SOUND OIL plc
oil and gas exploration

Sound Oil plc
Annual Report 2013

Sound Oil plc is a European and Mediterranean independent oil and gas exploration and development company

Sound Oil plc's strategy is to achieve substantial and sustainable growth in value through an active drill programme

Contents

Highlights

Figure 1

Assets

- High upside Italian portfolio (18 licences)
- 18MM boe (P50) discoveries with NPV 10 of €227M
- 96MM boe (P50) exploration portfolio
- Successful Nervesa discovery, tested at 2.7MM scf/day
- One producing gas field with more to follow
- Sound Oil retains operatorship and 100% interest in all licences

End game

- European/Mediterranean focused oil and gas company of some scale
- Blend of production and exploration

Team

- Balance of technical, operational, financial/M&A
- High energy; Action orientated

Short term priorities and news flow

- Producing Casa Tiberi (Summer 2014)
- Secure farm in on Badile
- Second Nervesa well (Q3 2014)

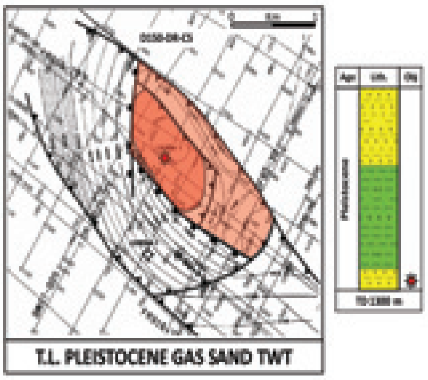
Medium term

- Badile exploration well – NPV €486MM
- Producing the Laura field – NPV €66MM
- Santa Maria Goretti appraisal well – NPV €39MM
- Zibido (Badile Licence) exploration well – NPV €225MM

Drilling Existing Discoveries

2015

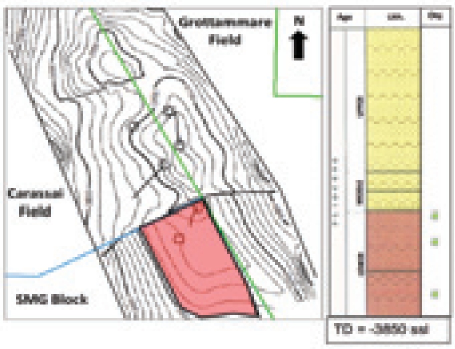
Laura Discovery (100%)



Location:	Gulf of Taranto (4km offshore)
Play Type:	Inverted fault block
	Gas in Pleistocene
NPV:	€66MM P50
Resource potential:	30 BSCF P50
Cost:	€17.5MM (dry hole case)

2015

Santa Maria Goretti Discovery (100%)



Location:	Marche Region (Central Italy)
Play Type:	Inverted fault block
	Gas in Pliocene
NPV:	€39MM P50
Resource potential:	18 BSCF P50
Cost:	€9MM (dry hole case)

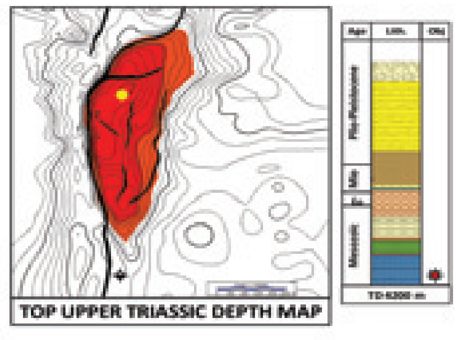
Abbreviations:

Bopd:	Barrels of oil per day.
Bscf:	Billion standard cubic feet of gas.
BScfe:	Billion standard cubic feet of gas equivalent.
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.
NPV10	Net present value at a discount rate of 10%.
Scfd:	Standard cubic feet of gas per day.
Scmd:	Standard cubic meters of gas per day.

Significant Exploration Potential

2014/15

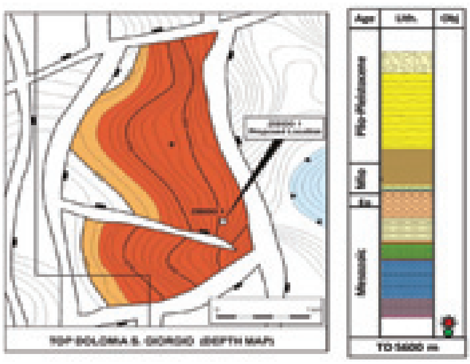
Badile Prospect (100%)



Location:	Po Valley (Northern Italy)
Play Type:	Inverted fault block
	Gas-condensate in Mesozoic
NPV:	€486MM mid case I €1,745MM high case
Resource potential:	178 BSCFE mid case (106 BSCF gas plus 12mmbo of condensate) 673 BSCFE high case
Cost:	€23MM (dry hole case)

2015

Zibido Prospect (100%)



Location:	Po Valley (Northern Italy)
Play Type:	Downthrown fault terrace
	Gas/oil in Mesozoic
NPV:	€225MM P50
Resource potential:	130 BSCF P50 (Gas)
Cost:	€18.9MM (dry hole case)

Producing and Development Assets: "building material cash flows"

Nervesa Gas Discovery (100%)

Status:	First well 2013; Drilling 2014; Production 2015
NPV:	€51MM
Cash Flow:	€18MM pa (3 wells)
Location:	Po Valley (Northern Italy)
Resource Potential:	24 BSCF • 1st well drilled July 2013; 46 metres of net pay across 13 zones; flowed 2.7MM scf/day on test • 3 well development plan with second well Q3 2014 • Potential exploration prospect

Rapagnano Gas Field (100%)

Status:	Producing
NPV:	€3MM
Cash Flow:	€500K pa
Location:	Marche Region (Central Italy)
Resource Potential:	1.2 BSCF • First gas achieved 15 May 2013 from the Sabbie reservoir • 2013 production of 79MM scf • 12 years production remaining

Casa Tiberi Gas Discovery (100%)

Status:	Operations start end H1 2014
NPV + Cash Flow:	TBD
Location:	Marche Region (Central Italy)
	• Successful 2011 exploration well; 4 metres net pay; flowed 1.3m scf/day on first test • First gas 2014 • Shared production skid signficantly improves economics

Chairman's Statement

2013 was a year in which Sound Oil made strong progress and built upon the foundations laid by the significant re-structuring carried out in 2012.

I am delighted to report that the Company announced its maiden revenues in 2013 with the Rapagnano gas field supplying its first volumes on 15 May 2013. Total Rapagnano production from this date to 31 December 2013 was 79.45 MMscf, yielding revenue of approximately £0.5 million. Although Rapagnano is one of the Company's smaller assets, delivering first gas was a vital milestone for Sound Oil as it demonstrated the Company's ability to take projects through development and on to production and revenue generation.

Our production capacity will be further enhanced with the development of the Casa Tiberi discovery. First gas production is expected in the summer of 2014. Combined with revenues from Rapagnano, the cash flows generated from our producing assets are expected to more than cover the running costs of our highly experienced Milan-based Italian technical team. I am satisfied to note that all operational activity during the period 20 May 2014 has been executed without a single Lost Time Incident.

Another highlight of 2013 was the successful drilling of the first well on the northern limb of the Nervesa discovery on the Carita permit. The well was spudded on 7 June 2013 and reached total depth on 15 July 2013. On test, the well achieved a stabilised total gas flow rate of 2.7 MMscfd using a dual string completion. Based on test and other data, the Company announced that our internal P50 estimate of recoverable resources for the Nervesa discovery had increased to 24 Bscf from the previously announced 21 Bscf. The Company now plans to develop the field and we have applied for a production concession with a view to achieving first gas in mid-2015. As recently announced, we intend to drill a second well to address the southern part of the Nervesa structure. We expect that this second well will be fully funded by a farm-in partner, with whom Heads of Terms were signed, and announced, on 28 April 2014.

The Company also made tangible progress in developing its other core assets, most particularly the Badile exploration prospect. We are currently marketing Badile to potential farm-in partners, having already received, but not accepted, an earlier offer from a large Italian oil company. In October 2013, the Company announced that a new Competent Person's Report ("CPR") had confirmed a new best estimate NPV10 of €486 million for the Badile licence, which represented a 60% increase on the previous CPR. We expect to receive the Environmental Impact Assessment approval in respect of Badile in the second half of 2014 and drilling is scheduled to commence late 2014/early 2015.

On 14 January 2014, Sound Oil announced a new discounted underwritten open offer to eligible shareholders to raise approximately £1.6 million before expenses. The open offer was made of 38,349,139 shares at 4.2 pence per share. We were pleased to announce on 3 February 2014 that the open offer was significantly over-subscribed.

