been completed.
	• Additional acreage in Eastern Morocco.	Completion of the OGIF deal delivered the Anoual exploration permit and Matarka reconnaissance area.
Exploration, appraisal and development of the Tendrara Licence.	• Deliver exploration and appraisal program.	Material seismic programme across Tendrara and Eastern licences initiated in 2017 with Schlumberger funding.
	• Progress TE-5 development to FID.	Independent CPR complete for TE-5 to prepare project for FEED.
Successful delivery of the Badile well and operations on Sidi Moktar.	• Delivery of Moirago-1 well at Badile.	Moirago-1 well drilled safely, however discovery uneconomic.
	• Sidi Moktar licence obligations.	Koba-1 successful re-entry confirming producible gas accumulation.
Exploring early opportunities to monetise assets.	• Monitor potential farm out and other monetisation options.	Work continues to develop monetisation options. With the unsuccessful Morago-1 well at Badile, exit from Italy to focus portfolio and deliver value to shareholders.
Ensure continued high-quality partner relationships.	• Strategic investor engagement.	Completion of the OGIF deal in Q3 enabled full alignment with largest shareholder with additional Eastern Morocco acreage.
	• Leverage industry partnership with Schlumberger.	Schlumberger partnership delivered fully funded material seismic programme for Eastern Morocco acreage.

STRATEGY AND KPIs

Future Focus . . .

Our Overall Aim

The strategic focus for the Company is the further exploration and development of our Moroccan portfolio. Below are the key steps we plan to take to deliver increased shareholder value.

1 Disposal of Italian Portfolio

- By exiting Italy, we can focus our capital allocation and management time on Morocco

2 Grow the Value of our Assets and De-risk Upside Volumes

- De-risk 31 Tcf exploration potential in Eastern Morocco and up to 11 Tcf in Sidi Moktar through shooting new seismic and aerial gradiometry
- Prove further volumes with three bold exploration wells in Eastern Morocco, each with multi Tcf potential

3 Development of Existing Gas Discovery

- Develop existing 0.6 Tcf gas discovery, with first gas targeted for 2020

4 Broaden our Portfolio in Morocco

- Consolidate onshore gas position in Morocco

Future Plans . . .

2018 Scorecard

Sound's 2018 scorecard comprises a mix of stretching financial, operational and corporate targets incentivising sustainable growth and safe operations. A summary of the targets is listed below and the KPIs will be disclosed in the 2018 Annual Report:

Upcoming Newsflow

1. Ongoing (to August 2018)
   Tendrara – New 2D seismic (2,900 live km)
2. Ongoing
   Morocco consolidation
3. April 2018
   Tendrara – 1st CPR released
4. Q2 2018
   Tendrara – 2nd CPR released
5. Q3 2018
   Tendrara – 3rd CPR released
6. H1 2018
   Tendrara – GSA secured
   Eastern Morocco – Pipeline BOT secured
7. July 2018 onwards
   Eastern Morocco – Three well exploration programme
8. 2018
   Tendrara – Final investment decision on discovery

MARKET REVIEW

Energy Sector

The oil market has been volatile over the last few years, with the energy sector as a whole affected by the decline in the oil price from its highs. Although there has been some recovery in oil prices in 2017, the uncertainty in the sector led to a drop in the AIM Oil and Gas Index (around 9% for 2017) with many of our peers experiencing financial difficulties. For well-funded companies such as Sound Energy, the broader sector malaise has resulted in a number of high-quality assets coming onto the market which we have been able to and continue to look to add to our portfolio at attractive prices.

Despite a recovery in the oil price (Brent was up 17% during 2017) the AIM O&G index still struggled, closing the year down by around 9% although the FTSE 350 O&G fared slightly better, up 6.2%. As we enter 2018 (despite a recent weakening in global equity markets), there is a sense that there has been a shift in sentiment with many investors becoming increasingly optimistic about the oil and gas sector and its future performance. The recovering oil price and sustained cost-cutting efforts over the last few years will result in a supply deficit in the coming years. Oil and gas companies have materially cut operating costs, both internally and as a result of the c.50% decline in oil service company rates. Consequently, companies possessing strong balance sheets, near-term exploration/appraisal upside and low/manageable debt are increasingly the 'top picks' for fund managers.

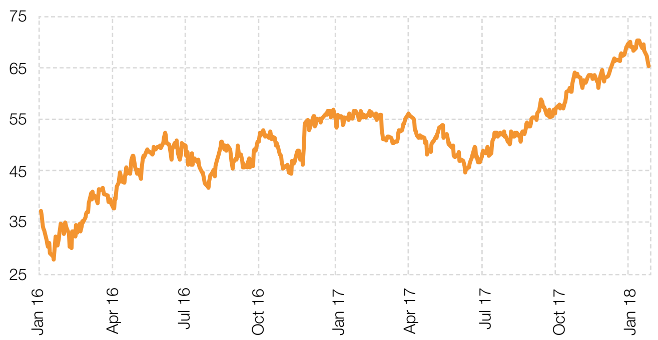
Increased carbon consciousness and concerns around climate change are becoming increasingly prevalent globally. Gas has around half the emissions of coal and is recognised for the role it can play as the ideal bridging fuel during the transition to carbon neutral solutions. As a result, demand for gas has increased and will continue to do so for the foreseeable future – currently, the consumption of natural gas worldwide is projected to increase to 177 Tcf in 2040, with demand in countries outside the Organisation for Economic Co-operation and Development (OECD) increasing more than those 35 member countries across the globe.

Key Themes for 2018:

- Improvement in global growth which should evoke gains in global equities
- Monetary policy shift, with divergence between US and the EU, and although the ECB will slow its asset purchase programme it is not expected for them to raise rates any time soon
- Geopolitical risks – Brexit negotiations likely to cause some instability
- Further support for O&G equities on any commodity price rallies

Brent Price (US$/bbl)

Source: Bloomberg as at 8 February 2018

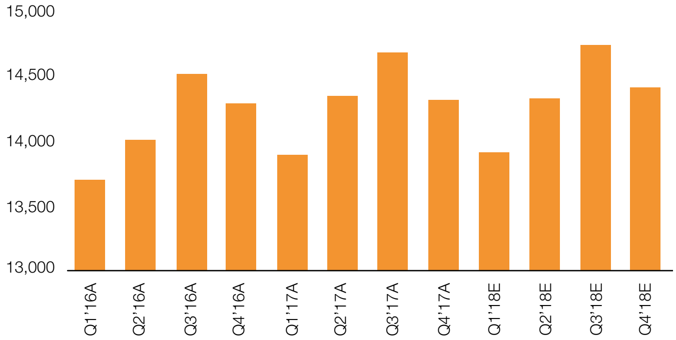


NBP (GBP/therm)

Source: Bloomberg as at 8 February 2018

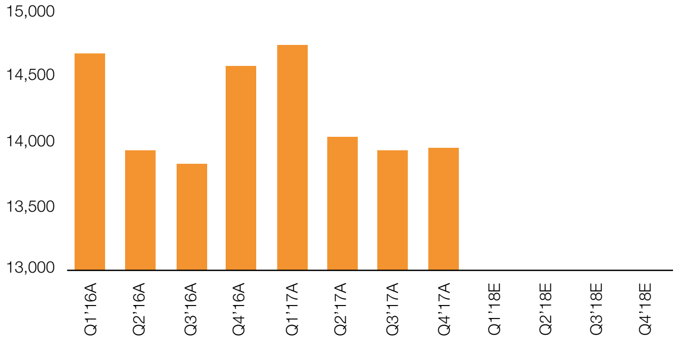
European Oil Demand

Source: RBC Capital Markets, Petro-Logistics SA, IEA, EIA, JODI, company and government sources; IEA disclosure



European Gas Consumption

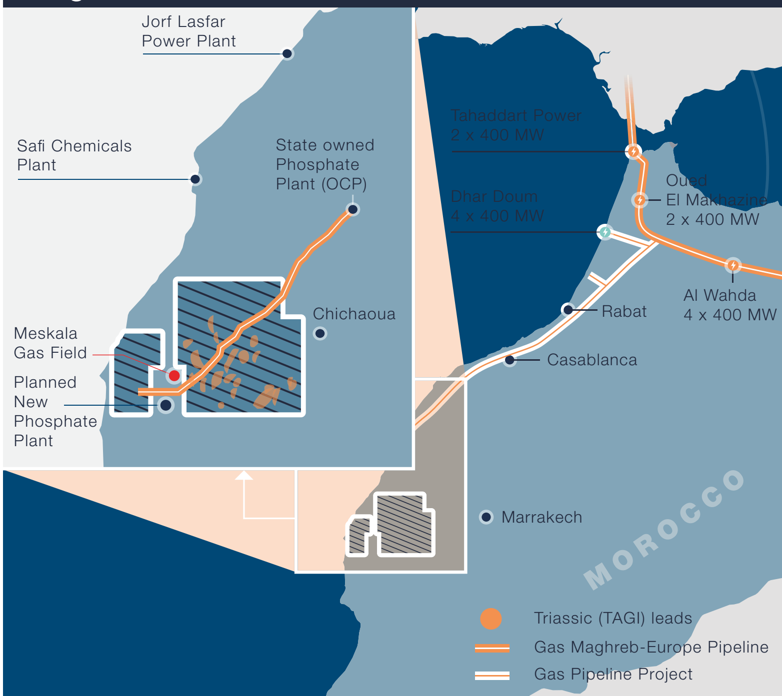
Source: RBC Capital Markets, Petro-Logistics SA, IEA, EIA, JODI, company and government sources; IEA disclosure



MOROCCO

- Around 90% of Morocco's hydrocarbons are imported from Algeria
- In the medium to long term, Morocco expects to increase the share of natural gas in the energy mix
- Morocco provides one of the most attractive fiscal regimes for oil and gas companies worldwide
- GME pipeline ownership transitions to Morocco in 2021
- New Gas Agency is under discussion

Regional Infrastructure



What this means to **Sound Energy**

- Favourable fiscal terms (10 year tax holiday and 36% net Government take including 5% royalty – one of the lowest globally)
- Good economics and ability to get gas to market with ease
- Attractive pricing – benefits from high European gas pricing
- Supportive government with a desire to keep gas in-country
- Low cost production

KEY PARTNERS

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

Continental Investment Partners

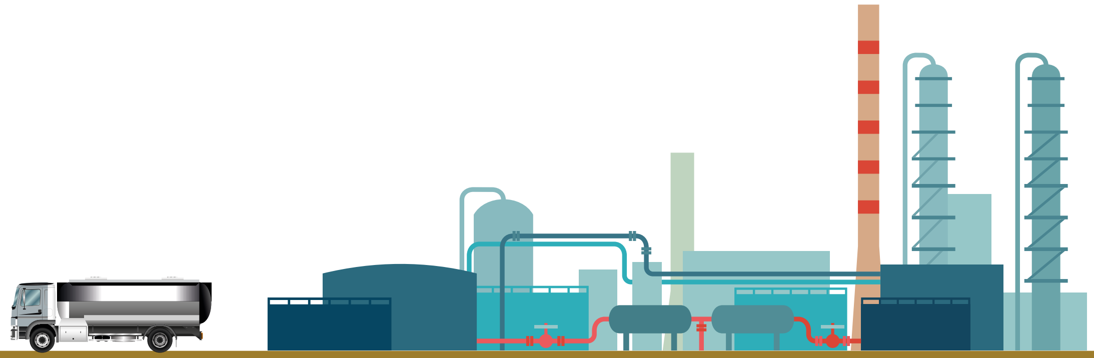
Continental Investment Partners S.A. ("Continental") were introduced to Sound Energy in 2014 when they invested £14 million in the Company through a mixture of debt (£7 million) and equity (£7 million). They have continued to support Sound Energy throughout 2016. During April 2015, they brought a further £12 million investment into the Company, when they subscribed for a total of 63 million shares, through an affiliate, Metano Capital S.A. These shares were subsequently placed with various pre-identified institutional investors. Continental have played a key role in enabling the Company's drill programme and expansion and are a critical cornerstone of the Company. As at 28 February 2018, Continental had an interest in 6.63% of Sound Energy's current issued share capital.

Oil and Gas Investment Fund (OGIF)

In January 2017, Sound Energy announced the acquisition of OGIF's Eastern Morocco portfolio and introduced OGIF as a second cornerstone investor:

- Consolidates interest in Eastern Morocco's prospective acreage
- Strengthens Sound Energy's position in Morocco; OGIF is a Moroccan fund, owned by the seven largest Moroccan financial institutions

As at 28 February 2018, OGIF had an interest in 26.77% of Sound Energy's current issued share capital.



Schlumberger

Schlumberger is the world's leading provider of technology for reservoir characterisation, drilling, production, and processing to the oil and gas industry.

It supplies the industry's most comprehensive range of products and services, from exploration through production and integrated pore-to-pipeline solutions for hydrocarbon recovery that optimise reservoir performance, working in more than 85 countries and employing approximately 113,000 people who represent over 140 nationalities.

The strategic partnership between Sound and Schlumberger allows the Company to benefit from Schlumberger's wealth of experience and vast resource within the sector. In addition, Schlumberger shares the risks of the Tendrara project, earning its net profit interest through funding a significant portion of the initial capital expenditure.

Schlumberger provides integrated technical services, equipment and personnel to Sound Energy, operator of the Tendrara licence:

- Schlumberger has funded a significant proportion of the capital expenditure on the first three Tendrara appraisal wells (75-80%), and of the development of the licence area thereafter (27.5%); and fully funded the $27.2 million seismic acquisition in Eastern Morocco; and
- Schlumberger has been granted a synthetic net profit interest of half of the Company's interest (which equates to 18.75% initially, increasing to 27.5% after the first well).

Our Partners in Our Ventures

Our ability to build and maintain relationships is a key part of our success, enabling us to identify accretive M&A opportunities, share the risks and rewards of oil and gas exploration and production with our partners and, in return, increase our knowledge and fund our work programmes. We have high quality relationships with our partners in our assets.

Hosts

The way in which we conduct ourselves with our host communities and governments, and our record on health, safety and the environment, is the bedrock for all our operations and is crucial to our success as a business. In close partnership with our host government we work to grow and strengthen our social and economic relationship within the countries and regions we operate in, through the community support we provide, employment opportunities we offer and the willingness of our local communities to work with us to create wealth. Our partners and our people play a vital role in creating value for our shareholders.

RESERVES AND RESOURCES

Sound Energy Resource and Reserve Estimates

The Company volumes and risk factors are presented in accordance with the 2007 SPE/WPC/AAPG/SPEE Petroleum Resource Management System ("PRMS"). The Tendrara licences contain both discovered hydrocarbons and undiscovered prospects which fall within the PRMS classifications of either Contingent or Prospective Resources. Given the current phase of a field life cycle, these contain no proven reserves at this point.

Both the Contingent Resources and Prospective Resources in Tendrara are subject to risk. Prospective Resources are, by definition, undiscovered and the probability of success is referred by the Company in PRMS as the Chance of Success (CoS). Contingent Resources are, by definition, discovered, and therefore do not have an associated Chance of Success (CoS). Using the PRMS methodology, Contingent Resources may be subject to a Chance of Development (CoD).

Contingent Resource Estimates for Eastern Morocco (Tendrara, Matarka and Anoual)

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources are further categorised in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterised by their economic status as follows:

- Contingent Resources (Development Pending);
- Contingent Resources (Development Unclarified or On Hold);
- Contingent Resources (Development Not Viable).

The Tendrara development contains Contingent Resources (Development Unclarified or On Hold). At the point of FID, the resources will move to Contingent Resources (Development Pending). When developed, the Contingent Resources will be converted into Reserves.

In late 2017, Sound Energy undertook a resource certification exercise for the core Tendrara licence area, the key results of which are outlined below.

Discovered In-place Volumes and Contingent Resources

Segment name	Discovered Gas Originally In-place (Bcf)			Contingent Resources (Bcf)[1]		
	Gross (100%) basis			Gross (100%) basis		
	Low	Mid	High	1C	2C	3C
TE-5 Horst (TAGI 1 and 2)	349	651	873	197	377	533

1 Contingent Resources are technical volumes i.e. no economic limit test applied.

Prospective Resource Estimates for Eastern Morocco (Tendrara, Matarka and Anoual)

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects.

Prospective Resources have both an associated chance of success and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be subclassified based on project maturity. Sound Energy has internally estimated prospective resources for the Tendrara, Matarka and Anoual licences, which are given in Fig. 1 below. These estimates are based on work previously communicated by RNS on 1 February 2017. The Prospective Resource estimates were based on a preliminary basin modelling study undertaken by a leading independent consultancy. The output of the basin modelling allowed Sound Energy to estimate that the exploration potential of the entire Tendrara, Matarka and Anoual permit areas is 17 Tcf mid case unrisked original gas in place (gross). The Basin Model highlights the possibility for a range of estimated volumes across the entire permit areas, with a 9 Tcf low case for unrisked original gas in place (gross) and, if all the key elements of the petroleum system's model are present, an upside case of 31 Tcf of unrisked original gas in place (gross).

These resource estimates are all Sound Energy 100% gross, in place, unrisked estimates.

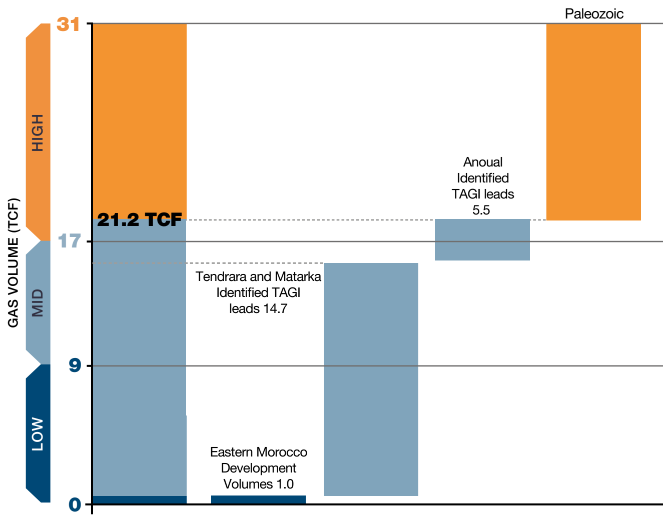


Fig. 1 Summary chart showing the internally estimated, gross, unrisked GIIP volumes for the Tendrara, Matarka and Anoual licences. The Eastern Morocco Development Volumes estimate (1.0 Tcf) is based on the sum of the externally certified, gross, mid case discovered and undiscovered GIIP estimates from the RPS resource certification exercise. The Prospective Resource estimates are Sound Energy internal estimates and have not been externally verified or certified.

Prospective Resource Estimates for Southern Morocco (Sidi Moktar Onshore)

The Sidi Moktar Onshore permit area was awarded to Sound Energy on 12 February 2018. In late 2017, Sound Energy commissioned Echo Geoscience Management Ltd ("EG") (a UK-based consultancy providing geological and geophysical interpretation services to the upstream oil and gas industry) to undertake an independent preliminary technical evaluation* of the available historical exploration well and 2D seismic data across the Sidi Moktar permit area with a focus on the under-explored pre-salt plays. EG have defined and mapped a portfolio of 28 Liassic, Triassic and Paleozoic leads in a variety of hydrocarbon trap types across the Sidi Moktar licences. Much of the potential lies within 11 of the pre-salt Triassic and Paleozoic leads ranging in size individually from 200 Bcf to 2.5 Tcf. The EG Study highlights an exploration potential best case of 8.9 Tcf with a high of 11.2 Tcf and a low case of 6.7 Tcf, unrisked gas originally in place (gross), shown in Fig 2 below.

