SOUND OIL PLC

Annual Report 2011

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

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

Highlights

- Independently assessed portfolio of discoveries: 17.5 Mmboe (P50) and US$ 300M NPV10
- Two successful Italian acquisitions
  - 8 Key Development Projects
  - 4 Key Exploration Projects
  - Mainly 100% owned and operated
- Active drilling programme in Italy and Indonesia, including the Nervesa appraisal well which is fully funded

  Italy
  - 2 Material appraisal wells (Nervesa, Strombone)
  - 1 Discovery for commercial development (Casa Tiberi)
  - 1 Field recommissioning (Rapagnano)

  Indonesia
  - 2 Exploration wells
- Strong and focused Executive Team, including a newly appointed Chief Financial Officer and Italy Managing Director


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


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

Chairman's Statement

Once again the year has been very active for the Company and we expect to maintain this momentum during the next twelve months.

In Italy we have consolidated our Consul Oil & Gas Limited ("Consul") acquisition by the purchase of Celtique Energie SpA which had been our joint partner in three permits. The consideration of $9 million comprised $4.4 million cash, $0.8 million settlement of an inter-company loan (net of $0.2 million cash held by Celtique) and 91,998,582 Sound Oil plc shares. As a result of this deal Sound Oil plc owns 100% of the permits containing the Nervesa and Strombone discoveries, our core assets. We are now able to move forward at our own pace and will be drilling the key well at Nervesa in mid year and intend to be drilling Strombone by year end.

The Company has acquired 3D seismic data over the Badile prospect and an independent expert has confirmed that it has P50 prospective resources of 185 Bscf, making it one of the largest onshore exploration opportunities in Western Europe. Sound Oil plc has begun to offer this ready-to-drill prospect for farmout and already has had an encouraging amount of interest.

During the year the Company undertook operations at Marciano (Sound Oil plc 100%) and drilled a farm-in well at Casa Tiberi, both of which encountered gas. The Marciano well was disappointing and the reserves too small for commercialisation. By mid year, the surface facilities will be relocated from Marciano for use at Casa Tiberi and our other permits, and the Marciano site will then be restored. At Casa Tiberi (Sound Oil plc 100%) two separate phases of testing in the early part of 2012 indicated that the reserves are small but commercial and the Company expects to submit a production application in May 2012.

In the Citarum PSC Indonesia, where we have a 20% interest, we have identified several drilling opportunities based on the extensive seismic programme shot earlier. We commenced drilling on the attractive prospect at Cataka but unfortunately the operator ran into mechanical problems in the upper part of the hole and the well was abandoned. We expect to return to drill at this location later in 2012. Meanwhile, the rig was moved to Jatayu, another substantial exploration prospect which is now being drilled. The final well in the current drilling schedule is Geulis and this third well will complete the Company's outstanding obligations at Citarum.

In the Bangkanai PSC Kalimantan (Sound Oil plc 5%, carried), a gas sales agreement was signed to supply up to 20 BBtud at a price of $4.79/MMBtu from the Kerendan Field with first production anticipated in 2013. This final agreement now allows Sound Oil plc to book reserves for the first time. In addition there are further contingent gas resources in the field which could be commercialised through the local power plant to be built by PLN, the Indonesian electricity utility. Following an extensive refit, a rig is now expected to be ready in June to drill the four development wells at Kerendan. These will be followed by two exploration obligation wells nearby.

In December 2011 Sound Oil plc issued 100 million shares at 2p to raise £2 million together with 60 million warrants exercisable at 2p. In the second part of the placement in February 2012, the Company issued 262,587,803 shares at 1.523p to raise £4 million together with 157,552,682 warrants exercisable at 1.86p. Sound Oil plc currently has cash reserves of £7 million and no debt. The increase in assets and activity of the Group following the Consul and Celtique acquisitions led to higher expenditure in the Income Statement and the loss after tax was £6,264,000.

The year saw some significant changes in personnel within Sound Oil plc. Tony Heath retired as Chief Financial Officer and joined the Board as a non executive Director. I would like to thank him for his considerable support over many years and for his wise advice. The Board was further strengthened by Andrew Hockey who joined as a non executive director. Andrew has 30 years of experience in the oil industry most recently with Fairfield Energy. James Parsons joined the Company as Chief Financial Officer in September having 17 years experience in the oil industry principally with Shell. Luca Maddedu was appointed Managing Director of the Company's Italian subsidiary in Rome following a international career with ENI spanning 22 years and Godwin Debono, a founder director of Consul, retired from the Company at the end of March this year. I would like to thank him in particular for his dedication and commitment in building the Italian portfolio.

I wish to thank all of the Company staff and also my Board colleagues for their enthusiasm and their continuous efforts on behalf of the Company. Finally I also wish to thank our shareholders for their support.

The Company can look forward to a continuous drilling program for the next 18 months on very exciting prospects, on important discoveries and on our hydrocarbon developments which will bring revenue in 2013.

Yours sincerely,

Gerry Orbell

Chairman and Chief Executive

30 April 2012

Financial Review

Accounting standards

The Group has prepared its 2011 full year accounts under International Financial Reporting Standards (IFRS), as adopted by the European Union.

Income statement

Following the acquisitions of Consul Oil & Gas Limited and Celtique Energie Spa in Italy during 2011, increased exploration and administration costs before impairment of the Marciano well resulted in a trading loss of £4,253,000 compared with £1,932,000 for 2010.

Loss before/after tax was £6,264,000 compared with £15,968,000 in 2010 which had included a loss on sale of part of the Bangkanai licence of £14,210,000.

The 2011 trading loss of £5,353,000 is £3,421,000 higher than in 2010 principally due to £1,446,000 higher administration costs following the Italian acquisitions (which introduced a Rome office at a total cost of £839,000 in 2011 and £100,000 of transaction related bonus payments in the first quarter). Total exploration costs for the year were £1,975,000 higher which included £1,100,000 impairment costs.

Acquisition expenses of £516,000 were incurred in relation to the Italian acquisitions.

Due to the strength of sterling there was a foreign exchange loss of £439,000 compared with a gain of £211,000 in 2010.

Cash flow/financing

During 2011 £12,108,000 was raised from new equity issue whilst some £5,078,000 was spent on the acquisitions of new companies and £3,890,000 was spent on exploration and appraisal. This resulted in a net cash inflow before foreign exchange movements of £2,638,000 (2010: outflow £6,242,000).

The Group's cash balance was £6,286,000 (2010: £4,484,000).

The Group continues to have no borrowings.

Going concern – Forward cash flow calculations show that the Group has 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. The Group currently has no operating revenues and during the year ended 31 December 2011 recorded a trading loss of £5,353,000 from continuing operations. At 31 December 2011 the Group held cash and cash equivalents of £6,286,000. The directors have considered the Group's cash flow forecasts for the period to the end of April 2013. Forward cash flow projections show that forecast expenditure (12 months through 30 April 2013) will be less than the funds available as at 31 December 2011 when combined with the new equity raised in early 2012; together with the £5,900,000 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 2011 was £3,809,000 (2010: £1,165,000) and principally reflects the cost of drilling in Citarum (Indonesia) and the Montemarciano and Fonte San Damiano licences in Italy. Currency movement increased the balance in sterling terms by £690,000. However the impairment of the Marciano asset by £1,076,000 left the year end balance at £22,725,000 (2010: £9,954,000).

The deferred tax liability and the matching goodwill balance arising from the tax provision were both increased by £2,051,000 due to the two Italian acquisitions.

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. With the exception of Marciano, which has been written off, 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. There are extensive prospective areas remaining to be explored in both Italy and Indonesia.

Shareholders equity was reduced by the loss for the year, offset by an increase reflecting the new equity issued during 2011, resulting in an increase to £29,866,000 at the end of 2011 (2010: £17,715,000).

Post balance sheet event

The Company issued a further 262,587,803 shares to raise an additional £4,000,000 in cash on 6 February 2012. 157.6 million warrants were also issued, exercisable at 1.86p.

Technical Review

Italian Assets

Sound Oil plc currently has interests in 17 licences in Italy (2 production concessions, 9 permits and 6 exclusive permit applications) through its wholly-owned Italian subsidiary company Apennine Energy Srl (Fig. 1). The Apennine portfolio offers multiple opportunities for production, appraisal and development of existing oil and gas discoveries and exploration drilling. It is Sound Oil plc's intention over the coming 12 months to re-establish production on one concession, drill two new appraisal wells targeting existing discoveries and complete testing of a newly drilled gas discovery to demonstrate its commerciality. In addition several other appraisal and exploration opportunities will be considered for selective farm-out of high equity positions.

Figure 1

Production

Rapagnano Concession (Apennine 100%)

The concession, located in Marche, central Italy (Fig. 2), was awarded to Apennine in July 2011 as part of a marginal fields development programme. It contains the Rapagnano-1 gas discovery made by ENI in 1952

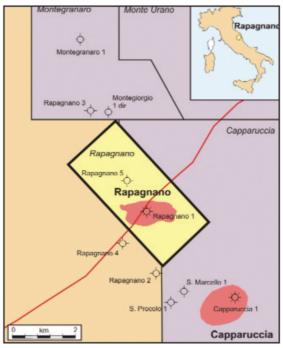

Figure 2

and its associated production facilities (Fig. 3). This had produced 116 MMscm (~4.1 Bscf) of gas prior to shut-in in 2001 with a rate of 140,000 scfd, but with significant water-cut. Apennine has submitted a plan to re-establish production from the field using on-site electricity generators to export power to the local grid. An Environmental Impact Assessment (EIA) for the proposed re-development has been submitted to the Marche regional authorities and its approval is expected in May 2012. Apennine plans to exploit the previously abandoned Sabbie reservoir which has been estimated by Fugro Robertson[1] to contain 1.1-1.5 Bscf of contingent resources. Operations are expected to start soon after approval of the EIA.

