



Interim Report | **2014**



Sound Oil is a well funded European/Mediterranean upstream oil and gas company, listed on AIM, with a strong institutional cornerstone investor and strong liquidity.

Our strategic focus is our onshore gas portfolio in Italy, which is a healthy blend of high upside exploration/development assets with some solid, cash generating production. This portfolio alone represents over a billion dollars of independently assessed net present value with annual free cash flows exceeding €400 million.

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# Chairman's Statement

Dear Shareholder,

The first half of 2014, which included a £14 million institutional investment, has been a critical inflection point for the Company. This successful funding transaction, which was secured at a significant premium to the prevailing share price, now positions the Company with the funds required to fulfil its immediate drilling priorities. Following this investment, the team and I are pleased to welcome our new cornerstone investor, Continental Investment Partners S.A. ("Continental"), to our register and Marco Fumagalli, Continental's Managing Director, to our Board as a Nonexecutive Director.

Operationally the team continues to develop our growing portfolio of producing assets. Following first gas from Casa Tiberi, as announced on 29 July 2014, gas sales now cover our Italian cost base whilst also demonstrating our capacity to bring assets from exploration through development and into production. During the first quarter the Company reported that production at our Rapagnano onshore gas field was ahead of budget for 2013 and that there had been a 31% increase in the Rapagnano reserve base. The Company expects Nervesa to become the Company's next addition to the producing portfolio – with first gas at this material onshore gas discovery expected during 2015.

Meanwhile progress in relation to our portfolio of low risk existing discoveries is also gaining momentum – with the recent award of the permit containing the 30 Bscf Laura discovery and a new Competent Person's Report on the onshore Santa Maria Goretti permit confirming a 32.8 Bscf opportunity. These two assets have a combined NPV10 exceeding Euro 100 million.

No Chairman's statement would be complete without mentioning our world class exploration prospect, Badile. We continue to prioritise our human and capital resources towards the successful drilling of this game changing asset. In this context, I am also very pleased to note the announcement and subsequent decree by the Italian Prime Minister, in which he proposed a streamlining of the Italian oil and gas permitting process which we expect to result in faster approval timelines going forward.

I have high expectations for Sound Oil, both as a shareholder and as your Chairman. We have a small expert team, strong assets and an attractive blend of risk and reward with significant potential upside.

I would like to take this opportunity, on behalf of our team to thank our shareholders for their continued support.

**Simon Davies**  
Chairman

16 September 2014

# Condensed Interim Consolidated Income Statement

for the six months ended 30 June 2014

		Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	Notes	Unaudited £'000	Unaudited £'000	Audited £'000
Revenue		490	106	482
Operating costs		(267)	(35)	(265)
Exploration and development costs		(83)	(15)	(4,038)
<b>Gross profit/(loss)</b>		<b>140</b>	<b>56</b>	<b>(3,821)</b>
Administrative expenses		(1,378)	(1,032)	(2,616)
<b>Group trading loss from continuing operations</b>		<b>(1,238)</b>	<b>(976)</b>	<b>(6,437)</b>
Finance revenue		1	5	9
Foreign exchange (loss)/gain		(330)	73	(304)
External interest costs		(480)	(103)	(132)
<b>Loss before income tax</b>		<b>(2,047)</b>	<b>(1,001)</b>	<b>(6,864)</b>
Income tax		-	-	-
<b>Loss for the period attributable to continuing operations</b>		<b>(2,047)</b>	<b>(1,001)</b>	<b>(6,864)</b>
<b>Loss for the period attributable to owners of the parent</b>		<b>(2,047)</b>	<b>(1,001)</b>	<b>(6,864)</b>
Other comprehensive income/(loss):				
Foreign currency translation income/(loss)		(51)	586	557
<b>Total comprehensive loss for the period attributable to: owners of the parent</b>		<b>(2,098)</b>	<b>(415)</b>	<b>(6,307)</b>
Loss per share (basic) from continuing operations	5	(0.70)	(0.35)	(2.40)

