SOUND OIL

Annual Report 2008

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: Lekom Maras HWO rig on location during testing of Pasundan-1 on Citarum PSC in Java.

Chairman's Statement

During the year the Company has been involved in the first regional seismic acquisition program in the extensive Citarum Production Sharing Contract. The results of this seismic will be used to determine the location of the next three wells which are scheduled for drilling in 2009 and 2010. We expect the initial 850kms of seismic to be available over the most prospective areas, in the third quarter 2009.

Our suspended well Pasundan Number 1 was re-entered late in 2008 to test the cavernous porosity that had sustained major fluid losses during drilling operations. Although minor hydrocarbon shows had been recorded at that time, the drill stem test only produced formation water at a rate of 2900 barrels per day. We are evaluating the causes of this result in order to asses their impact on the other prospects in the immediate area.

Once again at Bangkanai in Kalimantan, our other non-operated PSC in Indonesia, progress has been slower than expected, caused to an extent, by the complexity of getting the Kerendan gas to market. The Kerendan gas field was granted a Plan of Development by the Government of Indonesia in 2006. For development to commence we need a favourable gas sales agreement with the government electricity utility, PLN. These negotiations commenced in late 2008. Much depends on the investment schedule of PLN since they need to invest in an electricity transmission line from the new-build generating plant at Kerendan, to the grid connection point 180 km away.

Last year I indicated that the Company would be reducing its exposure to the Bangkanai PSC, through a farm out or divestment. As it turned out, the ensuing 12 months have been the most commercially difficult for many years with falling oil prices, the lack of debt funding and cutbacks in the budgets of many potential farminees and purchasers. Although many companies were technically attracted to Bangkanai, none have yet committed financially, although we are still in discussions to achieve this end. In the event that the obligated work programme is not completed by the end of the year, the Operator may advise relinquishment. In this case, we estimate our financial liability will be $4 million.

Against the background of general financial turmoil in the world, we have kept tight control of our overheads and we finished the year with £15 million in cash and no debt. Based on the budget estimates by the Operator of the Citarum PSC and on our own experience of the lead times for exploration activity at Bangkanai, the Board considers that we have sufficient funds to conduct our activities over the next twelve months. Further funding and licence extensions will be needed to complete the full licence commitments.

Finally I wish to thank our staff, the members of Sound's Board and our shareholders for their continuing support.

Gerry Orbell

Chairman

23 June 2009

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 at present is 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 2008 full year accounts under International Financial Reporting Standards (IFRS).

Income statement

The Group made a profit after tax in 2008 of £45,000 compared with a loss of £1,811,000 in 2007.

Main reasons for the improvement of £1,856,000 were a favourable foreign exchange movement of £4,230,000 resulting from the strength of the US$ and a £334,000 reduction in administration costs, £245,000 of which were a recovery of UK VAT.

These were partly offset by an increase of £2,296,000 in exploration costs, due to writing off the cost of the Pasundan 1 well, and a £454,000 reduction in finance income reflecting the fall in interest rates.

Cash flow/financing

Net cash outflow before financing and foreign exchange movements was £3,202,000 (2007: £3,509,000). Of this, exploration expenditure was £1,638,000 (2007: £408,000). However, there was a foreign exchange gain of £4,204,000 (2007: loss £257,000) due to the fall in sterling increasing 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 £1 million higher at £14,625,000 (2007: £13,623,000).

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 even if the licences were to be revoked, a possibility which is considered to be remote. 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 2008 generated a Group trading loss of £4.1 million from continuing operations. At 31 December 2008 the Group held cash and cash equivalents of £15 million. The directors have considered the Group's cash flow forecasts for the period to the end of June 2010. Forward cash flow projections show that forecast expenditure (12 months through 30 June 2010) will be less than the funds available as at 31 December 2008, and as a result, the Group has sufficient cash resources to undertake its work program in the next 12 months. The Company has also prepared a sensitivity analysis considering the potential risk of non-extension of the PSCs and penalty payments. In the first case, the Group will end up the forecasted period with £3.1 million, whereas the second scenario (no further extension granted which is considered to be highly unlikely by the directors), will leave the Group in a position of £4 million in cash to spend on other business opportunities. Management will also continue to pursue farm-out and financing strategies to reduce/fund Sound's future obligations.

Balance sheet

The increase of £7,879,000 in exploration and evaluation asset value was almost entirely due to the strength of the US$ increasing the sterling value.

Financial Review
continued

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. However, the cost of the dry well Pasundan 1 has been written off due to its exceptionally high cost resulting from technical problems which occurred during drilling. In the remote event that one or both of the licences was revoked, the allocated intangible values and associated goodwill would need to be written off.

Due to the currency movement, shareholders equity has increased from £31.2 million to £37.8 million.

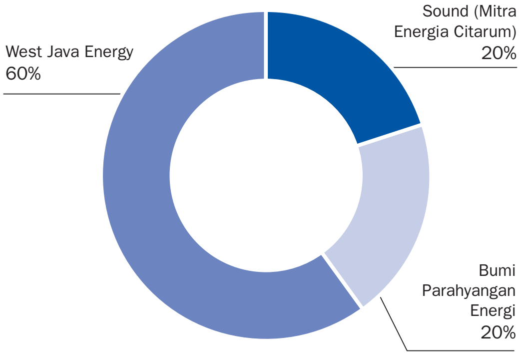
Technical Review

Licence Interests

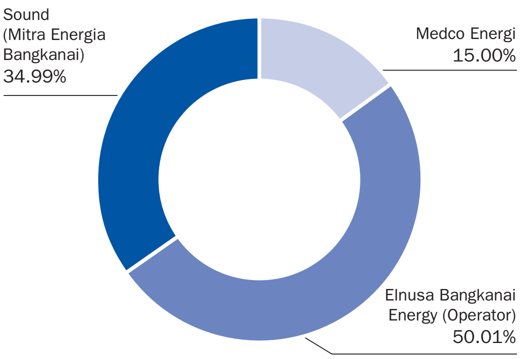
The Group participates in two Production Sharing Contract (PSC) areas in Java and Kalimantan, Indonesia through its subsidiary company Mitra Energia Limited.