Figure 3

Fonte San Damiano Concession (Apennine 100%)

The concession is located in Basilicata, southern Italy (Fig. 4). In June 2011 the Marciano-1 well was re-entered to test two gas-bearing zones identified at 1283-1288 mMD and 1326-1231 mMD (Fig. 5). The lower zone flowed a maximum of 2,180 scmd (77,000 scfd) and the upper zone a maximum of 99,800 scmd (3.5 MMscfd). The upper zone was choked back to a flowing rate of 36,000 scmd (1.3 MMscfd). Subsequent well test analysis established that only a minimal connected volume of gas was seen by the well which could not maintain a commercial level of production.

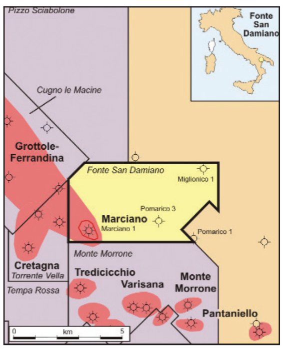

Figure 4

Figure 5

The well is currently suspended prior to abandonment and removal of the surface production facilities and electricity generators

Appraisal and Development

Carita Permit (Apennine 100%, Operator)

The permit is located in Veneto Province, northeast Italy (Fig. 6). 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. The remaining P50 contingent resources have been estimated by Fugro Robertson to be 20.7 Bscf. Apennine's strategy is to drill an appraisal well on the structure to validate the resource estimate and establish commercial flow rates. An application to drill the well was submitted in November 2011 and approval is expected to be able to spud the well in mid 2012. Long lead items have been ordered to meet this schedule.

Figure 6

Torrente Alvo Permit (Apennine 100% interest)

The permit is located in Potenza in southern Italy (Fig. 7). The permit area was initially explored by 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 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 P50 contingent resources of the Strombone discovery to be 6.4 MMbo. It is Apennine's intention to develop the Strombone oil discovery and to this end an application to drill an appraisal well is in preparation. The target to drill the well is late 2012-early 2013.

Figure 7

Technical Review

continued

Exploration

Montemarciano Permit (Apennine 75%, Operator)

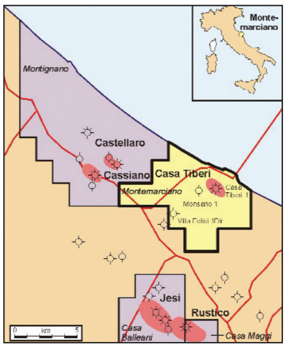

Figure 8

The permit is located in Marche, Ancona in central Italy (Fig. 8). Apennine Energy farmed-in to the permit in June 2011 by committing to drill the Casa Tiberi-1 exploration well to earn a 75% working interest in the licence. The well was drilled in November 2011 to a TD of 715m in the Lower Pliocene Cellino sand objective (Fig. 9). It encountered 14.9 m gross (3.9 m net) hydrocarbon pay. Partner SARP withdrew from the operation after logging and opted not to participate in its completion, and so going forward Apennine holds a 100% interest in the discovery. The well was completed with perforation of a single zone 571-581mMD. During clean-up flow the well tested dry gas at rates of ~26,000 scmd (~0.92 MMscfd). The well was subsequently re-entered in January 2012 and a flow test delivered a final rate of 37,850 scmd (~1.3 MMscfd) on 5/16" choke (Fig. 10). The well was again temporarily suspended pending application for a pending concession in May 2012.

Figure 9

Figure 10

Badile Permit (Apennine 100%)

The Badile permit is situated in the Piedmont Lombard Basin in northern Italy (Fig. 11), 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 Villafortuna-Trecate and Malossa oil fields with total proven recoverable reserves over 400 MMboe. Two large ready-to-drill prospects have been mapped in the permit area, Badile and Zibido, with gross P50 prospective resources[2] estimated by Fugro-Robertson to be 185 Bscf and 130 Bscf respectively. In 2011 Apennine purchased and interpreted legacy 3D seismic data over the Badile prospect to define an optimum drilling location. It is the Company's intention to submit an application to drill a first well on the prospect. It is expected that when approved the drilling of the well will be offered for farm-out.

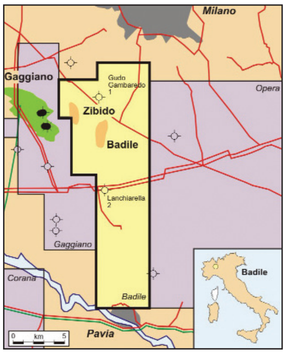

Figure 11

Other Opportunities

The Apennine portfolio offers several other appraisal and development opportunities for which geological studies and seismic interpretation will be undertaken to mature the projects for future drilling. The immediate focus will be on the following:

Sambucheto Permit (Apennine 95% interest, Operator)

The permit is located in Ancona and Macerata in central Italy (Fig. 12). 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.

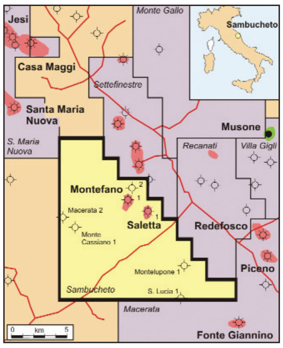

Figure 12

Villa Gigli Permit (Apennine 50% interest, Operator)

The permit is located in Ancona and Macerata on the Adriatic coast in central Italy (Fig. 13). 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. Gross P50 contingent resources of the Musone discovery have been estimated by Fugro Robertson to be 1.7 MMbo.

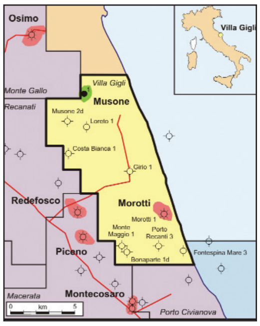

Figure 13

Costa del Sole Permit (Apennine 100%)

The permit, located in southern onshore Sicily (Fig. 14), was provisionally awarded to Apennine in September 2011 and full award is subject to approval of an EIA by the Sicily regional authorities. The permit 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. P50 contingent resources have been estimated by Fugro Robertson to be 2.4 MMbo. On final award, Apennine's strategy will be to evaluate the resource potential of the Manfria discovery for development and other prospects for drilling. A major refinery of heavy oil is located at Gela some 10 km from the discovery.

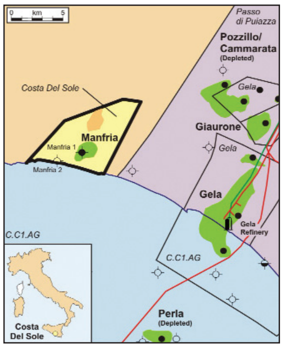

Figure 14

D503 BR-CS (Apennine 100%)

The permit, located in Zone B of the central Adriatic Sea (Fig. 15), is outside the current drilling 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.

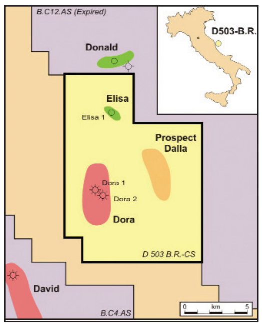

Figure 15

Technical Review

continued

Licences Subject to Appeal

The Ministry of Economic Development in Italy has withdrawn Apennine's assigned permits D148 DR-CS and D150 DR-CS (both offshore Calabria) from the application process to full permit status. This is in compliance with the environmental decree 128/1210 enacted in June 2010 which prevents oil and gas activity within 5 nautical miles of the Italian coast. Apennine has appealed against the decisions.

Indonesian Assets

Sound Oil plc has non-operated interests in two licences in Indonesia through its wholly-owned subsidiary Mitra Energia Ltd. Operators' plans for the remainder of 2012 include drilling of four exploration commitment wells, two in Java and two in Kalimantan. In addition work will start on the development of the Kerendan gas field in Kalimantan.

Citarum PSC (Sound Oil plc 20% interest)

At the beginning of the year drilling commenced on the first of 3 exploration commitment wells on the block (Fig. 16). The first well, Cataka-1, experienced difficulties in drilling the upper section and was abandoned following two side-track attempts The Operator intends to undertake a detailed post-drilling evaluation of the operation with a view of returning to the prospect within or at the end of the current drilling campaign.

The rig has moved to the second location, Jatayu-1, and will then move to the third well Geulis-1. The Jatayu and Geulis prospects have been estimated by Fugro Robertson to contain gross P50 prospective resources of 288 and 26 Bscf respectively.

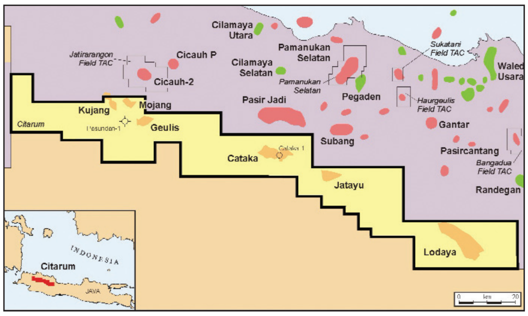

Figure 16

Bangkanai PSC (Sound Oil plc 5% carried interest)

The Bangkanai Operator has made considerable progress throughout the last year to put the exploration and development programme onto a firm basis and secure the PSC in force (Fig. 17). The Operator plans now to commence development drilling for the Kerendan gas field in Q2 2012 with a view to establishing first gas by end of 2013. The four well development programme will be followed by the two exploration commitment wells. Sound Oil plc is carried for all exploration and development costs until first gas.

