ANNUAL REPORT 2012

SOUND OIL plc
oil and gas exploration

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 substantial and sustainable growth in value through an active drill programme and a significant reshaping of its asset portfolio.

Highlights

EXCITING EXPLORATION UPSIDE CONFIRMED AT BADILE (PO VALLEY, ITALY)

US$400m NPV10

175 Bscf (P50) prospect with further upside potential

100% working interest

THREE OTHER GAME CHANGING PROJECTS SPANNING 2013 TO 2015

Nervesa (100%) – US$57m NPV10

Laura (100%) – US$86m NPV10

Zibido (100%) – US$265m NPV10

HIGH UPSIDE ITALIAN PORTFOLIO (18 LICENCES WITH ONE PENDING APPLICATION)

17.5 MMboe (P50) discoveries with NPV10 of US$300m

96 MMboe (P50) exploration portfolio

STRONG RECENT PROGRESS

First production and revenue from Rapagnano achieved on 15 May 2013

Nervesa rig arrived on site in anticipation of appraisal drilling

REORGANISED BOARD AND EXECUTIVE TEAM

EUROPEAN AND MEDITERRANEAN STRATEGY FOCUSED ON OPERATED AND ACCRETIVE GROWTH

Chairman's Statement

It is a pleasure and a privilege to be writing this introduction to the Sound Oil plc 2012 annual report as your new Chairman following the retirement of Dr Gerry Orbell as Chairman and Chief Executive last October. On behalf of the Board and shareholders, I would like to thank Gerry for his contribution to Sound Oil and wish him well for the future.

Last year Sound Oil embarked upon an exciting journey, which commenced with the divestment of our non-operated Indonesian assets. This has resulted in the re-focusing of the Company's strategy toward the European and Mediterranean region and has recently seen first gas from Rapagnano, giving Sound Oil its first revenue since its IPO in 2005.

On the organisational side, the year has also been one of significant positive change for the Company with renewed focus on its cost structure, its portfolio of assets and the search for other opportunities in its chosen geography. From a corporate point of view I am very pleased to report that the new Executive Team under CEO James Parsons is driving the business of the Company forward with energy and is focused on meeting our immediate goals and implementing our plan for growth.

In all of our activities our prime concern is the health and safety of our employees, contractors and stakeholders and the protection of the environment in which we operate. This approach has resulted in all our 2011 and 2012 activities having been executed without a lost time incident.

2012

The sale of the Company's Indonesian portfolio for a mixture of cash and deferred consideration has been transformational in reducing our cost exposure. This major strategic move was initiated when it became clear that the operator of the Citarum Production Sharing Contract ("Citarum PSC") was experiencing serious difficulties in drilling two commitment wells, making substantial unpredictable cost overruns likely, which would have put unacceptable pressure on the Company's cash resources without delivering positive subsurface results. The divestment was achieved in two phases. On the 18th October, the Company announced the sale of its 20% working interest in the Citarum PSC to the operator Pan Orient Energy (Citarum) PTE Limited in return for the waiving of \$2.4m (£1.5m) of the Company's immediate cash obligation and a possible further consideration of \$5m (£3.1m) and \$16m (£10m) in cash, contingent on revenues from the first two discoveries on the PSC. The second transaction followed on 12th December when the Company sold its subsidiary Mitra Energia Bangkanai Ltd ("MEB") to Salamander Energy Plc. MEB's only asset was a 5% carried interest in the Bangkanai Production Sharing Contract ("Bangkanai PSC") containing the Kerendan gas field. The total consideration of up to \$7.1m (£4.4m) was structured as \$4.5m (£2.8m) cash payable immediately, \$1.1m (£0.7m) cash payable on the later of first gas from Kerendan or the signature of a new gas sales agreement for the currently unsold Kerendan gas and up to \$1.5m (£0.9m) cash payable as a royalty from revenues on any future discovery on the Bangkanai PSC. Our cost exposure was further reduced through the closure of our Indonesian office.

In the middle of the year, with a view to funding the ongoing cash requirements on the Indonesian assets, the Company announced a private placement with Manxdale Holdings Limited in combination with an open offer to existing shareholders. The placement, which involved the Company issuing 774,341,464 new ordinary shares, raised a gross consideration of £5.63m in instalments over seven months to February 2013 at an average Volume Weighted Average Price of 8.073p per share (adjusted for the January 2013 share consolidation). At the end of the drawdown period the open offer was made in the first quarter of 2013, raising a further approximately £50,000.

Later in 2012, two asset- specific funding arrangements were put in place to support the maturing of our Italian portfolio. The first of these, in August, involved the Milan-based engineering company CSTI Srl ("CSTI") funding part of the development cost of the Rapagnano gas field. The second, in October 2012, also involved CSTI, this time in funding part of the Nervesa appraisal well cost. These arrangements have significantly reduced the Company's cash exposure whilst leaving us in full operational control and owning the major proportion of the value of the assets.

In addition, on 4th January 2013, the Company executed a ten for one share consolidation. The consolidation is expected to assist in reducing the volatility in our share price and to enable a more consistent valuation of the Company.

2013

As a result of these transactions the Company is now focused firmly on growth firstly through developing its exciting Italian assets, including the Nervesa and Laura discoveries and the Badile and Zibido exploration prospects, and secondly by seeking to grow both the size and diversity of the portfolio, and thus our value per share, by acquiring companies and assets in the Mediterranean region that meet our strict criteria for operated and accretive growth. To support the Chief Executive, we are actively seeking to expand the Executive Team with the addition of an experienced Business Development Officer and a Chief Financial Officer. Under the excellent leadership of Luca Madeddu, our Managing Director in Italy, we have relocated our Italian office to Milan to improve our access to the Italian market for skilled oil and gas industry professionals and oilfield services. Luca has already succeeded in putting a local core team in place all of whom have first-hand experience of operating in the Italian oil and gas industry.

In short, the Company is now well positioned with a clear growth strategy, strong financial and operational discipline, some £6.9m cash in the bank and an attractive Italian portfolio with game-changing potential across which we control our own destiny.

As I write, 2013 already promises to be a significant year for the Company, having reached the strategic milestone of delivering first gas at the Rapagnano Field so earning the Company's first revenue since our listing in 2005. The Company is about to begin drilling our first appraisal well on the Nervesa gas discovery. Assuming a successful appraisal well, we will prepare for a second appraisal well and commence development planning to move this flagship project into production as soon as possible. We are also pressing ahead with plans to appraise Laura, a significant offshore discovery, and with our exciting onshore exploration prospects Badile and Zibido, we are preparing for an ambitious drilling programme in 2014.

In closing, I would like to thank the Board and all the Company's staff for their hard work, commitment and enthusiasm throughout 2012 and to thank our shareholders for their continued support.

Andrew Hockey

Chairman
29 May 2013

Financial Review

Accounting Standards

The Group has prepared its 2012 full year accounts under International Financial Reporting Standards (IFRS), as adopted by the European Union.

Income Statement

Following the disposal of the Group's interests in Indonesia, impairments of £1,453,000 in Italy resulted in a loss before tax of continuing operations of £4,804,000 compared with £5,551,000 in 2011.

The significant impairment related primarily to the Montemarciano well which was tested and found to have smaller than originally envisaged commercial quantities of gas.

Administrative expenses incurred as part of continuing operations during the year were £3,176,000, an increase from £2,259,000 in 2011. In the year, Sound Oil incurred significant one-off expenditures relating to the exit from Indonesia and the departure of Gerry Orbell. 2013 administrative expenditures are expected to reduce to close to 2011 levels.

The loss for the period from discontinued operations of £8,934,000 consisted primarily of write-downs relating to the disposal of the Group's interest in the Citarum PSC in Indonesia, partially offset by the recognition of foreign exchange gains on Sound Oil's Indonesian investments which had previously been carried in the foreign exchange reserve.

The loss on disposal on discontinued operations arose primarily as no value has been recognised in the financial statements in respect of contingent cash consideration of up to $18,600,000 in aggregate which may be receivable by the Group in the event of first gas from the Kerendan field and/or future discoveries.

Cash flow/financing

During 2012, £6,804,000 net cash proceeds were raised from new equity and £3,913,000 was spent on exploration and development costs.

This resulted in a net cash inflow before foreign exchange movements of £1,010,000 (2011: inflow £2,638,000).