Our working interests and partners are:

Citarum PSC



Bangkanai PSC



Bangkanai PSC

A Plan of Development (POD) for the Kerendan gas field was granted in 2006 by BPMigas (the Indonesian government agency responsible for the supervision and control of upstream oil and natural gas business activities). The 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 Bscfg[3] over 20 years at a maximum rate of 20 MMscfd[4]. 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 RML-Senergy[5] are:

	Gross	Net to Sound (34.99%)
Proved (P1, Bscfg)	187.0	65.4
Proved + Probable (P1+P2, Bscfg)	238.5	83.5

Progress on implementation of the POD has been delayed by scheduling difficulties for PLN (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 on a Gas Sales and Purchase Agreement began with PLN in November 2008. Assuming a successful conclusion to these negotiations, it is now estimated that first gas could be delivered by 2011.

The operator is seeking a further extension of the PSC First Exploration Period to 31 December 2009 in order to fulfil the outstanding work commitment of two exploration wells. Plans to drill the Kerendan Deep Prospect in the clastic Tanjung Formation below the Kerendan field have been affected by the delay to the development schedule as this well (designated Sungai Lahei-1) has been designed to be a deepening of a new development well. The Kerendan Deep structure has estimated P50 prospective resources of 940 Bscfg[6].

In order to define a drilling location for the second exploration well a new 300 km seismic survey has been planned to focus on the Jupoi structure to the south of Kerendan. The Jupoi structure is a complex faulted anticline prospective at the Oligocene Berai Formation (the same reservoir as at Kerendan) and at the deeper Eocene Tanjung Formation level. Although not fully defined the structure is estimated by the operator to contain P50 prospective resources of ~ 4 Tscfg[6,7].

No work programme and budget has been agreed by the partners of the Bangkanai PSC. Up to date, the operator has not yet started any of the activities and management consider it highly unlikely that committed spend of $11.75 million on the PSC will be completed in the 12 month period to 30 June 2010.

Technical Review

continued

Management recognises that the outstanding work commitments on the licence cannot be indefinitely deferred. BPMigas has not yet issued an extension letter for Bangkanai PSC for the period expired at 31 December 2008. However, as no revocation notice has been issued, the PSC is considered to be in place. As a result, there is a risk that inactivity in Bangkanai could lead the Indonesian Government to revoke the licence from the partners and require a penalty payment to BPMigas estimated at $4.1 million (calculated based on the outstanding work commitments in accordance with the PSC, which amount to $11.75 million as at 31 December 2008 and Sound's share of 34.99%) and revocation of the PSC at the end of the extension period (31 December 2008) if there is no activity in the PSC. In the directors' view this scenario is highly unlikely.

Citarum PSC

Figure 1: Lekom Maras HWO rig and surface equipment setting up for DST 3 on Pasundan-1 in November 2008.

In May 2008 the Citarum PSC was placed under new operatorship following the purchase of previous operator BPREC's interest by Pan Orient Energy Holdings. This change has placed the PSC in firm financial standing and allowed progress on a full technical programme to address the exploration potential of the block. A one-year extension to the First Exploration Period (Contract Years 1-3) has been successfully negotiated with BPMigas. The granting of the extension required a 35% relinquishment of the PSC area which was formally approved by BPMigas in March 2009. The relinquishment comprised non-prospective areas of volcanic outcrop and will not impact on the overall hydrocarbon potential of the block. A second extension to October 2010 will be necessary to fulfil the outstanding work commitments. In the unlikely event of the PSC being revoked, the penalty payment would be £2.1 million but this would be more than offset by the saving in planned expenditure of £2.9 million.

In November 2008 the Pasundan-1 well was re-entered using a hydraulic work-over rig (Figure 1) in order to test the upper cavernous interval in the Baturaja carbonate

