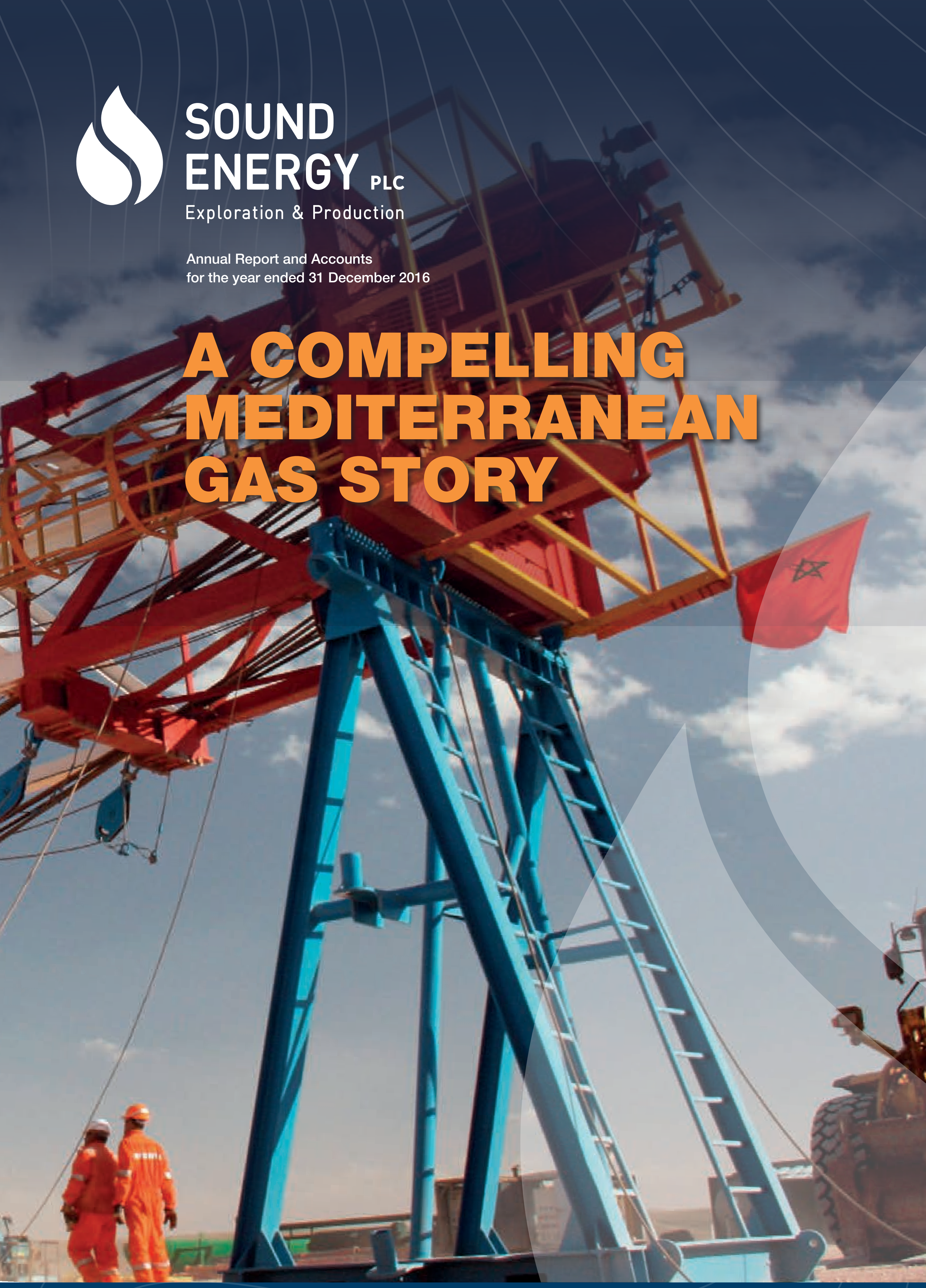

SOUND ENERGY PLC

Exploration & Production

Annual Report and Accounts
for the year ended 31 December 2016

A COMPELLING MEDITERRANEAN GAS STORY

2016 ANNUAL REPORT

Sound Energy is a growing Mediterranean gas company with a low cost multi Tcf development in Morocco, supportive investor base and a strategic partnership with Schlumberger.

A COMPELLING MEDITERRANEAN GAS STORY . . .

Our Investment Proposition

Regional gas supply underpinned by:
- Strong European gas demand and local pricing
- Pan European/African Strategic Partnership with Schlumberger
- Supportive cornerstone investors

Strong thematic positioning:
- Carbon consciousness and global warming driving transition to gas

Low cost multi Tcf development at Tendrara, Eastern Morocco

Two remaining strategic plays:
- Badile (Italy) and Sidi Moktar (Morocco)
- Flagship low cost multi Tcf discovery in Eastern Morocco

Read more in the Market Review on page 08

Read more in the Operational Review on page 18

Our focus during 2016 has been to pursue a high impact exploration campaign in Eastern Morocco. The results from Tendrara to date have been pivotal to the Company's success.

James Parsons
Chief Executive Officer

Corporate website

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

Getting around this Report

- Read more content within the Report
- Read more content online

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2016 HIGHLIGHTS

Morocco

- Recent low cost multi-Tcf potential Eastern Morocco discovery
- Two successful wells drilled during 2016 on Tendrara with flow rates significantly exceeding expectations
- Potential for region to become a material hydrocarbon province
- Total net pay of 28 metres in the TAGI reservoir confirmed by TE-6 discovery well
- Benefits of sub-horizontal drilling proven through TE-7
- Over 56 days flow during TE-7 extended well test; rates between 15 mmscf/day and 28 mmscf/day
- TE-8 bold step-out well drilled post period end, materially de-risking the Paleozoic play
- Operations over one year Lost-Time Injury (LTI) free

17
mmscf/d
achieved on TE-6 well test

Read more in the Operational Review on page 18

- Acquisition of interest in Meridja exploration permit, subject to regulatory approvals, adjacent to Tendrara and sharing same fundamental geology
- Basin modelling study and seismic reprocessing indicate several leads with similar scale to Tendrara
- Successful partnership transaction post year end increasing net effective interest in Tendrara to 47.5% and Meridja to 75.0%
- Consolidation of Moroccan position with acquisition of Sidi Moktar licences

32
mmscf/d peak
post stimulation at TE-7

Italy

Permission to Drill Granted
May 2016

- Continued safe production from Rapagnano
- Badile permit:
  - Secured all required permits for Badile
  - Schlumberger introduced to the project, funding €7.5 million (30% of well cost) for a 20% option over the permit
  - All preparations for drilling completed
  - Drilling initiated post-period end with Pergemine 3,000 HP rig
  - Continues to be a strategic asset in our portfolio

Read more in the Operational Review on page 24

Corporate

- Inclusion in FTSE AIM UK 50 Index and MSCI Small Cap Index
- Completion of group debt-refinancing
- Successful £26.9 million institutional and retail placing
- Cash balance at 31 December 2016 of £46.8 million
- Broadening of Executive Team, including the appointment of Brian Mitchener as Executive Vice President Exploration
- Introduced Oil and Gas Investment Fund (OGIF) as second cornerstone investor

Read more in the Financial Review on page 32

£26.9m successful fundraising (81p)

Inclusion in **AIM 50 Index**

STATEMENT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

2016 was a truly transformational year for Sound Energy with two outstanding well results in Morocco and the completion of the permitting at Badile in Italy. Sound Energy also completed a successful fundraising at market and was included in the FTSE AIM 50 index and the MSCI Small Cap Index.

Stephen Whyte
Non-Executive Chairman

James Parsons
Chief Executive Officer

Despite being another turbulent period for the energy sector, 2016 has been truly transformational for Sound Energy. We have continued to build an exploration focused onshore Mediterranean gas business hinged on strong European gas fundamentals, a strategic partnership with Schlumberger and a low cost multi Tcf potential development asset in Morocco.

Our focus during 2016 has been to pursue a high impact exploration campaign in Eastern Morocco (drilling TE-6 and TE-7) whilst finalising preparations to drill Badile in Northern Italy. Alongside this, we have continued to develop our high quality partnerships, maintain a strong balance sheet and ensure our operations are safe and sustainable.

Morocco

The Eastern Morocco TAGI and Paleozoic plays across Tendrara / Meridja have the potential to become a material hydrocarbon province on a regional scale and therefore transform both Sound Energy and the Moroccan gas industry.

Tendrara

The results from Tendrara have been pivotal to the Company's success during 2016.

Following the introduction of Schlumberger as a strategic partner in late 2015, Sound commenced drilling at its first well, TE-6, in April 2016. This well was completed, stimulated and tested over the summer with petrophysical analysis confirming the presence of a number of gas bearing levels, a total net pay of 28 metres in the TAGI reservoir and a flow rate of 17 MMscf/d – a rate that was significantly above expectations and highly commercial.

After the resounding success of the first well, the Company commenced drilling at its second well, TE-7, in August 2016. In November, TE-7 achieved a gas flow rate post-stimulation of 32 MMscf/d, which again significantly exceeded expectations and confirmed the benefits of sub-horizontal drilling. Following the period end, the well was put on an extended well test (EWT) to confirm production sustainability and to aid field development planning with just under circa 1.0 Bcf flowing from TE-7 over 56 days, with rates between 15 MMscf/d to 28MMScf/d achieved. The well is now in a final pressure build-up phase.

From the results to date, Sound has been able to estimate that the TE-5 Horst area contains around 300-500 Bcf gas, is commercial and intends to apply for a concession to develop and produce from this field.

Following these results, the Company took the decision to drill a bold-step out well, TE-8, 12km to the north-east of TE-6 and TE-7. Logging at TE-8 has recently confirmed the extension of the TAGI reservoir and successfully identified and penetrated the full sequence of Westphalian sands in the Paleozoic. Despite lower quality TAGI sands than in the previous wells, this is the first well to establish the Westward extension of the primary hydrocarbon system proven in Algeria into Morocco.

The Company will now take sidewall core samples and then suspend TE-8 in preparation for future operations, which may include mechanical stimulation of this well or a sidetrack. The Company will also update its static geological models and volumetric evaluation. This is likely to include an immediate re-entry of the TE- 1 well, in the south of the Tendrara licence area, drilled by Agip in 1966.

Meridja

During 2016, the Company secured, subject to regulatory and other approvals, a 55% interest in the Meridja exploration permit, which is adjacent to Tendrara and shares the same fundamental geology. Following the period end this interest was increased, subject to regulatory approvals, to 75% following a successful partnership transaction with OGIF in early 2017, when a further 20% of Tendrara was also conditionally acquired. The remaining 25% interest continues to be held by Morocco's Office National des Hydrocarbures et des Mines (ONHYM). The potential of this area will begin to be unlocked through 2017 and 2018, with the acquisition of seismic and an aerial gradiometry survey.

Sidi Moktar

In early 2016, Sound acquired a 75% interest in the Sidi Moktar licences area in the Essaouira basin, central Morocco. These licences contain an existing gas discovery in the Lower Liassic (Kechoula) with two wells drilled on structure. Sound plans to work-over these existing wells and test. We have also agreed Heads of Terms to farmout a portion of the licence, de-risking the asset financially. The deeper exploration potential of the licences in the Triassic also holds considerable interest.

Italy - Badile

Much progress was made during the year on the Badile licence in Italy, the second of our strategic plays, with the "Conferenza dei Servizi", the central and final approval meeting, successfully concluding in late April 2016 and the final permission to drill received from the Italian Ministry of Economic Development (UNMIG) in May 2016. Civil works commenced in September 2016 and the Company was pleased to report following the period end that the Moirago-1 Badile well was spud in March 2017. At the date of this report, the first two casing points have been successfully reached and the Company looks forward to communicating results during 2017.

During July 2016, the relationship with Schlumberger was also further strengthened with Schlumberger agreeing to fund €7.5 million of services (30% of the estimated well cost) in exchange for an option to acquire a 20% net profit interest. Badile remains a strategic asset in our portfolio with an independently assessed mid case estimate of 142 Bcfe net to Sound.

Remaining Italian Portfolio

The Company has a broad portfolio in Italy which includes existing production and Laura, a high quality existing discovery where the Company plans to drill the appraisal well, 4km offshore, from onshore with a long reach deviated well.

Corporate

The Company is in a strong financial position as it enters 2017, with a cash balance of £46.8 million as at 31 December 2016. We continue to operate with a low cost but high quality philosophy, working with strategic partners to technically and financially de-risk assets and continuing to benefit from the support of our cornerstone investors. We successfully refinanced the significant majority of the Company's debt during 2016, extending the timeframe, and raised £26.9 million (gross) of equity funding at market in an innovative capital raise, where private investors were invited to invest alongside institutions. A first in the market.

During 2016, Simon Davies stepped down as Chairman of the Company to pursue other interests, with Stephen Whyte taking on the mantle of the Chairmanship in early July. The executive management team has been expanded to enable us to deliver our exploration and acquisition plans, with the introduction of Brian Mitchener (Executive Vice President Exploration). Sound Energy was also, during 2016, awarded AIM Company of the Year and included in the MSCI UK Small Cap index.

The momentous progress achieved by Sound Energy during 2016 would not have been possible without the efforts of Sound Energy's executive team, our supportive shareholders and other stakeholders including our host governments. We would like to take this opportunity to thank all of them as we continue delivering our strategy.

The Strategic Report was approved by the Board on 29 March 2017 and signed on its behalf by:

James Parsons
Chief Executive Officer

Stephen Whyte
Non-Executive Chairman

THE JOURNEY SO FAR

January 2017

Tendrara (TE-7) – Extended well test results

2016

January – Further Sidi Moktar acquisition

February – Secured option to acquire Meridja reconnaissance area

March – Introduction of partner to Sidi Moktar

April – Receipt of $1 million Indonesian Contingent Consideration

April – Spud of TE-6 (first well at Tendrara, Morocco)

May – Receipt of final Badile drilling approval

July – Farm out of Badile to Schlumberger

August – Results of TE-6 at Tendrara (28m net pay, 17mmscf/d on test)

September – Inclusion on FTSE AIM UK 50 Index

November – Results of TE-7 at Tendrara (32mmscf/d after clean up)

November – Successful £26.9 million capital raise

December – Inclusion in MSCI Global Small Cap Index

2015

April – Secured further funding from the institutional cornerstone investor

May – Morocco country entry through the onshore gas licences at Tendrara

June – Memorandum of Understanding ("MOU") with Schlumberger as strategic partner

October – Acquisition of Sidi Moktar licences, consolidating our position in Morocco

December – Introduction of Schlumberger to Tendrara

2014

April – Introduction of a new Institutional Cornerstone Investor, Continental Investment Partners

July – First gas on the Casa Tiberi field (Marche Region of Italy)

September – Purchase of the land required for the Badile prospect

2013

Achieved first gas from the onshore Rapagnano field in central Italy; maturation of Italian portfolio.

2012/2011

Strategic decision to focus on Mediterranean onshore gas; acquisition of onshore gas portfolio; disposal of Indonesian assets.

YEAR TO DATE AND FUTURE FOCUS

March 2017
Tendrara (TE-8) – Prove extension of TAGI discovery and explore the Paleozoic

Q1 2017
Sidi Moktar – Introduction of partner to Sidi Moktar

H1 2017
Tendrara (TE-2 & TE-4) – Re-entry and test; feasibility currently being determined

Badile – Exploration well in Italy

Sidi Moktar – Workover of Koba-1 and Kamar-1(Sidi Moktar wells) followed by extended well test

Q3–4 2017
Tendrara (Concession) – Concession application

H2 2017 – H1 2018
Tendrara (2D seismic) – 2D seismic over the remainder of the block - to determine prospects and give better indication on volumes

Tendrara (FDP) – Commencement of development works (facilities)

H2 2017
Airborne gravity gradiometry survey across Tendrara and Meridja licences, onshore Morocco

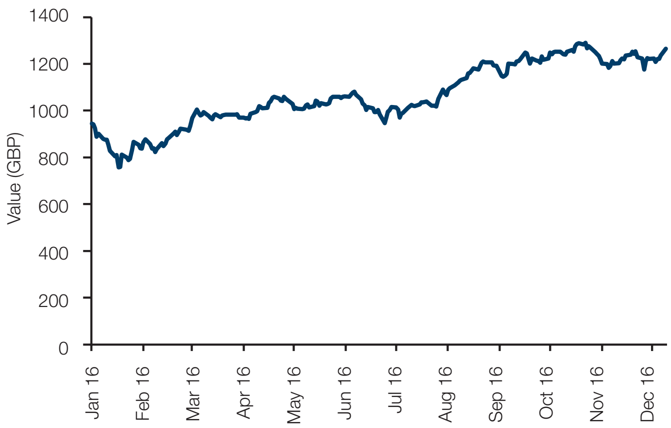
MARKET REVIEW

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 and uncertainty around the supply and demand balance. As a result, this led to a significant drop in the AIM Oil and Gas Index 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 add to our portfolio at attractive prices.
- The oil & gas sector was largely unaffected by the impact of Brexit and the AIM Oil and Gas Index experienced a recovery in the year, ending 2016 +40%. This was further aided by two separate agreements to cut production by OPEC and non-OPEC members, the first in 15 years. Despite this, doubts in the market regarding compliance levels for both OPEC and non-OPEC producers, coupled with resurgent US onshore production has led to further oil price uncertainty. Nevertheless, it is apparent, as we enter 2017, that there has been a shift in sentiment with many 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 result of the c.50% decline in oil service company rates, and as a result, 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 203 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.

