SOUND OIL

Annual Report 2010

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: Gas production facilities at Marciano on the Fonte San Damiano Concession, Basilicata, southern Italy.

Highlights

- ## Successful Acquisition of Italian business
  - 13 Discoveries
  - 16 Exploration prospects
  - Mainly operated

- ## 8 Planned Wells 2011/12

  Italy
  - 1 Production well
  - 2 Exploration/appraisal wells

  Indonesia
  - 5 Exploration wells

- ## £11 Million Funds Raised

- ## Funding Commitments Reduced


Carita
Badile
ITALY
Monteluro
Villa Gigli
Sambucheto
D503 BR-CS
Santa Maria Goretti
CORSICA
Convento
Colle Ginestre
Posta Del Giudice
Fonte San Damiano
Torrente Alvo
Monte Negro
SARDINIA
D148 DR-CS
D150 DR-CS
Solfara Mare
SICILY
Costa Del Sole


BRUNEI
MALAYSIA
SINGAPORE
Bongkanai PSC
KALIMANTAN
SUMATRA
SULAWESI
INDONESIA
Citarum PSC
JAVA

Chairman's Statement

This year has been the most successful since the Company was formed.

At the start of 2011 we acquired Consul Oil & Gas Ltd, a private UK company with a number of exciting assets in Italy. We now own 98% of the Consul shares through the issue of 275 million new Sound shares and a cash payment of £1.40 million - representing a total cost of £4.64 million at the time. The Italian assets have given the Company a second geographic area of focus and access to 17 permits containing a variety of promising opportunities. Since we took over in early January we have already commissioned a drilling rig to undertake the development at Marciano where an existing gas well needs to be completed as a producer. During the remainder of the year we shall be working up a number of exploration and appraisal prospects with a view to operating up to three wells over the next 12 to 18 months. The Company also considers that Italy offers further opportunities for expansion which we are actively pursuing.

In Indonesia, three substantial new exploration prospects have been identified on the Citarum permit where we have a 20% interest. These are the result of the extensive seismic programme which was finally completed after a two year effort. The terrain and environmental conditions made the work very difficult for the operator but the last of the 865km was finally acquired in the middle of 2010. The operator has scheduled the drilling of the three wells in the latter part of 2011 and these will fulfil the remaining work obligations on this Production Sharing Contract (PSC).

In Kalimantan, our PSC at Bangkanai (Sound 5%, carried) has seen a change of operator and it is their intention to drill two previously identified exploration prospects, again in the second half of this year. The new operator is also actively progressing the development of the Kerendan Gas accumulation on the same PSC and expects to bring this on stream within three years.

In the last five months, Sound has made a series of fundraising transactions and now has approximately £13 million in cash and no debt. In January 2011, as part of the Consul acquisition, 311 million new shares were issued at a price of 1.2p to raise £3.7 million and a further £3.2 million was raised by issuing 230 million new shares at a price of 1.4p. In late 2010 we entered into a £10 million standby equity distribution facility with Yorkville Advisors LLC whereby we can issue shares to them during the next three years in return for cash. In January 2011 the Company received shareholder authority to issue up to 100 million shares for this purpose. In March, 39 million shares were placed with Yorkville at an average price of 2.58p raising £1 million and in April a further 54 million shares at a price of 5.15p raising 2.8 million.

Sound now has a small staff of proven capability in Rome who have shown already that they can weld together an impressive portfolio of assets in short order. In Jakarta, over the last several years our colleagues have worked hard to progress our interests and I expect this year to be the most active for the Company in Indonesia. I wish to thank all of them and also the UK staff and my Board colleagues for their continuous efforts on behalf of the Company. Finally I wish to thank our shareholders for their support.

I believe Sound has plenty of exciting activity coming up in the next year or so. Altogether we expect around seven wells to be drilled and we shall also be investigating other ways of giving shareholders greater value.

Yours sincerely,

Gerry Orbell
Chairman
24 May 2011

Financial Review

Accounting standards

The Group has prepared its 2010 full year accounts under International Financial Reporting Standards (IFRS), as adopted by the European Union.

Income statement

Prior to the write down of the Bangkanai asset following its partial farm-down, the Group incurred a loss after tax of £1,758,000 which was £889,000 lower than in the previous year. The write down was £14,210,000 giving a total loss after tax for 2010 of £15,968,000 (2009: £2,620,000).

Trading loss at £1,932,000 was almost the same as in 2009. This included higher exploration costs of £430,000 (2009: £334,000) but administration costs were lower at £1,502,000 (2009: £1,596,000).

Due to the weakness of sterling, there was a foreign exchange gain of £211,000 compared with a loss of £786,000 in 2009.

Cash flow/financing

Net cash outflow before foreign exchange movements was £6,242,000 (2009: £3,086,000). Of this, exploration expenditure was £1,165,000 (2009: £953,000). However, there was a foreign exchange gain of £104,000 (2009: loss £917,000) due to the fall in sterling increasing the sterling value of the US$ cash deposits, as a result of which the Group's cash balance was £6,138,000 lower at £4,484,000 (2009: £10,622,000).

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. The Group's financial statements have been prepared on 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 2010 generated a Group trading loss of £1.9 million from continuing operations. At 31 December 2010 the Group held cash and cash equivalents of £4.5 million. The directors have considered the Group's cash flow forecasts for the period to the end of June 2012. Forward cash flow projections show that forecast expenditure (12 months through 30 June 2012) will be less than the funds available as at 31 December 2010; together with the £10.7 million raised in January, March and April 2011 from share placings and the £6 million undrawn element of the Yorkville facility. As a result, the Group has sufficient cash resources to undertake its work program in the next 12 months.

Balance sheet

Exploration and evaluation expenditure in 2010 was £1,165,000 (2009: £953,000) mainly on seismic work on the Citarum licence in Indonesia. Currency movement increased the balance in sterling terms by £745,000. However the write down of the Bangkanai asset by £14,210,000 left the year end balance at £9,954,000 (2009: £22,185,000).

The deferred tax liability and the matching goodwill balance arising from the tax provision were both reduced by £3,662,000 due to the Bangkanai farm down. After allowing for exchange adjustments of £390,000, this left the end 2010 balance at £1,525,000 (2009: £4,797,000).

Other debtors of £2,861,000 at end 2010 included £2,413,000 of cash held in escrow relating to the acquisition of Consul Oil & Gas Ltd which was paid to the vendors on 4 January 2011.

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 all 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.

Shareholders equity was reduced by the loss for the year, partly offset by an increase of £711,000 in the foreign currency reserve. The Bangkanai write down of £14,210,000 caused a further reduction to £17,715,000 at end 2010 (2009: £32,956,000).

Post balance sheet event

The provisional effect of the Company's acquisition on 4 January 2011 of Consul Oil & Gas Ltd is shown in note 25. This shows that the total cost of £4.7 million was funded as to £3.3 million by the issue of 275 million ordinary shares in Sound at 1.2p and £1.4 million by cash. Exploration and evaluation assets are increased by £5.9 million and Deferred Tax and Goodwill by £1.6 million.

Technical Review

Note: The commentary in this Technical Review reflects the acquisition on 4 January 2011 of Consul Oil & Gas Ltd.

Licence Interests

The Group holds licence interests in two countries, Italy and Indonesia.

In Italy, Sound Oil has acquired 98% of Consul Oil & Gas Ltd which, through its wholly-owned Italian subsidiary company Apennine Energy srl, gave Sound participating interests in sixteen new licences, mostly as operator: one concession, eight permits and seven assigned permits. In addition Apennine has two exclusive applications for pending awards lodged with the Italian Ministry of Industry.

In Indonesia, the Group participates in two Production Sharing Contract (PSC) areas in Java and Kalimantan through its subsidiary company Mitra Energia Limited. Our working interests are 20% in the Citarum PSC and 5% carried in the Bangkanai PSC.

