



# SOUND OIL PLC

Interim Report 2012

Sound Oil plc is an independent upstream oil and gas company listed on the AIM market of the London Stock Exchange.

Sound Oil plc's strategy is to achieve significant and sustainable growth in value through an active drill programme and a significant reshaping of its asset portfolio.

- 1 Chairman's Statement
- 2 Condensed Interim Consolidated Income Statement
- 3 Condensed Interim Consolidated Balance Sheet
- 4 Condensed Interim Consolidated Statement of Changes in Equity
- 5 Condensed Interim Consolidated Cash Flow Statement
- 6 Notes to the Condensed Interim Consolidated Financial Statements
- IBC Dealing Information, Financial Calendar and Addresses

# Chairman's Statement

## Interim Results

In Italy during the first half of 2012 we submitted applications to drill appraisal wells on the Nervesa and Strombone discoveries and to produce at the Rapagnano and Casa Tiberi gas fields. We anticipate that these applications will be approved shortly. Preparations for the Nervesa well are already well advanced and we are planning that this well will be drilled late in 2012. At Rapagnano we have formed an alliance with the Italian engineering group CSTI which will fund approximately 50% of the development costs and undertake the facilities engineering works. We are looking to build on this relationship in other areas of our portfolio.

We have been drilling at both of our Indonesian Production Sharing Contracts (PSC's) after a gap of several years. At the Citarum PSC where we have a 20% position, the Operator, Pan Orient, moved the rig to the Jatayu wellsite in March after abandoning the earlier Cataka – 1 well above the reservoir target due to continuous drilling problems. The Jatayu – 1 well encountered gas bearing and overpressured sandstones below 5,700 feet which ultimately required using a high density mud weight for safe drilling. When the well was deepened to below 6,000 feet, mud was lost into the formation. This indicates either that naturally occurring porous rocks had then been encountered, or that mechanical fracturing of the formation had occurred as a result of previous exposure to high-density drilling mud. These conditions caused drilling problems resulting in three sidetracks. Finally the Operator ran a 4 1/2" liner to 6,636 feet and the well was suspended in September pending the arrival of a slim-hole drilling rig on site. Pan Orient intends to use this rig to drill to the target horizon at approximately 7,500 feet. Meanwhile Pan Orient will move the conventional rig to the Geulis wellsite.

Elsewhere in Indonesia, at the Bangkanai PSC, the Kerendan Gas Field development drilling campaign commenced in August with the first of four deviated production wells which Salamander, the Operator, intends to drill from a common wellsite. Under the terms of the ratified Gas Sales and Supply Agreement, the Indonesian electricity utility PLN is required to purchase the supply of Kerendan gas starting in the second half of

2013. Following the Kerendan drilling, the Operator will move the rig to drill the deep West Kerendan – 1 well. This will be the first of two high impact exploratory wells at the PSC. Sound Oil has a 5% carried interest in this permit whereby Salamander bears all the Company's share of the cost of drilling the Kerendan production wells, the cost of all development and production facilities and the cost of two exploratory wells, up to the point when gas is first produced.

Shortly after the end of the reporting period the Company announced a private placement of shares, thereby further securing the Company's funding position despite continued cost overruns in drilling the Citarum well. The placement involved issuing 774,341,464 new ordinary shares in exchange for 7,143,300 subscription notes which are redeemed equally over each of the next seven months at an average monthly share price.

The seven month period is designed to cover the period when first revenue from Rapagnano is expected and the material Nervesa appraisal well is drilled. An open offer for shareholders to subscribe to new shares was also announced, scheduled for the end of the placement period.

At the end of June, the Company's cash position was £5.1 million with no debt. The loss after tax for the first six months of 2012 was £2.1 million, which includes £1.4 million in administrative expenses and a £0.6 million foreign currency translation loss.

The Company is part way through the busiest period in its existence and in the next half year we shall see the drilling of development, appraisal and exploratory wells on our properties. The Company conducted a review of its operations in the middle of the year and is taking steps to streamline the business involving both capital costs and business overheads.

Finally I would like to thank my colleagues within Sound Oil and on the Board for their contributions on behalf of the Company.