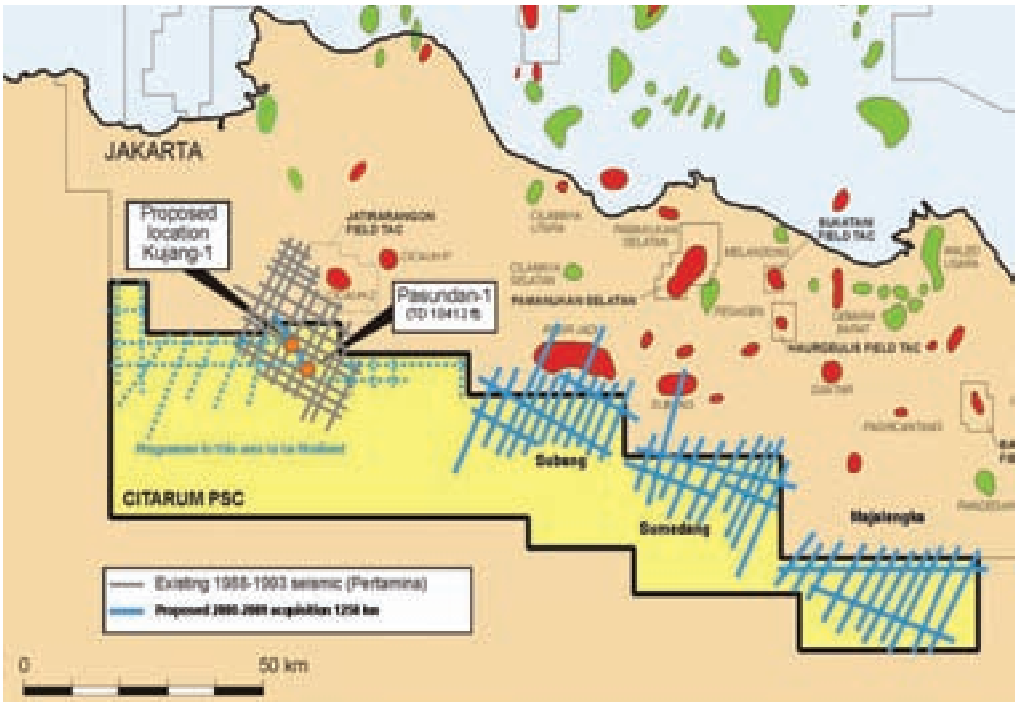


Figure 2: Proposed 1250 km 2D seismic survey on Citarum PSC

formation. The test (DST 3, 6778-6788 ft) flowed formation water at an average rate of 2900 barrels per day, with no indication of hydrocarbons. In view of results at Pasundan-1 it was decided to delay drilling of the nearby Kujang Prospect (estimated P50 prospective resources[1] 42 MMbo[2]) pending additional seismic data to verify its separation from the Pasundan structure and to understand the implications of a lack of hydrocarbon charge at Pasundan-1.

Work commenced in October 2008 on a 1250 km 2D seismic survey covering a large part of the northern areas of the block (Figure 2). This survey includes the outstanding 750 km commitment for Years 1-3 and 500 km

Figure 3: Portable compressor rig drilling a seismic shot-hole.

Figure 4: Preparing to set dynamite charge in the shot-hole.

Technical Review
continued

additional commitment for Year 4. The survey will initially acquire 850 km in the east of the block in the Subang, Sumedang and Majalengka areas, close to a number of existing oil and gas discoveries (Figures 3 and 4). A second phase of 400 km will focus on the west of the block. The first phase of seismic survey is anticipated to be completed in the third quarter 2009 enabling plans to be presented to BPMigas for drilling the remaining three exploration commitment wells on the PSC.

The seismic survey is supported by field geological studies in collaboration with two local universities. Preliminary studies have revealed an active oil seep on the PSC in the Majalengka area close to the site of a trial boring made by Dutch company NHM in the 1870s (Figure 5). This occurrence provides significant encouragement for the prospectivity of this area of the block.

Figure 5: Active oil seep close to old Maja-1 trial boring in the southeast of Citarum PSC

[1] 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.
[2] Million barrels of oil.
[3] Billion standard cubic feet of gas.
[4] Million standard cubic feet of gas per day.
[5] RML-Senergy compiled the Competent Person's Report included in the Admission Document of July 2006, from which these figures are taken.
[6] Prospective resource estimates are Operator's figures from their Prospect and Lead Inventory submitted to BPMigas in February 2008.
[7] Trillion standard cubic feet of gas.

Report of the Directors

The directors submit their report and the audited accounts for the year ended 31 December 2008.

Results and dividends

The Group's profit after tax for the year amounted to £45,000 (2007 loss: £1,811,000). 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.

Likely future developments

During the year, given the difficulty in raising funds and the overall turmoil in the financial markets, the board have considered a number of strategic options available to the Company including seeking secondary funding from additional and new investors. However, the board still considers that the best way to maximise value to the shareholders will be to continue to pursue the business plan of developing the licences. Management will also continue to pursue farm-out and financing strategies to reduce/fund Sound's future obligations.

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 2008 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.

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 29 May 2009 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	212,604,103	30.70
Credit Suisse Client Nominees (UK) Ltd	119,393,636	17.24
Fitel Nominees Ltd	53,000,000	7.65
Lynchwood Nominees Ltd	48,027,963	6.94
HSBC Global Custody Nominee (UK) Ltd	31,525,272	4.55

Report of the Directors

continued

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 2007	31 Dec 2008	29 May 2009
Simon Davies	5,500,000	5,500,000	5,500,000
Tony Heath	1,327,586	1,327,586	1,327,586
Michael Nobbs	1,945,545	1,945,545	1,945,545
Gerald Orbell	5,809,717	5,809,717	5,809,717
Ilham Habibie*	147,288,696	147,288,696	147,288,696
Patrick Alexander	18,411,155	18,411,155	18,411,155
Jusuf Rachmantio	35,475,662	35,475,662	35,475,662

* Shares registered in the name of PT 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 10.

Directors' interests in share options are shown in the Report on Directors Remuneration on page 11.

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. Ilham Habibie and Mr. Jossy Rachmantio 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 have confirmed their willingness to continue in office and a resolution to re-appoint them as auditors will be put to shareholders at the forthcoming Annual General Meeting.

By order of the Board
Stephen Ronaldson
Company Secretary
23 June 2009

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 2009 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.

Report on Directors' Remuneration

continued

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	
	2007 £'000's	2008 £'000's
Executive directors		
Gerry Orbell	175	175
Tony Heath	100	100
Jossy Rachmantio	125	141
Non-executive directors		
Simon Davies	25	25
Michael Nobbs	25	25
Ilham Habibie	25	25
Patrick Alexander	25	25
Total for all directors	**500**	**516**

Share Options

At 31 December 2008 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 2008	Options held at 31 December 2008
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.

