



**Interim Report 2015**

Stock code: SOU



# Welcome to our 2015 Interim Report

**Sound Oil plc (Sound Energy plc from 1st October 2015) is a well funded Mediterranean gas company delivering an ambitious growth agenda underpinned by strong European gas fundamentals and a supportive cornerstone investor.**

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## Contents

Chairman's Statement	01
Condensed Interim Consolidated Income Statement	02
Condensed Interim Consolidated Balance Sheet	03
Condensed Interim Consolidated Statement of Changes in Equity	04
Condensed Interim Consolidated Cash Flow Statement	05
Notes to the Condensed Interim Consolidated Financial Statements	06
Dealing Information, Financial Calendar and Addresses	13

# Chairman's Statement



“Sound Oil is positioned with a well-balanced portfolio across Italy and Morocco, existing production, a strong cash balance, a supportive cornerstone investor and a bold growth agenda”

## Dear Shareholder,

I am pleased to report that the first half of 2015 has, once again, been a busy period for the Company.

Despite recent turbulence in the sector, Sound Oil is positioned with a well-balanced portfolio across Italy and Morocco, existing production, a strong cash balance, a supportive cornerstone investor and a bold growth agenda.

One of the key highlights of the period was our acquisition of an operated 55% position in the Tandrara license, onshore Morocco. Morocco is a stable, growing, gas-hungry country with strong gas prices and competitive fiscal terms. Tandrara benefits from a compelling risk / reward balance with both a large scale gas discovery and multiple Tcf exploration potential.

The Company also once again demonstrated progress across its Italian portfolio, including securing the EIA approval at the transformational Badile licence and continuing to deliver strong, cost covering, production at Rapagnano.

Despite a disappointing second well on the Nervesa discovery over the summer, the Company is positioned for commercial production from the first well, underpinned by strong gas prices which remain resilient to the recent oil price decline, by the end of the year. The Company is also finalising preparations for our first well in Morocco.

Our Executive team, under the leadership of James Parsons our Chief Executive, are executing a clearly defined and ambitious Mediterranean gas strategy. To better reflect our increasing gas focus, the Company will be known as Sound Energy plc from October 1st 2015.

I would like to take this opportunity to thank all our shareholders for their continued support.

**Simon Davies**

23 September 2015

# Condensed Interim Consolidated Income Statement

	Notes	<b>Six months ended 30 June 2015 Unaudited £'000s</b>	Six months ended 30 June 2014 Unaudited £'000s	Year ended 31 Dec 2014 Audited £'000s
<b>Revenue</b>		<b>478</b>	490	983
Operating costs		<b>(291)</b>	(267)	(658)
Impairment of producing assets		<b>—</b>	—	(723)
Exploration costs		<b>(1)</b>	(83)	(74)
<b>Gross profit/(loss)</b>		<b>186</b>	140	(472)
Administrative expenses		<b>(1,490)</b>	(1,378)	(2,773)
<b>Group operating loss from continuing operations</b>		<b>(1,304)</b>	(1,238)	(3,245)
Finance revenue		<b>12</b>	1	7
Foreign exchange gain/(loss)		<b>(2,000)</b>	(330)	(661)
External interest costs		<b>(602)</b>	(480)	(1,022)
<b>Loss for period before taxation</b>		<b>(3,894)</b>	(2,047)	(4,921)
Tax expense		<b>—</b>	—	—
<b>Loss for period after taxation</b>		<b>(3,894)</b>	(2,049)	(4,921)
Other comprehensive (loss)/income				
Foreign currency translation (loss)/income		<b>(100)</b>	(51)	127
<b>Total comprehensive loss for the period</b>		<b>(3,994)</b>	(2,098)	(4,794)
<b>Loss for the period attributable to:</b>				
Equity holders of the parent		<b>(3,994)</b>	(2,098)	(4,794)
Loss per share and diluted for the period attributable to the equity holders of the parent (pence)	4	<b>(0.91)</b>	(0.70)	(1.40)