Italian Assets

The Apennine portfolio offers multiple opportunities for production, appraisal and development of existing oil and gas discoveries and exploration drilling. It is Sound's intention over the coming 12-18 months to complete one production well and to drill three new wells targeting several of the exploration and appraisal opportunities in our portfolio. Where necessary the Company will achieve these objectives by selective farm-out of high equity positions. The projects for implementation are currently being discussed with our various partners and will be selected from the assets described below.

Production

Fonte San Damiano Concession (Apennine 99%, Operator)

The Concession is located in Basilicata in southern Italy (Figure 1). It contains the Marciano-01ST gas discovery which was drilled by Apennine in 2007. The well encountered two thin gas bearing sand intervals, MAR-4 at 1283-1288m and MAR-5 at 1325-1331m which have been cased-off ready for production.

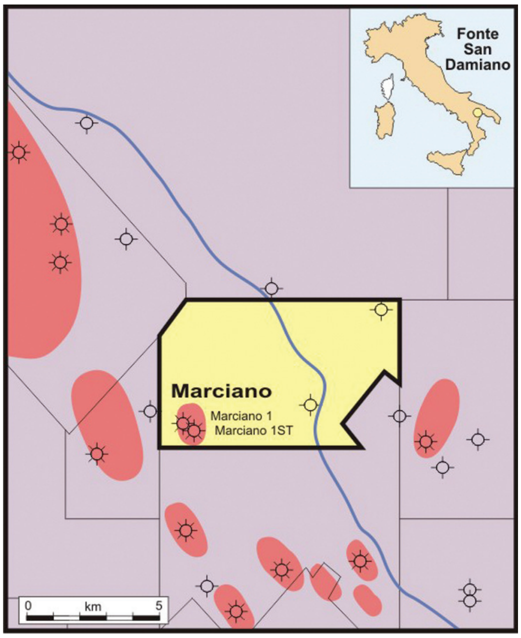

Figure 1

Fugro-Robertson[1] has estimated the gross P50 contingent resources[2] of the Marciano-01ST discovery to be 2.5 Bscf[3].

In March the Company signed a contract with Hydro Drilling International to supply a drilling rig to undertake the completion of the two zones. It is expected that the operation will commence in May, with first commercial revenues to follow 2-3 months after the well's completion. The gas produced will be fed to on-site generators and electricity exported to the local grid.

Appraisal and Development

Carita Permit (Apennine 50% interest, Operator)

The permit is located in Veneto Province, northeast Italy (Figure 2). The permit contains the Nervesa structure that was drilled by ENI in 1985 with two wells (Nervesa-1 and Nervesa-1dir A) and proved gas-bearing in at least 13 sand intervals. Of these intervals only one was completed and put in production between 1989 and 1991. The Nervesa field has the potential of five further completions of the remaining 12 sand intervals at 1829m to 1964m depth. Gross remaining P50 contingent resources have been estimated by Fugro-Robertson to be 12.5 Bscf. Apennine's strategy would be to drill two new wells to re-develop the gas field leading to early revenue generation.

Figure 2

Sambucheto Permit (Apennine 95% interest, Operated)

The permit is located in Ancona and Macerata in central Italy (Figure 3). Six wells were drilled in the permit area between 1971 and 1994, two of which were gas discoveries (Saletta-1 and Montefano-1dir) that were never developed. Montefano-1dir encountered 5m gas pay at 1190m and Saletta-1 found two 2m gas zones at 1321m and 1368m in the same formation. Gross P50 contingent resources for Montefano have been estimated by Fugro-Robertson to be 4.0 Bscf. Apennine's strategy would be for early development of the Montefano gas discovery.

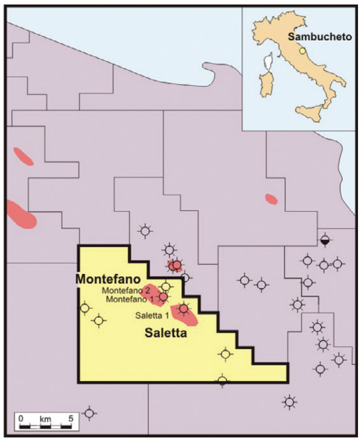

Figure 3

Torrente Alvo Permit (Apennine 50% interest)

The Permit is located in Potenza in southern Italy (Figure 4). The permit area was initially explored by

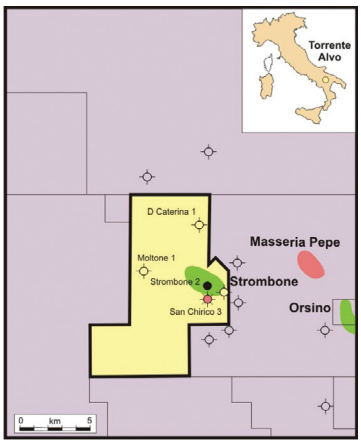

Figure 4

Technical Review

continued

Italian Assets (continued)

Italmineraria (now ENI) and a number of wells were drilled between 1965 and 1998. The well Strombone-2dir found oil in Miocene carbonates at 1508-1562m and tested 750 bopd[4] with variable water-cut. The oil accumulation is also partially overlain by a non-commercial gas pool, located in Pliocene sands; neither of these two discoveries was developed. Fugro-Robertson has estimated the gross P50 contingent resources of the Strombone discovery to be 4.4 MMbo[5]. Apennine's intention would be to develop the Strombone oil discovery in order to generate early cash-flow from the asset.

Villa Gigli Permit (Apennine 50% interest, Operator)

The permit is located in Ancona and Macerata on the Adriatic coast in central Italy (Figure 5). Six wells have been drilled on the permit between 1933 and 1993. Two discoveries were made by Agip (Musone-1dir, oil and Moretti-1, gas), but neither was developed. Musone-1dir tested 15°API oil from the interval 1259-1295m in the Miocene Scaglia limestone at up to 1170 bpd with variable water content. Moretti-1 encountered 11m gas pay at 358-369m in the Pliocene sands; the zone flowed at 0.7 MMscfd[6]. Gross P50 contingent resources of the Musone discovery have been estimated by Fugro-Robertson to be 1.7 MMbo. Apennine's strategy would be to re-appraise the Musone oil discovery and consider techniques such as horizontal drilling to enhance potential productivity from the reservoir.

Exploration

Badile Permit (Apennine 100%)

The Badile Permit is situated in the Piedmont Lombard Basin in northern Italy (Figure 6), where the principal play is oil, gas and condensate in deep Triassic dolomites and limestones. The permit is adjacent to ENI's Gaggiano oil field and a short distance from the giant Villafortuna-Trecate and Malossa oil fields with total proven recoverable reserves over 400 MMboe[7]. Two large ready-to-drill prospects have been mapped in the permit area, Badile and Zibido, with gross P50 prospective resources estimated by Fugro-Robertson to be 153 Bscf and 130 Bscf respectively. Apennine's strategy is to purchase legacy 3D seismic data over selected areas of the permit in order to define optimum drilling locations.

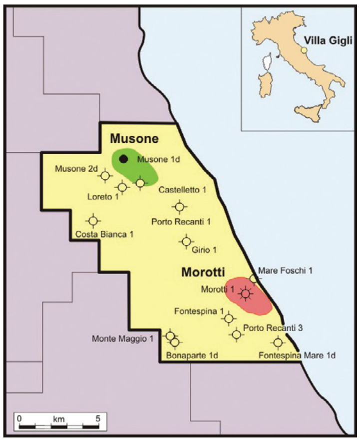

Figure 5

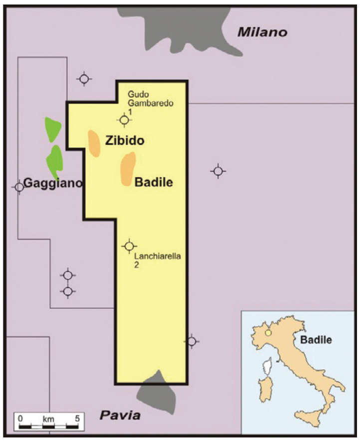

Figure 6

Colle Ginestre Permit (Apennine 50% interest, Operator)
The permit is located in Campobasso (Molise) and Chieti (Abruzzo) on the Adriatic coast of central Italy. The area falls within the Bradano Basin where the main plays are for gas in Pliocene sands and Miocene-Cretaceous carbonates. The area lies adjacent to the Cupello-S.Salvo field which has produced over 330 Bscf from the Pliocene. Ten wells were drilled in the permit area between 1958 and 1988 targeting the Pliocene objective. Colle Turchese-1dir encountered gas shows on the flank of a structure characterised by a weak flat spot on seismic data which could be indicative of a hydrocarbon accumulation. Apennine's strategy is to mature leads, including the Turchese structure, for drilling recognising that new seismic data might be necessary.

