SOUND OIL

Interim Report 2011

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.

Cover picture: Hydro Drilling International MR 4000 rig which has been contracted to drill the Casa Tiberi-1 exploration well on the Montemarciano Permit.

Chairman's Statement

During the last eight months we have successfully acquired assets in Italy and have been busy progressing operations which will lead to a very active drilling campaign both in Italy and Indonesia starting in the Autumn.

During June we farmed-in to the Montemarciano permit near Ancona, Italy and became the Operator. Construction of the well site is on schedule for the Casa Tiberi-1 farm-in exploration well which we expect to start drilling in late October. In August we were awarded the gas field at Rapagnano, also in the Ancona area, at no cost to the Company. This is a small field which was shut-in several years ago when it was still producing revenues of US$60,000 per month. Also in the summer we perforated two gas zones in the Marciano gas field in the very south of Italy. Although a very satisfactory gas flow occurred from the upper sand on a short-term test, later analysis of the pressure data indicated that the reservoir was of limited extent.

In Java, Indonesia, work is underway on the well sites for three substantial exploration prospects on the Citarum PSC where we have a 20% interest. The site at Jatayu is now complete and the road to the Cataka well site 50% finished. The operator Pan Orient Energy advises that the Jatayu-1 well is expected to start in late November followed by Cataka-1 and the third well Geulis-1, back to back.

In Kalimantan, Indonesia we have a 5% carried interest in a two well exploration programme and the development of the Kerendan gas field on the Bangkanai PSC. Salamander Energy, the Operator, advises that the Sungei Lahai-1 exploration well will start drilling on a very large prospect at the end of November. This deep well will be turned into the first production well in the shallower overlying Kerendan gas field. During 2012 a further 3 wells will be drilled at Kerendan which is scheduled to start gas production in mid 2013.

The Group incurred a loss after tax of £3.0 million in the first six months of 2011. This compares with a loss of £14.0 million in the first half of 2010 (of which £13.4 million arose from the farm-down of the Bangkanai PSC). Exploration costs were £0.6 million (2010 £0.2 million) and administration £1.3 million (2010 £0.7 million), the increases being due to the activity on the new licences in Italy. There was a £0.6 million unrealised foreign exchange loss on US$ holdings (2010 £0.3 million gain). Costs of the Italian acquisition in 2011 were £0.5 million. In the balance sheet, the shares issued for the Consul acquisition and for the share placings contributed to an increase in shareholders equity which rose by £9.6 million to £27.2 million. The fundraisings increased cash balances which at the end of June stood at £11.4 million.

Tony Heath retired as the Chief Financial Officer of the Company in September and joined the Board as a non executive director. On behalf of the Board I thank him for his continuing support and welcome him to the Board. James Parsons joined the Company as Chief Financial Officer after a 14 year career in Shell and I welcome him to Sound.

Sound is well funded and has an exciting exploratory programme ready to start in the Autumn. We have acquired some very interesting acreage over the last few months which we are now focused on developing while continuing to consider further opportunities for growth.

Gerry Orbell
Chairman
28 September 2011

Condensed Interim Consolidated Income Statement

for the six months ended 30 June 2011

	Notes	Six months ended 30 June 2011 Unaudited £'000	Six months ended 30 June 2010 Unaudited £'000	Year ended 31 December 2010 Audited £'000
Exploration costs		(580)	(197)	(430)
Gross loss		**(580)**	**(197)**	**(430)**
Administrative expenses		(1,345)	(685)	(1,502)
Group trading loss		(1,925)	(882)	(1,932)
Other income		–	–	(58)
Group operating loss from continuing operations		(1,925)	(882)	(1,990)
Finance revenue		21	10	21
Foreign exchange gain/(loss)		(604)	341	211
Expense incurred in acquiring subsidiaries		(522)	–	–
Loss on disposal of licence interests		–	(13,425)	(14,210)
Loss before income tax		(3,030)	(13,956)	(15,968)
Income tax credit		–	–	–
Loss for the period		(3,030)	(13,956)	(15,968)
Other comprehensive income/(loss):				
Foreign currency translation income/(loss)		(777)	1,175	711
Total comprehensive loss for the period attributable to the equity holders of the parent		(3,807)	(12,781)	(15,257)
Loss for the period attributable to:				
Owners of the Company		(3,025)	(13,956)	(15,968)
Non-controlling interests		(5)	–	–
		(3,030)	(13,956)	(15,968)
Total comprehensive loss attributable to:				
Owners of the Company		(3,802)	(12,781)	(15,257)
Non-controlling interests		(5)	–	–
		(3,807)	(12,781)	(15,257)
Loss per share basic and diluted for the period attributable to the equity holders of the parent (pence)	**4**	**(0.19)**	(2.02)	(2.31)