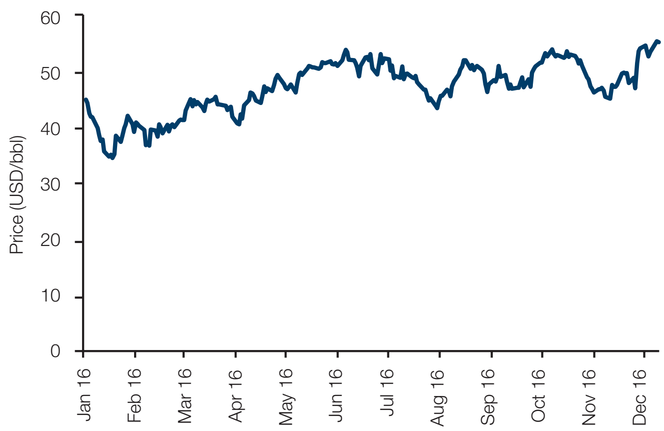
AIM Oil and Gas Index 2016 year to date

Source: Bloomberg



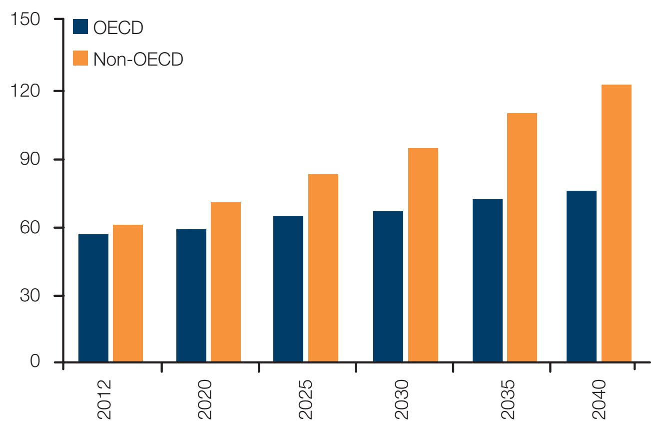
Brent Crude 2016 year to date

Source: Bloomberg



World natural gas consumption 2012–2040

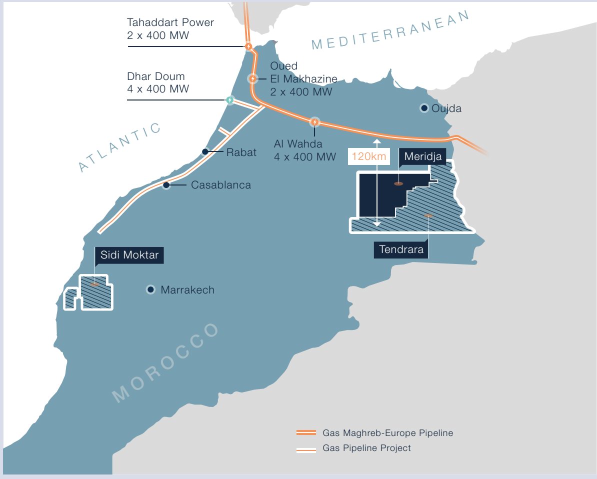
Source: US Energy Information Administration Trillion cubic feet



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



Italy

- Italy's production of both oil and natural gas has been progressively declining over the last decade.
- Demand for natural gas has been growing rapidly over the last few decades.
- Around 90% hydrocarbons are imported from Algeria and Russia.
- Italy has a developed network of infrastructure and pipelines across the country.
- Energy policy has recently been introduced to encourage commercialisation of domestic hydrocarbons.

Regional infrastructure

What this means to **Sound Energy** (Morocco)

- Favourable fiscal terms (10 year tax holiday and 36% net Government take including 5% royalty – one of the lowest globally)
- Good economics and able 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
- Good off-take

What this means to **Sound Energy** (Italy)

- Favourable fiscal terms with 24% corporation tax and 3.9% regional income tax
- 10% royalty above 0.9 Bcf annually
- Pipeline network is well established nation-wide and top prospects (Badile) benefit from being in close proximity
- Low cost production
- Increasing domestic demand

STRATEGY AND BUSINESS MODEL

HOW WE RUN OUR BUSINESS

Sound Energy is primarily an exploration company which embraces the high risk high reward nature of exploration drilling. We have a strong track record of transformational gas discovery and deal-making excellence. Sound Energy delivers value through asset acquisitions, partnerships and offers material upside potential for shareholders from exploration and appraisal activity. Our business model illustrates our modus operandi.

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, on-shore 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 a low-cost of finding reserves. We have demonstrated our capability to discover major field and deliver wells, and carefully manage our technical and financial risk.

Repeat

Our business, like the oil industry, is cyclical. We acquire, we discover, we deliver to our shareholders - and then we repeat. We have shown we can grow counter-cyclically and we can capitalise on the re-bound and boom of the industry. We are passionate about our business and enjoy what we do. We carefully manage our financial resources and exposures, use innovative methods to deliver acquisitions and fund discoveries, and then we do it all over again. Our energy is endless. Our primary goal is to deliver returns to shareholders.

Compelling case for gas

We operate in countries and markets in which there is strong domestic demand for gas and infrastructure in place, alongside favourable fiscal terms and attractive local pricing. Carbon consciousness and global warming is driving a transition to gas, where it is increasing replacing other fuels as the fuel of choice. In the countries we operate, 90% or more of hydrocarbons are imported. We look to work with local governments to encourage domestic growth and in environments where energy policy is encouraging the commercialisation of domestic hydrocarbons.

Read more in the Market Review on page 08

Strategic industry partners

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.

Read more about our strategic industry partnerships on page 14

Cornerstone investors

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

Read more about our cornerstone investors on page 14

The building blocks of our 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 operation. 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; and a culture of safe and sustainable operations, enabling us to achieve high standards of health and safety and minimise our environmental and social impact.

Read more in the Governance section on page 43

FOCUSED ON DELIVERY

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 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 and Executives' performance is judged on the delivery of desired outcomes.

2016 KPI	Measurement	2016 Performance
Deliver high impact exploration	• Prove moveable gas in commercial quantities in Tendrara • Delivery of the Moirago-1 well at Badile	During 2016, we successfully drilled the TE-6 well and TE-7 well on Tendrara proving up a gas volume in place of 300-500 bcf, which is commercial. We obtained the final governmental approval to drill the well on the Badile permit in May 2016 and commenced civil works in September 2016. The well is currently drilling.
Acquire new transformational opportunities	• Consolidation of our position in Morocco • Diversify the business	We have successfully acquired a 75% interest in the Sidi Moktar licence in 2016 through two acquisitions, the second of which provided us with the operatorship enabling us to unlock the asset. We have built out our position in Eastern Morocco with the acquisition of an option over the Meridja reconnaissance area. These are transactions which we believe add value to our portfolio. We continue to have a strong pipeline of opportunities.
Create and maintain strong partner relationships	• Ensure our partner relationships are robust and high quality • Expand mutually beneficial partnerships to enhance our business	We further consolidated our relationship with Schlumberger during 2016 with Schlumberger taking an option of 20% in the Badile licence in exchange for providing €7.5m of funding. We completed the synthetic farmout on Tendrara. We have moved our relationships forwards in 2017 to date, enhancing our relationship with Oil & Gas Investment Fund (OGIF) and consolidating our position in Eastern Morocco, as OGIF transition from partner to cornerstone investor.
Strategic & innovative financing	• Refinancing of existing debt • Maintain or increase cash balance • Utilise partners to derisk commitments • Minimal dilution to equity holders	We successfully refinanced our £7 million corporate bonds and €7 million reserve based lending facility into a new €28.8 million facility, repayable in 2021 with a coupon of 5%. We raised £26.9 million gross, with shares placed at a market price of 81.0 pence in November 2016. We agreed Heads of Terms to farm out Sidi Moktar to Culebra, derisking the cost of the early work programme. We finished 2016 with a cash balance of £46.8 million ready to fulfil our 2017 commitments.
Safe & sustainable operations	• No Lost Time Injuries (LTIs) • No restricted work cases (RWC) or incidents • Leave the environment as you find it	During 2016, we have made significant enhancements in our HSE management including the development of a Corporate HSE management system and an increased number of Emergency Response drills and HSE audits and inspections. We have had zero LTIs and one RWC. We have had one environmental spillage, which was successfully cleaned up. We have aimed to enhance the environment in which we operate through the creation of a new water well near Tendrara and through sponsoring an Association for Environmental Development. More details can be found in our HSE review on pages 35 and 36.

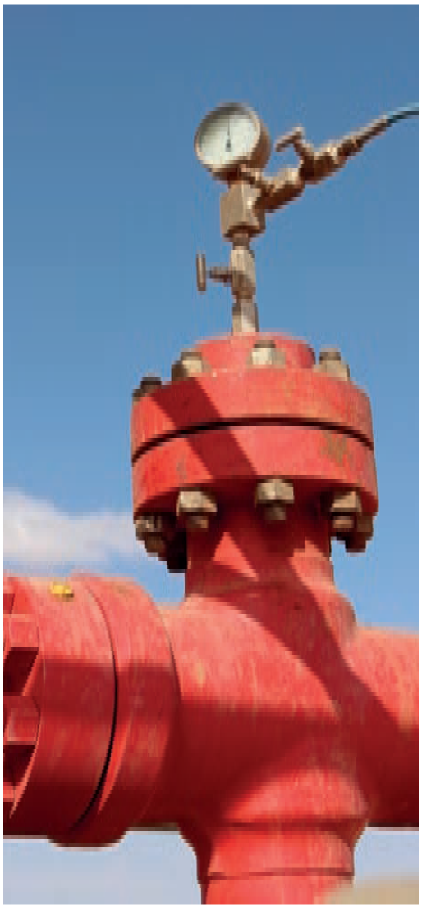
Future Plans: **2017 Scorecard**

Sound's 2017 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 2017 Annual Report:

- Continued diversification and further build out of Sound's Eastern Moroccan position;
- Exploration, appraisal and development of the Tendrara licences;
- Successful delivery of the Badile well and operations on Sidi Moktar;
- Exploring early opportunities to monetise assets; and
- Ensure continued high quality partner relationships.

Operational and corporate priorities include cost management, safety and sustainability targets and maintaining and enhancing institutional and retail investor support.

Pictured: TE-5



Pictured: TE-6

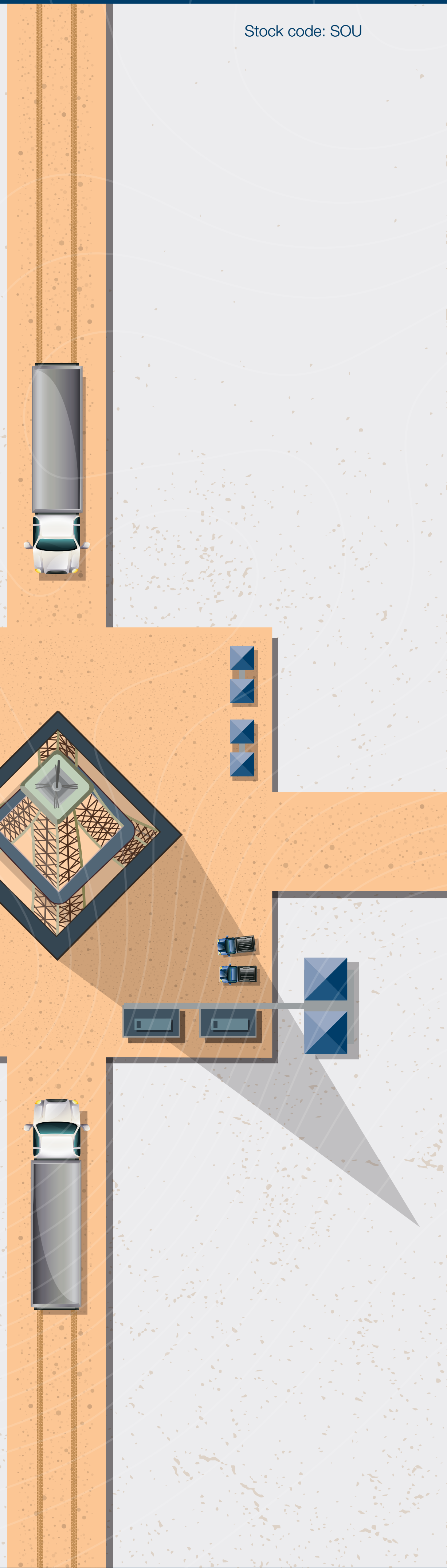
Pictured: TE-7

KEY PARTNERS

We are pursuing an onshore gas strategy. In 2016 we focused on our three strategic plays, each one of which could be transformational to the company: Tendrara, Badile and Sidi Moktar.

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 preidentified 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 29 March 2017, Continental had an interest in 9.6% 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 of 29 March 2017, OGIF would have an interest in 28% of Sound Energy's current issued share capital if the consideration shares were issued today.

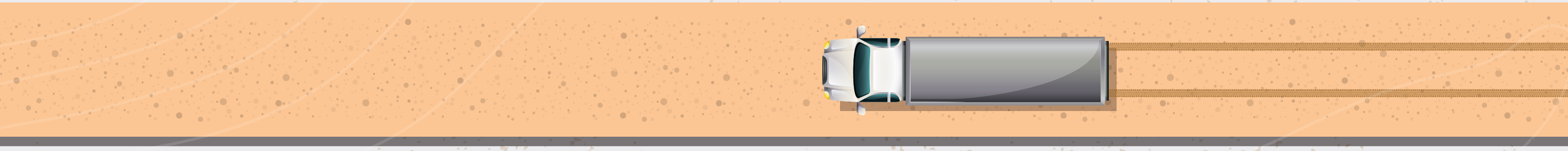
Schlumberger

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.

In October 2015, Sound Energy announced that it had signed a Memorandum of Understanding ("MOU") with Schlumberger Oilfield Holdings Limited ("Schlumberger") defining a strategic relationship between Sound Energy and Schlumberger across Europe and Africa. Associated with this, a Term Sheet was signed with Schlumberger Production Management ("SPM"), the production management arm of Schlumberger, regarding the Tendrara licence, onshore Morocco. The Company subsequently entered into a Field Management Agreement ("FMA") with SPM in December 2015 where, under the FMA, Schlumberger provide integrated technical services, equipment and personnel to Sound Energy, Operator of the Tendrara Licence;

- Schlumberger have funded a significant proportion of the capital expenditure on the first three Tendrara appraisal wells (80-75%), and of the development of the licence area thereafter (27.5%); and
- Schlumberger have 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).



Other 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.

Our 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.

Q&A WITH MANAGEMENT

Sound Energy has a highly diverse management team across all areas of the business including technical, commercial and financial.

Leonardo Spicci
Executive Vice President, Development and Production

Brian Mitchener
Executive Vice President, Exploration

Luca Madeddu
Managing Director, Morocco

Leonardo Salvadori
Managing Director, Italy

What is the significance of the recently announced OGIF transaction?

The OGIF transaction is highly accretive: it secures a 73% increase in Tendrara (from 27.5% to 47.5%) and a 36% increase in Meridja (from 55% to 75%) all in exchange in 24.5% equity dilution (fully diluted). It aligns the key Moroccan financial institutions with Sound Energy and assists Sound to mitigate above ground risk.

Can you please explain the TE-7 Extended Well Test (EWT) results?

The EWT results were in line with Company expectations. The EWT objectives were to understand the reservoir performance over a longer period of flow (i.e. the pressure response and continuity of flow balanced against the pressure rather than the absolute flow rate). The key messages from the flow period of the EWT are that we have a strong continuous flow with indications of significant connected volume. This is an important step in providing sufficient information for proper field development planning.

What is the hydrocarbon potential of the Eastern Moroccan Licences?

The Company preliminarily estimates a range of volumes across the entire Tendrara and Meridja 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). We caution that, notwithstanding our internal estimates for the exploration potential of the Tendrara and Meridja permit areas (the "Basin"), further exploration activity, including the acquisition of additional 2D and 3D seismic and the requirement for further drilling, will be required to substantiate the estimated exploration potential of the Basin.

What is the timeframe for developing Tendrara

We are currently in the early stages of development planning, and in the process of concept selection so the current timeline is preliminary. The development is onshore, in a relatively hospitable, "development-friendly" environment and so we would expect the development to take approximately two years with first gas expected in 2019. The team is working hard to prepare the field development plan and concession application. Application is targeted for Q4 2017.

What is the plan for Sidi Moktar?

Sound's current planned work programme for Sidi Moktar is to re-enter, work-over and test the two wells previously drilled on the structure, Koba-1 and Kamar-1, with a view to verifying the potential of the Liassic reservoir series. We are also interested in the deeper Triassic sandstone reservoirs as well as the Liassic, Oxfordian and Paleozoic strata. Following a potential extension of the exploration permit, would have the option to acquire 3D seismic over the area. The initial work programme activities are planned for later in 2017.

How will you get the gas from Tendrara to market?

The Tendrara field will connect to the GME pipeline near Ain Beni Mathar Village, a few kilometres from the Morocco-Algeria border, via a new pipeline. Offtake is expected to be either to domestic power plants for gas-to-power generation (transit via GME line) or export to southern Europe. The GME can accommodate c.200 mmscf/day of Moroccan-source gas immediately, with additional capacity expected to open up shortly.

What is the chance of success for Badile and have any wells been drilled on the structure so far?

The most recent independent view on Badile has the chance of success on Badile at 34%. Historically, one previous well has been drilled by ENI in the permit area to the south. There were oil shows on this well but it was drilled before the 3D seismic data was collected and was off-structure. Badile is a hugely exciting prospect for the company.

Pictured: Ariel view Tendrara

OPERATIONAL REVIEW

2016 was a truly transformational year for Sound Energy in Morocco.

In the Tendrara-Lakbir permits the TE-6 discovery well paved the way for the development of the gas field, surpassing the technical team's expectations.

The sub-horizontal TE-7 followed, confirming the Tendrara discovery and providing invaluable data for the development plan which is currently underway.

Finally, the preparation of the third well TE-8, which will allow the delineation of the greater potential of the field, kept us busy into the close of 2016.

The company has also started reprocessing the existing 3D seismic volume with the aim of improving imaging and extracting maximum value from the data.

Sound Energy Morocco's HSE record has been outstanding and at year end the target of one LTI free year was approaching.

In Meridja the Company carried out an integrated geological study, which included reprocessing and interpreting existing 2D seismic lines, a 1D basin modelling and a geochemical study. Several Leads, which share the petroleum system of the adjacent Tendrara, were identified and may considerably extend its potential.

In Sidi-Moktar, Sound Energy Morocco purchased MPE's working interest and signed a binding agreement for the acquisition of the interest from Petro Maroc. The technical team explored the options and prepared a work programme which is to be carried out in 2017.

Pictured: Drilling ahead at Tendrara

Eastern Morocco

Tendrara

Overview

Area	14,500 km^2
Status	Permit
Effective date	23 April 2013
Terms	8 years
Interest	Net effective interest of 47.5%, subject to completion of OGIF transaction

Highlights

— TE-6 Vertical well, 28m net pay, flow achieved pre stimulation, 17 mmscf/d achieved post-stimulation

— TE-7 Horizontal well, 32 mmscf/d after clean up: Successful Extended Well test

— TE-8 Step out appraisal well underway: Results March 2017

— Potential for super-giant (multi Tcf) connected gas field

Permit Area

— Figuig Province, North-East Morocco

— 120 km from Gazoduc Maghreb Europe (GME) pipeline (connecting Algeria and Morocco to the Spanish/Portuguese gas grids)

— Sub-divided into eight blocks

— Combined area of 14,500 km^2.