Prospects, Leads and Resources

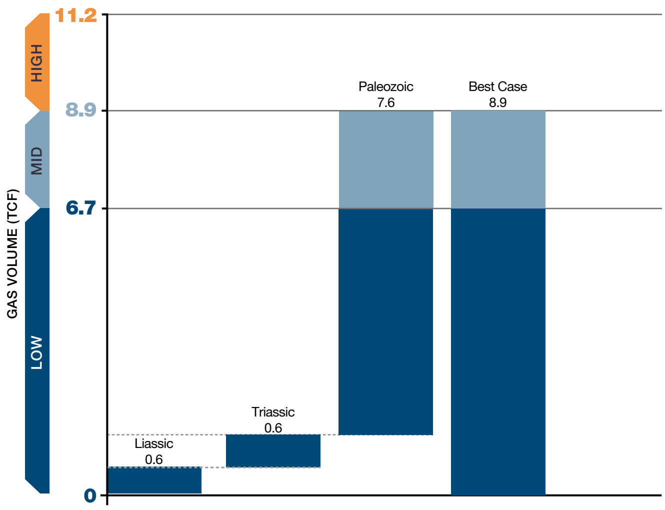


Fig 2 Summary chart showing the internally estimated, gross, unrisked GIIP volumes for the Sidi Moktar onshore licences. These estimates were produced as part of the Echo Geoscience evaluation of the permit area and have not been externally verified or certified.

* The evaluation was prepared by Echo Geoscience Management Ltd, ("EG") for the sole use of Sound Energy plc. The Study is not a Competent Person's Report (CPR), a Qualified Person's Report (QPR) or a Technical Expert's Report (TER) and should not be relied upon as such.

Pictured:
Rig at TE-7

OPERATIONAL REVIEW

Overview of the Operational Performance for the Year

2017 was a busy year for Sound Energy in Morocco.

Wells Programme
Two challenging wells were safely delivered in the year, Moirago-1 at Badile in Italy and the TE-8 step out well for Tendrara in Morocco. The Italian well was ultimately unsuccessful with insufficient hydrocarbon shows. The TE-8 step out well completed drilling in May 2017 and despite lower quality TAGI sands than in the previous wells, is the first well to establish significant gas shows with a Westphalian aged sequence.

Sidi Moktar
During 2017, the Company completed the licence obligations with a positive re-entry and work over of the Koba-1 well. Sound Energy has, subject to final approvals, recently received the exploration permit for the next phase on the licence and is looking forward to progressing the work programme in this area in late 2018 onwards.

Seismic
2017 saw Sound Energy commence its geophysical programme in Eastern Morocco. The coverage of all the 22,800km^2 of the licences with flown Gravity Gradiometry, Magnetics and LiDAR data was completed during Q4 and augmented with detailed satellite imagery. The proposed 2,900km of 2D seismic was commenced in October and the phase 1 lines completed in early December. In total, 598km were acquired in 2017. In addition to this operational programme, the Company has completed reprocessing of the existing 522km^2 of 3D seismic data across the TE-5 Horst discovery and an integrated programme of geological studies including commissioning new petrographic, geochemical, chemostratigraphic and biostratigraphic analyses of the historical well data.

Development of existing discovery
Good progress has been made on the development project, including the resource certification issued in January 2018. Key forward steps include the contracting, engineering and financing which are progressing as well as off take and other related commercial agreements. The Company intends to apply for the concession in 2018 with final sanction estimated for later in the year.

The Company's HSE record has been strong with only one LTI (Lost Time Incident) during the year. More details on HSE are provided in the Health and Safety Review on page 28.

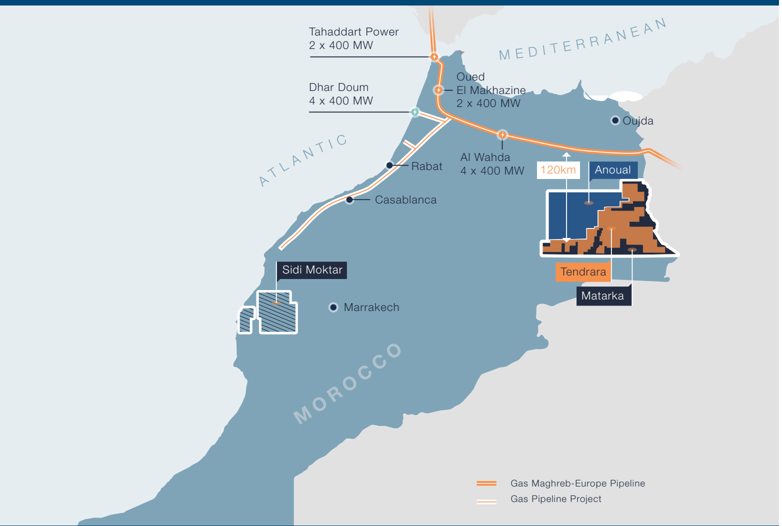
Pictured:
TE-7 storage tank and generator

EASTERN MOROCCO

Overview

Eastern Morocco, representing a total superfice of 23,432 km^2 is composed of three areas:

Asset	Area	Status	Terms	Interest
Tendrara-Lakbir Effective Date 16 April 2013	9,336 km^2	Permits	8 years	Net effective interest of 47.5%
Anoual Effective Date 31 August 2017	8,873 km^2	Permits	8 years	Net effective interest of 47.5%
Matarka Effective Date 27 July 2017	5,223 km^2	Reconnaissance Licence	1 year	Net effective interest of 47.5%



Highlights

- TE-8 vertical well drilled and proved evidence of the presence of a potential second play in Paleozoic
- Achievement of the Reserves Certification on the first unlocked field, TE-5 Horst structure
- Completion of OGIF transaction
- Completion of the Field Development Plan of TE-5 Horst structure
- Acquisition of an airborne gradiometry survey / delineation of the Basin geometry and understanding of the Paleozoic potential underway
- Completion of the existing 2D and 3D seismic reprocessing / better assessment of potential prospects
- Launch of the biggest 2D seismic campaign ever done in onshore Morocco, to better image the next structures to be drilled

Permit Area

- Figuig Province, North-East Morocco
- 120km from Gazoduc Maghreb Europe (GME) pipeline (connecting Algeria and Morocco to the Spanish/Portuguese gas grids)
- Sub-divided into eight blocks

Geology

Represents a continuity of the Algerian Triassic Province and Saharan Hercynian platform. Same tectono-sedimentary as the evolution in the Algeria Basins.

Partnerships

- Sound Energy farmed in to the Tendrara licence in June 2015, taking a 55% working interest in the licence, partnering L'office National des Hydrocarbures et des Mines (ONHYM) (25% interest) and OGIF - (20% interest) and assuming Operatorship
- In December 2015, Sound Energy entered into a Field Management Agreement (FMA) with Schlumberger. Schlumberger agreed to fund a significant portion of the capital expenditure on the first three Tendrara wells and provide technical services, equipment, personnel to Sound Energy as Operator in exchange for an upside linked to production performance
- In February 2017, Sound Energy entered into binding agreements with OGIF for the conditional acquisition by the Company of a further 20% interest in the Company's Tendrara-Lakbir permits and a 75% position in Matarka (relinquished area of the Tendrara exploration area) and in Anoual permits (ex Meridja reconnaissance licence converted in permits). These agreements were approved by Sound Energy shareholders at a general meeting in March 2017
- In June 2017, Sound Energy and Schlumberger expanded their partnership to Matarka reconnaissance licence and Anoual permits
- In September 2017, after the completion of all the conditions precedent-related to February 2017's binding agreements, OGIF became a substantial shareholder of the company.

Pictured:
Map of Tendrara

OPERATIONAL REVIEW CONTINUED

Existing Wells

TE-6

28m net pay, 17 mmscf/d achieved post-stimulation

TE-7

32m mmscf/d after clean up: Successful Extended Well Test

TE-8

paleozoic play opener and extension of TAGI reservoir

Forthcoming Exploration Wells

'A' Structure (up to 1.2 Tcf)

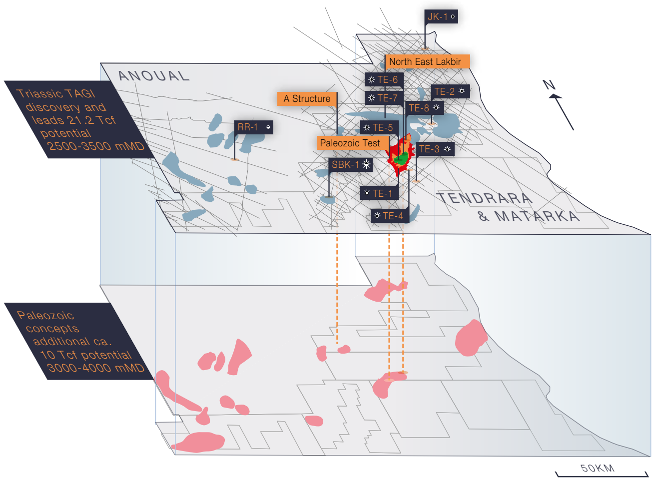
North East Lakbir (up to 5 Tcf)

Main Results

- TE-8 proved, 12km to the Northeast of TE-7, the presence of a TAGI sand sequence, commencing at a measured depth of 2,643 metres. It penetrated 114 metres of TAGI I (approximately twice the thickness of the TAGI I reservoir encountered in wells on the TE-5 Horst) with gas shows. The TAGI sands encountered by TE-8 are also interpreted to be at the same reservoir pressure as the previous wells on the TE-5 Horst (TE-5, TE-6 and TE-7)
- TE-8 was drilled some 359 metres into the Paleozoic and identified the full series of Westphalian stratigraphy including sandstones (between 2,762 metres through to 3,120 metres), which are one of the producing horizons in neighbouring Algeria. The sandstones are interpreted to lie in a separate pressure regime to the overlying TAGI play beneath the TE-5 Horst and the Lakbir High. Gas shows were encountered over this interval and subsequent petrophysical analysis suggests that these sandstones may be permeable and likely to be producible with mechanical stimulation
- Sound Energy completed the first phase of the 2D seismic and magneto-telluric acquisition in Eastern Morocco

Future Focus

- The second phase of the 2D seismic acquisition campaign is underway and should be completed during summer 2018
- Further wells targeting the Paleozoic on the Tendrara permit are being planned in 2018. The 'A' Structure is expected to be the first target at TAGI level



SOUTHERN MOROCCO

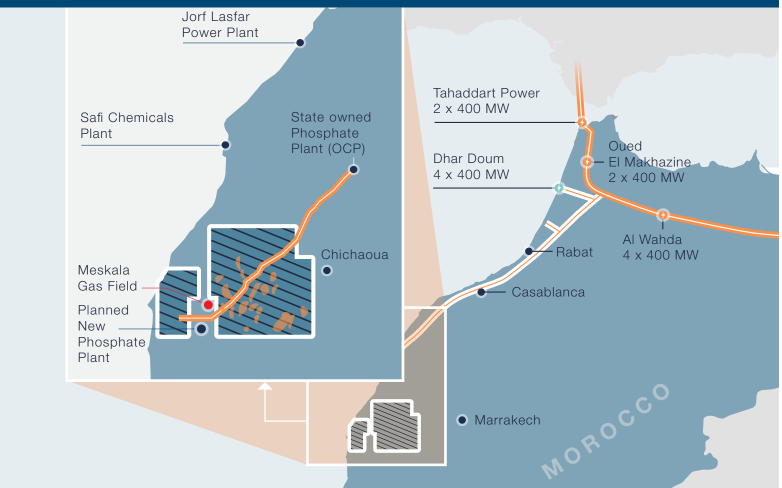
Sidi Moktar

Overview

Western Morocco is composed of a unique area, Sidi Moktar.

Asset	Area	Status	Effective Date	Terms	Interest
Sidi Moktar	4,499 km^{2}*	Exploration Permits	February 2018	8 years	Net effective interest of 75%

* Subject to final approvals.



Highlights

- Play type: gas discovery (Kechoula) in the Lower Liassic sequence, (73 Bscf net to Sound Energy, initial estimate, single accumulation most likely), deeper upside potential in Triassic (TAGI) and Paleozoic
- Two wells drilled with positive gas indications from log and gas shows in the Liassic; extended well test planned in 2017
- Unrisked up to 11.2 Tcf exploration potential (Net to Sound Energy) following interpretation of the existing 2D seismic
- Risked up to 3 Tcf exploration potential targeting the Triassic (TAGI) objective; net to Sound Energy
- Asset is located 10km from the Meskala gas processing plant

Permit Area

- The Sidi Moktar permit is located in the Essaouira Basin in Central Morocco (Western sea border) and is sub-divided into three blocks (North, South and West) with a combined area of 4,500km^{2}
- Adjacent to and surrounding the Permit is the Meskala Field, a gas/condensate discovery, which has been producing since the late 1980s and represents one of the most significant discoveries in Morocco to date
- The Sidi Moktar permit itself hosts some 40 wells, a pipeline and production facilities for gas and condensate

The Geology and Activity History

There are four Exploration plays within the Sidi Moktar permit:

- PS1 Argovian (sandy dolomite) which has given rise to five discoveries (Jeer, Kechoula, Sidi Rhalem, Toukimt and N'Dark);
- PS2 Low Liassic (sandstone) which has given rise to two discoveries (Zelten and Kechoula);
- PS3 Triassic (TAGI equivalent) which has given rise to one discovery (Meskala); and
- PS4 Paleozoic Devonian carbonates which remain frontier exploration, gas shows present in penetrations beneath the Meskala field with one well testing gas.

Essaouira Basin history

- Historically, 84 wells have been drilled in the Essaouira Basin with discoveries in the lower Liassic and Triassic having the highest discovery ratio. Additionally, 7,000 km of seismic have been acquired since the late 1950s.

1950s and 1960s

- Exploration in the basin began in the 1950s resulting in the discovery of two small gas fields (Kechoula in 1957 and Jeer in 1958) and one oilfield (Sidi Rhalem in 1961).

1970s

- By 1970, 35 onshore wells and one offshore well had been drilled, of which 12 were classed as appraisal/development. From 1974 to 1980, a further 13 wells were drilled with the aid of multi-fold 2D seismic resulting in three further discoveries at Toukimt (1976), N'Dark (1976) and Meskala (1977).

1980s

- The development of the Meskala field gave rise to the discovery of gas-condensate in Triassic clastics at 3,500m and a DST yielded a flow rate of 12 MMscf/d. Between 1980 and 1987 a further 28 wells were drilled including nine development wells at Meskala, two of which were the deepest stratigraphic tests in the basin (4.3km), proving the possibility of Ordovician sands as a second potential Paleozoic target.

Most recent history

- In 2009, Magreb Petroleum Exploration (MPE) signed a Petroleum Agreement with ONHYM to secure a 75% interest in the Sidi Moktar North, South and West licences, the remaining 25% being held by ONHYM (the Moroccan NOC). MPE subsequently farmed out a 50% working interest operated position to Petromaroc (formerly Longreach) in exchange for a full carry to first commercial gas. During the course of 2013 and 2014, Petromaroc drilled two wells which both had gas shows but which were not completed and tested. In January 2016, Sound Energy secured and retained MPE's 25% carried interest in the licence and in March 2016 secured Petromaroc's 50%.

ITALY

Badile

Moirago-1

The exploration well Moirago-1 was located 20 km south of Milan and was spudded on the 7th March 2017, by the drilling contractor Pergemine S.p.A. The project was successfully executed with no Lost Time Incidents (LTIs) and no recordable injuries.

The objective of the well was to target the Badile prospect. The prognosed reservoir in Badile was the Lower Jurassic aged Conchodon Dolomite formation. The Conchodon dolomite reservoir was successfully reached, was proven to be permeable and displayed significant gas shows during drilling. Subsequent data, however, proved that any potential gas accumulation was sub-commercial, and as such the well was plugged and abandoned on the 26th July 2017. The well reached a final TD of 4473m MD (4406m TVD).

Saffron Deal

Sound Energy plc entered on 5 October into non-binding conditional heads of terms with Saffron Energy PLC, based on which Sound Energy plc proposes to dispose its portfolio of Italian interests and permits through the sale of Apennine Energy SpA ("APN") and its Holding Company, Sound Energy Holding Italy Limited to Saffron Energy PLC. The SPA was signed on 22 January 2018 and the deal is expected to complete in April 2018.

Pictured:
Badile rig and shakers at Moirago 1 well

FINANCIAL REVIEW

"Our commitment to unlocking Moroccan gas was demonstrated by the issue of 272 million shares valued at £138.8 million for the acquisition of OGIF's interests in Tendrara, Anoual and Matarka licences, increasing our investment in Morocco."

JJ Traynor
Chief Financial Officer

£24.0 million

spend on drilling and exploration activities in Morocco and Italy

£164.0 million

carrying value of intangible assets at 31 December 2017

Income Statement

The Group's operations in Italy were classified as discontinued operations following the entering of an agreement between the Company and Saffron Energy Plc for the divestment of the Company's Italian licences. The loss from discontinued operations increased to £21.8 million (2016: £8.7 million) primarily due to an impairment charge of approximately £19.0 million attributable to the Badile licence following sub-commercial well results.

The loss for the year before tax from continuing operations was £12.3 million (2016: £4.7 million). Administrative costs increased by £4.3 million to £8.5 million (2016: £4.2 million) reflecting the growth of the business with increased activities in Morocco.

Foreign exchange gains and losses primarily related to intra-Group loans and Euro denominated borrowings.

As part of the acquisition of the Sidi Moktar licences, onshore Morocco, an agreement was entered with PetroMaroc and provides that, if the shares of the Company which were issued as part of the consideration for the acquisition, are sold, the realised proceeds for any share price achieved above 50 pence to be shared equally between the Company and PetroMaroc. The loss on the derivative financial instruments of £1.9 million (2016: £0.6 million gain) arose from this arrangement and reflects the change in the share price during the year.

Cash Flow/Financing

During 2017, warrants and share options exercises raised approximately £11.6 million (2016: £15.9 million). Net proceeds from equity issued in 2016 also included £24.3 million that had been raised through an underwritten offer.

The financing costs were £1.1 million (2016: £3.7 million) primarily due to amortised costs of the bonds, net of interest capitalised to the exploration licences of £1.6 million (2016: £1.5 million). Financing costs in 2016 included accelerated amortisation of issue costs on refinancing of the debt.

The Group spent £24.0 million (2016: £11.8 million) on investing activities during 2017, which largely consisted of the Badile licence's Moirago-1 well, Tendrara TE-8 exploration well and re-entry of Koba-1 well at the Sidi Moktar licence in Morocco. 2016 capital expenditure was primarily for TE-6 and TE-7 wells in the Tendrara licence.

Balance Sheet

Additions to the intangible assets included consideration paid for the acquisition of OGIF's interests in Tendrara, Anoual and Matarka licences in Morocco. The consideration included the issue of 272.0 million shares valued at £138.8 million at the time of the acquisition. Additions also included expenditure on drilling Moirago-1 well at Badile, TE-8 well at Tendrara licence and re-entry of Koba-1 well at Sidi Moktar licence.