The Group's year end cash balance was £6,909,000 (2011: £6,286,000). At 22 April 2013, Sound Oil had a cash balance of £6,900,000.

The Group continues to have no long term 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 revenues from the Rapagnano gas field, onshore Italy, which part funds the cost of the Italian office. The directors have considered the Group's cash flow forecasts for the period to the end of June 2014. Forward cash flow projections show that forecast commitments will be less than the funds available as at 31 December 2012.

As a result, the Group has sufficient cash resources to undertake its work programme over the next twelve months.

Balance Sheet

Exploration and evaluation expenditure in 2012 was £4,247,000 of which £1,289,000 was in Italy with the balance being incurred in Indonesia prior to the disposal of the Company's interests in Citarum.

Gross disposals of £15,970,000 were incurred during the year as the Group disposed of its interests in the Citarum and Bangkanai PSCs in Indonesia. Of this, £3,055,000 had been impaired in previous years.

The carrying value of the Rapagnano and Montemarciano developments were reviewed for transfer to development assets in 2012. The review resulted in a write-down of £1,453,000. Abandonment provisions against both these licences and also Marciano were also reviewed with an increase of £341,000 being booked against the three licences.

In 2011, £1,246,000 of Bangkanai expenditure was transferred to development expenditure from exploration and evaluation. This balance was written off in 2012 following the disposal of the Group's interest in the Bangkanai PSC.

Goodwill of £1,525,000 and related deferred tax liabilities were also written off during the year following the Indonesian disposals.

Shareholders' equity was reduced by the loss for the year, offset by an increase reflecting the new equity issued during 2012, resulting in a decrease to £21,514,000 (2011: £29,866,000).

Technical Review

Sound Oil currently has interests in 18 licences in Italy: 2 production concessions, 8 permits and 8 exclusive permit applications. In addition one concession application is pending on an existing permit. The Company's interests are held through its wholly-owned Italian subsidiary companies Apennine Energy SpA and Apennine Oil & Gas SpA (Fig. 1).

Fig 1

Production

Rapagnano Concession (Sound Oil 100%)

The concession, located in Marche Region, central Italy (Fig. 2), was awarded in July 2011 as part of a marginal fields development programme subject to Environmental Impact Assessment. It contains the Rapagnano-1 gas discovery made by ENI in 1952 and its associated production facilities. The re-development plan included re-establishing production from a lower shut-in reservoir zone and the re-vamping of surface facilities. In May 2012 the Company submitted a field re-development programme to UNMIG[1] and an associated EIA to the Marche regional authorities. The concession was finally awarded in November 2012 and a gas sales agreement was signed with the local provider STECA.

Fig 2

In January 2013 the Company successfully re-entered the well using coiled tubing, isolated the upper perforated interval (1,418-1,430 m, A2 reservoir) and re-opened the lower perforated interval (1,652.5-1,658.5 m, Sabbie reservoir). The Sabbie reservoir was tested for two three-hour drawdown periods (Fig. 3). The first period on 1/8" choke established a commercial stabilized rate of 9,500 Scmd (0.34 MMscfd) with a flowing well head pressure of 79.2 Bar (1148 psi). No water was produced during the test. The second period on 3/16" choke confirmed an increased stabilized rate of 13,600 Scmd (0.48 MMscfd) with a flowing well head pressure of 44.5 Bar (645 psi). The gas was also confirmed as dry, with no trace of water from the reservoir. All the rate and pressure data obtained from the flow periods were consistent with the Company's reservoir model for production of 1.3 Bscf from the field over thirteen years.

Fig 3

In June 2012 Sound Oil entered into a contract with local oilfield services company CSTI for part-funding of approximately 50% of the project capital expenditure to include the facilities

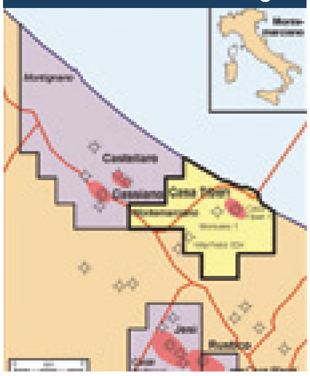
Fig 4

re-vamping, construction and production commissioning (Fig 4). Work on the surface engineering was started immediately after conclusion of the well operations and first gas was delivered on 15 May 2013.

San Lorenzo Concession (Montemarciano Permit, Sound Oil 100%)

The permit is located in Marche Region, central Italy (Fig. 5). Sound Oil 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.

Fig 5



The well was drilled in November 2011 to a target depth ("TD") of 715 m in the Lower Pliocene Cellino sand objective. 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 the perforation of a single zone 571-581 m measured depth ("MD"). 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. A further re-entry of the well was undertaken in March 2012 in order to conduct a commercial rate test. The well flowed as planned at a stabilized rate of 8,000 Scmd (0.28 MMscfd) on 8/64" choke with a flowing tubing head pressure of 54 bar.

Following this successful test program an application for a production concession was submitted in May 2012 to UNMIG together with an associated EIA to the Marche regional authorities. Final approvals are expected in 2013. The development is a candidate for possible re-use of redundant Marciano production facilities.

Appraisal and Development

Nervesa Field, Carita Permit (Sound Oil 100%)

The permit is located in Veneto Region, northeast Italy (Fig.6). The permit contains the Nervesa gas discovery that was drilled by ENI in 1985 with two wells (Nervesa-1 and Nervesa-1dir A) proven gas-bearing in several Miocene sand intervals. One interval, designated Level 9a, was tested in the Nervesa-1dir A well over the interval 1,822-1,827 mMD and flowed after acidification at a rate of 97,100 Scmd (~3.3 MMscfd) on ¼" choke. This reservoir zone was put into production and produced 18.2 MMscm (~0.6 Bscf) during 1989-1990. Remaining P50 contingent resources[2] for the field have been estimated by Fugro-Robertson[3] to be 20.7 Bscf.

Fig 6

In May 2012 the Company submitted an application to drill an appraisal well on the field to UNMIG and in July 2012 submitted an EIA to the Treviso provincial authorities, revised for the use of a new generation hydraulic rig with reduced environmental footprint (Fig. 7). The EIA was approved in November 2012. Subsequently final approvals from the Veneto regional authorities and UNMIG were received in March 2013. The well, designated Sant'Andrea-1, is expected to spud in June 2013.

Fig 7

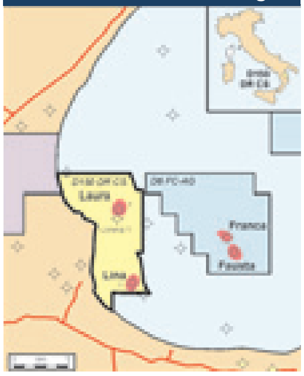
Sant'Andrea-1, will target the crest of the structure in a location approximately 1 km north of the original discovery wells. In this position the well will also encounter additional higher reservoir objectives which are prospective for P50 resources of 9.5 Bscf. Dependent on results the Company will plan to drill additional appraisal wells and/or file an application for a production concession.

Technical Review (continued)

D150 DR-CS (Sound Oil 100%)

The permit is located in the Gulf of Taranto, offshore southern Italy (Fig. 8). It contains the Laura gas discovery, with P50 contingent resources estimated by Fugro Robertson of 30 Bscf. The field was discovered in 1980 by ENI/Agip and is located in 197 m water depth approximately 4 km from the shore. The permit award for this project is pending and expected in 2013.

Fig 8



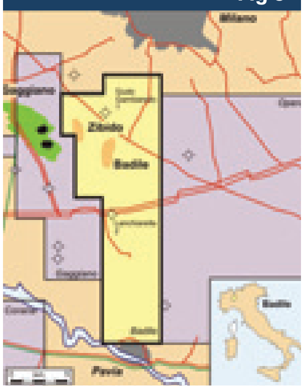
Sound Oil's strategy is to drill an appraisal well on the discovery. In order to reduce potential drilling, development and operational costs the Company intends to drill the discovery from an onshore location with a long reach deviated well similar to the Wytch Farm oil field development in the English Channel, UK. The company has commenced feasibility studies for this strategy and intends to apply to drill the well immediately on award of the permit, expected in 2Q 2013, in order to drill in 2014.

Other Projects

An application to drill an appraisal well on the Strombone oil discovery (Torrente Alvo Permit) was submitted to UNMIG and the Basilicata regional authorities in June 2012.