The Kerendan field, first discovered in the 1980s, will be developed to supply gas to a local, new-build integrated power plant. The Plan of Development (POD) calls for the supply of 130 TBtu (133.7 Bscf) over 20 years at a maximum rate of 20.3 BBtud (~20 MMscfd). A Gas Sales Agreement was concluded in June 2011 with PLN[3] for an initial price of \$4.79/MMBtu. PLN will also build the power plant for the project.

In addition to the proved undeveloped gas reserves of 133.7 Bscf, the Kerendan field contains un-drilled contingent resources estimated by the block Operator to be up to 160 Bscf.

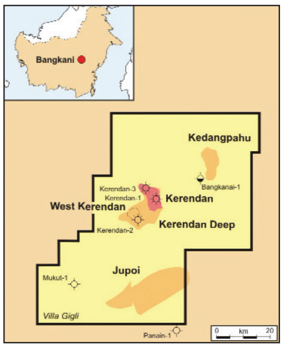

Figure 17

BPMigas[4] have agreed with the Operator that the two outstanding exploration commitment wells should now commence with drilling the West Kerendan-1 well in Q4 2012. This well will target additional potential in the Oligocene limestone reservoir (the producing formation in the Kerendan field) and the deeper Eocene Tanjung sandstones. Fugro Robertson (CPR, October 2011) have estimated the gross P50 prospective resources in all levels of the prospect to be >1900 Bscf. The second exploration commitment well will be drilled in the light of West Kerendan-1 drilling results and the interpretation of a new 2D seismic survey over other prospective areas to be acquired in early 2013.

Notes:

1 Fugro Robertson Limited is an independent petroleum consultancy company providing resource and reserve assessments. The figures quoted here are taken from their Competent Person's Report, October 2011.

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.

3 PLN (PT Perusahaan Listrik Negara) is the Indonesian State electricity company.

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

Abbreviations:

API:	American Petroleum Institute (crude oil gravity is expressed in °API).
BBtud:	Billion British Thermal Units per day.
Bopd:	Barrels of oil per day.
Bscf:	Billion standard cubic feet of gas.
Btu:	British Thermal Unit (~ 1,000 Btu = 1 standard cubic ft of gas, dependent on composition).
MD:	Measured depth.
MMbo:	Million barrels of oil.
MMboe:	Million barrels of oil equivalent (6,000 standard cubic feet of gas = 1 barrel of oil).
MMBtu:	Million British Thermal Units.
MMscfd:	Million standard cubic feet of gas per day.
MMscm:	Million standard cubic meters of gas.
Mscf:	Thousand standard cubic feet.
Scfd:	Standard cubic feet per day.
Scmd:	standard cubic meters of gas per day.
TBtu:	Trillion British Thermal Units.

Statement of Proved and Probable Reserves

The Group's proved and probable hydrocarbon reserves as at 31 December 2011 were:

	Oil (MMbo)	Gas (Bscf)	MMboe
As at 31 December 2010	–	–	–
Additions:			
Kerendan field, Indonesia *	0.070	6.685	1.184
As at 31 December 2011	0.070	6.685	1.184

* Figures are estimated as proved undeveloped reserves (1P) by Fugro Robertson Limited in a Competent Person's Report, October 2011. Basis to fulfil contract: 972 Btu/Scf, 350 operating days per year.

Abbreviations:

Bscf: Billion standard cubic feet of gas.
MMbo: Million barrels of oil.
MMboe: Million barrels of oil equivalent (6,000 standard cubic feet of gas = 1 barrel of oil).

Board of Directors

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

Gerry Orbell

Chairman and Chief Executive

Gerry Orbell is a petroleum geologist with over 35 years of technical, managerial and director level experience in the hydrocarbon and utilities sectors. Gerry has previously held the position of executive director of Fina Exploration Ltd, Premier Oil plc and United Utilities plc. Gerry is currently the chairman of Antrim Energy Inc. He is a member of the board of Moorland Energy Ltd, and also of the compliance company Valpak Ltd where he is also chairman of the audit committee.

Michael Nobbs

Non-executive Director

Chairman of Remuneration Committee

Member of Audit Committee

Michael Nobbs has a 30 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

Member of Remuneration Committee

Ilham is a co-founder and shareholder of PT. ILTHABI Rekatama, a private investment company in Indonesia, which he joined as a President Director in 2002. Through ILTHABI he invested in, and is director of, various companies in the fields of energy, mining, manufacturing and transportation. Ilham's previous professional background is largely with aerospace companies (IPTN, Indonesia; Boeing, USA). He holds a Dr.-Ing. (PhD) in Aeronautical Engineering from Technical University of Munich, and a M.B.A. from the University of Chicago, USA.

Tony Heath

Non-executive Director

Chairman of Audit Committee

Tony Heath has over 30 years financial and general management experience across a variety of roles. Qualifying as a chartered accountant in 1964, Tony joined Burmah Oil's motor fuels development business in 1968. He eventually became Group Controller of Burmah Oil and was responsible for all financial information and control of the international oil group covering operations in thirty-five countries. Tony joined the board of Premier Oil plc as Group Finance Director in 1990 and was Group Finance Director of Sound Oil plc from 2005 to August 2010.

Andrew Hockey

Non-executive Director

Member of Audit Committee

Member of Remuneration Committee

Andrew has 30 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 2011.

Results and dividends

The Group's loss after tax for the year amounted to £6,264,000 (2010 loss: £15,968,000). 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.

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 Oil plc, similar to other 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 1,833,199,548.

The authority given to the directors to allot shares at the 2011 Annual General Meeting was granted for a period of one year. A resolution will be proposed at the Annual General Meeting to renew this authority.

A resolution will also be proposed at 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 again be sought for the directors to grant options up to 5% of the issued share capital.

Directors

Directors of Sound Oil plc holding office during the year were:

Ilham Habibie	
Tony Heath	(appointed on 5 September 2011)
Andrew Hockey	(appointed on 9 May 2011)
Michael Nobbs	
Gerry Orbell	

Substantial Shareholders

At 10 April 2012 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
TD Direct Investing Nominees (Europe) Limited	257,695,240	12.30%
Barclayshare Nominees Limited	203,114,056	9.69%
Hsdl Nominees Limited	164,156,400	7.83%
Pershing Nominees Limited	150,533,343	7.18%
Investor Nominees Limited	128,893,613	6.15%
L R Nominees Limited	116,615,523	5.56%
James Capel (Nominees) Limited	102,222,929	4.88%
Celtique Energie Petroleum Ltd	91,998,582	4.39%

Directors' interests

The beneficial interests of the directors and their immediate families in the ordinary share capital of the company are shown below:

Name	31 December 2011	Date of this report
Ilham Habibie [1]	147,288,696	147,288,696
Michael Nobbs	1,954,545	2,529,545
Gerry Orbell [2]	14,513,124	15,513,124
Tony Heath	827,586	2,127,586
Andrew Hockey	–	125,000

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

2 This includes 8,016,873 shares registered in the name of Sogdian and 777,000 shares registered in the name of Gerry Orbell's children.

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 17.

Directors' interests in share options are shown in the Report on Directors Remuneration on page 18.

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 held in the currency which matches the currency of future liabilities. 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.

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. As at 31 December 2011 the number of creditor days in relation to trade creditors outstanding at the period end were 30 days (2010: 17 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, every 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
Crowe Clark Whitehill LLP continue as the Company's auditors until the next Annual General Meeting. A resolution to reappoint them as auditors will be put to shareholders at the forthcoming Annual General Meeting.

Provision of information to auditors
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
30 April 2012

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 Michael Nobbs, who chairs the Committee Mr Andrew Hockey and Mr Ilham Habibie. None of the executive directors of the Company is involved in determining his own remuneration.

The Committee consults with the executive team as required during the year.

Remuneration approach

During the course of 2011 the Company's remuneration approach has been updated. A Comprehensive Compensation Framework is now in place.

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 2012 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 form a critical part of the long term incentive scheme for the executive team and are awarded annually.

Remuneration structure

The executive team's remuneration is basic salary with possible share options and bonuses awarded dependent on individual and company performance. There are no current pension arrangements, however following changes in UK legislation the provision of a pension scheme is under review.

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 team 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.

Bonuses

The performance of the Company and the Executives over the year is taken into consideration when assessing any annual cash bonus. Bonuses may be awarded up to a maximum of 50% and 100% of base salary depending on the senority of the employee.

Report on Directors' Remuneration

continued

Contracts of employment

The details of the executive director contract of employment and non-executive directors' letters of appointment are set out below:

- Gerry 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 2-3 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, Gerry 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

2011 Salary and fees £'000's

	Salary	Bonus (i)			Total	2010
		2010 Performance Award	2011 Performance Award	Transaction related		
Executive directors						
Gerry Orbell[(i)]	240	86	60	100	486	184
Tony Heath	–	–	–	–	–	53[(1)]
Jossy Rachmantio	–	–	–	–	–	57[(1)]
Non-executive directors						
Simon Davies	–	–	–	–	–	12[(2)]
Michael Nobbs	30	–	–	–	30	27
Ilham Habibie	30	–	–	–	30	27
Tony Heath	9[(3)]	–	–	–	9	–
Andrew Hockey	19[(4)]	–	–	–	19	–
Patrick Alexander	–	–	–	–	–	17[(1)]
Total for all directors	**328**	**86**	**60**	**100**	**574**	**377**

(i) Bonus – A bonus of £85,937 was awarded to Gerry Orbell in February 2011 relating to 2010 performance. The Chairman/CEO's bonus was assessed as 46% of base salary and took into consideration a number of KPI's and overall performance for the 2010 full year.