# Condensed Interim Consolidated Balance Sheet

	Notes	Six months ended 30 June 2015 Unaudited £'000s	Six months ended 30 June 2014 Unaudited £'000s	Year ended 31 Dec 2014 Audited £'000s
<b>Non-current assets</b>				
Property, plant and equipment	6	12,403	1,585	13,200
Intangible assets	8	13,859	19,967	8,888
Land and buildings	7	1,294	—	1,433
		<b>27,556</b>	21,552	23,521
<b>Current assets</b>				
Other receivables		2,434	1,807	2,173
Prepayments		94	140	157
Cash and short term deposits		17,489	677	12,608
		<b>20,017</b>	2,624	14,938
<b>Total assets</b>		<b>47,573</b>	24,176	38,459
<b>Current Liabilities</b>				
Trade and other payables		3,626	934	2,194
Loans repayable in under one year		—	161	131
		<b>3,626</b>	1,095	2,325
<b>Non-current liabilities</b>				
Deferred tax liabilities		1,959	2,130	2,099
Loans due in over one year		13,538	4,851	13,437
Provisions		1,082	1,176	1,164
		<b>16,579</b>	8,157	16,700
<b>Total liabilities</b>		<b>20,205</b>	9,252	19,025
<b>Net Assets</b>		<b>27,369</b>	14,924	19,434
<b>Capital and Reserves</b>				
Equity share capital		83,086	64,625	71,298
Warrant Reserve		369	—	369
Foreign currency reserve		1,288	1,210	1,388
Accumulated deficit		(57,374)	(50,911)	(53,621)
<b>Total Equity</b>		<b>27,369</b>	14,924	19,434

The financial statements were approved by the Board and authorised for issue on 23 September 2015 and were signed on its behalf by:

**J Parsons**

Director

**S Davies**

Director

# Condensed Interim Consolidated Statement of Changes in Equity

	Share capital £'000s	Share premium £'000s	Accumulated Deficit £'000s	Warrant Reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
<b>At 1 January 2015</b>	4,153	67,145	(53,621)	369	1,388	19,434
Total Loss for the period	—	—	(3,894)	—	—	(3,894)
Other comprehensive income	—	—	—	—	(100)	(100)
Total income and expense for the period	—	—	(3,894)	—	(100)	(3,994)
Issue of share capital	675	12,034	—	—	—	12,709
Transaction costs	—	(921)	—	—	—	(921)
Share based payments	—	—	141	—	—	141
<b>At 30 June 2015 (unaudited)</b>	<b>4,828</b>	<b>78,258</b>	<b>(57,374)</b>	<b>369</b>	<b>1,288</b>	<b>27,369</b>

	Share capital £'000s	Share premium £'000s	Accumulated Deficit £'000s	Warrant Reserve £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2014	2,876	60,209	(49,029)	—	1,261	15,317
Total Loss for the period	—	—	(4,921)	—	—	(4,921)
Other comprehensive income	—	—	—	—	127	127
Total comprehensive income/(loss)	—	—	(4,921)	—	127	(4,794)
Issue of share capital	1,277	7,442	—	—	—	8,719
Transaction costs	—	(506)	—	—	—	(506)
Fair value of warrants	—	—	—	369	—	369
Share based payments	—	—	329	—	—	329
At 31 December 2014	4,153	67,145	(53,621)	369	1,388	19,434

	Share capital £'000s	Share premium £'000s	Accumulated Deficit £'000s	Foreign currency reserves £'000s	Total equity £'000s
At 1 January 2014	2,876	60,209	(49,029)	1,261	15,514
Total Loss for the period	—	—	(2,047)	—	(2,047)
Other comprehensive income	—	—	—	(51)	(51)
Total comprehensive income/(loss)	—	—	(2,047)	(51)	(2,098)
Issue of share capital	402	1,317	—	—	1,719
Transaction costs	—	(179)	—	—	(179)
Share based payments	—	—	165	—	165
At 30 June 2014 (unaudited)	3,278	61,347	(50,911)	1,210	14,924