Geology

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

Partnerships

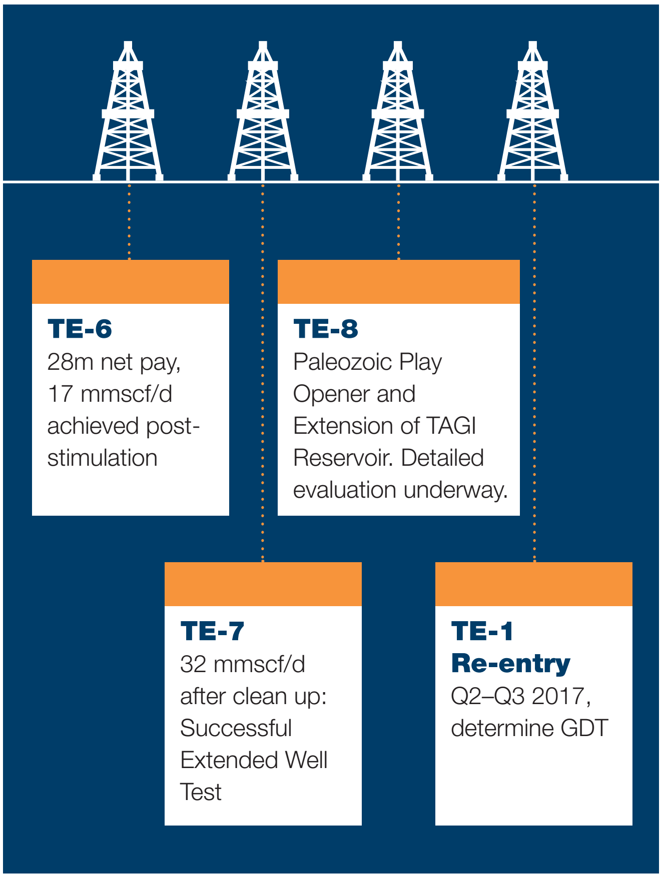
- Sound Energy farmed in to the Tendrara licence in June 2015, taking a 55% working interest in the licence, partnering ONHYM (25% interest) and Oil & Gas Investment Fund ("OGIF") (20% interest) and assuming Operatorship

- December 2015, Sound 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 and personnel to Sound Energy as Operator in exchange for an upside linked to production performance.

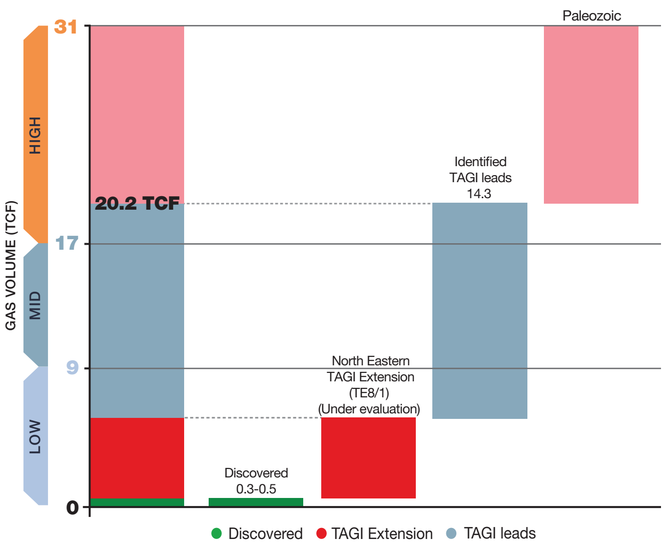
OPERATIONAL REVIEW CONTINUED

Tendrara at sunrise

Existing and Future Wells



Tendrara: Prospects, Leads and Resources



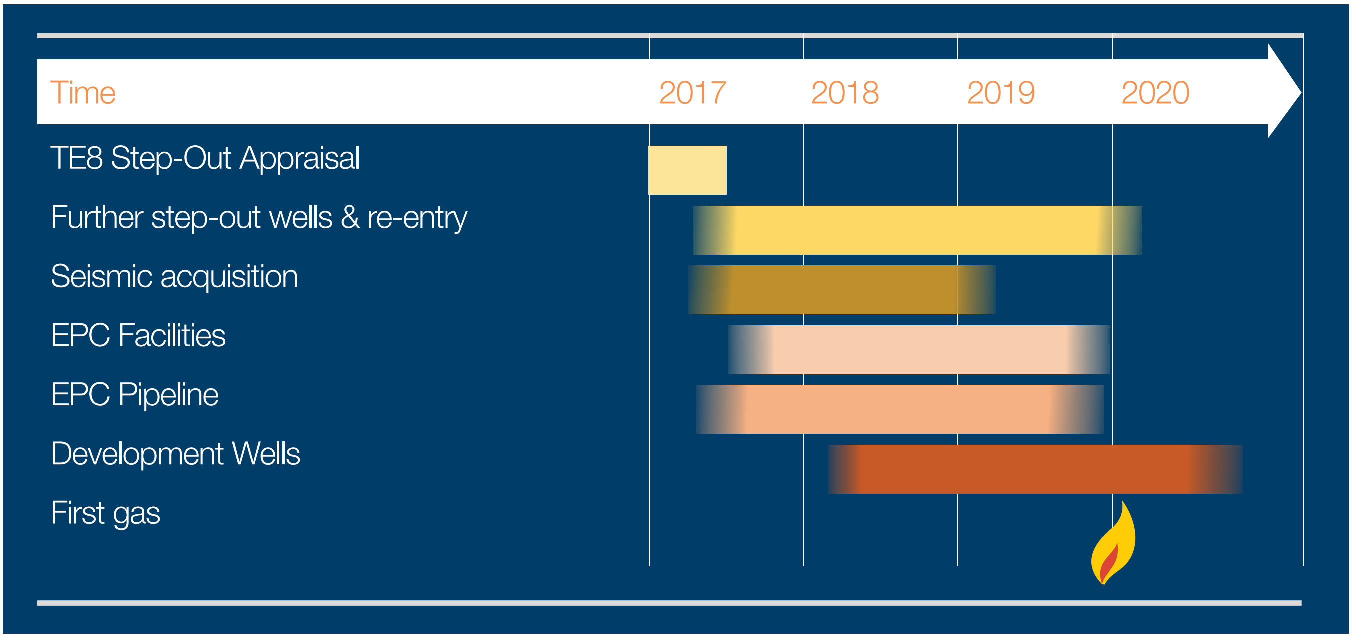
Oil and Gas Investment Fund

- February 2017, Sound Energy entered into binding agreements with Oil & Gas Investment Fund S.A.S. ("OGIF") for the conditional acquisition by the Company of a further 20 % interest in the Company's Tendrara exploration permits and an application and/or rights to apply for a 75 % position in certain relinquished area(s) of the Tendrara exploration permit areas. These agreements were approved by Sound Energy shareholders at a general meeting in March 2017.

Well Results

- First well (TE-6): During the first half of 2016, the first Tendrara well, TE-6, was drilled to a measured vertical depth of 2,665 metres and successfully encountered approximately 28 metres of net gas pay in the TAGI reservoir. Flow was achieved pre-stimulation and, post-stimulation, a rate of 17 MMscf/d was achieved. This highly commercial rate was significantly above initial expectations.

Commercialisation timeline



- Second well (TE-7): the Company's second Tendrara well (TE-7) was drilled successfully to a total measured depth of 3,459 metres, corresponding to a vertical depth of 2,611 metres. TE-7 has a total contact length through the TAGI reservoir of some 837 metres, including a 700 metres sub-horizontal section. A gas flow rate was achieved, post stimulation and clean up, of 32 MMscf/d. This rate was significantly above the Company's pre-drill expectations. In January 2017, a successful extended well test was completed. The extended test results are consistent with the Company's estimates and confirm the good deliverability of the TAGI reservoir, the horizontal well concept and the Company's view of the significant potential of the field.
- Third well (TE-8): Drilling commenced at this well on 19 February 2017. It is an exploration / appraisal well some 12 kilometres to the Northeast of TE-7 with the objective of proving up significant additional volumes in the TAGI reservoir whilst also, for the first time, drilling further into the Paleozoic formation.
- In March 2017 the Company confirmed the presence of a TAGI sand sequence, commencing at a measured depth of 2,643 metres, and the presence of gas shows in the TAGI sands.

Upside Potential

Following completion of a basin study, preliminary estimates from the Company indicate a range of volumes across the entire Tendrara and Meridja 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). Further exploration activity, including the acquisition of additional 2D and 3D seismic and the requirement for further drilling, will be required to substantiate the estimated exploration potential of the Basin.

Future focus

The forward Tendrara / Meridja work programme is focused on accelerating the exploration activity to unlock the ultimate potential of the Basin and advancing preparations to early first gas and will include:

- Completion of the ongoing reprocessing of the existing 2D and 3D seismic to further reduce the range of uncertainty over the Tendara-Lakbir horst.
- Preparation of the field development plan.
- Acquisition of an airborne gradiometry survey to delineate the Basin geometry and enhance the understanding of the Paleozoic potential.
- Potential re-entry of multiple older wells drilled by previous operators (including TE-1 and TE-2).
- A Competent Person's Report to substantiate the Company's estimated volumes is planned prior to Final Investment Decision at the end of 2017.

OPERATIONAL REVIEW CONTINUED

Eastern Morocco

Meridja

Licence details

Area	8,873.33 Km²
Status	Reconnaissance licence moving to present
Effective date	to be defined
Term	8 years
Resource potential	TBA
Interest	Sound will have a 75% participating interest (ONHYM 25% carried) on finalisation of the OGIF transaction.

Extra information:

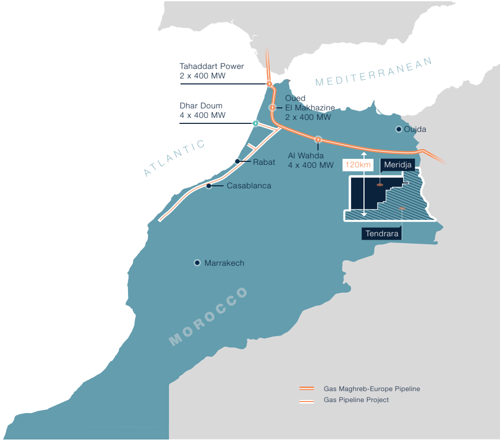
Following the acquisition of all of OGIF's assets in Eastern Morocco, Sound Energy will hold a 75% interest in the Meridja reconnaissance area, and is in the process of applying for an exploration permit over this area. Onhym will hold the remaining 25% interest in the licence area. Like Tendrara, Meridja has a pericratonic position and is located between three geologic domains: the inverted High Atlas, the Folded Hercynian Basement and the Non Deformed Saraha Platform.

In Meridja, two main targets have been identified: the Paleozoic formations, which belong to the Hercynian Saharan Platform, and the Triassic Sandstones (TAGI) which belong to the Triassic province.

Future Development/Outlook

Work has already commenced to identify prospects and leads in the licence area. Currently, 15 leads have been identified with reserves potentially similar in scale to those in Tendrara.

Once the exploration permit is awarded, the next step will be to acquire 2D seismic over the licence area, as part of the regional 2D seismic programme to define prospective trends and to delineate the prospectivity of the TAGI and the Paleozoic. Meridja will be included in the planned regional aerial gradiometry survey, which will also cover Tendrara. The purpose of this survey is to delineate prospective Paleozoic trends with large volume potential.



Southern Morocco

Sidi Moktar

Licence details

Area	2,699.7 km^2
Status	Exploration Permits
Effective date	28/08/2009
Term	8 years
Resource potential	to be defined
Interest	75%

— Play type: gas discovery (Kechoula) in the Lower Liassic sequence, (73 Bscf net to Sound, initial estimate, single accumulation most likely)

— Two wells drilled with positive gas indications from log and gas shows in the Liassic; extended well test planned in 2017

— Triassic across multiple blocks considered analogous to the adjacent Meskala field

— Risked up to 3 Tcf exploration potential targeting the Triassic (TAGI) objective; net to Sound

— Asset is located 10km from the Meskala gas processing plant

Extra Information

In accordance with the Heads of Terms announced on 10 March 2016, Sound Energy's effective interest in Sidi Moktar is expected to reduce to 25%, with the Company carried for the first $18m gross capital expenditure invested in the licence.

Future Development and Outlook

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). There are four petroleum systems (PS) within the Sidi Moktar permit:

- PS1 Upper Jurassic, Argovian (sandy dolomite) which has given rise to five discoveries (Jeer, Kechoula, Sidi Rhalem, Toukimt and N'Dark).
- PS2 Lower Jurassic, Liasssic (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.

Sound Energy's future work programme includes the re-entry into the two wells, Koba-1 and the Kamar-1, previously drilled on the licence area. These wells, drilled by Petromaroc in 2013 & 2014 both had gas shows in the Liassic section but were never completed and tested. Due to the incomplete well data sets, the production potential of the Liassic reservoir series remains to be verified and Sound's current planned work programme will address this by re-entering the wells, and working-over and testing the wells.

To-date, a review of petrophysical studies as well as a seismic reinterpretation of the target section has been performed. Following the completion of this work and review of results, and extension of the exploration permit, Sound would have the option to design a 3D seismic acquisition programme to identify prospects & leads holding good hydrocarbon potential in the Triassic sandstone reservoirs as well as the Lower Jurassic, Upper Jurassic and Paleozoic strata.

OPERATIONAL REVIEW CONTINUED

Italy

Badile

Licence details

Area	154.5km²
Status	Exploration Assets
Effective Date	23.03.2010
Term Initially	6 years. Extension granted until August 2017
Opportunity	Badile and Zibido prospects
Gross	Prospective Resources

Highlights

— Badile most likely case – 178 Bcfe (106 Bcf of gas plus 12 MMbbl condensate)

— Zibido most likely case – 15.5 MMbbl

Net Value for Badile only: NPV €396m[1]

[1] NPV10 based on competent person's report (CPR) by ERC Equipoise dated 2013, assuming gas price of €0.31/m3 and oil price of $100/bbl. Net NPV based on 80% Sound Energy equity, assuming Schlumberger 20% earn in, post discovery.

Interests

Sound Energy 100%[2]

[2] Schlumberger have an earn in option of 20% equity in the licence, after declaration of a commercial discovery

Permit Area History

- The Badile Permit is situated in the Piedmont Lombard Basin in northern Italy where the principal plays are oil, gas and condensate in Mesozoic carbonates. The permit is adjacent to ENI's Gaggiano oil field and a short distance from the giant Villafortuna-Trecate oil and Malossa gas/condensate fields, with total proven recoverable reserves quoted as over 400 MMboe.
- The permit area was initially held by ENI until 2005. A total of 460 line km 2D and 238 km² 3D seismic were acquired between 1974 and 1990. Two dry wells were drilled within the permit area between 1978 and 1982.

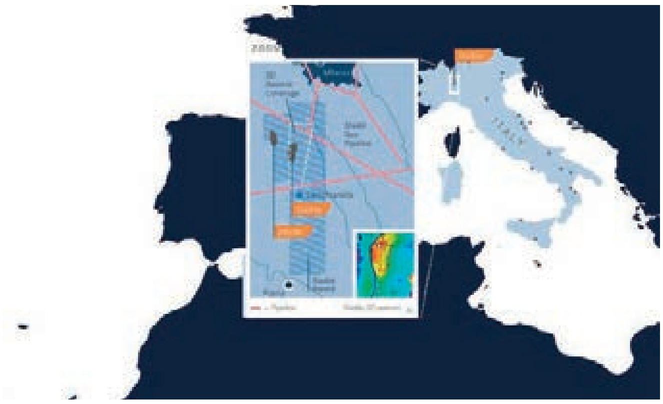
Recent Permit Activity

- Sound Energy filed an application for the Badile permit in January 2006 and the permit was awarded in March 2010. To date extensive G&G data studies have been completed on this permit.

March 2017

Drilling commenced

- In 2013 ERC Equipoise Limited completed a fully independent Competent Person's Report for the Badile prospect. The most likely gross prospective resource estimate for the Badile prospect is 178 Bcfe equivalent (106 Bcf of gas plus 12 MMbbl of condensate) with a High Case estimate of 673 Bcfe (397 Bcf of gas plus 46 MMbbl of condensate). The most recent independent review of the prospect in late 2015, estimated the chance of success at 34%.
- In October 2014, Sound Energy announced the purchase of a 59,140 square metre plot of industrial land in the Lombardy region of Italy for a total consideration of Euro 1.8 million (excluding VAT). The land will host the drill site for the Moirago-1dir exploration well, the initial well to target the Badile prospect. Further production wells can also be drilled from this location, to exploit the discovery.
- In March 2015, Sound Energy announced that it had received the approval of the Environment Impact Assessment ("EIA") for the Moirago-1dir exploration well from the Lombardy regional government. In the meantime, UNMIG supported the approval process by granting a permit suspension of 18 months. This effectively extends the Badile permit until 13 August 2017. Sound Energy therefore has all approvals in place to drill the exploration well.
- In July 2016, Sound Energy announced that Schlumberger have agreed to fund 30% of the Moirago-1dir exploration well, for an option to acquire a 20% net interest in the Badile licence, at any point following the declaration of a discovery.
- On 28 November 2016, Sound Energy entered into a binding agreement with Pergemine for the use of the 3000 HP EMSCO C3 No.20 rig for the drilling of the Badile exploration well. The Moirago-1dir well drilling operations will commence in Q1 2017. The well is expected to be completed by the end of Q2 2017.
- The permit contains a further prospect called Zibido. Zibido is a relatively low relief, fault-controlled structure covering an area of about 6 km^2, in a fault terrace at Triassic level immediately adjacent to the Gaggiano High. The reservoir target is the same as that in the producing Gaggiano field to the west. In 2011 Fugro Robertson estimated a STOIIP of 63 MMboe, with associated recoverable resources of 15.5 MMboe (most likely case). The Zibido prospect provides Sound Energy with further options in the licence. Zibido is largely independent of the Badile prospect.



Pictured: Worker on rig floor.

OPERATIONAL REVIEW CONTINUED

Italy

Santa Maria Goretti

Licence details

Area	101.3 km^2
Status	Exploration
Effective Date	23.12.2013
Term	6 years
Recoverable Resources	Most likely 32.8 Bcf
Value	Most likely €46M[1]

[1] NPV10 based on competent person's report (CPR) by CGG Robertson dated 2015 assumes gas price of €0.23 to €0.31/m^3

Permit Area History

Santa Maria Goretti is located in Ascoli Piceno (Marche) in central Italy. The area falls within the Marche-Abruzzo region – a foredeep trough of the Central Apennines. The main plays are gas hosted in both Pleisto-Pliocene clastics and Mesozoic carbonates.

The area has been explored under several titles between 1968 and 2008 by ENI, Montedison, Fina and Snia. These operators drilled only four wells within the permit.

The permit contains the extension of a North-South oriented anticline, which contains two gas fields (Grottamare and Carassai that have been on production for more than three decades).

Recent Permit Activity

Sound Energy filed an application in 2009, and was awarded the Santa Maria Goretti Permit from the Italian Ministry of Economic Development on the 23 December 2013. To date only an Environmental Impact Assessment and extensive G&G studies have been completed on this permit.

Sound Energy continues to investigate the southern extension of the Grottammare and Carassai fields.

A full independent Competent Person's Report ("CPR") of this asset, completed in April 2015 by CGG Robertson, has estimated Gas Initially In Place ("GIIP") as 66.4 Bcf* and recoverable Most likely Prospective Resources as 32.8 Bcf* for this opportunity. The Company's plans to continue to evaluate this opportunity to estimate the value of the venture.

* indicates that the figures are supported by a corresponding Competent Person's Report.

Italy

D503 BR-CS

Licence details

Area	82.62km^2
Status	Exploration
Effective Date	N/A
Opportunity	Dalla prospect
Recoverable Resources	up to 50.5 Bcf; Most likely 24.6 Bcf

Permit Area History

The D503 BR-CS area is located in Zone B of the central Adriatic and the average water depth is 60 m. Geologically the area falls within the offshore of the Umbria – Marche region, a peri-foredeep trough of the Central Apennines. Numerous gas and oil discoveries surround this area.