The Company also announced on 14 January 2014 that it had secured an asset-backed eighteen month loan facility of up to £1.5 million.

In February 2014 I was delighted to welcome both Simon Davies and Gerry Orbell to the Board following the retirement of two long serving Non-Executive Directors, Michael Nobbs, who stepped down from the Board last December and Tony Heath, who has signified his intention to retire after the forthcoming AGM. Michael and Tony joined the Board at the inception of the Company nine years ago and we wish them both well after their long and distinguished service.

Simon Davies and Gerry Orbell bring extensive experience and knowledge, which will strengthen Sound Oil as we progress towards commercialising the Nervesa discovery and as we prepare to drill the first-class exploration opportunity at Badile.

In the summer of 2013 we were pleased to announce the recruitment of Leonardo Spicci, formerly ENI's District Manager for Northern Italy to lead a specific Badile project team and the appointment of Stuart Joyner as our Chief Financial Officer. Stuart was formerly Head of Oil and Gas at Investec Bank plc and brings twenty years' experience in fundraising and mergers and acquisitions to the Executive Team.

In April 2014, we were also pleased to announce a proposed £14 million funding injection via a combination of debt and equity from Swiss institutional investor Continental Investment Partners SA.

As referred to above, we have also agreed Heads of Terms for a 3.6 to 1 farm out on Sound Oil's flagship asset, Nervesa. This farm-in will fully fund the next well addressing the southern part of the structure and enables Sound Oil to achieve first gas on Nervesa without significant further capital and whilst maintaining control of the asset.

2014 and Beyond

Looking to the future, the Company's focus is to monetise the value of our significant licence position in Italy. Our strategy remains consistent with the focus remaining on the Nervesa and Laura discoveries and Badile and Zibido exploration prospects. To this exciting portfolio, we have now added the Santa Maria Goretti discovery following the completion of further technical studies. This low risk opportunity has a preliminary internal best estimate NPV10 of €39 million with estimated P50 resources of 18 Bscf and we are looking to accelerate potential cash flows from this asset.

Our immediate operational priority is to drill the second well at Nervesa to address the southern part of the structure. We have already signed a letter of intent for the rig and expect to complete the drilling in Q3 2014. In parallel we will proceed to develop the field and we expect first gas production in mid-2015. This will represent a step change in the revenue generation of the Group and will provide crucial cash flow to develop further projects.

Following success at Nervesa we will then proceed with our planned drilling programme, including Badile and Laura.

In summary, 2014 and 2015 should be the busiest and most exciting time in the history of Sound Oil to date. We can expect to be well under way with development work on both the Nervesa wells with first revenues following shortly after. This will be a landmark in the Company's history as for the first time we will be able to use free cash flow to grow the business. Success at the Laura discovery and at the game-changing Badile exploration well should also propel Sound Oil, under the leadership of our Chief Executive Officer James Parsons, towards our continued aim of becoming a fully funded mid-cap company. I am enthused by the variety and quality of prospects in our portfolio and look forward to unlocking their value with the highly skilled and professional team we have built. I would like to take this opportunity to thank our shareholders for their support over the past year and to wish you well.

Andrew Hockey
Chairman
20 May 2014

Financial Review

Accounting Standards
The Group has prepared its 2013 full year accounts under International Financial Reporting Standards (IFRS), as adopted by the European Union.

Income Statement
In 2013, the Group recorded its first revenues from the Rapagnano field following first production on 15 May.

The loss before finance costs and tax from continuing operations in 2013 was £6,437,000 an increase from £4,631,000 in 2012. This was as a result of increased impairments. As the Group has shifted its focus toward large gas plays, such as Badile, Laura and Zibido, the Group decided to de-prioritise developments such as Strombone. We also further reviewed the inherent risk of Strombone, and consequently we have lowered its carrying value and the quantity of estimated hydrocarbons.

Administrative expenses fell significantly in 2013 to £2,616,000 (2012: £3,176,000). This reduction is the result of efforts to pro-actively minimise administrative costs in addition to the one-off costs incurred in 2012 as a result of the Group re-structuring.

Cash Flow/Financing
During 2013, £3,240,000 net cash proceeds from financing were raised. Of this £1,664,000 was provided by our Italian partner CSTI to develop the Rapagnano field and drill the first appraisal well at Nervesa.

A further £1,576,000 was raised on completion of a placement entered into in 2012. The open offer of March 2013 also provided funding.

The funding arrangements with CSTI for both Rapagnano and Nervesa have been accounted for as loans with repayments made as a fixed proportion of net revenue until the arrangements are repaid. As the amounts due will not be repaid in their entirety in 2014, the Group's balance sheet now shows long term borrowings of £1,947,000 (2012: £Nil).

In January 2014, the Group raised a further £1.6m (before expenses) as part of a new Open Offer and also agreed a £1.5m asset-backed loan arrangement with Simon Davies, a non-Executive Director.

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 is obtaining strong revenues from the Rapagnano gas field and shortly hopes to commence commercial production from the Casa Tiberi field. It is expected that net revenues from these fields will more than cover the cost of the Italian office. The directors have considered the Group's cash flow forecasts for the period to end of June 2015. Forward cash flow projections show that funds available to the Group will exceed forecast commitments.

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

Balance Sheet
In the year, exploration and evaluation increased by £8,719,000 which was related primarily to the drilling of the Nervesa appraisal well including its subsequent decommissioning provision and to expenditure incurred in beginning work on the Badile project.

In the year impairments relating to exploration and evaluation totalled £3,984,000. The costs related primarily to the Strombone development and Monteluro, a permit that the Group has decided to relinquish.

£706,000 was incurred on development and production assets primarily being necessary work to put Rapagnano into production.

Non-current provisions increased to £1,226,000 (2012: £680,000) due to the recognition of decommissioning provisions following the drilling of the Nervesa appraisal well.

Technical Review

Sound Oil currently has interests in 18 licences in Italy: 3 production concessions, 7 permits and 8 exclusive permit applications. The Company's interests are held through its wholly-owned Italian subsidiary companies Apennine Energy SpA and Apennine Oil & Gas SpA (Fig. 1).

Production

Rapagnano Concession (Sound Oil 100%)

Figure 2

The concession is located in Fermo Province, Marche Region, central Italy (Fig. 2). Geologically the area is within the Ancona-Pescara Basin associated with the Central Apennine foredeep. First gas was delivered from the onshore Rapagnano field to the local gas distributor on 15 May 2013. The initial production rate was 10,000 Scmd (0.4 MMscfd). Under the gas sales agreement with Steca Energia Srl, gas was priced initially at €0.316 per Scm (US$11.2/Mscf), varying quarterly based on a basket of commodity prices (diesel, Brent and fuel oil as published in Platts) with an average 2013 price of €0.320 per Scm. On 30 September 2013, this GSA expired and Sound Oil now receives a monthly fixed price of €0.29 per Scm from Steca. Total 2013 production for the period May to December was 2.25 MMscm (79.45 MMscf) with an average production rate of 9,770 Scmd (0.34 MMscfd). This yielded revenue of €567,000 for 2013 gas deliveries. On an annualised basis, the Company expects the field to yield circa €480,000 of cash flow after operating costs per annum. The Company plans to produce a further 1.2 Bscf over a twelve year period.

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

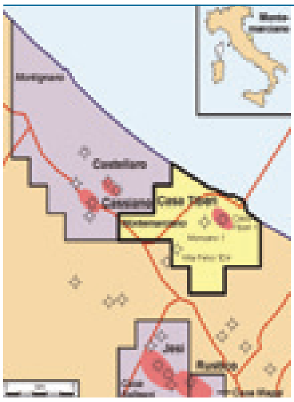


Figure 3

The permit is located in Ancona, Marche in central Italy (Fig. 3), within the foredeep trough of the Central Apennines. The principal hydrocarbon plays are for biogenic gas in sand bodies in the shallow Pleistocene-Pliocene section and thermogenic gas in the deeper Miocene and older carbonates. Following Board approval to develop the Casa Tiberi gas field, an Engineering, Procurement, Construction and Lease contract has been awarded to TESI Srl, a local company with proven experience in onshore processing plants in Italy. The contract is for a total of €300,000 and involves the three month construction and subsequent lease of a production skid in anticipation of first gas from the field at the end of H1 2014.

The plant will be based on modular skids with nitrogen used for both gas dehydration and as "service gas" providing an effective and extremely environmental friendly solution to deliver the gas to the local low pressure network.