Other receivables amounting to £3.5 million (2015: £8.8 million) primarily related to receivables from our partners in the Tendrara licence.

Assets of the Disposal Group held for sale related to the Italian operations and primarily included intangible assets, Badile land and VAT receivable.

Trade and other payables amounting to £6.6 million (2016: £12.6 million) primarily related to payables and accruals for the operations in the Group's licences in Morocco, where the Group, as operator, recognises 100% of the liability and receives funds from partners to pay the partners' share.

Liabilities of Disposal Group held for sale related to the Italian operations and primarily included trade and other payables and provision for decommissioning of licences.

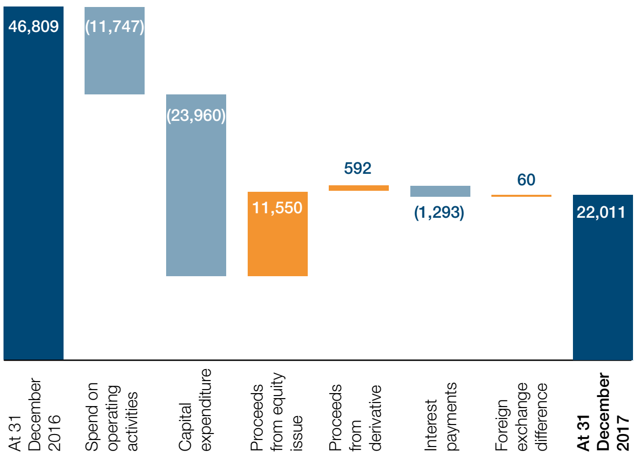
Accounting Standards

The Group has reported its 2017 and 2016 full year accounts under International Financial Reporting Standards (IFRS), as adopted by the European Union.

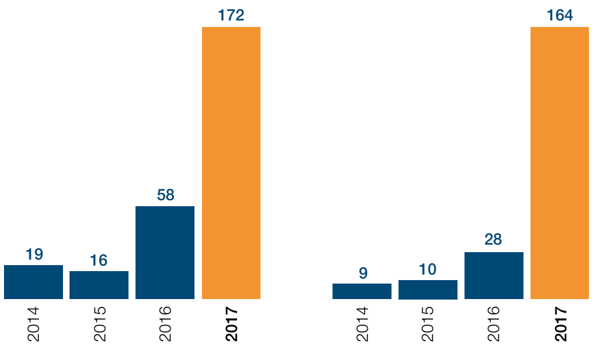
Going Concern

The Directors have reviewed the forward cash flow projections for the Group for the foreseeable future, being at least the next 12 months from the date of this report, which show that the Group has sufficient financial resources to undertake its committed work programme, and thus the Directors have concluded that the Group is a going concern.

Cash Flow Bridge Chart (£'000)



Net Assets (£ million) **Intangible Assets (£ million)**



Pictured:
Seismic work, Morocco

CORPORATE RESPONSIBILITY

Our CSR Strategy

1 Environment

Aims:
- All operations shall be completed with minimal disruption to the environment
- All flora and fauna in our operating area should be treated with respect

2 Suppliers

Aims:
- We aim to treat and deal with our suppliers fairly and with respect
- Where possible we look to use in-country suppliers to benefit the local economic environment

3 Employees

Aims:
- We will provide a rewarding, safe and hospitable working environment with high levels of employee engagement and participation
- We actively engage, nurture and develop local labour in all countries of operation
- We value and support diversity in the workplace

4 Communities

Aims:
- We aim to conduct our activities with minimal disruption to local hosts
- We aim to play an active part in the community hiring local employees, assisting with infrastructure and supporting the improvement of local facilities such as mobile phone towers and hospitals

We are committed to operating our business in a way that delivers lasting benefit to the communities and environments where we work, as well as to our shareholders and employees.

"Creating lasting legacies for local communities is core to our CSR strategy."

Mohammed Seghiri
Managing Director, Morocco

Sound Energy's strategic positioning continues to focus on gas – a bridge fuel with significantly lower CO_2 emissions than coal (around half as much).

At Sound Energy, we understand that being involved in the exploration and production of energy brings with it enormous environmental, social and cultural responsibilities. Core to our CSR strategy is conducting operations that comply to the highest international social, environmental and safety standards.

Sound Energy places great importance on engaging with the community near our operations and ensuring that they benefit from our presence in the area. This approach is shown through the numerous ways that we have supported the local community near the Tendrara site in Morocco. They are as follows:

- In addition to the many locals we employ across a range of jobs on and near our site. In 2017 with the start of the seismic programme our subcontractor hired and trained more than 70 local people
- We have built a new mobile phone tower, improving the local community's ability to communicate
- We are also in the process of improving the health centre in the local area which requires extensive work and supplies to be able to serve the local community adequately
- We are also in the process of building an office with accommodation that will vastly improve the conditions of the employees that live and work on-site in the sometimes unforgiving desert heat and freezing cold conditions that occur in the region. Further details and photos of this project are below

The office building is a two-storey building with offices, meeting room/kitchen on the main floor and accommodation reception room on the top floor, as well as a 12m x 12m warehouse, and will be the main focal point for drilling support. The building is right next door to the current Saipem Rig camp, however the Saipem camp will move with the equipment as it goes out into the field and then the space will be used as a pipe and storage yard.

Pictured:
Logistics manager Kelly Sheets with his dog

HEALTH AND SAFETY REVIEW

Morocco

- Civil works for construction of well pads for TE-8 in Tendrara field
- Drilling and completion of TE-8 in Tendrara field
- Drilling and completion of Koba-1 well in Sidi Moktar field
- Completion of airborne survey on Tendrara-Lakbir Concession by ABI
- Beginning of seismic Tendrara-Lakbir project by WesternGeco

Italy

- Completion and P&A of Badile well in Basilicata
- Site restoration of Cascina Daga 1 dir well in Veneto
- Ongoing production sites support

The worked man hours have been 624.849 (121.351 Company, 503.498 Contractors) and the data recorded have been divided into the three main following families:

1 Lagging Indicators

2 Leading Indicators

3 Environmental Data

Lagging Indicators	
Fatality	0
LTI (Lost Time Injury)	1
RWC (Restricted Work Case)	1
MTC (Medical Treatment Case)	3
FAC (First Aid Case)	1
Property Damage	1
Environmental Incident	4
RTA (Road Traffic Accident)	1
NM (Near Miss)	6
HiPO (High Potential Event)	4
Lost Workdays	15

Leading Indicators	
HSE Inspections	1.588
HSE Audits	8
HSE Meetings	711
HSE Inductions	2.121
Emergency Drills	54
Toolbox Talks	1.343
Training Hours	7.986
SHOC Cards (Safety Hazard Observation Card)	5.007
Job Safety Analysis	872
Management Tours	29

Environmental Data	
Diesel Consumed (m^3)	1.085,35
Water Consumed (m^3)	14.272,2
Mud Cuttings (m^3)	6.627,0
Sewage Water (m^3)	8.549,8
Waste Water	2.342,9
Non-Hazardous Wastes (ton)	4.066,0
Fuel Gas (m^3)	5.612
Electrical Energy (kWh)	8.888.332
Km Driven	1.494.324

There has been an increase of working manhours compared to 2016, and the recordable injuries have followed the same trend.

However, comparing the data recorded against the market reference standards, the values of the HSE indexes are broadly in line with industry data.

HSE Initiatives
Many initiatives were carried out in 2017 in order to strengthen the Company's, HSE culture and to promote positive HSE behaviours:

Despite the reference to industry benchmarks, it is positive to see that the Severity Index has been low, which means the LTI occurred had a minor severity.

Celebration of the World Day for Health & Safety at Work promoted by the ILO Organisation. Company employees and subcontractors' personnel were involved in different events: for example, a Mannequin HSE Challenge was launched in all sites and at the Moirago-1 Dir site in Italy and HSE campaign relevant to Hand Safety (Hands Up Before Hands On) was carried out in collaboration with Schlumberger.

In 2016 the Company introduced the use of HSE Observation Cards. In 2017 this use has been consolidated and positive behaviour has been highlighted.

An implementation of awareness programme was held at each site through the regular execution of daily Toolbox Talks, during which workers' attention is focused on the main risks potentially encounterable during the day.

Dedicated HSE Workshops were carried out, both by Italy and Morocco teams, in order to make everybody familiar with the HSE architecture of the Group HSE Management System and in order to stimulate the active participation, involvement and commitment of all staff and contractors.

MANAGING OUR RISK AND OPPORTUNITIES

Risk management is central to achieving the Group's strategy and delivering long term value to shareholders. The Board, its Committees and the Executive team are actively engaged in setting the risk appetite as well as managing both risks and opportunities to the Group.

Definition of Risk

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

Risk Management

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

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

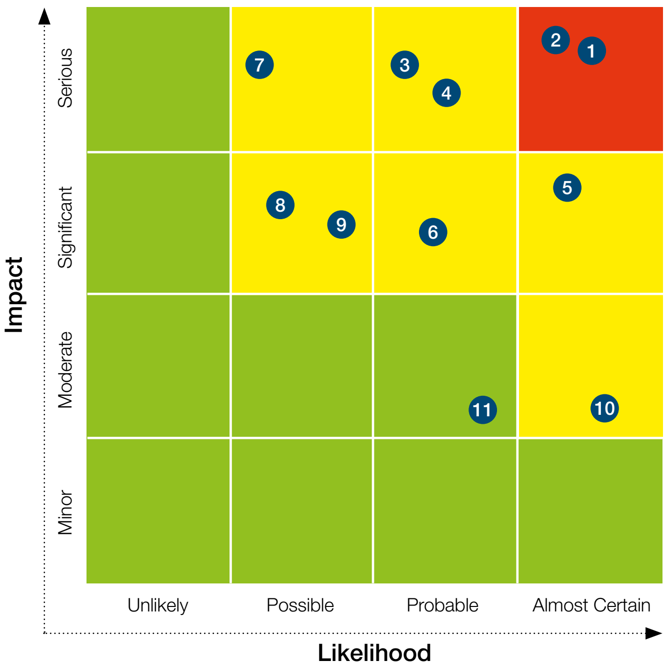
Identifying Risk and Ownership

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

Principal Risks at a Glance

Our principal risks	
1	**Limited diversification**
2	**Reservoir uncertainty**
3	**Commodity price**
4	**Insufficient funds**
5	**Inadequate resourcing to handle workload and complexity**
6	**Changes in regulatory or fiscal regime**
7	**Major HSE incident**
8	**Development risk**
9	**Fraud, bribery and corruption**
10	**Currency risk**
11	**Loss of key personnel**

Main Risk Movements



- Risks that are highly likely to occur and could materially impact our ability to reach our business objectives
- Risks that remain at tolerable levels but could impact the business unless monitored and managed
- Risks that are unlikely to materialise and are unlikely to materially impact our business
- Current risks

Changes to Risks in the Year:
Several factors have impacted the Company risk register through 2017, including exit from Italy, focus on Morocco and particularly the progress towards the Horst TE-5 Development project.

Removed or Changed:	
Loss of Key Partners	OGIF transaction and seismic funding with Schlumberger demonstrate strong relationships with our key partners.
Environmental lobbying prevents successful development of discovered resources	With the focus on Eastern Morocco and engagement with local organisations.
Exploration risk	As the fundamental focus of the Company this risk has been distilled into the areas 'reservoir' and 'development', to key stages in the exploration for new resources.

Our Principal Risks
The table below indicates the principal risks the Group faces and has been produced following a robust assessment of risk, including consideration of those that would threaten its business model, future performance, solvency or liquidity. The list is not exhaustive or in priority order, and may change over time.

Current ranking	Risk	Impact	Mitigation	Owner
Strategic				
1	**Limited Diversification** Company operates in limited jurisdictions may be significantly adversely impacted by geopolitical issues and/or any regime changes.	• Ability to operate • Profitability and cash flow • Reduce appetite for investment in the Company	• Build strong relationships with governments, local authorities, local population and other stakeholders • Actively monitor potential legislation changes	CEO
2	**Reservoir Uncertainty** Play risk in relation to basin understanding, reservoir distribution and effectiveness. Hydrocarbon volume available to charge the structures in the basin, in order to deliver 9-17-31 Tcf potential.	• Unable to recover investment and financial loss • Loss of credibility and reputation	• Exploration team bench strength and experience • Delivery of Eastern Morocco seismic programme with Schlumberger	Expl Dir

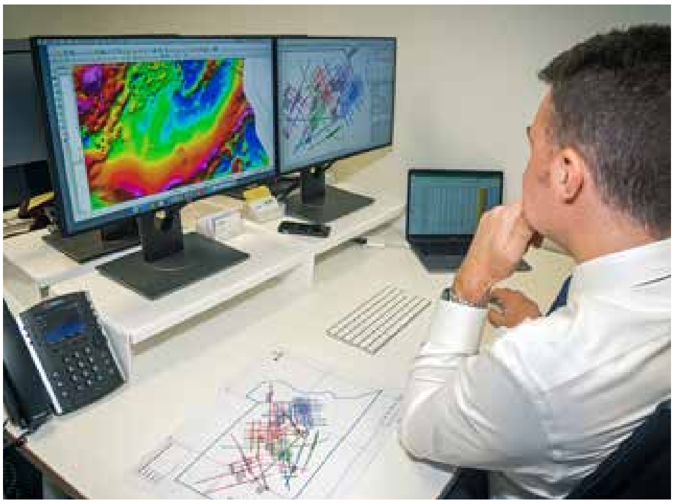
MANAGING OUR RISK AND OPPORTUNITIES CONTINUED

Current ranking	Risk	Impact	Mitigation	Owner
Strategic				
8	**Development Risk** The Company fails to locate and explore hydrocarbons that have the potential to deliver commercially.	• Ability to operate • Profitability and cash flow • Loss of credibility and reputation	• Gate approach to development with management oversight • Use of key contractors to support project team	CFO
11	**Loss of Key Personnel**	• Loss of confidence of retail shareholder base • Lack of direction and leadership within the Company • Loss of expertise and knowledge	• Competitive remuneration for key Executives benchmarked regularly, relative to the market • Depth across the organisation in all key activities • Stock incentives in place • Succession planning	CEO
Operational				
5	**Inadequate Resourcing to Handle Workload and Complexity**	• Errors could lead to operational incident or financial loss • Inability to delivery business objectives in timely manner	• Active personnel selection and management to meet business needs • Develop robust processes and procedures and embed throughout organisation	Head of HR
7	**Major HSE Incident**	• Loss of life or injury to personnel (staff, contractors, third parties) • Reputational damage • Ability to operate • Exposure to litigation • Financial and operational losses	• Highly skilled, qualified and competent staff. Training provided as required • Strong HSE ethic and risk management system • High-quality operational management processes including well design, security, emergency response plan and change of control process • HSE Committee reviews and regular HSE meetings with Executive leaders and HSE manager • Insurance cover	Mor MD

Current ranking	Risk	Impact	Mitigation	Owner
Financial				
3	**Commodity Price** Gas prices have a material impact on the return of the Company, particularly for Development economics.	• Reduction in gas prices reduces asset valuations • Reduction in commodity prices reduces appetite of investors for the business risks and availability of funding	• Utilise a number of different pricing scenarios when determining asset values and planning • Enter into long term price contracts, considering oil indexation • Ensure the business is well-funded with appropriate mix of debt and equity	CFO
4	**Insufficient Funds** Inability to deliver the Company's exploration and development work programme.	• Company cannot meet the capital commitments required to explore and develop assets • Company cannot service and/or repay its debt • Business is insolvent	• Annual planning process and periodic forecast updates and sensitivities. Performance reporting to ensure delivery • The projected cash balance is reviewed on an ongoing basis • Mitigating actions available to management, including the delay of capex and discretionary spending • Risk is transferred through mechanisms such farm-in and JV agreements, such as funding for 2017/18 Schlumberger seismic programme • Tailored funding solution to support development project	CFO
6	**Change in Regulatory or Fiscal Regime** Fiscal pressures on governments may lead to unfavourable changes in regime, particularly in emerging oil and gas producing countries.	• Regulatory and tax changes affect profitability and operational viability • Delayed projects and/ or regulatory approvals whilst changes are being proposed and agreed • Renegotiation with government and partners	• Build strong relationships with governments, local authorities, local population and other stakeholders • Ensure appropriate local content and that all stakeholders benefit from operations • Actively monitor potential legislation changes • Work with governments to share good governance and best practices	CFO

MANAGING OUR RISK AND OPPORTUNITIES CONTINUED

Current ranking	Risk	Impact	Mitigation	Owner
Financial				
9	**Fraud, Bribery, Corruption** The Company, or parties acting on its behalf, breach the rules of the UK Bribery Act 2010 or equivalent legislation.	• Prosecution of the Company and/or individuals leading to unlimited fines, jail sentences • Ability to operate • Reputational damage • Uneconomic contracts	• Anti-bribery policy and training in place • Staff required to sign an agreement to comply with anti-bribery policies • Ensuring staff are aware of where the policy can be found • Vendors and partners made aware of the Company's anti-bribery policy • Strong financial authority controls	CFO
10	**Currency Risk** Business transactions are carried out in a variety of currencies including GBP, EUR, USD and MAD. The exchange rates for these key currencies in which the Company transacts may vary significantly.	• The Company may lose out in cash terms, due to exchange rate fluctuations relative to when funds were raised • Exchange rate movements may have an income statement impact where the currency of a transaction differs from the functional currency of the entity • MAD is a controlled currency limiting hedging opportunities	• Match transactional currency to currency of liabilities • Actively manage cash balances by currency with view to forward requirements • Ensure significant contracts are denominated in currencies where the Company can mitigate exchange rate risk • Monitor exchange rate movements and take advantage of events and political news to obtain favourable rates	CFO



Pictured:
Seismic planning and analysis

GOVERNANCE

OVERVIEW
Leadership

Sound Energy's success is fundamentally linked to good governance and we remain committed to achieving high standards in all we do. Our business and processes are aligned around a robust governance framework. We support the principles and recommendations of the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Company Alliance ("QCA Guidelines") and are committed to applying these principles as far as practicable, having regard to the current size and structure of the Company, and the requirements of the AIM market of the London Stock Exchange.

As the Company grows, the Directors are developing policies and procedures in line with the QCA Guidelines where appropriate and these policies and procedures are monitored on a regular basis. The Directors will continue to comply with the relevant requirements of the QCA Guidelines to the extent that they consider it appropriate for the current business.

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

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

Shareholders and other stakeholders

Board
Set strategy and deliver value to shareholders
Review performance against plan
Board reserved matters: policy risk

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

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

Remuneration and Nominations Committee
The Remuneration and Nominations Committee is responsible for all material elements of remuneration policy, including Directors' remuneration and assessing Directors' performance. It is also responsible for Board recruitment and succession planning, ensuring that the right skill sets are present in the Boardroom.

Executive Committee
The Executive Team supports CEO and Board decision-making, particularly around assurance at project decision gates and new business opportunities. The Executive Team is accountable for implementation of the strategy, the performance of the business, and designing and implementing the culture and tone of the organisation.