Following the decision to routinely consider bonuses at the end of the relevant year the directors addressed the 2011 annual bonuses in December 2011. The Chairman/CEO's bonus was assessed at 25% of base salary (£60,000 of which £30,000 was awarded in shares) and took into consideration a number of KPI's and overall performance for the 2011 full year.

Transaction related – This was awarded to the Chairman/CEO in March 2011 in regard to the transformational acquisition of Consul. The Board took into account the pivotal part undertaken by the individual, the impact of the acquisition on the asset value of the company, the share price at the time and favourable price negotiated for the deal. Gerald Orbell was a non-executive director of Consul at the time of acquisition and stood aside from any negotiations on behalf of Consul and did not benefit from any bonus awards made to other Consul directors which were stated in the shareholder circular dated December 2010.

Private healthcare – During the course of the year the company instituted a private healthcare insurance scheme. The value of this benefit was £731, which is included in the salary total.

(1) to 30/06/2010
(2) to 12/06/2010
(3) from 05/09/2011 in role as non-executive director
(4) from 09/05/2011

Report on Directors' Remuneration
continued

Share Options

At 31 December 2011 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 2011	Options held at 31 December 2011
G. Orbell	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	27.05.10 – 26.05.13	1.50	1,725,000	1,725,000
	18.04.11	28.03.11 – 27.03.16	5.60	–	7,500,000
JA Heath	28.02.07	28.02.08 – 28.02.17	4.38	333,333	333,333
	28.02.07	28.02.09 – 28.02.17	4.38	333,333	333,333
	28.03.07	28.02.10 – 28.02.17	4.38	333,334	333,334
	27.05.10	27.05.10 – 26.05.13	1.50	1,035,000	1,035,000
	18.04.11	01.03.11 – 29.02.16	2.75	–	2,000,000
	29.09.11	29.09.11 – 28.09.16	2.20	–	1,000,000
I Habibie	14.04.11	28.03.11 – 27.03.16	5.60	–	1,000,000
A Hockey	24.05.11	01.04.11 – 31.03.16	4.95	–	1,000,000
M Nobbs	18.04.11	28.03.11 – 27.03.16	5.60	–	1,000,000

The market price of Sound Oil Plc share at the end of the year was 1.65 pence. The market price of the shares ranged between 1.43 pence and 6.38 pence during the year.

Corporate Governance Report

The Board recognises the importance of sound corporate governance and the guidelines set out in the UK 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 four non-executive directors.

18 board meetings were held during the year, all of which were attended by all directors.

The Board has an Audit Committee comprising three of the non-executive directors. The Audit Committee receives and reviews reports from the Executive Team 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 payment approval 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 director 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. 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 European Union 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 2011 which comprise Consolidated Income Statement, Consolidated and Company Balance Sheets, Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Cash Flow Statements 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.

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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, 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 and express an opinion on 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Directors' Report, the Chairman's statement, the financial and technical reviews, the statement of proved and probable reserves, the report on directors remuneration and the corporate governance report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on 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 2011 and of the groups 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 IFRS as adopted by the European Union 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 other matter 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
Statutory Auditor
St. Bride's House
10 Salisbury Square
London EC4Y 8EH

30 April 2012

Note: The maintenance and integrity of 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 2011

	Notes	2011 £'000's	2010 £'000's
Exploration costs		(2,405)	(430)
Gross loss		(2,405)	(430)
Administrative expenses		(2,948)	(1,502)
Group trading loss		(5,353)	(1,932)
Other income/(loss)		–	(58)
Group operating loss from continuing operations	3	(5,353)	(1,990)
Finance revenue	6	44	21
Foreign exchange (loss)/gain		(439)	211
Expense incurred in acquiring subsidiaries		(516)	–
Loss on disposal of farmout interest		–	(14,210)
Loss before income tax		(6,264)	(15,968)
Income tax	7	–	–
Loss for the period attributable to the equity holders		(6,264)	(15,968)
Other comprehensive loss:			
Foreign currency translation gain		27	711
Total comprehensive loss for the period		**(6,237)**	**(15,257)**
Loss for the period attributable to:			
Owners of the Company		(6,259)	(15,968)
Non-controlling interest		(5)	–
		(6,264)	**(15,968)**
Total comprehensive loss attributable to:			
Owners of the Company		(6,232)	(15,257)
Non-controlling interest		(5)	–
		(6,237)	**(15,257)**
Loss per share basic and diluted for the period attributable to the equity holders of the parent (pence)	8	(0.39)	(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 £3,266,000 (2010: £3,004,000).

Consolidated Balance Sheet

as at 31 December 2011

Company number: 05344804

Group	Notes	2011 £'000's	2010 £'000's
Non-current assets			
Property, plant and equipment	9	1,278	12
Intangible assets	10	26,302	11,479
Other debtors	13	668	621
		28,248	**12,112**
Current assets			
Other debtors	13	1,388	2,940
Prepayments		119	65
Current tax receivable	7	–	26
Cash and short term deposits	14	6,286	4,484
		7,793	**7,515**
Total assets		**36,041**	**19,627**
Current liabilities			
Trade and other payables	15	2,233	284
Current tax payable	7	–	–
		2,233	**284**
Non-current liabilities			
Deferred tax liabilities	16	3,576	1,525
Provisions	17	366	103
		3,942	**1,628**
Total liabilities		**6,175**	**1,912**
Net assets		**29,866**	**17,715**
Capital and reserves attributable to equity holders of the Company	**18**		
Issued equity share capital and share premium		54,704	36,456
Foreign currency reserve		3,768	3,741
Accumulated deficit		(28,606)	(22,482)
Total equity	**18**	**29,866**	**17,715**

Approved by the Board on 30 April 2012

G Orbell
Director

J A Heath
Director

The accounting policies on pages 29 to 34 and notes on pages 34 to 62 form part of these financial statements.

Company Balance Sheet

as at 31 December 2011

Company number: 05344804

Company	Notes	2011 £'000's	2010 £'000's
Non-current assets			
Property, plant and equipment	9	11	–
Investment in subsidiaries	12	41,719	24,337
Other debtors	13	7	4
		41,737	**24,341**
Current assets			
Other debtors	13	121	2,891
Prepayments		37	37
Current tax receivable		–	26
Cash and short term deposits	14	5,092	4,331
		5,250	**7,285**
Total assets		**46,987**	**31,626**
Current liabilities			
Trade and other payables	15	285	166
Total liabilities		**285**	**166**
Net assets		**46,702**	**31,460**
Capital and reserves	**18**		
Issued equity share capital and share premium		54,704	36,456
Accumulated deficit		(8,002)	(4,996)
Total equity	**18**	**46,702**	**31,460**

Approved by the Board on 30 April 2012

G Orbell
Director

J A Heath
Director

The accounting policies on pages 29 to 34 and notes on pages 34 to 62 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

Group

	Note	Share capital £'000's	Share premium £'000's	Accumulated deficit £'000's	Foreign currency reserve £'000's	Non controlling interest £'000's	Total equity £'000's
At 1 January 2011		692	35,764	(22,482)	3,741	–	17,715
Total loss for the year		–	–	(6,259)	–	(5)	(6,264)
Total comprehensive gain/(loss)		–	–	–	27	–	27
Total comprehensive income/(loss)		–	–	(6,259)	27	(5)	(6,237)
Issue of share capital		1,141	18,104	–	–	–	19,245
Share issue costs		–	(997)	–	–	–	(997)
Share based payments	23	–	–	260	–	–	260
Acquisition of non-controlling interests with a change in control		–	–	–	–	94	94
Acquisitions of non-controlling interests without a change in control		–	–	(125)	–	(89)	(214)
At 31 December 2011		1,833	52,871	(28,606)	3,768	–	29,866

	Note	Share capital £'000's	Share premium £'000's	Accumulated deficit £'000's	Foreign currency reserve £'000's	Non controlling interest £'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

Company Statement of Changes in Equity

for the year ended 31 December 2011

Company

	Note	Share capital £'000's	Share premium £'000's	Accumulated deficit £'000's	Total equity £'000's
At 1 January 2011		692	35,764	(4,996)	31,460
Total loss for the year		–	–	(3,266)	(3,266)
Other comprehensive income/(loss)		–	–	–	–
Total comprehensive income/(loss)		–	–	(3,266)	(3,266)
Issue of share capital		1,141	18,104	–	19,245
Share issue costs		–	(997)	–	(997)
Share based payments	23	–	–	260	260
At 31 December 2011		1,833	52,871	(8,002)	46,702

	Note	Share capital £'000's	Share premium £'000's	Accumulated 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 income/(loss)		–	–	–	–
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