Appraisal and Development

Nervesa Field, Carita Permit (Sound Oil 100%)

Figure 4

The permit is located in northeast Italy, within the Alpine foredeep province (Fig. 4). The Nervesa structure was drilled by ENI in 1985 with two wells (Nervesa-1 and Nervesa-1dir A) and proved gas-bearing in at least 13 sand intervals within the Tortonian (5, 6a-d, 7a-e, 8, 9a-b). Of these intervals only one (9a) was completed in Nervesa-1 and put in production between 1989 and 1991. The permit was acquired by Celtique Energie in 2010 and subsequently operated by Sound Oil. Sound Oil acquired Celtique's 50% interest in November 2011. The Nervesa field has the potential of five further completions on the remaining 12 sand intervals at 1,829m to 1,964m depth. Gross P50 contingent resources have been independently estimated to be 20.7 Bscf. The first well was drilled in July 2013 with 46 metres of net pay across 13 zones. The well test achieved a stabilised total gas flow rate of 2.7 MMscfd from multiple sandstone intervals in the Upper Miocene San Dona Formation using a dual string completion. Following these successful results, Sound Oil has applied for a Production Concession with a view to achieving first gas sales at Nervesa in 2015. This is the first well in a 2 or 3 well development plan with the second well, in the Southern part of the structure, planned for Q2-Q3 2014. There are preliminary signs of potential for an additional exploration prospect on the same licence.

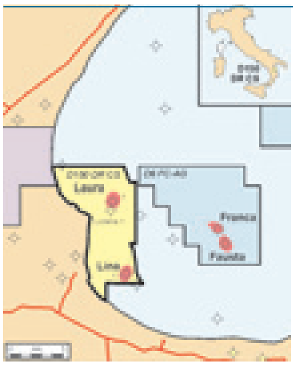


Figure 5

Laura Discovery (Sound Oil 100%)

D150 DR-CS is located in the Ionian Sea Zone D within the Sibari Basin in offshore (ENI) Calabria (Fig. 5). Average water depth is 200m. The permit area was formerly held by Agip as permit D.R50.AG between 1976 and 1984. In 1980 commercial gas was discovered in two sand intervals in Laura-1. Gross P50 contingent resources for the Laura discovery have been independently estimated to be 30 Bscf. The permit is expected to be awarded shortly and the strategy is to drill an appraisal well on the discovery. In order to reduce potential drilling and development 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 project and intends to submit a drilling application on award of the permit to enable drilling in 2015.

Santa Maria Goretti Permit (Sound Oil 100%)

In December 2013, Sound was pleased to announce the award of the Santa Maria Goretti Permit ("SMG Permit") from the Italian Ministry of Economic Development.

The onshore SMG Permit sits in the Marche Region in Italy, covers an area of 101km^2 and is owned 100% by Sound Oil. The SMG Permit area contains the southern extension of two significant producing gas fields, which are operated by ENI in the adjacent permit. Sound Oil's internal seismic evaluation and reservoir studies are very encouraging and the Company plans to submit a drilling application to appraise the reservoir.

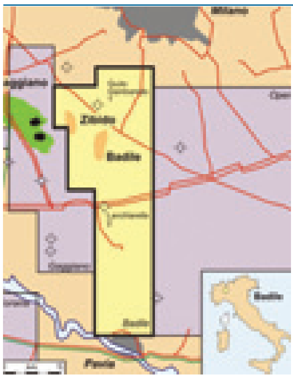


Figure 6

Exploration Assets

Badile Prospect (Sound Oil 100%)

The permit containing the Badile Prospect was awarded in March 2010. An independent Competent Person's Report (CPR) has confirmed a Best estimate NPV10 of €486m, an increase of 60% on the previous CPR (which was €302m). The CPR has also estimated a High Case NPV10 of €1.7bn and a Low Case NPV10 of €101m.

Underpinning these estimates are gross prospective resources of 178Bscf equivalent (106 Bscf of gas plus 12 MMbbl of condensate) with a High Case estimate of 673Bscfe (397 Bscf of gas plus 46 MMbbl of condensate) and a Low Case estimate of 46Bscfe (28 Bscf of gas plus 3 MMbbl of condensate). The study has also confirmed a 22% geological chance of success for the prospect. In December 2013 Sound Oil applied to drill the exploratory well Moirago-1 submitting both the well plan and the relevant EIA documentation.

Statement of Proved and Probable Reserves

The Group's proved and probable hydrocarbon reserves as at 31 December 2013 were:

	Gas (Bscf)	MMboe
Proved reserves at 31 December 2012	0.81	0.14
Additions	0.09	0.02
Production	(0.08)	(0.01)
Proved reserves at 31 December 2013	**0.82**	**0.14**
Probable reserves at 31 December 2012	0.49	0.08
Additions	0.13	0.02
Revisions	(0.02)	(0.00)
Probable reserves at 31 December 2013	**0.60**	**0.10**
Total Proved and Probable Reserves at 31 December 2013	**1.42**	**0.24**

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).

The Team

Andrew Hockey, Chairman (Non-Executive)

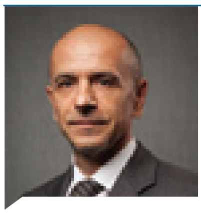
- Chairman of Exploration and Production Technical Committee
- 30 years technical and managerial experience in the upstream oil and gas industry in the UK and overseas
- MSc in Petroleum Geology (Imperial College), BA in Geology (Oxford)

James Parsons, Chief Executive Officer and Director

- 21 years in Oil/Gas across Europe, South America and Central America
- 12 years with Royal Dutch Shell
- Strong background in upstream strategy, M&A and finance

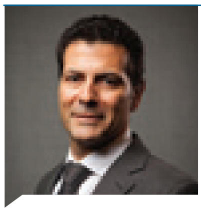
Stuart Joyner, Chief Financial Officer

- 20 years in oil and gas investment banking
- Previously Head of Oil and Gas at Investec, Credit Suisse and Morgan Stanley
- Relationships with key institutions and debt funding experience



Luca Madeddu, Italy Managing Director

- 22 years as reservoir geologist with ENI in Europe, Asia and South America
- Extensive experience in hydrocarbon production, field development, petroleum engineering, supply chain management and reservoir engineering
- Able to navigate the Italian regulatory process

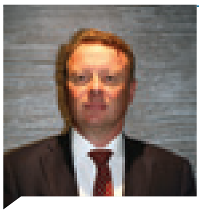


Leonardo Spicci, Italy Deputy Managing Director

- 20 years reservoir geologist with ENI, Petrobel, KPO and GSA
- Previously ENI District Manager for all Northern Italian Assets
- Worked across Italy, Northern Africa, Middle East and Central Asia

The Team continued

Simon Davies, Non-Executive Director

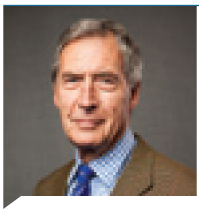


- 30 years of investment management experience. Retired as Executive Chairman of Threadneedle Asset Management in 2012 having joined Threadneedle as Chief Investment Officer in 1995; over this period Threadneedle's assets under management increased from £22 billion to approximately £70 billion.
- Currently Chairman of JP Morgan Overseas Investment Trust, a Non Executive Director of Grainger Plc and Director of a number of subsidiaries of Old Mutual Wealth Management.

Gerry Orbell, Non-Executive Director

- A petroleum geologist with over 40 years of international experience including Board positions at Premier Oil and Fina
- Currently Chairman of AIM quoted Antrim Energy Inc. and serves as a director on a number of private company boards
- Retired as Chairman and CEO of Sound Oil in 2012 after founding the company in 2005 and running it for seven years

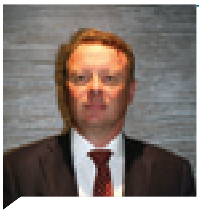
Tony Heath, Non-Executive Director (Retiring end of June 2014)



- 30 years of financial, exploration and general management experience in the oil and gas industry
- Was responsible for all financial information and control for Burmah Oil covering operations in 35 countries
- Is a chartered accountant and was Group Finance Director of Sound Oil from 2005 to August 2010

The Team continued

Simon Davies, Non-Executive Director

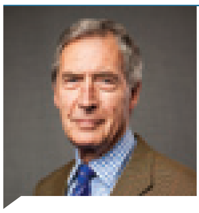


- 30 years of investment management experience. Retired as Executive Chairman of Threadneedle Asset Management in 2012 having joined Threadneedle as Chief Investment Officer in 1995; over this period Threadneedle's assets under management increased from £22 billion to approximately £70 billion.
- Currently Chairman of JP Morgan Overseas Investment Trust, a Non Executive Director of Grainger Plc and Director of a number of subsidiaries of Old Mutual Wealth Management.