Exploration

Fig 9



Badile Permit (Sound Oil 100%)

The Badile permit is situated in Lombardy Region, northern Italy (Fig. 8). The principal play is gas, condensate and oil, in deep Triassic dolomites and limestones. The permit is adjacent to the Gaggiano oil field, 30 km southeast from the Villafortuna-Trecate oil and gas fields (estimated reserves 275 MMboe) and 40 km southwest of the Malossa gas field (cumulative production 177 Bscf with associated light condensate).

Two large prospects have been identified in the permit area, Badile and Zibido. Badile, structurally similar to Malossa, has P50 prospective resources[2] estimated by ERC-Equipoise[4] to be 175 Bscf in the main Upper Triassic reservoir. 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 in 2Q 2013 with a target to drill the well in 2014. Zibido, structurally similar to Gaggiano, has P50 prospective resources[2] estimated by Fugro Robertson[3] to be 130 Bscf (or 16 MMbo oil case) in the deeper Middle Triassic reservoir. Additional 3D seismic data will be purchased over the Zibido prospect with the aim to define a suitable drilling location and submit a further drilling application by year-end.

Notes:

1 UNMIG (Ufficio Nazionale Minerario per gli Idrocarburi e le Georisorse) the responsible body for petroleum exploration and production activities in Italy, a division of the Ministry of Economic Development Department of Energy.

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 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 Reports of July 2010 and October 2011.

4 ERC-Equipoise Limited is an independent petroleum consultancy company providing resource and reserve assessments. The figures quoted here are taken from their interpretation report of December 2011.

Abbreviations:

Bopd:	Barrels of oil per day.
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).
MMscfd:	Million standard cubic feet of gas per day
MMscm:	Million standard cubic meters of gas.
Mscf:	Thousand standard cubic feet of gas.
Scfd:	Standard cubic feet of gas per day.
Scmd:	Standard cubic meters of gas per day.

Statement of Proved and Probable Reserves

The Group's proved and probable hydrocarbon reserves as at 31 December 2012 were:

	Oil (MMbo)	Gas (Bscf)	MMboe
As at 31 December 2011	0.070	6.685	1.184
Additions:			
Rapagnano Field, Italy	–	1.3	0.217
Disposals:			
Kerendan field, Indonesia	(0.070)	(6.685)	(1.184)
As at 31 December 2012	–	1.3	0.217

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

Andrew Hockey, Chairman

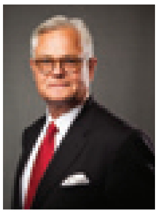
Chairman of Exploration and Production Technical Committee
Chairman of Health, Safety and Environment Committee
Andrew has 30 years technical and managerial experience in the oil and gas industry gained in the UK and internationally with Petrofina, Triton, Monument, Lasmo, Eni and Fairfield Energy. Andrew holds a BA in Geology from Oxford University and an MSc in Petroleum Geology from Imperial College.

James Parsons, Chief Executive

James Parsons has 20 years' experience in the fields of strategy, management, finance and corporate development in the energy industry. James Parsons was appointed Chief Executive Officer in October 2012.

James started his career with the Royal Dutch Shell group in 1994 and spent 12 years with Shell working in Brazil, the Dominican Republic, Scandinavia, Holland and London. Leading up to 2006 (when he left Shell to join Inter Pipeline Fund), James held various positions in Shell's exploration and production business, latterly as Vice President, Finance, of New Business. James joined Sound Oil initially as Chief Financial Officer in 2011 from the European division of Inter Pipeline Fund, a Toronto-listed resources business, where he held the position of Finance and Corporate Development Director of Inter Pipeline Europe. James is a qualified accountant and has a BA Honours in Business Economics

Michael Nobbs, Non-Executive Director



Chairman of Remuneration and Nominations Committee
Member of Audit Committee
Michael Nobbs has acted as a professional Independent Public Company Director across the Oil / Gas and Alternative Energy sectors for the past 10 years. Michael is a founding Director of Sound Oil and has 35 years' experience in investment banking, with a specific focus on project finance and mergers and acquisitions. He was managing director and senior credit officer for Citigroup and the group finance director for Tishman International Companies, and has held positions in London, New York and Los Angeles. Present and recent Companies served include Caspian Energy, Ithaca Energy, GTL Resources, Plasco Energy, Mart Resources and Illinois River Energy. Michael serves on a variety of Board Committees, including Audit, Nominations, Remuneration, Investment and Special Situations, and has experience across AIM , TSX and TVX listed Companies. In addition, Michael provides financial advisory services to private equity funds. He is a graduate of Trinity College, USA.

Tony Heath, Non-Executive Director

Chairman of Audit Committee
Member of Remuneration and Nominations Committee
Tony Heath has over 30 years financial and general management experience in the oil and gas industry across a variety of roles, specialising in oil and gas exploration. 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.

Report of the Directors

The directors submit their report and the audited accounts for the year ended 31 December 2012.

Results and dividends

The Group's loss after tax for the year amounted to £13,738,000 (2011 loss: £6,264,000). 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 2,870,128,815.

The authority given to the directors to allot shares at the 2012 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 rights 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 10% of the issued share capital.

Directors

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

Iham Habibie (resigned 12 December 2012)
Tony Heath
Andrew Hockey
Michael Nobbs
Gerry Orbell (resigned 10 October 2012)
James Parsons (appointed 10 October 2012)

Substantial Shareholders

At 30 April 2013 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
HSDL Nominees Limited	54,187,280	18.84%
TD Direct Investing Nominees (Europe) Limited	45,690,499	15.89%
Barclayshare Nominees Limited	38,146,202	13.26%
Investor Nominees Limited	20,377,358	7.08%
L R Nominees Limited	17,473,814	6.08%
HSBC Client Holdings Nominee (UK) Limited	16,614,397	5.78%
BBHISL Nominees Limited	8,650,000	3.01%

Report of the Directors (continued)

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 2012	Date of this report
Michael Nobbs	252,954	252,954
Tony Heath	212,758	212,758
James Parsons	199,537	199,537
Andrew Hockey	12,500	12,500

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 6.

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 2012 the number of creditor days in relation to trade creditors outstanding at the period end were 30 days (2011: 30 days). The Group places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, 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.

Health and Safety

The Board of Sound Oil plc considers the health and safety of its employees, contractors and all stakeholders to be paramount and is determined to protect the environment in which it works. In 2011 Sound Oil convened a Board Committee dedicated to ensuring the application of our HSE policies across the company. This Committee has continued to work through 2012. The table below sets out our operational HSE performance for 2011 and 2012, showing us continuing to execute our operations without a Lost Time Incident occurring. We are pleased with this performance and look forward to maintaining these standards through 2013.

Operations Type	2012 Operations (Hours)	2012 Lost time Incidents* (Number)	2012 Lost time Incidents* (Hours)	2011 Operations (Hours)	2011 Lost time Incidents* (Number)	2011 Lost time Incidents* (Hours)
Site Construction	–	–	–	179	–	–
Drilling	–	–	–	599	–	–
Well Testing	133	–	–	356	–	–
Facilities Construction	24	–	–	–	–	–
Production Operations	–	–	–	–	–	–
Totals	**157**	**–**	**–**	**1,134**	**–**	**–**

* Lost Time Incident: any work related injury or illness which prevents that person from doing any work the day after the accident (as defined by the International Association of Oil and Gas Producers Glossary of HSE Terms,1999)

Exploration and Production Technical Committee

During 2012 a board level Exploration and Production Technical Committee ("EPTC") was created to provide subsurface, technical, and operational oversight of and support to the Company's executive as Sound Oil moves its existing asset base from exploration, appraisal and development to first production as an active operator. The EPTC is also routinely involved in the technical, geological and operational screening of growth opportunities.

The CEO attends all EPTC meetings along with other Executive Team members who are invited from time to time depending on the requirement for specialist input. The EPTC has formal monthly meetings which are minuted and has access to an annual budget for use in securing relevant professional assistance.

The CEO makes recommendations to the Board on all relevant matters through the EPTC which is headed by the Chairman of the Board, and may include up to two further appropriately qualified Board level members or consultant professionals.

By order of the Board

Stephen Ronaldson

Company Secretary

29 May 2013

Report on Directors Remuneration

Compliance

The remuneration of all executive directors and the Executive Team is determined by the Remuneration and Nominations 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, and Tony Heath. None of the executive directors of the Company is involved in determining his own remuneration.