Execution and Delivery

THE TEAM
Leadership

Directors and Executives

James Parsons
Chief Executive Officer
(Executive Director)

Appointed to Board
October 2012

Background
James Parsons has over 20 years' experience in the fields of strategy, management, finance and corporate development in the energy industry. James was appointed Chief Executive Officer in October 2012.

James started his career with the Royal Dutch Shell group in 1994 and spent 12 years with Shell working in Brazil, the Dominican Republic, Scandinavia, Holland and London. Leading up to 2006 (when he left Shell to join Inter Pipeline Fund), James held various positions in Shell's exploration and production business, latterly as Vice President, Finance, of New Business. James joined Sound Energy as CFO in 2011 from the European division of Inter Pipeline Fund, where he held the position of Finance and Corporate Development Director of Inter Pipeline Europe.

James is a qualified accountant and has a BA Hons in Business Administration.

Current external commitments
Chairman (Non-executive) Echo Energy PLC, Chairman (Non-executive) Coro Energy PLC.

Richard Liddell
Chairman
(Non-executive)

A R H

Appointed to Board
September 2015
Appointed Chairman
January 2018

Background
Richard Liddell joined the Board as a Non-executive Director in September 2015, taking on the role of Non-executive Chairman in January 2018. Richard Liddell has over 35 years' experience in the oil and gas industry. He served on the board of Falkland Oil and Gas from 2005 to 2015 initially as a Non-executive Director and for the nine years from 2006, as Chairman. Richard is also Chairman and Managing Director of Clara Petroleum, an exploration and production company which he founded in 2008.

He served on the board of Premier Oil as Operations Director from 2000 until 2003 and prior to that spent three years as Director of Development on the board of BG Exploration and Production. Richard previously held a number of senior UK and international positions during an 18-year career at Philips Petroleum Company.

Richard has a BSc in Electrical Engineering.

Current external commitments
Founder and Executive Chairman Clara Petroleum Ltd
Executive Director – Spinnaker Opportunities plc.

Marco Fumagalli
Director
(Non-executive)

A R

Appointed to Board
July 2014

Background
Marco Fumagalli joined Sound Energy as a Non-executive Director in July 2014. Marco is Founding Partner at Continental Investment Partners SA, a Swiss based investment firm and cornerstone shareholder in Sound Energy. He is a well-known Italian businessman who was previously a Group Partner at 3i.

Marco is a qualified accountant and holds a degree in Business Administration.

Current external commitments
Director (Non-executive) Echo Energy PLC, Director (Non-executive) Coro Energy PLC
Director of Continental Groups of companies.

Brian Mitchener
Exploration Director
(Executive Director)

H

Appointed to Board
June 2017

Background
Brian Mitchener has over 36 years' experience in Oil & Gas exploration including as Regional General Manager Exploration at BG, Vice President International Exploration for Africa at Statoil and 22 years with BP Exploration.

Brian is a Chartered Geologist, and a past President of the Petroleum Group of the Geological Society.

Current external commitments
None

Key:
A Audit Committee
R Remuneration Committee
H Health and Safety Committee

THE TEAM
Leadership

JJ Traynor
Chief Financial Officer

Background
JJ Traynor joined Sound Energy in September 2018 has over 28 years' experience in the Oil & Gas and financial markets, including as Executive Vice President of Investor Relations at Shell, Managing Director of the number one ranked Oil & Gas research team at Deutsche Bank and as an Exploration Geologist at BP.

JJ has a First Class honours degree in Geology and a PhD in Geology from Cambridge University.

To be appointed to the Board.

Mohammed Seghiri
Managing Director, Morocco

Background
Mohammed Seghiri has over 18 years' experience leading complex European and African projects across different sectors, including Gas Storage, Oil & Gas Exploration, Telecom, Real Estate and Power Production.

He was Managing Director at Advisory & Finance Group, a Morocco-based investment bank where he led, amongst other projects, the financing and construction of the first coal to power plant in Senegal. Mohammed joined Sound Energy from OGIF where he was a Managing Partner.

Mohammed is a graduate from the School of Mines in Nancy, France (one of the top ten engineering schools in France).

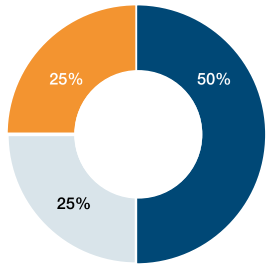
BOARD ACTIVITIES
Effectiveness

The Board

The Board is responsible for the long-term success of the Group and retains ultimate accountability for strategy, risk management, performance and governance. It is responsible for ensuring that its obligations to its shareholders and other stakeholders, including employees, host governments, suppliers, customers and the community, are understood and met as well as being responsible for the Group's values and standards.

The roles of Chairman and Chief Executive Officer are split in accordance with best practice. The Non-executive Chairman, Richard Liddell, has the responsibility of ensuring that the Board discharges its responsibilities as per key matters below. He is responsible for facilitating full and constructive contributions from each member of the Board in determination of the Group's strategy and overall commercial objectives. The Chief Executive, James Parsons, leads the business and the Executive Team, ensuring that strategic and commercial objectives are met. He is accountable to the Board for the operational and financial performance of the business.

Board Composition %



The key matters reserved for the Board's decision are:

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

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

Composition and Independence

The skills and experience of the Non-executive Directors are wide and varied and they provide constructive challenge in the Boardroom. The composition and mix of the Board change during 2017 was reflective of the business need and growth of the Company:

Role	Q1	Q2	Q3	Q4
Non-exec Chairman	1	1	1	1
Non-exec Directors	3	3	3	2
Executive Directors	1	2	2	2

Addition of Brian Mitchener as Executive Director

It is anticipated that JJ Traynor, CFO, will join the Board as an Executive Director at a future date.

The Company is currently recruiting two new Non-executive Directors.

Attendance at Meetings

The following meetings where held during 2017. Key Executives and staff have attended these meetings to present and provide feedback on actions throughout the year.

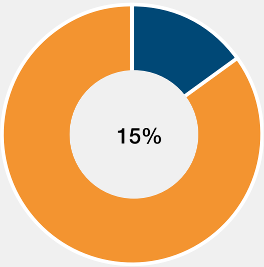
	Board (6 scheduled; 5 ad hoc)	Audit	Remuneration and Nominations	Health and Safety Committee
Number of meetings	11	2	2	6
Stephen Whyte (Chairman)*	11	N/A	N/A	N/A
James Parsons (CFO)	11	N/A	N/A	N/A
Richard Liddell (Senior Independent Director)	11	N/A	2	6
Marco Fumagalli	10	2	2	N/A
Brian Mitchener (appointed June 2017)	6	N/A	N/A	

*Resigned on 23 January 2018

BOARD ACTIVITIES CONTINUED

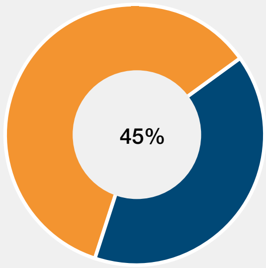
Effectiveness

What the Board did in 2017



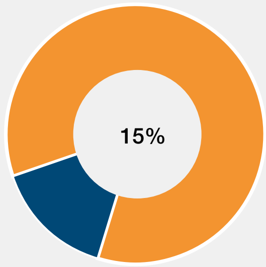
Governance & Risk – 15%

- Board effectiveness workshop
- Manual of authorities reviewed and updated
- Matters reserved for the Board reviewed and updated
- Risk Management Policy and Register reviewed
- Receive updates from Board Committees
- Updated from the Group Auditor via the Audit Committee



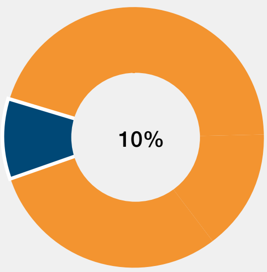
Strategy – 45%

- Completion of OGIF transaction
- Divestment of Italian assets
- Business development opportunities considered by the Board
- External strategy advisers retained to present and advise to the Board
- Funding review undertaken



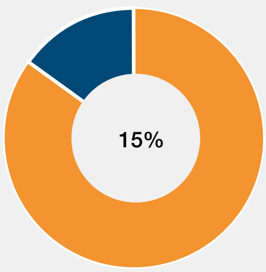
Investor Engagement – 15%

- Investor events held with opportunities for shareholders to speak to Executive Directors in a formal environment and a more informal one-to-one
- AGM and General Meeting – Directors present to answer shareholders questions
- Q&A sessions with the CEO and Executive Team
- Considered the AGM proxy figures
- Liaised closely with the Company's major shareholders



People, Visions, Values – 10%

- CEO Scorecard presented and approved
- Personal development of staff
- Executive Team meetings
- Meetings with staff both in Rabat and Italy
- Reviewed structure of the organisation, giving consideration to the development needs of the business



Performance Monitoring – 15%

- Monthly reports on performance against targets received by the Board
- Treasury management updated
- Updates from the Chairman of the Audit Committee, Remuneration Committee and HSE Committee
- Approval of full and half year results
- 2016 Annual Report & Accounts approved

SHAREHOLDER RELATIONS
Effectiveness

In 2017, the Directors undertook a Board evaluation exercise with the Institute of Directors (IoD), to consider the effectiveness of the Board. The evaluation was based on the IoD board evaluation methodology and covered key areas such as strategy, performance, corporate culture and risk oversight. Consideration was given to Board composition, processes and behaviours. It enabled the Directors to consider the functioning of the Board, both within the Boardroom and in the relationships of the Non-executive and Executive Directors. The findings of the exercise were positive and whilst there is always room for improvement, the overall indication was that the Board has performed well during a period of rapid growth for the Company. In particular, the Board needs to look to build its representation of Non-executive Directors. This is an area that the Directors are currently addressing in early 2018.

The Board will look to carry out a similar exercise every few years to ensure that it continues to function as effectively as possible.

The Board meets every other month, with ad hoc meetings as and when business demands require. The Agenda is set with the consultation of both the CEO and Chairman, with consideration being given to both standing Agenda items and the strategic and operational needs of the business. Papers are circulated well in advance of the meetings, giving Directors ample time to review the documentation and enabling an effective meeting. Resulting actions are tracked for appropriate delivery and follow-up.

The CEO and Chairman meet and speak regularly to ensure alignment between the day-to-day running of the business and the Board. The Chairman ensures that there is open communication with the other Non-executive Directors.

The Board enters 2018 looking forward to building further on the governance structure already in place. Ongoing review of the functioning of the Board and ensuring that the highest level of governance is maintained whilst being mindful of the size and stage of development of the Company.

Communications with Shareholders

2017 Review

- Shareholder visits to Badile (Italy), Tendrara and Sidi Moktar (Morocco) locations by over 200 investors
- Annual AGM held 23 May 2017
- Annual investor engagement meeting on 5 October 2017 in London, attended by over 400 shareholders
- Implementation of online Q&A sessions with CEO and Executive Team in Q4 2017, with over 450 questions answered over the sessions to date

2018 Look Forward

- Regional meetings initiated with first meeting planned for Chester in March 2018
- Further site visit in the second half of the year
- Regular Q&A sessions throughout the year

The Company has a strong reputation of active and transparent communication with its shareholders. It regularly offers opportunities for the private investor to attend events and meet Executive Management, as well as offering opportunities for all interested shareholders to see its operations at work. It uses its website and social media as key communication tools to reach its wide private investor audience. In addition, cornerstone investors have Board representation, further helping to align Executive Management and shareholder interests. The Executive Team regularly meets with present and prospective institutional investors. At the Company's Annual General Meetings, all Directors are available to respond to questions from shareholders present. The Annual General Meeting provides a forum for constructive communication between the Board and shareholders.

Pictured:
Investor engagement session in Morocco

HEALTH AND SAFETY COMMITTEE

Accountability

Health and Safety (HSE) Committee Activities

Richard Liddell
Chairman of the Health and Safety Committee

2017 Review

- HSE Focus Group established which reports back to the HSE Committee
- Completion of HSE management system
- Crisis management, a number of staged drills carried out

2018 Look Forward

- Ensure HSE policy and procedures remain effective given the exit from Italy and focus on Morocco exploration activities
- Ensure HSE management system and resources are in place for Tendrara Development project post sanction
- Carry out an audit of the HSE management system to ensure it conforms with the requirements of management
- Carry out further staged drills

The Committee consists of Richard Liddell, Brian Mitchener and three of the Executive Management: Luca Madeddu, Leonardo Salvadori and Leonardo Spicci. Mr Liddell chairs the Committee, which is primarily focused on ensuring that the HSE policies are adopted and applied across the Group. In 2017, the Committee held six meetings and a full report on its activities, the Health and Safety Review, can be found on pages 28 to 29.

Pictured:
Earthworks, Morocco

AUDIT COMMITTEE
Accountability

Audit Committee Activities

Marco Fumagalli
Chairman of the Audit Committee

2017 Review

- Approved full year and interim accounts; including key judgements and policies to ensure they are fair, balanced and understandable for our shareholders
- Reviewed and recommended the reappointment of our external Auditor Crowe Clark Whitehill LLP, including fee structure
- Update to our risk framework from policy to implementation (see pages 30 to 34)
- Tender and selection of new insurance broker, Alesco, owned by Arthur J Gallagher
- Comprehensive review of the existing Group Manual of Authorities

2018 Look Forward

- Review and update existing Company control framework in light of exit from Italy and increased exploration activity levels in Morocco
- In line with business priorities for the year, complement existing internal resources with fit for purpose internal audit support through external providers
- Ensure that risk management processes and appropriate controls required to support Tendrara development project post sanction are in place and operational

The Audit Committee is comprised of Marco Fumagalli (Chairman), and Stephen Whyte (subsequently replaced by Richard Liddell).

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

Financial and Business Reporting
The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects. The statement setting out the reasons why the Board continues to adopt the going concern basis for preparing the financial statements is included in the Directors' Report on page 50.

Risk and Controls
The Board, through the Audit Committee, is responsible for determining the nature and extent of the significant risks that the Group is willing to take in achieving its strategic objectives and for maintaining sound risk management and internal control procedures. The Group's internal control system is designed to manage the risk of failure to achieve business objectives, rather than to eliminate that risk. Such systems can only provide reasonable, and not absolute, assurance against material misstatement or loss. A summary of our approach and strategic risks is covered in detail on page 30.

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

REMUNERATION AND NOMINATIONS COMMITTEE

Accountability

Remuneration and Nominations Committee Activities

Richard Liddell
Chairman of the Remuneration and Nominations Committee

2017 Review

- Review of the Directors' remuneration policy, including any shareholding requirements
- Review of pay and benefits for CEO and Executive Directors' ensuring packages are competitive and fairly and responsibly reward contributions
- Assessment of performance targets and outcome against annual bonus targets for CEO and other Executive Directors
- Determining the award of share options under the incentive schemes
- Selection and appointment of new CFO, JJ Traynor, who commenced in September 2017

2018 Look Forward

- Ensure Board and organisation remains fit for purpose for business activities including exploration and development activities for Tendrara development
- Consideration of the composition of the Board
- Ongoing monitoring of pay and benefits of CEO and Executive Directors
- Approval of performance targets for CEO
- Approval of Restricted Stock Units (RSU) and performance criteria

The Remuneration and Nominations Committee is comprised of Richard Liddell (Chairman), and Marco Fumagalli.

Remuneration and Nominations Committee
The Remuneration and Nominations Committee is responsible for all material elements of remuneration policy, including Directors' remuneration and assessing Directors' performance. It is also responsible for Board recruitment and succession planning, ensuring that the right skill sets are present in the Boardroom at each stage of the Company's evolution.

Pictured:
Saipem operative, Morocco

DIRECTORS' REMUNERATION REPORT

The Committee and the wider Board recognise the importance of attracting, retaining and motivating talent within the Board and wider Executive Team to continue the successful growth of the Group as Sound Energy pursues its strategy to deliver high-impact exploration and development opportunities, to leverage strategic partnerships and to add further opportunities through acquisition. As Sound Energy continues to grow, the Company's remuneration policy and framework is evolving to ensure that Directors and Executives are rewarded for achieving strategic targets and creating value for shareholders. We are creating a remuneration framework that is appropriately aligned, both to our business and to the interests and current expectations of our shareholders. The Committee also wanted to ensure that the policy was capable of satisfying investor preferences for simplicity and transparency.

Principles For Executive Remuneration
The main principles of the senior Executive remuneration policy are set out below:

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

Fixed remuneration comprises salary, pension and benefits. Variable pay includes annual bonus and LTIP awards. Together, fixed and variable remuneration comprise total remuneration for Senior Executives. The Committee recognises that it may be necessary on occasion to use its discretion to make remuneration decisions outside the standard remuneration policy, such as agreeing a sign-on payment, to attract and retain talent.

Purpose	Operation	Maximum Opportunity	Performance Measures
Salary			
Attract and retain the right calibre of staff required to support the long-term success of the business. Provide the basis for a competitive remuneration package.	Determined by reference to market data. Reflects individual experience, skills and role. Paid monthly. Reviewed annually.	Increases will be made at the discretion of the Committee, or for Non-executive Directors, the CEO, considering: • increase in responsibility, particularly as the Company grows and expands • development and performance in the role • alignment to market level	None, although overall performance of the individual is considered when setting and reviewing salaries annually.
Pension			
Provide a level of pension provision which is compliant with regulation and allows staff to build long-term retirement savings.	Defined contribution based on a percentage of salary. Executives may elect to take part of their pension contribution as salary.	4% of base salary. No element other than salary is pensionable.	None. Pension contribution is set at commencement of an individual's contract.

DIRECTORS' REMUNERATION REPORT CONTINUED

Purpose	Operation	Maximum Opportunity	Performance Measures
Benefits			
Protect against risks and provide other benefits reflecting the international aspects of roles.	Private medical and dental insurance in the UK, permanent health insurance and life assurance cover.	Set at a level which provides a sufficient level of benefit.	None
Annual Bonus			
Provide a direct link between measurable individual performance and rewards. Encourage the achievement of outstanding results aligned to Group strategy and achievement of business objectives.	Individual Executive bonus is based on performance measured against Group and personal objectives. Performance measures are both quantitative and qualitative, and both financial and non-financial. Bonus awards are made by the Committee and awards are paid in cash.	The value of any annual bonus is limited to a percentage of salary.	Performance is assessed using specific metrics set by the Remuneration and Nominations Committee, including the delivery of the Company Scorecard and the share price performance.
Long-Term Incentive Plan (LTIP)			
Reward execution of Group strategy and growth in shareholder value over a multiple-year period. Long-term performance measurement discourages excessive risk-taking and inappropriate short-term behaviours, and also aligns Executive interests with those of shareholders. The LTIP is designed to retain Senior Executives over the performance period of the awards. In order to better meet the LTIP objectives, the Board determined in January 2018 that the existing Share Option Plan be replaced with a Restricted Stock Unit (RSU) Plan. The RSU awards will be made on an annual basis, with a three-year vesting period, and at vesting the awards will be satisfied in Sound Energy shares. First award to occur in 2018 and first vesting to occur in January 2021.	LTIP awards are made by the Committee for the CEO and for Executives by the Committee based on CEO recommendations. Awards vest three years after the date of the award, subject to achievement of performance criteria. At vesting, the LTIP awards are satisfied in Sound Energy shares. Awards will typically lapse on termination of employment, although the Committee may determine that awards may vest after termination of employment, in accordance with the plan rules and taking into account performance during the date of grant and date of termination of employment. In the event of a change of control of the Company, awards shall vest and be exercisable.	Awards are made at market price at the date of grant and are discretionary. Awarded annually.	Awards vest based on share price performance. Alternative or additional criteria may be used to determine future rewards.