**Gerry Orbell**  
Chairman

27 September 2012

# Condensed Interim Consolidated Income Statement

for the six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 Unaudited £'000	Six months ended 30 June 2011 Unaudited £'000	Year ended 31 December 2011 Audited £'000
Exploration costs		(49)	(580)	(2,405)
Gross loss		(49)	(580)	(2,405)
Administrative expenses		(1,398)	(1,345)	(2,948)
Group operating loss from continuing operations		(1,447)	(1,925)	(5,353)
Finance revenue		8	21	44
Foreign exchange gain/(loss)		(112)	(604)	(439)
Expense incurred in acquiring subsidiaries		-	(522)	(516)
Loss for the period before and after taxation		(1,551)	(3,030)	(6,264)
Other comprehensive income/(loss):				
Foreign currency translation income/(loss)		(579)	(777)	27
<b>Total comprehensive loss for the period</b>		<b>(2,130)</b>	<b>(3,807)</b>	<b>(6,237)</b>
Loss for the period attributable to:				
Owners of the Company		(1,551)	(3,025)	(6,259)
Non-controlling interests		-	(5)	(5)
		(1,551)	(3,030)	(6,264)
Total comprehensive loss attributable to:				
Owners of the Company		(2,130)	(3,802)	(6,232)
Non-controlling interests		-	(5)	(5)
		(2,130)	(3,807)	(6,237)
Loss per share basic and diluted for the period attributable to the equity holders of the parent (pence)	4	(0.08)	(0.19)	(0.39)

# Condensed Interim Consolidated Balance Sheet

at 30 June 2012

	Note	30 June 2012 Unaudited £'000	30 June 2011 Unaudited £'000	31 December 2011 Audited £'000
<b>Non-current assets</b>				
Property, plant and equipment	6	1,125	80	1,278
Intangible assets		3,508	2,131	3,577
Exploration and evaluation assets	7	25,649	15,934	22,725
Other debtors		742	662	668
		<b>31,024</b>	<b>18,807</b>	<b>28,248</b>
<b>Current assets</b>				
Other debtors		1,436	341	1,388
Prepayments		24	56	119
Cash and short term deposits		5,149	11,429	6,286
		<b>6,609</b>	<b>11,826</b>	<b>7,793</b>
<b>Total assets</b>		<b>37,633</b>	<b>30,633</b>	<b>36,041</b>
<b>Current liabilities</b>				
Trade and other payables		2,039	1,107	2,233
		<b>2,039</b>	<b>1,107</b>	<b>2,233</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities		3,507	2,131	3,576
Provisions		356	108	366
		<b>3,863</b>	<b>2,239</b>	<b>3,942</b>
<b>Total liabilities</b>		<b>5,902</b>	<b>3,346</b>	<b>6,175</b>
<b>Net assets</b>		<b>31,731</b>	<b>27,287</b>	<b>29,866</b>
<b>Capital and reserves</b>				
Equity share capital		58,676	49,825	54,704
Non controlling interests		-	44	-
Foreign currency reserve		3,189	2,964	3,768
Accumulated deficit		(30,134)	(25,546)	(28,606)
<b>Total equity</b>		<b>31,731</b>	<b>27,287</b>	<b>29,866</b>

Approved by the Board on 27 September 2012

G Orbell  
Director

J A Heath  
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 2012

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Non controlling interests £'000	Total equity £'000
At 1 January 2012	1,833	52,871	(28,606)	3,768	–	29,866
Total loss for the period	–	–	(1,551)	–	–	(1,551)
Other comprehensive income	–	–	–	(579)	–	(579)
Total income and expense for the period	–	–	(1,551)	(579)	–	(2,130)
Issue of share capital	263	3,737	–	–	–	4,000
Transaction costs	–	(28)	–	–	–	(28)
Share based payments	–	–	23	–	–	23
At 30 June 2012 (unaudited)	2,096	56,580	(30,134)	3,189	–	31,731

	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 2011	692	35,764	(22,482)	3,741	–	17,715
Total loss for the year	–	–	(6,259)	–	(5)	(6,264)
Other comprehensive loss	–	–	–	27	–	27
Total income and expense for the year	–	–	(6,259)	27	(5)	(6,237)
Issue of share capital	1,141	18,104	–	–	–	19,245
Transaction costs	–	(997)	–	–	–	(997)
Share based payments	–	–	260	–	–	260
Acquisition of non-controlling interests with a change in control	–	–	–	–	94	94
Acquisition of non-controlling interests without a change in control	–	–	(125)	–	(89)	(214)
At 31 December 2011 (audited)	1,833	52,871	(28,606)	3,768	–	29,866