The Committee has the authority to seek independent advice as required.

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

Remuneration approach

A Comprehensive Compensation Framework was put in place in 2011.

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 2013 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 maybe 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. A contributory pension scheme, compliant with UK legislation, was established in 2012 for UK employees.

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. Both Corporate and Individual key performance indicators (KPIs) are set at the beginning of each year's budget process. Bonuses may be awarded up to a maximum of 50% and 100% of base salary depending on the seniority of the employee and following a review of corporate and individual performance against the KPIs.

Contracts of employment

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

- James Parsons has a contract of employment with a notice period for termination of 6 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, James Parsons and each of the non-executive directors has the option to give notice and receive a lump sum equivalent to 12 months salary.

Summary of actual remuneration of directors

	Salary	2011 Performance Award	2012 Performance Award	Contractual Severance Payment	Total	2011
Executive directors						
James Parsons (ii)	52	–	–	–	52	–
Gerry Orbell (i)	200	75	–	221	496	486
Non-executive Directors and Chairman						
Andrew Hockey (iii)	40	–	–	–	40	19
Michael Nobbs	31	–	–	–	31	30
Tony Heath	31	–	–	–	31	9
Ilham Habibie (iv)	29	–	–	–	29	30
Total for all directors	**383**	**75**	**–**	**221**	**679**	**574**

(i) Left the Company on 11 October 2012.

(ii) From 10 October 2012 in role as Chief Executive Officer (annual salary as Chief Executive Officer is £225,000 with a 4% pension contribution).

(iii) Non-executive director from 1 January 2012 to 10 October 2012 and Chairman from 11 October 2012 (annual salary as Chairman is £50,000) plus a further £20,000 as Chairman of Exploration and Production Technical Committee.

(iv) Left the Company on 12 December 2012.

Report on Directors Remuneration (continued)

Share Options

At 31 December 2012 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 2012	Options held at 31 December 2012
J. Parsons	5.09.2011	05.09.2012-04.09.2016	21.75	110,000	110,000
	5.09.2011	05.09.2013-04.09.2016	21.75	110,000	110,000
	5.09.2011	05.09.2014-04.09.2016	21.75	110,000	110,000
	1.03.2012	01.03.2013-28.02.2018	25.00	–	150,000
	1.03.2012	01.03.2014-28.02.2018	25.00	–	150,000
	1.03.2012	01.03.2015-28.02.2018	25.00	–	150,000
	26.10.2012	26.10.2012-25.10.2016	16.50	–	333,333
	26.10.2012	26.10.2013-25.10.2016	16.50	–	333,333
	26.10.2012	26.10.2014-25.10.2016	16.50	–	333,334
J A.Heath	28.02.2007	28.02.2008-28.02.2017	43.75	33,333	33,333
	28.02.2007	28.02.2009-28.02.2017	43.75	33,333	33,333
	28.02.2007	28.02.2010-28.02.2017	43.75	33,334	33,334
	27.05.2010	27.05.2010-26.05.2013	15.00	103,500	103,500
	18.04.2011	01.03.2011-29.02.2016	27.50	200,000	200,000
	29.09.2011	29.09.2011-28.09.2016	22.00	100,000	100,000
A.Hockey	24.05.2011	01.04.2011-31.03.2016	49.50	100,000	100,000
	26.10.2012	26.10.2012-25.10.2016	16.50	–	100,000
	26.10.2012	26.10.2013-25.10.2016	16.50	–	100,000
	26.10.2012	26.10.2014-25.10.2016	16.50	–	100,000
M.Nobbs	18.04.2011	28.03.2011-27.03.2016	56.00	100,000	100,000

The granting of share options under the Long Term Incentive Plan (LTIP) is designed to align Executive remuneration with the long-term interest of shareholders. Only Key Personnel, whom the Group wishes to retain over the long term, are invited to join the LTIP. The exercise price of any share options awarded is always set at significantly above the then current market price in order to ensure that management are only rewarded for strong increases in total shareholder value over an extended period of time. The current option coverage is relatively limited (some 1.7% of issued share capital). Over the long term the Board wish to move towards the 10% approved cap.

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. The roles of Chairman and Chief Executive Officer were split during the year in accordance with best practice. Consequently, the Group now has a Chairman, a Chief Executive Officer and two non-Executive directors.

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

The Board has an Audit Committee comprising two of the non-executive directors. Its role is to monitor the integrity of the Company's financial statements and other formal announcements relating to the Company's financial performance. Its role includes reviewing:

- the effectiveness of the risk management and internal control systems including the result of reviews of the system and management's response to review findings.
- the appropriateness of the Company's relationship with the external auditors and the objectivity of the audit process.
- the enforcement of the Company's code of conduct and the adequacy and security of the whistleblowing procedure.

The Committee met twice during 2012.

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 2012 which comprise Consolidated Income Statement, Consolidated and Company Balance Sheets, Consolidated and Company Statements 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 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with 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

29 May 2013

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 2012

	Notes	2012 £'000s	2011 £'000s restated
Exploration and development costs		(1,455)	(2,381)
Gross loss		(1,455)	(2,381)
Administrative expenses		(3,176)	(2,259)
Group trading loss from continuing operations	**3**	**(4,631)**	**(4,640)**
Finance revenue	6	11	44
Foreign exchange (loss)/gain		(174)	(439)
Expense incurred in acquiring subsidiaries		–	(516)
External interest costs		(10)	–
Loss before income tax		**(4,804)**	**(5,551)**
Income tax	7	–	–
Loss for the period attributable to continuing operations		**(4,804)**	**(5,551)**
Loss on disposal from discontinued operations	8	(8,934)	(713)
Loss for the period attributable to owners of the parent		**(13,738)**	**(6,264)**
Other comprehensive income:			
Foreign currency translation gain		427	27
Total comprehensive income for the year		**(13,311)**	**(6,237)**
Attributable to:			
Owners of the company		**(13,311)**	**(6,237)**

	Notes	2012 Pence	2011 Pence
Loss per share (basic) from continuing operations	9	(0.20)	(0.35)
Loss per share (basic) from discontinued operations	9	(0.37)	(0.04)

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 £28,647,000 (2011: £3,266,000).

Consolidated Balance Sheet
as at 31 December 2012

Group	Notes	2012 £'000s	2011 £'000s
Non-current assets			
Property, plant and equipment	10	853	1,278
Intangible assets	11	14,546	26,302
Other debtors	13	–	668
		15,399	**28,248**
Current assets			
Other debtors	13	2,774	1,388
Prepayments		38	119
Cash and short term deposits	14	6,909	6,286
		9,721	**7,793**
Total assets		**25,120**	**36,041**
Current liabilities			
Trade and other payables	15	719	2,233
Loans repayable in under one year		82	–
		801	**2,233**
Non-current liabilities			
Deferred tax liabilities	16	2,125	3,576
Provisions	17	680	366
		2,805	**3,942**
Total liabilities		**3,606**	**6,175**
Net assets		**21,514**	**29,866**
Capital and reserves attributable to equity holders of the company			
Issued equity share capital and share premium		63,083	54,704
Accumulated deficit		(42,273)	(28,606)
Foreign currency reserve		704	3,768
Total equity	**18**	**21,514**	**29,866**

Approved by the Board on 29 May 2013

J Parsons — Director

A Hockey — Director

The accounting policies on pages 30 to 35 and notes on pages 35 to 60 form part of these financial statements.