Eight board meetings were held during the year. Messrs Orbell, Rachmantio and Alexander attended all eight, Messrs Heath and Davies seven and Messrs Nobbs and Habibie six.

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 1985. 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 Group and parent Company financial statements (the "financial statements") of Sound Oil plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statement of Changes in Equity and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Report of the Directors includes that specific information presented in the Chairman's Statement and the Technical Review that is crossed referenced from the Activities section of the Report of the Directors.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions are not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Financial and Technical Review, the Report of the Directors, the Report on Directors' Remuneration, the Corporate Governance Report and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Consolidated Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2008;
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP
Registered Auditors, London
23 June 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Notes	2007 £'000's	2008 £'000's
Exploration costs		(630)	(2,926)
Gross loss		(630)	(2,926)
Administrative expenses – net of VAT recovered	3	(1,513)	(1,179)
Group trading loss		(2,143)	(4,105)
Share of post tax (loss)/profit of associates and joint ventures accounted for using the equity method		(59)	10
Group operating loss from continuing operations	3	(2,202)	(4,095)
Finance revenue	6	704	250
Foreign exchange (loss)/gain		(313)	3,917
(Loss)/profit before income tax		(1,811)	72
Income tax charge		–	(27)
(Loss)/profit for the period attributable to the equity holders of the parent		(1,811)	45
(Loss)/profit per share basic and diluted for the period attributable to ordinary equity holders of the parent (pence)	8	(0.26)	0.01

The Company has elected to take the exemption under section 230 of the Companies Act 1985 to not present the parent Company income statement.

Consolidated Balance Sheet

as at 31 December 2008

Group	Notes	2007 £'000's	2008 £'000's
Non-current assets			
Property, plant and equipment	9	77	65
Intangible assets	10	3,825	5,277
Exploration and evaluation assets	12	15,428	23,307
Investment in associate	11	2,162	–
Other debtors	14	231	651
		21,723	**29,300**
Current assets			
Other debtors	14	9	414
Prepayments		62	75
Cash and short term deposits	15	13,623	14,625
		13,694	**15,114**
Total assets		**35,417**	**44,414**
Current liabilities			
Trade and other payables	16	274	1,188
Income tax	7	–	27
		274	**1,215**
Non-current liabilities			
Deferred tax liabilities	17	3,825	5,277
Provisions	18	82	104
		3,907	**5,381**
Total liabilities		**4,181**	**6,596**
Net assets		**31,236**	**37,818**
Capital and reserves	**19**		
Equity share capital		36,456	36,456
Foreign currency reserve		(1,205)	5,289
Accumulated deficit		(4,015)	(3,927)
Total equity	**19**	**31,236**	**37,818**

Approved by the Board on 23 June 2009

G Orbell
Director

J A Heath
Director

The accounting policies on pages 23 to 29 and notes on pages 23 to 48 form part of these financial statements

Company Balance Sheet

as at 31 December 2008

Company	Notes	2007 £'000's	2008 £'000's
Non-current assets			
Property, plant and equipment	9	6	3
Investment in subsidiaries	13	20,548	22,631
		20,554	**22,634**
Current assets			
Other debtors	14	7	321
Prepayments		38	37
Cash and short term deposits	15	13,019	13,779
		13,064	**14,137**
Total assets		**33,618**	**36,771**
Current liabilities			
Trade and other payables	16	159	255
Income tax		–	27
Total liabilities		**159**	**282**
Net assets		**33,459**	**36,489**
Capital and reserves	**19**		
Equity share capital		36,456	36,456
(Accumulated deficit)/retained earnings		(2,997)	33
Total equity	**19**	**33,459**	**36,489**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

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 2008		692	35,764	(4,015)	(1,205)	31,236
Foreign currency translation		–	–	–	6,494	6,494
Total income and expense for the year recognised in equity		–	–	–	6,494	6,494
Total profit for the year		–	–	45	–	45
Total income and expense for the year		–	–	45	6,494	6,539
Share based payments	23	–	–	43	–	43
At 31 December 2008		692	35,764	(3,927)	5,289	37,818

	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 2007		692	35,764	(2,294)	(974)	33,188
Foreign currency translation		-	-	20	(231)	(211)
Total income and expense for the year recognised in equity		-	-	20	(231)	(211)
Total loss for the year		-	-	(1,811)	-	(1,811)
Total income and expense for the year		-	-	(1,791)	(231)	(2,022)
Share based payments	23	-	-	70	-	70
At 31 December 2007		692	35,764	(4,015)	(1,205)	31,236

Company Statement of Changes in Equity

for the year ended 31 December 2008

Company

	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**
Foreign currency translation		–	–	–	–
Total income and expense for the year recognised in equity		**–**	**–**	**–**	**–**
Total profit for the year		–	–	2,987	2,987
Total income and expense for the year		**–**	**–**	**2,987**	**2,987**
Share based payments	23	–	–	43	43
At 31 December 2008		**692**	**35,764**	**33**	**36,489**

	Note	Share capital £'000's	Share premium £'000's	Accumulated retained earnings/ (deficit) £'000's	Total equity £'000's
At 1 January 2007		**692**	**35,764**	**(1,907)**	**34,549**
Foreign currency translation		-	-	-	-
Total income and expense for the year recognised in equity		**–**	**–**	**–**	**–**
Total loss for the year		-	-	(1,160)	(1,160)
Total income and expense for the year		**–**	**–**	**(1,160)**	**(1,160)**
Share based payments	23	-	-	70	70
At 31 December 2007		**692**	**35,764**	**(2,997)**	**33,459**