# Condensed Interim Consolidated Cash Flow Statement

	<b>Six months ended 30 June 2015 Unaudited £'000s</b>	Six months ended 30 June 2014 Unaudited £'000s	Year ended 31 Dec 2014 Audited £'000s
<b>Cash flow from operating activities</b>			
Cash flow from operations	<b>(1,593)</b>	(1,134)	(3,327)
Interest received	<b>12</b>	1	7
<b>Net cash flow from operating activities</b>	<b>(1,581)</b>	(1,133)	(3,320)
<b>Cash flow from investing activities</b>			
Capital expenditure and disposals	<b>(292)</b>	(3)	(2,258)
Exploration and development expenditure	<b>(3,156)</b>	(2,151)	(1,089)
<b>Net cash flow from investing activities</b>	<b>(3,448)</b>	(2,154)	(3,347)
CSTI Funding contract	<b>(115)</b>	—	(242)
Net proceeds from debt	<b>—</b>	2,250	11,398
Net Proceeds from equity issue	<b>11,163</b>	1,138	8,213
Interest payments	<b>(382)</b>	(45)	(280)
<b>Net cash flow from financing activities</b>	<b>10,666</b>	3,343	19,089
Net increase/(decrease) in cash and cash equivalents	<b>5,637</b>	56	12,420
Net foreign exchange difference	<b>(756)</b>	78	(355)
Cash and cash equivalents at the beginning of the period	<b>12,608</b>	543	543
<b>Cash and cash equivalents at the end of the period</b>	<b>17,489</b>	677	12,608

	<b>Six months ended 30 June 2015 Unaudited £'000s</b>	Six months ended 30 June 2014 Unaudited £'000s	Year ended 31 Dec 2014 Audited £'000s
Notes to cash flow			
<b>Cash flow from operations reconciliation</b>			
Loss before tax	<b>(3,894)</b>	(2,047)	(4,921)
Finance revenue	<b>(12)</b>	(1)	(7)
Payroll bonuses paid in shares	<b>—</b>	48	60
Exploration expenditure written off and impairment of assets	<b>—</b>	83	797
Increase/(decrease) in accruals and short term payables	<b>(329)</b>	(466)	(603)
Depreciation	<b>98</b>	121	225
Share based payments charge	<b>141</b>	165	329
Decrease in long term provisions	<b>—</b>	(61)	(62)
Finance costs and exchange differences	<b>2,602</b>	480	1,022
Decrease/(increase) in short term receivables	<b>(199)</b>	544	(167)
<b>Cash flow from operations</b>	<b>(1,593)</b>	(1,134)	(3,327)

# Notes to the Condensed Interim Consolidated Financial Statements

## 1. Basis of preparation

The condensed interim consolidated financial statements do not represent statutory accounts within the meaning of section 435 of the Companies Act 2006. The comparative financial information is based on the statutory accounts for the year ended 31 December 2013. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The condensed interim financial information is unaudited and has been prepared on the basis of the accounting policies set out in the Group's 2014 statutory accounts in accordance with IAS 34 Interim Financial Reporting.

The seasonality or cyclicity of operations does not impact on the interim financial statements.

## 2. Segment information

The Group's categorises its operations into two business segments based on exploration and appraisal and development and production. The Group's exploration and appraisal activities are carried out in Italy under various licenses and permits. 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. In 2013, the Group recognised its first revenue from the Rapagnano license. All sales and operating costs relate to production from that license. Details regarding each of the operations of each reportable segment is included in the following tables: The segment results for the period ended 30 June 2015 are as follows:

### Segment results for the period ended 30 June 2015

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Sales and other operating revenues	—	478	—	478
Operating costs	—	(291)	—	(291)
Exploration costs	—	—	(1)	(1)
Administration expenses	(1,490)	—	—	(1,490)
<b>Operating loss segment result</b>	<b>(1,490)</b>	<b>187</b>	<b>(1)</b>	<b>(1,304)</b>
Interest receivable	12	—	—	12
Finance costs	(2,602)	—	—	(2,602)
<b>Loss for the period before taxation</b>	<b>(4,080)</b>	<b>187</b>	<b>(1)</b>	<b>(3,894)</b>