Company Balance Sheet as at 31 December 2012 Company number: 05344804

Company

	Notes	2012 £'000s	2011 £'000s
Non-current assets			
Property, plant and equipment	10	7	11
Investments in subsidiaries	12	22,880	41,719
Other debtors	13	–	7
		22,887	**41,737**
Current assets			
Other debtors	13	1,698	121
Prepayments		38	37
Cash and short term deposits	14	2,141	5,092
		3,877	**5,250**
Total assets		**26,764**	**46,987**
Current liabilities			
Trade and other payables	15	259	285
Net assets		**26,505**	**46,702**
Capital and reserves attributable to equity holders of the company			
Issued equity share capital and share premium		63,083	54,704
Accumulated deficit		(36,578)	(8,002)
Total equity	**18**	**26,505**	**46,702**

Approved by the Board on 29 May 2013

J Parsons — Director

A Hockey — Director

The accounting policies on pages 30 to 35 and notes on pages 35 to 60 form part of these financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2012

Group

	Notes	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Foreign currency reserve £'000s	Total equity £'000s
At 1 January 2012		**1,833**	**52,871**	**(28,606)**	**3,768**	**29,866**
Total loss for the period excluding exchange gain recycled to the income statement		–	–	(17,229)	–	(17,229)
Transfer from foreign currency reserve on disposal		–	–	3,491	(3,491)	–
Other comprehensive gain/(loss)		–	–	–	427	427
Total comprehensive income/(loss)		**–**	**–**	**(13,738)**	**(3,064)**	**(16,802)**
Issue of share capital		1,037	8,589	–	–	9,626
Transaction costs		–	(1,247)	–	–	(1,247)
Share based payments	23	–	–	71	–	71
At 31 December 2012		**2,870**	**60,213**	**(42,273)**	**704**	**21,514**

	Note	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Foreign currency reserve £'000s	Non controlling interest £'000s	Total equity £'000s
At 1 January 2011		**692**	**35,764**	**(22,482)**	**3,741**	**–**	**17,715**
Total loss for the year		–	–	(6,259)	–	(5)	(6,264)
Other comprehensive 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**

Company Statement of Changes in Equity for the year ended 31 December 2012

Company

	Notes	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Total equity £'000s
At 1 January 2012		**1,833**	**52,871**	**(8,002)**	**46,702**
(Loss) for the year		–	–	(28,647)	(28,647)
Shares issued		1,037	7,342	–	8,379
Share based payments	23	–	–	71	71
At 31 December 2012		**2,870**	**60,213**	**(36,578)**	**26,505**

	Notes	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Total equity £'000s
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**

Consolidated Cash Flow Statement
for the year ended 31 December 2012

	Notes	2012 £'000s	2011 £'000s
Cash flow from operating activities			
Cash flow from operations		(4,327)	(3,009)
Interest received	6	11	44
Net cash flow used in operating activities		**(4,316)**	**(2,965)**
Cash flow from investing activities			
Capital expenditure and disposals	10	(80)	(31)
Exploration expenditure		(3,913)	(3,809)
Payment in escrow – acquisition of subsidiaries		–	2,413
Expense in acquiring subsidiaries		–	(366)
Acquisition of subsidiaries		–	(4,712)
Net cash inflow on disposal of subsidiary		2,515	–
Net cash flow used in investing activities		**(1,478)**	**(6,505)**
Net proceeds from equity issues		6,804	12,108
Net cash flow from financing activities		**6,804**	**12,108**
Net increase/(decrease) in cash and cash equivalents		1,010	2,638
Net foreign exchange difference		(387)	(836)
Cash and cash equivalents at 1 January		6,286	4,484
Cash and cash equivalents at 31 December	**14**	**6,909**	**6,286**

Notes to cash flow

	Notes	2012 £'000s	2011 £'000s
Cash flow from operations reconciliation			
Profit/(loss) after tax		(13,738)	(6,264)
Finance revenue	6	(11)	(44)
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		13,538	1,236
Increase/(decrease) in accruals and short term creditors		–	1,668
Depreciation	3	24	11
Share based payments charge	23	71	260
Increase in short term debtors		393	(945)
Reduction in long term debtors		668	(12)
Reduction in trade and other payables		(1,432)	–
Decrease in long term provisions		(20)	261
Profit on disposal of subsidiaries		(3,820)	–
Cash flow from operations		**(4,327)**	**(3,009)**

	2012 £'000s	2011 £'000s
Cash flow from discontinued operations		
Cashflow from investing activities	(2,184)	(1,248)
Cashflow from operating activities	(805)	(551)
Total cash outflow from discontinued operations	**(2,989)**	**(1,799)**

Company Cash Flow Statement
for the year ended 31 December 2012

	Notes	2012 £'000s	2011 £'000s
Cash flow from operating activities			
Cash flow from operations		(2,453)	(1,458)
Interest received	6	11	44
Net cash flow used in operating activities		**(2,442)**	**(1,414)**
Capital expenditure and disposals	10	(2)	(11)
Payment in escrow – acquisition of subsidiaries		–	2,413
Acquisition of subsidiaries		–	(1,464)
Purchase of Euro loan		–	(965)
Cost of acquiring subsidiaries		–	(366)
Investment in subsidiary undertakings		–	(9,097)
Advances made to subsidiary undertakings		(7,317)	–
Net cash flow used in investing activities		**(7,319)**	**(9,490)**
Cash flow from financing activities			
Proceeds from equity issues		6,804	12,108
Net cash flow from financing activities		**6,804**	**12,108**
Net increase/(decrease) in cash and cash equivalents		(2,957)	1,204
Cash and cash equivalents at 1 January		5,092	4,331
Net foreign exchange differences		6	(443)
Cash and cash equivalents at 31 December	**14**	**2,141**	**5,092**

Notes to cash flow

	Notes	2012 £'000s	2011 £'000s
Cash flow from operations reconciliation			
Profit/(loss) after tax		(28,646)	(3,266)
Finance revenue		(11)	(43)
Cost of acquiring subsidiaries		–	516
Payroll bonuses paid in shares		–	98
Share options granted and taken up immediately		–	36
Share based payments	23	71	260
Intercompany loans written off (including realised exchange gain on disposals)		26,156	–
(Decrease)/increase in accruals and short term creditors		(26)	224
Decrease/(increase) in other non-current assets		(3)	(3)
Decrease/(increase) in short term debtors		–	720
Depreciation		6	–
Cash flow from operations		**(2,453)**	**(1,458)**

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 2012 were authorised for issue by the board of directors on 29 May 2013.

The financial position of the Group, its cash flows and available debt facilities are described in the Financial Review above. As at 31 December 2012 the Group had £6.9 million of available cash. Based on the 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 that forecast expenditure (12 months through 30 May 2014) will be less than the funds available as at 31 December 2012

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 have 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. 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 11.

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 19).

(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 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.

Notes to the Financial Statements (continued)

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 with the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single income generating unit where the cash flows of each field are inter-dependent.

Acquisitions, asset purchases and disposals

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

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

(e) Expenses recognition

Expenses are recognised on the accruals basis unless otherwise stated.

(f) Property, plant and equipment

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

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

(g) Goodwill

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

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

Notes to the Financial Statements (continued)

(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.

- IAS 12 Amendments to Deferred tax: Recovery of Underlying Assets for accounting periods beginning on or after 1 January 2012
- IAS 1 Amendment – Presentation of items of other comprehensive income for accounting periods beginning on or after 1 July 2012
- IAS 19 Amendment – Employee Benefits for accounting periods beginning on or after 1 January 2013
- IAS 27 Separate Financial Statements for accounting periods beginning on or after 1 January 2013
- IAS 28 Investments in Associates and Joint Ventures for accounting periods beginning on or after 1 January 2013
- IFRS 10 Consolidated Financial Statements for accounting periods beginning on or after 1 January 2013
- IFRS 11 Joint Arrangements for accounting periods beginning on or after 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities for accounting periods beginning on or after 1 January 2013
- IFRS 13 Fair Value Measurement for accounting periods beginning on or after 1 January 2013
- IFRS 9 (not yet adopted by the EU) Financial Instruments for accounting periods beginning on or after 1 January 2013
- IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine for accounting periods beginning on or after 1 January 2013
- IFRS 1 Amendments – Government loans for accounting periods beginning on or after 1 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.

(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 categorises its operations into two business segments based on exploration and appraisal and development and production.

In the year ended 31 December 2012 the Group's exploration and appraisal activities were carried out in two geographic areas being;

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

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

The Group's activities in Indonesia were discontinued in the year. All continuing activities are carried out in the UK and Italy.

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.