# Condensed Interim Consolidated Cash Flow Statement

for the six months ended 30 June 2012

	Six months ended 30 June 2012 Unaudited £'000	Six months ended 30 June 2011 Unaudited £'000	Year ended 31 December 2011 Audited £'000
<b>Cash flow from operating activities</b>			
Cash flow from operations	(1,715)	(1,109)	(3,009)
Interest received	8	21	44
<b>Net cash flow from operating activities</b>	<b>(1,707)</b>	<b>(1,088)</b>	<b>(2,965)</b>
<b>Cash flow from investing activities</b>			
Capital expenditure and disposals	(10)	(69)	(31)
Exploration expenditure	(3,344)	(897)	(3,809)
Expense in acquiring subsidiaries	-	(522)	(366)
Acquisition of subsidiaries	-	(1,436)	(4,712)
Payment in escrow – acquisitions of subsidiaries	-	-	2,413
<b>Net cash flow from investing activities</b>	<b>(3,354)</b>	<b>(2,924)</b>	<b>(6,505)</b>
Proceeds from equity issue	3,972	10,791	12,108
<b>Net cash flow from financing activities</b>	<b>3,972</b>	<b>10,791</b>	<b>12,108</b>
Net increase/(decrease) in cash and cash equivalents	(1,089)	6,779	2,638
Net foreign exchange difference	(48)	166	(836)
Cash and cash equivalents at the beginning of the period	6,286	4,484	4,484
<b>Cash and cash equivalents at the end of the period</b>	<b>5,149</b>	<b>11,429</b>	<b>6,286</b>

## Notes to cash flow

	Six months ended 30 June 2012 Unaudited £'000	Six months ended 30 June 2011 Unaudited £'000	Year ended 31 December 2011 Audited £'000
<b>Cash flow from operations reconciliation</b>			
Loss before tax	(1,551)	(3,030)	(6,264)
Expense in acquiring subsidiaries	-	522	516
Payroll bonuses settled in shares	-	-	98
Share options granted and taken up immediately	-	-	36
Finance revenue	(8)	(21)	(44)
Exploration expenditure written off	49	(9)	1,236
Cash taken over on acquisition of subsidiaries	-	-	170
Increase/(decrease) in accruals and short term creditors	(152)	610	1,668
Depreciation	5	6	11
Share based payments charge	23	12	260
Increase in long term provisions	(1)	-	261
Decrease/(increase) in long term debtors	(81)	(32)	(12)
Decrease/(increase) in short term debtors	1	833	(945)
<b>Cash flow from operations</b>	<b>(1,715)</b>	<b>(1,109)</b>	<b>(3,009)</b>

# Notes to the Condensed Interim Consolidated Financial Statements

## 1. Basis of preparation

The condensed interim consolidated financial statements were approved for issue by the directors on 27 September 2012. They 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 2011. 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 2011 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. Share-based payments

The Group has a Long Term Incentive Plan under which share options have been granted to the executive team.

No share options were awarded to Directors during the period however a total of 18,550,000 share options were awarded to the executive team.

A total expense of £23,000 (2011 full year of £260,000) has been recognised in the consolidated income statement from equity settled share options. Consistent with previous years, this amount is the fair value of all the equity settled options in existence at the end of the period, estimated at the date of the grant using a Black Scholes model.

## 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 2012 £'000	June 2011 £'000	December 2011 £'000	June 2012 million	June 2011 million	December 2011 million	June 2012 pence	June 2011 pence	December 2011 pence
Basic	(1,551)	(3,025)	(6,259)	2,041	1,616	1,600	(0.08)	(0.19)	(0.39)

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

## 5. 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 two geographic areas being:

In Indonesia under a Production Sharing Contract ("PSC"), Citarum, and in Italy under various licences and permits.

The development and production activities are based in Indonesia under the Bangkanai PSC.

## 5. Segment information (continued)

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.

To date the Group has no development activity which has resulted in production and no turnover and have therefore not provided information on revenue, products or services.

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 2012 are as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Sales and other operating revenues	-	-	-	-
Other income/(loss)	-	-	-	-
Exploration costs	-	-	(49)	(49)
Impairment of exploration and evaluation assets	-	-	-	-
Administration expenses	(1,398)	-	-	(1,398)
<b>Operating loss segment result</b>	<b>(1,398)</b>	<b>-</b>	<b>(49)</b>	<b>(1,447)</b>
Interest receivable	8	-	-	8
Finance costs	(112)	-	-	(112)
Cost of acquiring subsidiaries	-	-	-	-
Loss on Farmout disposals	-	-	-	-
<b>Loss for the period before taxation</b>	<b>(1,502)</b>	<b>-</b>	<b>(49)</b>	<b>(1,551)</b>

The segments assets and liabilities at 30 June 2012 are as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Capital expenditure	37	1,088	29,157	30,282
Other assets	7,351	-	-	7,351
Total liabilities	(5,902)	-	-	(5,902)