Monteluro Permit (Apennine 95% interest, Operator)
The permit is located in Pesaro and Rimini in central Italy. The permit area is poorly explored with the principal hydrocarbon play being for biogenic gas in sand bodies in the basal Pliocene-Miocene clastic section. Apennine's strategy is to mature leads recognised at 2000-3000m recognizing that new seismic data will be necessary to define drillable prospects

Montenegro Permit (Apennine 50% interest)
The permit is located in Potenza in southern Italy. The exploration plays are primarily biogenic gas in sand bodies within the shallow section and thermogenic gas in the deeper carbonates. In 1986 Agip drilled the Cicorva-1 well which encountered gas in the interval 818-837m in Pleistocene sands. The zone tested 0.9 MMscfd, but the discovery was not developed. Apennine's strategy is to re-interpret the Cicorva discovery, currently estimated to be ~3 Bscf, and to address additional potential in deeper Pliocene and Mesozoic targets.

Other Opportunities

Assigned Permits
Apennine has interests in seven other licences which are awaiting approval of Environmental Impact Assessments (EIA) before being fully awarded as permits for seismic and drilling operations to commence. Two offshore licences contain existing gas discoveries.

D150 DR-CS, located in the Ionia Sea Zone D offshore Calabria, presently falls within the exclusion zone for offshore drilling as announced by the Italian Environment Ministry. Pending outcome of this matter further work on the EIA has been suspended. The licence contains the Laura-1 gas discovery in two separate zones (Pleistocene and Messinian sands 1306-1343m and 1437-1452m; the upper interval tested at 11 MMscfd). Gross P50 contingent resources for the Laura discovery have been estimated by Fugro-Robertson, to be 30 Bscf.

D503 BR-CS, located in Zone B of the central Adriatic Sea, is outside the current exclusion zone. The well Dora-1 was drilled in 1972 as a gas-condensate discovery in the Miocene Scaglia limestones, testing 20.2 MMscfd from the interval 1361-1393m. The Dora-2 appraisal well was drilled in 1996 as a gas discovery but the reservoir quality was inferior to that of Dora-1, testing only 0.6 MMscfd from the interval 1397-1410m. Gross P50 contingent resources for the Dora discovery have been estimated by Fugro-Robertson to be 17.6 Bscf.

Both of these projects are operated 100% by Apennine and it is our strategy to purchase legacy seismic data covering these two offshore structures with a view to drilling the existing discoveries in optimum locations for commercial exploitation of their reservoirs.

Exclusive Applications

Apennine has two exclusive applications lodged with the Ministry of Economic Development which are slated for award in 2011.

The Costa Del Sole permit, southern onshore Sicily, contains the Manfria-1bis heavy oil (12.26°API) discovery. The well flowed at a rate of 150 bopd with an average water-cut of 20% and produced a total of 6,000 barrels of oil during testing. Recoverable reserves are estimated to be 4.5 MMbo. On award, Apennine's strategy will be to evaluate the resource potential of the Manfria discovery for development

Technical Review

continued

Italian Assets (continued)

and other prospects for drilling. A major refinery of heavy oil is located at Gela some 10 km from the discovery.

The Rapagnano Concession, located in Ascoli Piceno central Italy, contains the Rapagnano-1 shut-in gas production well and supporting facilities. The Rapagnano field was abandoned by ENI in 2002 when production was 140,000 scfd. Senergy have estimated that ~2 Bscf gas is potentially recoverable from the well dependent on various interventions. On award, Apennine's intention is to work-over the well and resume production by export of gas to the local grid or by on-site electricity generation.

Indonesian Assets

Sound has non-operated interests in two licences in Indonesia through its wholly-owned subsidiary Mitra Energia Ltd. Operators' plans for 2011 include drilling of five exploration commitment wells, three in Java and two in Kalimantan.

Citarum PSC (Sound 20% interest)

During the last year the acquisition of an extensive 865 km seismic survey was completed satisfying outstanding seismic work commitments on the PSC. Interpretation of its results has identified several large prospects in the geologically complex overthust zone in the east of the block (Figure 7). Three structures (Cataka, Jatayu and Lodaya) (Figure 8) have been selected for drilling commencing in 3Q2011. Collectively the three prospects offer the opportunity to target P50 prospective resources of 1460 Bscf (Operator's estimate; 292 Bscf net to Sound). Each well will be drilled to ~2500m with the principal target in the Miocene Parigi limestone.

Additional prospectivity remains undrilled in the west of the block where Senergy have identified gross P50 prospective resource potential of 304 Bscf (61 Bscf net to Sound) in three prospects, mainly in shallow reservoir objectives. Some of the structures show seismic anomalies indicative of hydrocarbon charge.

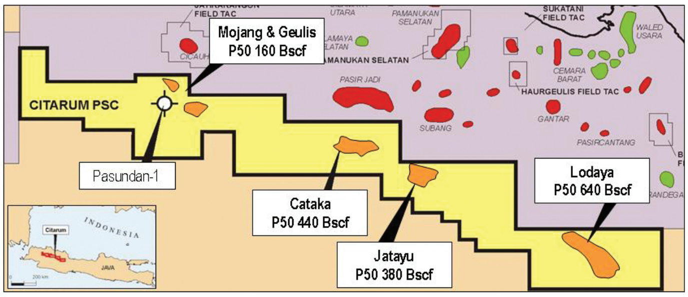

Figure 7

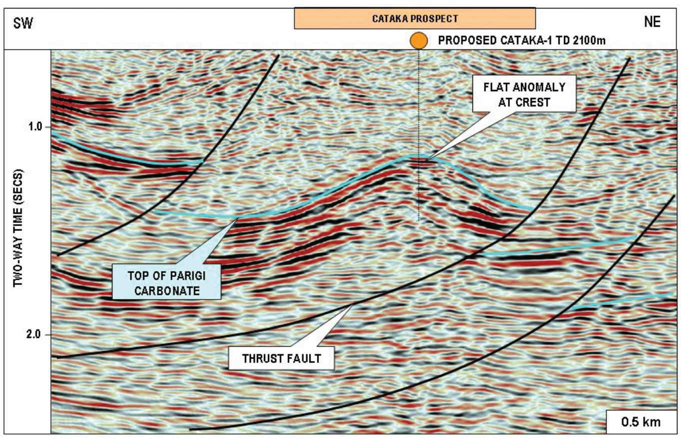

Figure 8

Bangkanai PSC (Sound 5% carried interest)

In December 2010 Bangkanai PSC was subject to a change of Operator. The new Operator has indicated to the Partnership that it will drill the two outstanding exploration commitment wells on the PSC in 2011.

The PSC remains in force by the approval of a Plan of Development (POD) for the Kerendan gas field. The Kerendan 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 Bscf over 20 years at a maximum rate of 20 MMscfd. The development plan will include re-entry of existing wells and up to five new development wells.

An independent assessment of Kerendan Field contingent recoverable resources was undertaken by Senergy in December 2009. Sound's net contingent recoverable resources at 5.00% working interest based on this assessment are:

	Gross	Net to Sound (5.00%)
Gas Contingent Resources (Bscf):		
Low Estimate	189.3	9.5
Best Estimate	243.2	12.2
High Estimate	310.8	15.5
Oil & Liquids Contingent Resources (MMbo):		
Low Estimate	1.98	0.10
Best Estimate	2.50	0.13
High Estimate	3.17	0.16

Formal negotiations for a Gas Sales and Purchase Agreement with PLN[8] are ongoing and expected to be concluded in 1H2011. Assuming a successful conclusion to these negotiations, it is now estimated that first gas could be delivered by 2014. In any event the project is recognised by PLN as part of its 'Phase 2 10,000 MW Crash Program' for implementation across Indonesia, 2010-2014.