Gerry Orbell, Non-Executive Director

- A petroleum geologist with over 40 years of international experience including Board positions at Premier Oil and Fina
- Currently Chairman of AIM quoted Antrim Energy Inc. and serves as a director on a number of private company boards
- Retired as Chairman and CEO of Sound Oil in 2012 after founding the company in 2005 and running it for seven years

Tony Heath, Non-Executive Director (Retiring end of June 2014)



- 30 years of financial, exploration and general management experience in the oil and gas industry
- Was responsible for all financial information and control for Burmah Oil covering operations in 35 countries
- Is a chartered accountant and was Group Finance Director of Sound Oil from 2005 to August 2010

Strategic Report

The Directors present their strategic report for Sound Oil plc (the Company) and its subsidiaries (the Group) for the year ended 31 December 2013.

Business Review

The Group's loss after the tax for the year amounted to £6,864,000 (2012 loss: £13,738,000).

Future Developments

The Group continues to focus on its core strategy of commercialising the Carita licence (Nervesa) with the aim of first revenues from this licence in 2015, drilling the potentially game-changing Badile prospect at the end of 2014 and then proceeding to develop the Laura discovery.

First production from the Casa Tiberi well is expected mid-2014 and, combined with the strong Rapagnano revenues now being received, this will more than cover the majority of on-going running costs.

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 its development.

This report was approved by the board on 19 May 2014 and signed on its behalf

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.

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 the Technical Review.

Environment

The Group places high priority on minimising the environmental impact of our operations. No group company has been notified of any instance of non-compliance with environmental legislation in the country in which they work.

Andrew Hockey
Chairman
20 May 2014

Report of the Directors

The Directors submit their report and the audited accounts for the year ended 31 December 2013.

Directors

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

Andrew Hockey
James Parsons
Tony Heath (retiring end June 2014)
Michael Nobbs (retired 18 December 2013)

Going concern

Details of going concern considerations are shown in the Financial Review on page 7.

Dividends

The Directors do not recommend the payment of a dividend.

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.

Exploration and Production Technical Committee

The Exploration and Production Technical Committee ("EPTC") exists 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 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 technical 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.

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.

Disclosure in the Strategic Report

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized companies and groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the directors' report have been omitted as they are included in the strategic report on page 14. These matters relate to the principal activities, review of the business, future developments, financial risk management objectives and policies, key performance indicators and business risk and uncertainties.

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 2012 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 2013. The table below sets out our operational HSE performance for 2012 and 2013, 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 2014.

Operations Type	**2013**			**2012**		
	Operations	**Lost time Incidents***		**Operations**	**Lost time Incidents***	
	(Hours)	**(Number)**	**(Hours)**	**(Hours)**	**(Number)**	**(Hours)**
Drilling	32,865	–	–	–	–	–
Well Testing	2,888	–	–	133	–	–
Facilities Construction	960	–	–	24	–	–
Production Operations	360	–	–	–	–	–
Totals	**37,073**	**–**	**–**	**157**	**–**	**–**

* 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)

By order of the Board
Stephen Ronaldson
Company Secretary
20 May 2014

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 currently comprises Simon Davies, 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

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 2014 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 may be 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 and gas 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 in the median. 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 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's 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 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	2013 Performance Award	2012 Performance Award	2013 Extraordinary Compensation	Total 2013	Total 2012
Executive Directors						
James Parsons (i)	234	60	–	–	294	52
Gerry Orbell	–	–	–	–	–	496
Non-executive Directors and Chairman						
Andrew Hockey	70	–	–	–	70	40
Michael Nobbs (ii)	35	–	–	30	65	31
Tony Heath	31	–	–	30	61	31
Ilham Habibie	–	–	–	–	–	29
Total for all Directors	**370**	**60**	**–**	**60**	**490**	**679**

(i) Includes pension contribution of 4%. Salary revised to £250,000 plus 4% pension contribution from 1 January 2014.
(ii) Left the Company on 18 December 2013

Share Options

	Date of Grant	Exercisable Date	Acquisition Price per share (pence)	Options held at 1 January 2013	Options held at 31 December 2013
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	150,000
	1.03.2012	01.03.2014-28.02.2018	25.00	150,000	150,000
	1.03.2012	01.03.2015-28.02.2018	25.00	150,000	150,000
	26.10.2012	26.10.2012-25.10.2016	16.50	333,333	333,333
	26.10.2012	26.10.2013-25.10.2016	16.50	333,333	333,333
	26.10.2012	26.10.2014-25.10.2016	16.50	333,334	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
	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	100,000
	26.10.2012	26.10.2013-25.10.2016	16.50	100,000	100,000
	26.10.2012	26.10.2014-25.10.2016	16.50	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 end of 2013 option coverage is relatively limited (some 2.3% 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 notes 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 are split in accordance with best practice.

20 board meetings were held during the year.

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.
- 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 2013.

The Board has established levels of authorisation of financial commitments and payment approval procedures appropriate to the size of the business. The Board receives 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, 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 is 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 permanent 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 to 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.

The Directors 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 2013 which comprise Consolidated Statement of Comprehensive Income, 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 Strategic Report, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent, with the knowledge acquired by us in the course of performing the audit. 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 2013 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
20 May 2014

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 Statement of Comprehensive Income

for the year ended 31 December 2013

	Notes	2013 £'000s	2012 £'000s
Revenue		482	–
Operating costs		(265)	–
Exploration and development costs		(4,038)	(1,455)
Gross loss		**(3,821)**	**(1,455)**
Administrative expenses		(2,616)	(3,176)
Group trading loss from continuing operations	3	**(6,437)**	**(4,631)**
Finance revenue	6	9	11
Foreign exchange (loss)/gain		(304)	(174)
External interest costs		(132)	(10)
Loss before income tax		**(6,864)**	**(4,804)**
Income tax	7	–	–
Loss for the period attributable to continuing operations		**(6,864)**	**(4,804)**
Loss on disposal from discontinued operations	8	–	(8,934)
Loss for the period attributable to owners of the parent		**(6,864)**	**(13,738)**
Other comprehensive income:			
Foreign currency translation gain		557	427
Total comprehensive income for the year		**(6,307)**	**(13,311)**
Attributable to:			
Equity holders of the parent		**(6,307)**	**(13,311)**

	Notes	2013 Pence	2012 Pence
Loss per share (basic) from continuing operations	9	(2.40)	(2.00)
Loss per share (basic) from discontinued operations	9	–	(3.70)

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 £2,183,000 (2012: £28,647,000).

Consolidated Balance Sheet

as at 31 December 2013

Group	Notes	2013 £'000s	2012 £'000s
Non-current assets			
Property, plant and equipment	10	1,476	853
Intangible assets	11	19,500	14,546
		20,976	**15,399**
Current assets			
Other debtors	13	1,978	2,774
Prepayments		184	38
Cash and short term deposits	14	543	6,909
		2,705	**9,721**
Total assets		**23,681**	**25,120**
Current liabilities			
Trade and other payables	15	2,797	719
Loans repayable in under one year	15	229	82
		3,026	**801**
Non-current liabilities			
Deferred tax liabilities	16	2,165	2,125
Provisions	17	1,226	680
Loans due in over one year	15	1,947	
		5,338	**2,805**
Total liabilities		**8,364**	**3,606**
Net assets		**15,317**	**21,514**
Capital and reserves attributable to equity holders of the company			
Issued equity share capital and share premium		63,085	63,083
Accumulated deficit		(49,029)	(42,273)
Foreign currency reserve		1,261	704
Total equity	**18**	**15,317**	**21,514**

The financial statements were approved by the Board and authorised for issue on 20 May 2014 and were signed on its behalf by:

J Parsons
Director

A Hockey
Director

The accounting policies on pages 27 to 31 and notes on pages 32 to 50 form part of these financial statements .

Company Balance Sheet

as at 31 December 2013. Company number: 05344804

Company	Notes	2013 £'000s	2012 £'000s
Non-current assets			
Property, plant and equipment	10	6	7
Investments in subsidiaries	12	24,252	22,880
		24,258	**22,887**
Current assets			
Other debtors	13	12	1,698
Prepayments		143	38
Cash and short term deposits	14	418	2,141
		573	**3,877**
Total assets		**24,831**	**26,764**
Current liabilities			
Trade and other payables	15	399	259
Net assets		**24,432**	**26,505**
Capital and reserves attributable to equity holders of the company			
Issued equity share capital and share premium		63,085	63, 083
Accumulated deficit		(38,653)	(36,578)
Total equity	**18**	**24,432**	**26,505**

The financial statements were approved by the Board and authorised for issue on 20 May 2014 and were signed on its behalf by:

J Parsons
Director

A Hockey
Director

The accounting policies on pages 27 to 31 and notes on pages 32 to 50 form part of these financial statements .