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Notes	2007 £'000's	2008 £'000's
Cash flow from operating activities			
Cash flow from operations		(2,098)	(1,652)
Interest received	6	704	250
Net cash flow from operating activities		**(1,394)**	**(1,402)**
Cash flow from investing activities			
Capital expenditure and disposals	9	(73)	(26)
Exploration expenditure		(408)	(1,638)
Investment in associate	11	(1,634)	(136)
Net cash flow from investing activities		**(2,115)**	**(1,800)**
Net decrease in cash and cash equivalents		**(3,509)**	**(3,202)**
Net foreign exchange difference		**(257)**	**4,204**
Cash and cash equivalents at the beginning of the year		**17,389**	**13,623**
Cash and cash equivalents at the end of December	**15**	**13,623**	**14,625**

Notes to cash flow

	Notes	2007 £'000's	2008 £'000's
Cash flow from operations reconciliation			
(Loss)/profit after tax		**(1,811)**	**45**
Finance revenue	6	(704)	(250)
Foreign exchange loss/(gain)		313	(3,917)
Exploration expenditure written off		–	2,295
Income tax charge		–	27
(Decrease)/increase in accruals and short term creditors		(410)	700
Depreciation	3	51	58
Share based payments charge	23	70	43
Increase/(decrease) in long term provisions		26	(7)
Increase in long term debtors		(163)	(259)
Decrease/(increase) in short term debtors		530	(387)
Cash flow from operations		**(2,098)**	**(1,652)**

Company Cash Flow Statement

for the year ended 31 December 2008

	Notes	2007 £'000's	2008 £'000's
Cash flow from operating activities			
Cash flow from operations		(1,471)	(1,330)
Interest received		702	248
Net cash flow from operating activities		**(769)**	**(1,082)**
Cash flow from investing activities			
Capital expenditure and disposals	9	–	–
Investment in subsidiary undertakings		(2,663)	(2,083)
Net cash flow from investing activities		**(2,663)**	**(2,083)**
Cash flow from financing activities			
Proceeds from equity issue		–	–
Net cash flow used in financing activities		**–**	**–**
Net increase/(decrease) in cash and cash equivalents		**(3,432)**	**(3,165)**
Net foreign exchange difference		**(311)**	**3,925**
Cash and cash equivalents at the beginning of the year		**16,762**	**13,019**
Cash and cash equivalents at the end of December		**13,019**	**13,779**

Notes to cash flow

	Notes	2007 £'000's	2008 £'000's
Cash flow from operations reconciliation			
(Loss)/profit after tax		**(1,160)**	**2,987**
Finance revenue		(702)	(248)
Foreign exchange loss/(gain)		311	(3,925)
Income tax charge		–	27
Increase/(decrease) in accruals and short term creditors		6	96
Depreciation	9	2	3
Share based payments	23	70	43
Decrease/(increase) in short term debtors		2	(313)
Cash flow from operations		**(1,471)**	**(1,330)**

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 1985 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 2008 were authorised for issue by the board of directors on 23 June 2009.

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review above. As at 31 December 2008 the Group had £15 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 2010) will be less than the funds available as at 31 December 2008. 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 estimation of share-based payment costs and the impairment of intangible exploration assets (E&E assets) and goodwill. 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 23).

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.

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. Further details are given in Note 10.

Notes to the Financial Statements

continued

(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 parent'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.

(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

Notes to the Financial Statements

continued

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.

(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 to expense over the options' vesting period on a straight-line basis 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 8 'Operating Segments'* is applicable for annual periods beginning on or after 1 January 2009. This standard introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial information, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The adoption of this standard will not have any effect on the financial performance or position of the Group but is expected to give rise to additional disclosures.

- *IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements'*, The amendments to IFRS 1 allows an entity to determine the cost´of investment in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS requires all dividends from subsidiary, jointly controlled entity or associate to be recognised in the income statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The adoption of this standard will not have any effect on the financial performance or position of the Group.

- *IAS 23 Amendment, 'Borrowing Costs (revised in March 2007)'*, applicable for annual periods beginning on or after 1 January 2009. IAS 23 (Revised) have removed the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The adoption of this standard will not have any effect on the financial performance or position of 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 1 (Revised) 'Presentation of Financial Statements'*, issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The adoption of this standard will not have any effect on the financial performance or position of the Group.

- *IFRS 2 (Amendment) 'Share-based Payment'*, effective for annual periods beginning on or after 1 January 2009, clarifies that only service conditions and performance conditions are vesting conditions, and other features of a share-based payment are not vesting conditions. In addition, it specifies that all cancellations, whether by the entity or by other parties, should receive the same

Notes to the Financial Statements

continued

accounting treatment. The adoption of this standard will not have any effect on the financial performance or position of the Group.

- *IAS 32 (Amendment) 'Financial Instruments: Presentation' and IAS 1 (Amendment) 'Presentation of Financial Statements' – 'Puttable Financial Instruments and Obligations Arising on Liquidation'*, both effective for annual periods beginning on or after 1 January 2009, require entities to classify as equity certain financial instruments provided certain criteria are met. The instruments to be classified as equity are puttable financial instruments and those instruments that impose an obligation on the entity to deliver to another party a pro rata share of the net assets of the entity only on liquidation. The adoption of this standard will not have any effect on the financial performance or position of the Group.

- I*AS 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 12 'Service Concession Agreements'*, effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The adoption of this standard will not have any effect on the financial performance or position of the Group.