Senergy, in a Competent Person's Report on Sound Oil's assets in December 2009 identified gross P50 prospective resource potential on Bangkanai PSC of 4550 Bscf (227.5 Bscf net to Sound) in four prospects. These resources include the Kerendan Deep prospect (P50 1425 Bcf gross potential) located beneath the Kerendan field which can be drilled cost-effectively by the deepening of a planned development well as already approved by BPMigas[9] as part of the outstanding firm commitment. A separate larger, shallower structure identified as the Jupoi prospect (P50 2964 Bscf gross potential) will probably form the target for the other commitment well.

1 Fugro-Robertson Limited and Senergy (GB) Limited are independent petroleum consultancy companies providing resource and reserve assessments. The figures quoted here are taken from their Competent Person's Reports.

2 Contingent and prospective resources, consistent with SPE (The Society of Petroleum Engineers) guidelines, are quantified in terms of the statistical probability to describe a given recoverable hydrocarbon (oil or gas) volume in a subsurface 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. Contingent resources refer to already discovered, but not produced, hydrocarbons and prospective resources refer to hydrocarbons yet to be discovered. The figures quoted in this report have been verified by Sound Oil's Chief Operating Officer, Dr. M. J. Cope BSc PhD CGeol FGS, a qualified petroleum geologist.

3 Billion standard cubic feet of gas.

4 Barrels of oil per day

5 Million barrels of oil.

6 Million standard cubic feet of gas per day.

7 Million barrels of oil equivalent (6,000 standard cubic feet of gas = 1 barrel of oil).

8 PLN (PT Perusahaan Listrik Negara) is the Indonesian state electricity company.

9 BPMigas (Badan Pelaksana Kegitan Hulu Minyak Dan Gas Bumi) is the Indonesian Government regulatory authority for petroleum exploration and production activities.

Board of Directors

The Board of Directors of the Company is currently comprised as follows:

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 that 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.

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 the group finance director for Tishman International Companies, a major global real estate development and investment business.

Ilham Habibie

Non-executive Director
Chairman of Remuneration Committee
Member of Audit 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.

Andrew Hockey

Non-executive Director

Andrew has 29 years technical and managerial experience in the oil and gas industry gained in the UK and internationally with Petrofina, Triton, Monument, Lasmo, Eni and Fairfield Energy. Andrew holds a BA in Geology from Oxford University and an MSc in Petroleum Geology from Imperial College.

Report of the Directors

The directors submit their report and the audited accounts for the year ended 31 December 2010.

Results and dividends

The Group's loss after tax for the year amounted to £15,968,000 (2009 loss: £2,620,000). 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.

Post balance sheet event

On 4 January 2011 the Group acquired 96% of Consul Oil & Gas Ltd and a further 2% on 29 January 2011, a company with assets in Italy. Details are shown in the Chairman's Statement, the Financial and Technical Reviews and in Note 25 of the Financial Statements.

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

At the end of the year the number of shares in issue was 692,427,348.

The authority given to the directors to allot shares at the 2010 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	(resigned on 30 June 2010)
Simon Davies	(resigned on 12 June 2010)
Ilham Habibie	
Tony Heath	(resigned on 30 June 2010)
Michael Nobbs	
Gerald Orbell	
Jossy Rachmantio	(resigned on 30 June 2010)

Substantial Shareholders

At 30 April 2011 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
Credit Suisse Client Nominees (UK) Limited	169250538	10.47%
Barclayshare Nominees Limited	165571669	10.24%
Pershing Nominees Limited	163967164	10.14%
TD Waterhouse Nominees (Europe) Limited	148516134	9.19%
Iltheabie SDN – BHD	147288696	9.11%
HSDL Nominees Limited Iweb	94427706	5.84%
L R Nominees Limited	92276113	5.71%
HSDL Nominees Limited	91408939	5.66%
James Capel (Nominees) Limited	64477014	3.99%

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 2009	31 Dec 2010	30 April 2011
Michael Nobbs	1,945,545	1,945,545	1,945,545
Gerald Orbell	5,879,717	4,224,545	12,248,418
Ilham Habibie*	147,288,696	147,288,696	147,288,696

* Shares registered in the name of Ilthabie SDN-BHD, a company jointly owned by Ilham Habibie and his brother Thareq Habibie.

Report of the Directors

continued

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 15.

Directors' interests in share options are shown in the Report on Directors Remuneration on page 15.

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$. A high proportion of the Group's expenditure is in US$ so the Group's policy is to minimise 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 4.

Directors

Mr Andrew Hockey joined the board as non-executive directive on 9 May 2011.

Director election

Mr. Michael Nobbs is the Director retiring by rotation and, being eligible, will offer himself for re-election at the Annual General Meeting. Mr Andrew Hockey will retire as Director at the end of the Annual General Meeting and, being eligible, will offer himself for re-election.

Suppliers and employees

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, usually up to 30 days. The Group places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, evey effort is made to ensure that their employment with the Group continues and that appropriate training is arranged.

Charitable contributions

During the period the Group made no charitable contributions.

Auditors

Mazars LLP resigned as auditors on 17 February 2011 and the Directors have appointed Crowe Clark Whitehill LLP as the Company's auditors until the next Annual General Meeting. Crowe Clark Whitehill LLP have confirmed their willingness to continue in office and a resolution to reappoint them as auditors will be put to shareholders at the forthcoming Annual General Meeting.

Each of the persons who is a director at the date of approval of this Annual Report and Financial Statements confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board
Stephen Ronaldson
Company Secretary
24 May 2011

Report on Directors' Remuneration

Compliance

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 Ilham Habibie, who chairs the Committee and Mr Michael Nobbs. 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 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 2011 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 the executive director's contract 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.
- 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, Gerald Orbell and the Non-Executive Directors have the option to give notice and receive a lump sum equivalent to 12 months salary.

Summary of actual remuneration of directors

	Salary and fees	
	2009 £'000's	2010 £'000's
Executive directors		
Gerry Orbell	184	184
Tony Heath	105	53*
Jossy Rachmantio	137	57*
Non-executive directors		
Simon Davies	25	12*
Michael Nobbs	25	27
Ilham Habibie	25	27
Patrick Alexander	25	17*
Total for all directors	**526**	**377**

* up to retirement dates shown on page 13.

Share Options

At 31 December 2010 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 2010	Options held at 31 December 2010
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
	27.05.10	26.05.11 – 26.05.13	1.50	–	1,725,000

Corporate Governance Report

The Board recognises the importance of sound corporate governance and the guidelines set out in the Corporate Governance Code (the "Code"). Companies on the AIM market of the London Stock Exchange ("AIM") are not required to comply with the 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 Code 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 is an experienced chairman and chief-executive and two non-executive directors one of whom is independent.

Ten board meetings were held during the year, all of which were attended by Messrs. Nobbs and Habibie. Mr. Orbell attended nine, Messrs. Heath and Alexander six, Mr. Rachmantio five and Mr. Davies three.

The Board has an Audit Committee comprising the two 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 C.2.1 of the 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 establishment 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 Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs') as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are further responsible for ensuring that the Report of the Directors and other information included in the Annual Report and Financial Statements is prepared in accordance with applicable law in the United Kingdom.