# Condensed Interim Consolidated Balance Sheet

at 30 June 2014

	Note	30 June 2014 Unaudited £'000	30 June 2013 Unaudited £'000	31 December 2013 Audited £'000
<b>Non-current assets</b>				
Property, plant and equipment	6	1,585	1,556	1,476
Intangible assets	7	19,967	17,946	19,500
		<b>21,552</b>	<b>19,502</b>	<b>20,976</b>
<b>Current assets</b>				
Other debtors		1,807	1,472	1,978
Prepayments		140	120	184
Cash and short term deposits		677	6,399	543
		<b>2,624</b>	<b>7,991</b>	<b>2,705</b>
<b>Total assets</b>		<b>24,176</b>	<b>27,493</b>	<b>23,681</b>
<b>Current liabilities</b>				
Trade and other payables		934	2,036	2,797
Loans repayable in under one year		161	318	229
		<b>1,095</b>	<b>2,354</b>	<b>3,026</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities		2,130	2,207	2,165
Loans due in over one year		4,851	1,062	1,947
Provisions		1,176	735	1,226
		<b>8,157</b>	<b>4,004</b>	<b>5,338</b>
<b>Total liabilities</b>		<b>9,252</b>	<b>6,358</b>	<b>8,364</b>
<b>Net assets</b>		<b>14,924</b>	<b>21,135</b>	<b>15,317</b>
<b>Capital and reserves attributable to equity holders of the company</b>				
Issued equity share capital and share premium		64,625	63,085	63,085
Accumulated deficit		(50,911)	(43,240)	(49,029)
Foreign currency reserve		1,210	1,290	1,261
<b>Total equity</b>		<b>14,924</b>	<b>21,135</b>	<b>15,317</b>

Approved by the Board on 16 September 2014

**J Parsons**  
Director

**S Davies**  
Director

The notes on pages 6 to 11 form part of these accounts.

# Condensed Interim Consolidated Statement of Changes in Equity

for the six months ended 30 June 2014

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Total equity £'000
At 1 January 2014	2,876	60,209	(49,029)	1,261	15,514
Total loss for the period	-	-	(2,047)	-	(2,047)
Other comprehensive income	-	-	-	(51)	(51)
<b>Total comprehensive income/(loss)</b>	-	-	<b>(2,047)</b>	<b>(51)</b>	<b>(2,098)</b>
Issue of share capital	402	1,317	-	-	1,719
Transaction costs	-	(179)	-	-	(179)
Share based payments	-	-	165	-	165
<b>At 30 June 2014 (unaudited)</b>	<b>3,278</b>	<b>61,347</b>	<b>(50,911)</b>	<b>1,210</b>	<b>14,924</b>

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Total equity £'000
At 1 January 2013	2,870	60,213	(42,273)	704	21,514
Total loss for the period	-	-	(1,001)	-	(1,001)
Other comprehensive income	-	-	-	586	586
<b>Total comprehensive income/(loss)</b>	-	-	<b>(1,001)</b>	<b>586</b>	<b>(415)</b>
Issue of share capital	6	43	-	-	49
Transaction costs	-	(47)	-	-	(47)
Share based payments	-	-	34	-	34
<b>At 30 June 2013 (unaudited)</b>	<b>2,876</b>	<b>60,209</b>	<b>(43,240)</b>	<b>1,290</b>	<b>21,135</b>

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Total equity £'000
At 1 January 2013	2,870	60,213	(42,273)	704	21,514
Total loss for the period excluding exchange gain recycled to the income statement	-	-	(6,864)	-	(6,864)
Other comprehensive gain/(loss)	-	-	-	557	557
<b>Total comprehensive income/(loss)</b>	-	-	<b>(6,864)</b>	<b>557</b>	<b>(6,307)</b>
Issue of share capital	6	43	-	-	49
Transaction costs	-	(47)	-	-	(47)
Share based payments	-	-	108	-	108
<b>At 31 December 2013</b>	<b>2,876</b>	<b>60,209</b>	<b>(49,029)</b>	<b>1,261</b>	<b>15,317</b>