- *IFRIC 13 'Customer Loyalty Programmes'*, effective for annual periods beginning on or after 1 July 2008. IFRIC 13 addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. IFRIC 13 applies to sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. The interpretation requires that an entity recognises credits that it awards to customers as a separately identifiable component of revenue, which would be deferred at the date of the initial sale. IFRIC 13 will become mandatory for the Group's consolidated financial statements beginning 1 April 2009 with earlier application permitted. The adoption of this standard will not have any effect on the financial performance or position of the Group.

- I*FRIC 15 'Agreement for the Construction of Real Estate'*, IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real state unit should be recognised if an agreement between a developer and buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity. The adoption of this standard will not have any effect on the financial performance or position of the Group.

- *IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'*, issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on the disposal of the net investment. The adoption of this standard will not have any effect on the financial performance od 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.

(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

IAS 14 requires the disclosure of segment results for the business segments. For Sound Oil Group PLC there is no material difference between the consolidated results and the Group's operating and business segments. The Group's principal area of operation and business is Indonesia.

Therefore additional disclosure is not required.

Notes to the Financial Statements

continued

3 Operating loss

Operating loss is stated after charging/(crediting):

	Notes	2007 £'000's	2008 £'000's
Auditors' remuneration	4	130	200
Depreciation	9	51	58
Employee costs	5	990	970
Impairment charge	12	–	2,295
VAT recovered		–	(245)

4 Auditors' remuneration

	Notes	2007 £'000's	2008 £'000's
Audit of financial statements		90	160
Other services relating to taxation		14	40
All other services		26	–
Charged to income statement	3	**130**	**200**

5 Employee costs

	Notes	2007 £'000's	2008 £'000's
Staff costs, including executive directors			
Share based payments	23	70	43
Wages and salaries		830	792
Social security costs		90	135
Total	3	**990**	**970**
Number of employees (including executive directors) at the end of the year			
Technical and operations		6	5
Management and administration		11	11
Total		**17**	**16**

Details of the directors' emoluments are shown in the Report of Directors Remuneration on page 11.

6 Finance revenue

	2007 £'000's	2008 £'000's
Interest on cash at bank and short-term deposits	704	250
Total	**704**	**250**

7 Income tax

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

	2007 £'000's Group	2008 £'000's Group
Current tax		
United Kingdom corporation tax	–	(27)
Adjustment to tax expense in respect of prior years	–	–
Overseas tax	–	–
Total current tax charge	**–**	**(27)**
Deferred tax		
Deferred tax income arising in the current year (note 11(b))	–	–
Total deferred tax	**–**	**–**
Total tax charge	**–**	**(27)**

(b) Reconciliation of tax charge:

	2007 £'000's Group	2008 £'000's Group
(Loss)/profit before tax	(1,811)	72
Tax at UK corporation tax rate of 28.5% (2007: 30%)	543	(21)
Effects of:		
Expenses not deductible for tax purposes	(2)	(13)
Temporary differences not recognised	(346)	–
Utilisation of previously unrecognised deferred tax assets	–	844
Differences in overseas tax rates	(195)	(837)
Total tax charge	**–**	**(27)**

Notes to the Financial Statements

continued

8 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:

	2007 £'000's	2008 £'000's
(Loss)/profit after tax	(1,811)	45

	2007 million	2008 million
Weighted average shares in issue	692	692

	2007 Pence	2008 Pence
(Loss)/profit per share (basic)	(0.26)	0.01
Profit per share (diluted)		0.01

The diluted profit per share 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 (2007: loss £1,811,000) divided by 699 million dilutive potential ordinary shares.

Diluted loss per share has not been disclosed for 2007 as inclusion of unexercised options would be anti-dilutive.

9 Property plant and equipment

Group

	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

	Notes	Fixtures, fittings and office equipment £'000's	Total £'000's
Cost			
At 1 January 2007		61	61
Additions		73	73
At 31 December 2007		134	134
Depreciation			
At 1 January 2007		6	6
Charge for the year	3	51	51
At 31 December 2007		57	57
Net book amount at 31 December 2007		77	77

Notes to the Financial Statements

continued

9 Property plant and equipment – continued

Company

	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

	Fixtures, fittings and office equipment £'000's	Total £'000's
Cost		
At 1 January 2007	9	9
At 31 December 2007	9	9
Depreciation		
At 1 January 2007	1	1
Charge for the year	2	2
At 31 December 2007	3	3
Net book amount at 31 December 2007	6	6

10 Intangible assets

Goodwill

	2007 £'000's	2008 £'000's
Cost		
At 1 January	3,905	3,825
Exchange adjustments	(80)	1,452
Acquisitions	-	–
At 31 December	3,825	5,277
Impairment losses		
At 1 January	–	–
Impairment in the year	-	–
At 31 December	–	–
Net book amount at 31 December	3,825	5,277

Group

The goodwill balance that had arisen on the acquisition of the Mitra group in July 2006 has been allocated to the group of cash generating unit ('CGU') identified according to business segments. 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 fair value less costs to sell calculations. The methodology to arrive at 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 Mitra's acquisition in July 2006.

The calculation of fair value less costs to sell is most sensitive to the following assumptions:

- production
- capital expenditure
- operating expenditure .

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 2008 calculations are based on a significantly higher expected gas price of $5.75 per MMBtu, which is based on current negotiations between the Bangkanai Partners and PLN, the Indonesian state electricity utility, and corresponding Capex revisions.

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 (2007: 10%), which is standard industry practice.

The EMV for unappraised and undiscovered resources is a risked estimate of the value of prospective resources at $0.4 per mcf for gas $4 per barrel of oil.