Independent Auditor's Report

to the members of Sound Oil plc

We have audited the financial statements of Sound Oil plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, Consolidated and Parent Company Balance Sheet, Consolidated and Parent Company Statement of Changes in Equity and Consolidated and Parent Company Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on the other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Stephen Bullock (Senior statutory auditor)

for and on behalf of

Crowe Clark Whitehill LLP, Chartered Accountants

(Statutory auditors)

St. Bride's House

10 Salisbury Square

London EC4Y 8EH

24 May 2011

Note: The maintenance and integrity of the Sound Oil plc website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were originally presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

for the year ended 31 December 2010

	Notes	2009 £'000's	2010 £'000's
Exploration costs		(334)	(430)
Gross loss		(334)	(430)
Administrative expenses		(1,596)	(1,502)
Group trading loss		(1,930)	(1,932)
Other income/(loss)		50	(58)
Group operating loss from continuing operations	3	(1,880)	(1,990)
Finance revenue	6	19	21
Foreign exchange gain/(loss)		(786)	211
Loss on disposal of farmout interest	12	–	(14,210)
Loss before income tax		(2,647)	(15,968)
Income tax credit	7	27	–
Loss for the period attributable to the equity holders of the parent		(2,620)	(15,968)
Other comprehensive loss:			
Foreign currency translation (loss)/gain		**(2,258)**	**711**
Total comprehensive loss for the period attributable to the equity holders of the parent		**(4,878)**	**(15,257)**

Loss per share basic and diluted for the period attributable to the equity holders of the parent (pence)	8	(0.38)	(2.31)

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent Company income statement.

The result of the parent Company for the year was a loss of £3,004,000 (2009; £2,059,000).

Consolidated Balance Sheet

as at 31 December 2010

Group	Notes	2009 £'000's	2010 £'000's
Non-current assets			
Property, plant and equipment	9	32	12
Intangible assets	10	4,797	1,525
Exploration and evaluation assets	11	22,185	9,954
Other debtors	14	792	621
		27,806	**12,112**
Current assets			
Other debtors	14	192	2,940
Prepayments		108	65
Current tax receivable	7	27	26
Cash and short term deposits	15	10,622	4,484
		10,949	**7,515**
Total assets		**38,755**	**19,627**
Current liabilities			
Trade and other payables	16	897	284
Current tax payable	7	–	–
		897	**284**
Non-current liabilities			
Deferred tax liabilities	17	4,797	1,525
Provisions	18	105	103
		4,902	**1,628**
Total liabilities		**5,799**	**1,912**
Net assets		**32,956**	**17,715**
Capital and reserves attributable to equity holders of the Company	**19**		
Equity share capital		36,456	36,456
Foreign currency reserve		3,030	3,741
Accumulated deficit		(6,530)	(22,482)
Total equity	**19**	**32,956**	**17,715**

Approved by the Board on 24 May 2011

G Orbell
Director

M Nobbs
Director

The accounting policies on pages 27 to 31 and notes on pages 27to 50 form part of these financial statements.

Company Balance Sheet

as at 31 December 2010

Company	Notes	2009 £'000's	2010 £'000's
Non-current assets			
Property, plant and equipment	9	–	–
Investment in subsidiaries	13	24,833	24,337
Other debtors	14	–	4
		24,833	**24,341**
Current assets			
Other debtors	14	34	2,891
Prepayments		33	37
Current tax receivable		27	26
Cash and short term deposits	15	9,854	4,331
		9,948	**7,285**
Total assets		**34,781**	**31,626**
Current liabilities			
Trade and other payables	16	333	166
Current tax payable		–	–
Total liabilities		**333**	**166**
Net assets		**34,448**	**31,460**
Capital and reserves	19		
Equity share capital		36,456	36,456
Retained earnings/(accumulated deficit)		(2,008)	(4,996)
Total equity	19	**34,448**	**31,460**

Approved by the Board on 24 May 2011

G Orbell
Director

M Nobbs
Director

The accounting policies on pages 27 to 31 and notes on pages 27 to 50 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

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 2010		692	35,764	(6,530)	3,030	32,956
Total loss for the year		–	–	(15,968)	–	(15,968)
Total comprehensive gain		–	–	–	711	711
Total comprehensive income/(loss)		–	–	(15,968)	711	(15,257)
Share based payments	23	–	–	16	–	16
At 31 December 2010		692	35,764	(22,482)	3,741	17,715

	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 2009		692	35,764	(3,927)	5,289	37,818
Total loss for the year		–	–	(2,620)	–	(2,620)
Total comprehensive loss		–	–	–	(2,259)	(2,259)
Total comprehensive income/(loss)		–	–	(2,620)	(2,259)	(4,879)
Share based payments	23	–	–	17	–	17
At 31 December 2009		692	35,764	(6,530)	3,030	32,956

Company Statement of Changes in Equity

for the year ended 31 December 2010

Company

	Note	Share capital £'000's	Share premium £'000's	Accumulated retained earnings/ (deficit) £'000's	Total equity £'000's
At 1 January 2010		692	35,764	(2,008)	34,448
Total loss for the year		–	–	(3,004)	(3,004)
Other comprehensive (loss)/income		–	–	–	–
Total comprehensive income/(loss)		–	–	(3,004)	(3,004)
Share based payments	23	–	–	16	16
At 31 December 2010		692	35,764	(4,996)	31,460

	Note	Share capital £'000's	Share premium £'000's	Accumulated retained earnings/ (deficit) £'000's	Total equity £'000's
At 1 January 2009		692	35,764	33	36,489
Total loss for the year		–	–	(2,058)	(2,058)
Other comprehensive (loss)/income		–	–	–	–
Total comprehensive income/(loss)		–	–	(2,058)	(2,058)
Share based payments	23	–	–	17	17
At 31 December 2009		692	35,764	(2,008)	34,448

Consolidated Cash Flow Statement

for the year ended 31 December 2010

	Notes	2009 £'000's	2010 £'000's
Cash flow from operating activities			
Cash flow from operations		(2,145)	(2,683)
Interest received	6	19	21
Net cash flow from operating activities		**(2,126)**	**(2,662)**
Cash flow from investing activities			
Capital expenditure and disposals	9	(7)	(2)
Exploration expenditure		(953)	(1,165)
Payment in escrow – acquisition of subsidiaries		–	(2,413)
Net cash flow from investing activities		**(960)**	**(3,580)**
Net cash flow from financing activities		**–**	**–**
Net decrease in cash and cash equivalents		**(3,086)**	**(6,242)**
Net foreign exchange difference		**(917)**	**104**
Cash and cash equivalents at the beginning of the year		**14,625**	**10,622**
Cash and cash equivalents at the end of December	**15**	**10,622**	**4,484**

Notes to cash flow

	Notes	2009 £'000's	2010 £'000's
Cash flow from operations reconciliation			
Profit/(loss) after tax		**(2,620)**	**(15,968)**
Finance revenue	6	(19)	(21)
Foreign exchange (gain)/loss		786	(211)
Loss on disposal of farmout interest		–	14,210
Exploration expenditure written off		(63)	3
Income tax charge (credit)		(27)	–
Increase/(decrease) in accruals and short term creditors		(210)	(630)
Depreciation	3	36	15
Share based payments charge	23	17	16
(Decrease)/increase in long term provisions		11	(5)
(Increase)/decrease in long term debtors		(204)	194
(Increase)/decrease in short term debtors		148	(286)
Cash flow from operations		**(2,145)**	**(2,683)**

Company Cash Flow Statement

for the year ended 31 December 2010

	Notes	2009 £'000's	2010 £'000's
Cash flow from operating activities			
Cash flow from operations		(961)	(1,803)
Interest received	6	19	21
Net cash flow from operating activities		**(942)**	**(1,782)**
Cash flow from investing activities			
Capital expenditure and disposals	9	–	–
Payment in escrow – acquisition of subsidiaries		–	(2,413)
Investment in subsidiary undertakings		(2,202)	(1,538)
Net cash flow from investing activities		**(2,202)**	**(3,951)**
Cash flow from financing activities			
Proceeds from equity issue		–	–
Net cash flow from financing activities		**–**	**–**
Net increase/(decrease) in cash and cash equivalents		**(3,144)**	**(5,733)**
Net foreign exchange differences		**(781)**	**210**
Cash and cash equivalents at the beginning of the year		**13,779**	**9,854**
Cash and cash equivalents at the end of December	**15**	**9,854**	**4,331**

Notes to cash flow

	Notes	2009 £'000's	2010 £'000's
Cash flow from operations reconciliation			
Profit/(loss) after tax		**(2,059)**	**(3,004)**
Increase in provisions against investments		–	2,030
Finance revenue		(19)	(21)
Foreign exchange (gain)/loss		782	(211)
Income tax charge (credit)		(27)	–
Income tax payments		27	–
Increase/(decrease) in accruals and short term creditors		78	(167)
Depreciation	9	3	–
Share based payments	23	17	16
Decrease/(increase) in short term debtors		237	(446)
Cash flow from operations		**(961)**	**(1,803)**

Notes to the Financial Statements

1 Accounting policies

Sound Oil plc is a public limited company registered and domiciled in England and Wales under the Companies Act 2006.