The block contains a prospect called Dalla, considered analogous to Dora field. Dora is located close to the edge of the block and was discovered in 1972 by AGIP (ENI) and Shell, by the exploration well Dora-1. Dora is a gas-condensate discovery in the Late Cretaceous to Palaeocene Scaglia limestones. The discovery well tested 20.2 MMscfd.

In 1975 the permit was converted into concession B.C6. AS. The Dora-2 appraisal well was drilled in 1996 and again discovered gas, but the reservoir quality was inferior to that of Dora-1. The well tested only 0.6 MMscfd from same reservoir interval. The concession was subsequently relinquished in November 2005.

Recent Permit Activity

Sound Energy applied for the permit in 2009. To date only G&G data studies have been undertaken on the licence.

The most likely case recoverable resources for Dalla have been estimated to be 24.6 Bcf*.

* indicates that the figures are supported by a corresponding Competent Person's Report.

OPERATIONAL REVIEW CONTINUED

Italy

D. R74. AP Laura Discovery

Licence details	
Area	63.1 km^2
Status	Appraisal of Existing Discoveries
Effective Date	09.06.2014
Term	Six years, expiry on 09.06.2020
Opportunity	Laura discovery
Recoverable Resources	Up to 25.6 Bcf; Most likely case 17.1 Bcf
Value	NPV Up to €64M; Most likely case €31M[1]

[1] NPV10 based on competent persons report (CPR) by CGG Robertson dated 2015, assumes gas price of €0.23 to €0.31/m^3

Interests

Sound Energy	100%

Permit Area History

Sound Energy applied for the D.R74.AP permit in 2007. In August 2011 the Ministry of Economic Development in Italy withdrew Sound Energy's application. This decision was made in compliance with a June 2010 environmental decree preventing oil and gas exploration and appraisal activity within 5 nautical miles of the Italian coast. In 2012 this environmental decree was repealed and on 14 November 2012 it was announced that the Ministry had re-opened Sound's application for the permit.

In June 2014 Sound Energy was formally awarded the D.R74. AP Permit. Following successful analysis of the existing seismic and well data, Sound Energy planned to appraise and develop the Laura discovery. Sound planned to reach the reservoir from an onshore location using extended reach drilling technology and without any further offshore operational activity. In May 2015 Sound Energy submitted an Environmental Impact Assessment for the first exploration well in the block. Anticipating approval, Sound Energy began well planning for a 2016 exploration well. In December 2015 a new Budget law was passed in Italy which prevents any exploitation activity within 12 nautical miles of the coast. The well application is therefore ongoing, awaiting the outcome of challenges to this law.

Permit Area History

D.R74.AP is located in the Ionian Sea Zone D within the Sibari Basin in offshore Calabria. The average water depth is 200m.

The permit area was formerly held by Agip (as permit D.R50. AG) between 1976 and 1984. In 1980 commercial gas was discovered (11.2 MMscf/d) in two sand intervals in the Laura-1 discovery well. Another gas discovery, Lina-1, located in the south of the permit area was made in 1983. In 1984 the permit was converted to the exploitation concession D.C5.AG. A total of 1340 line km of 2D seismic were acquired between 1976 and 1991. None of the accumulations were developed and the concession was relinquished in 2005.

Sound Energy has undertaken significant work on this block. The most likely case recoverable resources for the Laura discovery have been estimated to be 17.1 Bcf*.

* indicates that the figures are supported by a corresponding Competent Person's Report.

Other Assets

Production Assets

Rapagnano

Licence details	
Area	8.49 km^2
Status	Production Concession
Effective Date	28.11.2012
Term	10 years, renewable
Opportunity	Rapagnano
Reserves	1 Bcf
Net Value[1]	€3M (based on gas price assumption of 0.31/m^3)

[1] Net value re-assessment is ongoing, based on updated price and cost scenario.

San Lorenzo (Casa Tiberi)

Licence details	
Area	4.92 km^2
Status	Production Concession
Effective Date	24.02.2012
Term	20 years, renewable
Opportunity	Casa Tiberi
Reserves	0.1 Bcf
Net Value	Under assessment

Rapagnano Production Concession History

The Rapagnano concession is located in the Ascoli Piceno Province, Marche Region, in central Italy. Geologically the area is within the Ancona-Pescara Basin associated to the Central Apennine fore deep.

The Rapagnano field was discovered by ENI in 1952, which found gas in lower «Sabbie» sand reservoir. The field produced 116 Mm^3 (approximately 4.1 Bcf) which was exported to the high-pressure national grid. In 2001, after work over activities, ENI decided to relinquish the concession. Sound Energy took over in 2012 and a successful coil tubing operation restored the well's productivity. The Rapagnano processing facilities were then upgraded and in 2013 gas production was resumed by connecting the well to a low pressure local export grid.

Recent Activity

Since gas production from Rapagnano was restored in 2013, cumulative production until December 2016 reached 12.4 Mm^3 (0.43 Bcf). Production performance is related to seasonal demand and it varies between a maximum in wintertime and a minimum in the summer. In 2016, the yearly sales gas volume is nearly 3.5 Mm^3 (0.12 Bcf).

In Sound Energy's most recent reserves assessment, carried out in December 2015, the remaining proven reserves (1P) are approximately 1 Bcf.

Sound Energy has just successfully entered a 12-month Gas Sales Agreement until September 2017.

San Lorenzo (Casa Tiberi) Permit and Production Concession History

The San Lorenzo permit is located in central Italy near Ancona, in Marche region, within the foredeep trough of the Central Apennines. The principal hydrocarbon plays consist of biogenic gas in clastics within the shallow Pleistocene-Pliocene section and thermogenic gas in the deeper Miocene and older carbonates.

A dry well, Monsano-1, was already drilled in the permit area in 1972, but a re-interpretation of seismic data carried out by Sound Energy in 2009 determined that the well had been drilled off-structure. In November 2011, Casa Tiberi-1 was drilled, targeting Lower Pliocene Cellino sands, at the crest of a seismic amplitude anomaly. The well encountered 14.9 m gross (3.9 m net) of hydrocarbon pay. After the well was completed and successfully tested, development activities were completed with new process facilities and an export line to a low-pressure local system.

Recent Activity

Gas production from Casa Tiberi 1 commenced in 2013 and reached a cumulative production of 3 Mm^3 (0.1 Bcf) in December 2016. Yearly sales gas volume is nearly 1.2 Mm^3 (0.04 Bcf) as of December 2016.

In Sound Energy's most recent reserves assessment, carried out December 2015, the remaining proven reserves (1P) are estimated at 0.1 Bcf.

A 12-month Gas Sales Agreement has just been signed to secure sales volumes until September 2017.

OPERATIONAL REVIEW CONTINUED

Exploration Applications

Exploration Assets

Costa Del Sole

Licence details	
Area	41.5 km^2
Status	Application
Opportunity	Manfria (undeveloped discovery) and Cielo (prospect)
Recoverable Resources	Combined most likely 5 MMbbl
Value	NPV €11M[1]

[1] NPV10 based on competent person's report (CPR) by CGG Robertson dated 2015, assumes oil price of $48/bbl

Posta Del Guidice

Licence details	
Area	113.6 km^2
Status	Application
Licence details	
Sound Energy	100%

Solfara Mare

Licence details	
Area	337.0 km^2
Status	Application
Term	N/A
Interests:	
Sound Energy	100%

Costa Del Sole Application Area History

Costa Del Sole is located on the south coast of Sicily. The area falls within the oil province of the Ragusa Basin.

The application area was previously explored in 1981 as the Agrigento permit by EMS. In 1983 it was transferred to SARCIS and ENI was appointed to operate. The Manfria-1bis well was drilled in 1985 to a TD of 4220 m and encountered heavy oil (12°API) in the Siracusa Formation at 4108 m. The well flowed at a rate of 150 bopd. Total production during the test amounted to 6,000 barrels of oil. The subsequent down-dip Manfria-2 appraisal well, however, encountered reservoir 200 m deeper than at the discovery and was a dry well. The most likely case recoverable reserves were estimated by ENI to be in the order of 2 MMbbl and no further drilling was undertaken. The licence was relinquished by ENI in 1990.

Sound Energy Application

Sound Energy's application was submitted in 2009. The full award of the permit is subject to the approval of an Environmental Impact Assessment submitted in 2010.

Sound Energy continues to evaluate the resource potential of the Manfria discovery, for accelerated development and production. The Cielo prospect increases the potential of this opportunity. A major refinery for heavy oil is located at Gela, some 10 km from the Manfria discovery.

Fugro-Robertson have estimated the most likely case resources of the Costa Del Sole discovery to be 2.4 MMbbl*. Fugro Robertson also recognise additional most likely case resources of 2.8 MMbbl* in the adjacent Cielo prospect. The combined in place volumes (STOIIP) are estimated at approx 50 MMbbl*.

* indicates that the figures are supported by a corresponding Competent Person's Report.

Posta Del Guidice
Permit Area History

The Posta Del Giudice application is located in eastern central Italy. The area falls within the Bradano basin – a foredeep trough of the Southern Apennines. Two main plays exist in the area; gas in Pliocene turbidites and Miocene to Cretaceous aged gas bearing carbonates. To the west of the area, potential exists with allochthonous Mesozoic carbonates.

Four wells were drilled within the permit area between 1972 and 1998. All four were located away from the allochthonous front and all were dry.

When ENI held the block they identified the San Pietro prospect, but this was never drilled. San Pietro comprises a series of Pliocence turbidites overlying an inverted Mio-Cretaceous thrust fold. The Pliocene clastic section is characterised by anomalous seismic amplitudes and “flat spots” may be identifiable on vintage 2D seismic data.

Recent Permit Activity

Sound Energy applied for the permit in 2007. The Company submitted an Environmental Impact Assessment 2010 and this was approved in 2011. Sound Energy is awaiting Regional approval of the application. To date only G&G data studies have been undertaken on the licence.

Sound Energy’s strategy is to continue to evaluate the resource potential of the San Pietro prospect and other leads within the area.

Solfara Mare
Permit Area History

The Solfara Mare application area is located in Calabria, in the south of Italy. The area falls within the gas-prolific Sibari Basin, where the main successful plays are gas charged Pliocene-Miocene clastics.

The area was previously explored by SELM (Montedison) as part of the Mirto Permit. In 1988 the Seggio Romano-1 well discovered gas in the Pliocene aged Santerno Formation sands. The well tested gas at 1.4 MMscfd from the lower levels in a faulted anticlinal structure. Other levels of this structure remain undrilled. Significant gas shows were recorded in six other wells in the area.

Recent Permit Activity

Sound Energy applied for the permit in 2008. The Company submitted an Environmental Impact Assessment in 2010. To date only G&G data studies have been undertaken on the licence.

Sound Energy’s strategy is to continue to evaluate the resource potential of the Seggio Romano discovery and to consider this for future exploration, appraisal and development drilling.

FINANCIAL REVIEW

The Group is well funded with a closing cash balance of £46.8 million as at 31 December 2016.

Income Statement

Revenue for 2016 was £0.8 million (2015: £0.9 million). Production continued from the Rapagnano and Casa Tiberi fields. The Nervesa field commenced production in Q1 2016 but due to deteriorating reservoir performance, production was suspended from June 2016. During the year, the Company also received $1.1 million (£0.7 million) Indonesian contingent consideration which has been reported as other income.

The loss for the year before tax for the year ended 31 December 2016 was £15.2 million (2015: £18.3 million). Impairment of producing assets of £5.5 million (2015: £6.3 million) related to the Casa Tonetto (Nervesa) licence and the write-off exploration costs includes £1.8 million relating to the Strombone licence in Italy, which management has no plans to further explore or develop at this time. Goodwill, initially generated on acquisition of the impaired licences, and allocated to their carrying value was also written-off (£1.7 million; 2015: £nil). In 2015, the exploration costs write-off was associated with the Cascina Daga-1 well of £5.6 million and an impairment of producing assets of £6.3 million related to Casa Tonetto.

Administrative costs increased by £3.0 million to £6.2 million (2015: £3.2 million) reflecting the growth of the business following success in Morocco.

Finance revenue of £1.4 million arose primarily from the release of CSTI obligation following the suspension of production at Nervesa. Foreign exchange gains of £1.9 million (2015: loss of £1.4 million) 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 into with PetroMaroc which provides that, if the shares in Sound Energy plc which were issued as consideration for the acquisition, are sold, then the realised proceeds for any share price achieved above 50 pence are shared equally between the Company and PetroMaroc. The gain on the derivative financial instruments of £0.6 million arose from this arrangement and reflects the change in the share price from completion of the acquisition to the end of the year.

The income tax credit of £1.7 million related to the release of deferred tax liability following the impairment of the carrying value of the licences that had led to its origination.

Cash Flow/Financing

The Group refinanced its existing £7 million corporate debt and €7 million reserve based lending (RBL) facilities during the year, into a new issue of €28.8 million bonds, which also provided further capital to the Group. Associated with the new bond issue, 70.3 million warrants were issued at an exercise price of 30 pence per share. The bonds were issued at a 32% discount to par value and have a 5% coupon. As part of the refinancing the €7.0 million RBL facility was settled at a 50% discount to par, following the deteriorating reservoir performance at Nervesa. Net proceeds from the refinancing were approximately £10.2 million and the low coupon rate enables the Group to conserve cash on interest payments.

Financing costs increased to £3.8 million (2015: £1.9 million) primarily due to the accelerated amortisation of the issue costs and the refinancing costs of the Group's existing debt. The effective interest rate of the new bonds issued is 16.3%.

In December 2016, £24.3 million (2015: £15.0 million) net proceeds were received from issue of 33.2 million shares in a fully underwritten offer, which was over-subscribed, with shares placed at the prevailing market price at that time of 81 pence. The 2015 equity raise was primarily from private placements to Continental Investment Partners and an open offer to all shareholders. During 2016, warrants and share option exercises raised approximately £15.9 million.

The Group spent £11.8 million (2015: £7.7 million) on investing activities during 2016, which largely consisted of the Tendrara TE-6 and TE-7 exploration wells and site access preparation and logistics for the Moraigo-1 well (Badile permit) in preparation for the drilling of the first well on the licence. 2015 capital spend was primarily for the Cascina Daga-1 well and Casa Tonetto.

£11.8 million
spent on TE-6 and TE-7 exploration wells and preparation for Badile drilling.

33.2 million
shares issued in a fully underwritten, over-subscribed offer, placed at a market price of 81 pence.

Balance Sheet

Additions to intangible assets include the consideration paid for the acquisition of the Sidi Moktar licences. The consideration was paid in shares, which were valued at £7.4 million at the time of acquisition. Other receivables amounting to £8.8 million (2015: £2.5 million) primarily related receivables from our partners in the Tendrara licence and VAT receivable in Italy.

Trade and other payables amounting to £12.6 million (2015: £2.1 million) primarily related to drilling payables and accruals for the well costs at Tendrara, where the Group, as operator, recognises 100% of the cost of the liability and receives funds from partners to pay the partners' share.

The Group is well funded with a closing cash balance of £46.8 million as at 31 December 2016 (2015: £15.2 million). Following the successful equity raising and debt refinancing, the Group has considerable financial resources at its disposal.

Accounting Standards

The Group has reported its 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.

Pictured: Tendrara rig site

CORPORATE RESPONSIBILITY

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.

Sound Energy's Strategic Positioning Includes a focus on gas – a bridge fuel with significantly lower CO_2 emissions than coal (around half as much).

Pictured: The new water well

Pictured: Local scene

At Sound Energy, we understand that being involved in the exploration and production of energy brings with it enormous environmental, social and cultural responsibilities. We take our obligations very seriously, and we invest considerable time, energy and resources implementing action plans and assessing our performance so that we continuously improve. Industrial safety, supporting local development, (particularly in the developing countries where we are present) securing the future of energy, environmental stewardship, and combating climate change are all critical challenges that Sound Energy is committed to.

Sound Energy is also committed to playing an active role in both the immediate local areas in which it operates and it is involved in a number of different projects, some of which are highlighted below:

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:

- We have stimulated the economy in the area by employing local people across a range of job roles, from civil works and drilling to catering staff and truck drivers.
- We have built a new water well, improving the local community's access to water.
- We sponsored an Association for Environmental Development. This Association is improving the environment in Bouarfa and has presented their work at a recent COP conference in Marrakesh.

In the future, there are a number of improvements we would like to carry out at the local school, such as the provision of electricity, access to running water and the construction of a playground.

HEALTH AND SAFETY REVIEW

Pictured: HSE training activities

In 2016 Sound Energy Plc and all its subsidiaries, Apennine Energy S.p.A. and Sound Energy Morocco, were involved in various operational activities:

Morocco

- Civil works for construction of well pads for TE6 and TE7.
- Installation of the Saipem Accommodation Camp.
- Drilling and completion of TE6.
- Drilling and completion of TE7.
- Commencement of the Long Production Test of TE7.

Italy

- Abandonment of Well Marciano 1 dir ST in Basilicata.
- Civil works for construction of well pad for Moirago 1 dir Well in Lombardia.

The total worked manhours were 450,399 (96,964 Company, 353,435 Contractors) and the data recorded have been divided into the three main groups:

1. Lagging Indicators.
2. Leading Indicators.
3. Environmental Data.

Lagging Indicators	
Fatality	0
LTI	0
RWC	1
MTC	0
FAC	6
Property Damage	7
Environmental Incident[1]	1
RTA	1
NM	10
HiPO	3
Lost Workdays	0

Leading Indicators	
HSE Inspections	366
HSE Audits	70
HSE Meetings	605
HSE Inductions	1,174
Emergency Drills	64
Toolbox Talks	760
Training Hours	2,192
SHOC Cards	4,710
Job Safety Analysis	451
Management Tours	15

[1] Environmental incident related to minor leakage of hydraulic oil from an excavator

HEALTH AND SAFETY REVIEW CONTINUED

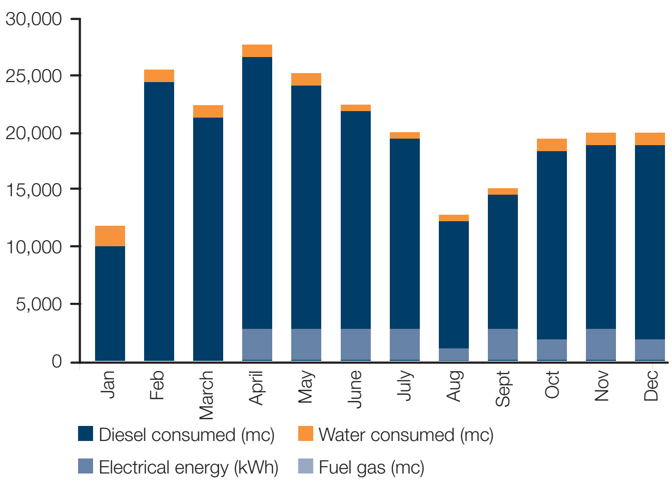
As a positive remark, it is important to highlight that in 2016 no LTIs were suffered, which means that the LTIR has been "0" (zero) against the market reference standards, which are 0.23 (for onshore business) according to OGP ("Safety Performance Indicators – 2015 Data" issued in June 2016) and 0.2 according to OSHA standard (Bureau of Labour Statistics – United States Department of Labour – for the Oil & Gas Extraction Industry).