Consolidated Cash Flow Statement

for the year ended 31 December 2011

	Notes	2011 £'000's	2010 £'000's
Cash flow from operating activities			
Cash flow from operations		(3,009)	(2,683)
Interest received	6	44	21
Net cash flow used in operating activities		**(2,965)**	**(2,662)**
Cash flow from investing activities			
Capital expenditure and disposals	9	(31)	(2)
Exploration expenditure		(3,809)	(1,165)
Payment in escrow – acquisition of subsidiaries		2,413	(2,413)
Expense in acquiring subsidiaries		(366)	–
Acquisition of subsidiaries		(4,712)	–
Net cash flow used in investing activities		**(6,505)**	**(3,580)**
Proceeds from equity issue		**12,108**	**–**
Net cash flow from financing activities		**12,108**	**–**
Net increase/(decrease) in cash and cash equivalents		**2,638**	**(6,242)**
Net foreign exchange difference		**(836)**	**104**
Cash and cash equivalents at 1 January		**4,484**	**10,622**
Cash and cash equivalents at 31 December	**14**	**6,286**	**4,484**

Notes to cash flow

	Notes	2011 £'000's	2010 £'000's
Cash flow from operations reconciliation			
Profit/(loss) after tax		**(6,264)**	**(15,968)**
Finance revenue	6	(44)	(21)
Loss on disposal of farmout interest		–	14,210
Payroll bonuses paid in shares		98	–
Share options granted and taken up immediately		36	–
Expense in acquiring subsidiaries		516	–
Cash taken over on acquisition of subsidiaries		170	–
Exploration expenditure written off		1,236	3
Income tax charge (credit)		–	–
Increase/(decrease) in accruals and short term creditors		1,668	(775)
Depreciation	3	11	15
Share based payments charge	23	260	16
Increase/(decrease) in long term provisions		261	(5)
(Increase)/decrease in long term debtors		(12)	194
Increase in short term debtors		(945)	(352)
Cash flow from operations		**(3,009)**	**(2,683)**

Company Cash Flow Statement

for the year ended 31 December 2011

	Notes	2011 £'000's	2010 £'000's
Cash flow from operating activities			
Cash flow from operations		(1,458)	(1,803)
Interest received	6	44	21
Net cash flow used in operating activities		**(1,414)**	**(1,782)**
Cash flow from investing activities			
Capital expenditure and disposals	9	(11)	–
Payment in escrow – acquisition of subsidiaries		2,413	(2,413)
Acquisition of subsidiaries		(1,464)	–
Purchase of Euro loan		(965)	–
Cost of acquiring subsidiaries		(366)	–
Investment in subsidiary undertakings		(9,097)	(1,538)
Net cash flow used in investing activities		**(9,490)**	**(3,951)**
Cash flow from financing activities			
Proceeds from equity issue		12,108	–
Net cash flow from financing activities		**12,108**	**–**
Net increase/(decrease) in cash and cash equivalents		**1,204**	**(5,733)**
Net foreign exchange differences		**(443)**	**210**
Cash and cash equivalents at 1 January		**4,331**	**9,854**
Cash and cash equivalents at 31 December	**14**	**5,092**	**4,331**

Notes to cash flow

	Notes	2011 £'000's	2010 £'000's
Cash flow from operations reconciliation			
Profit/(loss) after tax		**(3,266)**	**(3,004)**
Increase in provisions against investments		–	2,030
Finance revenue		(43)	(21)
Cost of acquiring subsidiaries		516	–
Payroll bonuses paid in shares		98	–
Share options granted and taken up immediately		36	–
Increase/(decrease) in accruals and short term creditors		224	(224)
Share based payments	23	260	16
Decrease/(increase) in short term debtors		720	(600)
Decrease/(increase) in other non current assets		(3)	–
Cash flow from operations		**(1,458)**	**(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) as adopted by the European Union (IFRSs, as adopted by the European Union), IFRIC Interpretations and:

(2) those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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 2011 were authorised for issue by the board of directors on 27 April 2012.

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review above. As at 31 December 2011 the Group had £6.3 million of available cash. After the balance sheet date but before the date of approval of these financial statements, the Group raised a further £4.0 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 challenging. 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 April 2013) will be less than the funds available as at 31 December 2011 together with the £4.0 million raised in February 2012 from share placings and the £5.8 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 and evaluation (E&E), 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 reserves and the life of, and title to, an asset; recovery rates; production costs; commodity prices and exchange rates.

Notes to the Financial Statements

continued

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 future 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$. The functional currency of the Italian subsidiaries is the Euro.

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 capitalised oil and gas costs principally 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 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.

The useful lives of the assets are considered to be finite.

Exploration and evaluation costs

Costs are initially capitalised as E&E 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.

Notes to the Financial Statements

continued

Acquisitions, asset purchases and disposals

Acquisitions of oil and gas properties are accounted for under the purchase method where the transaction meets the definition of a business combination or joint venture.

Transactions involving the purchase of an individual field interest, or a group of field interests, that do not qualify as a business combination are treated as asset purchases, irrespective of whether the specific transactions involve the transfer of the field interests directly, or the transfer of an incorporated entity. Accordingly, no goodwill arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

(e) Expenses recognition

Expenses are recognised on the accruals basis unless otherwise stated.

(f) Property, plant and equipment

Fixtures, fittings and equipment are recorded at cost as tangible assets.

The straight-line method of depreciation is used to depreciate the cost of these assets over their estimated useful lives, which is estimated to be four years.

(g) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at its original value, less any accumulated impairment losses subsequently incurred.

Goodwill is not amortised. Goodwill is reviewed for impairment annually, or more frequently if events or 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 Black Scholes 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

The following standards, amendments to standards and interpretations have been identified as those which may impact the group in the period of initial application. They have not been applied in preparing this financial report.

- IFRS 7 Amendments to Financial Instruments Disclosures for accounting periods beginning on or after 1st July 2011
- IFRS 1 Amendments Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters for accounting periods beginning on or after 1st July 2011
- IAS 12 Amendments to Deferred tax: Recovery of Underlying Assets for accounting periods beginning on or after 1st January 2012
- IAS 1 Amendment – Presentation of items of other comprehensive income for accounting periods beginning on or after 1st July 2012
- IAS 19 Amendment – Employee Benefits for accounting periods beginning on or after 1st January 2013
- IAS 27 Separate Financial Statements for accounting periods beginning on or after 1st January 2013
- IAS 28 Investments in Associates and Joint Ventures for accounting periods beginning on or after 1st January 2013
- IFRS 10 Consolidated Financial Statements for accounting periods beginning on or after 1st January 2013
- IFRS 11 Joint Arrangements for accounting periods beginning on or after 1st January 2013
- IFRS 12 Disclosure of Interests in Other Entities for accounting periods beginning on or after 1st January 2013
- IFRS 13 Fair Value Measurement for accounting periods beginning on or after 1st January 2013
- IFRS 9 Financial Instruments for accounting periods beginning on or after 1st January 2013
- IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine for accounting periods beginning on or after 1st January 2013

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.

Notes to the Financial Statements
continued

1 Accounting policies – continued

(m) Earnings per share

Earnings per share are calculated using the weighted average number of ordinary shares outstanding during the period per IAS 33. Diluted earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all potentially dilutive shares to ordinary shares. It is assumed that any proceeds obtained on the exercise of any options and warrants would be used to purchase ordinary shares at the average price during the period. Where the impact of converted shares would be anti-dilutive, these are excluded from the calculation of diluted earnings.

(n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2 Segment information

The Group's categorises its operations into two business segments based on exploration & appraisal and development & production.

The Group's exploration & appraisal activities are carried out in two geographic areas being;

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

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

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

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

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

2 Segment information – continued

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

	Corporate 2011 £'000's	Development & production 2011 £'000's	Exploration & appraisal 2011 £'000's	Total 2011 £'000's
Sales and other operating revenues	–	–	–	–
Other income/(loss)	–	–	–	–
Exploration costs	(936)	–	(233)	(1,168)
Impairment of exploration and evaluation assets	–	–	(1,236)	(1,237)
Administration expenses	(2,948)	–	–	(2,948)
Operating loss segment result	**(3,884)**	**–**	**(1,469)**	**(5,353)**
Interest receivable	44	–	–	44
Finance costs	(439)	–	–	(439)
Costs of acquiring subsidiaries	(516)	–	–	(516)
Loss on Farmout disposals	–	–	–	–
Loss for the year before taxation	**(4,795)**	**–**	**(1,469)**	**(6,264)**

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

	Corporate 2011 £'000's	Development & production 2011 £'000's	Exploration & appraisal 2011 £'000's	Total 2011 £'000's
Capital expenditure	32	1,246	26,302	27,580
Other assets	8,461	–	–	8,461
Total liabilities	**(6,175)**	**–**	**–**	**(6,175)**

The segment results for the year ended 31 December 2010 are as follows:

	Corporate 2010 £'000's	Development & production 2010 £'000's	Exploration & appraisal 2010 £'000's	Total 2010 £'000's
Sales and other operating revenues	–	–	–	–
Other income/(loss)	(58)	–	–	(58)
Exploration costs	(426)	–	–	(426)
Impairment of exploration and evaluation assets	–	–	(4)	(4)
Administration expenses	(1,502)	–	–	(1,502)
Operating loss segment result	**(1,986)**	**–**	**(4)**	**(1,990)**
Interest receivable	21	–	–	21
Finance revenue	211	–	–	211
Costs of acquiring subsidiaries	–	–	–	–
Loss on Farmout disposals	–	–	(14,210)	(14,210)
Loss for the year before taxation	**(1,754)**	**–**	**(14,214)**	**(15,968)**

Notes to the Financial Statements

continued

2 Segment information – continued

The segments assets and liabilities at 31 December 2010 are as follows:

	Corporate 2010 £'000's	Development & production 2010 £'000's	Exploration & appraisal 2010 £'000's	Total 2010 £'000's
Capital expenditure	12	–	11,479	11,491
Other assets	8,136	–	–	8,136
Total liabilities	**(1,912)**	**–**	**–**	**(1,912)**