(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) adopted 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 2006 applicable to companies reporting under IFRSs.

The consolidated financial statements have been prepared under the historical cost convention, except to the extent that the following policies require fair value adjustments.

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 2010 were authorised for issue by the board of directors on 24 May 2011.

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review above. As at 31 December 2010 the Group had £4.484 million of available cash. After the balance sheet date but before the date of approval of these financial statements, the Group raised a further £10.7 million from equity fundraisings. 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 2012) will be less than the funds available as at 31 December 2010 together with the £10.7 million raised in January, March and April 2011 from share placings and the £6 million undrawn element of the Yorkville facility. 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 impairment of intangible exploration assets (E&E assets), investments and goodwill and the estimation of share based payment costs.

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.

In determining the treatment of E&E assets and investments the directors are required to make estimates and assumptions as to future events and circumstances. There are uncertainties inherent in making such assumptions, especially with regard to: oil and gas

Notes to the Financial Statements

continued

reserves and the life of, and title to, an asset; recovery rates; production costs; commodity prices and exchange rates. Assumptions that are valid at the time of estimation may change significantly as new information becomes available and changes in these assumptions may alter the economic status of an E&E asset and result in resources or reserves being restated. The estimation of recoverable amounts, based on risked potential and the application of value in use calculations, are dependent upon finance being available to fund the development of the E&E assets.

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. In undertaking these value in use calculations, management is required to make use of estimates and assumptions similar to those described in the treatment of E&E assets above. Further details are given in note 10.

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).

(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 Group'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$.

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 & 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 & 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 & 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 & E expenditures incurred in finding commercial reserves transferred from intangible E & 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,

Notes to the Financial Statements

continued

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 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 assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Trade and other receivables are initially measured at fair value and are subsequently reassessed at the end of each accounting period. Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below. Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Shares issued are held at their fair value.

(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 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

- *IAS 24 Related Party Disclosures* Revised definitions of related parties effective for financial years beginning on or after 1 January 2011.

- *IAS 32 Financial Instruments: Presentation* Amendments relating to classification of rights issues, effective for financial years beginning on or after 1 February 2010.

- *IFRIC 19 Extinguishing Financial Liability with Equity Instruments* Effective for financial years beginning on or after 1 July 2010.

- *IFRS 1 First-time Adoption of International Financial Reporting Standards*
  Amendment to limited exemption from IFRS7 Disclosures for First-time Adopters, effective for financial periods beginning on or after 1 July 2010.

- *IFRIC 14 Defined Benefit Assets and Minimum Funding Requirements*
  Amendment to prepayments of a minimum funding requirement, effective for financial periods beginning on or after 1 January 2011.

- *Annual improvements to IFRS issued May 2010,* effective for financial periods beginning on or after 1 July 2010.

- *Annual improvements to IFRS issued May 2010,* effective for financial periods beginning on or after 1 January 2011.

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the year of initial application.

(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.

Notes to the Financial Statements

continued

2 Segment information

The Group has adopted IFRS 8, Operating Segments which requires information on the separate segments of a business.

The Group's activity in 2010 consisted of a single operating segment, being the exploration for oil and gas in Indonesia. The Group's exploration activities are carried out under two Production Sharing Contracts (PSC's), Bangkanai and Citarum. To date there has been no development activity, production or turnover. As required by IFRS 8 operating segments are based on internal reports about components of the Group which are regularly reviewed and used by Chief Operating Decision Maker ("CODM") for strategic decision making and resource allocation, in order to allocate resources to the segment and to assess its performance. The CODM is considered to be the Board of Directors. Capitalised exploration expenditure in the Balance Sheet is £10.0 million, which is comprised of £0.3 million for the Bangkanai PSC, £3.7 million for the Citarum PSC and £6.0 million for the fair value uplift which arose on acquisition of the company which owned the PSC's, (at end 2009 £3.8 million, £2.4 million and £10.0 million respectively). The decreases for the Bangkanai PSC and the fair value uplift were due to the write down associated with the reduction of the interest in the Bangkanai PSC.

The non current assets all relate to the one geographical location in which the Group operated in 2010, which was Indonesia.

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

3 Operating loss

Operating loss is stated after charging/(crediting):

	Notes	2009 £'000's	2010 £'000's
Auditors' remuneration	4	119	89
Depreciation	9	36	15
Employee costs	5	952	1,009
Impairment charge/(write back)	11	(63)	3

4 Auditors' remuneration

	Notes	2009 £'000's	2010 £'000's
Audit of financial statements		114	84
Other services relating to taxation		5	5
All other services		–	–
Charged to income statement	3	**119**	**89**

5 Employee costs

	Notes	2009 £'000's	2010 £'000's
Staff costs, including executive directors			
Share based payments	23	18	16
Wages and salaries		824	883
Social security costs		110	110
Total	3	**952**	**1,009**

	2009	2010
Number of employees (including executive directors) at the end of the year		
Technical and operations	5	4
Management and administration	11	10
Total	**16**	**14**

Details of the directors' emoluments are shown in the Report of Directors Remuneration on page 15.

6 Finance revenue

	2009 £'000's	2010 £'000's
Interest on cash at bank and short-term deposits	19	21
Total	**19**	**21**

Notes to the Financial Statements

continued

7 Taxation

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

	2009 £'000's Group	2010 £'000's Group
Current tax		
United Kingdom corporation tax (charge)/credit	–	–
Adjustment to tax expense in respect of prior years	27	–
Overseas tax	–	–
Total current tax (charge)/credit	**27**	**–**
Deferred tax		
Deferred tax income arising in the current year	–	–
Total deferred tax	**–**	**–**
Total tax (charge)/credit	**27**	**–**

(b) Reconciliation of tax charge:

	2009 £'000's Group	2010 £'000's Group
(Loss)/profit before tax	(2,647)	(15,968)
Tax (charge)/credit at UK corporation tax rate of 28% (2009: 29%)	769	4,471
Effects of:		
Expenses not deductible for tax purposes	(6)	(3,979)
Temporary differences not recognised	(559)	(273)
Utilisation of previously unrecognised deferred tax assets	–	–
Differences in overseas tax rates	(177)	(219)
Total tax (charge)/credit	**27**	**–**

(c) Tax account:

	2009 £'000's Group	2010 £'000's Group
Current tax receivable	27	26
Current tax payable	–	–

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:

	2009 £'000's	2010 £'000's
(Loss)/profit after tax	(2,620)	(15,968)

	2009 million	2010 million
Weighted average shares in issue	692	692

	2009 Pence	2010 Pence
(Loss)/profit per share (basic)	(0.38)	(2.31)

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

After the balance sheet date, the Company has issued additional shares, details of which are included in note 25, which will impact on the weighted average number of shares in issue in future periods.

