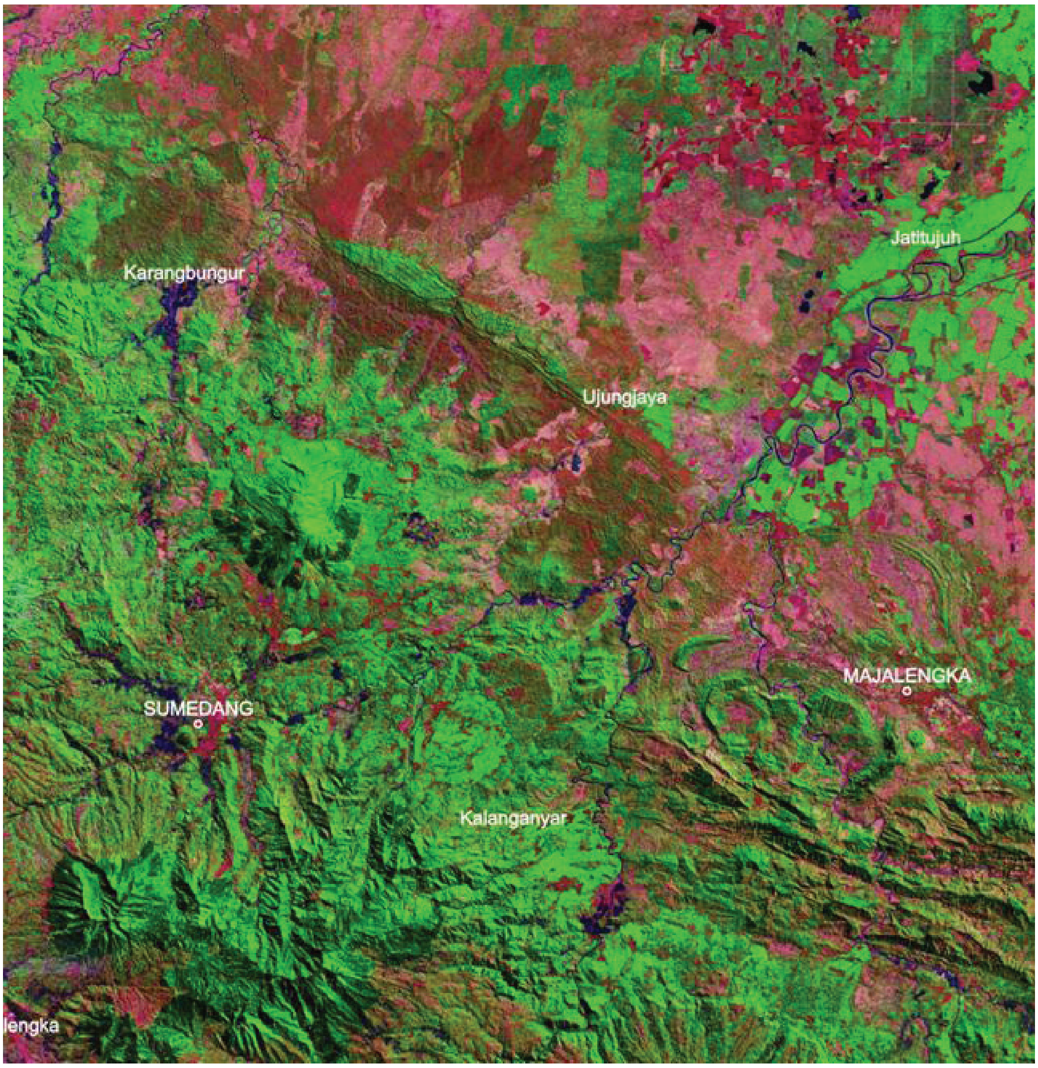


# SOUND OIL

## Annual Report 2009

Sound is an independent oil and gas exploration Company listed on the AIM market of the London Stock Exchange.

Our strategy is to add significant value from a portfolio of exploration and production assets.


*See Chairman's Statement
Cover picture: False colour LANDSAT image of the Sumedang and Majalengka areas in Citarum PSC which are the focus of current seismic operations. The image shows distinct WNW-ESE lineations reflecting the recent thrust tectonics in the area.

# Chairman's Statement

During the year the Company continued with the planned 860 km seismic program in the extensive Citarum Production Sharing Contract (PSC). The original PSC area was reduced by 35% as a result of the mandatory relinquishment involving the non-prospective, volcanic area in the southern part of the PSC. Currently more than 600km of seismic has been recorded in the retained northern part of the original area and the Operator has reported at least three new prospects from the initially processed information. Even so, the seismic acquisition started in November 2008 and will not be finished until mid 2010, some 9 months late. This delay has been caused by adverse surface geology making shot-hole drilling difficult. Since the project was a fixed cost contract the Company's exposure to this overrun is limited. We expect that the first of the three-well program will occur in the second half of 2010 depending on the results from the final seismic data.

In 2010, we have made considerable commercial progress at Bangkanai in Kalimantan, our other non-operated PSC in Indonesia. We have farmed out part of our 34.99% interest to the Operator, Elnusa Bangkanai Energy (EBE), so that we are now carried for 5% through the costs of all outstanding work including the two forthcoming obligatory exploration wells. We are also carried through the costs of developing a gas accumulation on the PSC, including the existing Kerendan gas field, up to the point of the first commercial production.

For a number of reasons, EBE has not yet undertaken the Bangkanai obligation drilling programme which was due to be addressed in the three years before end 2006. A number of extensions to the programme have been granted by the authorities up to the end of 2009. Had we not farmed out but paid our way, our share of these well costs and those costs needed to develop the field would have been around £22 million according to our latest internal estimates and those of the Operator. The Bangkanai farm out also insulates the Company from possible liabilities that might have been imposed by the Indonesian authorities because of the partnership's non-fulfillment of working obligations. These penalties might have been more than $4 million net.

The farm out involves a write down of our carrying value of the asset of £13 million which will appear in the forthcoming Interim Accounts for 2010 but this is more than offset by the £22 million reduction in future capital expenditure. Further details are provided in the Financial Review, the Directors Report and Note 24 of the accounts.

The Board estimates that our 5% carried interest in the Kerendan gas field is worth over $4.5 million assuming the development commences soon and that a gas price has been negotiated in an offtake agreement similar to the average for Indonesia. In addition our 5% interest in the two anticipated exploratory wells gives us an exposure to an unrisked net 220 billion cubic feet gas at no cost or risk to the Company.

The Bangkanai farm out has removed a financial burden from the company allowing it to consider expansion. During the year we have examined a number of opportunities for acquisition or merger and although none has come up to our requirements, we are currently evaluating projects for investment in South East Asia and elsewhere.

Again we have kept tight control of our overheads and at year end had £11 million in cash and no debt at the year end. Based on the budget estimates of the Operator of the Citarum PSC and on our own our experience of the lead times for exploration activity, the Board considers that we have sufficient funds to conduct our activities over the next 12 months and to expand the Company into good opportunities.

Finally I wish to thank our staff, the members of Sound's Board and our shareholders for their continuing support. I would especially like to thank Simon Davies who is leaving the Board after 5 years. His support and advice have been invaluable.

Gerry Orbell
**Chairman**
26 May 2010

# Board of Directors

## Gerald Orbell

**Chairman and Chief Executive**

Gerald Orbell is a petroleum geologist with over 30 years of technical, managerial and director level experience in the hydrocarbon and utilities sectors. Gerald has previously held the position of executive director of Fina Exploration, Fina Development, Premier Oil plc and United Utilities plc. Gerald is currently the chairman of Antrim Energy Inc. where he oversees the Company's business in the UK. He is also a member of the board, and chairman of the audit committee, at the compliance company Valpak Limited.

## Tony Heath

**Finance Director**

Tony Heath has over thirty years financial and general management experience in a variety of roles including finance manager of Burmah Oil's North Sea exploration activity, Finance Director of Halfords retailing group and Controller of the Burmah-Castrol Group. Tony was Finance Director of Premier Oil plc the international oil and gas exploration and production group from 1990 to 1997.

## Jossy Rachmantio

**Executive Director**

Jossy Rachmantio obtained a BSc in Material Engineering in the USA and a Masters in International Management. He has held a number of management positions in Indonesia including with Repindo Nusa Jaya (power project development), managing director of Flotec (bandwidth optimization software) and managing director of Profescripta Wahana (company restructuring). Jossy was a founding director of Mitra Energia Ltd which merged with Sound Oil in 2006.

## Simon Davies

**Non-executive Director**
**Chairman of Remuneration Committee**
**Member of Audit Committee**

Simon Davies is Chairman of Threadneedle Asset Management, which manages over £60 billion in equities, bonds, property and hedge funds for individual and institutional investors. Simon is also a director of JP Morgan Overseas Investment Trust.

## Michael Nobbs

**Non-executive Director**
**Chairman of Audit Committee**
**Member of Remuneration Committee**

Michael Nobbs has a thirty year track record in investment banking, with a focus on corporate and project finance. He was a managing director and senior credit officer for Citigroup/Citibank and the group finance director for Tishman International Companies, a major global real estate development and investment business.

## Ilham Habibie

**Non-executive Director**
**Member of Remuneration Committee**

Ilham is a co-founder and shareholder of PT. ILTHABI Rekatama, a private investment company in Indonesia, which he joined as a President Director in 2002. Through ILTHABI he invested in, and is director of, various companies in the fields of energy, mining, manufacturing and transportation. Ilham's previous professional background is largely with aerospace companies (IPTN, Indonesia; Boeing, USA). He holds a Dr.-Ing. (PhD) in Aeronautical Engineering from Technical University of Munich, and a M.B.A. from the University of Chicago, USA.

## Patrick Alexander

**Non-executive Director**
**Member of Audit Committee**

Patrick Alexander has held a number of senior positions with Chase Manhattan in banking and other businesses in New York, Indonesia and Hong Kong. Patrick is currently an Independent Commissioner of PT Astra International and is managing director of Batavia Investment Management Ltd where he has worked since 1993. Patrick was a founding director of Mitra Energia Ltd which merged with Sound Oil in 2006.

# Financial Review

## Accounting standards
The Group has prepared its 2009 full year accounts under International Financial Reporting Standards (IFRS).

## Income statement
The Group made a loss after tax in 2009 of £2,620,000 compared with a profit of £45,000 in 2008.

There was a trading loss of £1,930,000 which was £2,175,000 lower than in 2008 due to lower exploration expenditure. This reduction was more than offset by an adverse foreign exchange movement of £4,703,000 due to the weakness in the US$ in the period.

## Cash flow/financing
Net cash outflow before foreign exchange movements was £3,086,000 (2008 £3,202,000). Of this, exploration expenditure was £953,000 (2008 £1,638,000). However, there was a foreign exchange loss of £917,000 (2008 gain £4,204,000) due to the fall in the US$ reducing the sterling value of the cash deposits, most of which are held in US$, as a result of which the Group's cash balance was £4,003,000 lower at £10,622,000 (2008 £14,625,000).

The Group continues to have no borrowings.