The segments assets and liabilities at 30 June 2015 are as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Capital expenditure	67	12,336	15,153	27,556
Other assets	20,017	—	—	20,017
Total liabilities	(1,959)	(6,669)	(11,577)	(20,205)

## 2. Segment information (continued)

Segment results for the period ended 30 June 2014

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Sales and other operating revenues	—	490	—	490
Operating costs	—	(267)	—	(267)
Exploration costs	—	—	(83)	(83)
Administration expenses	(1,378)	—	—	(1,378)
Operating loss segment result	(1,378)	223	(83)	(1,238)
Interest receivable	1	—	—	1
Finance costs	(810)	—	—	(810)
Loss for the period before taxation	(2,167)	223	(83)	(2,047)

The segments assets and liabilities at 30 June 2014 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Capital expenditure	70	1,515	19,967	21,552
Other assets	2,625	—	—	2,625
Total liabilities	(9,253)	—	—	(9,253)

# Notes to the Condensed Interim Consolidated Financial Statements continued

## 2. Segment information (continued)

Segment results for the year ended 31 December 2014

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Sales and other operating revenues	—	983	—	983
Operating costs	—	(658)	—	(658)
Exploration costs	—	—	(74)	(74)
Impairment of producing assets	—	(723)	—	(723)
Administration expenses	(2,773)	—	—	(2,773)
Operating loss segment result	(2,773)	(398)	(74)	(3,245)
Interest receivable	7	—	—	7
Finance costs	(1,552)	(131)	—	(1,683)
Loss for the period before taxation	(4,318)	(529)	(74)	(4,921)

The segments assets and liabilities at 31 December 2014 were as follows:

	Corporate £'000s	Development & Production £'000s	Exploration & Appraisal £'000s	Total £'000s
Capital expenditure	—	13,112	10,409	23,521
Other assets	14,938	—	—	14,938
Total liabilities	(2,099)	(1,557)	(15,369)	(19,025)

## 3. Share based payments

No new options were awarded to the Executive Team during the first half of 2015. The charge of £141,000 recognises the amortisation of share options awarded in prior years.

## 4. Related party transactions

There were no sales or purchases to or from related parties. In 2014, the Company finalised a loan arrangement from the Company's Chairman, Simon Davies. The loan carries an annual coupon of 10% and an amount of £1m was drawn in 2014.

No guarantees were provided or received for any related party receivables or payables and there were no further other transactions with related parties, directors' loans and other directors' interests.

## 5. Profit/(loss) per share

The calculation of basic profit/(loss) per Ordinary Share is based on the profit/(loss) after tax and on the weighted average number of Ordinary Shares in issue during the period. Basic profit/(loss) per share is calculated as follows:

	Loss after tax from continuing operations			Weighted average shares in issue			Loss per share (basic) from continuing operations		
	June 2015 £'000s	June 2014 £'000s	December 2014 £'000s	June 2015 million	June 2014 million	December 2014 million	June 2015 pence	June 2014 pence	December 2014 pence
Basic	<b>(3,894)</b>	(2,047)	(4,921)	<b>430</b>	291	360	<b>(0.91)</b>	(0.70)	(1.40)