Purpose	Operation	Maximum Opportunity	Performance Measures
Chairman and Non-executive Director Fees			
Provide an appropriate reward to attract and retain high calibre individuals. Neither the Chairman nor any of the Non-executive Directors are entitled to a bonus or benefits and their fees are not performance-related.	The fee for the Chairman and Non-executive Directors reflects the level of commitment and responsibility of the role. The fee is paid monthly in cash and is inclusive of all Committee roles. There is a fee for the role of Senior Independent Director.	Set at a level which reflects the commitment and contribution expected from the Chairman and Non-executive Directors, and is appropriately positioned against comparable roles in companies of a similar size and complexity. Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.	Benchmarked externally from time to time as appropriate.

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

Director Shareholding Guidelines
From 2017 and applicable to future LTIP awards, the Committee has introduced new guidelines regarding Director and Senior Executive shareholdering requirements. All Executive Directors and Senior Executives are expected to build up over a reasonable period from appointment, and hold, a minimum level of shareholding in the Company equal to one year's salary, with the CEO expected to build up a holding of 200% of base salary. Transitional provisions have been introduced with each Executive having three years to build up the requisite holding. The minimum level of shareholding is intended to be a pre-requisite for further LTIP awards. This is considered an effective way to align the interests of the Executive Management and shareholders over the long term.

Executive Director Service Contracts and Termination Payments
The CEO and the Exploration Director have service contracts which entitles them to the fixed elements of remuneration and to consideration for variable remuneration each year. Their contracts are terminable by the Company on not more than six months' written notice.

External Appointments
It has been expressly agreed, which is reflected in his contract of employment, that the CEO can take the position of Non-executive Director or Non-executive Chairman in another listed company provided that (i) the company is not in direct or indirect competition with the business of Sound Energy plc and/or any Group company and that (ii) the position and corresponding duties and obligations do not reduce in any manner his ability to fulfil his duties and obligations under his employment contract with Sound Energy. It is the Company's policy that remuneration earned from any such appointment may be retained by the individual.

Remuneration Policy for the Chairman and Non-executive Directors
The Chairman and other Non-executive Directors are appointed under a letter of appointment with a notice period for termination of three months. The letters of appointment cover such matters as duties, time commitment and other business interests.

Loss of Office and Change of Control Provisions
In the event of a change of control of the Company, the CEO has the option to give notice and receive a lump sum equivalent to 18 months' salary. The Non-executive Directors have the option to give notice and receive a lump sum equivalent to 12 months' salary.

All of the Company's current share plans contain provisions relating to a change of control. On a change of control, outstanding awards would normally vest and become exercisable, subject to the satisfaction of any performance conditions at that time.

DIRECTORS' REMUNERATION REPORT CONTINUED

Summary Of Actual Remuneration Of Directors

	Salary £'000s	2017 Performance Award £'000s	Medical Insurance £'000s	**Total 2017 £'000s**	Total 2016 £'000s
Executive Directors					
James Parsons(i)	394	152	3	**549**	1,092
Brian Mitchener(i) (ii)	148	46	1	**195**	–
Non-executive Directors and Chairman					
Stephen Whyte	94	–	–	**94**	60
Marco Fumagalli	50	–	–	**50**	45
Richard Liddell	55	–	–	**55**	45
Simon Davies	–	–	–	**–**	30
Total for all Directors	741	198	4	**943**	1,272

(i) Includes pension contribution of 4%.

(ii) Appointed Director from 21 June 2017. Remuneration disclosed is from the date of the appointment.

Share Options

	Date of Grant	Exercisable Date	Acquisition Price per share (pence)	**Options held at 1 January 2017**	**Options held at 31 December 2017**
James Parsons	19.06.14	29.07.17 – 29.07.19	8.00	3,350,000	–
	25.09.15	25.09.18 – 25.09.20	14.25	1,250,000	1,250,000
	23.03.16	23.03.19 – 23.03.21	16.00	3,000,000	3,000,000
Brian Mitchener	07.10.16	07.10.19 – 07.10.21	84.00	1,500,000	1,500,000
	25.01.17	25.01.20 – 25.01.22	67.00	–	1,500,000
Stephen Whyte	08.08.16	08.08.19 – 08.08.21	60.00	1,000,000	1,000,000
Marco Fumagalli	08.08.16	08.08.19 – 08.08.21	60.00	250,000	250,000
Richard Liddell	08.08.16	08.08.19 – 08.08.21	60.00	250,000	250,000

The granting of share options under the Long Term Incentive Plan (LTIP) is designed to align Executive remuneration with the long-term interest of shareholders. Only Key Personnel, whom the Group wishes to retain over the long term, are invited to join the LTIP. The end of 2017 option coverage is approximately 3.3% of issued share capital. Over the long term, the Board wishes to move towards the 10% approved cap.

During 2017, James Parsons exercised a total of 3.35 million options at an exercise price of 8.0 pence per option. The share price at the date of exercise was 48.15 pence and the calculated gain on the options at the date of exercise was £1,345,025.

In order to better meet the LTIP objectives, the Board determined in January 2018 that the existing Share Option Plan be replaced with a RSU Plan. The RSU awards will be made on an annual basis, with a three-year vesting period, and at vesting the awards will be satisfied in Sound Energy shares. First award to occur in 2018 and first vesting to occur in January 2021.

Directors' Shareholdings and Interests in Shares

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company:

Directors and connected persons	No. of Shares
James Parsons	3,192,283
Richard Liddell	100,000
Brian Mitchener	–
Marco Fumagalli (Continental Investment Partners)	66,417,162
Steve Whyte	141,786
Nicola Whyte	24,171

Movements in Share Price During the Year

The mid-market price of the Company's shares at the end of the financial year was 51p and the range of mid-market prices during the year was between 40p and 94p.

Advice Received by the Committee

The Committee has access to advice when it considers appropriate. In the year ended 31 December 2017, the Committee received advice relating to specific Executive compensation from Mercer who were paid £6,500 (excluding VAT).

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 21 March 2018 and signed on its behalf by:

Richard Liddell
Chairman
21 March 2018

DIRECTORS' REPORT

Other Disclosures
Pages 37 to 51 inclusive (together with sections of the Annual Report incorporated by reference) constitute a Directors' Report that has been drawn up and presented in accordance with applicable English company law and the liabilities of the Directors in connection with that report are subject to the limitations and restrictions provided by that law.

Principal Activities and Business Review
Sound Energy plc is the holding company for a group of companies whose principal activities are the exploration, appraisal and development of oil and gas assets to first production and the operation of producing assets. With the sale of Italian assets, anticipated to complete in 2018, the Group's current principal area of activity is Morocco. A review of the performance and future development of the Group's business is contained on pages 3 to 34 and forms part of this report.

Results and Dividends
The loss for the year before tax was £34.2 million (2016: £15.2 million). The Directors do not recommend the payment of a dividend.

Going Concern
In presenting the annual and interim financial statements, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable. As at 31 December 2017, the Group had £21.2 million of available cash. Based on the current management plan, management believes that the Group will remain a going concern for the next 12 months from the date of the authorisation of the financial statements on the basis that the Group has sufficient funding options for the forecast expenditure using both the available cash resources and funding from partners in the main strategic licences, and therefore, the Group continues to adopt the going concern basis in preparing the financial statements.

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

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

Political Donations
No political donations were made during the year (2016: £Nil).

Takeover Directive
The Company has only one class of ordinary share and these shares have equal voting rights. The nature of individual Directors' holdings is disclosed on page 49.

Board of Directors
The names of the present Directors and their biographical details are shown on page 37.

The Directors who served during the year were as follows:

Stephen Whyte
James Parsons
Richard Liddell
Marco Fumagalli
Brian Mitchener

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

Full details of the interests in the ordinary share capital of the Company of those Directors holding office on 31 December 2017, are set out in the Directors' Remuneration Report.

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

Indemnities

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

Share Capital

At 31 December 2017, the Company had 1,015,869,699 ordinary shares in issue as shown in note 17 to the consolidated financial statements. There are no restrictions on the transfer of the Company's ordinary shares other than certain restrictions which may be imposed by law, for example, insider trading law and the Company's share dealing code. Each ordinary share carries the right to one vote at General Meetings of the Company. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Substantial Shareholdings

The Company was advised of the following significant direct and indirect interests in the issued ordinary share capital of the Company as at 31 December 2017 and up to the date of this report.

Continental Investment Partners (Metano Capital S.A. & Greenberry S.A.)	66,417,162 share interest
Oil & Gas Investment Partners (OGIF)	272,000,000 share interest

Financial Instruments

The information relating to the Group's financial assets and its financial risk management can be found in note 19 to the consolidated financial statements.

Subsequent Events

See note 26 on page 89.

By order of the Board

Richard Liddell
Chairman
21 March 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

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

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

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

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

James Parsons
Chief Executive Officer
21 March 2018

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Sound Energy plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2017, which comprise:

- the Consolidated statement of comprehensive income for the year ended 31 December 2017;
- the Consolidated balance sheet and Company balance sheet as at 31 December 2017;
- the Consolidated cash flow statement and Company cash flow statement for the year then ended;
- the Group and Company statements of changes in equity for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and 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 Group's and of the Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- 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 Group's or the parent 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.

Overview of our audit approach

Materiality

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

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £1.4m, based approximately 0.8% of net assets.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and Directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £50,000. Errors below that threshold would also be reported to it if, in our opinion as Auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The head office of the Group is located in the UK which has an accounting function for group reporting as well as the head office costs and certain exploration activities. Our audit was conducted from this location.

The Group also has a significant component, which was included as a disposal group at 31 December 2017 based in Italy. A member firm of the Crowe Horwath International network undertook the audit in Italy under our instruction. Key audit risks were communicated to them at the planning stage and audit findings and underlying audit working papers were reviewed as part of our work.

INDEPENDENT AUDITOR'S REPORT CONTINUED

The Group also has operations in Morocco which has a separate accounting function. A senior member of the audit team visited Morocco in order to assess the accounting systems operating locally and to perform the required audit work.

Key Audit Matters

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

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Impairment of exploration assets The group's primary focus is on exploration activities in Eastern and Southern Morocco. Exploration expenditure in the current year totalled £150.5m which includes the £138.8m transaction relating to the acquisition of OGIF's interests in the Tendrara, Anoual and Martaka licences We considered the risk that exploration assets are impaired.	We reviewed management's assessment which concluded that there are no facts or circumstances that suggest the recoverable amount of the asset exceeds the carrying amount. In considering this assessment we reviewed the following sources of evidence: • Board minutes, budgets and other operational plans setting out the Group's current plans for the continued commercial appraisal of each exploration asset; • Reviewing current well and licence reserves appraisals; and • Discussing plans and intentions with management
Classification and valuation of the disposal group. On 5 October the Company announced that it had entered into a non-binding conditional heads of terms with Saffron Energy plc to dispose of its Italian interests through the disposal of 100% of the share capital of Sound Energy Holdings Italy Limited, who in turn hold 100% of the issued share capital of Apennine Energy Spa. The classification of this as a disposal group has a material impact on the presentation of these financial statements.	The Italian interests can only be accounted for as a disposal group in the event that, at the year end, management is committed to a plan to sell, the assets were available for sale and a sale is highly probable. We evidenced this by examining board minutes, market news announcements and agreements with the potential acquirer. In addition we carried out tests to compare the carrying value of the disposal group to the fair value less costs to sell to establish whether any impairment charge was required.
Management override of controls The Group operates out of a number of different geographical locations. We considered the risk that material weaknesses exist in relation to controls over financial controls and processes.	Our work focused on the following areas: • Considering the appropriateness of estimates and judgements to external evidence • Reviewing journal transactions • Assessing the control environment in Morocco given its recent establishment and geographical distance from central management

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

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 52, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

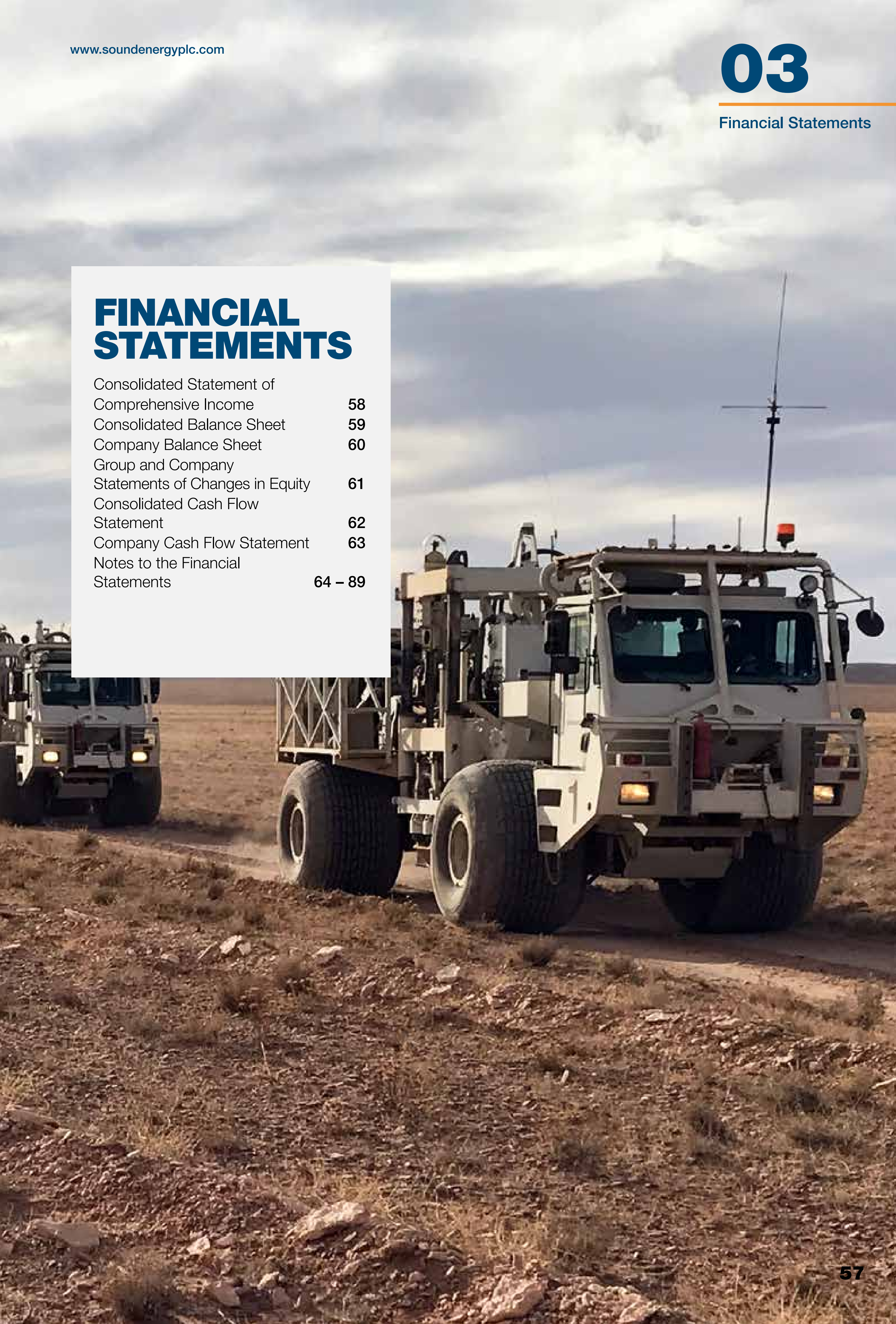
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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. This description forms part of our Auditor's report.

Use of our report

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

Matthew Stallabrass (Senior Statutory Auditor)
for and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor
London
21 March 2018



FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Notes	2017 £'000s	2016 £'000s
Continuing operations			
Revenue		–	–
Other income		–	715
Gross loss		–	715
Administrative expenses		(8,458)	(4,246)
Group operating loss from continuing operations	3	(8,458)	(3,531)
Finance revenue	6	23	96
Foreign exchange (loss)/gain		(914)	1,844
Other gains and (losses)			
– derivative financial instruments	21	(1,873)	583
External interest costs	24	(1,117)	(3,697)
Loss for the year from continuing operations before taxation		(12,339)	(4,705)
Tax credit/(expense)	7	–	–
Loss for the year from continuing operations		(12,339)	(4,705)
Discontinued operations			
Loss for the year from discontinued operations	25	(21,811)	(8,734)
Total loss for the year		(34,150)	(13,439)
Other comprehensive (loss)/income			
Items that may subsequently be reclassified to the profit and loss account			
Foreign currency translation (loss)/gain		(5,361)	375
Total comprehensive loss for the year		(39,511)	(13,064)
Loss for the year attributable to:			
Owners of the company		(39,511)	(13,064)
Non-controlling interests		–	–

	Notes	2017 Pence	2016 Pence
Basic and diluted loss per share for the year from continuing and discontinued operations	8	(4.28)	(2.52)
Attributable to the equity shareholders of the parent (pence)	8	(4.28)	(2.52)
Basic and diluted loss per share for the year from continuing operations	8	(1.54)	(0.88)
Attributable to the equity shareholders of the parent (pence)	8	(1.54)	(0.88)

CONSOLIDATED BALANCE SHEET

as at 31 December 2017

	Notes	2017 £'000s	2016 £'000s
Non-current assets			
Property, plant and equipment	9	372	1,729
Intangible assets	10	163,939	28,060
Land and buildings		–	1,535
		164,311	31,324
Current assets			
Inventories		628	331
Other receivables	12	3,526	8,777
Derivative financial instruments	21	80	2,545
Prepayments		117	320
Cash and short term deposits	13	21,198	46,809
		25,549	58,782
Assets of disposal group held for sale	25	12,292	–
Total assets		202,152	90,106
Current liabilities			
Trade and other payables	14	6,601	12,604
Loans repayable in under one year	24	–	986
		6,601	13,590
Liabilities of disposal group held for sale	25	4,492	–
Non-current liabilities			
Deferred tax liabilities	15	–	433
Loans due in over one year	24	18,566	16,455
Provisions	16	–	2,049
		18,566	18,937
Total liabilities		29,659	32,527
Net assets		172,493	57,579
Capital and reserves			
Share capital and share premium		287,829	135,667
Shares to be issued	17	–	223
Warrant reserve		4,090	4,459
Foreign currency reserve		(3,918)	1,443
Accumulated deficit		(115,508)	(84,213)
Total equity		172,493	57,579

The financial statements were approved by the Board and authorised for issue on 21 March 2018 and were signed on its behalf by:

James Parsons
Director

Richard Liddell
Director

The accounting policies on pages 64 to 69 and notes on pages 64 to 89 form part of these financial statements.

