



# SOUND OIL

Interim 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.

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# Chairman's Statement

Considerable progress has been made towards completion of the outstanding work commitments on the Citarum Production Sharing Contract (PSC), onshore Java, Indonesia. Over 40% of the initial 750 km 2D seismic program has been acquired, covering the Subang–Purwakarta areas, approximately 100 km southeast of Jakarta in the central part of the block. These data are currently being processed and recorded and the quality is superior to that acquired in the adjacent areas by previous operators. On preliminary results the Operator has identified a number of interesting leads in the depth range 1700–2000 m which it is hoped to mature into prospects for drilling. Completion of the remainder of the data in the eastern part of the block is expected near the end of 2009 to early 2010. Drilling of the three exploration wells is scheduled to commence in the second half of 2010.

On Bangkanai PSC, onshore Kalimantan, Indonesia, we are continuing with our efforts to attract new investors into the licence with a view to re-starting the stalled exploration activity on the block. Development of the Kerendan gas field and implementation of the gas to power project retains a high priority with the Indonesian Government and negotiations are currently in progress to agree a gas price and conclude a gas sales agreement with the state electricity company PLN. First gas is anticipated in 2011.

The Company continues to review new production and development opportunities for potential acquisition and strengthening of our asset portfolio. To this end our technical teams in UK and Indonesia are actively pursuing a number of opportunities through various Government and private offerings.

In the first six months of 2009 the Group incurred a net loss of £1,861,000 compared with £726,000 in the same period last year. We reduced operating costs in

the period and the majority of the net loss was due to an unrealised foreign exchange loss and reduced interest received. In more detail, exploration expenditure in the Income Statement was £244,000 compared with the first half of 2008, £293,000, and administration costs were £610,000 compared with £668,000 in the equivalent period in 2008. Bank deposit interest received was £6,000 (2008 £221,000) and the unrealised currency loss was £1,028,000 on our US\$ holdings due to the recent weakening in that currency (2008 gain £14,000).

As the Group's exploration activity is in Indonesia and is accounted for in US\$, there has also been a reduction in the six month period in the sterling value of assets, liabilities and cash in the Balance Sheet and the foreign currency reserve reduced to £2.2 million from £5.3 million at end 2008. Capital investment in the Indonesian exploration licences before currency translation movement was £569,000 in the period (2008 £883,000). Cash balances in sterling terms were £11.8 million at end June 2009 compared with £14.6 million at the end of 2008.

Looking forward, our financial situation remains very similar to that reported three months ago in our 2008 Annual Report. Based on the budget estimates of the operator of the Citarum PSC and on our own experience of the lead times for exploration activity at Bangkanai, the Board considers that the cash balance at end June is sufficient to cover our exploration commitments for the twelve months from today's date. Further funding and licence extensions will be needed to complete the full licence commitments.

**Gerry Orbell**

**Chairman**

25 September 2009

# Interim Consolidated Income Statement

for the six months ended 30 June 2009

	Six months ended 30 June 2009 Unaudited £'000	Six months ended 30 June 2008 Unaudited £'000	Year ended 31 December 2008 Audited £'000
Notes			
Exploration costs	(244)	(293)	(2,926)
<b>Gross loss</b>	<b>(244)</b>	<b>(293)</b>	<b>(2,926)</b>
Administrative expenses	(610)	(668)	(1,179)
Group trading loss	(854)	(961)	(4,105)
Other income	15	–	10
Group operating loss from continuing operations	(839)	(961)	(4,095)
Finance revenue	6	221	250
Foreign exchange (loss)/gain	(1,028)	14	3,917
(Loss)/profit before income tax	(1,861)	(726)	72
Income tax charge	–	–	(27)
<b>(Loss)/profit for the period attributable to the equity holders of the parent</b>	<b>(1,861)</b>	<b>(726)</b>	<b>45</b>
Other comprehensive (loss)/income:			
Foreign currency translation (loss)/income	(3,087)	189	6,494
Total comprehensive (loss)/income for the period attributable to the equity holders of the parent	(4,948)	(537)	6,539
<b>(Loss)/profit per share (basic) for the period attributable to ordinary equity holders of the parent (pence)*</b>	<b>5</b>	<b>(0.27)</b>	<b>0.01</b>

\*Diluted profit per share at 31 December 2008 was 0.1 pence. Diluted loss per share for June 2008 and June 2009 has not been disclosed as inclusion of unexercised options would be anti-dilutive.