Notes to the Financial Statements (continued)

2 Segment information (continued)

The segment results for the year ended 31 December 2012 are as follows:

	Corporate 2012 £'000s	Development and Production 2012 £'000s	Total 2012 £'000s
Sales and other operating revenue	–	–	–
Other income/(loss)	–	–	–
Exploration costs	–	–	–
Impairment of exploration and evaluation assets	–	(1,455)	(1,455)
Administration expenses	(3,176)	–	(3,176)
Operating loss segment result	**(3,176)**	**(1,455)**	**(4,631)**
Interest receivable	11	–	11
Interest payable	(10)	–	(10)
Finance costs	(174)	–	(174)
Gain on disposal of subsidiary	–	–	3,820
Loss for the year before taxation	**(3,349)**	**(1,455)**	**(4,804)**

The segment assets and liabilities at 31 December 2012 are as follows:

	Corporate 2012 £'000s	Development and Production 2012 £'000s	Exploration and Appraisal 2012 £'000s	Total 2012 £'000s
Capital expenditure	88	764	14,546	15,398
Other assets	9,721	–	–	9,721
Total liabilities	(3,606)	–	–	(3,606)

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

	UK £'000s	Italy £'000s
Development and production assets	–	765
Fixtures, fittings and office equipment	7	81
Goodwill	–	2,126
Exploration and evaluation assets	–	12,420
Total	**7**	**15,392**

2 Segment information (continued)

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

	Corporate 2011 £'000s	Development and Production 2011 £'000s	Exploration and Appraisal 2011 £'000s	Total 2011 Restated £'000s
Sales and other operating revenues	–	–	–	–
Other income/(loss)	–	–	–	–
Exploration costs	(936)	–	(209)	(1,145)
Impairment of exploration and evaluation assets	–	–	(1,236)	(1,236)
Administration expenses	(2,259)	–	–	(2,259)
Operating loss segment result	**(3,195)**	**–**	**(1,445)**	**(4,640)**
Interest receivable	44	–	–	44
Finance costs	(439)	–	–	(439)
Costs of acquiring subsidiaries	(516)	–	–	(516)
Loss for the year before taxation	**(4,106)**	**–**	**(1,445)**	**(5,551)**

The segment assets and liabilities at 31 December 2011 were as follows:

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

3 Operating loss

Operating loss is stated after charging:

	Notes	2012 £'000s	2011 £'000s
Auditors's remuneration	4	98	95
Depreciation	10	24	15
Employee costs	5	2,357	2,137
Impairment charge	11	1,453	1,101

Notes to the Financial Statements (continued)

4 Auditors' remuneration

	2012 £'000s	2011 £'000s
Fees payable to the company's auditor for the audit of the company's annual accounts	73	74
Fees payable to the company's auditor and its associates for other services:		
– The audit of the company's subsidiaries pursuant to legislation	6	8
– Tax services	19	13
	98	**95**

5 Employee costs

	Notes	2012 £'000s	2011 £'000s
Staff costs, including executive directors			
Share based payments	23	71	260
Wages and salaries		2,015	1,696
Social security costs		265	181
Employee benefits		6	–
Total	3	**2,357**	**2,137**

	2012	2011
Number of employees (including executive directors) at the end of the year		
Technical and operations	4	6
Management and administration	12	10
Total	**16**	**16**

All members of the Group Board and the Group Executive team are included as part of "Management and Administration".

6 Finance revenue

	2012 £'000s	2011 £'000s
Interest on cash at bank and short–term deposits	11	44
Total	**11**	**44**

7 Taxation

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

	2012 £'000s Group	2011 £'000s 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:

	2012 £'000s Group	2011 £'000s Group
(Loss)/profit before tax	(13,738)	(6,264)
Tax (charge)/credit at UK corporation tax of 24.5% (2011: 26.5%)	3,366	1,660
Temporary differences not recognised	(7,019)	(866)
Differences in overseas tax rates	3,653	(794)
Total tax (charge)/credit	**–**	**–**

(c) Tax account:

	2012 £'000s Group	2011 £'000s Group
Current tax receivable	–	–
Current tax payable	**–**	**–**

8. Discontinued activities

On 18 October 2012 the Company announced the sale of its 20% working interest in the Citarum PSC to Pan Orient Energy (Citarum) PTE for cash consideration of $16 million, contingent on revenues from the first two discoveries on the PSC. On 12 December 2012 the Company sold its subsidiary, Mitra Energia Bangkanai Ltd ('MEB') to Salamander Energy Plc for cash consideration of $4.5 million payable immediately but subject to deduction of local taxes and further cash consideration of up to $2.6 million contingent on first gas from the Kerenden gas field and/or future discoveries subject to regulatory approval. The only asset of MEB was a 5% carried interest in the Bangkanai PSC containing the Kerendan gas field. As a consequence of the disposals the office in Indonesia was closed.

Notes to the Financial Statements (continued)

8. Discontinued activities (continued)

Both of the above transactions have been classified and accounted for as disposals in the year and presented as discontinued activities in the financial statements. The comparative income statement has been re-presented to include those operations classified as discontinued in the current year as follows:

	2012 £'000s	2011 £'000s
Exploration and development costs	–	24
Administration expenses	671	689
Gain on disposal of subsidiary	(329)	–
Loss on disposal of intangible assets	12,083	–
Cumulative exchange gain reclassified from foreign currency reserve to income statement	(3,491)	–
Loss from discontinued operations	**8,934**	**713**

In arriving at the net loss on disposal of the Citarum and Bangkanai assets no value has been attributed to contingent cash consideration of up to £12.2 million ($18.6 million) receivable by the Group in the event of revenues from future discoveries in the Citarum and Bangkanai PSC's and first gas from Kerendan. In the opinion of the directors the likelihood of realisation of economic benefit from the contingent consideration is not sufficiently assured to recognise the amounts as assets in the financial statements.

Cash flows from discontinued activities are set out on page 28.

9 Earnings 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:

	2012 £'000s	2011 £'000s
Loss after tax from continuing operations	(4,804)	(5,551)

	2012 million	2011 million
Weighted average shares in issue	2,424	1,600

	2012 Pence	2011 Pence
Loss per share (basic) from continuing operations	(0.20)	(0.35)

	2012 £'000s	2011 £'000s
Loss after tax from discontinued operations	(8,934)	(713)

	2012 Pence	2011 Pence
Loss per share (basic) from discontinued operations	(0.37)	(0.04)

Diluted loss per share has not been disclosed as inclusion of unexercised options (see note 23) would be anti-dilutive.

In accordance with IAS33, calculations of earnings per share have been adjusted retrospectively to reflect the Share Consolidation approved in general meeting on 4 January 2013.

10 Property, Plant and Equipment

Group

	Note	Development and production assets £'000s	Fixtures, fittings and office equipment £'000s	Total £'000s
Cost				
At 1 January 2012		1,246	204	1,450
Exchange adjustments		–	(5)	(5)
Additions		–	80	80
Decommissioning provisions		341	–	341
Transfers		1,877	–	1,877
Disposals		(1,246)	(88)	(1,334)
As at 31 December 2012		**2,218**	**191**	**2,409**
Depreciation				
At 1 January 2012		–	172	172
Exchange adjustments		–	(5)	(5)
Transfers		1,453	–	1,453
Charge for the year	3	–	24	24
Disposals		–	(88)	(88)
As at 31 December 2012		**1,453**	**103**	**1,556**
Net book amount at 31 December 2012		**765**	**88**	**853**

Notes to the Financial Statements (continued)

10 Property, Plant and Equipment (continued)

	Notes	Development and production assets £'000s	Fixtures, fittings and office equipment £'000s	Total £'000s
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 reclassification of assets from intangible assets (note 11)

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. This investment was disposed of in 2012.

During 2012, the Group's net investment in the Rampagnano license was reclassified from exploration and evaluation to production assets.

The Company has no development and production assets.

10 Property, Plant and Equipment (continued)

Company

	Fixtures, fittings and office equipment £'000s	Total £'000s
Cost		
At 1 January 2012	20	20
Additions	2	2
As at 31 December 2012	**22**	**22**
Depreciation		
At 1 January 2012	9	9
Charge for the year	6	6
As at 31 December 2012	**15**	**15**
Net book amount at 31 December 2012	**7**	**7**

	Fixtures, fittings and office equipment £'000s	Total £'000s
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**

Notes to the Financial Statements (continued)

11 Intangible Assets

	Goodwill £'000s	Exploration and evaluation assets £'000s	Total £'000s
Cost			
At 1 January 2012	3,577	26,856	30,433
Exchange adjustments	74	240	314
Additions	–	4,247	4,247
Transfers[1]	–	(1,879)	(1,879)
Disposals	(1,525)	(15,970)	(17,495)
At 31 December 2012	**2,126**	**13,494**	**15,620**
Impairment			
At 1 January 2012	–	(4,131)	(4,131)
Additions	–	(1,455)	(1,455)
Transfers	–	1,455	1,455
Disposals	–	3,055	3,055
At 31 December 2012	**–**	**(1,076)**	**(1,076)**
Net book amount at 31 December 2012	**2,126**	**12,420**	**14,546**

	Goodwill £'000s	Exploration and evaluation assets £'000s	Total £'000s
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)
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**

[1] Transfers represent the reclassification of assets to PP&E (note 10)

11 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

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' report ("CPRs").