In addition, due to a RWC that occurred in Morocco at Tendrara Site, the overall TRIR (Total Reportable Injuries Rate) for the Sound Energy Group has been not "0", but 0.44. The TRIR has been calculated per 200,000 worked manhours, so according to the OSHA standard, which has been considered more adequate for Sound Energy, considering that the yearly worked manhours recorded were less than 1,000,000.

Comparing the Sound Energy TRIR to the benchmark values, it is possible to notice that it is lower than the value 0.7 recorded by the United States Labour Department and slightly higher than the OGP one normalised to 200,000 manhours (from 1.08 for 1,000,000 manhours to 0.22 for 200,000 manhours).

The results described above have been achievable owing to an improvement plan carried out during the year that focused on certain important areas:

- Development of a Corporate HSE Management System and of a consequent system of monitoring and control. The goal has been to provide the company with the necessary tools for assessing the risks before the beginning of operational activities, planning the appropriate preventive measures, monitoring their implementation and investigating the incidents. The lessons learnt are then shared across the entire organisation.
- Improvement of the preparedness to an Emergency Response, both at site and Management levels. Various site drills and desktop exercises were carried out simulating different scenarios. Sites were provided with emergency equipment of a high standard.
- Implementation on site of HSE Observation Cards, a tool available to employees and workers for pointing out unsafe acts and/or conditions. HSE is everyone's responsibility, that's why all employees are responsible for its management and improvement. Sound Energy has thus decided to promote the use of this tool by setting up reward programmes both during TE-7 Well Project and Moirago 1 Dir Well one.
- Responsible use of environmental resources and of power sources strictly linked to their transformation.



MANAGING RISK

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 monitoring and limiting (where possible) the risks to which the Group is exposed.

Our governance structure and processes ensure that the Group is able to establish, monitor and review appropriate risk management and internal control systems to identify and mitigate the risks the Group faces. The risk management framework;

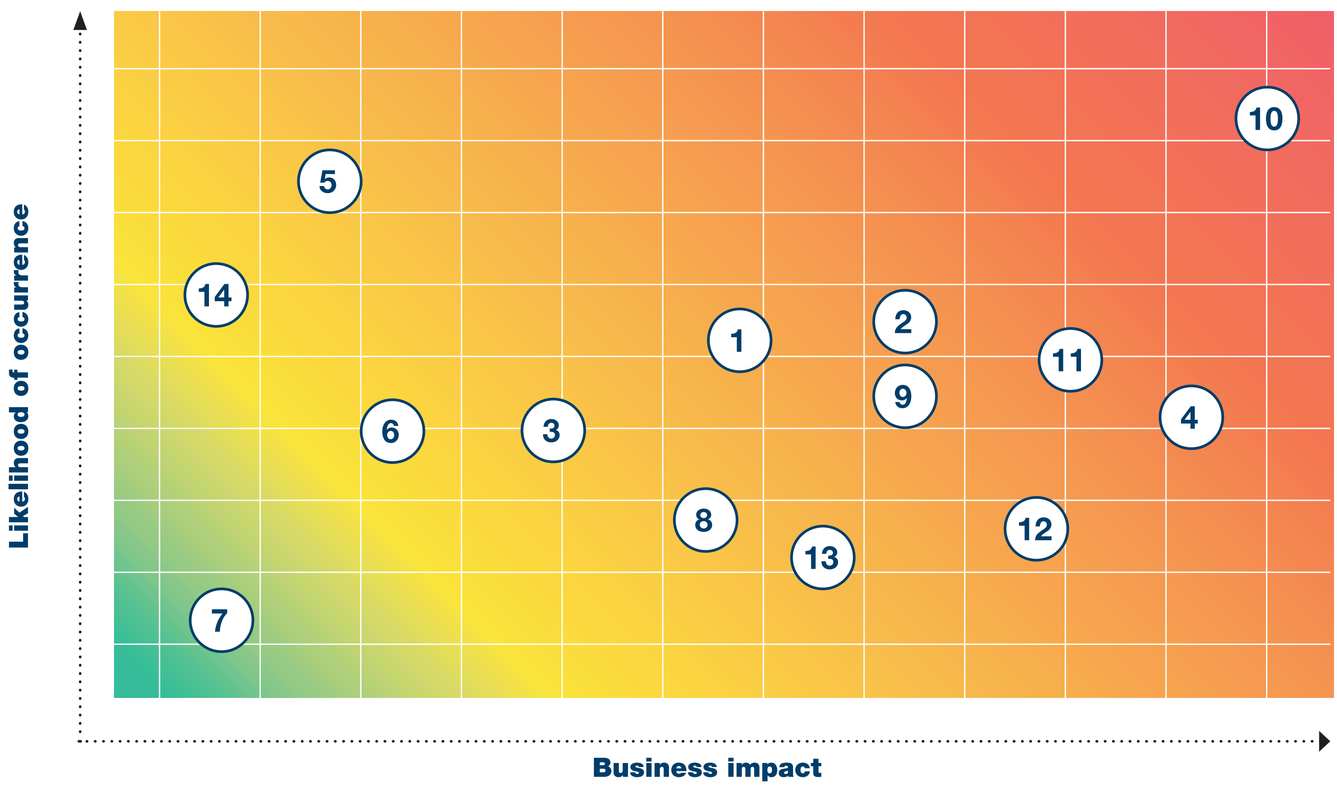
- Defines the Company's risk appetite, with reference to the Company's strategy
- Identifies the principal risks and their likelihood and impact
- Enables the Company to manage the risks through an effective internal control system
- Regularly monitors and reviews the risk framework

The framework is regularly reviewed and assessed for completeness and relevance and the Company's business profile monitored throughout the year. Prior to the approval of any new project or transaction, risks are assessed and incorporated into the risk register as appropriate.

Responsibility for the risk is allocated to an individual.

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.



MANAGING RISK CONTINUED

No.	Risk	Impact	Control measures	Risk Appetite
Strategic risks				
1	**Limited diversification** Company operates in a limited number of jurisdictions and thus operations may be significantly adversely impacted by geopolitical issues and/or any regime changes	• May adversely impact ability to operate (e.g. change to on/offshore regulatory regime in Italy) • Adversely impact profitability & cash flow • Reduce appetite for investment in the Company	• Diversify portfolio to multiple countries • Build strong relationships with governments, local authorities, local population and other stakeholders • Lobby where appropriate (through Country MD) • Monitor potential legislation changes (through Country MD)	Reduce through acquisition of material assets, including entry into third country
2	**Loss of key partners** Company has a number of key stakeholders in its operations, including governments, and operational partners including Schlumberger, ONHYM and OGIF. Poor relationships may adversely impact the Company's ability to operate	• May adversely impact ability to operate • Adversely impact profitability & cash flow • Reduce appetite for investment in the Company	• Implement a formal stakeholder engagement plan • Build strong relationships with governments, partners local authorities, local population and other stakeholders • Provide appropriate focus and attention to partner relationships • Bring partners into Sound Energy plc where appropriate (e.g. OGIF)	Reduce through stewardship of partner relationships and bringing partners into Sound Energy plc to align interests
3	**Ineffective project sanctioning and assurance process** Projects sanctioned based on inappropriate assumptions or on insufficient information	• Projects are unprofitable and do not generate shareholder value • Loss of company and management credibility	• Gate approach being implemented – management decision required before a project advances based on project documents, assurance (external as required) and discussion and review • Executive committee meeting bi-monthly to review projects • Projects must be sanctioned by Board	Reduce through gating approach
4	**Loss of key personnel**	• Loss of confidence of retail shareholder base resulting in loss of share price premium against sector • Lack of direction and leadership within the Company • Loss of expertise and knowledge	• Competitive remuneration for key executives bench marked regularly relative to the market • Stock options in place • Succession planning	Reduce and then Accept

No.	Risk	Impact	Control measures	Risk Appetite
5	**Inadequate resourcing to handle workload and complexity**	• Loss of control of the business (either operationally or financially) leading to errors and mistakes • Errors could lead to operational incident or financial loss • Loss of good decision making processes	• Continue to hire personnel with appropriate skills and capability to allow the organisation to continue rapid growth, while maintaining a close eye on cost base • Develop robust process and procedures and embed throughout organisation e.g. for HSE and Risk management • Ensure clear decision making processes in place • Continuous communication throughout organisation	Reduce through actively increasing capability
6	**Environmental lobbying prevents successful development of discovered resource**	• Prevented from developing key assets leading to loss of value	• Environmentally friendly work programme where possible e.g. stimulation only used if required • Positive press coverage	Reduce
7	**Commodity price**	• Reduction in gas price reduces revenues and 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 • Price flexes are undertaken for budgeting and cash flow purposes • Enter into long term price contracts • Consider linking Tendrara gas to oil indexes • Ensure the business is well-funded use of equity where possible • Consider strategic purchases e.g. oil production • Consider hedging once the Company has significant production	Reduce where possible

MANAGING RISK CONTINUED

No.	Risk	Impact	Control measures	Risk Appetite
8	**Breach of Bribery Act** 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 under the UK Bribery Act 2010 (or foreign equivalents) leading to unlimited fines, jail sentences and prohibition from operating • Reputational damage • Uneconomic contracts	• Anti-bribery policy in place • Training of staff • Staff required to sign their 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	Reduce – no appetite for bribery, including facilitation payments
9	**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 viability of projects and operations • Delayed projects and/or regulatory approvals whilst changes are being proposed and agreed • Renegotiation with partners	• Build strong relationships with governments, local authorities, local population and other stakeholders • Ensure appropriate local content and that all stakeholders benefit from operations • Lobby where appropriate (trough Country MD) • Monitor potential legislation changes • Work with governments to share good governance and best practices	Reduce - through strong relationships and continuous communication with stakeholders as well as mutually beneficial work programmes
Operational risks				
10	**Exploration Risk** The Company fails to locate and explore hydrocarbon bearing prospects that have the potential to deliver commercially e.g. key wells are dry or less successful than anticipated	• The Company does not manage to recover its investment and suffers financial loss • The Company loses credibility and suffers reputational damage	• Analysis of available technical information (e.g. seismic, drill results) to determine work programme • Risk sharing arrangements entered into to reduce downside risk • Technical, financial and Board approvals required for all projects	Reduce where possible, assume residual risk Oil exploration is capital intensive and inherently uncertain in its outcome. Knowledge, experience, and careful evaluation partially mitigate the risk but cannot completely remove.

No.	Risk	Impact	Control measures	Risk Appetite
11	**Reservoir Risk** The Company fails to successfully develop discovered hydrocarbon resource producing a return on investment e.g. field performance is less successful than anticipated	• The Company does not manage to recover its investment and suffers financial loss • The Company loses credibility and suffers reputational damage	• Analysis of available technical information (e.g. seismic, drill results) to determine drilling programme • Technical, financial and Board approvals required for all projects • All projects are closely monitored, from a technical perspective, to ensure delivery against plan and to enable action to be taken to maintain progress	Reduce where possible, assume residual risk Oil exploration is capital intensive and inherently uncertain in its outcome. Knowledge, experience, and careful evaluation partially mitigate the risk but cannot completely remove
12	**Operational Incident** including blowouts, safety and environmental incidents and accidents, terrorism	• Loss of life or injury to personnel (staff, contractors, third parties) • Reputational damage • Loss of "licence to operate" • Exposure to litigation • Damage to equipment and disruption of operations including • Consequential financial loss (litigation, equipment replacement, cost to redrill)	• Highly skilled, qualified and competent staff. Training provided as required • Strong HSE ethic & risk assessment • High quality operational management processes including well design, emergency response plan and change of control process. • Implementation of HSE management system and also risk management system with workshops to facilitate bottom -up risk capture • HSE Committee reviews and regular HSE meetings with Executive Leads and HSE manager • Clearly defined HSE responsibilities • Insurance • Security measures in place	Reduce where possible through culture of the business

MANAGING RISK CONTINUED

No.	Risk	Impact	Control measures	Risk Appetite
Financial risks				
13	**Insufficient funds** to deliver the Company's work programme and meeting on-going operating requirements	• Company can no longer finance current operations or future investment • Company cannot meet the capital commitments required to maintain licence interests and explore and develop assets • Company cannot service and/or repay its debt • Business is insolvent	• Raise equity post TE-8 and/or post Badile to take advantage of current share price strength (assumes success) • Finances are controlled through an annual budgeting process and periodic forecast updates, including sensitivity reviews. Budgets are monitored against prior period actuals • The projected cash balance is reviewed on an on-going basis • There are mitigating actions available to management, including the delay of capex and discretionary spending • Risk is transferred through mechanisms such farm-in and joint venture agreements, which has significantly mitigated the risk during 2016 • Increase debt capacity through reserve certification (development projects) or acquiring production	Reduce through business strategy and appropriate management information
14	**Exchange rate 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 • Weakening of sterling and increased volatility is being seen post US elections and Brexit • MAD is a controlled currency and the group has limited knowledge of exchange rate fluctuations	• Match transactional currency to currency of liabilities • Consider use of forwards and/or other derivative instruments to hedge currency risk • Increase knowledge of MAD exchange movements relative to other currencies • 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	Reduce

GOVERNANCE

THE TEAM

DIRECTORS

James Parsons
Chief Executive Officer

Skills

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 having previously held the office of Chief Financial Officer for a period of a year.

Previous Experience

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 joined Inter Pipeline Fund), James held various positions in Shell's exploration and production business, latterly as Vice President, Finance, of New Business. Prior to joining Sound Energy, James was Finance and Corporate Development Director of Inter Pipeline Europe, a division of Inter Pipeline Fund, a Toronto-listed resources business.

Stephen Whyte
Chairman (Non-Executive)

Skills

Stephen Whyte has over 25 years' experience in the oil and gas industry. He was Chief Operating Officer and Executive Director for Exploration and Production at Galp Energia for three years until 2014 and prior to that spent three years as Senior Vice President Commercial at BG Group.

Previous Experience

He previously spent a total of 14 years with Shell and six years with Clyde Petroleum.

Marco Fumagalli
Director (Non-Executive)

Skills

Marco Fumagalli joined Sound Energy as a Non-executive Director in July 2014. Marco is Managing Partner at Continental Investment Partners SA, a Swiss based investment firm and cornerstone shareholder in Sound Energy.

Previous Experience

Marco 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.

Richard Liddell
Director (Non-Executive)

Skills

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.

Previous Experience

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.

EXECUTIVE TEAM

Mohammed Benslimane
To be appointed Non-Executive Director on completion of the OGIF transaction

Skills
Mohammed Benslimane started his career in France with CIC Group where he held various positions in Corporate and Structured Finance.

In the mid 90's he joined Private Equity business and managed various holding corporations in Morocco and abroad.

Previous Experience
In 1999, he founded AFG Investment Bank, a leading private and independent Investment Bank with a strong focus on Financial Advisory, Asset Management and Private Equity. He is also Founder and Manager of the Oil&Gas Investment Fund (OGIF), first Upstream Oil&Gas dedicated fund in Morocco, and cornerstone shareholder in Sound Energy.

Mohammed is a graduate of the "Institut d'Etudes Politiques de Paris (ScPo Paris)" with a major in Economy and Finance.

Brian Mitchener
Executive Vice President, Exploration

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

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

Leonardo Spicci
Executive Vice President, Development and Production

Skills
Leonardo Spicci has over 25 years' upstream experience with ENI, Petrobel, KPO and GSA, with extensive experience of working in Italy, Northern Africa, Middle East and Central Asia.

Previous Experience
Prior to joining Sound Energy in 2013 he was the District Manager for all Northern Italian Assets at ENI, managing a portfolio of onshore fields, offshore platforms and gas and oil treatment plants.

Leonardo has a BSc in Geological Science and is a Member of the Society of Petroleum Engineers.

Luca Madeddu
Managing Director, Morocco

Skills
Luca Madeddu has over 25 years of experience in the upstream oil and gas industry with the Company and ENI, a major integrated energy company. Luca is a reservoir geologist by background and has extensive experience in hydrocarbon production, field development, petroleum engineering, supply chain management and reservoir engineering.

Previous Experience
He has managed operations across Italy, Venezuela, Nigeria, Indonesia, UK, Congo.

Luca holds a degree in Geology and has been a Member of the Society of Petroleum Engineers (SPE) since 1995.

THE TEAM CONTINUED

EXECUTIVE TEAM

Leonardo Salvadori
Managing Director, Italy

Skills
Leonardo Salvadori has over 30 years of international upstream experience with ENI (North Sea, North Africa, Middle and Far East) and Dana Gas (Egypt) leading multinational teams in exploration, business development and general management, both onshore and offshore.

Mohammed Seghiri
Vice President Gas Sales

Skills
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.

Previous Experience
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.

Mary Hood
Executive Vice President Finance/CFO

Skills
Mary Hood joined Sound Energy in January 2016. She is a Qualified Chartered Accountant and Chartered Company Secretary. Mary has an MA and PhD from the University of Cambridge.

Previous Experience
Mary has over 10 years upstream experience in finance and management working across Europe, Africa and the Middle East for Gulf Keystone Petroleum (most recently as Deputy CFO) and for Deloitte, in its Energy and Resource practice.

Will Holland
Executive Vice President, Business Development

Skills
Will Holland has over 20 years in the upstream industry across a range of operational, commercial and financial roles. He spent the first decade of his career as an engineer with Halliburton and has subsequently worked as Director in Macquarie's Oil and Gas banking team.

CORPORATE GOVERNANCE

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.

Matters Reserved for the Board

During the first quarter of 2017, the schedule of matters reserved for the Board's decision has been reviewed and formally documented. This schedule will be monitored by the Company Secretary and reviewed annually by the Board. Specific matters reserved for the Board's consideration include:

- 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 performance in the light of the Group's strategy, objectives, business plans and budgets 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 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.

Board Effectiveness
Composition and independence of the Board

During the year, the Board comprised a Non-Executive Chairman, three Non-Executive Directors until the 2016 AGM, and then two Non-Executive Directors to the date of this report and one Executive Director. The skills and experience of the Non-Executive Directors are wide and varied and they provide constructive challenge in the Boardroom. The composition of the Board is intended to ensure that its membership represents a mix of backgrounds and experience that will optimise the quality of deliberations and decision making.

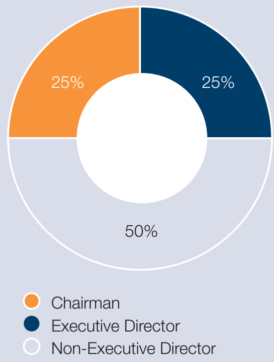
CORPORATE GOVERNANCE CONTINUED

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 setting 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 Chairman, Stephen Whyte, has the responsibility of ensuring that the Board discharges its responsibilities, with the principal responsibility of leading the Board in the determination of its strategy and the achievement of its objectives. 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 %



COMMITTEE CHAIRS

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.

