



SOUND OIL

Interim Report 2008

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

Our strategy is to add significant value from a portfolio of exploration and production assets.

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Chairman's Statement

We have seen progress on the organisation and management structure of both the Bangkanai and the Citarum Production Sharing Contracts (PSC) in Indonesia. We anticipate that this will translate into positive exploration activity by the end of 2008 and during 2009.

On the Citarum PSC in Java the issue of funding for the Operator BPREC has been resolved following the sale of the entire Ranhill shareholding in BPREC to Pan Orient Energy, a Canadian-based E&P company. We expect BPREC to benefit from the experienced management team that Pan Orient has available in the region. Already planning and site preparation work is in progress to implement an additional drill stem test of the suspended Pasundan-1 well. The Operator anticipates that the test will be undertaken in November of this year. In addition, work has begun on the ground survey for the seismic commitments for both the First and Second Work Period of the PSC. Together these total 1250 km. The PSC First Commitment will expire in October 2008 and we expect an extension to the First Period to be granted by the Government authority, BPMigas, in recognition of our commitment to this extensive seismic programme. The results of the survey, expected in the second half of 2009, will establish drilling locations for the remaining three commitment wells which the Operator intends to drill in 2009.

On the Bangkanai PSC we are finalising the details of an agreement to establish a Joint Operating Company (JOC) to conduct future operations on the PSC. The Company will be part owners of, and participants in, the JOC. The JOC will help streamline both exploration and development activity including drilling of the Sungai Lahei-1 deep gas exploration well (P50 resource potential 940 Bscf) and new development wells for the Kerendan gas field. We expect the Operator to start field operations on site preparation for the first well during 4Q2008. This is a requirement

to ensure the extension of the PSC for a further twelve months. For the Kerendan field development, discussions are taking place with a number of potential gas buyers and independent power producers and we expect to conclude a gas sales agreement by year end. Parallel with the drilling activity we will acquire 300 km of new seismic data over the large multi-trillion cubic feet gas potential Jupoi structure in the south of the block during the last quarter of 2008.

In the first six months of 2008 the group incurred a net loss of £726,000 compared with £885,000 in the same period last year. Exploration expenditure in the Income Statement was £293,000 (2007 £307,000). Administration costs were £668,000 compared with £628,000 in 2007. Bank deposit interest received was £221,000 (2007 £386,000) and there was an unrealised currency gain of £14,000 on our US\$ holdings due to the recent weakness of sterling (2007 loss of £329,000). Capital investment in the Indonesian licences was £883,000. Cash balances were £12 million at end June 2008 and shareholders funds £30.7 million.

Notwithstanding the attractive prospectivity recognised on the Bangkanai PSC we are in the process of farming -out some of our interest in the licence. The forward costs of the well commitments are too large a proportion of our total budget exposure for a company of our size. We have seen interest from sixteen companies, including some major operators, and are at an advanced stage in this process with several parties.

Gerry Orbell

Chairman

26 September 2008

Interim Consolidated Income Statement

for the six months ended 30 June 2008

| | | Six months ended 30 June 2008 Unaudited £'000 | Six months ended 30 June 2007 Unaudited £'000 | Year ended 31 December 2007 Audited £'000 |
|--|---|---|---|--|
| Exploration costs | | (293) | (307) | (630) |
| Gross loss | | (293) | (307) | (630) |
| Administrative expenses | | (668) | (628) | (1,513) |
| Group trading loss | | (961) | (935) | (2,143) |
| Share of post-tax loss of associate | 6 | - | (7) | (59) |
| Group operating loss | | (961) | (942) | (2,202) |
| Finance revenue | | 221 | 386 | 704 |
| Other finance expense – foreign exchange gain/(loss) | | 14 | (329) | (313) |
| Loss before tax | | (726) | (885) | (1,811) |
| Tax | | - | - | - |
| Loss for the period attributable to the equity holders of the parent | | (726) | (885) | (1,811) |
| Loss per share (basic) for the period attributable to ordinary equity holders of the parent (pence) | 5 | (0.10) | (0.13) | (0.26) |