Condensed Interim Consolidated Balance Sheet

at 30 June 2011

	Note	30 June 2011 Unaudited £'000	30 June 2010 Unaudited £'000	31 December 2010 Audited £'000
Non-current assets				
Property, plant and equipment		80	22	12
Intangible assets		2,131	1,565	1,525
Exploration and evaluation assets	6	15,934	11,012	9,954
Other debtors		662	630	621
		18,807	**13,229**	**12,112**
Current assets				
Other debtors		341	144	2,940
Prepayments		56	58	65
Current tax receivable		–	26	26
Cash and short term deposits		11,429	9,063	4,484
		11,826	**9,291**	**7,515**
Total assets		**30,633**	**22,520**	**19,627**
Current liabilities				
Trade and other payables		1,107	667	284
Current tax payable		–	–	–
		1,107	667	284
Non-current liabilities				
Deferred tax liabilities		2,131	1,565	1,525
Provisions		108	111	103
		2,239	1,676	1,628
Total liabilities		**3,346**	**2,343**	**1,912**
Net assets		**27,287**	**20,177**	**17,715**
Capital and reserves				
Equity share capital		49,825	36,456	36,456
Non controlling interests		44	–	–
Foreign currency reserve		2,964	4,205	3,741
Accumulated deficit		(25,546)	(20,484)	(22,482)
Total equity		**27,287**	**20,177**	**17,715**

Approved by the Board on 28 September 2011

G Orbell
Director

J A Heath
Director

The notes on pages 6, 7 and 8 form part of these accounts.

Condensed Interim Consolidated Statement of Changes in Equity

for the six months ended 30 June 2011

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Non controlling interests £'000	Total equity £'000
At 1 January 2011	**692**	**35,764**	**(22,482)**	**3,741**	**–**	**17,715**
Total loss for the period	–	–	(3,025)	–	(5)	(3,030)
Other comprehensive income	–	–	–	(777)	–	(777)
Total income and expense for the period	–	–	(3,025)	(777)	(5)	(3,807)
Issue of share capital	924	13,313	–	–	–	14,237
Transaction costs	–	(868)	–	–	–	(868)
Share based payments	–	–	12	–	–	12
Acquisition of non-controlling interests with a change in control	–	–	–	–	94	94
Acquisition of non-controlling interests without a change in control	–	–	(51)	–	(45)	(96)
At 30 June 2011 (unaudited)	**1,616**	**48,209**	**(25,546)**	**2,964**	**44**	**27,287**

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Non controlling interests £'000	Total equity £'000
At 1 January 2010	**692**	**35,764**	**(6,530)**	**3,030**	**–**	**32,956**
Total loss for the period	–	–	(13,956)	–	–	(13,956)
Other comprehensive income	–	–	–	1,175	–	1,175
Total income and expense for the period	–	–	(13,956)	1,175	–	(12,781)
Share based payments	–	–	2	–	–	2
At 30 June 2010 (unaudited)	**692**	**35,764**	**(20,484)**	**4,205**	**–**	**20,177**

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Non controlling interests £'000	Total equity £'000
At 1 January 2010	**692**	**35,764**	**(6,530)**	**3,030**	**–**	**32,956**
Total loss for the year	–	–	(15,968)	–	–	(15,968)
Other comprehensive loss	–	–	–	711	–	711
Total income and expense for the year	–	–	(15,968)	711	–	(15,257)
Share based payments	–	–	16	–	–	16
At 31 December 2010 (audited)	**692**	**35,764**	**(22,482)**	**3,741**	**–**	**17,715**