Going concern – Forward cash flow calculations show that the Group would have sufficient financial resources for the foreseeable future. The Group's financial statements have been prepared with the assumption that the Group will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Group currently has no operating revenues and during the year ended 31 December 2009 generated a Group trading loss of £2.0 million from continuing operations. At 31 December 2009 the Group held cash and cash equivalents of £11 million. The directors have considered the Group's cash flow forecasts for the period to the end of June 2011. Forward cash flow projections show that forecast expenditure (12 months through 30 June 2011) will be less than the funds available as at 31 December 2009, and as a result, the Group has sufficient cash resources to undertake its work program in the next 12 months. Management continues to pursue farm-out and financing strategies to reduce/fund Sound's future obligations.

## Balance sheet
The reduction of £1,122,000 in the exploration and evaluation asset value was due to expenditure of £953,000 being more than offset by the weakness of the US$ reducing the sterling value.

Impairment – Under IFRS 6, the cost carried in the balance sheet may be carried forward if exploration activities have not reached a stage to allow reasonable assessment of economically recoverable reserves. As this remains the situation with both of the Group's licences, with only one exploration well having been drilled and extensive prospective areas remaining to be explored, no impairment charge has been recorded and accordingly an update of the estimated monetary value shows that the value exceeds the carrying value of our intangible evaluation and exploration assets and goodwill.

Due to the currency movement, shareholders equity has decreased from £38 million to £33 million.

## Post balance sheet event
The value of the Bangkanai assets, as assessed by the Competent Person in November 2009, was based on the eventual development of the Kerendan gas field and the risked value of the exploration prospects. This value was in excess of their carrying value in the Balance Sheet at end 2009 as indicated in Note 10. Subsequently in the Spring of 2010, although the value of the assets had not changed, the likelihood of the continuing delays by the operator in progressing the Kerendan development and exploration wells has led the Board to the conclusion that it is to the Company's benefit for its interest in the PSC to be reduced. The opportunity to assign a 29.99% interest leaving the Company with a 5% carried interest has freed the Company from its financial expenditure commitments which, together with the operator's inactivity, have hindered the Company's fund raising capability and restrained its ability to develop elsewhere. While this will involve an impairment reduction of £13 million in the Balance Sheet value of the asset as will appear in the Interim Accounts, the effect of this is offset by a £22 million reduction in the capital expenditure which would have been required to realise the value of the asset on an operational basis.

# Technical Review

Note: The commentary in this Technical Review reflects the recently announced reduction of Sound's interest in the Bangkanai PSC from 34.99% to a 5% carried interest as referred to in the Chairman's Statement.

## Licence Interests

The Group participates in two Production Sharing Contract (PSC) areas in Java and Kalimantan, Indonesia through its subsidiary company Mitra Energia Limited.

Our working interests are 20% in the Citarum PSC and 5% carried in the Bangkanai PSC.

## Bangkanai PSC

The Bangkanai PSC came to the end of its six-year Exploration Period in December 2009 without the outstanding firm commitment of two exploration wells being fulfilled by the Operator. The PSC remains in force, however, by the validity of a Plan of Development (POD) for the Kerendan gas field which is valid until July 2011.

The Kerendan field, first discovered in the 1980s, will be developed to supply gas to a local, new-build integrated power plant. The POD calls for the supply of 133 Bscf over 20 years at a maximum rate of 20 MMscfd[5]. The development plan will include re-entry of existing wells and up to five new development wells.

Independent assessment of Kerendan Field contingent recoverable resources by Senergy in December 2009 are:

| | Gross | Net to Sound (5%) |
|---|---|---|
| **Gas Contingent Resources (Bscf[4]):** | | |
| Low Estimate | 189.3 | 9.5 |
| Best Estimate | 243.2 | 12.2 |
| High Estimate | 310.8 | 15.5 |
| **Oil & Liquids Contingent Resources (MMbo[6]):** | | |
| Low Estimate | 1.98 | 0.10 |
| Best Estimate | 2.50 | 0.12 |
| High Estimate | 3.17 | 0.14 |

Progress on implementation of the POD has been delayed by scheduling difficulties for PLN[7] (the state electricity company) to install the necessary transmission link to export the power from Kerendan to the existing grid connection at Tanjung. As a result, discussions are in progress to examine the field development and electricity production costs and gas price structure that may be necessary to finance and accelerate construction of the transmission link. Formal negotiations for a Gas Sales and Purchase Agreement with PLN are ongoing. Assuming a successful conclusion to these negotiations, it is now estimated that first gas could be delivered by 2012. In any event the project is recognised by PLN as part of its 'Phase 2 10,000 MW Crash Program' for implementation across Indonesia, 2010-2014.

Senergy in a Competent Person's Report on Sound Oil's assets in December 2009 identified gross P50 prospective resource potential on Bangkanai PSC of 4550 Bscf (220 Bscf net to Sound) in four prospects. These resources include the Kerendan Deep prospect (P50 1425 Bcf gross potential) located beneath the Kerendan field which can be drilled cost-effectively by the deepening of a planned development well as already approved by BPMigas as part of the outstanding firm commitment. A separate larger, shallower structure identified as the Jupoi prospect (P50 2964 Bscf gross potential) will form the target for the other commitment well.

## Citarum PSC

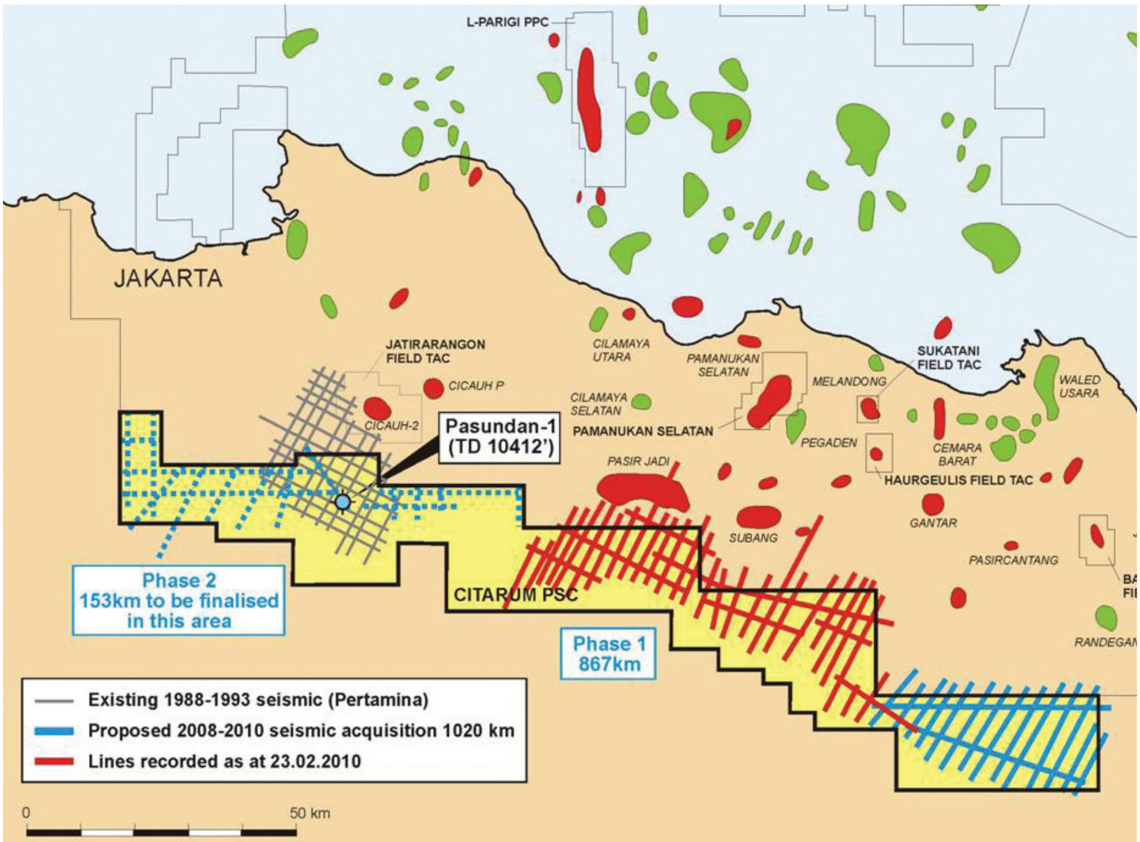


Figure 1: Map of 1020 km 2D seismic survey on Citarum PSC.

A further extension of the First Exploration Period (Contract Years 1-3) to October 2010 has been successfully negotiated with BPMigas[1]. This will allow completion of outstanding firm work commitments comprising 2D seismic survey and three wells during the coming year.

Work is ongoing on an extensive 2D seismic survey covering a large part of the northern areas of the block (Fig.1). This survey includes the outstanding 750 km firm commitment for Years 1-3 and additional commitment brought forward from the second exploration period. In view of planning and logistical constraints of working in heavily populated areas the scope of the survey has been reduced to 1020 km on the advice of BPMigas. The survey will initially acquire 867 km in the east of the block in the Subang, Sumedang and Majalengka areas, close to a number of

# Technical Review

continued

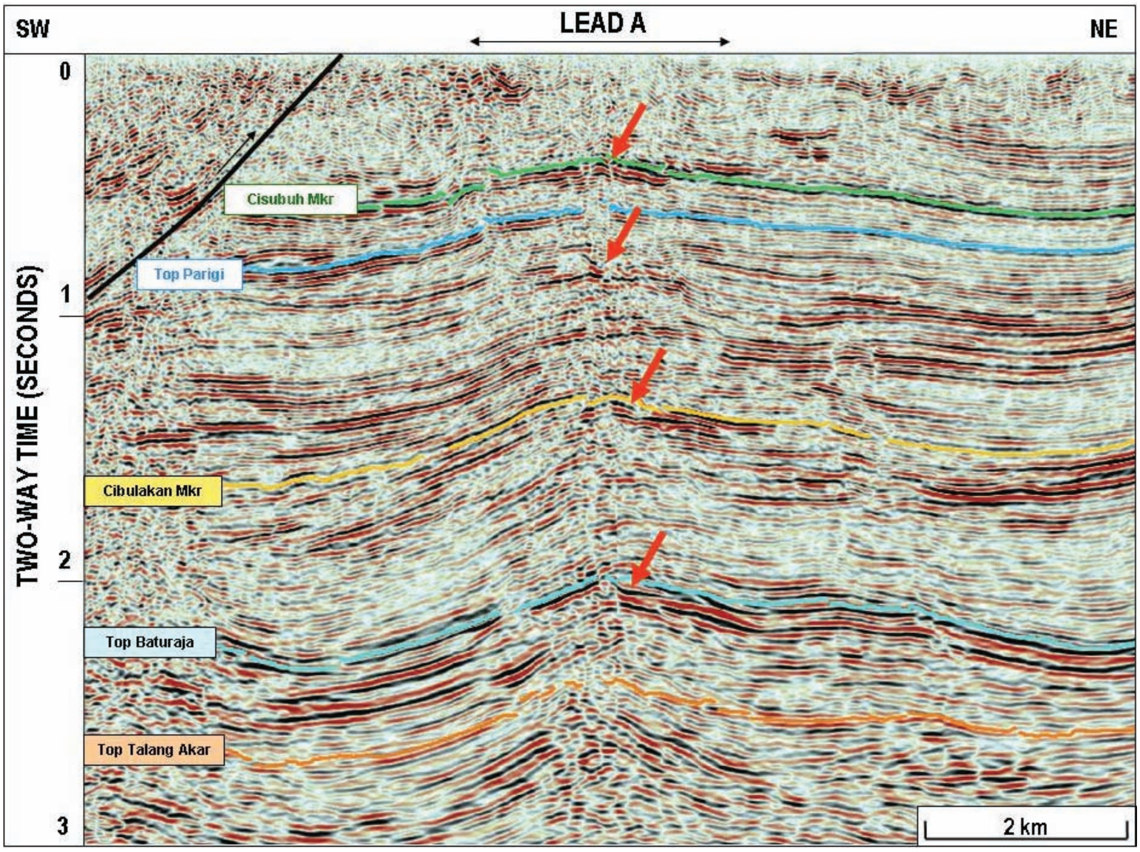


Figure 2: Preliminary processed seismic line from the Subang area of Citarum PSC. This structural lead located in front of the northeasterly directed thrust sheet shows a number of seismic amplitude anomalies (red arrows) indicative of hydrocarbon charging.

existing oil and gas discoveries and in the area of an active oil seep. A second phase of 153 km will focus on the west of the block. Recording in the Subang and Sumedang areas has been completed and initial results show some interesting leads close to the Pasirjadi gas field immediately north of the block (Fig. 2).