COMPANY BALANCE SHEET

for the year ended 31 December 2017
Company Number 05344804

	Notes	2017 £'000s	2016 £'000s
Non-current assets			
Property, plant and equipment		46	37
Fixtures and fittings		131	157
Software		66	89
Investments in subsidiaries	11	178,249	62,456
		178,492	62,739
Current assets			
Other receivables	12	100	129
Prepayments		86	70
Derivative financial instruments	21	80	2,545
Cash and short term deposits	13	16,569	41,782
		16,835	44,526
Total assets		195,327	107,265
Current liabilities			
Trade and other payables	14	1,599	2,175
Loans due in under one year	24	–	986
		1,599	3,161
Non-current liabilities			
Loans	24	18,566	16,455
Total liabilities		20,165	19,616
Net assets		175,162	87,649
Capital and reserves attributable to equity holders of the Company			
Share capital and share premium		287,829	135,667
Shares to be issued	17	–	223
Warrant reserve		4,090	4,459
Accumulated deficit		(116,757)	(52,700)
Total equity		175,162	87,649

The Company's accumulated deficit includes loss for the year of £66.9 million (2016: £6.5 million) primarily due to an impairment charge of £47.0 million in respect of the divestment of the Italian operations and £5.5 million exchange loss on intercompany balances following the acquisition of OGIF's licences by a subsidiary whose functional currency is US dollars.

The financial statements were approved by the Board and authorised for issue on 21 March 2018 and were signed on its behalf by:

James Parsons
Director

Richard Liddell
Director

GROUP AND COMPANY STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2017

Group

	Notes	Share capital £'000s	Share premium £'000s	Shares to be issued £'000s	Accumulated deficit £'000s	Warrant reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2017		6,651	129,016	223	(84,213)	4,459	1,443	57,579
Total loss for the year		–	–	–	(34,150)	–	–	(34,150)
Other comprehensive loss		–	–	–	–	–	(5,361)	(5,361)
Total comprehensive loss		–	–	–	(34,150)	–	(5,361)	(39,511)
Issue of share capital	17	3,490	148,449	–	–	–	–	151,939
Reclassification on share issue	17	18	205	(223)	–	–	–	–
Reclassification on debt settlement		–	–	–	369	(369)	–	–
Share based payments	22	–	–	–	2,486	–	–	2,486
At 31 December 2017		**10,159**	**277,670**	**–**	**(115,508)**	**4,090**	**(3,918)**	**172,493**

Foreign currency reserve attributable to the Italian operations amounted to £1,658,000 (gain) as at 31 December 2017.

Company

	Notes	Share capital £'000s	Share premium £'000s	Shares to be issued £'000s	Accumulated deficit £'000s	Warrant reserve £'000s	Total equity £'000s
At 1 January 2017		6,651	129,016	223	(52,700)	4,459	87,649
Total loss for the year		–	–	–	(66,912)	–	(66,912)
Issue of share capital	17	3,490	148,449	–	–	–	151,939
Reclassification on share issue	17	18	205	(223)	–	–	–
Reclassification on debt settlement		–	–	–	369	(369)	–
Share based payments	22	–	–	–	2,486	–	2,486
At 31 December 2017		**10,159**	**277,670**	**–**	**(116,757)**	**4,090**	**175,162**

Group

	Notes	Share capital £'000s	Share premium £'000s	Shares to be issued £'000s	Accumulated deficit £'000s	Warrant reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2016		5,039	81,276	–	(71,593)	369	1,068	16,159
Total loss for the year		–	–	–	(13,439)	–	–	(13,439)
Other comprehensive income		–	–	–	–	–	375	375
Total comprehensive loss		–	–	–	(13,439)	–	375	(13,064)
Issue of share capital	17	1,612	50,425	–	–	–	–	52,037
Share issue costs		–	(2,685)	–	–	–	–	(2,685)
Shares to be issued	17	–	–	223	–	–	–	223
Fair value of warrants issued with bonds		–	–	–	–	4,090	–	4,090
Share based payments	22	–	–	–	819	–	–	819
At 31 December 2016		**6,651**	**129,016**	**223**	**(84,213)**	**4,459**	**1,443**	**57,579**

Company

	Notes	Share capital £'000s	Share premium £'000s	Shares to be issued £'000s	Accumulated deficit £'000s	Warrant reserve £'000s	Total equity £'000s
At 1 January 2016		5,039	81,276	–	(46,983)	369	39,701
Total loss for the year		–	–	–	(6,536)	–	(6,536)
Issue of share capital		1,612	50,425	–	–	–	52,037
Share issue costs		–	(2,685)	–	–	–	(2,685)
Shares to be issued	17	–	–	223	–	–	223
Fair value of warrants issued with bonds		–	–	–	–	4,090	4,090
Share based payments	22	–	–	–	819	–	819
At 31 December 2016		**6,651**	**129,016**	**223**	**(52,700)**	**4,459**	**87,649**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2017

	Notes	2017 £'000s	2016 £'000s
Cash flow from operating activities			
Cash flow from operations		(11,849)	(2,826)
Interest received		102	96
Net cash flow from operating activities		(11,747)	(2,730)
Cash flow from investing activities			
Capital expenditure and disposals		(478)	(945)
Exploration and development expenditure		(23,482)	(10,882)
Net cash flow from investing activities		(23,960)	(11,827)
CSTI funding contract		–	(14)
Proceeds from derivative financial instruments		592	–
Net proceeds from debt		–	10,248
Net proceeds from equity issue		11,550	40,247
Repayment of debt		–	(5,435)
Interest payments	24	(1,293)	(1,108)
Net cash flow from financing activities		10,849	43,938
Net (decrease)/increase in cash and cash equivalents		(24,858)	29,381
Net foreign exchange difference		60	2,188
Cash and cash equivalents at the beginning of the year		46,809	15,240
Cash and cash equivalents at the end of the year	13	22,011	46,809

NOTES TO CASH FLOW

for the year ended 31 December 2017

	Notes	2017 £'000s	2016 £'000s
Cash flow from operations reconciliation			
Loss before tax from continuing operations		(12,339)	(4,705)
Loss before tax from discontinued operations		(21,866)	(10,478)
Total loss for the year before tax		(34,205)	(15,183)
Finance revenue		(102)	(1,364)
Impairment of goodwill		55	1,704
Exploration expenditure written off and impairment of producing assets		19,833	7,789
(Decrease)/increase in accruals and short term payables		(5,783)	9,035
Depreciation	9	406	272
Share based payments charge	22	2,486	819
Increase in drilling inventories		(430)	(331)
Loss/(gain) on derivative financial instruments		1,873	(583)
Finance costs and exchange adjustments		2,158	1,508
Decrease/(increase) in receivables and prepayments		1,860	(6,492)
Cash flow from operations		(11,849)	(2,826)

Non-cash transactions during the year included the issue of shares worth £138.8 million as the consideration for the acquisition of OGIF's interests in Morocco licences. The Company also issued shares worth £0.7 million as part settlement of the drilling services at the Badile licence, onshore Italy. 9.6 million warrants of 10.4p per warrant were exercised in settlement of £1.0 million debt.

During the year, the Group provided a bank guarantee of $2.95 million (2016: $2.5 million) to the Moroccan Ministry of Petroleum to guarantee the Group's minimum work programme obligations. The cash is held in a bank account under the control of the Company and as the Group expects to satisfy these commitments within 2018, on this basis the amount remains included as a liquid cash equivalent. A guarantee of €0.7 million was provided for expenditure relating to Badile licence and is included in cash and cash equivalents as it is expected to be released as soon as the commitment is fulfilled.

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2017

	Notes	2017 £'000s	2016 £'000s
Cash flow from operating activities			
Cash flow from operations		(7,465)	(3,209)
Interest received		23	35
Net cash flow from operating activities		(7,442)	(3,174)
Cash flow from investing activities			
Capital expenditure and disposals		(47)	(178)
Cash advances to subsidiaries		(28,772)	(14,758)
Net cash flow from investing activities		(28,819)	(14,936)
Net proceeds from debt		–	10,248
Proceeds from derivative financial instruments		592	–
Net proceeds from equity issue		11,550	40,247
Repayment of debt		–	(2,710)
Interest payments		(1,293)	(953)
Net cash flow from financing activities		10,849	46,832
Net (decrease)/increase in cash and cash equivalents		(25,412)	28,722
Net foreign exchange difference		199	772
Cash and cash equivalents at the beginning of the year		41,782	12,288
Cash and cash equivalents at the end of the year	13	16,569	41,782

NOTES TO CASH FLOW

for the year ended 31 December 2017

	Notes	2017 £'000s	2016 £'000s
Cash flow from operations reconciliation			
Loss before tax		(66,912)	(6,536)
Impairment of investments in subsidiaries	11	46,973	–
Intragroup recharges		(918)	(884)
Finance revenue		(23)	(35)
Decrease/(Increase) in receivables and prepayments		13	(3)
(Decrease)/increase in accruals and short term payables		(576)	962
Depreciation		86	54
Share based payments charge	22	2,486	819
Loss/(gain) on derivative financial instruments		1,873	(583)
Finance costs and exchange adjustments		9,533	2,997
Cash flow from operations		(7,465)	(3,209)

Non-cash transactions during the year included the issue of shares worth £138.8 million as the consideration for the acquisition of OGIF's interests in Morocco licences. The Company also issued shares worth £0.7 million as part settlement of the drilling services at the Badile licence, onshore Italy. 9.6 million warrants of 10.4p per warrant were exercised in settlement of £1.0 million debt.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

1 Accounting policies

Sound Energy plc is a public limited Company registered and domiciled in England and Wales under the Companies Act 2006. The Company's registered office is 1st Floor, 4 Pembroke Road, Sevenoaks, Kent, TN13 1XR.

(a) Basis of preparation

The financial statements of the Group and its parent have been prepared in accordance with:

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

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

The Group and its parent company's financial statements are presented in sterling (£) and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these consolidated financial statements and by all Group entities, unless otherwise stated. All amounts classified as current are expected to be settled/recovered in less than 12 months unless otherwise stated in the notes to these financial statements.

The Group and its parent company's financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 21 March 2018.

As at 31 December 2017 the Group had £21.2 million of available cash. Based on the current management plan, management believes that the Group will remain a going concern for at least the next 12 months from the date of the authorisation of the financial statements on the basis that the Group has sufficient funding options for the forecast expenditure (12 months through 22 March 2019) using both the available cash resources and funding from partners in the main strategic licences.

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), investments and goodwill and the estimation of share based payment costs.

When considering whether E&E assets are impaired the Group first considers the IFRS 6 indicators set out in note 10. The making of this assessment involves judgement concerning the Group's future plans and current technical and legal assessments.

If those indicators are met a full impairment test is performed. During the year, and following unsuccessful exploration results, this was performed for the Badile block as disclosed further in note 10. In combination with the write down of the intangible asset the associated surface installations, recognised as property, plant and equipment, were also tested for impairment. Due to the impairment of the Badile licence these assets no longer have a value in use to the Group and hence were written down to their fair value. Consequently a provision of £0.2 million was made to write them down to £0.1 million, the best estimate of their fair value. This estimate was based on an offer obtained from a third party.

1 Accounting policies continued

Goodwill is tested annually and at other times when impairment indications exist. 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 10.

The estimation of share based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the continuing participation of key employees (see note 18).

The Group considers the latest available information on the performance of producing licences compared to expected targets and where there are indications that the production is below expectations, the Group's reservoir engineers conduct an evaluation to identify the technical reasons and where necessary seek opinion from external engineers.

Significant judgement and estimation is also required in the determination of the fair value of warrants and bonds. In 2016, the proceeds from the issue of the bonds were used to settle existing liabilities and therefore an element of judgement was required in determining the portion of issues costs to be allocated to the old and new debt.

(b) Basis of consolidation

The Group financial statements consolidate the Income statements, Balance sheets, Cash flow statements and statements of changes in equity and related notes of the Company and its subsidiary undertakings.

Investments in subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Such power, generally but not exclusively, accompanies a shareholding of more than one-half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, until the date that control ceases.

The Group uses the purchase method of accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs of acquisition are expensed during the period they are incurred.

Separate financial statements

Investments in subsidiaries, joint ventures and associates are recorded at cost, subject to impairment testing in the Group's financial statements.

(c) Foreign currency translation

The functional currency of the Company is pound sterling. The Group also has subsidiaries whose functional currencies are euro and US dollar. During 2017, a subsidiary of the Company changed its functional currency from Moroccan Dirham to US dollar as significant amount of expenditure is incurred in US dollar. The effect of the change in functional currency has been applied prospectively.

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.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

1 Accounting policies continued

(d) Oil and gas assets

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

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

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

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

Exploration and evaluation assets

Under the successful efforts method of accounting, all 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.

Development and production assets

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

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

Impairment of development and production assets

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

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

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.

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.

1 Accounting policies continued

(e) Expenses recognition

Expenses are recognised on the accruals basis unless otherwise stated.

(f) Property, plant and equipment and land and buildings

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. Land and buildings relate to land which is not depreciated.

(g) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at its original value, less any accumulated impairment losses subsequently incurred.

Goodwill is not amortised. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount, an impairment loss is recognised. The Directors consider that the cash generating units to which the goodwill relates are each applicable licence held in the Group's portfolio.

(h) 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.

(i) 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.

(j) 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 guarantee for commitments on the licences.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

1 Accounting policies continued

(k) Financial instruments

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

(l) Share based payments

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

(m) Derivative financial instruments

The Company has derivative financial instruments arising from the shares issued on the acquisition of the Sidi Moktar licence, onshore Morocco. Derivative financial instruments are stated at their fair value. Gains and losses on the derivatives that do not qualify for hedge accounting are taken directly to the income statement in the period.

(n) Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the EU. The most significant new standards are as follows:

IFRS 9 'Financial Instruments' covers classification and measurements of financial assets and financial liabilities, impairment methodology and hedge accounting and is effective for accounting periods beginning on or after 1 January 2018;

IFRS 15 'Revenue from Contracts with Customers' provides a single model for accounting for revenue arising from contracts with customers and is effective for accounting periods beginning on or after 1 January 2018. Natural gas revenue is currently recognised on delivery to the customer pipeline and as Sound consider this to be the point at which the customer obtains control of the gas this remains the appropriate revenue recognition point under IFRS 15;

IFRS 16 'Leases' 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.

1 Accounting policies continued

The Company has no intention to recall the intercompany loans in the foreseeable future and therefore classifies them as investments in the Company balance sheet. The adoption of IFRS 9 may have a material impact on the financial statements in future periods as the Directors will need to assess whether these balances are impaired in accordance with IFRS 9. The Directors will further assess and review the impact of IFRS 9 during 2018. IFRS 16 will require that the operating leases disclosed in note 23 be recognised in the balance sheet. The Directors' assessment and review of the impact of IFRS 16 will be undertaken during 2018.

(o) Earnings per share

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

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(q) Revenue recognition

Revenue associated with production sales of natural gas is recorded when title passes to the customer on delivery to the customer pipeline.

(r) Discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately in the balance sheet.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of comprehensive income. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

The Board considered the disposal of Italy operations met the criteria to be classified as held for sale as at 31 December 2017 for the following reasons:

i. On 5 October 2017, the Company announced that it had entered into non-binding conditional heads of terms with Saffron Energy plc ("Saffron") and Po Valley Energy Limited under which the Company was to dispose of its portfolio of Italian interests and permits through the sale of its subsidiaries, Sound Energy Holdings Italy and Apennine Energy SpA.
ii. Subsequent to the year end, the Company announced that it had entered into a binding agreement with Saffron and expected to complete the disposal by April 2018.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

2 Segment Information

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

In the year ended 31 December 2017 the Group's exploration and appraisal activities were carried out in Italy and Morocco.

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

Details regarding each of the operations of each reportable segment is included in the following tables.

Segment results for the year ended 31 December 2017:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Administration expenses	(8,458)	–	–	(8,458)
Operating loss segment result	(8,458)	–	–	(8,458)
Interest receivable	23	–	–	23
Loss on derivative financial instruments	(1,873)	–	–	(1,873)
Finance costs and exchange adjustments	(2,031)	–	–	(2,031)
Loss for the period before taxation from continuing operations	**(12,339)**	**–**	**–**	**(12,339)**

The segments assets and liabilities at 31 December 2017 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	**372**	**–**	**163,939**	**164,311**
Current assets	**21,701**	**–**	**3,848**	**25,549**
Liabilities attributable to continuing operations	**(20,165)**	**–**	**(5,002)**	**(25,167)**

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

	UK £'000s	Morocco £'000s
Fixtures, fittings and office equipment	**177**	**195**
Exploration and evaluation assets	**–**	**163,737**
Software	**66**	**136**
Total	**243**	**164,068**

2 Segment Information continued

Segment results for the year ended 31 December 2016 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Other income	–	715	–	715
Administration expenses	(4,246)	–	–	(4,246)
Operating loss segment result	(4,246)	715	–	(3,531)
Interest receivable	96	–	–	96
Gain on derivative financial instruments	583	–	–	583
Finance costs and exchange adjustments	(1,853)	–	–	(1,853)
Loss for the period before taxation from continuing operations	(5,420)	715	–	(4,705)

Other income represents receipt during 2016 of $1.1 million Indonesian contingent consideration, triggered by the achievement of various operational targets of the Bangkanai licence which was previously owned by the Group. A contingent asset was not recognised when the licence was disposed of due to the uncertainty around the achievement of the conditions leading to the payment.

The segments assets and liabilities at 31 December 2016 are as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	342	–	19,110	19,452
Current assets	48,730	–	6,234	54,964
Liabilities attributable to continuing operations	(3,161)	–	(25,374)	(28,535)

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

	UK £'000s	Morocco £'000s
Development and production assets	–	–
Land and buildings	–	–
Fixtures, fittings and office equipment	194	148
Goodwill	–	–
Exploration and evaluation assets	–	18,876
Software	89	145
Total	283	19,169

The segments assets and liabilities at 31 December 2016 excludes the assets and liabilities of the disposal group held for sale (note 25).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

3 Operating Loss

	2017 £'000s	2016 £'000s
Operating loss is stated after charging:		
Auditor's remuneration	77	58
Depreciation	222	71
Employee costs	5,173	2,028

4 Auditor's Remuneration

	2017 £'000s	2016 £'000s
Fees payable to the Company's Auditor for the audit of Company's annual accounts	53	47
Fees payable to the Company's Auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	7	7
Other assurance services	9	–
Tax services	8	4
	77	58

5 Employee Costs

	2017 £'000s	2016 £'000s
Staff costs, including Executive Directors		
Share based payments	2,486	819
Wages and salaries	5,912	2,701
Social security costs	646	273
Employee benefits	182	17
Employee costs capitalised to intangible assets	(4,053)	(1,782)
Total	5,173	2,028

	2017 Number	2016 Number
Number of employees (including Executive Directors) at the end of the year		
Technical and operations	18	11
Management and administration	23	18
Total	41	29

A proportion of the Group's employee costs is capitalised to the cost of development, exploration and appraisal under the Group's accounting policy for these assets. During the year, approximately £4.1 million (2016: £1.8 million) of the employee costs was capitalised.