Condensed Interim Consolidated Cash Flow Statement

for the six months ended 30 June 2011

	Six months ended 30 June 2011 Unaudited £'000	Six months ended 30 June 2010 Unaudited £'000	Year ended 31 December 2010 Audited £'000
Cash flow from operating activities			
Cash flow from operations	(1,109)	(826)	(2,683)
Interest received	21	10	21
Net cash flow from operating activities	**(1,088)**	**(816)**	**(2,662)**
Cash flow from investing activities			
Capital expenditure and disposals	(69)	(1)	(2)
Exploration expenditure	(897)	(994)	(1,165)
Expense in acquiring subsidiaries	(522)	–	–
Acquisition of subsidiaries	(1,436)	–	–
Payment in escrow – acquisitions of subsidiaries	–	–	(2,413)
Net cash flow from investing activities	**(2,924)**	**(995)**	**(3,580)**
Net cash flow from financing activities	10,791	–	–
Net increase/(decrease) in cash and cash equivalents	6,779	(1,811)	(6,242)
Net foreign exchange difference	166	252	104
Cash and cash equivalents at the beginning of the period	4,484	10,622	10,622
Cash and cash equivalents at the end of the period	**11,429**	**9,063**	**4,484**

Notes to cash flow

	Six months ended 30 June 2011 Unaudited £'000	Six months ended 30 June 2010 Unaudited £'000	Year ended 31 December 2010 Audited £'000
Cash flow from operations reconciliation			
Loss before tax	**(3,030)**	**(13,956)**	**(15,968)**
Expense in acquiring subsidiaries	522	–	–
Loss on disposal of licence interests	–	13,425	14,210
Finance revenue	(21)	(10)	(21)
Foreign exchange (gain)/loss	604	(341)	(211)
Exploration expenditure written off	(9)	(4)	3
Income tax charge	–	–	–
Increase/(decrease) in accruals and short term creditors	355	(262)	(630)
Depreciation	6	5	15
Share based payments charge	12	2	16
Increase in long term provisions	–	–	(5)
Decrease/(increase) in long term debtors	(32)	204	194
Decrease/(increase) in short term debtors	484	111	(286)
Cash flow from operations	**(1,109)**	**(826)**	**(2,683)**

Notes to the Condensed Interim Consolidated Financial Statements

1. Basis of preparation

The condensed 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 2010. 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 498(2) or (3) of the Companies Act of 2006.

The condensed interim financial information is unaudited and has been prepared on the basis of the accounting policies set out in the Group's 2010 statutory accounts and in accordance with IAS 34 Interim Financial Reporting.

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

2. Share-based payments

13,260,000 share options were granted on 1.3.2011 at 2.75p, 9,500,000 on 28.3.2011 at 5.6p and 1,000,000 on 1.4.2011 at 4.95p, all for a five year period. No charge has been included in the consolidated financial statements as it is considered negligible.

3. 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.

4. Loss per share

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

	Loss after tax			Weighted average number of shares			Loss per share		
	June 2011 £'000	June 2010 £'000	December 2010 £'000	June 2011 million	June 2010 million	December 2010 million	June 2011 pence	June 2010 pence	December 2010 pence
Basic	(3,025)	(13,956)	(15,968)	1,616	692	692	(0.19)	(2.02)	(2.31)

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

5. 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 and in Italy under sixteen licences. 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:

- Indonesia; £0.2 million for the Bangkanai PSC, £3.7 million for the Citarum PSC and £5.4 million for the fair value uplift which arose on acquisition of the company which owned the PSC's, (at end 2010 £0.3 million, £3.6 million and £6.0 million respectively).
- Italy; £3.3 million for the sixteen licences and £2.4 million for the fair value uplift which arose on the acquisition of the company which owned the licences (at the end 2010: £nil).