Interim Consolidated Balance Sheet

at 30 June 2008

| | Note | 30 June 2008 Unaudited £'000 | 30 June 2007 Unaudited £'000 | 31 December 2007 Audited £'000 |
|-----------------------------------|------|---------------------------------------|---------------------------------------|---|
| Non-current assets | | | | |
| Property, plant and equipment | | 79 | 81 | 77 |
| Intangible assets | | 3,829 | 3,813 | 3,825 |
| Exploration and evaluation assets | 7 | 18,471 | 15,327 | 15,428 |
| Investments in associates | 6 | – | 1,431 | 2,162 |
| Other debtors | | 425 | – | 231 |
| | | 22,804 | 20,652 | 21,723 |
| Current assets | | | | |
| Prepayments | | 24 | 52 | 62 |
| Inventories | | 249 | – | – |
| Other debtors | | 654 | 370 | 9 |
| Cash and short term deposits | | 11,994 | 15,244 | 13,623 |
| | | 12,921 | 15,666 | 13,694 |
| Total assets | | 35,725 | 36,318 | 35,417 |
| Current liabilities | | | | |
| Trade and other payables | | 1,115 | 381 | 274 |
| | | 1,115 | 381 | 274 |
| Non-current liabilities | | | | |
| Deferred tax liabilities | | 3,829 | 3,813 | 3,825 |
| Provisions | | 82 | 59 | 82 |
| | | 3,911 | 3,872 | 3,907 |
| Total liabilities | | 5,026 | 4,253 | 4,181 |
| Net assets | | 30,699 | 32,065 | 31,236 |
| Capital and reserves | | | | |
| Equity share capital | | 36,456 | 36,456 | 36,456 |
| Foreign currency reserve | | (1,003) | (1,254) | (1,205) |
| Accumulated deficit | | (4,754) | (3,137) | (4,015) |
| Total equity | | 30,699 | 32,065 | 31,236 |

Approved by the Board on 26 September 2008

G Orbell
Director

J A Heath
Director

The notes on pages 6 and 7 form part of these accounts.

Interim Consolidated Statement of Changes in Equity

for the six months ended 30 June 2008

| | Notes | Issued capital £'000 | Share premium £'000 | Accumulated deficit £'000 | Other reserves £'000 | Total equity £'000 |
|--|-------|-------------------------|------------------------|------------------------------|-------------------------|-----------------------|
| At 1 January 2008 | | 692 | 35,764 | (4,015) | (1,205) | 31,236 |
| Foreign currency translation | | - | - | (13) | 202 | 189 |
| Total income and expense for the period recognised in equity | | - | - | (13) | 202 | 189 |
| Total loss for the period | | - | - | (726) | - | (726) |
| Total income and expense for the period | | - | - | (739) | 202 | (537) |
| Share based payments | 3 | - | - | - | - | - |
| At 30 June 2008 (unaudited) | | 692 | 35,764 | (4,754) | (1,003) | 30,699 |

| | | Issued capital £'000 | Share premium £'000 | Accumulated deficit £'000 | Other reserves £'000 | Total equity £'000 |
|--|---|-------------------------|------------------------|------------------------------|-------------------------|-----------------------|
| At 1 January 2007 | | 692 | 35,764 | (2,294) | (974) | 33,188 |
| Foreign currency translation | | - | - | - | (280) | (280) |
| Total income and expense for the period recognised in equity | | - | - | - | (280) | (280) |
| Total loss for the period | | - | - | (885) | - | (885) |
| Total income and expense for the period | | - | - | (885) | (280) | (1,165) |
| Share based payments | 3 | - | - | 42 | - | 42 |
| At 30 June 2007 (unaudited) | | 692 | 35,764 | (3,137) | (1,254) | 32,065 |

Interim Consolidated Cash Flow Statement

for the six months ended 30 June 2008

| | Six months ended 30 June 2008 Unaudited £'000 | Six months ended 30 June 2007 Unaudited £'000 | Year ended 31 December 2007 Audited £'000 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Cash flow from operations | (1,146) | (947) | (2,098) |
| Interest received | 221 | 386 | 704 |
| Net cash flow from operating activities | (925) | (561) | (1,394) |
| Cash flow from investing activities | | | |
| Capital expenditure and disposals | (26) | (34) | (73) |
| Exploration expenditure | (883) | (323) | (408) |
| (Increase)/decrease in investment in associate | - | (910) | (1,634) |
| Net cash flow from investing activities | (909) | (1,267) | (2,115) |
| Cash flow from financing activities | | | |
| Net decrease in cash and cash equivalents | (1,834) | (1,828) | (3,509) |
| Net foreign exchange difference | 205 | (317) | (257) |
| Cash and cash equivalents at the beginning of the period | 13,623 | 17,389 | 17,389 |
| Cash and cash equivalents at the end of the period | 11,994 | 15,244 | 13,623 |