The first phase of seismic survey is anticipated to be completed in the second quarter 2010 enabling plans to be presented to BPMigas for drilling the remaining three exploration commitment wells on the PSC in the second half of 2010.

Senergy[2] in a Competent Person's Report on Sound Oil's assets identified gross P50 prospective resource potential[3] on Citarum PSC of 304 Bscf[4] (61 Bscf net to Sound) in three prospects in the Jonggol area covered by existing seismic surveys. These resources are recognised mainly in shallow reservoir objectives and provide additional drilling options to supplement any prospects established by the new survey in eastern areas of the block (Fig. 3).

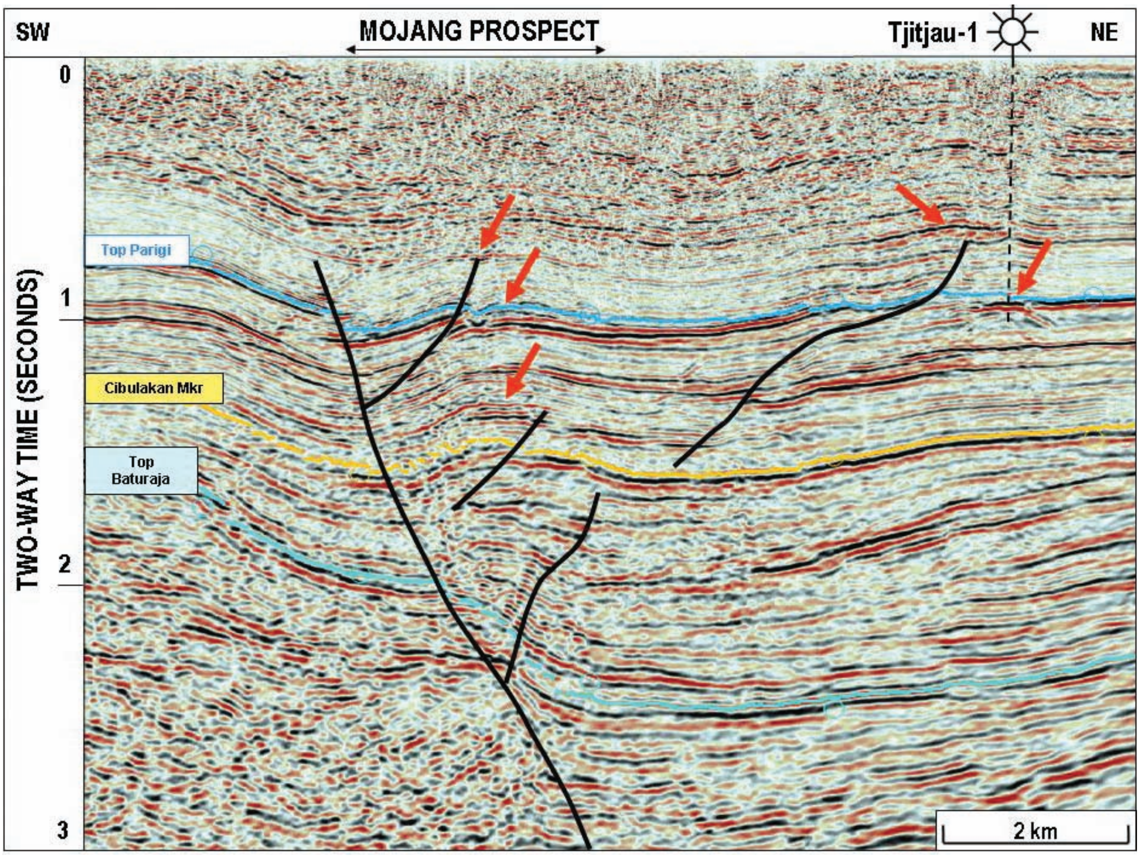


Figure 3: Seismic line from the Jonggol area of Citarum PSC over the Mojang Prospect. The structure shows seismic amplitude anomalies (red arrows) at several structural levels similar to those associated with the nearby Tjitjauh-1 gas discovery.

[1] BPMigas (Badan Pelaksana Kegitan Hulu Minyak Dan Gas Bumi) is the Indonesian Government regulatory authority for petroleum exploration and production activities.
[2] Senergy (GB) Limited is an independent petroleum consultancy company providing resource and reserve assessments.
[3] Prospective resources, consistent with SPE (The Society of Petroleum Engineers) guidelines, are quantified in terms of the statistical probability to find a given recoverable hydrocarbon (oil or gas) volume in a prospective structure considering all the geological variables involved. The P50 figure indicates a 50% chance of finding a given volume and is generally considered as the best or most-likely estimate. The P10 figure indicates a 10% chance of finding a given volume and is generally used to express the high estimate. The figures quoted in this report have been verified by Sound Oil's Head of Exploration Dr. M. J. Cope BSc PhD CGeol FGS, a qualified petroleum geologist.
[4] Billion standard cubic feet of gas.
[5] Million standard cubic feet of gas per day.
[6] Million barrels of oil.
[7] PLN (PT Perusahaan Listrik Negara) is the Indonesian state electricity company.

# Report of the Directors

The directors submit their report and the audited accounts for the year ended 31 December 2009.

### Results and dividends

The Group's loss after tax for the year amounted to £2,620,000 (2008 profit: £45,000). A dividend is not proposed.

### Activities

The principal activities of the Group are oil and gas exploration, development and production. A review of activities, prospects for the future and key performance indicators is included in the Chairman's Statement and Technical Review.

### Post balance sheet event

It is important to note that the value of the Bangkanai assets in the balance sheet at 31 December 2009 was based on the eventual development of the Kerendan gas field and the risked value of the exploration prospects. Subsequently in the Spring of 2010, although the value of the assets had not changed, the Board decided to assign a 29.99% interest in the PSC, leaving the Company with a 5% carried interest.

The decision to assign the interest has freed the Company from its financial expenditure commitments in relation to the PSC so that a write down in the carrying value of the asset of £13 million will be reflected in the forthcoming Interim Accounts, the effect of this is offset by a £22 million reduction in the future capital expenditure which would have been required to realise the value of the asset on an operational basis.

### Key performance indicators

The Company's main business is the acquisition of interests in prospective exploration acreage, the discovery of hydrocarbons in commercial quantities and the crystallisation of value whether through production or disposal of reserves. The Company tracks its non-financial performance through the accumulation of licence interests in proven and prospective hydrocarbon producing regions, the level of success in encountering hydrocarbons and the development of production facilities. In parallel, the Company tracks its financial performance through management of expenditures within resources available, the cost-effective exploitation of reserves and the crystallisation of value at the optimum point.

### Business risk and uncertainties

Sound, like all exploration companies in the oil and gas industry, operates in an environment subject to inherent risks. Many of these risks are beyond the ability of a company to control, particularly those associated with the exploring for and developing of economic quantities of hydrocarbons. Principal risks can be classified into four main categories: operational, commercial, regulatory and financial. Operational risks include drilling complications, delays and cost over-run on major projects, well blowouts, failure to encounter hydrocarbons, construction risks, equipment failure and accidents. Commercial risks include access to markets, access to infrastructure, volatile commodity prices and counterparty risks. Regulatory risks include governmental regulations, licence compliance and environmental risks. Financial risks include access to equity funding and credit.

### Share capital

The Company's authorised share capital consists of £3,000,000 divided into 3,000,000,000 Ordinary Shares of 0.1 pence each.

At the end of the year 76.92 per cent of the authorised Ordinary Share capital of the Company remained unissued.

The authority given to the directors to allot shares at the 2009 Annual General Meeting was granted for a period of one year. A resolution will be put to the Annual General Meeting to renew this authority.

A resolution will also be put to the Annual General Meeting to give to the directors authority for one year to allot shares for cash as if statutory pre-emption did not apply, although at the present time the directors do not have plans for any issue of shares.

At the Annual General Meeting, authority will be sought for the directors to grant options up to 5% of the issued share capital.

The Notice of Meeting also includes resolution 7 to amend the Company's articles of association. The amended articles (the "New Articles") include amendments to ensure that they fully comply with the provisions of the Companies Act 2006 which have come into force. It is, therefore, proposed that the Company adopts new articles of association at the Meeting to incorporate such key changes. By way of a brief summary, the principal changes to be made to the current articles include:

The Company's objects. The provisions regulating the operations of the Company are currently set out in the Company's memorandum and articles of association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope. The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006 the objects clause and all other provisions which are currently contained in a company's memorandum, for existing companies at 1 October 2009, will be deemed to be contained in a company's articles of association but the company can remove these provisions by special resolution. Further the Companies Act 2006 states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are to be treated as forming part of the Company's articles of association as of 1 October 2009. Resolution 7 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of the shareholders.

Articles which duplicate statutory provisions. Provisions in the current articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution.

Change of name. Currently, a company can only change its name by special resolution. Under the Companies Act 2006 a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the directors to pass a resolution to change the Company's name.

Authorised share capital and unissued shares. The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

Redeemable shares. At present if a company wishes to issue redeemable shares, it must include in its articles the terms and manner of redemption. The Companies Act 2006 enables directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the directors would need shareholders' authority to issue new shares in the usual way.

Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital. Under the law currently in force a company requires specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The current articles include these enabling provisions. Under the Companies Act 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the New Articles.

Provision for employees on cessation of business. The Companies Act 2006 provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary, may only be exercised by the directors if they are so authorized by the company's articles or by the company in general meeting. The New Articles provide that the directors may exercise this power.

Use of seals. A company currently requires authority in its articles to have an official seal for use abroad. After 1 October 2009 such authority is no longer required. Accordingly the relevant authorisation has been removed in the New Articles.

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the directors may approve.