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

6. Exploration and evaluation assets

	30 June 2011 Unaudited £'000	30 June 2010 Unaudited £'000	31 December 2010 Audited £'000
Costs			
At start of period	12,982	25,123	25,123
Acquisitions	5,931	–	–
Additions	897	994	1,165
Disposals	–	(13,402)	(14,051)
Exchange adjustments	(848)	1,398	745
At end of period	18,962	14,113	12,982
Impairment			
At start of period	3,028	2,938	2,938
Write back	–	(4)	3
Exchange adjustments	–	167	87
At end of period	3,028	3,101	3,028
Net book amount at end of period	15,934	11,012	9,954

7. Acquisition

On 4 January 2011, the Company completed the acquisition of 96% of the issued share capital of Consul Oil & Gas Ltd ("Consul"), an unquoted company with interests in Italy, for a total consideration of £4.64 million and made an offer to acquire the remaining 4%. The consideration was satisfied by the payment in cash of approximately US$2.19 million (£1.41 million) and the issue of 269,127,983 ordinary shares to the vendors. In addition the Company purchased an existing loan from RAB to Consul of €1.15 million. On 29 January 2011 the Company acquired a further 2% of the issued share capital of Consul, satisfied by the payment in cash of US$46,667 and the issue of 5,555,555 new ordinary shares. After the end of the reporting period, on 22 August 2011, the remaining 2% of Consul not owned by the Group was acquired for consideration of the issue of a further 5,555,555 ordinary shares and the payment of US$46,667 in cash.

The fair value of 96% of the assets of Consul is as follows:

	Book value IFRS £'000's	Adjustments and/or revaluation £'000's	Fair value to the Company £'000's
Intangible exploration & evaluation costs	3,303	2,391	5,694
Tangible fixed assets	4	–	4
Current debtors	244	–	244
Non-current debtors	28	–	28
Cash	42	–	42
Current creditors	(432)	–	(432)
Non-current creditors	(944)	–	(944)
Deferred tax liabilities	–	(658)	(658)
Net assets	2,245	1,733	3,978

The directors consider that goodwill of approximately £658,000 will arise on the acquisition, consisting largely of the synergies expected from combining the operations of the Group and Consul.

8. Share Issues

On 4 January 2011, the Company placed 311,251,000 new ordinary shares at 1.2p per share, raising approximately £3.7 million, and entered into a £10 million SEDA equity placing facility which can be drawn upon at the discretion of the Company.

On 17 January 2011, the Company placed 230,000,000 new ordinary shares at 1.4p per share, raising approximately £3.22 million.

On 12 March 2011, the Company drew down £1.0 million of the SEDA equity placing facility by way of the issue of 38,800,485 new ordinary shares at 2.577p per share.

On 18 April 2011, the Company drew down a further £2.80 million of the SEDA equity placing facility by way of the issue of 54,337,384 new ordinary shares at 5.153p per share.

On 19 April 2011, options were exercised and the Company issued 2,390,000 ordinary shares at 1.5p per share to Indonesian employees.

The proceeds of the above share issues will be used to fund the enlarged Group's combined work programme and ongoing costs.

In addition:

On 4 January 2011, the Company issued 269,127,983 ordinary shares to acquire control of Consul (per Note 7 above).

On 11 January 2011, the Company issued 12,500,000 ordinary shares at 1.2p per share as compensation to 2 former employees of Consul.

On 29 January 2011, the Company issued 5,555,555 ordinary shares to acquire a further 2% of the issued share capital of Consul (per Note 7 above).

9. Cash flow effect of acquisitions

On 4 January 2011, the Group obtained control of the Consul Oil & Gas group by acquiring 96% of its issued share capital. The fair values of assets acquired and liabilities assumed, relating to that 96%, were as follows:

	£'000's
Exploration and evaluation assets	3,303
Property, plant and equipment	4
Long term receivables	28
Accounts receivable	244
Cash	42
Accounts payable	(321)
Accruals	(111)
Long term creditors - Euro loan	(935)
Long term provisions	(9)
	2,245
less: cash acquired in the Consul group	(42)
	2,203

The cash consideration paid to obtain control was:

	£'000's
Total paid to vendors	4,636
less: share element therein	(3,230)
	1,406
plus: amount to settle Euroloan (in full)	983
Total cash consideration made	2,389

A further £30,000 was paid later in the period to obtain an additional 2% interest.

Dealing Information

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Financial Calendar

Announcements

2011 Preliminary – May 2012

2012 Interim – September 2012

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