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

Group	Notes	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2013		**2,870**	**60,213**	**(42,273)**	**704**	**21,514**
Total loss for the period		–	–	(6,864)	–	(6,864)
Other comprehensive gain/(loss)		–	–	–	557	557
Total comprehensive income/(loss)		**–**	**–**	**(6,864)**	**557**	**(6,307)**
Issue of share capital		6	43	–	–	49
Transaction costs		–	(47)	–	–	(47)
Share based payments	23	–	–	108	–	108
At 31 December 2013		**2,876**	**60,209**	**(49,029)**	**1,261**	**15,317**

	Notes	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2012		**1,833**	**52,871**	**(28,606)**	**3,768**	**29,866**
Total loss for the year 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**

Company Statement of Changes in Equity

for the year ended 31 December 2013

Company	Notes	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Total equity £'000s
At 1 January 2013		**2,870**	**60,213**	**(36,578)**	**26,505**
(Loss) for the year		–	–	(2,183)	(2,183)
Issue of share capital		6	43	–	49
Transaction costs		–	(47)	–	(47)
Share based payments	23	–	–	108	108
At 31 December 2013		**2,876**	**60,209**	**(38,653)**	**24,432**

	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)
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**	**(36,578)**	**26,505**

Consolidated Cash Flow Statement

for the year ended 31 December 2013

	Notes	2013 £'000s	2012 £'000s
Cashflow from operating activities			
Cashflow from operations		(2,645)	(4,327)
Interest received		9	11
Net cash flow used in operating activities		**(2,636)**	**(4,316)**
Cash flow from investing activities			
Capital expenditure and disposals		(706)	(80)
Exploration expenditure		(6,482)	(3,913)
Net cash inflow on disposal of subsidiary		–	2,515
Net cash flow used in investing activities		**(7,188)**	**(1,478)**
Proceeds from CSTI funding contract		1,664	–
Net proceeds from equity issues		1,576	6,804
Net cash flow from financing activities		**3,240**	**6,804**
Net increase/(decrease) in cash and cash equivalents		(6,584)	1,010
Net foreign exchange difference		218	(387)
Cash and cash equivalents at 1 January		6,909	6,286
Cash and cash equivalents at 31 December	14	**543**	**6,909**

Notes to cash flow

	Notes	2013 £'000s	2012 £'000s
Cash flow from operations reconciliation			
Profit/(loss) after tax		(6,864)	(13, 738)
Finance revenue	6	(9)	(11)
Payroll bonuses paid in shares		60	–
Exploration expenditure written off		4,038	13,538
Increase/(decrease) in accruals and short term creditors		318	–
Depreciation, Depletion and Amortisation	3	146	24
Share based payments charge	23	108	71
Increase in short term debtors		(623)	393
Accrued interest		132	–
Reduction in long term debtors		–	668
Reduction in trade and other payables		–	(1,432)
Decrease in long term provisions		49	(20)
Profit on disposal of subsidiaries		–	(3,820)
Cash flow from operations		**(2,645)**	**(4,327)**

	2013 £'000s	2012 £'000s
Cash flow from discontinued operations		
Cashflow from investing activities	–	(2,184)
Cashflow from operating activities	–	(805)
Total cash outflow from discontinued operations	**–**	**(2,989)**

Company Cash Flow Statement

for the year ended 31 December 2013

	Notes	2013 £'000s	2012 £'000s
Cash flow from operating activities			
Cash flow from operations		(1,820)	(2,453)
Interest received		9	11
Net cash flow used in operating activities		**(1,811)**	**(2,442)**
Cash flow from investing activities			
Capital expenditure and disposals		(6)	(2)
Advances made to subsidiary undertakings		(1,626)	(7,317)
Net cash flow used in investing activities		**(1,632)**	**(7,319)**
Cash flow from financing activities			
Proceeds from equity issues		1,576	6,804
Net cash flow from financing activities		1,576	6,804
Net increase/(decrease) in cash and cash equivalents		**(1,867)**	**(2,957)**
Cash and cash equivalents at 1 January		2,141	5,092
Net foreign exchange differences		144	6
Cash and cash equivalents at 31 December	**14**	**418**	**2,141**

Notes to cash flow

	Notes	2013 £'000s	2012 £'000s
Cash flow from operations reconciliation			
Profit/(loss) after tax		(2,183)	(28, 646)
Finance revenue		(9)	(11)
Share based payments	23	108	71
Intercompany loans written off (including realised exchange gain on disposals)		18	26,156
(Decrease)/ increase in accruals and short term creditors		139	(26)
Decrease/(increase) in other non-current assets		(3)	
Movement in debtors		103	–
(Increase) in other non-current assets		–	(3)
Depreciation, Depletion and Amortisation		7	6
Cash flow from operations		**(1,820)**	**(2,453)**

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 financial position of the Group, its cash flows and available debt facilities are described in the Financial Review above. As at 31 December 2013 the Group had £0.6m 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 2015) will be less than the funds available as at 31 December 2013.

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) assets, provisions made for decommissioning, 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.

The recognition and measurement of decommissioning provisions involves the use of estimates and assumptions. These include the existence of a legal or constructive obligation to decommission, based on current legislation, contractual or regulatory requirements or best practice; the risk-free discount rate used to determine the net present value of the liability; the estimated cost of decommissioning based on internal and external engineering estimates and reports; and the payment dates of expected decommissioning costs which are uncertain and are based on economic assumptions surrounding the useful economic lives of the fields concerned. Actual costs could differ from estimated costs due to changes in legislation, regulations, technology, price levels and the expected date of decommissioning

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).

1 Accounting policies (continued)

b) Basis of consolidation

The Group financial statements consolidate the Income Statements and Balance Sheets of the Company and its subsidiary undertakings. Joint venture undertakings are accounted for using the proportionate consolidation method from the date that significant influence or joint control (respectively) commences until the date this ceases. Associates are accounted for using the equity method.

Investments in subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. Such power, generally but not exclusively, accompanies a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, until the date that control ceases.

The Group uses the purchase method of accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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.

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.

1 Accounting policies (continued)

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 expenses 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) Revenue recognition

Revenue associated with production sales of natural gas is recorded when title passes to the customer.

(f) Expenses recognition

Expenses are recognised on the accruals basis unless otherwise stated.

(g) 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.

Producing oil and gas assets are depreciated on the unit of production basis.

(h) 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.

1 Accounting policies (continued)

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.

(i) 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.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

(k) 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.

(l) 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.

(m) 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.

Notes to the Financial Statements

continued

1 Accounting policies (continued)

IFRS Standards and Interpretation issues (and EU adopted) but not yet effective

- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS30); issued June 2013 and effective for accounting periods beginning on or after 1st January 2014
- Investment Entities (Amendments to IFRS10, IFRS 12 and IAS27); issued October 2012 and effective for accounting periods beginning on or after 1 January 2014
- and effective for accounting periods beginning on or after 1 January 2014

IFRS Standards and Interpretation issues issued by IASB but not yet EU approved

- IFRS 9 Financial Instruments; issued November 2009
- IFRIC 21 Levies; issued May 2013
- IFRS14 Regulatory Deferral Accounts; issued January 2014

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.

(n) 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.

(o) Provisions

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

Notes to the Financial Statements

continued

2 Segment information

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

In the year ended 31 December 2013 the Group's exploration and appraisal activities were carried out in Italy only under a licensing and permit scheme.

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.

The Group reported its first production in 2013 and reports this accordingly under the Development and Production segment.

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

The segment results for the year ended 31 December 2013 are as follows:

	Corporate 2013 £'000s	Development and Production 2013 £'000s	Exploration and Appraisal 2013 £'000s	Total 2013 £'000s
Sales and other operating revenue from external customers	–	482	–	482
Operating costs	–	(265)	–	(265)
Impairment of exploration and evaluation assets	–	–	(4,038)	(4,038)
Administration expenses	(2,616)	–	–	(2,616)
Operating loss segment result	(2,616)	217	(4,038)	(6,437)
Interest receivable	9	–	–	9
Interest payable	(436)	–	–	(436)
Loss for the year before taxation	**(3,043)**	**217**	**(4,038)**	**(6,864)**

During the period, revenues amounting to £482,000 arose from a single customer.