Notes to the Financial Statements

continued

9 Property plant and equipment

Group

	Notes	Fixtures, fittings and office equipment £'000's	Total £'000's
Cost			
At 1 January 2010		204	204
Exchange adjustments		5	5
Additions		2	2
Disposals		(72)	(72)
At 31 December 2010		139	139
Depreciation			
At 1 January 2010		172	172
Exchange adjustments		12	12
Charge for the year	3	15	15
Disposals		(72)	(72)
At 31 December 2010		127	127
Net book amount at 31 December 2010		12	12

	Notes	Fixtures, fittings and office equipment £'000's	Total £'000's
Cost			
At 1 January 2009		216	216
Exchange adjustments		(19)	(19)
Additions		7	7
At 31 December 2009		204	204
Depreciation			
At 1 January 2009		151	151
Exchange adjustments		(15)	(15)
Charge for the year	3	36	36
At 31 December 2009		172	172
Net book amount at 31 December 2009		32	32

9 Property plant and equipment - continued

Company

	Fixtures, fittings and office equipment £'000's	Total £'000's
Cost		
At 1 January 2010	9	9
At 31 December 2010	9	9
Depreciation		
At 1 January 2010	9	9
Charge for the year	–	–
At 31 December 2010	9	9
Net book amount at 31 December 2010	–	–

	Fixtures, fittings and office equipment £'000's	Total £'000's
Cost		
At 1 January 2009	9	9
At 31 December 2009	9	9
Depreciation		
At 1 January 2009	6	6
Charge for the year	3	3
At 31 December 2009	9	9
Net book amount at 31 December 2009	–	–

Notes to the Financial Statements

continued

10 Intangible assets

Goodwill

	2009 £'000's	2010 £'000's
Cost		
At 1 January	**5,277**	**4,797**
Exchange adjustments	(480)	390
Acquisitions	–	–
Disposals	–	(3,662)
At 31 December	**4,797**	**1,525**
Impairment losses		
At 1 January	**–**	**–**
Impairment in the year	–	–
At 31 December	**–**	**–**
Net book amount at 31 December	**4,797**	**1,525**

Group

The goodwill balance that had arisen on the acquisition of the Mitra group in July 2006 has been allocated to the cash generating unit ('CGU') identified according to business segment. 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 value in use calculations. The methodology to arrive at the 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 Sound's assets in December 2009.

The calculation of value in use is most sensitive to the assumptions for production and operating expenditure and is entirely reliant on the availability of finance to fund capital expenditure on the development of E&E assets.

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 2010 calculations are based on a significantly higher expected gas price of $4.75 per MMBtu, which is based on current negotiations between the Bangkanai Partners and PLN, the Indonesian state electricity utility, and corresponding Capex revisions. However, even if the 2010 calculations were sensitised to a gas price of $2.98/MMBtu, no impairment would be required.

Estimates of the NPV of any project, and particularly of projects like the Group's interests in the Bangkanai PSC and the Citarum PSC, are always subject to many factors and wide margins of error. The directors believe that the estimates and calculations supporting their conclusions have been carefully considered and are a fair representation of the projected financial performance of the projects.

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 (2009: 10%), which the directors believe to be standard industry practice and approximates to the Company's weighted average cost of capital.

The EMV for unappraised and undiscovered resources is a risked estimate of the value of prospective resources at $0.25 per mcf for gas.

Company

The Company has no goodwill.

11 Exploration and evaluation assets

	2009 £'000's	2010 £'000's
Cost		
At 1 January	**26,248**	**25,123**
Additions	953	1,165
Disposals	–	(14,051)
Exchange adjustments	(2,078)	745
At 31 December	**25,123**	**12,982**
Impairment		
At 1 January	**2,941**	**2,938**
Additions (write back)	(63)	3
Exchange adjustments	60	87
At 31 December	**2,938**	**3,028**
Net book amount at 31 December	**22,185**	**9,954**

The recoverable amount is the value in use of the asset. A discount factor of 10% has been used in the current estimate of value in use.

Considerations in relation to potential impairment of E&E assets are similar to those in relation to potential impairment of goodwill described in note 10 above.

The Parent Company has no exploration and evaluation assets.

12. Farm out disposal

On 25 May 2010, the company entered into an agreement under which it assigned part of its interest in the Bankanai PSC to Elnusa Bangkanai Energy Limited, the operator of the PSC. Under the agreement, the Group's existing 34.99% interest was reduced to 5% on a carry basis such that the Group is carried through the costs of two forthcoming obligatory exploration wells and also through the costs of developing the Kerendan gas field up to the point of the first production of gas.

The book value of the Company's 34.99% interest in the Bangkanai PSC was £16.5 million as at 25 May 2010. Since the Group will not receive any cash consideration pursuant to the farm out agreement (other than its share of future net revenues receivable under the retained 5% carry) the carrying value of the Company's interest in the Bangkanai PSC has been written down accordingly in these accounts by £14.2 million.

The amounts written down were:

	£'000
Non current assets	
Property, plant and equipment	7
Intangible assets	3,661
Exploration and evaluation assets	14,051
Other debtors	304
Current assets	
Other debtors	43
Prepayments	14
Current liabilities	
Trade and other payables	(209)
Non current liabilities	
Deferred tax liabilities	(3,661)
Net written down	14,210

Notes to the Financial Statements

continued

13 Investment in subsidiaries

Company

	2009 £'000's	2010 £'000's
At 1 January	22,631	24,833
Adjustments to original cost of investment	2,202	(496)
At 31 December	**24,833**	**24,337**

The subsidiary undertakings of the Company at 31 December 2010 which are all 100% owned by the Company are:

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

*The investments in Mitra Energia Limited, Mitra Energia Citarum Limited, Mitra Energia Bankanai Limited and Sound Oil Asia Limited are held indirectly via Sound Oil International Limited through non-current, non-interest bearing loans from Sound Oil plc. Given that Sound Oil plc has no intention to call on the loans in the foreseeable future, the loans are treated as "permanent as equity". As a result, Sound Oil plc has classified these loans as investments which represent the carrying value of the investment in the Mitra group of companies.

14 Other debtors

Group

	2009		2010	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
Indonesian VAT recoverable from future production	–	692	–	591
UK VAT recoverable	28	–	29	–
Deferred expenditures	–	–	2,861	–
Other receivables	164	100	50	30
Total	**192**	**792**	**2,940**	**621**

Currency analysis

	2009		2010	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
US Dollar	131	792	24	617
GBP Sterling	61	–	2,916	4
Total	**192**	**792**	**2,940**	**621**

14 Other debtors - continued

Company

	2009		2010	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
UK VAT recoverable	28	–	29	–
Deferred expenditure	–	–	2,861	–
Other receivables	6	–	1	4
Total	**34**	**–**	**2,891**	**4**

Currency analysis

	2009		2010	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
US Dollar	–	–	–	–
GBP Sterling	34	–	2,891	4
Total	**34**	**–**	**2,891**	**4**

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

	2009 £'000's	2010 £'000's
Cash at bank and in hand	1,627	870
Cash equivalents:		
Short term deposits	8,699	3,614
	10,326	4,484
Cash in hands of joint venture operators	296	–
Carrying amount at 31 December	**10,622**	**4,484**

Company

	2009 £'000's	2010 £'000's
Cash at bank and in hand	1,155	717
Cash equivalents:		
Short term deposits	8,699	3,614
Carrying amount at 31 December	**9,854**	**4,331**

Included in cash and short term deposits at 31 December 2010 were amounts of £3.77 million denominated in US$(2009: £7.2 million).

Notes to the Financial Statements

continued

16 Trade and other payables

Group

	2009 Current £'000's	2010 Current £'000's
Trade payables	328	60
Payroll taxes and social security	78	32
Accruals	226	154
Other payables	265	38
Total	**897**	**284**

Currency analysis

	2009 Current £'000's	2010 Current £'000's
US Dollar	564	118
GBP Sterling	333	166
Total	**897**	**284**

Company

	2009 Current £'000's	2010 Current £'000's
Trade payables	149	34
Payroll taxes and social security	20	20
Accruals	164	112
Other payables	–	–
Total	**333**	**166**

	2009 Current £'000's	2010 Current £'000's
Currency analysis		
US Dollar	–	–
GBP Sterling	333	166
Total	333	166

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

17 Deferred tax assets and liabilities

	2009 £'000's	2010 £'000's
1 January	**5,277**	**4,797**
Acquisitions	–	–
Released on disposals	–	(3,413)
Unrealised foreign exchange (decrease)/increase	(480)	141
31 December	**4,797**	**1,525**

The deferred tax liability arose on the tax difference between the carrying value of the exploration and evaluation assets and the tax value of those assets.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2009 £'000's	2010 £'000's
Tax losses	551	772

Deferred tax assets have not been recognised in respect of the losses due to uncertainty of utilisation of these losses.