# Condensed Interim Consolidated Cash Flow Statement

for the six months ended 30 June 2014

	Six months ended 30 June 2014 Unaudited £'000	Six months ended 30 June 2013 Unaudited £'000	Year ended 31 December 2013 Audited £'000
<b>Cash flow from operating activities</b>			
Cash flow from operations	(1,134)	(979)	(2,645)
Interest received	1	5	9
<b>Net cash flow from operating activities</b>	<b>(1,133)</b>	<b>(974)</b>	<b>(2,636)</b>
<b>Cash flow from investing activities</b>			
Capital expenditure and disposals	(3)	(14)	(706)
Exploration expenditure	(2,151)	(2,222)	(6,482)
<b>Net cash flow from investing activities</b>	<b>(2,154)</b>	<b>(2,236)</b>	<b>(7,188)</b>
Proceeds from CSTI funding contract	–	1,208	1,664
Net proceeds from equity issue	1,138	1,576	1,576
Net proceeds from issue of loan notes	2,250	–	–
Interest payments	(45)	–	–
<b>Net cash flow from financing activities</b>	<b>3,343</b>	<b>2,784</b>	<b>3,240</b>
Net increase/(decrease) in cash and cash equivalents	56	(426)	(6,584)
Net foreign exchange difference	78	(84)	218
Cash and cash equivalents at the beginning of the period	543	6,909	6,909
<b>Cash and cash equivalents at the end of the period</b>	<b>677</b>	<b>6,399</b>	<b>543</b>

## Notes to cash flow

	Six months ended 30 June 2014 Unaudited £'000	Six months ended 30 June 2013 Unaudited £'000	Year ended 31 December 2013 Audited £'000
<b>Cash flow from operations reconciliation</b>			
Loss before tax	(2,047)	(1,001)	(6,864)
Payroll bonuses paid in shares	48	–	60
Finance revenue	(1)	(5)	(9)
External interest charge	480	103	132
Exploration expenditure written off	83	15	4,038
Depreciation	121	17	146
Share based payments charge	165	34	108
(Decrease)/Increase in provisions	(61)	49	49
Decrease/(increase) in short term debtors	544	(356)	(623)
(Decrease)/increase in trade and other payables	(466)	165	318
<b>Cash flow from operations</b>	<b>(1,134)</b>	<b>(979)</b>	<b>(2,645)</b>

# 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 2013. 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 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 2013 statutory accounts 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's categorises its operations into two business segments based on exploration and appraisal and development and production.

The Group's exploration and appraisal activities are carried out in Italy under various licenses and permits.

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

In 2013, the Group recognised its first revenue from the Rapagnano license. All sales and operating costs relate to production from that license.

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

The segment results for the period ended 30 June 2014 are as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Sales and other operating revenues	-	490	-	490
Operating costs	-	(267)	-	(267)
Exploration costs	-	-	(83)	(83)
Administration expenses	(1,378)	-	-	(1,378)
<b>Operating loss segment result</b>	<b>(1,378)</b>	<b>223</b>	<b>(83)</b>	<b>(1,238)</b>
Interest receivable	1	-	-	1
Finance costs	(810)	-	-	(810)
<b>Loss for the period before taxation</b>	<b>(2,187)</b>	<b>223</b>	<b>(83)</b>	<b>(2,047)</b>

The segments assets and liabilities at 30 June 2014 are as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Capital expenditure	70	1,515	19,967	21,552
Other assets	2,625	-	-	2,625
<b>Total liabilities</b>	<b>(9,253)</b>	<b>-</b>	<b>-</b>	<b>(9,253)</b>

## 2. Segment information (continued)

The segment results for the period ended 30 June 2013 were as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Sales and other operating revenues	-	106	-	106
Operating costs	-	(35)	-	(35)
Exploration costs	-	-	(15)	(15)
Administration expenses	(1,032)	-	-	(1,032)
<b>Operating loss segment result</b>	<b>(1,032)</b>	<b>71</b>	<b>(15)</b>	<b>(976)</b>
Interest receivable	5	-	-	5
Finance costs	(30)	-	-	(30)
<b>Loss for the period before taxation</b>	<b>(1,057)</b>	<b>71</b>	<b>(15)</b>	<b>(1,001)</b>

The segments assets and liabilities at 30 June 2013 were as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Capital expenditure	119	1,093	18,290	19,502
Other assets	7,991	-	-	7,991
Total liabilities	(6,358)	-	-	(6,358)