CPRs were last prepared for Italy in October 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 Italian CGU, including goodwill. The Board of Directors believe the data held in the CPRs is still relevant and up to date and remains valid for use in the annual impairment review. Consequently, the directors do not therefore consider that any impairment indications exist in relation to the remaining Italian CGU.

In the year, the Group disposed of its Indonesian interests in the Citarum and Bangkanai PSCs. This resulted in a disposal of £1.5m of goodwill on the acquisition of its Indonesian interests and a write-down of their respective carrying values.

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 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.

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 expected production profile and duration of sales contracts. The principal assumptions on which the NPV calculations are based are as follows:-

- The Italian CPR is based on an oil price of $109/bbl as per 2012 with the Brent forward curve for five 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% (2011: 10%) has been used which the directors believe to be standard industry practice and approximate to the Groups' weighted average cost of capital.
- The NPV calculations are most sensitive to the assumptions for production and operating expenditure.

Notes to the Financial Statements (continued)

11 Intangible Assets (continued)

In 2012, the impairment costs related to the costs of drilling on wells now considered to have smaller than originally envisaged commercial quantities of gas.

	2012 £'000s	2011 £'000s
Indonesia	–	24
Italy	1,453	1,076
Total	**1,453**	**1,100**

12 Investment in Subsidiaries

Company

	2012 £'000s	2011 £'000s
At 1 January	**41,719**	**24,337**
Advances to group companies	7,317	11,590
Write-off on disposals (net of foreign exchange gains on disposals)	(26,156)	–
Euro loan to group companies	–	965
Acquisition of subsidiaries	–	4,827
At 31 December	**22,880**	**41,719**

The subsidiary companies of the Company at 31 December 2012 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
Consul Oil and Gas Limited	UK	Holding Company
Apennine Energy SpA	Italy	Exploration company
Apennine Oil and Gas SpA (formerly known as Celtique Energy SpA)	Italy	Exploration company

* The investments in Mitra Energia Limited, Mitra Energia Citarum Limited are held indirectly via Sound Oil International Limited. The investments in Apennine Energy SpA and Apennine Oil and Gas SpA are held indirectly via Consul Oil and Gas Limited. Consul Oil and Gas Limited is directly funded through non-current, non-interest bearing loans from Sound Oil Plc.

Given that Sound Oil Plc has no intention to call 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

	2012		2011	
	Current £'000s	Non Current £'000s	Current £'000s	Non Current £'000s
Indonesian VAT	–	–	–	613
Italian VAT	963	–	763	–
UK VAT	19	–	57	–
Other receivables	1,792	–	568	55
	2,774	**–**	**1,388**	**668**

Currency analysis

	2012		2011	
	Current £'000s	Non Current £'000s	Current £'000s	Non Current £'000s
US Dollar	21	–	228	661
Euro	1,054	–	1,039	–
GBP Sterling	1,699	–	121	7
Total	**2,774**	**–**	**1,388**	**668**

Company

	2012		2011	
	Current £'000s	Non Current £'000s	Current £'000s	Non Current £'000s
UK VAT recoverable	18	–	57	–
Other receivables	1,680	–	64	7
Total	**1,698**	**–**	**121**	**7**

Currency analysis

	2012		2011	
	Current £'000s	Non Current £'000s	Current £'000s	Non Current £'000s
GBP Sterling	1,698	–	121	7
Total	**1,698**	**–**	**121**	**7**

Notes to the Financial Statements (continued)

14 Cash and cash equivalents

Group

	2012 £'000s	2011 £'000s
Cash at bank and in hand	5,418	1,230
Cash equivalents:		
Short term deposits	1,491	5,056
Carrying amount at 31 December	**6,909**	**6,286**
being		
in US Dollars	2,664	1,119
in Euros	2,762	4,016
in Sterling	1,480	1,151
in Indonesian Rupiah	3	–
Total	**6,909**	**6,286**

Company

	2012 £'000s	2011 £'000s
Cash at bank and in hand	650	36
Cash equivalents:		
Short term deposits	1,491	5,056
Carrying amount at 31 December	**2,141**	**5,092**
being		
in US Dollar	100	638
in Euros	561	3,303
in Sterling	1,480	1,151
Total	**2,141**	**5,092**

15 Trade and other payables

Group

	2012 Current £'000s	2011 Current £'000s
Trade payable	461	1,761
Payroll taxes and social security	121	50
Accruals	137	128
Other payables	–	294
Total	**719**	**2,233**

Currency Analysis

	2012 Current £'000s	2011 Current £'000s
US Dollar	101	270
Euro	393	1,678
Sterling	225	285
Total	**719**	**2,233**

Company

	2012 Current £'000s	2011 Current £'000s
Trade payables	120	148
Payroll taxes and social security	28	9
Accruals	111	128
Total	**259**	**285**

Currency Analysis

	2012 Current £'000s	2011 Current £'000s
US Dollar	34	–
Sterling	225	285
Total	**259**	**285**

Notes to the Financial Statements (continued)

16 Deferred tax assets and liabilities

	2012 £'000s	2011 £'000s
1 January	**3,576**	**1,525**
Acquisitions	–	2,051
Released on disposal	(1,525)	–
Unrealised foreign exchange (decrease)/increase	74	–
31 December	**2,125**	**3,576**

£1,525k of goodwill and its related deferred tax on the acquisition of Mitra Energia Limited was disposed of as part of the sale of Mitra Energia Bangkanai Limited to Salamander Energy on 31st December 2012.

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

17 Provisions

	Employee post employment benefits £'000s	Abandon-ment £'000s	Other provisions £'000s	Total £'000s
At 1 January 2012	**141**	**225**	**–**	**366**
Additions in 2012	–	341	121	462
Released during the year	(141)	–	–	(141)
Unrealised foreign exchange increase	–	(7)	–	(7)
As at 31 December 2012	**–**	**559**	**121**	**680**
Current	**–**	**437**	**121**	**558**
Non-current	**–**	**122**	**–**	**122**
Total	**–**	**559**	**121**	**680**

Employee post employment benefits

The Group's Indonesian subsidiary provided employee post employment benefits in accordance with Indonesian law.

By 31st December 2012, the Indonesian subsidiary no longer had any employees and the Group believes it has satisfied all legal requirements with regards to post employment benefits in Indonesia and therefore the provision was released in 2012.

Abandonment

The provision of £559,000 relates to the following licences:-

	£'000s
Rapagnano	122
Montemarciano	194
Marciano	243

Abandonments costs relating to Marciano and Montemarciano are likely to be incurred during 2013 and 2014.

There are no provisions in the parent Company.

18 Capital and Reserves

Group

	Number of shares	2012 £'000s	Number of shares	2011 £'000s
Ordinary shares - 0.1p	2,870,128,815	2,870	1,833,199,548	1,833

Company

	Number of shares	2012 £'000s	Number of shares	2011 £'000s
Ordinary shares - 0.1p	2,870,128,815	2,870	1,833,199,548	1,833

Share option schemes

Options to subscribe for the Company's shares were granted to certain executives in 2011 and 2012 (note 19).

Group

	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Foreign currency reserve £'000s	Total equity £'000s
At 1 January 2012	**1,833**	**52,871**	**(28,606)**	**3,768**	**29,866**
Total loss for the period excluding foreign exchange recycled to the income statement	–	–	(17,229)	–	(17,229)
Foreign exchange recycled from foreign currency reserve on disposal	–	–	3,491	(3,491)	–
Other comprehensive income	–	–	–	427	427
Issue of share capital	1,037	8,589	–	–	9,626
Transaction costs	–	(1,247)	–	–	(1,247)
Share based payments	–	–	71	–	71
At 31 December 2012	**2,870**	**60,213**	**(42,273)**	**704**	**21,514**

Notes to the Financial Statements (continued)

18 Capital and Reserves (continued)

Group

	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Foreign currency reserve £'000s	Total equity £'000s
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**

The foreign currency reserve reflects 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 £'000s	Share premium £'000s	Accumulated deficit £'000s	Total equity £'000s
At 1 January 2012	**1,833**	**52,871**	**(8,002)**	**46,702**
(Loss) for the year	–	–	(28,647)	(28,647)
Shares issued	1,037	7,342	–	8,379
Share based payments	–	–	71	71
At 31 December 2012	**2,870**	**60,213**	**(36,578)**	**26,505**

Share Issues

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

On 16 July 2012, the Company placed 774,341,464 new shares in a placement through Astin Capital Management in consideration for redeemable subscription notes and the cancellation of 217 million existing warrants.