Management believe that currently no reasonably possible change in the discount rate, income and availability assumption would reduce the headroom in the CGU to zero.

Company

The Company has no goodwill.

Notes to the Financial Statements

continued

11 Investment in associate

At 31 December 2007 the Group had a 20% equity interest in PT. Bumi Parahyangan Ranhill Energia Citarum (BPREC), which holds the Production Sharing Contract (PSC) and is operator for the Citarum licence area. This investment was accounted for as an investment in an associate. In February 2008 the shares were cancelled and replaced by a direct interest in the PSC, which is accounted for as a jointly controlled asset. The amount of £2,162,000 which was shown in the balance sheet at 31 December 2007 as investment in associate has therefore been transferred to exploration and evaluation assets.

	31 December 2007 £'000's	31 December 2008 £'000's
At start of period	528	2,162
Additions during period	1,693	-
Share of loss after tax	(59)	-
Reclassification to exploration and evaluation assets	-	(2,162)
At end of period	2,162	-

12 Exploration and evaluation assets

	2007 £'000's	2008 £'000's
Cost		
At 1 January	**15,288**	**15,428**
Additions	389	3,800
Exchange adjustments	(249)	7,020
At 31 December	**15,428**	**26,248**
Impairment		
At 1 January	**–**	**–**
Charge for the year	–	2,295
Exchange adjustments	–	646
At 31 December	**–**	**2,941**
Net book amount at 31 December	**15,428**	**23,307**

Additions in 2008 include £2,162,000 for the acquisition of the direct interest in the Citarum PSC as described in note 11.

The impairment cost during 2008 of £2,295,000 (2007: nil) relates to the cost of the dry well Pasundan 1 well written off due to its exceptionally high cost resulting from technical problems which occurred during drilling.

The Parent Company has no exploration and evalution assets.

13 Investment in subsidiaries

Company

	2007 £'000's	2008 £'000's
At 1 January	17,885	20,548
Adjustment to original cost of investment	2,663	2,083
At 31 December	**20,548**	**22,631**

The subsidiary undertakings of the Company at 31 December 2008 which are all 100% owned by the Company are:

Name	Incorporated	Principal activity
Sound Oil International Limited	British Virgin Islands	Holding company
Mitra Energia Limited*	Mauritius	Holding and services company

*The investment in Mitra Energia Limited is held indirectly via Sound Oil International Limited through a non-current, non-interest bearing loan. Given that Sound Oil plc has no intention to call on the loan in the foreseeable future, this loan is treated as "permanent as equity". As a result, Sound Oil plc has classified this loan as an investment which represents the carrying value of the investment in the Mitra group.

Notes to the Financial Statements

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14 Other debtors

Group

	2007		2008	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
Indonesian VAT recoverable from future production	–	175	–	565
UK VAT recoverable	–	–	315	–
Other receivables	9	56	99	86
Total	9	**231**	**414**	**651**

Currency analysis

	2007		2008	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
US Dollar	2	231	93	651
GBP Sterling	7	–	321	–
Total	9	**231**	**414**	**651**

Company

	2007		2008	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
Amounts due from subsidiaries	–	–	–	–
UK VAT recoverable	–	–	315	–
Other receivables	7	–	6	–
Total	7	**–**	**321**	**–**

Currency analysis

	2007		2008	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
US Dollar	–	–	–	–
GBP Sterling	7	–	321	–
Total	7	**–**	**321**	**–**

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.

15 Cash and short term deposits

Group

	2007 £'000's	2008 £'000's
Cash at bank and in hand	513	9,560
Cash equivalents:		
Short term deposits	13,110	4,281
	13,623	13,841
Cash in hands of joint venture operators	–	784
Carrying amount at 31 December	**13,623**	**14,625**

Company

	2007 £'000's	2008 £'000's
Cash at bank and in hand	485	9,498
Cash equivalents:		
Short term deposits	12,534	4,281
Carrying amount at 31 December	**13,019**	**13,779**

Notes to the Financial Statements

continued

16 Trade and other payables

Group

	2007 Current £'000's	2008 Current £'000's
Trade payables	90	318
Payroll taxes and social security	25	78
Accruals	99	316
Other payables	60	476
Total	**274**	**1,188**

Currency analysis

	2007 Current £'000's	2008 Current £'000's
US Dollar	115	933
GBP Sterling	159	255
Total	**274**	**1,188**

Company

	2007 Current £'000's	2008 Current £'000's
Trade payables	56	71
Payroll taxes and social security	18	19
Accruals	84	165
Other payables	1	–
Total	**159**	**255**

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

	2007 Current £'000's	2008 Current £'000's
Currency analysis		
US Dollar	–	–
GBP Sterling	159	255
Total	159	255

17 Deferred tax liabilities

	2007 £'000's	2008 £'000's
1 January	**3,905**	**3,825**
Acquisitions	–	–
Unrealised foreign exchange (decrease)/increase	(80)	1,452
31 December	**3,825**	**5,277**

18 Non-current provisions

	2007 £'000's	2008 £'000's
At 1 January	**56**	**82**
Employee post employment benefits	26	22
Utilised	–	–
At 31 December	**82**	**104**

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.

19 Capital and reserves

Group

Ordinary shares – 0.1p	Number of shares	2007 £'000s	Number of shares	2008 £'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	2007 £'000s	Number of shares	2008 £'000s
Authorised	3,000,000,000	3,000	3,000,000,000	3,000
Issued	692,427,348	692	692,427,348	692

Notes to the Financial Statements

continued

19 Capital and reserves - continued

Share option schemes

Options to subscribe for the Company's shares were granted to certain executives in 2006 and 2007 (note 23). No options were granted in 2008.