Suspension of registration of share transfers. The current articles permit the directors to suspend the registration of transfers. Under the Companies Act 2006 share transfers must be registered as soon as practicable. The power in the current articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

General. Generally the opportunity has been taken to bring clearer language into the New Articles.

The new articles will, subject to the passing of resolution 7, come into effect at the conclusion of the AGM. A full copy of the amended articles of association are available from the Company's website at **WWW.SOUNDOIL.COM** or alternatively a hard copy can be requested by telephoning Stephen Ronaldson, the company secretary, on +44 (0)20 7580 6075.

### Directors

Directors of Sound holding office during the year were:

Patrick Alexander
Simon Davies
Ilham Habibie
Tony Heath
Michael Nobbs
Gerald Orbell
Jossy Rachmantio

### Substantial Shareholders

At 30 April 2010 the Company had received notification of the following interests in excess of 3% of the Company's issued ordinary shares:

| | Notified number of voting rights | Notified % of voting rights |
|---|---|---|
| Pershing Nominees Limited | 194,749,103 | 28.13 |
| Lynchwood Nominees Ltd | 67,995,726 | 9.82 |
| Fitel Nominees Ltd | 53,000,000 | 7.65 |
| Credit Suisse Client Nominees (UK) Ltd | 39,084,290 | 5.64 |

### Directors' interests

The interests, all of which are beneficial, of directors holding office at the year-end, and of their families, in Ordinary Shares of the Company are set out below.

**Ordinary Shares**

| Name | 31 Dec 2008 | 31 Dec 2009 | 30 April 2010 |
|---|---|---|---|
| Simon Davies | 5,500,000 | 5,500,000 | 2,500,000 |
| Tony Heath | 1,327,586 | 1,327,586 | 827,586 |
| Michael Nobbs | 1,945,545 | 1,945,545 | 1,945,545 |
| Gerald Orbell | 5,809,717 | 5,879,717 | 4,224,545 |
| Ilham Habibie* | 147,288,696 | 147,288,696 | 147,288,696 |
| Patrick Alexander | 18,411,155 | 18,411,155 | 16,236,155 |
| Jusuf Rachmantio | 35,522,309 | 26,272,309 | 25,797,309 |

* Shares registered in the name of Ilthabie SDN-BHD, a company jointly owned by Ilham Habibie and his brother Thareq Habibie.

Details of the remuneration and information on indemnity provisions of all directors who served during the period are shown in the Report on Directors' Remuneration on page 12.

Directors' interests in share options are shown in the Report on Directors Remuneration on page 13.

### Financial risk management objectives and policies

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. In addition the Group has various financial liabilities in the form of short term, non interest bearing sundry payables. The main risks arising from the Group's financial instruments are interest rate risk and currency exchange rate risk. The board reviews and agrees policies for managing these risks. The Group's exposure to the risk from changes in market interest rates and changes in currency exchange rates relates primarily to the Group's cash and term deposits which are subject to floating interest rates and are mainly held in US Dollars. A high proportion of the Group's expenditure is in US$ so the Group's policy is to minimize the risk of a fall in the value of sterling by maintaining a high percentage of its cash in US$. The Group's exposure to commodity price risk and credit risk is considered minimal at this stage of the Group's development.

### Going concern

Details of going concern considerations are shown in the Financial Review on page 3.

### Director election

Mr. Gerald Orbell and Mr. Patrick Alexander are the Directors retiring by rotation and, being eligible, will offer themselves for re-election at the Annual General Meeting.

### Payment policy

The Group's policy in respect of its suppliers is to establish terms of payment when agreeing the terms of business transactions and to abide by the terms of payment.

### Charitable contributions

During the period the Group made no charitable contributions.

### Auditors

Ernst & Young LLP resigned as auditors on 19 April 2010 and the Directors have appointed Mazars LLP as the Company's auditors until the next Annual General Meeting. Mazars LLP have confirmed their willingness to continue in office and a resolution to reappoint them as auditors will be put to shareholders at the forthcoming Annual General Meeting.

Each of the persons who is a director at the date of approval of this Annual Report and Financial Statements confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board
Stephen Ronaldson
**Company Secretary**
**26 May 2010**

# Report on Directors' Remuneration

## Compliance

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002.

The remuneration of all executive directors is determined by the Remuneration Committee (the 'Committee') and ratified by the Board. The Committee is composed entirely of non-executive directors, and comprises Mr Simon Davies, who chairs the Committee, Mr Michael Nobbs and Mr Ilham Habibie. None of the executive directors of the Company is involved in determining his own remuneration.

The Committee consults with the Chief Executive and takes independent advice from MM&K Limited, a leading firm of remuneration consultants, which is appointed as an advisor to the Remuneration Committee in respect of executive remuneration and share schemes. MM&K Limited does not provide any other services to the Company. No other person or company materially assisted the Committee during the year.

## Remuneration approach

The Company's remuneration policy is to provide remuneration packages which ensure that directors and senior management are fairly and responsibly rewarded for their contributions.

The Committee endorses the principle of mitigation of damages on early termination of a service contract.

It is the Committee's current intention to continue with the above remuneration approach for 2010 and subsequent years although the Committee will keep the matter under review. The Committee's current intention with regard to share options is that they may be awarded but only in special circumstances.

## Remuneration structure

The executive directors' remuneration is basic salary. There are no formal annual performance related bonus schemes with a deferred element, benefits, longer-term incentives or pension provision.

## Base salary

Base salary is reviewed each year against other comparable companies in the oil sector and general market data on the basis of companies in similar industries and those of a similar size. The objective is to ensure that the base salary provides a competitive remuneration package. The base salaries of the executive directors are currently positioned between the median and the upper quartile. While salary is reviewed by reference to market conditions, the performance of the Company and the performance of the individual, the Committee would not regard this element of remuneration as directly performance related.

## Contracts of employment

The details of executive directors' contracts of employment and non-executive directors' letters of appointment are set out below:

- Gerald Orbell has a contract of employment with a notice period for termination of 12 months.
- Tony Heath has a contract of employment with a notice period for termination of 3 months.
- Jossy Rachmantio has a contract of employment with a notice period of 6 months.
- Non-executive directors have letters of appointment with a notice period for termination of 2 months.
- The Company has granted an indemnity to all its directors under which the Company will, to the fullest extent permitted by applicable law and to the extent provided by the Articles of Association, indemnify them against all costs, charges, losses and liabilities incurred by them in the execution of their duties.
- In the event of a change of control of the Company Tony Heath has the option to give notice and receive a lump sum equivalent to 6 months' salary. Gerald Orbell, and the non-executive directors have a similar option but with an entitlement of 12 months' salary or fees.

## Summary of actual remuneration

| | Salary and fees | |
|---|---|---|
| | 2008 £'000's | 2009 £'000's |
| **Executive directors** | | |
| Gerry Orbell | 175 | 184 |
| Tony Heath | 100 | 105 |
| Jossy Rachmantio | 141 | 137 |
| **Non-executive directors** | | |
| Simon Davies | 25 | 25 |
| Michael Nobbs | 25 | 25 |
| Ilham Habibie | 25 | 25 |
| Patrick Alexander | 25 | 25 |
| **Total for all directors** | **516** | **526** |

## Share Options

At 31 December 2009 the Directors held options over the Ordinary Shares of the Company as follows:

| | Date of Grant | Exercisable Dates | Acquisition Price per share (pence) | Options held at 1 January 2009 | Options held at 31 December 2009 |
|---|---|---|---|---|---|
| G. Orbell | 13.07.06 | 26.12.07 – 13.07.12 | 7.25 | 1,400,000 | 1,400,000 |
| | 28.02.07 | 28.02.08 – 28.02.17 | 4.38 | 666,667 | 666,667 |
| | 28.02.07 | 28.02.09 – 28.02.17 | 4.38 | 666,667 | 666,667 |
| | 28.02.07 | 28.02.10 – 28.02.17 | 4.38 | 666,666 | 666,666 |
| J. Heath | 13.07.06 | 26.12.07 – 13.07.12 | 7.25 | 700,000 | 700,000 |
| | 28.02.07 | 28.02.08 – 28.02.17 | 4.38 | 333,333 | 333,333 |
| | 28.02.07 | 28.02.09 – 28.02.17 | 4.38 | 333,333 | 333,333 |
| | 28.02.07 | 28.02.10 – 28.02.17 | 4.38 | 333,334 | 333,334 |
| J. Rachmantio | 28.02.07 | 28.02.08 – 28.02.17 | 4.38 | 416,667 | 416,667 |
| | 28.02.07 | 28.02.09 – 28.02.17 | 4.38 | 416,667 | 416,667 |
| | 28.02.07 | 28.02.10 – 28.02.17 | 4.38 | 416,666 | 416,666 |

# Corporate Governance Report

The Board recognises the importance of sound corporate governance and the guidelines set out in the Combined Code on Corporate Governance (the "Combined Code"). Companies on the AIM market of the London Stock Exchange ("AIM") are not required to comply with the Combined Code, and due to its size, the Company is not in full compliance. However, the Company intends to comply so far as is practicable and appropriate.

In accordance with the Combined Code for corporate governance no director has an employment contract of more than one year.

The Board is responsible for overall strategy, acquisition policy, major capital expenditure projects, corporate overhead costs and significant financing matters. No one individual has unfettered powers of decision. There are three experienced executive directors and four non-executive directors two of which are independent.

Eleven board meetings were held during the year, all of which were attended by Messrs. Orbell, Heath, Nobbs and Rachmantio. Mr. Alexander attended ten, Mr. Habibie nine and Mr. Davies eight.

The Board has an Audit Committee comprising three of the non-executive directors. The Audit Committee receives and reviews reports from management and external auditors relating to the published accounts and the system of internal financial control.

The Board has established levels of authorisation of financial commitments and cheque signing procedures appropriate to the size of the business. The Board receives monthly reports on income and expenditure and on the Company's financial position.

On the wider aspects of internal control, relating to operational and compliance controls and risk management as included in provision D.2.1 of the Combined Code, the Board, in setting the control environment, now identifies and reviews the key areas of business risk facing the Group.

There is close, day-to-day involvement by the executive directors in all of the Group's activities. This includes the comprehensive review of both management and technical reports, the monitoring of foreign exchange and interest-rate fluctuations, government and fiscal-policy issues and cash-control procedures. Regular attendance at joint-venture meetings and frequent site visits are made. In this way, the key-risk areas can be monitored effectively and specialist expertise applied in a timely and productive manner.

Any system of internal control can provide only reasonable, and not absolute, assurance that the risk of failure to achieve business objectives is eliminated. The directors acknowledge that they are responsible for the Company's system of internal control and for reviewing its effectiveness. The directors, having reviewed the effectiveness of the system of internal controls and risk management, consider that the system of internal control operated effectively throughout the financial year and up to the date that the financial statements were signed.

The Company has less than twenty employees and the directors do not believe the Company is sufficiently complex to warrant the use of an internal audit function. The directors will review this policy as and when the Company's circumstances warrant.

The Board has a Remuneration Committee as described in the Report on Directors' Remuneration. In addition to directors' remuneration, the Committee is responsible for assessing directors' performance, planning succession for the Chairman and Chief Executive and for new nominees to the Board.

# Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare Group and Company financial statements for each financial year which present fairly the financial position of the Group and the Company and the financial performance and cash flows of the Group and the Company for that period. In preparing those Group and Company financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance; and

- state that the Group and the Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Group and Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and 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 the financial statements may differ from legislation in other jurisdictions.

As far as each of the directors are aware there is no information of which the auditors have not been made aware and all steps have been taken by all directors to make themselves aware of any matters that should be disclosed.

# Independent Auditor's Report

## to the members of Sound Oil plc

We have audited the financial statements of Sound Oil plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, Consolidated and Parent Company Balance Sheet, Consolidated and Parent Company Statement of Changes in Equity and Consolidated and Parent Company Cash Flow Statement and the related notes. 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.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 15, 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 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 (APB's) Ethical Standards for Auditors. 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.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

### Opinion on the 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 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and 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 the other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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.

Stephen Bullock (Senior statutory auditor)
for and on behalf of
Mazars LLP, Chartered Accountants
(Statutory auditors)
Tower Bridge House
St. Katherine's Way
London E1W 1DD
26 May 2010

Note: The maintenance and integrity of the Sound Oil plc website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors 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.

# Consolidated Income Statement

## for the year ended 31 December 2009

| | Notes | 2008 £'000's | 2009 £'000's |
|---|---|---|---|
| Exploration costs | | (2,926) | (334) |
| Gross loss | | (2,926) | (334) |
| Administrative expenses | | (1,179) | (1,596) |
| Group trading loss | | (4,105) | (1,930) |
| Other income | | 10 | 50 |
| Group operating loss from continuing operations | 3 | (4,095) | (1,880) |
| Finance revenue | 6 | 250 | 19 |
| Foreign exchange gain/(loss) | | 3,917 | (786) |
| Profit/(loss) before income tax | | 72 | (2,647) |
| Income tax (charge) or credit | | (27) | 27 |
| **Profit/(loss) for the period attributable to the equity holders of the parent** | | 45 | (2,620) |
| **Other comprehensive income/(loss):** | | | |
| **Foreign currency translation income/(loss)** | | **6,494** | **(2,258)** |
| **Total comprehensive income/(loss) for the period attributable to the equity holders of the parent** | | **6,539** | **(4,878)** |

| | | | |
|---|---|---|---|
| **Earnings per share basic and diluted for the period attributable to the equity holders of the parent (pence)** | 8 | 0.01 | (0.38) |

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent Company income statement.

# Consolidated Balance Sheet

## as at 31 December 2009

| Group | Notes | 2008 £'000's | 2009 £'000's |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 65 | 32 |
| Intangible assets | 10 | 5,277 | 4,797 |
| Exploration and evaluation assets | 11 | 23,307 | 22,185 |
| Other debtors | 13 | 651 | 792 |
| | | **29,300** | **27,806** |
| **Current assets** | | | |
| Other debtors | 13 | 414 | 192 |
| Prepayments | | 75 | 108 |
| Current tax receivable | 7 | – | 27 |
| Cash and short term deposits | 14 | 14,625 | 10,622 |
| | | **15,114** | **10,949** |
| **Total assets** | | **44,414** | **38,755** |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 1,188 | 897 |
| Current tax payable | 7 | 27 | – |
| | | **1,215** | **897** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 16 | 5,277 | 4,797 |
| Provisions | 17 | 104 | 105 |
| | | **5,381** | **4,902** |
| **Total liabilities** | | **6,596** | **5,799** |
| **Net assets** | | **37,818** | **32,956** |
| **Capital and reserves attributable to equity holders of the Company** | **18** | | |
| Equity share capital | | 36,456 | 36,456 |
| Foreign currency reserve | | 5,289 | 3,030 |
| Accumulated deficit | | (3,927) | (6,530) |
| **Total equity** | **18** | **37,818** | **32,956** |

Approved by the Board on 26 May 2010

G Orbell
Director

J A Heath
Director

The accounting policies on pages 24 to 29 and notes on pages 24 to 46 form part of these financial statements.

# Company Balance Sheet

## as at 31 December 2009

| Company | Notes | 2008<br>£'000's | 2009<br>£'000's |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 3 | – |
| Investment in subsidiaries | 12 | 22,631 | 24,833 |
| | | **22,634** | **24,833** |
| **Current assets** | | | |
| Other debtors | 13 | 321 | 34 |
| Prepayments | | 37 | 33 |
| Current tax receivable | | – | 27 |
| Cash and short term deposits | 14 | 13,779 | 9,854 |
| | | **14,137** | **9,948** |
| **Total assets** | | **36,771** | **34,781** |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 255 | 333 |
| Current tax payable | | 27 | – |
| **Total liabilities** | | **282** | **333** |
| **Net assets** | | **36,489** | **34,448** |
| **Capital and reserves** | 18 | | |
| Equity share capital | | 36,456 | 36,456 |
| Retained earnings/(accumulated deficit) | | 33 | (2,008) |
| **Total equity** | 18 | **36,489** | **34,448** |

Approved by the Board on 26 May 2010

G Orbell
Director

J A Heath
Director

The accounting policies on pages 24 to 29 and notes on pages 24 to 46 form part of these financial statements.

# Consolidated Statement of Changes in Equity

## for the year ended 31 December 2009

**Group**

| | Note | Share capital £'000's | Share premium £'000's | Accumulated deficit £'000's | Foreign currency reserve £'000's | Total equity £'000's |
|---|---|---|---|---|---|---|
| At 1 January 2009 | | 692 | 35,764 | (3,927) | 5,289 | 37,818 |
| Total loss for the year | | – | – | (2,620) | – | (2,620) |
| Total comprehensive loss | | – | – | – | (2,259) | (2,259) |
| Total comprehensive income/(loss) | | – | – | (2,620) | (2,259) | (4,879) |
| Share based payments | 22 | – | – | 17 | – | 17 |
| At 31 December 2009 | | 692 | 35,764 | (6,530) | 3,030 | 32,956 |

| | Note | Share capital £'000's | Share premium £'000's | Accumulated deficit £'000's | Foreign currency reserve £'000's | Total equity £'000's |
|---|---|---|---|---|---|---|
| At 1 January 2008 | | 692 | 35,764 | (4,015) | (1,205) | 31,236 |
| Total profit for the year | | – | – | 45 | – | 45 |
| Total comprehensive income | | – | – | – | 6,494 | 6,494 |
| Total comprehensive income/(loss) | | – | – | 45 | 6,494 | 6,539 |
| Share based payments | 22 | – | – | 43 | – | 43 |
| At 31 December 2008 | | 692 | 35,764 | (3,927) | 5,289 | 37,818 |

# Company Statement of Changes in Equity

## for the year ended 31 December 2009

**Company**

| | Note | Share capital £'000's | Share premium £'000's | Accumulated retained earnings/ (deficit) £'000's | Total equity £'000's |
|---|---|---|---|---|---|
| At 1 January 2009 | | 692 | 35,764 | 33 | 36,489 |
| Total loss for the year | | – | – | (2,058) | (2,058) |
| Other comprehensive (loss)/income | | – | – | – | – |
| Total income and expense for the year | | – | – | (2,058) | (2,058) |
| Share based payments | 22 | – | – | 17 | 17 |
| At 31 December 2009 | | 692 | 35,764 | (2,008) | 34,448 |

| | Note | Share capital £'000's | Share premium £'000's | Accumulated retained earnings/ (deficit) £'000's | Total equity £'000's |
|---|---|---|---|---|---|
| At 1 January 2008 | | 692 | 35,764 | (2,997) | 33,459 |
| Total profit for the year | | – | – | 2,987 | 2,987 |
| Other comprehensive (loss)/income | | – | – | – | – |
| Total income and expense for the year | | – | – | 2,987 | 2,987 |
| Share based payments | 22 | – | – | 43 | 43 |
| At 31 December 2008 | | 692 | 35,764 | 33 | 36,489 |

# Consolidated Cash Flow Statement

## for the year ended 31 December 2009

| | Notes | 2008 £'000's | 2009 £'000's |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash flow from operations | | (1,652) | (2,145) |
| Interest received | 6 | 250 | 19 |
| **Net cash flow from operating activities** | | **(1,402)** | **(2,126)** |
| **Cash flow from investing activities** | | | |
| Capital expenditure and disposals | 9 | (26) | (7) |
| Exploration expenditure | | (1,638) | (953) |
| Investment in associate | 11 | (136) | – |
| **Net cash flow from investing activities** | | **(1,800)** | **(960)** |
| **Net decrease in cash and cash equivalents** | | **(3,202)** | **(3,086)** |
| **Net cash flow from financing activities** | | **–** | **–** |
| **Net foreign exchange difference** | | **4,204** | **(917)** |
| **Cash and cash equivalents at the beginning of the year** | | **13,623** | **14,625** |
| **Cash and cash equivalents at the end of December** | **14** | **14,625** | **10,622** |

## Notes to cash flow

| | Notes | 2008 £'000's | 2009 £'000's |
|---|---|---|---|
| **Cash flow from operations reconciliation** | | | |
| **Profit/(loss) after tax** | | **45** | **(2,620)** |
| Finance revenue | 6 | (250) | (19) |
| Foreign exchange (gain)/loss | | (3,917) | 786 |
| Exploration expenditure written off | | 2,295 | (63) |
| Income tax charge (credit) | | 27 | (27) |
| Increase/(decrease) in accruals and short term creditors | | 700 | (210) |
| Depreciation | 3 | 58 | 36 |
| Share based payments charge | 22 | 43 | 17 |
| (Decrease)/increase in long term provisions | | (7) | 11 |
| Increase in long term debtors | | (259) | (204) |
| (Increase)/decrease in short term debtors | | (387) | 148 |
| **Cash flow from operations** | | **(1,652)** | **(2,145)** |

# Company Cash Flow Statement

for the year ended 31 December 2009

| | Notes | 2008 £'000's | 2009 £'000's |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Cash flow from operations | | (1,330) | (961) |
| Interest received | | 248 | 19 |
| **Net cash flow from operating activities** | | **(1,082)** | **(942)** |
| Cash flow from investing activities | | | |
| Capital expenditure and disposals | 9 | – | – |
| Investment in subsidiary undertakings | | (2,083) | (2,202) |
| **Net cash flow from investing activities** | | **(2,083)** | **(2,202)** |
| Cash flow from financing activities | | | |
| Proceeds from equity issue | | – | – |
| **Net cash flow used in financing activities** | | **–** | **–** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(3,165)** | **(3,144)** |
| **Net foreign exchange difference** | | **3,925** | **(781)** |
| **Cash and cash equivalents at the beginning of the year** | | **13,019** | **13,779** |
| **Cash and cash equivalents at the end of December** | | **13,779** | **9,854** |

## Notes to cash flow

| | Notes | 2008 £'000's | 2009 £'000's |
|---|---|---|---|
| Cash flow from operations reconciliation | | | |
| **Profit/(loss) after tax** | | **2,987** | **(2,059)** |
| Finance revenue | | (248) | (19) |
| Foreign exchange (gain)/loss | | (3,925) | 782 |
| Income tax charge (credit) | | 27 | (27) |
| Income tax payments | | – | 27 |
| Increase/(decrease) in accruals and short term creditors | | 96 | 78 |
| Depreciation | 9 | 3 | 3 |
| Share based payments | 22 | 43 | 17 |
| Decrease/(increase) in short term debtors | | (313) | 237 |
| **Cash flow from operations** | | **(1,330)** | **(961)** |

# Notes to the Financial Statements

## 1 Accounting policies

### (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) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission (EC) for use in the European Union (EU); and

(2) those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The consolidated financial statements have been prepared under the historical cost convention.