18 Non-current provisions

Employee post employment benefits	2009 £'000's	2010 £'000's
At 1 January	**104**	**105**
Addition	11	5
Utilised	–	–
Unrealised foreign exchange (decrease)/increase	(10)	(7)
At 31 December	**105**	**103**

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.

Notes to the Financial Statements

continued

19 Capital and reserves

Group

Ordinary shares – 0.1p	Number of shares	2009 £'000s	Number of shares	2010 £'000s
Issued	692,427,348	692	692,427,348	692

Company

Ordinary shares – 0.1p	Number of shares	2009 £'000s	Number of shares	2010 £'000s
Issued	692,427,348	692	692,427,348	692

Share option schemes

Options to subscribe for the Company's shares were granted to certain executives in 2006, 2007 and 2010 (note 23). No options were granted in 2008 and 2009.

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 2010	**3,030**	**692**	**35,764**	**(6,530)**	**32,956**
(Loss) for the year	–	–	–	(15,968)	(15,968)
Foreign currency translation	711	–	–	–	711
Share based payments	–	–	–	16	16
At 31 December 2010	**3,741**	**692**	**35,764**	**(22,482)**	**17,715**
At 1 January 2009	**5,289**	**692**	**35,764**	**(3,927)**	**37,818**
(Loss) for the year	–	–	–	(2,620)	(2,620)
Foreign currency translation	(2,259)	–	–	–	(2,259)
Share based payments	–	–	–	17	17
At 31 December 2009	**3,030**	**692**	**35,764**	**(6,530)**	**32,956**

19 Capital and reserves - continued

The foreign currency reserve represents accumulated exchange differences relating to the translation of net assets of the Group's foreign operations from their functional currency to the Group's presentational currency which are recognised directly in other comprehensive income and accumulated in the foreign currency reserve.

Company

	Share capital £'000's	Share premium £'000's	Accumulated retained earnings/(deficit) £'000's	Total £'000's
At 1 January 2010	**692**	**35,764**	**(2,008)**	**34,448**
(Loss) for the year	–	–	(3,004)	(3,004)
Share based payments	–	–	16	16
At 31 December 2010	**692**	**35,764**	**(4,996)**	**31,460**
At 1 January 2009	**692**	**35,764**	**33**	**36,489**
(Loss) for the year	–	–	(2,059)	(2,059)
Share based payments	–	–	18	18
At 31 December 2009	**692**	**35,764**	**(2,008)**	**34,448**

20 Related party disclosures

For the year ended 31 December 2010

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 2009	% equity interest 2010
Sound Oil International Limited	British Virgin Islands	100	100
Sound Oil Asia 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 was 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 2010 was 5.00% (2009: 34.99%) and in the latter 20% (2009: 20%).

Terms and conditions of transactions with related parties

There were no sales or purchases to or from related parties (2009: none). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2010, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2009: 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.

Notes to the Financial Statements
continued

20 Related party disclosures - continued

Compensation of key management personnel of the Group

There are three key management personnel other than directors of the Company (none in 2009). Details of the remuneration of the Directors are set out in the Report of Directors' Remuneration (page 15). Remuneration of the key management personnel was £310,000 in 2010.

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	Number 2009	Number 2010
2006	2012	7.25	1,400,000	-	-	–	
2007	2017	4.38	-	667,667	-	–	
2007	2018	4.38	-	667,667	-	–	
2007	2019	4.38	-	667,666	-	–	
2010	2013	1.50	-	–	-	–	1,725,000

Key management's interest in employee share options

Issue date	Expiry date	Exercise price pence	Number 2006	Number 2009	Number 2010
2006	2012	7.25	700,000	-	–
2006	2011	4.75	500,000	–	–
2007	2017	4.38	-	2,250,000	–
2010	2013	1.50	-	–	3,105,000

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 fair value of the financial instruments is their carrying value.

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.

21 Financial instruments risk management objectives and policies – continued

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
2010		
Sterling	10	2
US Dollar	10	–
Sterling	(10)	(2)
US Dollar	(10)	–
2009		
Sterling	10	1
US Dollar	10	1
Sterling	(10)	(1)
US Dollar	(10)	(1)

Foreign currency risk

As a result of the bulk of the Group's operations being denominated in US dollars, 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 or loss before tax.

	Increase/ (decrease) in US dollar rate	Effect on profit or loss before tax £'000's
2010		
	5%	(171)
	(5%)	189
2009		
	5%	(306)
	(5%)	339

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

Liquidity risk

The Group and Company have significant liquid assets and are not materially exposed to liquidity risk. All financial liabilities are expected to mature within one year.

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
2010				
Cash and short term deposits				
GBP Sterling	711	–	711	
US$	2,903	870	3,773	
Total	**3,614**	**870**	**4,484**	
2009				
Cash and short term deposits				
GBP Sterling	3,413	–	3,413	0.53%
US$	5,286	1,627	6,913	0.15%
Total	**8,699**	**1,627**	**10,326**	

US$ cash balances have been converted at the exchange rate on 31 December 2010 of US$1.5471 (2009: US$1.5928/£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 £3,614,000: (2009: £8,699,000).

Cash on which no interest is received of £870,000 (2009: £1,627,000) relates to balances available to meet immediate operating payments and was therefore only held for short periods interest-free.

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 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

	2009 £'000's	2010 £'000's
Expense arising from equity settled share options	17	16

Company

	2009 £'000's	2010 £'000's
Expense arising from equity settled share options	17	16

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. In 2010, 7,220,000 share options were granted at 1.5p for a three year period. No options were granted in 2009.

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.

No share options were forfeited or exercised in 2009 or 2010. Share options outstanding at end December 2010 were 14,070,000 and 2009 were 6,850,000. The weighted average exercise prices at end 2010 were 3.35 pence (2009: 5.30 pence). The weighted average contractual lives were 6.3 years at end 2010 and 9.7 years at end 2009.

24 Commitments and guarantees

At 31 December 2010 the Group had capital commitments of £1,820,000 (2009: £10,552,000) on exploration and development licences. The Company had no capital commitments in 2010 (2009: Nil).

Under the terms of the Citarum PSC the Company is required to spend US$3 million to fulfil its three year minimum work obligations.

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.

Notes to the Financial Statements

continued

25 Post balance sheet events

Acquisition

On 4 January 2011, the Company completed the acquisition of 96% of the issued share capital of Consul Oil & Gas Ltd ("Consul"), an unquoted company with interests in Italy, for a total consideration of £4.64 million and made an offer to acquire the remaining 4%. The consideration was satisfied by the payment in cash of approximately US$2.19 million (£1.39 million) and the issue of 269,127,983 ordinary shares to the vendors. In addition the Company purchased an existing loan from RAB to Consul of €1.5 million. On 29 January 2011 the Company acquired a further 2% of the issued share capital of Consul, satisfied by the payment in cash of US$46,667 and the issue of 5,555,555 new ordinary shares. A further 5,555,555 ordinary shares will be issued and payment of US$46,667 in cash if the remaining 2% of Consul is acquired.

The provisional fair value of 100% of the assets of Consul is as follows:

	Book value IFRS £'000's	Adjustments and/or revaluation £'000's	Fair value to the Company £'000's
Intangible exploration & evaluation costs	3,446	2,220	5,666
Tangible fixed assets	10	–	10
Current debtors	254	–	254
Non-current debtors	29	–	29
Cash	45	–	45
Current creditors	(278)	–	(278)
Non-current creditors	(926)	–	(926)
Deferred tax liabilities	–	(688)	(688)
Net assets	2,580	1,532	4,112

The directors consider that goodwill of approximately £690,000 will arise on the acquisition, consisting largely of the synergies expected from combining the operations of the Group and Consul.

Share issues

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

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

On 12 March 2011, the Company drew down £1.0 million of the SEDA equity placing facility by way of the issue of 38,800,485 new ordinary shares at 2.557p per share.

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

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

Dealing Information

FT Share Price Index – Telephone 0906 8433711

SEAQ short code – SOU

Financial Calendar

Announcements

Interim – September 2011

Preliminary – May 2012

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