# Interim Consolidated Balance Sheet

at 30 June 2009

	Note	30 June 2009 Unaudited £'000	30 June 2008 Unaudited £'000	31 December 2008 Audited £'000
<b>Non-current assets</b>				
Property, plant and equipment		46	79	65
Intangible assets		4,625	3,829	5,277
Exploration and evaluation assets	6	20,944	18,471	23,307
Other debtors		672	425	651
		<b>26,287</b>	<b>22,804</b>	<b>29,300</b>
<b>Current assets</b>				
Other debtors		259	654	414
Inventories		–	249	–
Prepayments		32	24	75
Cash and short term deposits		11,830	11,994	14,625
		<b>12,121</b>	<b>12,921</b>	<b>15,114</b>
<b>Total assets</b>		<b>38,408</b>	<b>35,725</b>	<b>44,414</b>
<b>Current liabilities</b>				
Trade and other payables		785	1,115	1,188
Income tax		27	–	27
		<b>812</b>	<b>1,115</b>	<b>1,215</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities		4,625	3,829	5,277
Provisions		91	82	104
		<b>4,716</b>	<b>3,911</b>	<b>5,381</b>
<b>Total liabilities</b>		<b>5,528</b>	<b>5,026</b>	<b>6,596</b>
<b>Net assets</b>		<b>32,880</b>	<b>30,699</b>	<b>37,818</b>
<b>Capital and reserves</b>				
Equity share capital		36,456	36,456	36,456
Foreign currency reserve		2,202	(1,003)	5,289
Accumulated deficit		(5,778)	(4,754)	(3,927)
<b>Total equity</b>		<b>32,880</b>	<b>30,699</b>	<b>37,818</b>

Approved by the Board on 25 September 2009

**G Orbell**  
Director

**J A Heath**  
Director

The notes on pages 6 and 7 form part of these accounts.

# Interim Consolidated Statement of Changes in Equity

for the six months ended 30 June 2009

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Total equity £'000
At 1 January 2009	692	35,764	(3,927)	5,289	37,818
Total loss for the period	-	-	(1,861)	-	(1,861)
Other comprehensive (loss)/income	-	-	-	(3,087)	(3,087)
Total income and expense for the period	-	-	(1,861)	(3,087)	(4,948)
Share based payments	-	-	10	-	10
At 30 June 2009 (unaudited)	692	35,764	(5,778)	2,202	32,880

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Total equity £'000
At 1 January 2008	692	35,764	(4,015)	(1,205)	31,236
Total loss for the period	-	-	(726)	-	(726)
Other comprehensive (loss)/income	-	-	(13)	202	189
Total income and expense for the period	-	-	(739)	202	(537)
At 30 June 2008 (unaudited)	692	35,764	(4,754)	(1,003)	30,699

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

# Interim Consolidated Cash Flow Statement

for the six months ended 30 June 2009

	Six months ended 30 June 2009 Unaudited £'000	Six months ended 30 June 2008 Unaudited £'000	Year ended 31 December 2008 Audited £'000
<b>Cash flow from operating activities</b>			
Cash flow from operations	(1,073)	(1,146)	(1,652)
Interest received	6	221	250
<b>Net cash flow from operating activities</b>	<b>(1,067)</b>	<b>(925)</b>	<b>(1,402)</b>
<b>Cash flow from investing activities</b>			
Capital expenditure and disposals	(3)	(26)	(26)
Exploration expenditure	(569)	(883)	(1,638)
Investment in associate	-	-	(136)
<b>Net cash flow from investing activities</b>	<b>(572)</b>	<b>(909)</b>	<b>(1,800)</b>
Net decrease in cash and cash equivalents	(1,639)	(1,834)	(3,202)
Net foreign exchange difference	(1,156)	205	4,204
Cash and cash equivalents at the beginning of the period	14,625	13,623	13,623
<b>Cash and cash equivalents at the end of the period</b>	<b>11,830</b>	<b>11,994</b>	<b>14,625</b>