The geographical split of non-current assets is as follows:

	U.K. 2011 £'000's	Indonesia 2011 £'000's	Italy 2011 £'000's
Development and production assets	–	1,246	–
Fixtures, fittings & office equipment	11	6	15
Goodwill	–	1,526	2,051
Exploration and evaluation assets	–	9,450	13,275
Total	**11**	**12,228**	**15,341**

	U.K. 2010 £'000's	Indonesia 2010 £'000's	Italy 2010 £'000's
Development and production assets	–	–	–
Fixtures, fittings & office equipment	–	12	–
Goodwill	–	1,525	–
Exploration and evaluation assets	–	9,954	–
Total	**–**	**11,491**	**–**

3 Operating loss

Operating loss is stated after charging:

	Notes	2011 £'000's	2010 £'000's
Auditors' remuneration	4	95	89
Depreciation	9	15	15
Employee costs	5	2,137	1,009
Impairment charge	10	1,101	3

4 Auditors' remuneration

	2011 £'000's	2010 £'000's
Fees payable to the company's auditor for the audit of the company's annual accounts	74	66
Fees payable to the company's auditor and its associates for other services:		
– The audit of the company's subsidiaries pursuant to legislation	8	18
– Other services pursuant to legislation	–	–
– Tax services	13	5

5 Employee costs

	Notes	2011 £'000's	2010 £'000's
Staff costs, including executive directors			
Share based payments	23	260	16
Wages and salaries		1,696	883
Social security costs		181	110
Total	3	**2,137**	**1,009**

	2011	2010
Number of employees (including executive directors) at the end of the year		
Technical and operations	6	4
Management and administration	10	10
Total	16	**14**

Details of the directors' emoluments are shown in the Report of Directors Remuneration on page 16.

6 Finance revenue

	2011 £'000's	2010 £'000's
Interest on cash at bank and short-term deposits	44	21
Total	**44**	**21**

Notes to the Financial Statements

continued

7 Taxation

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

	2011 £'000's Group	2010 £'000's Group
Current tax		
United Kingdom corporation tax (charge)/credit	–	–
Adjustment to tax expense in respect of prior years	–	–
Overseas tax	–	–
Total current tax (charge)/credit	**–**	**–**
Deferred tax		
Deferred tax income arising in the current year	–	–
Total deferred tax	**–**	**–**
Total tax (charge)/credit	**–**	**–**

(b) Reconciliation of tax charge:

	2011 £'000's Group	2010 £'000's Group
(Loss)/profit before tax	(6,264)	(15,968)
Tax (charge)/credit at UK corporation tax rate of 26.5% (2010: 28%)	1,660	4,471
Effects of:		
Expenses not deductible for tax purposes	–	(3,979)
Temporary differences not recognised	(866)	(273)
Differences in overseas tax rates	(794)	(219)
Total tax (charge)/credit	**–**	**–**

(c) Tax account:

	2011 £'000's Group	2010 £'000's Group
Current tax receivable	–	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:

	2011 £'000's	2010 £'000's
Loss after tax	(6,264)	(15,968)

	2011 million	2010 million
Weighted average shares in issue	1,600	692

	2011 Pence	2010 Pence
Loss per share (basic)	(0.39)	(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 not significantly 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

	Note	Development and production assets £'000's	Fixtures fittings and office equipment £'000's	Total £'000's
Cost				
At 1 January 2011		–	139	139
Exchange adjustments		–	(1)	(1)
Acquisitions		–	35	35
Additions		–	31	31
Transfers (1)		1,246	–	1,246
Disposals		–	–	–
At 31 December 2011		**1,246**	**204**	**1,450**
Depreciation				
At 1 January 2011		–	127	127
Exchange adjustments		–	(1)	(1)
Acquisitions		–	31	31
Charge for the year	3	–	15	15
Disposals		–	–	–
At 31 December 2011		**–**	**172**	**172**
Net book amount at 31 December 2011		**1,246**	**32**	**1,278**

(1) Transfers represent the reclass of assets from Intangible assets (note 10)

9 Property plant and equipment – continued

	Note	Development and production assets £'000's	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**

During the 2011 period the accumulated cost of the Group's investment in the Kerendan field of £1,246,000 was reclassified from exploration and evaluation assets to development and production assets following the signature of a gas sales agreement for the field.

The Company has no development and production assets.

Notes to the Financial Statements

continued

9 Property plant and equipment – continued

Company

	Fixtures, fittings and office equipment £'000's	Total £'000's
Cost		
At 1 January 2011	9	9
Additions	11	11
At 31 December 2011	20	20
Depreciation		
At 1 January 2011	9	9
Charge for the year	–	–
At 31 December 2011	9	9
Net book amount at 31 December 2011	11	11

	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	–	–

10 Intangible assets

	Goodwill £'000's	Exploration and evaluation assets £'000's	Total £'000's
Cost			
At 1 January 2011	1,525	12,982	14,507
Exchange adjustments	1	(50)	(49)
Acquisitions	2,051	11,361	13,412
Additions	–	3,809	3,809
Transfers [1]	–	(1,246)	(1,246)
Disposals	–	–	–
At 31 December 2011	**3,577**	**26,856**	**30,433**
Impairment			
At 1 January 2011	–	3,028	3,028
Exchange adjustments	–	3	3
Additions	–	1,100	1,100
At 31 December 2011	**–**	**4,131**	**4,131**
Net book amount at 31 December 2011	**3,577**	**22,725**	**26,302**

	Goodwill £'000's	Exploration and evaluation assets £'000's	Total £'000's
Cost			
At 1 January 2010	4,797	25,123	29,920
Exchange adjustments	390	745	1,135
Acquisitions	–	–	–
Additions	–	1,165	1,165
Transfers	–	–	–
Disposals	(3,662)	(14,051)	(17,713)
At 31 December 2010	**1,525**	**12,982**	**14,507**
Impairment			
At 1 January 2010	–	2,938	2,938
Exchange adjustments	–	87	87
Additions	–	3	3
At 31 December 2010	**–**	**3,028**	**3,028**
Net book amount at 31 December 2010	**1,525**	**9,954**	**11,479**

(1) Transfers represent the reclass of assets to PP&E (note 9)

Notes to the Financial Statements
continued

10 Intangible assets - continued

Group
Goodwill arises on acquisitions accounted for at fair value and consists largely of the synergies expected from combining acquired operations with those of the Group.

The Company has no goodwill.

Exploration and evaluation assets
Exploration and evaluation assets represent the capitalised cost of payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing.

During the period the accumulated carrying amount of the Group's investment in the Kerendan field of £1,246,000 was reclassified from exploration and evaluation assets to tangible fixed assets following the signature of a gas sales agreement for the field.

The Company has no exploration and evaluation assets.

Impairment
Intangible assets are allocated to the cash generating unit ('CGU') identified according to business segment. In assessing whether impairment indications exist in relation to intangible assets the directors have regard to the results of the Group's exploration and evaluation programme and to the most recent review and valuation of the Group's assets prepared independently by its geoscience advisers in competent persons' reports ('CPRs').

CPRs were last prepared for Italy in October 2011 and for Indonesia in September 2011. The values attributed to the Group's assets in the most recent CPRs are very significantly in excess of the carrying amounts of the CGUs, including goodwill. The directors do not therefore consider that any impairment indications exist in relation to the CGUs. However, during the year impairment losses of £1.1 million (2010: £3,000) were recognised in relation to exploration and evaluation assets specifically in relation to the Marciano well. Impairment losses are included under "Exploration Costs" in the Consolidated Income Statement.

The valuation calculations included in the CPRs are entirely dependent on the availability of finance to fund capital expenditure on the development of exploration and evaluation assets. Should such finance not be available the carrying amounts of the Group's exploration and evaluation assets are likely to be impaired to their market value in a distressed sale.

The methodology to arrive at the values attributed to the Group's assets in the CPRs was as follows:

- Net Present Value ('NPV') calculations were prepared for proven contingent resources, including all the Italian licences and the Kerendan Field
- Estimated Monetary Value ('EMV') calculations were prepared for prospective resources, including the Bangkanai and Citarum PSCs. EMV includes an assessment of risk for the geological uncertainties of undrilled prospects as indicated in the CPRs on the Group's assets.

Estimates of the NPV of any project are always subject to many factors and wide margins of error. NPV calculations have been prepared over the period of the PSC/expected production profile and duration of the sales contract. The principal assumptions on which the NPV calculations are based are as follows:

- The Indonesian CPR is based on the assumptions as defined in the plan of development for the Kerendan gas field and a gas price of $4.79/MMBtu, derived from the gas sales agreement for the Kerendan field
- The Italian CPR is based on an oil price of $109/bbl in 2012 with the Brent future curve for 5 years then $80/bbl real, whilst the gas price forecast assumes 80% of the Brent price on an energy equivalent basis
- A discount rate of 10% has been used (2010:10%) which the directors believe to be standard industry practice and approximate to the Group's weighted average cost of capital
- The NPV calculations are most sensitive to the assumptions for production and operating expenditure.

10 Intangible assets - continued

The impairment losses relate to costs of drilling on wells now considered to be non-commercial are detailed in the table below:

	2011 £'000's	2010 £'000's
Indonesia	24	3
Italy	1,076	–

11 Acquisitions

Acquisition of Consul Oil and Gas Ltd ("Consul")

On 4 January 2011, the Group completed the acquisition of 96% of the issued share capital of Consul, an unquoted company with interests in Italy, for a total consideration of £4.64 million and made an offer to acquire the remaining 4%. The consideration was satisfied by the payment in cash of approximately US$2.19 million (£1.41 million) and the issue of 269,127,983 ordinary shares to the vendors at 1.2p each. In addition the Company purchased an existing loan from RAB to Consul of €1.15 million.