	Corporate 2013 £'000s	Development and Production 2013 £'000s	Exploration and Appraisal 2013 £'000s	Total 2013 £'000s
Capital expenditure	88	1,388	19,500	20,976
Other assets	2,705	–		2,705
Total liabilities	(2,165)	(578)	(5,621)	(8,364)

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

	UK £'000s	Italy £'000s
Sales and other operating revenue	–	482
Development and production assets	–	1,388
Fixtures, fittings and office equipment	6	82
Goodwill	–	2,167
Exploration and evaluation assets	–	17,333
Total Assets	**6**	**20,970**

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

2 Segment information (continued)

	Corporate 2012 £'000s	Development and Production 2012 £'000s	Exploration and Appraisal 2012	Total £'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)
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	765	14,546	15,399
Other assets	9,721	–	–	9,721
Total liabilities	(3,606)	–	–	(3,606)

The geographical split of non-current assets were 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 Assets	**7**	**15,392**

3 Operating loss

Operating loss is stated after charging:

	Notes	2013 £'000s	2012 £'000s
Auditors' remuneration	4	82	98
Depreciation and amortisation	10	146	24
Employee costs	5	2,045	2,357
Impairment charge	11	3,984	1,455

4 Auditors' remuneration

	2013 £'000s	2012 £'000s
Fees payable to the company's auditor for the audit of the company's annual accounts	67	73
Fees payable to the company's auditor and its associates for other services:		
– The audit of the company's subsidiaries pursuant to legislation	7	6
– Tax services	8	19
	82	**98**

5 Employee costs

	Notes	2013 £'000s	2012 £'000s
Staff costs, including executive directors			
Share based payments	23	108	71
Wages and salaries		1,616	2,015
Social security costs		311	265
Employee benefits		10	6
Total	3	**2,045**	**2,357**

Total directors' remuneration in the year was £490,000 (2012: £679,000). The highest paid director received remuneration of £294,000 (2012: £496,000)

	2013	2012
Number of employees (including executive directors) at the end of the year		
Technical and operations	5	4
Management and administration	11	12
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

	2013 £'000s	2012 £'000s
Interest on cash at bank and short–term deposits	9	11
Total	**9**	**11**

Notes to the Financial Statements

continued

7 Taxation

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

	2013 £'000s Group	2012 £'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:

	2013 £'000s Group	2012 £'000s Group
(Loss)/profit before tax	(6,864)	(13, 738)
Tax (charge)/credit at UK corporation tax of 23% (2012: 24.5%)	1,579	3, 366
Temporary differences not recognised	(474)	(7,019)
Differences in overseas tax rates	(1,105)	3,653
Total tax (charge)/credit	**–**	**–**

(c) Tax account:

	2013 £'000s Group	2012 £'000s Group
Current tax receivable	–	–
Current tax payable	**–**	**–**

8 Discontinued activities

In 2012 the Company announced the sale of its 20% working interest in the Citarum PSC to Pan Orient Energy (Citarum) PTE . On 12 December 2012 the Company sold its subsidiary, Mitra Energia Bangkanai Ltd ('MEB') to Salamander Energy Plc.

Both of the above transactions were classified and accounted for as disposals in 2012 and presented as discontinued activities in the financial statements.

	2013 £'000s	2012 £'000s
Administration expenses	–	671
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**

In arriving at the net loss on disposal of the Citarum and Bangkanai assets in 2012 no value was attributed to contingent cash consideration of up to £12.2m ($18.6m) receivable by the Group in the event of revenues from future discoveries in the Citarum and Bangkanai PSC's and first gas from Kerendan. Despite positive newsflow from the Bangkanai PSC, the Board feels the likelihood of realisation of economic benefit from the contingent consideration is not sufficiently proximate to recognise the amounts as assets in the financial statements.

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:

	2013 £'000s	2012 £'000s
Loss after tax from continuing operations	**(6,864)**	**(4, 804)**

	2013 million	2012 million
Weighted average shares in issue	**288**	**242**

	2013 Pence	2012 Pence
Loss per share (basic) from continuing operations	**(2.40)**	**(2.00)**

	2013 £'000s	2012 £'000s
Loss after tax from discontinued operations	**–**	**(8,934)**

	2013 Pence	2012 Pence
Loss per share (basic) from discontinued operations	**–**	**(3.70)**

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

In accordance with IA S33, 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 2013		2,218	191	2,409
Exchange adjustments		21	3	24
Additions		706	37	743
Decommissioning provisions		2	–	2
As at 31 December 2013		**2,947**	**231**	**3,178**
Depreciation				
At 1 January 2013		1,453	103	1,556
Charge for the year	3	106	40	146
As at 31 December 2013		**1,559**	**143**	**1,702**
Net book amount at 31 December 2013		**1,388**	**88**	**1,476**

10 Property, Plant and Equipment (continued)

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)
Acquisitions		–	80	80
Additions		341	–	341
Transfers (1)		1,877	–	1,877
Disposals		(1,246)	(88)	(1,334)
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)
At 31 December 2012		**1,453**	**103**	**1,556**
Net book amount at 31 December 2012		**765**	**88**	**853**

(1) Transfers represent the reclassification of assets from intangible assets (note 11)

Company	Fixtures, fittings and office equipment £'000s	Total £'000s
Cost		
At 1 January 2013	22	22
Additions	6	6
Disposals	(10)	(10)
As at 31 December 2013	**18**	**18**
Depreciation		
At 1 January 2013	15	15
Charge for the year	7	7
Disposals	(10)	(10)
As at 31 December 2013	**12**	**12**
Net book amount at 31 December 2013	**6**	**6**

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

11 Intangible Assets

	Goodwill £'000s	Exploration and evaluation assets £'000s	Total £'000s
Cost			
At 1 January 2013	2,126	13.494	15,620
Exchange adjustments	41	180	221
Additions		8,719	8,719
At 31 December 2013	**2,167**	**22,393**	**24,560**
Impairment			
At 1 January 2013	–	1,076	1,076
Additions	–	3,984	3,984
At 31 December 2013	**–**	**5,060**	**5,060**
Net book amount at 31 December 2013	**2,167**	**17,333**	**19,500**

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

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

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").

A CPR for Badile was performed in October 2013 which gave a Best estimate NPV10 of €486m, an increase of 60% on the previous CPR. CPRs for the other Italian assets were last prepared 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.

11 Intangible Assets (continued)

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% (2012: 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.

In 2013, the impairment costs related primarily to the decision to relinquish the Sambucheto and Monteluro licences whilst reducing the carrying value of the Strombone license.

	2013 £'000s	2012 £'000s
Italy	4,038	1,453
Total	**4,038**	**1,453**

12 Investment in Subsidiaries

Company	2013 £'000s	2012 £'000s
At 1 January	22,880	41,719
Net advances to group companies	1,372	7,317
Write-off on disposals (net of foreign exchange gains on disposal)	–	(26,156)
At 31 December	**24,252**	**22,880**

The subsidiary companies of the Company at 31 December 2013 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 Citarum Limited*	Mauritius	Dormant Company
Consul Oil and Gas Limited	UK	Holding Company
Apennine Energy SpA	Italy	Exploration company
Apennine Oil and Gas SpA	Italy	Exploration company

* The investment in Mitra Energia Citarum Limited is 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 Sound Oil International and Consul group of companies.

Notes to the Financial Statements
continued

13 Other Debtors

Group

Group	2013 Current £'000s	2013 Non Current £'000s	2012 Current £'000s	2012 Non Current £'000s
Italian VAT	1,923	–	963	–
UK VAT	10	–	19	–
Other receivables	45	–	1,792	–
	1,978	**–**	**2,774**	**–**

None of the amounts included in other debtors are past due or impaired. The maximum exposure to credit risk is represented by their carrying amount. The Group and Company do not hold any collateral as security.