## Notes to cash flow

	Six months ended 30 June 2009 Unaudited £'000	Six months ended 30 June 2008 Unaudited £'000	Year ended 31 December 2008 Audited £'000
<b>Cash flow from operations reconciliation</b>			
(Loss)/profit before tax	(1,861)	(726)	45
Finance revenue	(6)	(221)	(250)
Foreign exchange loss/(gain)	1,028	(14)	(3,917)
Exploration expenditure (written back)/written off	(2)	-	2,295
Income tax charge	-	-	27
(Decrease)/increase in accruals and short term creditors	(313)	841	700
Depreciation	16	24	58
Share based payments charge	10	-	43
Increase in long term provisions	-	-	(7)
Increase in long term debtors	(112)	(194)	(259)
Increase in inventories	-	(249)	-
Decrease/(increase) in short term debtors	167	(607)	(387)
<b>Cash flow from operations</b>	<b>(1,073)</b>	<b>(1,146)</b>	<b>(1,652)</b>

# Notes to the Interim Consolidated Financial Statements

## 1. Basis of preparation

The interim consolidated financial statements do not represent statutory accounts within the meaning of section 435 of the Companies Act 2006. The comparative financial information is based on the statutory accounts for the year ended 31 December 2008. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies and did not contain statements under section 235 of the Companies Act of 1985.

The interim financial information is unaudited and has been prepared on the basis of the accounting policies set out in the Group's 2008 statutory accounts and in accordance with IAS 34 Interim Financial Reporting.

The seasonality or cyclicity of operations does not impact on the interim financial statements.

## 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 is exploration for oil and gas in Indonesia under two Production Sharing Contracts (PSC's), Bangkanai and Citarum. To date there has been no development activity, production or turnover. The exploration expenditure written off to the Income Statement is not allocated to operating segments. Capitalised exploration expenditure in the Balance Sheet is comprised of £3.8 million for the Bangkanai PSC, £1.7 million for the Citarum PSC and £15.4 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\$.

## 3. Share-based payments

No share options were granted in the period.

## 4. Related party transactions

There were no sales or purchases to or from related parties, no guarantees provided or received for any related party receivables or payables and no other transactions with related parties, directors' loans and other directors' interests.

## 5. Profit/(loss) per share

The calculation of basic profit/(loss) per ordinary share is based on the profit/(loss) after tax and on the weighted average number of Ordinary Shares in issue during the period. Basic profit/(loss) per share is calculated as follows:

	Profit/(loss) after tax			Weighted average number of shares			Profit/(loss) per share		
	June 2009 £'000	June 2008 £'000	December 2008 £'000	June 2009 million	June 2008 million	December 2008 million	June 2009 pence	June 2008 pence	December 2008 pence
Basic	(1,861)	(726)	45	692	692	692	(0.27)	(0.10)	0.01

Diluted profit per share at 31 December 2008 was 0.01 pence. This includes the potential Ordinary Shares which would result 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 June 2008 and June 2009 as inclusion of unexercised options would be anti-dilutive.

## 6. Exploration and evaluation assets

	30 June 2009 £'000	30 June 2008 £'000	31 December 2008 £'000
<b>Costs</b>			
At start of period	26,248	15,428	15,428
Additions	569	3,045	3,800
Exchange adjustments	(2,983)	(2)	7,020
At end of period	23,834	18,471	26,248
<b>Impairment</b>			
At start of period	2,941	-	-
(Write back)/charge	(2)	-	2,295
Exchange adjustments	(49)	-	646
At end of period	2,890	-	2,941
Net book amount at end of period	20,944	18,471	23,307

# Dealing Information

FT Share Price Index – Telephone 0906 8433711

SEAQ short code – SOU

# Financial Calendar

## Announcements

2009 Preliminary – May 2010

2010 Interim – September 2010

# Addresses

## Registered Office

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## Website

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## Auditors

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## Solicitors

Ronaldsons, 55 Gower St, London, WC1E 6HQ

## Stockbrokers

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Evolution Securities Limited, 100 Wood Street, London, EC2V 7AN

## Nominated Advisers

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## Registrars

Share Registrars Limited, Craven House, West St, Farnham, Surrey, GU9 7EN



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