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 reviews internal and external audit activity and ensures that the Company has effective risk management and internal control systems in place. The responsibility for the enforcement of the Company's code of conduct, and the adequacy and security of the whistleblowing procedure and anti-bribery and corruption policy also rests with the Audit Committee.

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.

Executive Committee

The Executive Team supports the Chief Executive Officer and Board decision making, particularly around assurance at project decision gates and new business opportunities. The Executive Team is accountable for implementation of key strategic building blocks, the performance of the business, and designing and implementing the culture and tone of the organisation as well as the sharing of information across the business.

COUNTRY & PROJECT OVERSIGHT

LEADERSHIP & FUNCTIONAL OVERSIGHT

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.

Accountability

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 56.

Internal control system

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks to the achievement of Sound Energy's strategic objectives and this process was in place throughout the year under review and up to the date on which the Accounts were approved. The process is regularly reviewed by the Board, through the Audit Committee, whose review of the effectiveness of the Group's risk management and internal control systems includes:

- a formal review of the Group's Risk Profile quarterly to assess potential risk areas, and action plans to address these risks
- review of the external audit strategy and plan
- review, on an annual basis, of Group policies in relation to whistleblowing, and anti-bribery and corruption

The Board, supported by 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. The Group continues to continually review and enhance its risk management and internal control procedures.

Audit Committee Activities

The Audit Committee is comprised of Marco Fumagalli (Chairman), and Stephen Whyte.

In order to discharge its responsibilities, during the year, the Committee has undertaken the following activities:

Financial statements and reports

- Reviewed and discussed changes in reporting requirements
- Reviewed and approved the external audit fees for 2016
- Reviewed the half year report and the year end accounts and related statements and auditor's report for 2016 discussing:
  - key accounting judgements including judgements on the accounting for the refinancing;
  - appropriateness of capitalisation of exploration expenditure; and
  - accounting for acquisitions
- Ensured that the external reporting is fair, balanced and understandable
- Reported to the Board on how it has discharged its responsibilities

Risk management

- Reviewed the key risks (strategic, financial and operational) facing the Group and the ongoing development and implementation of action plans to mitigate these risks
- Reviewed and approved the updated Group Financial Authorities
- Reported to the Board on its activities

External audit

- Monitored and ensured the independence and objectivity of the external auditor
- Ratified all non-audit service work undertaken by the external auditor (£3,500 in value)
- Reviewed and approved the scope and methodology of the external audit strategy for 2016
- Considered the reappointment of Crowe Clark Whitehill LLP as auditor for 2017 and recommended the appointment to the Board

Internal audit

- Considered the need for internal audit and determined that for 2017, an internal audit plan is to be created, with an external internal audit provider will be engaged to review key control areas, initially commencing with a review of procurement and payment procedures
- Performed an ongoing review of compliance with the Group's processes to prevent and detect bribery and corruption

CORPORATE GOVERNANCE CONTINUED

Communications with shareholders

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.

Health and Safety (HSE) Committee Activities

The Committee consists of Richard Liddell 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 2016 the Committee held 5 meetings and a full report on its activities, the Health and Safety Review, can be found on pages 35 to 36.

Attendance at meetings

	Board (6 scheduled; 6 ad-hoc)	Audit	Remuneration and Nominations	Health and Safety Committee
Number of meetings	12	3	3	5
Stephen Whyte (Chairman)	12	3	3	N/A
James Parsons (Chief Executive)	12	N/A	N/A	N/A
Richard Liddell	11	N/A	3	5
Marco Fumagalli	11	3	3	N/A

Remuneration and Nominations Committee activities

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

During the year under review, the Committee met formally on 3 occasions and all members were present at each meeting. The key activities of the Committee during the year were:

- review of the Directors' Remuneration Policy
- identification of the need to include share-price performance related criteria as part of the LTIP vesting conditions to ensure exceptional growth in shareholder value is rewarded
- introduction of the minimum shareholding requirements
- consideration of the levels of pay and benefits for the Chief Executive and Executive Team ensuring that executive remuneration packages are competitive and fairly and responsibly reward contributions
- review of corporate governance developments in the area of executive remuneration
- assessment of performance targets and outcome against annual bonus targets for the Chief Executive and Executive Team
- determining the award of share options under the incentive schemes
- review the Board structure, size and composition, and make recommendations to the Board with regard to potential changes
- seek the appointment of Directors and Senior Executives with the appropriate mix of skills, knowledge and experience to enable the Group to fulfil its strategic objectives, which during 2016, included the appointment of the Executive Vice President, Exploration

DIRECTORS' REMUNERATION REPORT

This report sets out the activities of the Remuneration and Nominations Committee for the year ended 31 December 2016. The report also sets out the remuneration policy and remuneration details for Sound Energy's Executive and Non-Executive Directors.

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 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
- Link maximum pay-out to outstanding performance
- 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 particular individuals.

Purpose	Operation	Maximum Opportunity	Performance measures
Salary			
Attract and retain the right calibre of senior executive 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-directors, the Chief Executive, to take account of individual circumstances such as: • 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 by when setting and reviewing salaries annually.

DIRECTORS' REMUNERATION REPORT CONTINUED

Purpose	Operation	Maximum Opportunity	Performance measures
Pension			
Provide a level of pension provision which is compliant with regulation and allows Executives to build long-term retirement savings.	Defined contribution based on a percentage of salary. The rate of contribution for Executives is comparable to the broader employee population. 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.
Benefits			
Protect against risks and provide other benefits reflecting the international aspects of Executives' 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. Benefits to Executives are comparable to the broader employee population.	None.
Annual Bonus			
Provide a direct link between measurable individual performance and rewards. Encourage the achievement of outstanding results aligned to the business strategy and achievement of planned business objectives.	Individual bonus decisions are based on Executives performance during the year, 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			
Reward execution of Sound's strategy and growth in shareholder value over a multiple-year period. Long-term performance measurement discourages excessive risk-taking and inappropriate short-term behaviours and aligns Executive interests with those of shareholders. The LTIP is designed to retain Senior Executives over the performance period of the awards.	LTIP awards are made by the Committee for the Chief Executive and for the broader Executives, by the Committee based on the recommendations of the Chief Executive. 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. A LTIP may be awarded to further align the Chairman and Non-Executive Directors' interests with those of shareholders. However, the LTIP awarded must not compromise independence.	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. Non-Executive Directors' fees are set at a level which ensures that the Company can attract and retain individuals with the required skills, experience and knowledge to enable the Board effectively to carry out its duties. LTIP award operation is comparable to that for Executives.	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 and LTIP awards are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.	Benchmarked externally from time to time as appropriate. LTIP awards vest based on share price performance.

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, 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 Chief Executive 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 Chief Executive, who is currently the only Executive Director, has a service contract which entitles him to the fixed elements of remuneration and to consideration for variable remuneration each year. His contract is terminable by the Company on not more than 6 months' written notice.

External Appointments

It has been expressly agreed, which is reflected in his contract of employment, that the Chief Executive 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.

DIRECTORS' REMUNERATION REPORT CONTINUED

Loss of Office and Change of Control Provisions

The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office on a change of control. However, in the event of a change of control of the Company, the Chief Executive 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.

Summary of actual remuneration of directors

	Salary £'000s	2016 Performance Award £'000s	2016 Exceptional Award £'000s	**Total 2016 £'000s**	Total 2015 £'000s
Executive Directors					
James Parsons [vii]	342	375	375	**1,092**	492
Luca Madeddu[i] [ii]	–	–	–	**–**	150
Non-executive Directors and Chairman					
Simon Davies[iv]	30	–	–	**30**	60
Stephen Whyte[iii] [v]	60	–	–	**60**	10
Richard Liddell[iii] [vi]	45	–	–	**45**	10
Marco Fumagalli	45	–	–	**45**	40
Andrew Hockey[ii]	–	–	–	**–**	56
Gerry Orbell[ii]	–	–	–	**–**	40
Total for all directors	522	375	375	**1,272**	858

(i) Luca Madeddu's reported remuneration is from 1 January 2015 until the date of his resignation from the Sound Energy Board in September 2015.
(ii) Resigned from the Board on 28 September 2015.
(iii) Appointed 28 September 2015.
(iv) Resigned from the Board at the 2016 AGM on 29 June 2016
(v) Appointed Chairman on 5 July 2016
(vi) Appointed Senior Independent Non-Executive Director on 25 January 2017
(vii) Inclusive of 4% pension taken in cash

Share Options

	Date of Grant	Exercisable Date	Acquisition Price per share (pence)	**Options held at 1 January 2016**	**Options held at 31 December 2016**
J Parsons	5.09.2011	05.09.2012–4.09.2016	21.75	110,000	-
	5.09.2011	05.09.2013–4.09.2016	21.75	110,000	-
	5.09.2011	05.09.2014–4.09.2016	21.75	110,000	-
	1.03.2012	01.03.2013–28.02.2018	25.00	150,000	-
	1.03.2012	01.03.2014–28.02.2018	25.00	150,000	-
	1.03.2012	01.03.2015–28.02.2018	25.00	150,000	-
	26.10.2012	26.10.2012–25.10.2016	16.50	333,333	-
	26.10.2012	26.10.2013–25.10.2016	16.50	333,333	-
	26.10.2012	26.10.2014–25.10.2016	16.50	333,334	-
	19.06.2014	29.07.2017–29.07.2019	8.00	3,350,000	3,350,000
	25.09.2015	25.09.2018 – 25.09.2020	14.25	1,250,000	1,250,000
	23.03.2016	23.03.2019 – 23.03.2021	16.00	-	3,000,000
S Whyte	08.08.2016	08.08.2019-08.08.2021	60.00	–	1,000,000
R Liddell	08.08.2016	08.08.2019-08.08.2021	60.00	–	250,000
M Fumagalli	08.08.2016	08.08.2019-08.08.2021	60.00	–	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 2016 option coverage is approximately 4.4% of issued share capital. Over the long term the Board wish to move towards the 10% approved cap.

During 2016, James Parsons exercised a total of 1.78 million options which were about to expire at an average exercise price of 19.6 pence per option. The share price at the date of exercise was 62 pence and the calculated gain on the options at the date of exercise was £754,325.

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	No. of Shares
James Parsons	1,640,996
Stephen Whyte	165,957
Richard Liddell	100,000
Marco Fumagalli (Continental Investment Partners)	66,717,162

Movements in Share Price During the Year

The mid-market price of the Company's shares at the end of the financial year was 74p and the range of mid-market prices during the year was between 15p and 97p.

Advice Received by the Committee

The Committee has access to advice when it considers appropriate. In the year ended 31 December 2016, the Committee received advice relating to specific Executive compensation from Mercer who were paid £1,180.

This Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 29 March 2017 and signed on its behalf by:

Stephen Whyte
Chairman
29 March 2017

DIRECTORS' REPORT

Other Disclosures

Pages 44 to 57 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. The Group's current principal areas of activity are in Italy and Morocco. A review of the performance and future development of the Group's business is contained on pages 3 to 42 and forms part of this report.

Results and Dividends

The loss for the year before tax was £15.2 million (2015: £18.3 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 2016 the Group had £46.8 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 (2015: £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 55. There are no other significant holdings of any individual.

Board of Directors

The names of the present Directors and their biographical details are shown on pages 44 and 45.

The Directors who served during the year were as follows:

Stephen Whyte

James Parsons

Richard Liddell

Marco Fumagalli

Simon Davies (resigned on 29 June 2016)

Stephen Whyte was appointed as Chairman on 5 July 2016 following Simon Davies's stepping down at the 2016 AGM. Mohammed Benslimane will be appointed as a Non-Executive Director following the completion of the OGIF transaction, which is expected during 1H 2017.

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 2016, 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 2016 the Company had 665,069,037 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 2016 and up to the date of this report.

Continental Investment Partners (Metano Capital S.A. & Greenberry S.A.) 66,717,162 shares direct and indirect 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

On 19 January 2017, the Company entered into Heads of Agreement for the acquisition of all of Oil & Gas Investment Fund's (OGIF) assets in Eastern Morocco. The Company would purchase from OGIF a 20% interest in Tendrara, a 75% interest in Meridja (including the 55% interest in Meridja over which the Company had previously exercised an option) and an application for a 75% position in the relinquished area close to Tendrara. The consideration for the acquisition was 272 million new ordinary shares in the Company, with the issue of the new ordinary shares subject to shareholder approval. On 20 February 2017, the Company announced that it had entered into binding agreements with OGIF. Shareholders approved the new issue of shares for this transaction on 15 March 2017.

On 19 January 2017, the Company announced that the extended well test of TE-7 on the Tendrara licence had been successful and the results were consistent with the Company's estimates. The Company also announced the commencement of civil works at TE-8 appraisal well site on the Tendrara licence. Drilling operations at TE-8 commenced in February 2017 and on 28 March 2017, the Company announced the completion of logging at the TE-8 well and that it had successfully identified and penetrated the full sequence of Westphalian sands in the Paleozoic (between 2,762 metres through to 3,120 metres) and confirmed the identification of the full sequence of thick TAGI reservoir sands (between 2,642 metres through to 2,762 metres) some 12 km to the north-east of the Company's previous two wells at Tendrara.

On 7 February 2017, the Company announced that as per the terms of the drilling rig contract for the Badile well, the Company had issued 830,565 new ordinary shares to Pergemine S.p.A (Pergemine) with a market value of approximately €790,000. The contract with Pergemine provided that 23% of the service charges due to Pergemine would be settled through the issue of new ordinary shares in the Company with a value of approximately €1 million. In the event of the Badile exploration well proving successful, further new ordinary shares will be issued to Pergemine to bring the total market value of the new ordinary shares issued to Pergemine up to approximately €1 million.

On 13 February 2017, the Company announced that it had entered into an agreement for the early redemption of the existing £1 million loan originally provided to the Company by Simon Davies, a former director, together with the simultaneous exercise of 9,615,384 warrants held by Simon Davies to subscribe for new ordinary shares in the Company at a price of 10.4 pence per share. The loan had a maturity date of 28 July 2017 but will be redeemed and cancelled on 1 April 2017 and the warrants will be exercised on the same date. The payment of the aggregate subscription price of £1 million for the exercise of the warrants will be deemed satisfied on the redemption and cancellation of the loan.

On 8 March 2017, the Company announced the drilling at the Badile well, onshore, Italy, had commenced. The Company provided updates on 15 March 2017 and 23 March 2017 that the well had been drilling to the first and second casing points respectively.

By order of the Board

Stephen Whyte
Chairman
29 March 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the consolidated financial statements, Article 4 of the IAS Regulation 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 Company and 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

James Parsons
Chief Executive Officer
29 March 2017

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements of Sound Energy plc for the year ended 31 December 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes numbered 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective Responsibilities of Directors and the Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2016 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 IFRS 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.

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 Directors' Report and Strategic 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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

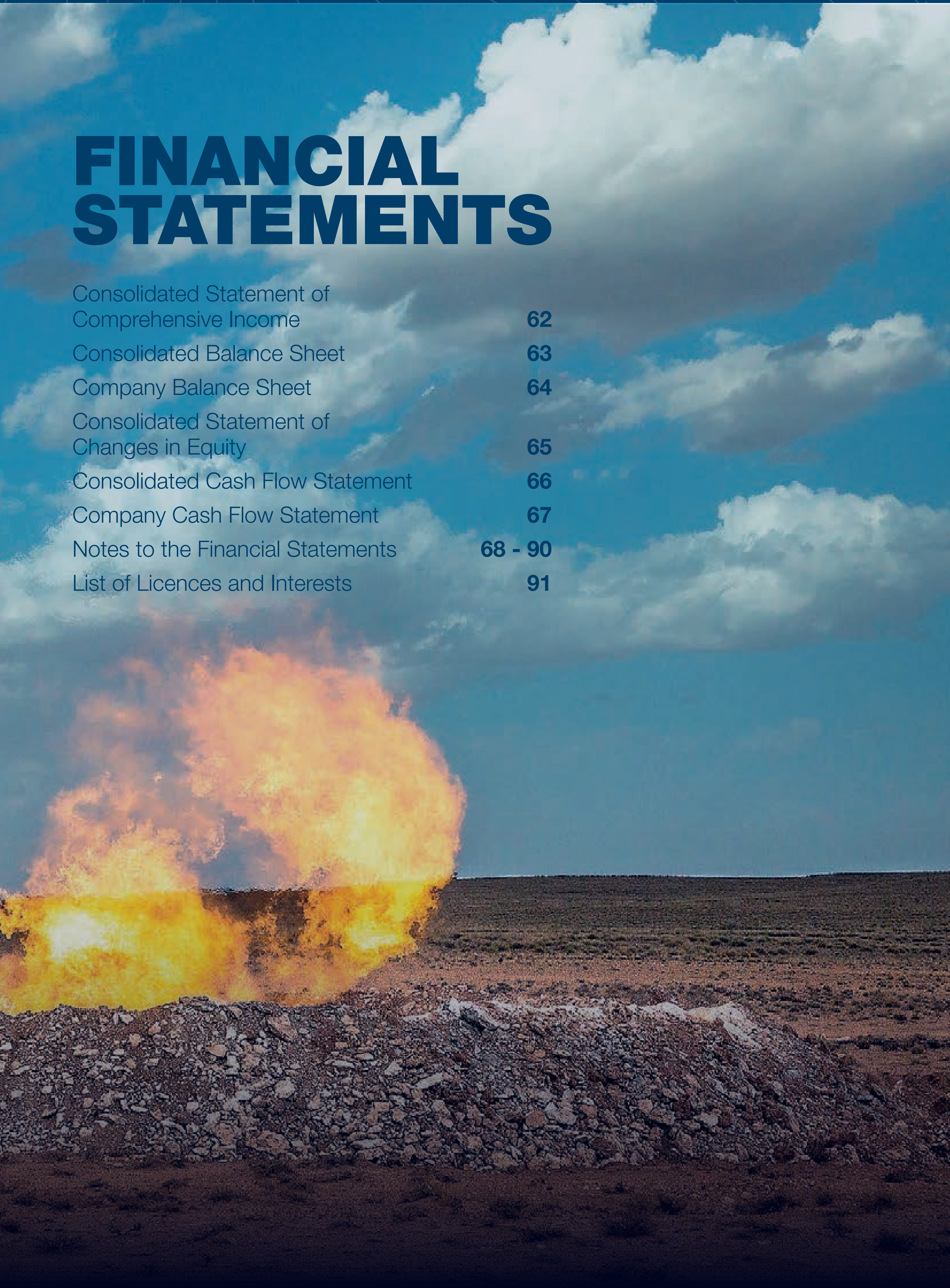
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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.