On 29 March 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 ordinary shares at 1.2p each.

On 22 August 2011, the remaining 2% of shares in Consul were acquired under compulsory purchase powers, satisfied by the payment in cash of US$46,667 and the issue of 5,555,555 ordinary shares at 1.2p each.

The fair value of the ordinary shares issued as part of the consideration paid was measured using the closing market price of the Company's ordinary shares on the acquisition date.

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

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

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

Notes to the Financial Statements

continued

11 Acquisitions (continued)

Cash flow effect of acquisitions

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

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

The cash consideration paid to obtain control was:

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

11 Acquisitions (continued)

Acquisition of Celtique Energie SpA ("Celtique")

On 18 November 2011, the Group completed the acquisition of the issued share capital and voting rights of Celtique, an unquoted company with interests in Italy, for a total consideration of £5,669 million. The consideration was satisfied by the payment in cash of approximately £3,236 million and the issue of 91,998,582 ordinary shares to the vendors at an average price of 2.71p each.

The fair value of 100% of the assets of Celtique 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	365	5,065	5,430
Current debtors	125	–	125
Cash	128	–	128
Current creditors	(13)	–	(13)
Intercompany payable	(452)	–	(452)
Deferred tax liabilities	–	(1,393)	(1,393)
Net assets	**153**	**3,672**	**3,825**

The directors consider that goodwill of £1,393,000 will arise on the acquisition, consisting largely of the synergies expected from combining the operations of the Group and Celtique.

Cash flow effect of acquisitions

On 18 November 2011, the Group obtained control of Celtique by acquiring 100% of its issued share capital. The fair values of assets acquired and liabilities assumed, relating to that 100%, were as follows:

	£'000's
Exploration and evaluation assets	365
Long term receivables	125
Cash	128
Accounts payable	(13)
	605
less: cash acquired in Celtique	(128)
	477

The cash consideration to obtain control was:

	£'000's
Total paid to vendors	5,669
less: share element therein	(2,432)
Total cash consideration made	3,236

Impact on acquiree of amount paid in the statement of comprehensive income

The values included in the consolidated income statement since 4th January 2011 contributed by Consul was a £10,000 gain and contributed by Apennine Energy Group was a loss of £2.92 million. Had Apennine Oil & Gas SpA (previously known as Celtique) been consolidated from 1st January 2011 the consolidated income statement would have included a loss of £2.92 million.

Notes to the Financial Statements

continued

12 Investment in subsidiaries

Company

	2011 £'000's	2010 £'000's
At 1 January	**24,337**	24,833
Advances to Group Companies	11,590	1,534
Write off on disposals	–	(2,030)
Euro loan to Group Companies	965	–
Acquisition of subsidiaries	4,827	–
At 31 December	**41,719**	**24,337**

The subsidiary undertakings of the Company at 31 December 2011 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 Bangkanai Limited*	Mauritius	Exploration company
Consul Oil & Gas Limited	UK	Holding Company
Apennine Energy SrL*	Italy	Exploration company
Apennine Oil and Gas SpA*	Italy	Exploration company
(formerly known as Celtique Energie SpA)		

*The investments in Mitra Energia Limited, Mitra Energia Citarum Limited, Mitra Energia Bangkanai Limited. Sound Oil Asia Limited, Apennine Energy SrL and Apennine Oil and Gas SpA, held indirectly via Sound Oil International Limited and Consul Oil & Gas 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 and Consul group of companies.

13 Other debtors

Group

	2011		2010	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
Indonesian VAT	–	613	–	591
Italian VAT	763	–	–	–
UK VAT	57	–	29	–
Deferred expenditure	–	–	2,861	–
Other receivables	568	55	50	30
Total	**1,388**	**668**	**2,940**	**621**

Currency analysis

	2011		2010	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
US Dollar	228	661	26	617
Euro	1,039	–	–	–
GBP Sterling	121	7	2,914	4
Total	**1,388**	**668**	**2,940**	**621**

Company

	2011		2010	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
UK VAT recoverable	57	–	29	–
Deferred expenditure	–	–	2,861	–
Other receivables	64	7	1	4
Total	**121**	**7**	**2,891**	**4**

Currency analysis

	2011		2010	
	Current £'000's	Non-current £'000's	Current £'000's	Non-current £'000's
US Dollar	–	–	–	–
GBP Sterling	121	7	2,891	4
Total	121	7	**2,891**	**4**

Indonesian VAT is recoverable on commencement of production and forms part of the overall asset impairment test.

Other current receivables are due within thirty days and non-current receivables are due within one to two years.

Notes to the Financial Statements

continued

14 Cash and cash equivalents

Group

	2011 £'000's	2010 £'000's
Cash at bank and in hand	1,230	870
Cash equivalents:		
Short term deposits	5,056	3,614
Carrying amount at 31 December	**6,286**	**4,484**
being		
in US Dollars	1,119	3,773
in Euros	4,016	–
in Sterling	1,151	711

Company

	2011 £'000's	2010 £'000's
Cash at bank and in hand	36	717
Cash equivalents:		
Short term deposits	5,056	3,614
Carrying amount at 31 December	**5,092**	**4,331**
being		
in US Dollars	638	3,620
in Euros	3,303	–
in Sterling	1,151	711

15 Trade and other payables

Group

	2011 Current £'000's	2010 Current £'000's
Trade payable	1,761	60
Payroll taxes and social security	50	32
Accruals	128	154
Other payables	294	38
Total	**2,233**	**284**

Currency analysis

	2011 Current £'000's	2010 Current £'000's
US Dollar	270	118
Euro	1,902	–
GBP Sterling	285	166
Total	**2,457**	**284**

Company

	2011 Current £'000's	2010 Current £'000's
Trade payables	148	34
Payroll taxes and social security	9	20
Accruals	128	112
Total	**285**	**166**

	2011 Current £'000's	2010 Current £'000's
Currency analysis		
US Dollar	–	–
GBP Sterling	285	166
Total	**285**	166

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

Notes to the Financial Statements

continued

16 Deferred tax assets and liabilities

	2011 £'000's	2010 £'000's
1 January	**1,525**	**4,797**
Acquisitions	2,051	–
Released on disposals	–	(3,662)
Unrealised foreign exchange (decrease)/increase	–	249
31 December	**3,576**	**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:

	2011 £'000's	2010 £'000's
Tax losses	1,637	772

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

17 Provisions

	Employee post employment benefits £'000's	Abandonment £'000's	Total £'000's
At 1 January 2011	**103**	**–**	**103**
Provisions made during the year	37	225	262
Provisions used during the year	–	–	–
Unrealised foreign exchange increase	1	–	1
At 31 December 2011	**141**	**225**	**366**
Non-current	**141**	**–**	**142**
Current	**–**	**225**	**224**
	141	**225**	**366**

Employee post employment benefits

The Group's Indonesian 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.

Abandonment

The provision amount of £225,000 (€268,000) relates to abandonment of the Marciano Well which was classified as non commercial. The costs are likely to be incurred during 2012.

There are no provisions in the parent Company.

18 Capital and reserves

Group

Ordinary shares – 0.1p	Number of shares	2011 £'000s	Number of shares	2010 £'000s
Issued	1,833,199,548	1,833	692,427,348	692

Company

Ordinary shares – 0.1p	Number of shares	2011 £'000s	Number of shares	2010 £'000s
Issued	1,833,199,548	1,833	692,427,348	692

Share option schemes

Options to subscribe for the Company's shares were granted to certain executives in 2010 and 2011 (note 23).

Reserves

Group

	Foreign currency reserve £'000's	Share capital £'000's	Share premium £'000's	Accumulated deficit £'000's	Total £'000's
At 1 January 2011	**3,741**	**692**	**35,764**	**(22,482)**	**17,715**
(Loss) for the year	–	–	–	(6,259)	(6,259)
Foreign currency translation	27	–	–	–	27
Shares issued	–	1,141	17,107	–	18,248
Acquisitions of non-controlling interests without a change in control	–	–	–	(125)	(125)
Share based payments	–	–	–	260	260
At 31 December 2011	**3,768**	**1,833**	**52,871**	**(28,606)**	**29,866**
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**

Notes to the Financial Statements

continued

18 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 deficit £'000's	Total £'000's
At 1 January 2011	**692**	**35,764**	**(4,996)**	**31,460**
(Loss) for the year	–	–	(3,266)	(3,266)
Shares issued	1,141	17,107	–	18,248
Share based payments	–	–	260	260
At 31 December 2011	**1,833**	**52,871**	**(8,002)**	**46,702**
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**

Share issues

On 4 January 2011, the Company placed 311,251,000 new ordinary shares at 1.2p per share, raising approximately £3,735 million and entered into a £10 million SEDA equity placing facility which can be drawn down at the discretion of the Company.

On 4 January 2011, the Company issued 269,127,983 new ordinary shares at 1.2p per share, equating to £3,230 million in part consideration to acquire 96% of the Consul Oil & Gas Group.

On 11 January 2011, the Company issued 12,500,000 new ordinary shares at 1.2p per share, equating to £0.150 million as compensation to past employees following acquisition of the Consul Oil & Gas Group.

On 17 January 2011, the Company placed 230,000,000 new ordinary shares at 1.4p per share, raising approximately £3,220 million.