**6. Property, plant and equipment**

	<b>Six months ended 30 June 2015 Unaudited £'000s</b>	Six months ended 30 June 2014 Unaudited £'000s	Year ended 31 Dec 2014 Audited £'000s
<b>Development and production assets</b>			
<b>Cost</b>			
At start of period	15,566	2,947	2,947
Exchange adjustments	(1,229)	(40)	(548)
Additions	511	269	1,612
Transfers	—	—	11,555
At end of period	<b>14,848</b>	3,176	15,566
<b>Depreciation</b>			
At start of period	2,454	1,559	1,559
Transfers	—	—	—
Charge for period	58	102	183
Impairment of assets			712
At end of period	<b>2,512</b>	1,661	2,454
Net book amount	<b>12,336</b>	1,515	13,112
<b>Fixtures, fittings and office equipment</b>			
<b>Cost</b>			
At start of period	273	231	231
Exchange adjustments	—	(2)	(4)
Additions	—	3	46
At end of period	<b>273</b>	232	273
<b>Depreciation</b>			
At start of period	185	143	143
Charge for period	21	19	42
At end of period	<b>206</b>	162	185
Net book amount	<b>67</b>	70	88
Total net book amount	<b>12,403</b>	1,585	13,200

# Notes to the Condensed Interim Consolidated Financial Statements continued

## 7. Land and Buildings

	<b>Six months ended 30 June 2015 Unaudited £'000s</b>	Six months ended 30 June 2014 Unaudited £'000s	Year ended 31 Dec 2014 Audited £'000s
<b>Cost</b>	<b>1,443</b>		
At start of period	—	—	—
Additions	—	—	1,433
Exchange adjustments	<b>(149)</b>	—	—
At end of period	<b>1,294</b>	—	1,433
<b>Depreciation</b>			
At start of period	—	—	—
Additions	—	—	—
At end of period	—	—	—
Net book amount	<b>1,294</b>	—	1,433

**8. Intangibles**

	<b>Six months ended 30 June 2015 Unaudited £'000s</b>	Six months ended 30 June 2014 Unaudited £'000s	Year ended 31 Dec 2014 Audited £'000s
<b>Cost</b>			
At start of period	<b>13,948</b>	24,560	24,560
Additions	<b>5,497</b>	863	1,089
Transfers	<b>—</b>	—	(11,555)
Exchange adjustments	<b>(454)</b>	(396)	(146)
At end of period	<b>18,991</b>	25,027	13,948
<b>Impairment and Depreciation</b>	<b>—</b>	—	—
At start of period	<b>5,060</b>	5,060	5,060
Exchange adjustments	<b>—</b>	—	—
Charge for period	<b>72</b>	—	—
At end of period	<b>5,132</b>	5,060	5,060
Net book amount	<b>13,859</b>	19,967	8,888

# Notes to the Condensed Interim Consolidated Financial Statements continued

## 9. Share Issues

On 22 January 2015, Sound Oil announced that it had issued 3,906,250 ordinary shares to Greenberry S.A. relating to the introductory fee payable for the reserve based lending facility announced on 13 November 2014.

On 20 May 2015, Sound Oil announced that it had issued 48,000,000 ordinary shares as part of the first tranche of the equity placing announced on 28 April 2015.

At the same time the company also issued 48,000,000 warrants valid for five years from 22 May 2015 with an exercise price of 24 pence per ordinary share.

On 24 June 2015, the Company was pleased to announce the result of its Open Offer first announced on 18 May 2015. The Company issued 15,599,752 new ordinary shares and 15,599,752 warrants with identical terms to those announced on 20 May 2015, consequently, at 30 June 2015, the Company had 482,806,817 ordinary shares in issue.

## 10. Notes to the Cash Flow Statement

Additions to exploration and development assets during the period and unpaid at the period end were £1,760,000.

During the period fees of £625,000 relating to the reserve based lending facility completed in November 2014 were settled in exchange for 3,906,250 new ordinary shares.

## 11. Post Balance Sheet events

On 3rd July 2015, the Company was pleased to confirm the completion of the placing first announced on 28 April 2015.

Following receipt of subscriptions and £2.88m of cash, the Company issued 15,157,895 new ordinary shares and 15,157,895 warrants at a price of 24p for a period of five years from 22 May 2015.

# Dealing Information

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

## Financial Calendar

### Meetings

Annual General Meeting – 30 June 2016

### Announcements

2016 Interim – 15 September 2016

2016 Preliminary – 26 May 2016

## Addresses

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### Registrars

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