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 2009 were authorised for issue by the board of directors on 28 May 2010.

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review above. As at 31 December 2009 the Group had £11 million of available cash. The Directors are required to consider the availability of resources to meet the Group and Company's liabilities for the foreseeable future. As described above, the current business environment is challenging and access to new equity and debt remains uncertain. Based on current management plan, management believe 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 of forecast expenditure (12 months through 30 June 2011) will be less than the funds available as at 31 December 2009. Management will also continue to pursue farm-out and financing strategies to reduce/fund Sound's future obligations.

#### 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 has 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 assets (E&E assets), 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 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.

Goodwill is tested annually and at other times when impairment indications exist. When value in use calculations are undertaken, management estimates the expected futures cash-flows from the asset and chooses a suitable discount rate in order to calculate the present value of those cash-flows. In undertaking these value in use calculations, management is required to make use of estimates and assumptions similar to those described in the treatment of E&E assets above. Further details are given in Note 10.

The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the continuing participation of key employees (see note 22).

## (b) Basis of consolidation

The Group financial statements consolidate the Income Statements and Balance Sheets of the Company and its subsidiary undertakings. Joint venture undertakings are accounted for using the proportionate consolidation method from the date that significant influence or joint control (respectively) commences until the date this ceases. Associates are accounted for using the equity method.

### Investments in subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. 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, plus costs directly attributable to the acquisition.

### Joint ventures

The Group conducts oil and gas exploration and production activities jointly with other venturers who each have direct ownership in and jointly control the assets of the ventures. These are classified as jointly controlled assets and consequently, these financial statements reflect only the Group's proportionate interest in such activities.

### Associates

Entities, other than subsidiary undertakings or joint arrangements, in which the Group has a participating interest and over whose operating and financial policies the Group exercises a significant influence are treated as associates. In the Group's financial statements associates are accounted for using the equity method.

### 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 functional currency of the Indonesian subsidiaries is US dollars.

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. The resulting exchange differences are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

# Notes to the Financial Statements
continued

## (d) Oil and gas assets

The Group's entire capitalised oil and gas costs 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 and 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 exploration and evaluation assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as exploration and evaluation assets.

### Treatment of exploration and evaluation expenditure at the end of appraisal activities

Intangible E and 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 commercial reserves have been discovered and development has been approved, the carrying value, after any impairment loss, of the relevant E and 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 and E expenditures incurred in finding commercial reserves transferred from intangible E and E assets as outlined in the accounting policy above.

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

### Impairment of development and production assets

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

The carrying value is compared against 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 inter-dependent.

### 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.

## (e) Expenses recognition

Expenses are recognised on the accruals basis unless otherwise stated.

## (f) Property, plant and equipment

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

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

## (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.

## (h) 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 un-remitted 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.

## (i) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

## (j) Financial instruments

Financial instruments comprise of financial assets and liabilities and are held at amortised cost. Financial assets are classified as loans and recoverables.

## (k) 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 binomial option-pricing model based upon the option price, the share price at the date of issue, volatility and the life of the option. The estimated fair value of the option is amortised

# Notes to the Financial Statements

continued

to 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.

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

- *IFRS 3 (Revised) 'Business Combinations' and IAS 27 (Revised) 'Consolidated and Separate Financial Statements'*, issued in January 2008 and becomes effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date and will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by partially-owned subsidiaries as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *'Statement of Cash Flows'*, IAS 12 *'Income Taxes'*, IAS 21 *'The Effects of Changes in Foreign Exchange Rates'*, IAS 28 *'Investment in Associates'* and IAS 31 *'Interests in Joint Ventures'*. The changes to IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards will not be adopted early.

- *IAS 39 'Financial instruments: Recognition and measurement – Eligible Hedged Items'*, issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The adoption of this standard will not have any effect on the financial performance or position of the Group.

- *IFRIC 17 'Distribution of Non-cash Assets to Owners'*, issued in November 2008 and becomes effective for financial years beginning on or after 1 July 2009. IFRIC 17 clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. It also clarifies that an entity should measure the dividend payable at the fair value of the net assets to be distributed and that an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The adoption of this standard will not have any effect on the financial performance or position of the Group.

- *IFRS 2 Share-based Payment* Amendment relating to Group cash settled share-based payments, effective for financial years beginning on or after 1 January 2010.

- *IFRS 9 Financial instruments, Classification and Measurement* Effective for financial periods beginning on or after 1 January 2013.

- *IAS 24 Related Party Disclosures* Revised definitions of related parties effective for financial years beginning on or after 1 January 2011.

- *IAS 32 Financial Instruments: Presentation* Amendments relating to classification of rights issues, effective for financial years beginning on or after 1 February 2010.

- *IFRIC 19 Extinguishing Financial Liability with Equity Instruments* Effective for financial years beginning on or after 1 July 2010.

## (m) Earnings per share

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

## (n) 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.

# 2 Segment information

The Group has adopted IFRS 8, Operating Segments which requires information on the separate segments of a business.

The Group's activity consists of a single operating segment, being the exploration for oil and gas in Indonesia. The Group's exploration activities are carried out under two Production Sharing Contracts (PSC's), Bangkanai and Citarum. To date there has been no development activity, production or turnover. Per IFRS 8 operating segments are based on internal reports about components of the group which are regularly reviewed and used by 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. The Chief Operating Decision Maker is considered to be the Board of Directors. Capitalised exploration expenditure in the Balance Sheet is £22.2 million, which is comprised of £3.8 million for the Bangkanai PSC, £2.4 million for the Citarum PSC and £16.0 million for the fair value uplift which arose on acquisition of the company which owned the PSC's, (at end 2008 £4.2 million, £1.5 million and £17.6 million respectively). The decreases were due to the effect of the weakness of sterling in translation from US$.

The non current assets all relate to the one geographical location in which the Group operates, which is Indonesia.

The Group have not provided information on revenue and products and services as it is not yet trading.

# 3 Operating loss

Operating loss is stated after charging/(crediting):

| | Notes | 2008 £'000's | 2009 £'000's |
|---|---|---|---|
| Auditors' remuneration | 4 | 200 | 119 |
| Depreciation | 9 | 58 | 30 |
| Employee costs | 5 | 970 | 952 |
| Impairment charge/(write back) | 12 | 2,295 | (63) |
| VAT recovered | | (245) | – |

# 4 Auditors' remuneration

| | Notes | 2008 £'000's | 2009 £'000's |
|---|---|---|---|
| Audit of financial statements | | 160 | 114 |
| Other services relating to taxation | | 40 | 5 |
| All other services | | – | – |
| Charged to income statement | 3 | **200** | **119** |

# Notes to the Financial Statements

continued

## 5 Employee costs

| | Notes | 2008 £'000's | 2009 £'000's |
|---|---|---|---|
| Staff costs, including executive directors | | | |
| Share based payments | 22 | 43 | 18 |
| Wages and salaries | | 792 | 824 |
| Social security costs | | 135 | 110 |
| **Total** | 3 | **970** | **952** |

| | 2008 | 2009 |
|---|---|---|
| Number of employees (including executive directors) at the end of the year | | |
| Technical and operations | 5 | 5 |
| Management and administration | 11 | 11 |
| **Total** | **16** | **16** |

Details of the directors' emoluments are shown in the Report of Directors Remuneration on page 12.

## 6 Finance revenue

| | 2008 £'000's | 2009 £'000's |
|---|---|---|
| Interest on cash at bank and short-term deposits | 250 | 19 |
| **Total** | **250** | **19** |

## 7 Taxation

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

| | 2008 £'000's Group | 2009 £'000's Group |
|---|---|---|
| Current tax | | |
| United Kingdom corporation tax (charge)/credit | (27) | – |
| Adjustment to tax expense in respect of prior years | - | 27 |
| Overseas tax | - | – |
| **Total current tax (charge)/credit** | **(27)** | **27** |
| Deferred tax | | |
| Deferred tax income arising in the current year | - | – |
| **Total deferred tax** | **–** | **–** |
| **Total tax (charge)/credit** | **(27)** | **27** |

**(b) Reconciliation of tax charge:**

| | 2008 £'000's Group | 2009 £'000's Group |
|---|---|---|
| (Loss)/profit before tax | 72 | (2,647) |
| Tax (charge)/credit at UK corporation tax rate of 29% (2008: 28.5%) | (21) | 769 |
| Effects of: | | |
| Expenses not deductible for tax purposes | (13) | (6) |
| Temporary differences not recognised | – | (559) |
| Utilisation of previously unrecognised deferred tax assets | 844 | – |
| Differences in overseas tax rates | (837) | (177) |
| **Total tax (charge)/credit** | **(27)** | **27** |

## 8 Profit/(loss) per shar\e

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:

| | 2008 £'000's | 2009 £'000's |
|---|---|---|
| (Loss)/profit after tax | 45 | (2,620) |

| | 2008 million | 2009 million |
|---|---|---|
| Weighted average shares in issue | 692 | 692 |

| | 2008 Pence | 2009 Pence |
|---|---|---|
| (Loss)/profit per share (basic) | 0.01 | (0.38) |
| Profit per share (diluted) | 0.01 | |

The diluted profit per share for 2008 includes the potential ordinary shares resulting from the exercise of the share options and is calculated on the profit of the year of £45,000 divided by 699 million dilutive potential ordinary shares.

Diluted loss per share has not been disclosed for 2009 as inclusion of unexercised options would be anti-dilutive.