Currency analysis

	2013 Current £'000s	2013 Non Current £'000s	2012 Current £'000s	2012 Non Current £'000s
US Dollar	11	–	21	–
Euro	1,955	–	1,054	–
GBP Sterling	12	–	1,699	–
	1,978	**–**	**2,774**	**–**

Company

	2013 Current £'000s	2013 Non Current £'000s	2012 Current £'000s	2012 Non Current £'000s
UK VAT recoverable	10	–	18	–
Other receivables	2	–	1,680	–
	12	**–**	**1,698**	

Currency analysis

	2013 Current £'000s	2013 Non Current £'000s	2012 Current £'000s	2012 Non Current £'000s
GBP Sterling	12	–	1,698	–
	12	**–**	**1,698**	**–**

14 Cash and cash equivalents

Group

	2013 £'000s	2012 £'000s
Cash at bank and in hand	211	5,418
Cash equivalents:		
Short term deposits	332	1,491
Carrying amount at 31 December	**543**	**6,909**
being		
in US Dollars	23	2,664
in Euros	187	2,762
in Sterling	333	1,480
in Indonesian Rupiah	–	3
Total	**543**	**6,909**

Company

	2013 £'000s	2012 £'000s
Cash at bank and in hand	104	650
Cash equivalents:		
Short term deposits	314	1,491
Carrying amount at 31 December	**418**	**2,141**
being		
in US Dollars	23	100
in Euros	62	561
in Sterling	333	1,480
Total	**418**	**2,141**

15 Trade and other payables

Group

	2013 Current £'000s	2012 Current £'000s
Trade payable	2,317	461
Payroll taxes and social security	79	121
Accruals	401	137
Total	**2,797**	**719**

Currency Analysis

	2013 Current £'000s	2012 Current £'000s
US Dollar	–	101
Euro	2,397	393
Sterling	400	225
Total	**2,797**	**719**

Company

	2013 Current £'000s	2012 Current £'000s
Trade payables	64	120
Payroll taxes and social security	38	–
Accruals	297	111
Total	**399**	**259**

Currency Analysis

	2013 Current £'000s	2012 Current £'000s
US Dollar	–	34
Sterling	399	225
Total	**399**	**259**

All payables are due for within one year.

Loans and Borrowings	2013 Current £'000s	2012 Current £'000s
Current liabilities		
Other loans	229	–
	229	**–**
Non-current liabilities		
Other loans	1,947	–
	1,947	**–**

There were no default or breaches of loans payable in the year.

16 Deferred tax assets and liabilities

	2013 £'000s	2012 £'000s
1 January	**2,125**	**3,576**
Released on disposal	–	(1,525)
Unrealised foreign exchange (decrease)/increase	40	74
31 December	**2,165**	**2,125**

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

17 Provisions

	Abandonment £'000s	Other provisions £'000s	Total £'000s
At 1 January 2013	**559**	**121**	**680**
Additions in 2013	587	–	587
Released during the year	–	(63)	(63)
Discount unwind	3	–	3
Unrealised foreign exchange increase	15	4	19
As at 31 December 2013	**1,164**	**62**	**1,226**
Current	**451**	**62**	**513**
Non-current	**713**	**–**	**713**
Total	**1,164**	**62**	**1,226**

Abandonment

The provision of £1,164,000 relates to the following licences:

	£'000s
Rapagnano	127
Montemarciano	201
Marciano	250
Carita	586

Abandonments costs relating to Marciano and Montemarciano are likely to be incurred during 2015 and have been classified as current. There are no provisions in the parent Company.

18 Capital and Reserves

Company

	2013 Number of shares	2013 £'000s	2012 Number of shares	2012 £'000s
Ordinary shares - 0.1p	287,618,544	2,876	2,870,012,882	2,870

Share option schemes

Options to subscribe for the Company's shares were granted to certain executives in 2012 and 2013 (note 19).

Group

	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Foreign currency reserve £'000s	Total equity £'000s
At 1 January 2013	**2,870**	**60,213**	**(42,273)**	**704**	**21,514**
Total loss for the period	–	–	(6,864)	–	(6,864)
Other comprehensive income	–	–	–	557	557
Issue of share capital	6	43	–	–	49
Transaction costs	–	(47)	–	–	(47)
Share based payments	–	–	108	–	108
At 31 December 2013	**2,876**	**60,209**	**(49,029)**	**1,261**	**15,317**

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
Share based payments	–	–	–	–	–
Transaction costs	–	(1,247)	–	–	(1,247)
Share based payments	–	–	71	–	71
At 31 December 2012	**2,870**	**60,213**	**(42,273)**	**704**	**21,514**

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.

18 Capital and Reserves

Company

	Share capital £'000s	Share premium £'000s	Accumulated deficit £'000s	Total equity £'000s
At 1 January 2013	**2,870**	**60,213**	**(36,578)**	**26,505**
(Loss) for the year	–	–	(2,183)	(2,183)
Shares issued	6	43	–	49
Share based payments	–	–	108	108
Transaction costs	–	(47)	–	(47)
At 31 December 2013	**2,876**	**60,209**	**(38,653)**	**24,432**

Share Issues

On 4 January 2013, the Company held a general meeting to approve the previously announced 1 for every 10 share consolidation. The consolidation was approved and consequently Sound Oil shares were re-admitted to the AIM market with 287,012,882 shares in circulation.

On the 22 March 2013, the Company announced the results of its Open Offer which had been announced on 24 January 2013 with an offer price of 8.073 pence per New Ordinary Share. The Offer was not underwritten. The Company received valid acceptances in respect of 605,662 Open Offer Shares from eligible shareholders. Consequently, the Company now has 287,618,544 Ordinary Shares in issue.

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:

Name	Country of Incorporation	% equity interest 2013	2012
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
Mitra Energia Citarum	Mauritius	100	100

In 2013 the Group disposed of its investment in Mitra Energia Limited which had nil net assets at the end of 2012.

Terms and conditions of transactions with related parties

There were no sales or purchases to or from related parties (2012: none). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2013, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2012: 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 three key management personnel other than directors of the Company (2012: two). 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:

	2013 £'000s	2012 £'000s
Salaries and employee benefits	871	1,373
Share based payments	108	71
Total	**979**	**1,444**

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 Pence	Number 2013	Number 2012
2011	2016	49.5	100,000	100,000
2012	2016	16.5	300,000	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 Pence	Number 2013	Number 2012
2011	2016	21.75	330,000	330,000
2012	2018	25.0	450,000	450,000
2012	2016	16.5	1,000,000	1,000,000

Key management's interest in employee share options

Issue Date	Expiry Date	Exercise price Pence	Number 2013	Number 2012
2012	2017	16.5	330,000	330,000
2012	2018	25.0	450,000	450,000
2013	2018	12.15	2,622,219	–

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 entity 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.

Notes to the Financial Statements

continued

20 Financial Instruments risk management objectives and policies (continued)

Interest rate risk table

	Increase/ (decrease) %	Effect on profit before tax £'000s
2013		
Sterling	10	1
US Dollar	10	–
Euro	10	–
Sterling	(10)	(1)
US Dollar	(10)	–
Euro	(10)	–
2012		
Sterling	10	1
US Dollar	10	–
Euro	10	–
Sterling	(10)	(1)
US Dollar	(10)	–
Euro	(10)	–

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 2013 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.

	2013 £'000s	2012 £'000s
Borrowings	(2,176)	(82)
Cash and cash equivalents	543	6,909
Net (debt)/cash	(1,633)	6,827
Total capital excluding reserves:		
Equity share capital	2,876	2,870
Equity share premium	60,209	60,213
Shareholders equity	**15,317**	**21,514**

21 Foreign Currency Risk

As a result of the majority 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 hold some 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
2013	5	(283)	5	(2)
	(5)	298	(5)	1
2012	5	(456)	5	(136)
	(5)	480	(5)	143

Credit risk

The Group currently has one external customer from whom it earns revenue. 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 counterparty has a strong credit rating.

Liquidity Risk

The Group and Company have significant liquid assets and are not materially exposed to liquidity risk. For further details on the maturity of financial liabilities see note 15.

22 Financial Instruments

	Floating Rate £'000s	Interest-free £'000s	Total interest rate £'000s	Weighted average %
2013				
Cash and short term deposits				
GBP Sterling	315	18	333	0.45%
Euro	126	61	187	1.27%
US$	17	6	23	0.25%
Indonesian Rupiah	–	–	–	–
Total	**458**	**85**	**543**	**–**
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**	**–**

US$ cash balances have been converted at the exchange rate of US$1.6349/£1.00 (2012: US$1.5825/£1.00).

Euro cash balances have been converted at the exchange rate of €1.2015/£1.00 (2012: €1.2347/£1.00).

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

Notes to the Financial Statements

continued

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 and Company

	2013 £'000s	2012 £'000s
Expense arising from equity settled share options	108	71

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)
2013	2,622,219	5	12.15
Total	**2,622,219**	**5**	**12.15**
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**		

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.

	2013	2012
Share options outstanding at the start of the year	6,169,334	3,764,000
Share options granted	2,622,219	3,080,000
Share options expired	(2,609,333)	(674,666)
Share options outstanding at the end of the year	**6,182,220**	**6,169,334**

If all equity share options were exercisable immediately, new ordinary shares equal to approximately 2.3% of the Group's existing ordinary share capital base would be created.

24 Commitment and guarantees

At 31 December 2013, the Group had no commitments other than for decommissioning (note 17) and no capital commitments (2012: none).