6 Finance Revenue

	2017 £'000s	2016 £'000s
Interest on cash at bank and short term deposits	23	96
	23	96

7 Taxation

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

	2017 £'000s	2016 £'000s
Current tax		
UK corporation tax (charge)/credit	–	–
Adjustment to tax expense in respect of prior years	–	–
Overseas tax	–	–
Total current tax (charge)/credit	–	–
Deferred tax credit arising in the current year	–	–
Total tax (charge)/credit	–	–

(b) Reconciliation of tax charge

	2017 £'000s	2016 £'000s
Loss before tax	(12,339)	(4,705)
Tax (charge)/credit charged at UK corporation tax rate of 19.25% (2016: 20%)	2,375	941
Tax effect of:		
Expenses not deductible for tax purposes	(521)	(192)
Temporary differences not recognised	(1,651)	(729)
Differences in overseas tax rates	(203)	(20)
Total tax (charge)/credit	–	–

8 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. Basic profit/(loss) per share is calculated as follows:

	2017 £'000s	2016 £'000s
Loss after tax from continuing operations	(12,339)	(4,705)
Loss after tax from discontinued operations	(21,811)	(8,734)
Total loss for the year	(34,150)	(13,439)

	2017 million	2016 million
Weighted average shares in issue	799	534

	2017 pence	2016 pence
Basic and diluted loss per share from continuing operations	(1.54)	(0.88)
Basic and diluted loss per share from discontinued operations	(2.74)	(1.64)
	(4.28)	(2.52)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

9 Property, Plant and Equipment

	2017 £'000s	2016 £'000s
Development and production assets		
Cost		
At start of the year	15,968	14,297
Exchange adjustments	51	785
Additions	–	886
Reclassification to assets of disposal group held for sale (note 25)	(16,019)	–
At end of the year	–	15,968
Depreciation		
At start of the year	14,752	8,906
Exchange adjustments	–	187
Impairment of assets	27	5,455
Charge for the year	97	204
Reclassified to assets of disposal group held for sale (note 25)	(14,876)	–
At end of the year	–	14,752
Net book amount	–	1,216
Fixtures, fittings and office equipment		
Cost		
At start of the year	815	377
Exchange adjustments	7	33
Additions	386	405
Reclassified to assets of disposal group held for sale (note 25)	(562)	–
At end of the year	646	815
Depreciation		
At start of the year	302	210
Exchange adjustments	5	24
Charge for the year	309	68
Reclassified to assets of disposal group held for sale (note 25)	(342)	–
At end of the year	274	302
Net book amount	372	513
Total net book amount	372	1,729

During 2016, the Group reviewed the carrying value of the Casa Tonetto licence in view of the reservoir performance being below expectations upon commencement of production at the beginning of 2016 and recognised an impairment charge of £5.5 million to write-off the carrying value to the recoverable amount of £0.5 million, being the fair value less costs to sell of the plant and equipment. The valuation was considered a Level 3 valuation (see note 19).

	2017 £'000s	2016 £'000s
Italy- impairment	–	5,455
Total	–	5,455

10 Intangibles

	Goodwill £'000s	Software £'000s	Exploration & Evaluation Assets £'000s	2017 £'000s
Cost				
At 1 January 2017	2,202	282	39,902	**42,386**
Additions	–	92	165,670	**165,762**
Exchange adjustments	64	(7)	(6,043)	**(5,986)**
Reclassified to assets of disposal group held for sale (note 25)	(2,266)	(86)	(35,792)	**(38,144)**
At 31 December 2017	–	281	163,737	**164,018**
Impairment				
At start of the year	1,769	42	12,515	**14,326**
Charge for the year	55	117	19,018	**19,190**
Exchange adjustments	64	3	(152)	**(85)**
Reclassified to assets of disposal group held for sale (note 25)	(1,888)	(83)	(31,381)	**(33,352)**
At end of the year	–	79	–	**79**
Net book amount at 31 December 2017	–	202	163,737	**163,939**

	Goodwill £'000s	Software £'000s	Exploration & Evaluation Assets £'000s	2016 £'000s
Cost				
At 1 January 2016	1,992	106	18,100	**20,198**
Additions	–	176	21,176	**21,352**
Exchange adjustments	210	–	626	**836**
At 31 December 2016	2,202	282	39,902	**42,386**
Impairment				
At start of the year	–	6	10,628	**10,634**
Charge for the year	1,704	36	1,819	**3,559**
Exchange adjustments	65	–	68	**133**
At end of the year	1,769	42	12,515	**14,326**
Net book amount at 31 December 2016	433	240	27,387	**28,060**

Goodwill

Goodwill arises on acquisitions accounted for at fair value and consists largely of the synergies expected from combining acquired operations with those of the Group. In accordance with IFRS, goodwill is assessed annually for impairment. The carrying value of the goodwill is linked to the development and exploration and evaluation assets. During 2016, impairment charges were recognised for the Casa Tonetto and Strombone licences, which led to £1.7 million that was linked to these licences being impaired.

Exploration and evaluation assets

Additions during the year primarily related to acquisition of OGIF's interests in Tendrara, Anoual and Martaka licences, onshore Morocco, for £138.8 million and expenditure on drilling of wells in Italy and Morocco.

During the year, the Group had capitalised interest costs of approximately £1.6 million (2016: £1.5 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

10 Intangibles continued

Details regarding the geography of the Groups E&E assets is contained in note 2.

The Directors assess for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. In making this assessment the Directors have regard to the facts and circumstances noted in IFRS 6 paragraph 20. In performing their assessment of each of these factors at 31 December 2017 the Directors have:

a. reviewed the time period that the Group has the right to explore the area and noted no instances of expiration, or licences that are expected to expire in the near future;
b. determined that further E&E expenditure is either budgeted or planned for all licences;
c. not decided to discontinue exploration activity due to there being a lack of quantifiable mineral resource; and
d. not identified any instances where sufficient data exists to indicate that there are 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, with exception of Badile. See below and note 1a.

During 2017, following sub-commercial well results, the E&E asset related to the Badile licence, Italy, was fully impaired; resulting in charge of £19.0 million. During 2016, the impairment charge of £1.8 million related to the Strombone licence, Italy, as the current and forecast operational spend had significantly decreased due to an application for a time extension on the licence being rejected.

11 Investment in Subsidiaries

	2017 £'000s	2016 £'000s
At 1 January	62,456	35,450
Advances to Group companies	162,766	27,006
Impairment charge for the year	(46,973)	–
At 31 December	**178,249**	62,456

The subsidiary companies of the Company at 31 December 2017, which are all 100% owned by the Company, are:

Name	Incorporated	Principal Activity	Registered Addresses
Sound Oil International Limited	British Virgin Isles	Holding Company	PO Box 173, Kingston,Chambers Road,Tortola,VG 1110, British Virgin Islands
Sound Oil Asia Limited	British Virgin Isles	Holding Company	PO Box 173, Kingston,Chambers Road,Tortola,VG 1110, British Virgin Islands
Mitra Energia Citarum Limited*	Mauritius	Exploration Company	Fifth Floor,Ebene, Esplanade, 24 Cybercity,Ebene, Mauritius
Sound Energy Holdings Italy Limited	UK	Holding Company	4 Pembroke Road, Sevenoaks,TN13 IXR, UK
Apennine Energy SpA	Italy	Exploration, Development and Production Company	Via,XXV, Aprile 5, SAN DONATO MILANESE (MI) 20097
Sound Energy Morocco SARL	Morocco	Exploration Company	Angle Av. Mehdi, Benbarka et Rue Euginia, 2éme étage Hay Riad Rabat
Sound Energy Morocco East Limited	UK	Exploration Company	4 Pembroke Road, Sevenoaks,TN13 IXR, UK
Sound Energy Morocco South Limited	UK	Exploration Company	4 Pembroke Road, Sevenoaks,TN13 IXR, UK
Sound Energy Meridja Limited	UK	Exploration Company	4 Pembroke Road, Sevenoaks,TN13 IXR, UK
Sound Oil Limited	UK	Dormant	4 Pembroke Road, Sevenoaks,TN13 IXR, UK

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

Increase in advances to Group companies was primarily related to acquisition of OGIF's interests in Tendrara, Anoual and Martaka licences, onshore Morocco, for £138.7 million. Impairment charge for the year is attributable to a write down of the carrying value of the investment in Sound Energy Holdings Italy Limited to the expected recoverable value upon disposal of the Italian operations.

11 Investment in Subsidiaries continued

The investment in Apennine Energy SpA is held indirectly through Sound Energy Holdings Italy Limited.

Sound Energy Holdings Italy Limited is directly funded through non-current, non-interest bearing loans from Sound Energy plc.

Given that Sound Energy plc has no intention to call in the loans in the foreseeable future, the loans are treated as "permanent as equity". As a result, Sound Energy plc has classified these loans as investments which represent the carrying value of the investment in Sound Energy International, Morocco subsidiaries and the Italian company.

Composition of the Group

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

Principal activity	Place of incorporation	Place of operation	2017	2016
Gas exploration and production	Italy	Italy	1	1
Gas exploration	UK	Morocco	3	3
Holding companies	UK	UK	2	2
Dormant	UK	UK	1	1
Holding companies	British Virgin Isles	British Virgin Isles	2	2
Holding companies	Mauritius	Mauritius	1	1
Gas exploration	Morocco	Morocco	1	1

12 Other Receivables

Group

	2017 £'000s	2016 £'000s
Italian VAT (note 25)	–	2,445
UK VAT	83	110
Morocco VAT	665	296
Other receivables	2,778	5,926
	3,526	8,777

Currency Analysis

	2017 £'000s	2016 £'000s
US dollar	2,555	5,607
Euro	–	2,603
GBP sterling	100	129
Moroccan dirham	871	438
	3,526	8,777

Company

	2017 £'000s	2016 £'000s
UK VAT	83	110
Other receivables	17	19
	100	129

Currency Analysis

	2017 £'000s	2016 £'000s
GBP sterling	100	129
Total	100	129

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

13 Cash and Cash Equivalents

Group

	2017 £'000s	2016 £'000s
Cash at bank and in hand	1,764	1,056
Cash equivalents:		
Short term deposits	19,434	45,753
Carrying amount 31 December	**21,198**	46,809
Being:		
In US dollar	9,420	7,845
In euros	4,407	11,865
In sterling	7,160	25,089
In Moroccan dirham	211	2,010
Total	**21,198**	46,809

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following as at 31 December 2017.

	2017 £'000s	2016 £'000s
Cash and short term deposits	21,198	46,809
Cash and short term deposits attributable to discontinued operations	813	–
Total	**22,011**	46,809

Company

	2017 £'000s	2016 £'000s
Cash at bank and in hand	25	25
Cash equivalents:		
Short term deposits	16,544	41,757
Carrying amount 31 December	**16,569**	41,782
Being:		
In US dollar	4,983	5,819
In euros	4,395	10,874
In sterling	7,191	25,089
Total	**16,569**	41,782

14 Trade and Other Payables

Group

	2017 £'000s	2016 £'000s
Trade payable	3,910	3,514
Payroll taxes and social security	157	231
Accruals	2,534	8,859
	6,601	12,604

14 Trade and Other Payables continued

Currency Analysis

	2017 £'000s	2016 £'000s
US dollar	4,049	7,216
Euro	553	1,510
Sterling	1,287	1,681
Moroccan dirham	712	2,197
Total	6,601	12,604

Company

	2017 £'000s	2016 £'000s
Trade payable	741	998
Payroll taxes and social security	126	83
Accruals	732	1,094
Total	1,599	2,175

Currency Analysis

	2017 £'000s	2016 £'000s
Sterling	1,085	1,681
Euro	514	494
Total	1,599	2,175

15 Deferred Tax Liabilities

	2017 £'000s	2016 £'000s
1 January	433	1,992
Derecognised on impairment of licences	(55)	(1,744)
Exchange adjustments	–	185
Reclassified to liabilities of disposal group held for sale (note 25)	(378)	–
31 December	–	433

Deferred tax assets have not been recognised in respect of tax losses available due to the uncertainty of utilisation of those assets. Unrecognised tax losses as at 31 December 2017 were estimated to be approximately £6.9 million (2016: £4.7 million).

16 Provisions for Abandonment

	2017 £'000s	2016 £'000s
At 1 January	2,049	1,138
Discount unwind	131	133
Additions during the year	749	786
Released during the year	(410)	(188)
Exchange adjustments	(49)	180
Reclassified to liabilities of disposal group held for sale (note 25)	(2,470)	–
At 31 December	–	2,049

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

17 Capital and Reserves

Group and Company

	2017 Number of shares	£'000s	2016 Number of shares	£'000s
Ordinary shares – 1p	1,015,869,699	10,159	665,069,037	6,651

	2017 Number of shares	2016 Number of shares
At 1 January	665,069,037	503,898,868
Issued during the year for cash	66,550,042	118,147,455
Non-cash share issue	284,250,620	43,022,714
At 31 December	1,015,869,699	665,069,037

Non-cash transactions during the year included the issue of 272.0 million shares worth £138.8 million as the consideration for the acquisition of OGIF's interests in Morocco licences. The Company also issued 0.8 million shares worth £0.7 million as part settlement of the drilling services at the Badile licence, onshore Italy, and 9.6 million warrants of 10.4p per warrant were exercised in settlement of £1.0 million debt. 1.8 million shares were issued for which cash had been received in the prior year as a result of share options exercise.

Share option schemes

Options to subscribe to the Company's shares were granted to executives and certain employees in 2017 and 2016.

Share issues

During the year ended 31 December 2017, the Company issued 58,700,042 shares following warrant exercises at exercise prices in the range of 10.4p to 30p per share.

On 7 February 2017, the Company announced the issue of 830,565 shares at a price of 82p per share in respect of drilling services at the Badile licence in Italy.

On 13 February 2017, the Company announced that it would issue 9,615,384 shares as a result of warrants exercise. The exercise price of the warrants totalling £1.0 million (10p per warrants) was satisfied by settlement of a £1.0 million loan to the warrant holder (see note 24).

On 1 August 2017, the Company announced the issue of 2,050,00 shares following the exercise of share options by a non-board member of the Company at a price of 8p per share.

On 12 September 2017, the Company announced that it would issue 272,000,000 shares as consideration for the acquisition of OGIF's interests in Tendrara, Anoual and Martaka licences, onshore Morocco.

On 21 September 2017, the Company announced the issue of 3,350,000 shares following the exercise of share options by a Director of the Company at a price of 8p per share. The gain on exercise is disclosed in the statement of Directors remuneration.

During 2017, the Company issued 4,254,671 shares as a result of share options exercises by non-board members of the Company. 1,804,660 of the shares were issued to satify option excercises that occured in December 2016 and as result, the shares to be issued reserve was fully utilised. The shares were issued at prices in the range of 8p to 25p per share.

18 Related Party Disclosures

The financial statements include the financial statements of Sound Energy plc (the parent) and the subsidiaries (note 11).

Terms and conditions of transactions with related parties

There were no sales or purchases to or from related parties (2016: none). Advances to subsidiaries are disclosed in note 11. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2016: none) and is not owed or owes amounts to/from any related parties. Impairment on investment in subsidiaries is disclosed in note 11.

18 Related Party Disclosures continued

Key management

As at 31 December 2017, there were seven key management personnel other than Directors of the Company (2016: six). Details of the Directors' remuneration are set out in the Report of Directors' Remuneration. The table below show the total remuneration of key management personnel, including the executive Directors.

	2017 £'000s	2016 £'000s
Salaries and employee benefits	3,043	2,922
Share based payments	1,914	748
	4,957	3,670

Directors' interest in employee share options

At 31 December 2017, the Chairman had 1,000,000 share options in the Company. The other non-executive Directors held a total of 500,000 options in the Company. Share options held by non-executive members of the Board of Directors at 31 December 2017 have the following expiry dates and exercise prices:

	Expiry Date	Exercise price Pence	2017 Number	2016 Number
2016	2021	60p	1,500,000	1,500,000

Share options held by the executive members of the Board of Directors at 31 December 2017 have the following expiry dates and exercise prices:

	Expiry Date	Exercise price Pence	2017 Number	2016 Number
2014	2019	8.0p	–	3,350,000
2015	2020	14.25p	1,250,000	1,250,000
2016	2021	16p	3,000,000	3,000,000
2016	2021	84p	1,500,000	1,500,000
2017	2022	67p	1,500,000	1,500,000

Key management's (excluding Directors) interest in employee share options

	Expiry Date	Exercise price Pence	2017 Number	2016 Number
2014	2019	8.0p	–	4,500,000
2015	2020	14.25p	2,150,000	2,150,000
2015	2020	14.20p	1,250,000	1,250,000
2015	2020	14.07p	1,250,000	1,250,000
2016	2021	16p	4,000,000	5,250,000
2016	2021	84p	–	3,000,000
2017	2022	67p	4,000,000	–
2017	2022	70p	1,500,000	–
2017	2022	65p	500,000	–
2017	2022	52.25p	500,000	–
2017	2022	48p	4,000,000	–

Other expenses

During 2017 three Directors of the Company were also Directors of Echo Energy plc ("Echo"), a company listed on the London stock exchange. The Company recharged and was paid by Echo £24,381 in respect of travel expenses that had been paid by the Company on behalf of Echo. As disclosed in note 25, the Company has entered into an agreement with Saffron Energy plc ("Saffron"), a company listed on the London stock exchange in respect of divestment of its Italian operations. Two Directors of the Company were appointed as non-executive Directors of Saffron in December 2017. The Company has recharged Saffron £21,398 in respect of travel expenses paid by the Company on behalf of Saffron.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

19 Financial Instruments Risk Management

Objectives and Policies

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group's financial instruments comprise trade payables, loans and borrowings, receivables, cash and short term deposits. The main purpose of the financial instruments is to finance the Group's operations. The fair value of the financial instruments is their carrying value, with the carrying value amounts included in the Group Balance Sheet with further analysis in note 12 (Other Receivables), note 13 (Cash and Cash Equivalents), note 14 (Trade and Other payables) and note 24 (Loans and Borrowings).

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

	2017 £'000s	2016 £'000s
Financial assets		
Cash and short term deposits	**21,198**	46,809
Other receivables	**3,526**	8,777
Derivative financial instruments at fair value	**80**	2,545
	24,804	58,131
Financial liabilities		
Trade and other payables	**6,601**	12,604
Loans and borrowings held at amortised costs	**18,566**	17,441
	25,167	30,045

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.

Derivative financial instruments are classified as Level 2.

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

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

Market risk

As the derivative financial instruments are linked to the share price, the movement in the Company's share price has an impact on the value of the derivative financial instruments. The Group continues its exploration and production activities and selective acquisitions to increase shareholder value through capital growth.

Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide return for shareholders, benefit for other stakeholders and to maintain optimal capital structure and to reduce the cost of capital.

Management considers as part of its capital, the financial sources of funding from shareholders and third parties.

In order to ensure an appropriate return for shareholder capital invested in the Group, management thoroughly evaluates all material projects and potential acquisitions and has them approved by the Board of Directors where applicable.

19 Financial Instruments Risk Management continued

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

	2017 £'000s	2016 £'000s
Borrowings	(18,566)	(17,441)
Cash and cash equivalents	21,198	46,809
Net (debt)/cash	2,632	29,368
Total capital excluding reserves:		
Equity share capital	10,159	6,651
Equity share premium	277,670	129,016
Shareholders' equity	172,493	57,579

20 Foreign Currency and Other Risks

As a result of the majority of the Group's operations being denominated in US dollar (USD) and Euros (EUR) , the Group's balance sheet can be impacted by movements in these exchange rates against sterling (GBP). Such movements will result in book gains or losses which are unrealised and will be offset if the currencies involved move in the opposite direction.