On 28 February 2011, the Company drew down £1.0 million of the SEDA equity placing facility by way of issuing 38,800,485 new ordinary shares at an average of 2.557p per share.

On 29 March 2011, the Company issued 5,555,555 new ordinary shares at 1.2p per share, equating to £0.067 million in part consideration to acquire a further 2% of the Consul Oil & Gas Group.

On 18 April 2011, the Company drew down £2.8 million of the SEDA equity placing facility by way of issuing 54,337,384 new ordinary shares at an average of 5.153p per share.

On 21 April 2011, the Company issued 2,390,000 new ordinary shares at 1.5p per share to cover the exercise of share options issued to various Indonesian employees. These were evaluated at £0.036 million, and options were immediately exercised.

18 Capital and reserves - continued

On 22 August 2011, the Company issued 5,555,555 new ordinary shares at 1.2p per share, equating to £0.067 million in part consideration to acquire the final 2% of the Consul Oil & Gas Group.

On 9 November 2011, the Company issued 91,998,582 new ordinary shares at an average of 2.71p per share, equating to £2,493 million in part consideration of the purchase price of Celtique Energie SpA.

On 17 November 2011, the Company drew down a further £0.35 million of the SEDA equity placing facility by way of issuing 13,461,538 new ordinary shares at 2.6p per share.

On 9 December 2011, the Company placed 100,000,000 new ordinary shares at 2p per share and 60,000,000 associated warrants exerciseable at 2p, raising £2 million, with funds managed by Astin Capital Management Limited.

On 30 December 2011, the Company granted options on 5,794,118 new ordinary shares at an average of 1.69p per share to various senior employees. These were evaluated at £0.098 million, and were described as immediately tradeable.

The proceeds of the various placings and drawdowns will be used to fund the enlarged group's combined work programme and ongoing costs.

19 Related party disclosures

For the year ended 31 December 2011

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**	
		2011	**2010**
Sound Oil International Limited	British Virgin Islands	100	100
Sound Oil Asia Limited	British Virgin Islands	100	100
Consul Oil and Gas Limited	UK	100	0
Apennine Energy SrL	Italy	100	0
Apennine Oil & Gas SpA formerly Celtique Energie SpA	Italy	100	0
Mitra Energia Limited	Mauritius	100	100
Mitra Energia Bangkanai Limited	Mauritius	100	100
Mitra Energia Citarum Limited	Mauritius	100	100

The Group has investments in joint venture undertakings which operate the Bangkanai PSC (5% working interest) and the Citarum PSC (20% working interest) in Indonesia and in two development licences (95% in Sambucheto and 50% in Villa Gigli) and three exploration licences (95% in Monteluro and 50% in Convento and Posta Del Giudice) in Italy.

Notes to the Financial Statements

continued

19 Related party disclosures - continued

Terms and conditions of transactions with related parties

There were no sales or purchases to or from related parties (2010: none). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2011, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2010: 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.

Key Management

There are three key management personnel other than directors of the Company (three in 2010). Details of the remuneration of the Directors are set out in the Report of Directors' Remuneration (page 16).

The tables below sets out details of the emoluments of the Group's key management personnel including directors.

	Note	2011 £'000's	2010 £'000's
Salaries & employee benefits		1,062	598
Share based payments	23	260	16
Total		**1,322**	**614**

Directors' interest in employee share options

Share options held by the executive member of the Board of Directors have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price pence	Number 2011	Number 2010	Number 2007	Number 2006
2007	2018	4.38	–	–	666,666	–
2007	2019	4.38	–	–	666,666	–
2007	2020	4.38	–	–	666,666	–
2010	2013	1.50	–	1,725,000	–	–
2011	2016	5.60	7,500,000	–	–	–

Key management's interest in employee share options

Issue date	Expiry date	Exercise price pence	Number 2011	Number 2010	Number 2007	Number 2006
2006	2012	4.75	–	–	–	500,000
2007	2018	4.38	–	–	416,667	–
2007	2019	4.38	–	–	416,667	–
2007	2020	4.38	–	–	416,667	–
2010	2013	1.50	–	1,035,000	–	–
2010	2013	1.50	–	1,035,000	–	–
2011	2016	2.75	5,800,000	–	–	–
2011	2016	2.18	3,300,000	–	–	–
2011	2016	2.75	1,820,000	–	–	–

20 Financial instruments risk management objectives and policies

A financial instrument is defined as any contract that gives rise to a financial asset of one equity and a financial liability or equity instrument of another entity. The Group's financial instruments comprise of trade payables, receivables, cash and short term deposits. The Group has no borrowings. The main purpose of the financial instruments is to finance the Group's operations. The fair value of the financial instruments is their carrying value, with the carrying value amounts included in the Group Balance Sheet with further analysis in note 13 (Other debtors) note 14 (Cash and cash equivalents) and note 15 (Trade and other payables).

The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The Board of directors reviews and agrees policies for managing each of these risks which are summarised below:

Interest rate risk

The Group's exposure to the risk of changes in market interest rate risks relates primarily to the Group's deposit accounts and short term debt instruments.

The Group's policy is to manage this exposure by investing in short term low risk bank deposits.

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no impact on the Group's equity.

	Increase/ (decrease) (%)	Effect on profit before tax £'000's
2011		
Sterling	10	2
US Dollar	10	–
Euro	10	–
Sterling	(10)	(2)
US Dollar	(10)	–
Euro	(10)	–
2010		
Sterling	10	1
US Dollar	10	1
Sterling	(10)	(1)
US Dollar	(10)	(1)

Notes to the Financial Statements

continued

20 Financial instruments risk management objectives and policies - continued

Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide return for shareholders, benefit for other stakeholders and to maintain optimal capital structure and 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 of Directors where applicable.

The Group monitors capital on a short and medium term view. During 2011 the Group's strategy was to operate with no borrowings and to raise capital funding through the issuing of new shares. Management continue to review this policy. The table below illustrates the changes in capital during the year.

	Notes	2011 £'000's	2010 £'000's
Borrowings		–	–
Cash and cash equivalents	14	6,286	4,484
Net cash excluding borrowings		6,286	4,484
Total capital excluding reserves:	18		
Equity share capital		1,833	692
Equity share premium		52,871	35,764
Shareholders equity		**29,866**	**17,715**

21 Foreign currency risk

As a result of the bulk of the Group's operations being denominated in Euros and US Dollars, the Group's balance sheet can be impacted by movements in these exchange rates against GBP. 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 Euro or US dollar deposits rises or falls pro rata to the currency movements, so the purchasing power of the respective currency remains the same.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar or euro exchange rates, with all other variables held constant, of the Group's profit or loss before tax.

	Increase/ (decrease) in Euro rate	Effect on profit or loss before tax £'000's	Increase/ (decrease) in US dollar rate	Effect on profit or loss before tax £'000's
2011				
	5%	(692)	5%	(30)
	(5%)	763	(5%)	34
2010				
		No exposure to Euro	5%	(315)
			(5%)	350

Credit risk

The Group currently has no sales or customers. The maximum credit exposure at the reporting date of each category of financial assets above is the carrying value as detailed in the relevant notes. The Group's management considers that the financial assets that are not impaired for each of the reporting dates are of good credit quality. The credit risk is considered negligible because the counterparties are financial institutions with high credit ratings.

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
2011				
Cash and short term deposits				
GBP Sterling	1,151	–	1,151	0.53%
Euro	3,303	713	4,016	0.89%
US$	602	517	1,119	0.15%
Total	**5,056**	**1,230**	**6,286**	
2010				
Cash and short term deposits				
GBP Sterling	711	–	711	0.53%
US$	2,903	870	3,773	0.15%
Total	**3,614**	**870**	**4,484**	

US$ cash balances have been converted at the exchange rate on 31 December 2011 of US$1.5456/£1.00 (2010: US$1.5471/£1.00)

Euro cash balances have been converted at the exchange rate on 31 December 2011 of Euro 1.1936/£1.00. There were no holdings of Euro in 2010.

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 represent floating rate cash assets maturing within 3 months amount to £5,056,000 (2010: £3,614,000).

Cash on which no interest is received is £1,230,000 (2010: £870,000) and 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 a Long Term Incentive Plan under which share options have been granted to the executive team.

The expense recognised for employee services received in the Consolidated Income Statement is as follows:

Group

	2011 £'000's	2010 £'000's
Expense arising from equity settled share options	260	16

Company

	2011 £'000's	2010 £'000's
Expense arising from equity settled share options	260	16

The fair value of equity-settled share options granted is estimated at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted.

	Granted	Period (years)	Price (pence)
2011			
	9,500,000	5	5.60
	1,000,000	5	4.95
	13,260,000	5	2.75
	1,000,000	5	2.20
	3,300,000	5	2.175
Total	**28,060,000**		
2010			
	7,220,000	**3**	**1.50**

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.

	2011	2010
Share Options outstanding at the start of the year	14,070,000	6,850,000
Share options granted	28,060,000	7,220,000
Share options forfeited	–	–
Share options expired	(2,100,000)	–
Share options exercised	(2,390,000)	–
Share options outstanding at the end of the year	37,640,000	14,070,000

Notes to the Financial Statements

continued

24 Commitments and guarantees

At 31 December 2011 the Group had capital commitments of £1,889,000 (2010: £1,820,000). These relate to the Citarum PSC obligations in Indonesia. The Company had no capital commitments in 2011 (2010: None).

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.

25 Post balance sheet events

Share issues

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

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 2012

Preliminary – May 2013

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