The segment results for the period ended 31 December 2013 were as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Sales and other operating revenues	-	482	-	482
Other income/(loss)	-	(265)	-	(265)
Impairment of exploration and evaluation assets	-	-	(4,038)	(4,038)
Administration expenses	(2,616)	-	-	(2,616)
<b>Operating loss segment result</b>	<b>(2,616)</b>	<b>217</b>	<b>(4,038)</b>	<b>(6,437)</b>
Interest receivable	9	-	-	9
Finance costs	(436)	-	-	(436)
<b>Loss for the period before taxation</b>	<b>(3,043)</b>	<b>217</b>	<b>(4,038)</b>	<b>(6,864)</b>

The segments assets and liabilities at 31 December 2013 were as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Capital expenditure	88	1,388	19,500	20,976
Other assets	2,705	-	-	2,705
Total liabilities	(2,165)	(578)	(5,621)	(8,364)

## 2. Segment information (continued)

The geographical split of revenue and non-current assets was as follows:

	UK £'000	Italy £'000
Sales and other operating revenue	-	482
Development and production assets	-	1,388
Fixtures, fittings and office equipment	6	82
Goodwill	-	2,167
Exploration and evaluation assets	-	17,333
<b>Total</b>	<b>6</b>	<b>20,970</b>

## 3. Share based payments

7,516,663 options were awarded to the Executive Team during the first half of 2014. The charge of £165,000 recognises the impact of the new share awards in 2014 along with the amortisation of share options awarded in prior years.

## 4. Related party transactions

There were no sales or purchases to or from related parties. On 14th January 2014, the Company was pleased to announce that Simon Davies had agreed to make an asset backed loan available to the Company for a value up to £1.5m. The loan carried an annual coupon of 10% and an amount of £1m had been drawn as at 30th June 2014. As at 29th July 2014, on completion of the Continental Investment Partners transaction, this loan was cancelled and the £1m received was rolled into a new three year loan, also carrying a 10% coupon, but backed by 9,615,385 warrants with a conversion price of 10.4p per share.

No guarantees were provided or received for any related party receivables or payables and there were no further other transactions with related parties, directors' loans and other directors' interests.

## 5. Loss per share

	Loss after tax			Weighted average number of shares			Loss per share		
	June 2014 £'000	June 2013 £'000	December 2013 £'000	June 2014 million	June 2013 million	December 2013 million	June 2014 pence	June 2013 pence	December 2013 pence
Basic	(2,047)	(1,001)	(6,864)	291	288	288	(0.70)	(0.35)	(2.40)

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

## 6. Property, plant and equipment

	30 June 2014 Unaudited £'000	30 June 2013 Unaudited £'000	31 December 2013 Audited £'000
<b>Development and production assets</b>			
<b>Costs</b>			
At start of period	2,947	2,218	2,218
Additions	269	627	706
Decommissioning provisions	-	16	2
Exchange adjustments	(40)	43	21
At end of period	3,176	2,904	2,947
<b>Depreciation</b>			
At start of period	1,559	1,453	1,453
Charge for the period	102	13	106
At end of period	1,661	1,466	1,559
Net book amount at end of period	1,515	1,438	1,388

	30 June 2014 Unaudited £'000	30 June 2013 Unaudited £'000	31 December 2013 Audited £'000
<b>Fixtures, fittings and office equipment</b>			
<b>Costs</b>			
At start of period	231	191	191
Additions	3	14	37
Exchange adjustments	(2)	5	3
At end of period	232	210	231
<b>Depreciation</b>			
At start of period	143	88	103
Charge for the period	19	4	40
At end of period	162	92	143
Net book amount at end of period	70	118	88
Total net book amount at end of period	1,585	1,556	1,476

## 7. Intangible assets

	30 June 2014 Unaudited £'000	30 June 2013 Unaudited £'000	31 December 2013 Audited £'000
<b>Costs</b>			
At start of period	24,560	15,620	15,620
Additions	863	2,925	8,719
Exchange adjustments	(396)	477	221
At end of period	25,027	19,022	24,560
<b>Impairment</b>			
At start of period	(5,060)	(1,076)	(1,076)
Additions	-	-	(3,984)
At end of period	(5,060)	(1,076)	(5,060)
Net book amount at end of period	19,967	17,946	19,500

## 8. Share Issues

On 3 February 2014, Sound Oil announced the results of its Open Offer which had been announced on 16 January 2014 with an offer price of 4.2 pence per New Ordinary Share. The Company received valid acceptances in respect of 38,349,139 Open Offer Shares from eligible shareholders and these new shares were admitted to the AIM market on 4 February 2014.