The subscription notes were redeemable in seven equal tranches for cash consideration at the end of seven separate trading periods, commencing July 2012 and terminating in February 2013.

By the end of December 2012, five of the seven tranches had been redeemed for net consideration of £2.8m with a further £1.6m due from Astin upon redemption of the remaining tranches. The final £1.6m due was received in January and February 2013.

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

19 Related party disclosures

The financial statements include the financial statements of Sound Oil Plc (the parent) and the subsidiaries listed in the following table:

		% equity interest	
Name	**Country of Incorporation**	**2012**	**2011**
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	100
Apennine Energy SpA	Italy	100	100
Apennine Oil and Gas SpA	Italy	100	100
Mitra Energia Limited	Mauritius	100	100
Mitra Energia Citarum	Mauritius	100	100
Mitra Energia Bangkanai	Mauritius	–	100

In 2012 the Group disposed of its investments in the joint ventures which operate the Bangkanai PSC (5% carried interest) and the Citarum PSC (20% working interest).

During 2012, the Group changed the legal status of Apennine Energy SrL to Apennine Energy SpA.

Terms and conditions of transactions with related parties

There were no sales or purchases to or from related parties (2011: none). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2011: 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 currently two key management personnel other than directors of the Company (2011: three). Details of the remuneration of the Directors are set out in the Report of Directors' Remuneration.

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

	2012	**2011**
	£'000s	**£'000s**
Salaries and employee benefits	1,373	1,062
Share based payments	71	260
Total	**1,444**	**1,322**

Salaries and employee benefits increased in 2012 due to Gerry Orbell's one-off termination payment of £221,000 and also a full year's salary cost for the Italian Managing Director who was appointed 2 January 2012.

Notes to the Financial Statements (continued)

19 Related party disclosures (continued)

Directors' interest in employee share options

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

Issue Date	Expiry Date	Exercise price Number	Number 2012	Number 2011
2011	2016	49.5	–	100,000
2012	2016	16.5	300,000	–

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 Number	Number 2012	Number 2011
2011	2016	21.75	–	330,000
2012	2018	25.0	450,000	–
2012	2016	16.5	1,000,000	–

Key management's interest in employee share options

Issue Date	Expiry Date	Exercise price Number	Number 2012	Number 2011	Number 2010
2010	2013	15.0	–	–	103,500
2011	2016	27.5	–	580,000	–
2012	2017	16.5	330,000	–	–
2012	2018	25.0	900,000	–	–

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 trade payables, receivables, cash and short term deposits. The Group has no long term 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 rates 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

	Increase/ (decrease) %	**Effect on profit before tax £'000s**
2012		
Sterling	10	1
US Dollar	10	–
Euro	10	–
Sterling	(10)	(1)
US Dollar	(10)	–
Euro	(10)	–
2011		
Sterling	10	2
US Dollar	10	–
Euro	10	–
Sterling	(10)	(2)
US Dollar	(10)	–
Euro	(10)	–

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 2012 the Group's strategy was to operate with minimal 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.

	2012 **£'000s**	**2011** **£'000s**
Borrowings	(82)	–
Cash and cash equivalents	6,909	6,286
Net cash excluding borrowings	6,827	6,286
Total capital excluding reserves:		
Equity Share capital	2,870	1,833
Equity share premium	60,213	52,871
Shareholders equity	**21,514**	**29,866**

21 Foreign Currency Risk

As a result of the bulk of the Group's operations being denominated in Euros, the Group's balance sheet can be impacted by movements in these exchange rates against Sterling. 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.

As the Group also holds significant US Dollar assets at the end of the year, 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 £'000s	Increase/ (decrease) in US Dollar rate	Effect on profit or loss before tax £'000s
2012	5%	(456)	5%	(136)
	(5%)	480	(5%)	143
2011	5%	(692)	5%	(30)
	(5%)	763	(5%)	34

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 are not past due or impaired for each of the reporting dates and 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

	Floating Rate £'000s	Interest-free £'000s	Total £'000s	Weighted average interest rate %
2012				
Cash and short term deposits				
GBP Sterling	1,451	29	1,480	0.45%
Euro	2,762	–	2,762	0.10%
US$	42	2,622	2,664	0.00%
Indonesian Rupiah	3	–	3	0.00%
Total	**4,258**	**2,651**	**6,909**	
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**	

US$ cash balances have been converted at the exchange rate of US$1.5825/£1.00 (2011: US$1.5456/£1.00).

Euro cash balances have been converted at the exchange rate of €1.2347/£1.00 (2011: €1.1936/£1.00).

The floating rate cash and short-term deposits comprise cash held in interest bearing deposit accounts.

Cash on which no interest is received is and relates to balances available to meet immediate operating payments and was therefore only held for short periods interest free. The value of US$ accounts which paid no interest was impacted by the receipt of $4.1m from Salamander Energy on 31st December following completion of the sale of the Group's interests in Mitra Energia Bangkanai Limited.

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

	2012 £'000s	2011 £'000s
Expense arising from equity settled share options	71	260

Company

	2012 £'000s	2011 £'000s
Expense arising from equity settled share options	71	260

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)
2012			
	1,300,000	4	16.5
	330,000	5	16.5
	100,000	5	25.0
	1,350,000	6	25.0
Total	**3,080,000**		
2011			
	950,000	5	56.0
	100,000	5	49.5
	1,326,000	5	27.5
	100,000	5	22.0
	330,000	5	21.75
Total	**2,806,000**		

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.

	2012	2011
Share options outstanding at the start of the year	3,764,000	1,407,000
Share options granted	3,080,000	2,806,000
Share options expired	(674,666)	(210,000)
Share options exercised	–	(239,000)
Share options outstanding at the end of the year	**6,169,334**	**3,764,000**

If all equity share options were exercisable immediately, new ordinary shares equal to approximately 1.7% of the Group's existing ordinary share capital base would be created.

Notes to the Financial Statements (continued)

24 Commitment and guarantees

At 31 December 2012, the Group had no commitments other than for decommissioning (note 17) and no capital commitments (2011: £1,889,000).

In December 2012, the Italian Ministry for Economic Development requested that the Group supply it with a €500,000 bank guarantee to cover any potential decommissioning liabilities relating to the Rapagnano licence. The guarantee was requested pending approval of a share capitalisation increase in Apennine Energy SpA (€6m) from the Group.

The re-capitalisation was approved and completed. A request was made to the Italian Ministry for Economic Development to return the bank guarantee in May 2013. Sound Oil expects the bank guarantee to be returned shortly.

25 Post balance sheet events

Share consolidation

On 12 December 2012, the Group announced its intention to execute a ten for one share consolidation subject to shareholder approval with the main aim being the reduction of share volatility inherent in penny stocks.

Shareholder approval was obtained at a General Meeting on 4 January 2013. Consequently, 287,012,882 new consolidated ordinary shares were admitted to trading on the AIM market.

Open Offer

The redemption of the private placement was completed in February 2013 at which time the Group announced an Open Offer to existing shareholders.

Up to 12,386,968 new ordinary shares were offered at a price of 8.073p per share. The offer was not underwritten.

A company Circular was issued on 6 March 2013 defining the terms of the announcement. The Company announced the results on 22 March 2013 which confirmed 605,662 Open Offer Share acceptances had been received. Following the issue of the these shares, the Company has 287,618,544 Ordinary Shares in issue.

Subsidiary Sale

On 16 February 2013, the Group executed the sale of its 100% subsidiary, Mitra Energia Ltd, to Ilham Habibie, a former non-Executive Director of the Group, for $1.

Mitra Energia Limited is the holding company of Mitra Energia Bangkanai Ltd which was sold to Salamander Energy in 2012. Mitra Energia Limited had no assets on disposal.

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Dealing Information

FT Share Price Index – Telephone 0906 8433711

SEAQ short code – SOU

Financial Calendar

Announcements

Interim – September 2013

Preliminary – May 2014

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