Matthew Stallabrass (Senior Statutory Auditor)
For and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor
St. Bride's House
10 Salisbury Square
London EC4Y 8EH
29 March 2017

Note: 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 consideration of these matters and accordingly the auditor accept no responsibility for any changes that may have occurred to the financial statements since they were originally presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

FINANCIAL STATEMENTS



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Notes	2016 £'000s	2015 £'000s
Revenue		**833**	859
Other income	2	**715**	–
Operating costs		**(1,110)**	(538)
Impairment of producing assets	9	**(5,455)**	(6,347)
Impairment of goodwill	10	**(1,704)**	–
Exploration costs	10	**(2,334)**	(5,838)
Gross loss		**(9,055)**	(11,864)
Administrative expenses		**(6,241)**	(3,181)
Group operating loss from continuing operations	3	**(15,296)**	(15,045)
Finance revenue	6	**1,364**	52
Foreign exchange gain/(loss)		**1,935**	(1,389)
Other gains and (losses)			
-derivative financial instruments	21	**583**	–
External interest costs		**(3,769)**	(1,905)
Loss for the year before taxation		**(15,183)**	(18,287)
Tax credit/(expense)	7	**1,744**	–
Loss for the year after taxation		**(13,439)**	(18,287)
Foreign currency translation		**375**	(320)
Total comprehensive loss for the year		**(13,064)**	(18,607)
Loss for the year attributable to:			
Owners of the company		**(13,064)**	(18,607)
Non-controlling interests		**–**	–

	Notes	2016 Pence	2015 Pence
Loss per share and diluted for the year	8	**(2.52)**	(3.90)
Attributable to the equity shareholders of the parent (pence)	8	**(2.52)**	(3.90)

CONSOLIDATED BALANCE SHEET

as at 31 December 2016

	Notes	2016 £'000s	2015 £'000s
Non-current assets			
Property, plant and equipment	9	**1,729**	5,558
Intangible assets	10	**28,060**	9,564
Land and buildings		**1,535**	1,327
		31,324	16,449
Current assets			
Inventories		**331**	–
Other receivables	12	**8,777**	2,506
Derivative financial instruments	21	**2,545**	–
Prepayments		**320**	99
Cash and short term deposits	13	**46,809**	15,240
		58,782	17,845
Total assets		**90,106**	34,294
Current liabilities			
Trade and other payables	14	**12,604**	2,097
Loans repayable in under one year	24	**986**	5,751
		13,590	7,848
Non-current liabilities			
Deferred tax liabilities	15	**433**	1,992
Loans due in over one year	24	**16,455**	7,157
Provisions	16	**2,049**	1,138
		18,937	10,287
Total liabilities		**32,527**	18,135
Net assets		**57,579**	16,159
Capital and reserves			
Share capital and share premium		**135,667**	86,315
Shares to be issued	17	**223**	–
Warrant reserve		**4,459**	369
Foreign currency reserve		**1,443**	1,068
Accumulated deficit		**(84,213)**	(71,593)
Total equity		**57,579**	16,159

The financial statements were approved by the Board and authorised for issue on 29 March 2017 and were signed on its behalf by:

James Parsons
Director

S Whyte
Director

The accounting policies on pages 68 to 73 and notes on pages 68 to 90 form part of these financial statements.

COMPANY BALANCE SHEET

as at 31 December 2016
Company Number 05344804

	Notes	2016 £'000s	2015 £'000s
Non-current assets			
Property, plant and equipment		**37**	7
Fixtures and fittings		**157**	30
Software		**89**	100
Investments in subsidiaries	11	**62,456**	35,450
		62,739	35,587
Current assets			
Other receivables	12	**129**	171
Prepayments		**70**	25
Derivative financial instruments	21	**2,545**	–
Cash and short term deposits	13	**41,782**	12,288
		44,526	12,484
Total assets		**107,265**	48,071
Current liabilities			
Trade and other payables	14	**2,175**	1,213
Loans due in under one year	24	**986**	–
		3,161	1,213
Non-current liabilities			
Loans	24	**16,455**	7,157
Total liabilities		**19,616**	8,370
Net assets		**87,649**	39,701
Capital and reserves attributable to equity holders of the Company			
Share capital and share premium		**135,667**	86,315
Shares to be issued	17	**223**	–
Warrant reserve		**4,459**	369
Accumulated deficit		**(52,700)**	(46,983)
Total equity		**87,649**	39,701

The Company's accumulated deficit includes loss for the year of £6,536,000 (2015: £5,323,000).

The financial statements were approved by the Board and authorised for issue on 29 March 2017 and were signed on its behalf by:

James Parsons
Director

S Whyte
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

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		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**

Group

	Notes	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Warrant reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2015		4,153	67,145	(53,621)	369	1,388	19,434
Total loss for the year		–	–	(18,287)	–	–	(18,287)
Other comprehensive income		–	–	–	–	(320)	(320)
Total comprehensive loss		–	–	(18,287)	–	(320)	(18,607)
Issue of share capital		886	15,342	–	–	–	16,228
Share issue costs		–	(1,211)	–	–	–	(1,211)
Share based payments	22	–	–	315	–	–	315
At 31 December 2015		**5,039**	**81,276**	**(71,593)**	**369**	**1,068**	**16,159**

Company

	Notes	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Warrant reserve £'000s	Total equity £'000s
At 1 January 2015		4,153	67,145	(41,975)	369	29,692
Total loss for the year		–	–	(5,323)	–	(5,323)
Issue of share capital		886	15,342	–	–	16,228
Share issue costs		–	(1,211)	–	–	(1,211)
Share based payments	22	–	–	315	–	315
At 31 December 2015		**5,039**	**81,276**	**(46,983)**	**369**	**39,701**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2016

	Notes	**2016 £'000s**	2015 £'000s
Cash flow from operating activities			
Cash flow from operations		**(2,826)**	(3,487)
Interest received		**96**	52
Net cash flow from operating activities		**(2,730)**	(3,435)
Cash flow from investing activities			
Capital expenditure and disposals		**(945)**	(1,156)
Exploration and development expenditure		**(10,882)**	(6,545)
Net cash flow from investing activities		**(11,827)**	(7,701)
CSTI funding contract		**(14)**	(117)
Net proceeds from debt		**10,248**	–
Net proceeds from equity issue		**40,247**	15,017
Repayment of debt		**(5,435)**	–
Interest payments		**(1,108)**	(1,051)
Net cash flow from financing activities		**43,938**	13,849
Net increase in cash and cash equivalents		**29,381**	2,713
Net foreign exchange difference		**2,188**	(81)
Cash and cash equivalents at the beginning of the year		**15,240**	12,608
Cash and cash equivalents at the end of the year	13	**46,809**	15,240

NOTES TO CASH FLOW

for the year ended 31 December 2016

	Notes	**2016 £'000s**	2015 £'000s
Cash flow from operations reconciliation			
Loss before tax		**(15,183)**	(18,287)
Finance revenue	6	**(1,364)**	(52)
Impairment of goodwill		**1,704**	–
Exploration expenditure written off and impairment of producing assets		**7,789**	12,185
Increase/(decrease) in accruals and short term payables		**9,035**	(97)
Depreciation	9	**272**	136
Share based payments charge	22	**819**	315
Purchase of drilling inventories		**(331)**	–
Gain on derivative financial instruments		**(583)**	–
Finance costs and exchange adjustments		**1,508**	2,588
Increase in receivables		**(6,492)**	(275)
Cash flow from operations		**(2,826)**	(3,487)

Non-cash transactions during the year included the issue of shares worth £7.4 million as the consideration for the Sidi Moktar licences acquisition. The Company settled £4.3 million of the previously outstanding £7.0 million debt with Continental Investment Partners in lieu of the receipt of new issue bond proceeds of an equivalent amount.

During the year, the Company provided a bank guarantee of $2.5 million (2015: $2.75 million) to the Moroccan Ministry of Petroleum to guarantee the Company's minimum work programme obligations. As the Company expects to satisfy these commitments within 2017, this amount remains included as a liquid cash equivalent. A guarantee of €0.8 million was provided for the first well at the Badile licence in Italy and is included in cash and cash equivalents as it is expected to be released as soon as the work commitment is fulfilled.

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2016

	Notes	2016 £'000s	2015 £'000s
Cash flow from operating activities			
Cash flow from operations		**(3,209)**	(2,937)
Interest received		**35**	29
Net cash flow from operating activities		**(3,174)**	(2,908)
Cash flow from investing activities			
Capital expenditure and disposals		**(178)**	(55)
Cash advances to subsidiaries		**(14,758)**	(10,669)
Net cash flow from investing activities		**(14,936)**	(10,724)
Net proceeds from debt		**10,248**	–
Net proceeds from equity issue		**40,247**	15,017
Repayment of debt		**(2,710)**	–
Interest payments		**(953)**	(662)
Net cash flow from financing activities		**46,832**	14,355
Net increase in cash and cash equivalents		**28,722**	723
Net foreign exchange difference		**772**	(349)
Cash and cash equivalents at the beginning of the year		**12,288**	11,914
Cash and cash equivalents at the end of the year	13	**41,782**	12,288

NOTES TO CASH FLOW

for the year ended 31 December 2016

	Notes	2016 £'000s	2015 £'000s
Cash flow from operations reconciliation			
Loss before tax		**(6,536)**	(5,323)
Intragroup recharges		**(884)**	(143)
Finance revenue		**(35)**	(29)
Increase in receivables		**(3)**	(120)
Increase/(decrease) in accruals and short term payables		**962**	(235)
Depreciation		**54**	22
Share based payments charge	22	**819**	315
Gain on derivative financial instruments		**(583)**	–
Finance costs and exchange adjustments		**2,997**	2,576
Cash flow from operations		**(3,209)**	(2,937)

Non-cash transactions during the year included the issue of shares worth £7.4 million as the consideration for the Sidi Moktar licences acquisition. The Company settled £4.3 million of the previously outstanding debt of £7.0 million from Continental Investment Partners in lieu of the receipt of new issue bond proceeds of an equivalent amount.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1 Accounting policies

Sound Energy plc is a public limited company registered and domiciled in England and Wales under the Companies Act 2006.

(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 2016 were authorised for issue by the Board of Directors on 29 March 2017.

As at 31 December 2016 the Group had £46.8 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 (12 months through 30 March 2018) 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.

The Group determines whether E&E assets are impaired in cost pools when facts and circumstances suggest that the carrying amount of a cost pool may exceed its recoverable amount. As recoverable amounts are determined based upon risked potential, or where relevant, discovered oil and gas reserves, this involves estimations and the selection of a suitable discount rate. The capitalisation and any write-off of E&E assets necessarily involve certain judgements with regard to whether the asset will ultimately prove to be recoverable.

In determining the treatment of E&E assets and investments the Directors are required to make estimates and assumptions as to future events and circumstances. There are uncertainties inherent in making such assumptions, especially with regard to oil and gas reserves and the life of, and title to, an asset; recovery rates; production costs; commodity prices; and exchange rates. Assumptions that are valid at the time of estimation may change significantly as new information becomes available and changes in these assumptions may alter the economic status of an E&E asset and result in resources or reserves being restated. The estimation of recoverable amounts, based on risked potential and the application of value in use calculations, are dependent upon finance being available to fund the development of the E&E assets.

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 values 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. 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 £5.4 million (2015: £6.3 million) (note 9).

Significant judgement and estimation is also required in the determination of the fair value of warrants and bonds. The proceeds from the issue of the bonds were used to settle existing liabilities and therefore an element of judgement is required in determining the portion of issues costs to be allocated to the old and new debt. A net expense of £1.7 million, mainly representing transaction costs, was recognised within finance costs as a result of the refinancing. The resulting effective interest on the bonds is 16.3%. A 5% change in the amount of issue costs expensed would change the effective interest rate by 0.4%.

(b) Basis of consolidation

The Group financial statements consolidate the Income Statements and Balance Sheets 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, US dollar and Moroccan dirham.

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 2016

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 exploration and evaluation ("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. Producing assets are currently expected to be in production up to 2026 and are depreciated on the unit of production method.

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 2016

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 and other receivables are initially measured at fair value and are subsequently reassessed at the end of each accounting period. Cash and cash equivalents comprise cash on hand and demand deposits, restricted cash and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Derivative financial instruments are measured at fair value. Financial liabilities and equity instruments issued by the 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;

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 and the subsequent amortisation of right-to-use asset over the lease term. IFRS 16 is effective for accounting periods beginning on or after 1 January 2019.

With the exception of IFRS 16, the Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Company in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. IFRS 16 will require that the operating leases disclosed on note 23 be recognised in the balance sheet. At this point it is not practicable for the Directors to provide a reasonable estimate of the effect of these standards as their detailed review of these standards is still ongoing.

(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

1 Accounting Policies continued

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.

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 2016 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 2016

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Sales and other operating revenues	–	833	–	833
Other income	–	715	–	715
Operating costs	–	(1,110)	–	(1,110)
Exploration costs	–	–	(2,334)	(2,334)
Impairment of producing assets	–	(5,455)	–	(5,455)
Goodwill impairment	–	(524)	(1,180)	(1,704)
Administration expenses	(6,241)	–	–	(6,241)
Operating loss segment result	**(6,241)**	**(5,541)**	**(3,514)**	**(15,296)**
Interest receivable	1,364	–	–	1,364
Gain on derivative financial instruments	583	–	–	583
Finance costs and exchange gains	(1,834)	–	–	(1,834)
Loss for the period before taxation	**(6,128)**	**(5,541)**	**(3,514)**	**(15,183)**

Other income represents receipt during the year 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 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	513	1,216	29,595	31,324
Current assets	52,526	22	6,234	58,782
Total liabilities	(3,161)	(2,049)	(27,317)	(32,527)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2016

2 Segment Information continued

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

	UK £'000s	Italy £'000s	Morocco £'000s
Development and production assets	–	1,216	–
Land and buildings	–	1,535	–
Fixtures, fittings and office equipment	194	171	148
Goodwill	–	433	–
Exploration and evaluation assets	–	8,511	18,876
Software	89	6	145
Total	283	11,872	19,169

Segment results for the year ended 31 December 2015 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Sales and other operating revenues	–	859	–	859
Operating costs	–	(538)	–	(538)
Exploration costs	–	–	(5,838)	(5,838)
Impairment of producing assets	–	(6,347)	–	(6,347)
Administration expenses	(3,181)	–	–	(3,181)
Operating loss segment result	(3,181)	(6,026)	(5,838)	(15,045)
Interest receivable	52	–	–	52
Finance costs	(3,294)	–	–	(3,294)
Loss for the period before taxation	(6,423)	(6,026)	(5,838)	(18,287)

The segments assets and liabilities at 31 December 2015 are as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Non-current assets	137	5,391	10,921	16,449
Current assets	17,845	–	–	17,845
Total liabilities	(7,743)	(1,498)	(8,894)	(18,135)

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

	UK £'000s	Italy £'000s	Morocco £'000s
Development and production assets	–	5,391	–
Land and buildings	–	1,327	–
Fixtures, fittings and office equipment	37	101	29
Goodwill	–	1,992	–
Exploration and evaluation assets	–	6,960	512
Software	100	–	–
Total	137	15,771	541

3 Operating Loss

	2016 £'000s	2015 £'000s
Operating loss is stated after charging:		
Auditor's remuneration	**73**	76
Depreciation	**272**	136
Employee costs	**5,632**	2,557
Impairment charges and exploration costs	**9,493**	12,185

4 Auditor's Remuneration

	2016 £'000s	2015 £'000s
Fees payable to Company's Auditor for the audit of Company's annual accounts	**62**	65
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
Tax services	**4**	4
	73	76

5 Employee Costs

	2016 £'000s	2015 £'000s
Staff costs, including Executive Directors		
Share based payments	**819**	315
Wages and salaries	**4,139**	1,885
Social security costs	**609**	308
Employee benefits	**65**	49
Total	**5,632**	2,557

A proportion of the Group's employee costs shown above is capitalised to the cost of development, exploration and appraisal under the Group's accounting policy for these assets. During the year, approximately £1.9 million of the employee costs was capitalised.

	2016 Number	2015 Number
Number of employees (including Executive Directors) at the end of the year		
Technical and operations	**16**	8
Management and administration	**22**	14
Total	**38**	22

6 Finance Revenue

	2016 Number	2015 Number
CSTI obligation released	**1,268**	-
Interest on cash at bank and short term deposits	**96**	52
	1,364	52

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2016

7 Taxation

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

	2016 £'000s Group	2015 £'000s Group
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	1,744	–
Total tax (charge)/credit	1,744	–

(b) Reconciliation of tax charge

	2016 £'000s Group	2015 £'000s Group
Loss before tax	(15,183)	(18,287)
Tax (charge)/credit charged at UK corporation tax rate of 20% (2015: 20%)	3,037	3,657
Tax effect of:		
Expenses not deductible for tax purposes	(218)	(90)
Goodwill impairment	(341)	–
Temporary differences not recognised	(39)	(1,065)
Differences in overseas tax rates	(695)	(2,502)
Total tax (charge)/credit	1,744	–

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:

	2016 £'000s	2015 £'000s
Loss after tax from continuing operations	(13,439)	(18,287)

	2016 million	2015 million
Weighted average shares in issue	534	467

	2016 pence	2015 pence
Loss per share (basic) from continuing operations	(2.52)	(3.90)

9 Property, Plant and Equipment

	2016 £'000s	2015 £'000s
Development and production assets		
Cost		
At start of the year	**14,297**	15,566
Exchange adjustments	**785**	(957)
Additions	**886**	234
Reversal of capitalised interest	**–**	(546)
At end of the year	**15,968**	14,297
Depreciation		
At start of the year	**8,906**	2,454
Exchange adjustments	**187**	–
Impairment of assets	**5,455**	6,347
Charge for the year	**204**	105
At end of the year	**14,752**	8,906
Net book amount	**1,216**	5,391
Fixtures, fittings and office equipment		
Cost		
At start of the year	**377**	273
Exchange adjustments	**33**	(10)
Additions	**405**	120
Disposal	**–**	(6)
At end of the year	**815**	377
Depreciation		
At start of the year	**210**	185
Exchange adjustments	**24**	(4)
Charge for the year	**68**	31
Disposals	**–**	(2)
At end of the year	**302**	210
Net book amount	**513**	167
Total net book amount	**1,729**	5,558

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 £5.4 million (2015: £6.3 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.

	2016 £'000s	2015 £'000s
Italy- impairment	**5,455**	6,347
Total	**5,455**	6,347

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2016

10 Intangibles

	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 £'000s	Software £'000s	Exploration & Evaluation Assets £'000s	2015 £'000s
Cost				
At 1 January 2015	2,099	91	11,758	**13,948**
Additions	–	15	6,545	**6,560**
Transfers	–	–	–	**–**
Exchange adjustments	(107)	–	(203)	**(310)**
At 31 December 2015	1,992	106	18,100	**20,198**
Impairment				
At start of the year	–	–	5,060	**5,060**
Charge for the year	–	6	5,568	**5,574**
At end of the year	–	6	10,628	**10,634**
Net book amount at 31 December 2015	1,992	100	7,472	**9,564**

Group

The impairment charge of £1.8 million recognised during the year for the exploration and evaluation assets related to the Strombone licence. The 2015 impairment charge of £5.6 million primarily related to the Carita licence. Impairment charges associated with exploration and evaluation assets are included within Exploration costs in the Consolidated Statement of Comprehensive Income.

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 the year, impairment charges were recognised for the Casa Tonetto and Strombone licences, which has led to £1.7 million of goodwill (2015: £nil) that is linked to these licences being impaired. The Company has no goodwill.