## 5. Segment information (continued)

The segment results for the period ended 30 June 2011 are as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Sales and other operating revenues	-	-	-	-
Other income/(loss)	-	-	-	-
Exploration costs	(589)	-	9	(580)
Impairment of exploration and evaluation assets	-	-	-	-
Administration expenses	(1,345)	-	-	(1,345)
<b>Operating loss segment result</b>	<b>(1,934)</b>	<b>-</b>	<b>9</b>	<b>(1,925)</b>
Interest receivable	21	-	-	21
Finance costs	(604)	-	-	(604)
Cost of acquiring subsidiaries	(522)	-	-	(522)
Loss on Farmout disposals	-	-	-	-
<b>Loss for the period before taxation</b>	<b>(3,039)</b>	<b>-</b>	<b>9</b>	<b>(3,030)</b>

The segments assets and liabilities at 30 June 2011 are as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Capital expenditure	80	-	18,065	18,145
Other assets	12,488	-	-	12,488
Total liabilities	(3,346)	-	-	(3,346)

## 5. Segment information (continued)

The segment results for the period ended 31 December 2011 are as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Sales and other operating revenues	-	-	-	-
Other income/(loss)	-	-	-	-
Exploration costs	(936)	-	(233)	(1,169)
Impairment of exploration and evaluation assets	-	-	(1,236)	(1,236)
Administration expenses	(2,948)	-	-	(2,948)
<b>Operating loss segment result</b>	<b>(3,884)</b>	<b>-</b>	<b>(1,469)</b>	<b>(5,353)</b>
Interest receivable	44	-	-	44
Finance costs	(439)	-	-	(439)
Cost of acquiring subsidiaries	(516)	-	-	(516)
Loss on Farmout disposals	-	-	-	-
<b>Loss for the period before taxation</b>	<b>(4,795)</b>	<b>-</b>	<b>(1,469)</b>	<b>(6,264)</b>

The segments assets and liabilities at 31 December 2011 are as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Capital expenditure	32	1,246	26,302	27,580
Other assets	8,461	-	-	8,461
Total liabilities	(6,175)	-	-	(6,175)

## 6 Property plant and equipment

	30 June 2012 Unaudited £'000	30 June 2011 Unaudited £'000	31 December 2011 Audited £'000
<b>Development and production assets</b>			
<b>Cost</b>			
At start of period	1,246	-	-
Exchange adjustments	(158)	-	-
Additions	-	-	-
Transfers <sup>(1)</sup>	-	-	1,246
Disposals	-	-	-
At end of period	1,088	-	1,246
<b>Depreciation</b>			
At the start of period	-	-	-
Exchange adjustments	-	-	-
Charge for the period	-	-	-
Disposals	-	-	-
At end of period	-	-	-
Net book amount	1,088	-	1,246
<b>Fixtures, fittings and office equipment</b>			
<b>Cost</b>			
At start of period	204	139	139
Exchange adjustments	(4)	(9)	(1)
Acquisitions	-	-	35
Additions	10	112	31
Disposals	1	3	-
At end of period	211	245	204
<b>Depreciation</b>			
At the start of period	172	127	127
Exchange adjustments	(4)	(7)	(1)
On acquisition of subsidiaries	-	-	31
Charge for the period	5	42	15
Disposals	1	3	-
At end of period	174	165	172
Net book amount	37	80	32
<b>Total net book amount</b>	<b>1,125</b>	<b>80</b>	<b>1,278</b>

(1) Transfers represent the reclassification of assets from exploration and evaluation assets.

## 7. Exploration and evaluation assets

	30 June 2012 Unaudited £'000	30 June 2011 Unaudited £'000	31 December 2011 Audited £'000
<b>Costs</b>			
At start of period	26,856	12,982	12,982
Acquisitions	-	5,931	11,361
Additions	3,381	897	3,809
Transfers	-	-	(1,246)
Exchange adjustments	(585)	(848)	(50)
At end of period	29,652	18,962	26,856
<b>Impairment</b>			
At start of period	4,131	3,028	3,028
Additions	49	-	1,101
Exchange adjustments	(177)	-	2
At end of period	4,003	3,028	4,131
Net book amount at end of period	25,649	15,934	22,725

## 8. Share Issues

On 6 February 2012, the Company placed 262,587,803 new ordinary shares at 1.5233p per share, raising £4 million and issued 157,552,682 three year warrants.

## 9. Post balance sheet events

On 16 July 2012, the Company placed 774 million new shares in a placement through Astin Capital Management in consideration for £7.1 million redeemable subscription notes and the cancellation of 217 million existing warrants.

The redeemable notes are redeemed in equal amounts in each of the next seven months at the average volume weighted price for each month.

# Dealing Information

FT Share Price Index – Telephone 0906 8433711

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# Financial Calendar

## Announcements

2012 Preliminary – May 2013

2013 Interim – September 2013

# Addresses

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## Auditors

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