# Notes to the Financial Statements

continued

## 9 Property plant and equipment

### Group

| | Notes | Fixtures, fittings and office equipment £'000's | Total £'000's |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2009 | | 216 | 216 |
| Exchange adjustments | | (19) | (19) |
| Additions | | 7 | 7 |
| At 31 December 2009 | | 204 | 204 |
| **Depreciation** | | | |
| At 1 January 2009 | | 151 | 151 |
| Exchange adjustments | | (15) | (15) |
| Charge for the year | 3 | 36 | 36 |
| At 31 December 2009 | | 172 | 172 |
| Net book amount at 31 December 2009 | | 32 | 32 |

| | Notes | Fixtures, fittings and office equipment £'000's | Total £'000's |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2008 | | 134 | 134 |
| Exchange adjustments | | 55 | 55 |
| Additions | | 27 | 27 |
| At 31 December 2008 | | 216 | 216 |
| **Depreciation** | | | |
| At 1 January 2008 | | 57 | 57 |
| Exchange adjustments | | 36 | 36 |
| Charge for the year | 3 | 58 | 58 |
| At 31 December 2008 | | 151 | 151 |
| Net book amount at 31 December 2008 | | 65 | 65 |

## 9 Property plant and equipment - continued

### Company

| | Fixtures, fittings and office equipment £'000's | Total £'000's |
|---|---|---|
| **Cost** | | |
| At 1 January 2009 | 9 | 9 |
| At 31 December 2009 | 9 | 9 |
| **Depreciation** | | |
| At 1 January 2009 | 6 | 6 |
| Charge for the year | 3 | 3 |
| At 31 December 2009 | 9 | 9 |
| Net book amount at 31 December 2009 | – | – |

| | Fixtures, fittings and office equipment £'000's | Total £'000's |
|---|---|---|
| **Cost** | | |
| At 1 January 2008 | 9 | 9 |
| At 31 December 2008 | 9 | 9 |
| **Depreciation** | | |
| At 1 January 2008 | 3 | 3 |
| Charge for the year | 3 | 3 |
| At 31 December 2008 | 6 | 6 |
| Net book amount at 31 December 2008 | 3 | 3 |

# Notes to the Financial Statements

continued

## 10 Intangible assets

### Goodwill

| | 2008<br>£'000's | 2009<br>£'000's |
|---|---|---|
| **Cost** | | |
| At 1 January | 3,825 | 5,277 |
| Exchange adjustments | 1,452 | (480) |
| Acquisitions | – | – |
| At 31 December | 5,277 | 4,797 |
| **Impairment losses** | | |
| At 1 January | – | – |
| Impairment in the year | – | – |
| At 31 December | – | – |
| Net book amount at 31 December | 5,277 | 4,797 |

### Group

The goodwill balance that had arisen on the acquisition of the Mitra group in July 2006 has been allocated to the cash generating unit ('CGU') identified according to business segment. In assessing whether goodwill has been impaired, the carrying amount of the CGU, including goodwill, is compared with the recoverable amount of the CGU.

The recoverable amount of each CGU is based on value in use calculations. The methodology to arrive at the value in use calculation was based on Net Present Value (NPV) for proven contingent resources, in this case the Kerendan Field, and Estimated Monetary Value (EMV) for prospective resources on Bangkanai PSC and Citarum PSC. In addition, EMV includes an assessment of risk for the geological uncertainties of undrilled prospects as indicated in the Competent Person's Report in respect of Sound's assets in December 2009.

The calculation of value in use is most sensitive to the assumptions for production and operating expenditure and is entirely reliant on the availability of finance to fund capital expenditure on the development of E&E assets.

These assumptions are based on the assumptions as defined in the Plan of Development for the Kerendan gas field. The 2007 fair value less costs to sell calculations are based on a gas price of $2.98/MMBtu which was obtained from the Heads of Agreement (HOA) of the sales contract between Elnusa and PT Medco Power. A final sales agreement has not yet been signed. The 2009 calculations are based on a significantly higher expected gas price of $4.75 per MMBtu, which is based on current negotiations between the Bangkanai Partners and PLN, the Indonesian state electricity utility, and corresponding Capex revisions.

Estimates of the NPV of any project, and particularly of projects like the Group's interests in the Bangkanai PSC and the Citarum PSC, are always subject to many factors and wide margins of error. The directors believe that the estimates and calculations supporting their conclusions have been carefully considered and are a fair representation of the projected financial performance of the projects.

The NPV calculations have been prepared over the period of the PSC and the duration of the sales contract. A discount rate of 10% has been used (2008: 10%), which is standard industry practice.

The EMV for unappraised and undiscovered resources is a risked estimate of the value of prospective resources at $0.25 per mcf for gas.

### Company

The Company has no goodwill.

## 11 Exploration and evaluation assets

| | 2008 £'000's | 2009 £'000's |
|---|---|---|
| **Cost** | | |
| **At 1 January** | **15,428** | **26.248** |
| Additions | 3,800 | 953 |
| Exchange adjustments | 7,020 | (2,078) |
| **At 31 December** | **26,248** | **25,123** |
| **Impairment** | | |
| **At 1 January** | **–** | **2,941** |
| Charge for the year | 2,295 | (63) |
| Exchange adjustments | 646 | 60 |
| **At 31 December** | **2,941** | **2,938** |
| **Net book amount at 31 December** | **23,307** | **22,185** |

The impairment cost during 2008 of £2,295,000 (2009: £63,000 write back adjustment) related to the cost of the dry well Pasundan 1 well written off. Its exceptionally high cost resulted from technical problems which occurred during drilling. The write-back in the current year represents a correction to the estimate made in the prior year. Comparative figures have not been restated as the amount involved is not considered material. The impairment/write back has been included in the line item, 'exploration costs' in the consolidated income statement.

The recoverable amount is the value in use of the asset. A discount factor of 10% has been used in the current estimate of value in use.

Considerations in relation to potential impairment of E&E assets are similar to those in relation to potential impairment of goodwill described in note 10 above.

The Parent Company has no exploration and evalution assets.

## 12 Investment in subsidiaries

### Company

| | 2008 £'000's | 2009 £'000's |
|---|---|---|
| At 1 January | 20,548 | 22,631 |
| Additions | 2,083 | 2,202 |
| **At 31 December** | **22,631** | **24,833** |

# Notes to the Financial Statements

continued

The subsidiary undertakings of the Company at 31 December 2009 which are all 100% owned by the Company are:

| Name | Incorporated | Principal activity |
|---|---|---|
| Sound Oil International Limited | British Virgin Islands | Holding company |
| Sound Oil Asia Limited* | British Virgin Islands | Holding company |
| Mitra Energia Limited* | Mauritius | Holding and services company |
| Mitra Energia Citarum Limited* | Mauritius | Exploration company |
| Mitra Energia Bankanai Limited* | Mauritius | Exploration company |

*The investments in Mitra Energia Limited, Mitra Energia Citarum Limited, Mitra Energia Bankanai Limited and Sound Oil Asia Limited are held indirectly via Sound Oil International Limited through non-current, non-interest bearing loans from Sound Oil plc. Given that Sound Oil plc has no intention to call on the loans in the foreseeable future, the loans are treated as "permanent as equity". As a result, Sound Oil plc has classified these loans as investments which represent the carrying value of the investment in the Mitra group of companies.

## 13 Other debtors

### Group

| | 2008 | | 2009 | |
|---|---|---|---|---|
| | Current £'000's | Non-current £'000's | Current £'000's | Non-current £'000's |
| Indonesian VAT recoverable from future production | – | 565 | – | 692 |
| UK VAT recoverable | 315 | - | 28 | – |
| Other receivables | 99 | 86 | 164 | 100 |
| **Total** | **414** | **651** | **192** | **792** |

### Currency analysis

| | 2008 | | 2009 | |
|---|---|---|---|---|
| | Current £'000's | Non-current £'000's | Current £'000's | Non-current £'000's |
| US Dollar | 93 | 651 | 131 | 792 |
| GBP Sterling | 321 | – | 61 | – |
| **Total** | **414** | **651** | **192** | **792** |

### Company

| | 2008 | | 2009 | |
|---|---|---|---|---|
| | Current £'000's | Non-current £'000's | Current £'000's | Non-current £'000's |
| UK VAT recoverable | 315 | - | 28 | – |
| Other receivables | 6 | – | 6 | – |
| **Total** | **321** | **–** | **34** | **–** |

### Currency analysis

| | 2008 | | 2009 | |
|---|---|---|---|---|
| | **Current £'000's** | **Non-current £'000's** | **Current £'000's** | **Non-current £'000's** |
| US Dollar | – | – | – | – |
| GBP Sterling | 321 | – | 34 | – |
| **Total** | **321** | **–** | **34** | **–** |

Indonesian VAT is recoverable on commencement of production.

Other current receivables are due within thirty days and non-current receivables are due within one to two years.

## 14 Cash and short term deposits

### Group

| | 2008 £'000's | 2009 £'000's |
|---|---|---|
| Cash at bank and in hand | 9,560 | 1,627 |
| Cash equivalents: | | |
| Short term deposits | 4,281 | 8,699 |
| | 13,841 | 10,326 |
| Cash in hands of joint venture operators | 784 | 296 |
| **Carrying amount at 31 December** | **14,625** | **10,622** |

### Company

| | 2008 £'000's | 2009 £'000's |
|---|---|---|
| Cash at bank and in hand | 9,498 | 1,155 |
| Cash equivalents: | | |
| Short term deposits | 4,281 | 8,699 |
| **Carrying amount at 31 December** | **13,779** | **9,854** |

# Notes to the Financial Statements

continued

## 15 Trade and other payables

### Group

| | 2008 Current £'000's | 2009 Current £'000's |
|---|---|---|
| Trade payables | 318 | 328 |
| Payroll taxes and social security | 78 | 78 |
| Accruals | 316 | 226 |
| Other payables | 476 | 265 |
| **Total** | **1,188** | **897** |

### Currency analysis

| | 2008 Current £'000's | 2009 Current £'000's |
|---|---|---|
| US Dollar | 933 | 564 |
| GBP Sterling | 255 | 333 |
| **Total** | **1,188** | **897** |

### Company

| | 2008 Current £'000's | 2009 Current £'000's |
|---|---|---|
| Trade payables | 71 | 149 |
| Payroll taxes and social security | 19 | 20 |
| Accruals | 165 | 164 |
| Other payables | – | – |
| **Total** | **255** | **333** |

All current liabilities are due within thirty days and are carried at amortised cost.

| | 2008 Current £'000's | 2009 Current £'000's |
|---|---|---|
| Currency analysis | | |
| US Dollar | – | – |
| GBP Sterling | 255 | 333 |
| **Total** | 255 | 333 |

# 16 Deferred tax assets and liabilities

| | 2008 £'000's | 2009 £'000's |
|---|---|---|
| **1 January** | **3,825** | **5,277** |
| Acquisitions | - | – |
| Unrealised foreign exchange (decrease)/increase | 1,452 | (480) |
| **31 December** | **5,277** | **4,797** |

The deferred tax liability arose on the tax difference between the carrying value of the exploration and evaluation assets and the tax value of those assets.

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| | 2008 £'000's | 2009 £'000's |
|---|---|---|
| Tax losses | – | 551 |

Deferred tax assets have not been recognised in respect of the losses due to uncertainty of utilisation of these losses.

# 17 Non-current provisions

| Employee post employment benefits | 2008 £'000's | 2009 £'000's |
|---|---|---|
| **At 1 January** | **82** | **104** |
| Addition | 22 | 1 |
| Utilised | - | – |
| **At 31 December** | **104** | **105** |

The Group's principal subsidiary provides employee post employment benefits in accordance with Indonesian law. This provision is measured using a projected unit credit method. The liability for long service and annual leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

There are no provisions in the parent Company.

# Notes to the Financial Statements

continued

## 18 Capital and reserves

### Group

| Ordinary shares – 0.1p | Number of shares | 2008 £'000s | Number of shares | 2009 £'000s |
|---|---|---|---|---|
| Authorised | 3,000,000,000 | 3,000 | 3,000,000,000 | 3,000 |
| Issued | 692,427,348 | 692 | 692,427,348 | 692 |

### Company

| Ordinary shares – 0.1p | Number of shares | 2008 £'000s | Number of shares | 2009 £'000s |
|---|---|---|---|---|
| Authorised | 3,000,000,000 | 3,000 | 3,000,000,000 | 3,000 |
| Issued | 692,427,348 | 692 | 692,427,348 | 692 |

### Share option schemes

Options to subscribe for the Company's shares were granted to certain executives in 2006 and 2007 (note 22). No options were granted in 2008 and 2009.