10 Intangibles continued
E&E Assets

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 2016 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 (with the exception of the licence noted below);

c) not decided (with the exception of the licence noted below), 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.

One licence, in Italy, was identified where current and forecast operational spend has significantly decreased due to an application for a time extension on the licence being rejected. As a result, an impairment charge of £1.8 million has been recognised being the carrying value of the asset at the date of impairment.

During the year, the Group had capitalised interest costs of approximately £1.5 million (2015: £0.5 million).

11 Investment in Subsidiaries

	2016 £'000s Company	2015 £'000s Company
At 1 January	**35,450**	25,735
Net advances to Group companies	**27,006**	9,715
At 31 December	**62,456**	35,450

The subsidiary companies of the Company at 31 December 2016, which are all 100% owned by the Company are:

Name	**Incorporated**	**Principal Activity**
Sound Oil International Limited	British Virgin Isles	Holding Company
Sound Oil Asia Limited	British Virgin Isles	Holding Company
Mitra Energia Citarum Limited*	Mauritius	Exploration Company
Sound Energy Holdings Italy Limited	UK	Holding Company
Apennine Energy SpA	Italy	Exploration, Development and Production Company
Sound Energy Morocco SARL	Morocco	Exploration Company
Sound Energy Morocco East Limited	UK	Exploration Company
Sound Energy Morocco South Limited	UK	Exploration Company
Sound Energy Meridja Limited	UK	Exploration Company
Sound Oil Limited	UK	Dormant

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2016

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 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 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	2016	2015
Gas exploration and production	Italy	Italy	**1**	1
Gas exploration	UK	Morocco	**3**	1
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

	2016 £'000s	2015 £'000s
Italian VAT	**2,445**	2,124
UK VAT	**110**	140
Morocco VAT	**296**	–
Other receivables	**5,926**	242
	8,777	2,506

Currency Analysis

	2016 £'000s	2015 £'000s
US dollar	**5,607**	–
Euro	**2,603**	2,262
GBP sterling	**129**	192
Moroccan dirham	**438**	52
	8,777	2,506

Company

	2016 £'000s	2015 £'000s
UK VAT	**110**	140
Other receivables	**19**	31
	129	171

Currency Analysis

	2016 £'000s	2015 £'000s
GBP sterling	**129**	171
Total	**129**	171

13 Cash and Cash Equivalents

Group

	2016 £'000s	2015 £'000s
Cash at bank and in hand	**1,056**	3,157
Cash equivalents:		
Short term deposits	**45,753**	12,263
Carrying amount 31 December	**46,809**	15,240
Being:		
In US dollar	**7,845**	1
In euros	**11,865**	7,406
In sterling	**25,089**	5,957
In Moroccan dirham	**2,010**	1,876
	46,809	15,240

Company

	2016 £'000s	2015 £'000s
Cash at bank and in hand	**25**	25
Cash equivalents:		
Short term deposits	**41,757**	12,263
Carrying amount 31 December	**41,782**	12,288
Being		
In US dollar	**5,819**	1
In euros	**10,874**	6,330
In sterling	**25,089**	5,957
Total	**41,782**	12,288

14 Trade & Other Payables

Group

	2016 £'000s	2015 £'000s
Trade payable	**3,514**	1,257
Payroll taxes and social security	**231**	160
Accruals	**8,859**	680
	12,604	2,097

Currency Analysis

	2016 £'000s	2015 £'000s
US dollar	**7,216**	–
Euro	**1,510**	786
Sterling	**1,681**	1,302
Moroccan dirham	**2,197**	9
Total	**12,604**	2,097

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2016

14 Trade & Other Payables continued

Company

	2016 £'000s	2015 £'000s
Trade payable	**998**	683
Payroll taxes and social security	**83**	29
Accruals	**1,094**	501
Total	**2,175**	1,213

Currency Analysis

	2016 £'000s	2015 £'000s
Sterling	**1,681**	1,213
Euro	**494**	–
Total	**2,175**	1,213

15 Deferred Tax Liabilities

	2016 £'000s	2015 £'000s
1 January	**1,992**	2,099
Derecognised on impairment of licences	**(1,744)**	–
Exchange adjustments	**185**	(107)
31 December	**433**	1,992

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 2016 were estimated to be approximately £4.7 million (2015: £3.5 million).

16 Provisions for Abandonment

	2016 £'000s	2015 £'000s
At 1 January	**1,138**	1,164
Discount unwind	**133**	32
Additions in 2016	**786**	151
Released during the year	**(188)**	(124)
Exchange adjustments	**180**	(85)
At 31 December	**2,049**	**1,138**

The provision relates to the following licences:

	2016 £'000s	2015 £'000s
Rapagnano	186	115
Montemarciano	327	214
Marciano	213	262
Carita	1,323	547

Decommissioning is likely to occur within one year for Marciano and Carita and between 2018 and 2026 for the other licences. Expected abandonment costs are capitalised and depreciated on a unit of production basis once gas sales commence.

There are no provisions in the parent company.

17 Capital and Reserves

Group and Company

	2016 Number of shares	2016 £'000s	2015 Number of shares	2015 £'000s
Ordinary shares – 1p	**665,069,037**	**6,651**	503,898,868	5,039

17 Capital and Reserves continued

	Number of shares 2016	Number of shares 2015
At 1 January	**503,898,868**	415,300,815
Issued during the year for cash	**118,147,455**	88,598,053
Non-cash share issue	**43,022,714**	-
At 31 December	**665,069,037**	503,898,868

The non-cash share issue is the consideration paid for the acquisition of 75% interest in Sidi Moktar licences, onshore, Morocco.

Share option schemes

Options to subscribe for the Company's shares were granted to executives and certain employees in 2016 and 2015.

Share issues

During the year ended 31 December 2016, the Company issued 81,063,916 shares following warrant exercises at exercise prices in the range of 10.4p to 30p per share.

On 29 July 2016, the Company announced the issue of 300,000 shares following the exercise of share options by a former employee at a price of 16.5p per share.

On 8 August 2016, the Company announced the issue of 1,780,000 shares following the exercise of expiring share options by a director of the Company at prices in the range of 16.5p to 25p per share.

On 13 October 2016, the Company announced the issue of 1,288,888 shares following the exercise of share options by a non-board member of the Company at a price of 12.15p per share.

On 25 November 2016, the Company announced the issue of 33,239,323 shares to satisfy the applications received for its underwritten offer. The shares were issued at a price of 81p per share.

On 12 December 2016, the Company announced that it would issue 43,022,714 shares as consideration for the acquisition of 75% interest in Sidi Moktar licences, onshore, Morocco.

During December 2016, the Company issued 475,328 shares to partly satisfy the exercise of 2,279,998 share options by a non-board member of the Company. The remaining shares were reported as shares to be issued within equity as at 31 December 2016 and were issued subsequent to the year end. The options were exercised at prices in the range of 16.5p 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 (2015: none). Net advances to subsidiaries are disclosed on note 11. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2015: none) and is not owed or owes amounts to/from any related parties.

Key management

As at 31 December 2016, there were six key management personnel other than Directors of the Company (2015: three). Details of the Directors' remuneration are set out in the Report of Directors' Remuneration.

	2016 £'000s	2015 £'000s
Salaries and employee benefits	**2,922**	1,317
Share based payments	**748**	315

Directors' interest in employee share options

At 31 December 2016, 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 2016 have the following expiry dates and exercise prices:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2016

18 Related Party Disclosures continued

	Expiry Date	Exercise price Pence	**2016 Number**	2015 Number
2016	2021	60p	**1,500,000**	–

Share options held by the executive members of the Board of Directors at 31 December 2015 have the following expiry dates and exercise prices:

	Expiry Date	Exercise price Pence	**2016 Number**	2015 Number
2011	2016	21.75p	**–**	330,000
2012	2018	25.0p	**–**	450,000
2012	2016	16.5p	**–**	1,000,000
2014	2019	8.0p	**3,350,000**	3,350,000
2015	2020	14.25p	**1,250,000**	1,250,000
2016	2021	16p	**3,000,000**	–

Key management's interest in employee share options

	Expiry Date	Exercise price Pence	**2016 Number**	2015 Number
2012	2018	25.0p	**–**	450,000
2012	2017	16.5p	**–**	330,000
2013	2018	12.15p	**–**	2,622,221
2014	2017	6.50p	**–**	166,666
2014	2019	8.0p	**4,500,000**	4,500,000
2015	2020	14.25p	**1,250,000**	1,250,000
2015	2020	14.20p	**1,250,000**	1,250,000
2015	2020	14.07p	**1,250,000**	1,250,000
2016	2021	16p	**5,250,000**	–
2016	2021	84p	**3,000,000**	–

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

	2016 £'000s	2015 £'000s
Financial assets		
Cash and short term deposits	46,809	15,240
Other receivables	8,777	2,506
Derivative financial instruments at fair value	2,545	–
	58,131	17,746
Financial liabilities		
Trade and other payables	12,604	2,097
Loans and borrowings held at amortised costs	17,441	12,908
	30,045	15,005

19 Financial Instruments Risk Management Objectives and Policies continued

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.

The Group monitors capital on a short and medium term view. During 2016 the Group's strategy was to restructure and consolidate the debt and raise capital to fund capital expenditure through equity. The table below illustrates the Group's capital structure.

	2016 £'000s	2015 £'000s
Borrowings	**(17,441)**	(12,908)
Cash and cash equivalents	**46,809**	15,240
Net (debt)/cash	**29,368**	2,332
Total capital excluding reserves:		
Equity share capital	**6,651**	5,039
Equity share premium	**129,016**	81,276
Shareholders' equity	**57,579**	16,159

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2016

20 Foreign Currency and Other Risks

As a result of the majority of the Group's operations being denominated in Euros (EUR) and US dollar (USD), 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 EUR or USD 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 EUR, USD 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 %	**2016 Effect on profit or loss before tax £'000s**	2015 Effect on profit or loss before tax £'000s
Increase in USD/GBP exchange rate	5%	**(312)**	–
Increase in EUR/GBP exchange rate	5%	**(62)**	(535)
Increase in MAD/GBP exchange rate	5%	**(13)**	(10)
Decrease in USD/GBP exchange rate	(5%)	**312**	–
Decrease in EUR/GBP exchange rate	(5%)	**62**	535
Decrease in MAD/GBP exchange rate	(5%)	**13**	10

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

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

	2016 £'000s	2015 £'000s
Derivative on shares issued on acquisition of Sidi Moktar licence	**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 was £2.5 million as at 31 December 2016 using the Company's closing share price of 74 pence.

21 Financial Instruments continued

During the year the Company recognised a gain of £583k in the income statement as a result change in share price from the date of initial recognition to 31 December 2016.

(ii) Cash and short term deposits

	Floating rate £'000s	Fixed rate £'000s	Interest-free £'000s	Total £'000s	Weighted average rate %
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**	
2015					
Sterling	5,932	–	25	5,957	0.57
Euro	7,406	–	–	7,406	0.06
US dollar	1	–	–	1	0.00
Moroccan dirham	–	1,876	–	1,876	3.75
	13,339	1,876	25	15,240	

Euro cash balances have been converted at the exchange rate of €1.17288: £1.00 (2015: €1.3572: £1.00).

Moroccan dirham cash balances have been converted at the exchange rate of MAD12.4979: £1.00 (2015: MAD14.6608: £1.00).

US dollar cash balances have been converted at the exchange rate of US$1.23412: £1.00 (2015: US$1.4803: £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 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

	2016 £'000s	2015 £'000s
Expense arising from equity-settled share options	**819**	315

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)
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**		
2015	4,000,000	5	14.25
	1,250,000	5	14.20
	1,250,000	5	14.07
Total	6,500,000		

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2016

22 Share Based Payments continued

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 37.72 (pence) (2015: 26.18 pence)
- Average risk free interest rate 0.52% (2015: 1.50%)
- Expected volatility 60.35% (2015: 67.17%)
- Assumed forfeitures 0% (2015: 0%)
- Expected dividends nil (2015: 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 19.17p (2015: 9.76p).

	2016 £'000s	**Weighted average exercise price (pence)**	2015 £'000s	Weighted average exercise price (pence)
Share options outstanding at the start of the year	**20,348,886**	**11.19**	15,698,885	10.15
Share options granted	**15,050,000**	**37.72**	6,500,000	14.21
Share options expired	**(350,000)**	**10.27**	(350,000)	16.14
Share options exercised	**(5,648,886)**	**15.85**	(1,499,999)	6.50
Share options outstanding at the end of the year	**29,400,000**	**24.59**	20,348,886	11.19

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2016 was 69.37p (2015: 17.5p). The weighted average remaining contractual life of the options outstanding at 31 December 2016 was 3.8 years (2015: 3.5 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 4.4% (2015: 4%) would be created.

23 Commitment and Guarantees

At 31 December 2016, the Group had commitments for decommissioning (note 16) and capital expenditure of approximately £20.9 million primarily for drilling of the first well at the Badile licence in Italy and exploration and appraisal activities in the Tendrara licence, on shore, Morocco. The Group provided $2.5 million as guarantee to the Moroccan Oil Ministry for the drilling of the second well at Tendrara. In 2015, the Group had provided $2.75 million guarantee for the drilling of the first well. 40% ($1.1 million) of the 2015 guarantee was released during 2016 and the balance of $1.65 million was released in January 2017 following the satisfaction by the Group of the commitment. The Group has provided €0.8 million as guarantee as part of the commitment to drill the first well at the Badile licence.

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

	Premises £'000s	**Vehicles £'000s**	**Total £'000s**
Due within one year	551	179	730
After one year but within two years	419	100	519
After two years but within five years	425	–	425
After five years	–	–	–
	1,395	279	1,674

In 2015 operating leases were not material.

24 Loans and Borrowings

Group

	2016 £'000s	2015 £'000s
Current liabilities		
Other loans	**986**	5,751
Non-current liabilities		
5 year secured bonds	**16,455**	-
Other loans	**-**	7,157
	16,455	7,157

Company

	2016 £'000s	2015 £'000s
Current liabilities		
Other loans	**986**	-
Non-current liabilities		
5 year secured bonds	**16,455**	-
Other loans	**-**	7,157
	16,455	7,157

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 are secured over the share capital of Sound Energy Holdings Italy 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 payable 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 on-going 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.

	2016 £'000s	2015 £'000s
Liability component at 1 January	**7,118**	6,588
Interest and amortised issue costs	**1,413**	1,190
Interest paid	**(545)**	(660)
Debt paid	**(7,000)**	-
	986	7,118

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2016

25 Post Balance Sheet Events

On 19 January 2017, the Company announced that it had entered into a non-binding Heads of Agreement for the acquisition of all of Oil & Gas Investment Fund's ("OGIF's") assets in Eastern Morocco. The Company would purchase from OGIF a 20% interest in Tendrara, a 75% interest in Meridja (including the 55% interest in Meridja over which the Company had previously exercised an option) and an application for a 75% position in the relinquished area close to Tendrara. The consideration for the acquisition was 272 million new ordinary shares in the Company, with the issue of the new ordinary shares subject to shareholder approval.

On 19 January 2017, the Company announced that the extended well test of TE-7 on the Tendrara licence had been successful and the results were consistent with the Company's estimates. The Company also announced the commencement of civil works at TE-8 appraisal well site on the Tendrara licence.

On 7 February 2017, the Company announced that ground works at the Tendrara TE-8 well site, onshore Morocco, were complete and that the National 110 UE (1500 HP) traditional rig, owned by Saipem SpA and used by the Company in the drilling of Sound Energy's TE-7 well, had been mobilised. Drilling of the TE-8 well was expected to commence during February 2017.

On 7 February 2017, the Company announced that as per the terms of the drilling rig contract for the Badile well, the Company had issued 830,565 new ordinary shares to Pergemine S.p.A (Pergemine) with a market value of approximately €790,000. The Contract with Pergemine provided that 23% of the service charges due to Pergemine would be settled through the issue of new ordinary shares in the Company with a value of approximately €1 million. In the event of the Badile exploration well proving successful, further new ordinary shares will be issued to Pergemine to bring the total market value of the new ordinary shares issued to Pergemine up to approximately €1 million.

On 13 February 2017, the Company announced that it had entered into an agreement for the early redemption of the existing £1 million loan originally provided to the company by Simon Davies, a former director, together with the simultaneous exercise of 9,615,384 warrants held by Simon Davies to subscribe for new ordinary shares in the Company at a price of 10.4 pence per share. The loan had a maturity date of 28 July 2017 but will be redeemed and cancelled on 1 April 2017 and the warrants will be exercised on the same date. The payment of the aggregate subscription price of £1 million for the exercise of the warrants will be deemed satisfied on the redemption and cancellation of the loan.

On 20 February 2017, the Company announced that further to the announcement made on 19 January 2017, it had entered into a binding agreement with OGIF. The terms remained as announced on 19 January 2017. Shareholders approved the new issue of shares for this transaction on 15 March 2017.

On 15 March 2017, the Company provided an update on the drilling operations and noted that the third well (TE-8) at the Tendrara licence, onshore Morocco, had been successfully drilled to the planned coring point in the TAGI reservoir at a measured depth of 2,696 metres and the Company was completing coring operations. Gas shows had been encountered and the Company was continuing to complete the drilling operations and undertake wireline logging and analysis. The Badile exploration well, onshore, Italy, had been drilled to the first casing point and was now drilling towards the second casing point at 1,400 metres.

On 23 March 2017, the Company announced that TE-8 had been drilled to the final target depth and the Company would progress with data acquisition and analysis after which the results of the well would be announced. Drilling at the Badile well, onshore Italy, had reached the second casing point at 1,407 metres and would progress towards the third casing point at approximately 2,600 metres.

On 28 March 2017, the Company announced the completion of logging at the TE-8 well and that it had successfully identified and penetrated the full sequence of Westphalian sands in the Paleozoic (between 2,762 metres through to 3,120 metres and confirmed the identification of the full sequence of thick TAGI reservoir sands (between 2,642 metres through to 2,762 metres) some 12km to the north-east of the Company's previous two wells at Tendrara.

LIST OF LICENCES AND INTERESTS

Licence	Status[1]	Key Project or Prospect Name	Key Project or Prospect Type	WI (%)	Area (km²)	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	37.5	14,500	Sound Energy Morocco
Meridja[3]	Reconnaissance	Meridja	Prospect	55	9,000	Sound Energy Morocco
Sidi Moktar	Permit	Sidi Moktar	Prospect	75	2,700	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 will increase to 55% on application for the First Complimentary Period, which is in process. There is a net cost/revenue sharing arrangement inplace which reduces the Company's effective interest to 18.75%, increasing to 27.5% on application for the First Complimentary Period. Post year end, the Company increased its interest to 75%, pending completion of the OGIF transaction. Of this, the Company's net effective interest is 47.5%.

3. The Company exercised an option to acquire a 55% interest in the exploration permit during the year and subsequently increased its interest to 75% post year end.

SHAREHOLDER INFORMATION

Dealing Information
Stock code – SOU.LN

Financial Calendar

Meetings
Annual General Meeting – May 2017

Announcements
2017 Interim – September 2017
2017 Preliminary – March 2018

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