25 Post balance sheet events

On 14 January 2014, the Company announced that both Simon Davies and Gerry Orbell would be appointed to the Board as non-executive directors following completion of the Open Offer announced on the same day. Consequently, they were both formally appointed on 3 February 2014.

On the 14 January 2014, the Company announced a new Open Offer to eligible shareholders in order to raise approximately £1.6m (before expenses). The Offer was made for 38,349,139 new shares at 4.2p per share and represented a 32.8% discount to the closing market price of the Company's shares on 13 January 2014.

The Open Offer was fully underwritten by Peel Hunt and Simon Davies. The Company was pleased announced on 3 February that it had received applications for shares significantly in excess of shares available as part of the issue. Consequently, 38,349,139 were admitted for trading on the AIM market on 4 February 2014.

On 14 January 2014, the Company also confirmed placement of a new asset backed loan of £1m provided by Simon Davies, which may be increased at the Company's discretion to £1.5m. The loan carries a 10% coupon and 17.5% fee.

On 25 April 2014, the Company announced that it had signed Heads of Terms with a new Institutional Investor, Continental Investment Partners SA ("Continental").

Continental agreed, subject to due diligence and contract, to inject a total of £14 million into the Company at an average price, post warrant exercise, of approximately 9 pence per share (a 69% premium to the closing share price on 24 April 2014).

Continental has agreed to subscribe for 100,000,000 new ordinary shares at a price of 8 pence per share to raise £8,000,000 before expenses. On Completion, the Investor will therefore own 23.41% of the Company's issued ordinary share capital. The Investor has agreed to an 18 month lock-in period for half of the shares to be subscribed for and a 12 months lock-in period for the other half.

As a sign of its commitment to the transaction, Continental immediately subscribed for a £1.5 million 3 year loan at a 10% coupon and was, on issue of this initial loan, granted 14,423,076 warrants to subscribe for new ordinary shares in the Company exercisable at a price of 10.4 pence per share. The exercise price of 10.4 pence per share represented a 98% premium to the closing share price on 24 April 2014 and a 79% premium to the three month VWAP. Coupon payments are made quarterly in arrears in cash.

Following approval by the Company's shareholders of the ordinary share issue at the Annual General Meeting, the Investor will provide Sound Oil with an additional £4.5 million by way of a further loan on the same terms as the initial £1.5 million loan described above (10% coupon and the issue of 43,269,230 warrants, exercisable at 10.4 pence per share). Coupon payments will also be made quarterly in arrears in cash. A fee of 5% of the total proceeds of the £14 million fundraising will be payable to the Investor by the Company.

The warrants are be both detachable and transferable and can be exercised at any point during the term of the loan. Should any of the warrants be exercised, the Company is entitled, but not obliged, to apply the proceeds received to the repayment of the loan at the time of exercise. The Investor will only be able to exercise the warrants up to the point where its ownership does not exceed 29.9% of the issued share capital of the Company. Any balance of the loan not repaid after three years will be repayable at that point in cash by the Company.

It is intended that on the issue of the second tranche of the loan note, the existing £1 million loan from Simon Davies, a director of the Company, will convert into a new loan on identical terms to the Investor loan (including the issue of warrants) but without fees.

Upon successful completion of the ordinary share issue and issue of the loan notes and warrants, it is intended that the Investor will have the right to nominate two Non-Executive Directors for appointment to the Board of the Company.

On 28 April 2014, the Company announced it had signed non-binding heads of terms with Niche Group plc ("Niche") for a farm down of the Company's onshore Carita licence in the Po Valley, Northern Italy (the "Heads of Terms"). The Carita licence area includes the Nervesa discovery.

Under the Heads of Terms, Niche will acquire, subject to completion of due diligence, a 27.5% interest in the Carita licence in exchange for paying 100% of the costs of a second well to address the southern part of the structure, planned for Q2/Q3 2014. Following the farm out, the Company will continue to hold a 72.5% interest in the Carita licence. The second well, to be funded by Niche, is estimated to cost Euro 6 million, including testing, completion and applicable taxes. The Heads of Terms include a binding and mutual break fee and a binding agreement is expected to be entered into during Q2 2014.

List of Licences and Interests

Licence	Status	Key Project or Prospect Name	Type	WI (%)	Area (km²)	Operator
Rapagnano[1]	Concession	Rapagnano	Gas Production	100	8.5	Sound Oil
Fonte San Damiano	Concession	Marciano	Gas Production (suspended)	100	23.7	Sound Oil
Torrente Alvo[2]	Permit	Strombone	Oil Discovery	100	84.3	Sound Oil
Villa Gigli[3]	Permit	Musone	Oil Discovery	100	100.9	Sound Oil
Badile	Permit	Badile	Prospect	100	154.5	Sound Oil
Santa Maria Goretti	Permit	Tesino	Appraisal	100	101.3	Sound Oil
Carità[4]	Permit	Nervesa	Gas Discovery	100	529.8	Sound Oil
Monte Negro[2]	Permit	–	–	100	287.7	Sound Oil
Montemarciano	Permit	–	–	75	49.4	Sound Oil
D150 DR-CS	Application	Laura	Gas Discovery	100	65.2	Sound Oil
D503 BR-CS	Application	Dora	Gas Discovery	100	138.1	Sound Oil
Posta Del Giudice[3]	Application	–	–	100	113.6	Sound Oil
Solfara Mare	Application	–	–	100	337	Sound Oil
D148 DR-CS	Application	–	–	100	63.1	Sound Oil
Costa Del Sole	Application	Manfria	Oil Discovery	100	41.5	Sound Oil
Tardiano	Application	–	–	100	212.4	Sound Oil
Torre del Ferro	Application	–	–	100	118.	Sound Oil
San Lorenzo	Concession	Casa Tiberi	Gas Discovery	100	4.9	Sound Oil

Notes:

1. A concession allows hydrocarbon production and is valid for twenty years. A permit is valid for six years and allows seismic and drilling operations. An application for a permit can be made at anytime, it becomes exclusive to the applying company three months after publication in the Official Journal of the EU. All the applications listed here are exclusive to Apennine Energy. The conversion of an application to a full permit requires the approval of an Environmental Impact Assessment.

2. Monte Negro and Torrente Alvo Permit: 100 per cent. SOU (50 per cent. Apennine Energy -50 per cent. Apennine Oil and Gas).

3. Prior to the asset swap transaction announced by the Company on 28 February 2013, Compagnia Generale Idrocarburi SpA and Sound Oil each held a 50 per cent. equity position in four assets: two awarded licences (Villa Gigli and Colle Ginestre) and two outstanding applications (Posta del Guidice and Il Convento). Sound Oil increased its equity position to 100 per cent. in Villa Gigli and Posta Del Giudice in exchange for eliminating any equity interest in Il Convento and Colle Ginestre. Final regulatory approved is awaited.

4. On 28 April 2014, the Company announced it had signed non-binding heads of terms with Niche Group plc ("Niche") for a farm down of the Company's onshore Carita licence in the Po Valley, Northern Italy (the "Heads of Terms"). The Carita licence area includes the Nervesa discovery.

   Under the Heads of Terms, Niche will acquire, subject to completion of due diligence, a 27.5 per cent. interest in the Carita licence in exchange for paying 100 per cent. of the costs of a second well to address the southern part of the structure, planned for Q2/Q3 2014. Following the farm out, the Company will continue to hold a 72.5 per cent. interest in the Carita licence. The second well, to be funded by Niche, is estimated to cost Euro 6 million, including testing, completion and applicable taxes. The Heads of Terms include a binding and mutual break fee and a binding agreement is expected to be entered into during Q2 2014.

Dealing Information

FT Share Price Index – Telephone 0906 8433711
SEAQ short code – SOU

Financial Calendar

Meetings
Annual General Meeting – 25 June 2014

Announcements
2014 Interim – 19 September 2014
2014 Preliminary – April 2015

Addresses

Registered Office
Sound Oil plc
55 Gower Street
London WC1E 6HQ

Business Address
Sound Oil plc
Riverbridge House
Guildford Road
Leatherhead
Surrey KT22 9AD

Company Secretary
S Ronaldson
55 Gower Street
London WC1E 6HQ

Tel: +44 (0) 20 7580 6075
Fax: +44 (0) 20 7580 7429

Website
www.soundoil.co.uk

Auditors
Crowe Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London EC4Y 8EH

Stockbrokers
Peel Hunt
Moor House, 120 London Wall,
London EC2R 6AY

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

Registrars
Share Registrars Limited
Suite E, First Floor
9 Lion and Lamb Yard
Farnham
Surrey GU9 7LL

Designed and printed by Perivan 231838

www.soundoil.co.uk