Various bonuses in the forms of shares were awarded to the Executive Team in 2014 which resulted in the issue of 1,833,132 new ordinary shares.

Consequently, as at 30 June 2014, the Company had 327,800,815 Ordinary Shares in issue.

## 9. Post Balance Sheet events

On 10 July, the Company was pleased to confirm the issue of shares in respect of the first equity tranche of the £14 million institutional funding first announced by the Company on 25 April 2014. Following cash receipt of £1.86 million from Simplify Partners S.A., a related part of Continental Investment Partners S.A., 23,212,500 new Ordinary Shares were issued.

On 23 July, the Company announced the issue of shares in respect of the final equity tranche of the £14 million funding agreement announced on 25 April 2014. 64,287,500 new Ordinary Shares were consequentially issued to Metano Capital S.A., a related party of Continental Investment Partners S.A.

On 29 July, the Company was pleased to announce the completion of the final stage of the £14 million institutional investment first announced by the Company on 25 April 2014. The Company has now issued the remaining £5.5 million of loan notes to Greenberry S.A., a wholly owned subsidiary of Continental Investment Partners S.A., (the "Investor") together with the issue of 52,884,615 detachable warrants to subscribe for new ordinary shares in the Company at a price of 10.4 pence per share at any point during the period of the loan. The terms of the loan notes were announced by the Company on 18 June 2014.

As previously announced on 18 June 2014, the existing £1 million loan from Simon Davies, a director of the Company, has now been converted into a new loan with the same par value, an annual coupon of 10% and repayable 3 years from the date of issue. As a result, Simon Davies has been issued with 9,615,385 warrants on the same terms as the Investor's warrants.

On 17 July, the Company announced that Marco Fumagalli, the Managing Partner of Continental Investment Partners S.A., had been appointed to the Board of the Company as a Non-Executive Director.

## 9. Post Balance Sheet events (continued)

On 15 July, the Company announced an 82% uplift in the resource estimates of the Santa Maria Goretti gas prospect with an unrisksed Best Estimate NPV10 is estimated to be €52.4 million.

On 29 July, the Company announced first gas from the onshore Casa Tiberi field with an initial production rate of 9,600 Scmd (0.34 MMscfd).

## Dealing Information

FT Share Price Index – Telephone 0906 8433711

SEAQ short code – SOU

## Financial Calendar

### Announcements

2014 Preliminary – May 2015

2015 Interim – September 2015

## Addresses

### Registered Office

Sound Oil plc, 55 Gower Street, London WC1E 6HQ

### Business Address

UK – Sound Oil plc, Riverbridge House, Guildford Road, Leatherhead, Surrey KT22 9AD

Tel: +44 1372 365 745

Fax: +44 1372 365 746

### Company Secretary

S. Ronaldson, 55 Gower Street, London WC1E 6HQ

Tel: +44 20 7580 6075

Fax: +44 20 7580 7429

### Website

[www.soundoil.co.uk](http://www.soundoil.co.uk)

### Auditors

Crowe Clark Whitehill LLP, St Bride's House, 10 Salisbury Square, London EC4Y 8EH

### Stockbrokers

Peel Hunt, Peel Hunt, London EC2R 6AY

### Nominated Advisers

Smith & Williamson Corporate Finance Limited, 25 Moorgate, London EC2R 6AY

### Registrars

Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL

# SOUND OIL PLC

Sound Oil plc  
Riverbridge House  
Guildford Road  
Leatherhead, Surrey  
KT22 9AD

[www.soundoil.co.uk](http://www.soundoil.co.uk)