Notes to cash flow

| | Six months ended 30 June 2008 Unaudited £'000 | Six months ended 30 June 2007 Unaudited £'000 | Year ended 31 December 2007 Audited £'000 |
|--|---|---|---|
| Cash flow from operations reconciliation | | | |
| Loss before tax | (726) | (885) | (1,811) |
| Finance revenue | (221) | (386) | (704) |
| Foreign exchange loss/(gain) | (14) | 329 | 313 |
| Increase/(decrease) in accruals and short term creditors | 841 | (303) | (410) |
| Depreciation | 24 | 6 | 51 |
| Share based payments charge | - | 42 | 70 |
| Increase in long term provisions | - | 3 | 26 |
| Increase in long term debtors | (194) | - | (163) |
| Increase in inventories | (249) | - | - |
| Decrease/(increase) in short term debtors | (607) | 247 | 530 |
| Cash flow from operations | (1,146) | (947) | (2,098) |

Notes to the Interim Consolidated Financial Statements

1. Basis of preparation

The interim statement does not represent statutory accounts within the meaning of section 240 of the Companies Act 1985. The comparative financial information is based on the statutory accounts for the year ended 31 December 2007. 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 237(2) or (3) of the Companies Act of 1985.

The interim financial information is unaudited and has been prepared on the basis of the accounting policies set out in the Group's 2007 statutory accounts and 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

IAS 34 requires the disclosure of segment results for each business segment. For the group there is no material difference between the consolidated results and the group's operating and business segments. The group's principal area of operation and business is Indonesia. Therefore additional disclosure is not required.

3. Share-based payments

No share options were granted in the period.

4. Related party transactions

There were no sales or purchases to or from related parties, no guarantees provided or received for any related party receivables or payables and no other transactions with related parties, directors' loans and other directors' interests.

5. Loss per share

The calculation of basic loss per ordinary share is based on the loss after tax and on the weighted average number of ordinary shares in issue during the period. Basic loss per share is calculated as follows:

| | Loss after tax | | | Weighted average number of shares | | | Loss per share | | |
|-------|-----------------------|-----------------------|---------------------------|-----------------------------------|-------------------------|-----------------------------|-----------------------|-----------------------|---------------------------|
| | June 2008 £'000 | June 2007 £'000 | December 2007 £'000 | June 2008 million | June 2007 million | December 2007 million | June 2008 pence | June 2007 pence | December 2007 pence |
| Basic | (726) | (885) | (1,811) | 692 | 692 | 692 | (0.10) | (0.13) | (0.26) |

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

6. Investment in associate

At 31 December 2007 the Group had a 20% equity interest in PT. Bumi Parahyangan Ranhill Energia Citarum (BPREC), which holds the Production Sharing Contract (PSC) and is operator for the Citarum licence area. This investment was accounted for as an investment in an associate. In February 2008 the shares were cancelled and replaced by a direct interest in the PSC, which is accounted for as a jointly controlled asset. The amount of £2,162,000 which was shown in the balance sheet at 31 December 2007 as investment in associate has therefore been transferred to exploration and evaluation assets.

| | 30 June 2008 £'000 | 30 June 2007 £'000 | 31 December 2007 £'000 |
|-------------------------|--------------------------|--------------------------|------------------------------|
| At start of period | 2,162 | 528 | 528 |
| Additions during period | - | 910 | 1,693 |
| Share of loss after tax | - | (7) | (59) |
| Disposal during period | (2,162) | - | - |
| At end of period | - | 1,431 | 2,162 |

7. Exploration and evaluation assets

| | 30 June 2008 £'000 | 30 June 2007 £'000 | 31 December 2007 £'000 |
|----------------------------------|--------------------------|--------------------------|------------------------------|
| Costs | | | |
| At start of period | 15,428 | 15,288 | 15,288 |
| Additions | 3,045 | 347 | 389 |
| Exchange adjustments | (2) | (308) | (249) |
| At end of period | 18,471 | 15,327 | 15,428 |
| Amortisation | | | |
| At start of period | - | - | - |
| Charge for the period | - | - | - |
| At end of period | - | - | - |
| Net book amount at end of period | 18,471 | 15,327 | 15,428 |

Additions in 2008 include £2,162,000 for the acquisition of the direct interest in the Citarum PSC as described in note 6.

Dealing Information

FT Share Price Index – Telephone 0906 8433711

SEAQ short code – SOU

Financial Calendar

Announcements

2008 Preliminary – May 2009

2009 Interim – September 2009

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