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

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

	Increase/ (decrease) in exchange rate %	2017 Effect on profit or loss before tax £'000s	2016 Effect on profit or loss before tax £'000s
Increase in USD/GBP exchange rate	5%	(396)	(312)
Increase in EUR/GBP exchange rate	5%	(193)	(62)
Increase in MAD/GBP exchange rate	5%	(19)	(13)
Decrease in USD/GBP exchange rate	(5%)	396	312
Decrease in EUR/GBP exchange rate	(5%)	193	62
Decrease in MAD/GBP exchange rate	(5%)	19	13

Share price risk

The derivative financial instruments are linked to the Company's share price. The effect on the Group's loss for the year of a 10% movement in the share price is shown below.

	Increase/ (decrease) in share price %	2017 Effect on loss before tax/(decrease)/ Increase £'000s	2016 Effect on loss before tax/(decrease)/ Increase £'000s
Increase in share price	10%	(80)	(784)
Decrease in share price	(10%)	80	784

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

20 Foreign Currency and Other Risks continued

Credit risk

The Group currently has sales to one customer. The maximum credit exposure at the reporting date of each category of financial assets is the carrying value as detailed in the relevant notes. The Group's management considers that the financial assets that are not impaired for each of the reporting dates are of good credit quality. Payment terms are limited to one month's gas sales at any one time and cash calls to partners are paid within one month and therefore the credit risk is considered negligible.

Liquidity risk

The Group and Company have significant liquid assets and are not materially exposed to liquidity risk. For further details on the maturity of financial liabilities see note 24.

21 Financial Instruments

(i) Derivative financial instruments

	2017 £'000s	2016 £'000s
Derivative on shares issued on acquisition of Sidi Moktar licence	80	2,545

In March 2016, the Company signed a binding agreement to acquire PetroMaroc's 50% working interest in, and operatorship of, the Sidi Moktar Licences. The terms of the acquisition included the issue by the Company of 21,258,008 ordinary shares to PetroMaroc as consideration. In September 2016, the agreement with PetroMaroc was amended such that should PetroMaroc dispose of the shares issued, the proceeds of the share price above 50 pence would be shared equally between the Company and PetroMaroc. The value of this derivative as at 31 December 2017 was £80,000 (2016: £2.5 million) using the Company's closing share price of 51p (2016: 74p).

During 2017, the Company recognised a loss of £1.9 million (2016: £0.6 million, gain) in the income statement as a result of movement in the share price during the year. PetroMaroc sold 5,314,502 shares during the year and the Company received £592,000, being its share of the proceeds in line with the agreement.

Subsequent to the end of the year, PetroMaroc notified the Company, and the Company acknowledged, that PetroMaroc had transferred 11,608,411 shares at a deemed price of 48.38p per share to Debentureholders and as a result, there were no proceeds to be shared in respect of the said shares.

(ii) Cash and short term deposits

	Floating rate £'000s	Fixed rate £'000s	Interest-free £'000s	Total £'000s	Weighted average rate %
2017					
Sterling	4,135	3,000	25	7,160	0.26
Euro	888	–	3,519	4,407	0.60
US dollar	–	4,447	4,973	9,420	0.57
Moroccan dirham	–	211	–	211	3.75
	5,023	7,658	8,517	21,198	
2016					
Sterling	25,064	–	25	25,089	0.01
Euro	992	–	10,873	11,865	0.05
US dollar	–	–	7,845	7,845	0.00
Moroccan dirham	–	2,010	–	2,010	3.75
	26,056	2,010	18,743	46,809	

Euro cash balances have been converted at the exchange rate of €1.12631: £1.00 (2016: €1.17288: £1.00). Moroccan dirham cash balances have been converted at the exchange rate of MAD12.6280: £1.00 (2016: MAD12.4979: £1.00). US dollar cash balances have been converted at the exchange rate of US$1.3493: £1.00 (2016: US$1.23412: £1.00).

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

22 Share Based Payments

The Group has a Long Term Incentive Plan under which share options have been granted to the Directors and key staff. The Group's policy is to award options to employees on appointment and periodically thereafter. Options are issued at market price on the grant date and have vesting periods of up to three years. The options expire after five years if they remain unexercised and are forfeited if the employee leaves the Group before the options vest except at the discretion of the Board.

The expense recognised for employee services in the Consolidated Income Statement is as follows:

Group and Company

	2017 £'000s	2016 £'000s
Expense arising from equity-settled share options	2,486	819

The fair value of equity-settled share options granted is estimated at the date of grant using a Black–Scholes model, taking into account the terms and conditions upon which the options were granted.

	Granted	Period (years)	Price (pence)
2017	8,800,000	5	67
	1,500,000	5	70
	800,000	5	65
	500,000	5	52.25
	4,000,000	5	48
Total	15,600,000		
2016	9,050,000	5	16.00
	600,000	5	17.13
	1,500,000	5	60.00
	3,300,000	5	84.00
	300,000	5	75.00
	300,000	5	76.50
Total	15,050,000		

The expected life of the options is based on the maximum option period and is not necessarily indicative of exercise patterns that may occur. Expected volatility is determined by reference to the historical volatility of the Company's share price over a three year period. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The valuations assumed an expected life of five years and used the following additional assumptions for options granted during the year:

- Weighted average share price as of grant date: 61.84 pence (2016: 37.72 pence)
- Average risk free interest rate: 0.39% (2016: 0.52%)
- Expected volatility: 60.69% (2016: 60.35%)
- Assumed forfeitures: 0% (2016: 0%)
- Expected dividends: nil (2016: nil)

No other features of options grant were incorporated into the measurement of fair value. The weighted average fair value of the options granted was 31.38p (2016: 19.17p).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

22 Share Based Payments continued

	2017 £'000s	Weighted average exercise price (pence)	2016 £'000s	Weighted average exercise price (pence)
Share options outstanding at the start of the year	29,400,000	24.59	20,348,886	11.19
Share options granted	15,600,000	61.84	15,050,000	37.72
Share options expired	(3,750,000)	56.80	(350,000)	10.27
Share options exercised	(7,850,000)	8.00	(5,648,886)	15.85
Share options outstanding at the end of the year	33,400,000	41.04	29,400,000	24.59

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2017 was 46.39p (2016: 69.37p). The weighted average remaining contractual life of the options outstanding at 31 December 2016 was 3.5 years (2016: 3.8 years).

There were no exercisable options at the end of the year. If all equity share options were exercisable immediately, new ordinary shares equal to approximately 3.3% (2016: 4.4%) of the shares currently in issue, would be created.

23 Commitment and Guarantees

At 31 December 2017, the Group's minimum capital expenditure on its licences was approximately £2.1 million primarily for the exploration and appraisal activities in the Group's licences in Morocco. The Group provided $2.95 million as guarantee to the Moroccan Oil Ministry for the minimum work commitments on its licences.

As at 31 December 2017, the Group had the following operating leases:

	Premises £'000s	Vehicles £'000s	Total £'000s
Due within one year	382	99	481
After one year but within two years	386	–	386
After two years but within five years	307	–	307
After five years	–	–	–
	1,075	99	1,174

As at 31 December 2016, the Group had the following operating leases:

	Premises £'000s	Vehicles £'000s	Total £'000s
Due within one year	483	179	662
After one year but within two years	341	100	441
After two years but within five years	344	–	344
After five years	–	–	–
	1,168	279	1,447

24 Loans and Borrowings

Group and Company

	2017 £'000s	2016 £'000s
Current liabilities		
Other loans	–	986
Non-current liabilities		
5 year secured bonds		
At 1 January/on recognition	16,455	14,777
Amortised finance charges	2,706	1,367
Interest payments	(1,263)	(592)
Exchange adjustments	668	903
	18,566	16,455

On 21 June 2016 the Company announced that Greenberry S.A ("Greenberry") had subscribed for 5-year non-amortising secured bonds with an aggregate issue value of €28.8 million (the "Bonds"). Alongside the Bonds, the Company issued 70,312,500 warrants to subscribe for new ordinary shares in the Company at an exercise price of 30 pence per ordinary share and an exercise period of approximately five years, concurrent with the term of the Bonds, to Greenberry (the "Warrants"). The Bonds were secured over the share capital of Sound Energy Holdings Italy Limited ("SEHIL") but subsequent to year-end, the security on the share capital of SEHIL was released and replaced by security on the share capital of Sound Energy Morocco South Limited. The Bonds have a 5% coupon and were issued at a 32% discount to par value. A total cash fee of €1.1 million was paid by the Company.

The Warrants were recorded within equity at fair value on the date of issuance and the proceeds of the notes net of issue costs were recorded as non-current liability. Part of the Bonds' proceeds were used to settle an existing Reserve Based Lending facility with Greenberry of €7.0 million at a discount of 50%. The Company also settled £7.0 million debt that had been issued to Continental Investment Partners in 2014 as part of the re-financing. The coupon rate of 5% for the Bonds ensures that the Company's ongoing cash out-flow on interest payments remains low, conserving the Company's cash resources. The effective interest rate is approximately 16.3%. The 5-year secured Bonds are due in June 2021.

The £7.0 million settled was the debt issued to Continental Investment Partners with an annual coupon of 8% on 28 July 2014, which was issued alongside £1.0 million of debt to Simon Davies, with an annual coupon of 10%. The total issue of £8.0 million, with a three year term, was combined with equity and warrants which also had a three year term. Each warrant was convertible into equity at a price of 10.4p per share during that three-year term. The fair value of the warrants at issue is included within warrant reserve.

During 2017, the Company settled £1.0 million debt due to Simon Davies through the exercise of 9.6 million warrants at 10.4p per share.

	2017 £'000s	2016 £'000s
Liability component at 1 January	986	7,118
Interest and amortised issue costs	44	1,413
Interest paid	(30)	(545)
Debt paid	(1,000)	(7,000)
	–	986

Reconciliation of liabilities arising from financing activities

	1 January 2017 £'000	Cash flows £'000	Non-cash changes: Loan repayment in shares £'000	Non-cash changes: Amortised finance charges £'000	Exchange adjustments £'000	31 December 2017 £'000
Long-term borrowings	16,455	(1,263)	–	2,706	668	18,566
Short-term borrowings	986	(30)	(1,000)	44	–	–
Total liabilities from financing activities	17,441	(1,293)	(1,000)	2,750	668	18,566

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

24 Loans and Borrowings continued

Reconciliation of external interest costs

	2017 £'000	2016 £'000
Amortised finance charges- long-term borrowings	2,706	1,367
Amortised finance charges- short-term borrowings	44	1,413
Accelerated bond costs amortisation on debt settlement	–	2,353
	2,750	5,133
Less capitalised interest	(1,618)	(1,455)
Exchange adjustments	(15)	19
Total external interest for the year	1,117	3,697

25 Discontinued Operations

On 5 October 2017, the Company announced that it had entered into non-binding conditional heads of terms with Saffron Energy plc ("Saffron") and Po Valley Energy Limited under which it is proposed that Company disposes of its portfolio of Italian interests and permits through the sale of Sound Energy Holdings Italy ("SEHIL") and Apennine Energy SpA ("APN") (the "disposal"). The consideration for the disposal would be fully satisfied through the issue of 185,907,500 new ordinary shares in Saffron which would be distributed directly to SOU shareholders valued at approximately £8.1 million using the share price of Saffron of 4.38 pence per share being the closing mid-market price per Saffron ordinary share before the announcement was made. Subsequent to the year end, the Company announced that it had entered into a binding agreement with Saffron for the disposal and is expected to complete the disposal by April 2018. At 31 December 2017, the Italian operations were classified as a disposal group held for sale and as discontinued operations. With the classification as discontinued operations, the Italian operations have been excluded from the segment note (note 2).

The results of the Italian operations for the year are presented below:

	2017 £'000s	2016 £'000s
Revenue	708	833
Operating costs	(697)	(1,110)
Impairment of producing assets	–	(5,455)
Impairment of goodwill	(55)	(1,704)
Impairment of intangible assets	(19,018)	(1,819)
Exploration costs	(761)	(515)
Gross loss	(19,823)	(9,770)
Administrative expenses	(1,995)	(1,995)
Operating loss from discontinued operations	(21,818)	(11,765)
Finance revenue	79	2,054
Foreign exchange gain	4	94
Finance costs	(131)	(861)
Loss for the year before taxation from discontinued operations	(21,866)	(10,478)
Deferred tax credit	55	1,744
Loss for the year after taxation from discontinued operations	(21,811)	(8,734)

25 Discontinued Operations continued

The major classes of assets and liabilities of the Italian operations classified as held for sale as at 31 December 2017 are as follows:

	2017 £'000s
Assets	
Property, plant and equipment	1,363
Intangible assets	4,792
Land and buildings	1,598
Inventories	133
Other receivables	3,527
Prepayments	66
Cash and short term deposits	813
Assets of disposal group held for sale	12,292
Liabilities	
Trade and other payables	1,644
Deferred tax liabilities	378
Provisions	2,470
Liabilities of disposal group held for sale	4,492
Net assets	7,800

The net cash flows of the Italian operations were as follows:

	2017 £'000s	2016 £'000s
Net cash flow from operating activities	(2,513)	(1,810)
Net cash flow from investing activities	(13,962)	(2,468)
Net cash flow from financing activities	–	(2,894)
Net cash outflow	(16,475)	(7,172)

26 Post Balance Sheet Events

On 22 January 2018, the Company announced that it had entered into a binding conditional sale and purchase agreement (the "Binding Agreement") with Saffron Energy Plc ("Saffron") under which it is proposed that Saffron acquires Sound Energy's portfolio of Italian interests and permits through the acquisition by Saffron of the entire issued share capital of the Company's wholly owned subsidiary, Sound Energy Holdings Italy Limited ("SEHIL"). SEHIL holds all of Sound Energy's Italian oil and gas interests through its own wholly owned subsidiary, Apennine Energy SpA ("APN"). It is proposed that Saffron will be renamed Coro Energy plc. The consideration for the disposal of SEHIL will be fully satisfied through the issue of 185,907,500 new ordinary shares of £0.001 each in the capital of Saffron (the "Consideration Shares"), subject to any rounding of fractional entitlements. The Consideration Shares would be paid directly to the Company's shareholders on completion which is expected to be in April 2018. The Company was granted a court order on 13 March 2018 approving a capital reduction following cancellation of the share premium account and transferring £277.7 million to distributable reserves.

On 23 January 2018, the Company announced that it had received the final results of the resources certification in relation to the TE-5 horst core volumes at the Company's Tendrara asset, onshore Morocco (the "Final Certification"). The Final Certification, was entirely consistent with and confirmed the preliminary results of the certification announced by the Company on 20 December 2017. The Company also announced that Stephen Whyte, the Company's Non-Executive Chairman, had stepped down from the Board and his position would be assumed by Richard Riddell, a Non-Executive Director of the Company.

On 31 January 2018, the Company announced the appointment of Macquarie Capital (Europe) Limited as joint broker to the Company. Macquarie Capital (Europe) Limited will act alongside RBC Capital Markets, joint broker, and Smith & Williamson Corporate Finance Limited, continue as the Company's nominated adviser.

On 12 February 2018, the Company announced it had been granted, subject to Moroccan Energy and Finance Ministry approval, a petroleum agreement covering Sidi Moktar (the "Petroleum Agreement"). The Petroleum Agreement, has been granted to the Company by L'Office National des Hydrocarbures et des Mines ("ONHYM"), the Moroccan state regulator for petroleum operations, and will come into force on approval of the Moroccan Energy and Finance Ministries. The petroleum agreement is for an 8 year period.

On 7 March 2018, the Company provided an update on the Italy divestment and noted that the divestment was expected to complete on or around 9 April 2018.

LIST OF LICENCES AND INTERESTS

Licence	Status[1]	Key Project or Prospect Name	Key Project or Prospect Type	WI (%)	Area (km^2)	Operator
Rapagnano	Concession	Rapagnano	Gas production	100	8.5	Apennine Energy
San Lorenzo	Concession	Casa Tiberi	Gas production	75	4.9	Apennine Energy
Fonte San Damiano	Concession	Marciano	Abandonment in process	100	23.7	Apennine Energy
Carità	Concession	Casa Tonetto	Awaiting abandonment	100	4.2	Apennine Energy
Torrente Alvo	Permit	Strombone	Oil discovery	100	84.3	Apennine Energy
Carità	Permit	Nervesa	Appraisal	100	529.8	Apennine Energy
Badile	Permit	Badile	Prospect	100	154.5	Apennine Energy
S.Maria Goretti	Permit	T.Tesino	Appraisal	100	101.3	Apennine Energy
Villa Gigli	Permit	Musone	Oil discovery	100	100.9	Apennine Energy
Monte Negro	Permit	–	–	100	287.7	Apennine Energy
D-R74-AP	Permit	Laura	Gas discovery	100	65.2	Apennine Energy
D503 BR-CS	Application	Dora/Dalla	Gas discovery	100	82.6	Apennine Energy
Posta Del Giudice	Application	–	–	100	113.6	Apennine Energy
Solfara Mare	Application	–	–	100	337	Apennine Energy
Costa Del Sole	Application	Manfria	Oil discovery	100	41.5	Apennine Energy
Torre del Ferro	Application	–	–	100	118.0	Apennine Energy
Tendrara[2]	Permit	Tendrara	Prospect	47.5	9,335.6	Sound Energy Morocco East
Anoual[3]	Permit	Anoual	Prospect	47.5	8,873.3	Sound Energy Meridja
Matarka[4]	Permit	Matarka	Reconnaissance	47.5	5,223.3	Sound Energy Morocco East
Sidi Moktar[5]	Permit	Sidi Moktar	Prospect	75	4,499	Sound Energy Morocco South

Notes:

1. **Italy**

   A Concession in Italy (licences operated by Apennine Energy) allows hydrocarbon production and is valid for 20 years. An Application for a Concession can be made following a declaration of commercial discovery ratified by the Ministry of Economic Development. The Concession requires the approval of an Environmental Impact Assessment and becomes exclusive after publication in the Official Journal of the EU. A Permit is valid for six years and allows seismic and drilling operations. An Application for a permit can be made at any time it becomes exclusive to the applying company three months after publication in the Official Journal of the EU. The conversion of an application to a full permit requires the approval of an Environmental Impact Assessment.

   Morocco

   An Exploration Permit in Morocco (licences operated by Sound Energy Morocco and Sound Energy Morocco South) allows hydrocarbon exploration and is valid for up to 8 years. Exploration Permits are granted by the Energy Ministry and published in the Bulletin. The initial term is not dictated by law and is defined in the Petroleum Agreement. The Petroleum Agreement is to be entered into between ONHYM and the permit holder, which must be approved by a joint decree of the Energy Ministry and the Finance Ministry.

2. The Company's interest in the permit is 75%, of which 27.5% is shared with Schlumberger resulting in the Company's net effective interest of 47.5%.
3. The Company's interest in the permit is 75%, of which 27.5% is shared with Schlumberger resulting in the Company's net effective interest of 47.5%. The Reconnaissance covering previously relinquished Tendrara acreage.
4. The Company's interest in the permit is 75%, of which 27.5% is shared with Schlumberger resulting in the Company's net effective intere to final approvalst of 47.5%.
5. Subject to final approval.

SHAREHOLDER INFORMATION

Dealing Information
Stock code – SOU.LN

Financial Calendar

Meetings
Annual General Meeting – May 2018

Announcements
2018 Interim – September 2018
2018 Preliminary – March 2019

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