## Reserves

### Group

| | Foreign currency reserve £'000's | Share capital £'000's | Share premium £'000's | Accumulated retained earnings/(deficit) £'000's | Total £'000's |
|---|---|---|---|---|---|
| **At 1 January 2009** | **5,289** | **692** | **35,764** | **(3,927)** | **37,818** |
| (Loss) for the year | – | – | – | (2,620) | (2,620) |
| Foreign currency translation | (2,259) | – | – | – | (2,259) |
| Share based payments | – | – | – | 17 | 17 |
| **At 31 December 2009** | **3,030** | **692** | **35,764** | **(6,530)** | **32,956** |
| **At 1 January 2008** | **(1,205)** | **692** | **35,764** | **(4,015)** | **31,236** |
| Profit for the year | – | – | – | 45 | 45 |
| Foreign currency translation | 6,494 | – | – | – | 6,494 |
| Share based payments | – | – | - | 43 | 43 |
| **At 31 December 2008** | **5,289** | **692** | **35,764** | **(3,927)** | **37,818** |

## 18 Capital and reserves - continued

Foreign currency reserve. Exchange differences relating to the translation of net assets of the Group's foreign operations from their functional currency to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign translation reserve.

### Company

| | Share capital £'000's | Share premium £'000's | Accumulated retained earnings/(deficit) £'000's | Total £'000's |
|---|---|---|---|---|
| At 1 January 2009 | 692 | 35,764 | 33 | 36,489 |
| (Loss) for the year | – | – | (2,059) | (2,059) |
| Share based payments | – | – | 18 | 18 |
| At 31 December 2009 | 692 | 35,764 | (2,008) | 34,448 |
| At 1 January 2008 | 692 | 35,764 | (2,997) | 33,459 |
| Profit for the year | – | – | 2,987 | 2,987 |
| Share based payments | – | – | 43 | 43 |
| At 31 December 2008 | 692 | 35,764 | 33 | 36,489 |

## 19 Related party disclosures

For the year ended 31 December 2009

The financial statements include the financial statements of Sound Oil plc (the parent) and the subsidiaries listed in the following table:

| Name | Country of incorporation | % equity interest 2008 | 2009 |
|---|---|---|---|
| Sound Oil International Limited | British Virgin Islands | 100 | 100 |
| Sound Oil Asia Limited | British Virgin Islands | - | 100 |
| Mitra Energia Limited | Mauritius | 100 | 100 |
| Mitra Energia Bangkanai Limited | Mauritius | 100 | 100 |
| Mitra Energia Citarum Limited | Mauritius | 100 | 100 |

The Company's only direct subsidiary is Sound Oil International Limited and its investment is carried at cost.

The Group has investments in joint venture undertakings which operate the Bangkanai PSC and the Citarum PSC in Indonesia. The Group's interest in the former at the end of 2009 was 34.99% (2008: 34.99%) and in the latter 20% (2008: 20%).

### Terms and conditions of transactions with related parties

There were no sales or purchases to or from related parties (2008: none). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2009, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2008: none). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which it operates.

There were no transactions with other related parties, directors' loans and other directors' interests.

# Notes to the Financial Statements

continued

### Compensation of key management personnel of the Group

There are no key management personnel other than directors of the Company; details of whose remuneration are set out in the Report of Directors Remuneration (page 12).

### Directors' interest in employee share options

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

| Issue date | Expiry date | Exercise price pence | Number 2006 | Number 2007 | Number 2008 | Number 2009 |
|---|---|---|---|---|---|---|
| 2006 | 2012 | 7.25 | 2,100,000 | - | - | – |
| 2007 | 2017 | 4.38 | - | 1,416,667 | - | – |
| 2007 | 2017 | 4.38 | - | 1,416,667 | - | – |
| 2007 | 2017 | 4.38 | - | 1,416,666 | - | – |

## 20 Financial instruments risk management objectives and policies

### Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain optimal capital structure 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 where applicable.

The Group's principal financial instruments comprise of trade payables, receivables, cash and short term deposits. The fair value of the financial instruments is their carrying value.

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 rate risks 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.

## 20 Financial instruments risk management objectives and policies - continued

**Interest rate risk table**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no impact on the Group's equity.

| | Increase/ (decrease) (%) | Effect on profit before tax £'000's |
|---|---|---|
| **2009** | | |
| Sterling | 10 | 1 |
| US Dollar | 10 | 1 |
| Sterling | (10) | (1) |
| US Dollar | (10) | (1) |
| **2008** | | |
| Sterling | 10 | 1 |
| US Dollar | 10 | 23 |
| Sterling | (10) | (1) |
| US Dollar | (10) | (23) |

**Foreign currency risk**

As a result of the bulk of the Group's operations being denominated in US dollars, the Group's balance sheet can be impacted by movements in the GBP/$USD exchange rates. 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 sterling cost of the assets being acquired with the US dollar deposits rises or falls pro rata to the currency movements, so the purchasing power of the US dollar deposits remains the same.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit or loss before tax.

| | Increase/ (decrease) in US dollar rate | Effect on profit or loss before tax £'000's |
|---|---|---|
| **2009** | | |
| | 5% | (306) |
| | (5%) | 339 |
| 2008 | | |
| | 5% | (456) |
| | (5%) | 504 |

**Credit risk**

The Group currently has no sales or customers. The maximum credit exposure at reporting date of each category of financial assets above is the carrying value as detailed in the relevant notes. The Group only holds deposits in highly rated financial institutions. There are no significant concentrations of credit risk within the Group or the Company.

**Liquidity risk**

The Group and Company have significant liquid assets and are not materially exposed to liquidity risk. All financial liabilities are expected to mature within one year.

# Notes to the Financial Statements
continued

## 21 Financial instruments

### Interest rate risk and currency risk profiles

The interest rate risk profile and the currency risk profile of the financial assets of the Group as at 31 December were:

| Currency | Floating rate £'000's | Interest-free £'000's | Total £'000's | Weighted average interest rate |
|---|---|---|---|---|
| 2009 | | | | |
| Cash and short term deposits | | | | |
| GBP Sterling | 3,413 | – | 3,413 | 0.53% |
| US$ | 5,286 | 1,627 | 6,913 | 0.15% |
| **Total** | **8,699** | **1,627** | **10,326** | |
| 2008 | | | | |
| Cash and short term deposits | | | | |
| GBP Sterling | 4,209 | – | 4,209 | 3.30% |
| US$ | 72 | 9,560 | 9,632 | 2.22% |
| **Total** | **4,281** | **9,560** | **13,841** | |

US$ cash balances have been converted at the exchange rate on 31 December 2009 of US$1.5928/£1.00 (2008: US$1.4479/£1.00)

The floating rate cash and short-term deposits comprise of cash held in interest bearing accounts and deposits placed on the money markets for periods ranging from overnight to three months.

Financial instruments exposed to interest rate risk (e.g. US Federal Rate and UK Base Rate) were floating rate cash assets maturing within 3 months £8,699,000: (2008: £4,281,000).

Cash on which no interest is received of £1,627,000 (2008: £9,560,000) relates to balances available to meet immediate operating payments and was therefore only held for short periods interest-free.

## 22 Share based payments

The Group has no formal share options plan but share options have been granted to senior executives. The exercise prices of the options were equal to the market prices of the shares on the date of grant. The options vested in tranches up to three years after award. The contractual life of each option granted ranged between five and nine years.

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

**Group**

| | 2008 £'000's | 2009 £'000's |
|---|---|---|
| Expense arising from equity settled share options | 43 | 17 |

**Company**

| | 2008 £'000's | 2009 £'000's |
|---|---|---|
| Expense arising from equity settled share options | 43 | 17 |

The fair value of equity-settled share options granted is estimated at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. No options were granted in 2008 or 2009.

The expected life of the options is based on the maximum option period and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

No other features of options grant were incorporated into the measurement of fair value.

No share options were granted, forfeited or exercised in 2008 or 2009. Share options outstanding at end December 2009 and 2008 were 6,350,000. The weighted average exercise prices at end 2009 and 2008 were 6.9 pence. The weighted average contractual lives were 5.6 years at end 2009 and 6.6 years at end 2008.

# Notes to the Financial Statements

continued

## 23 Commitments and guarantees

At 31 December 2009 the Group had capital commitments of £10,552,000 (2008: £4,900,000) on exploration and development licences. The Company had no capital commitments in 2009 (2008: Nil).

Under the terms of a farm-out agreement dated 1 October 2004 with Elnusa Bankanai Energy Limited (Elnusa), the Company has agreed to carry Elnusa's share of the initial minimum work obligation costs. Under the terms of the Bankanai PSC the Company is required to spend US$15,100,000 to fulfil its minimum work obligations. Under the terms of the Citarum PSC the Company is required to spend US$5,650,000 to fulfil its three year minimum work obligations.

The agreement in relation to the Bangkanai PSC referred to in note 24 below entered into after the reporting date includes the assignment of capital commitments of approximately £6.1 million at 31 December 2009 and of the commitment to spend US$15,100,000 to fulfil the Group's minimum work obligations on the Bangkanai project.

The Company has granted RAB Octane (Master) Fund Limited ("RAB") the option to put to the Company the entire issued and allotted share capital, namely two ordinary shares, of Sound Oil Bangladesh Limited at any time up to 17 May 2086. If the put option is exercised, the maximum price payable by the Company will be 2,195,222 Ordinary Shares of the Company or, with the consent of both the Company and RAB, US$300,000 in cash.

## 24 Post balance sheet event

On 25 May 2010, the company announced that it had entered into an agreement under which it has assigned part of its interest in the Bangkanai PSC to Elnusa Bangkanai Energy Limited, the operator of the PSC. Under the agreement, the Group's existing 34.99% interest is reduced to 5% on a carry basis such that the Group is carried through the costs of two forthcoming obligatory exploration wells and also through the costs of developing the Kerendan gas field up to the point of the first production of gas.

The book value of the Company's 34.99% interest in the Bangkanai PSC was approximately £14.9 million as at 31 December 2009. Since the Group will not receive any cash consideration pursuant to the farm out agreement (other than its share of future net revenues receivable under the retained 5% carry) the carrying value of the Company's interest in the Bangkanai PSC will be written down accordingly in the first half of the financial year ending 31 December 2010. The directors estimate the write down will be approximately £13 million.

However the assignment agreement entered into after the balance sheet date removes the Group's future financial obligation to fund its share of the exploration programme and Kerendan development, which the directors estimate to be approximately £22 million, resolves several areas of potential legal conflict between the partners to the PSC and insulates the Company from potential liabilities arising from the failure to complete the obligated work programme. The removal of this financial burden allows Sound Oil to consider expansion and the Group is currently evaluating projects for investment in South East Asia and elsewhere.

# Dealing Information

FT Share Price Index – Telephone 0906 8433711

SEAQ short code – SOU

# Financial Calendar

### Announcements

Interim – September 2010

Preliminary – May 2011

# Addresses

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