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 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
At 1 January 2007	(974)	692	35,764	(2,294)	33,188
Shares issued	-	-	-	-	-
Loss for the year	(231)	-	-	(1,791)	(2,022)
Share based payments	-	-	-	70	70
At 31 December 2007	(1,205)	692	35,764	(4,015)	31,236

Company

	Share capital £'000's	Share premium £'000's	Accumulated retained earnings/(deficit) £'000's	Total £'000's
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
At 1 January 2007	692	35,764	(1,907)	34,549
Shares issued	-	-	-	-
Loss for the year	-	-	(1,160)	(1,160)
Share based payments	-	-	70	70
At 31 December 2007	692	35,764	(2,997)	33,459

20 Related party disclosures

For the year ended 31 December 2008

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 2007	% equity interest 2008
Sound Oil International Limited	British Virgin Islands	100	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 2008 was 34.99% (2007: 34.99%) and in the latter 20% (2007: 20%).

Terms and conditions of transaction with related parties

There were no sales or purchases to or from related parties (2007: none). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2008, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2007: 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.

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 10).

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
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	-

Notes to the Financial Statements

continued

21 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 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.

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
2008		
Sterling	10	1
US Dollar	10	23
Sterling	(10)	(1)
US Dollar	(10)	(23)
2007		
Sterling	10	4
US Dollar	10	(66)
Sterling	(10)	(4)
US Dollar	(10)	66

21 Financial instruments risk management objectives and policies - continued

Foreign currency risk

As a result of the bulk of the Group's operations being in Indonesia, 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 before tax.

	Increase/ (decrease) in US dollar rate	Effect on profit before tax £'000's
2008		
	5%	(456)
	(5%)	504
2007		
	5%	(613)
	(5%)	678

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.

Liquidity risk

The Group and Company have significant liquid assets and are not materially exposed to liquidity risk.

Notes to the Financial Statements

continued

22 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
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**	
2007				
Cash and short term deposits				
GBP Sterling	146	–	146	5.34%
US$	12,964	513	13,477	4.93%
Total	**13,110**	**513**	**13,623**	

US$ cash balances have been converted at the exchange rate on 31 December 2008 of US$1.4479/£1 (2007: US$1.9973/£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: £4,281,000 (2007: £13,110,000).

Cash on which no interest is received of £9,560,000 (2007: £513,000) relates to balances available to meet immediate operating payments and was therefore only held for short periods interest-free.

Credit risk

There are no significant concentrations of credit risk within the Group or the Company.

23 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 six months 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

	2007 £'000's	2008 £'000's
Expense arising from equity settled share options	70	43

Company

	2007 £'000's	2008 £'000's
Expense arising from equity settled share options	70	43

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. The following table lists the inputs to the model used for the options granted in 2007. No options were granted in 2008.

	2007	2008
Dividend yield (%)	0	-
Expected volatility (%)	47.5	-
Risk free interest rate (%):		
*Tranche 1	4.38	-
*Tranche 2	4.56	-
*Tranche 3	4.75	-
Expected life post vesting (years)	10	-
Grant and exercise price (pence)	4.40	-
Weighted average fair value (pence)	3.02	-

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.

* Options granted in 2007 were exercisable in the three years 28 February 2008, 2009 and 2010.

No options were granted in 2008.

Share options outstanding at end December 2008 and 2007 were 6,350,000. The weighted average exercise prices at end 2008 and 2007 were 6.9 pence. The weighted average contractual lives were 6.6 years at end 2008 and 7.6 years at end 2007.

Notes to the Financial Statements

continued

24 Capital commitments and guarantees

At 31 December 2008 the Group had capital commitments of £4,900,000 (2007: £6,200,000) on exploration and development licences. The Company had no capital commitments in 2008 (2007: Nil).

Under the terms of a farm-out agreement dated 1 October 2004 with Elnusa Bangkanai Energy Limited (Elnusa), the Company has agreed to carry Elnusa's share of the initial minimum work obligation costs. Under the terms of the Bangkanai 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.

25 Contingent liabilities

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.

If insufficient progress has been made towards fulfilment of outstanding work commitments and no further extension period is approved, the Bangkanai PSC could be revoked. In this circumstance the authorities could seek a penalty payment in accordance with the PSC to cover the shortfall in completed commitments based on notional amounts for each activity as specified in the PSC. Based on current accounts, the estimated net exposure would be $4.1 million. In the Directors' view such a penalty is unlikely to be incurred and, if it was, there would be an offsetting cash saving of the future expenditure on the licence.

Dealing Information

FT Share Price Index – Telephone 0906 8433711

SEAQ short code – SOU

Financial Calendar

Announcements

Interim – September 2009

Preliminary – May 2010

Addresses

Registered Office

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

Business Address

Sound Oil plc, Fetcham Park House, Lower Road, Fetcham, Surrey, KT22 9HD

Website

www.soundoil.co.uk

Auditors

Ernst & Young LLP, 1 More London Place, London, SE1 2AF

Solicitors

Ronaldsons, 55 Gower St, London, WC1E 6HQ

Stockbrokers

Hichens Harrison & Co. plc, Bell Court House, 11, Blomfield St, London, EC2M 1LB

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

Nominated Advisers

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

Registrars

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

Perivan Financial Print 214621

SOUND OIL

Sound Oil plc
Fetcham Park House
Lower Road
Fetcham, Surrey
KT22 9HD

www.soundoil.co.uk