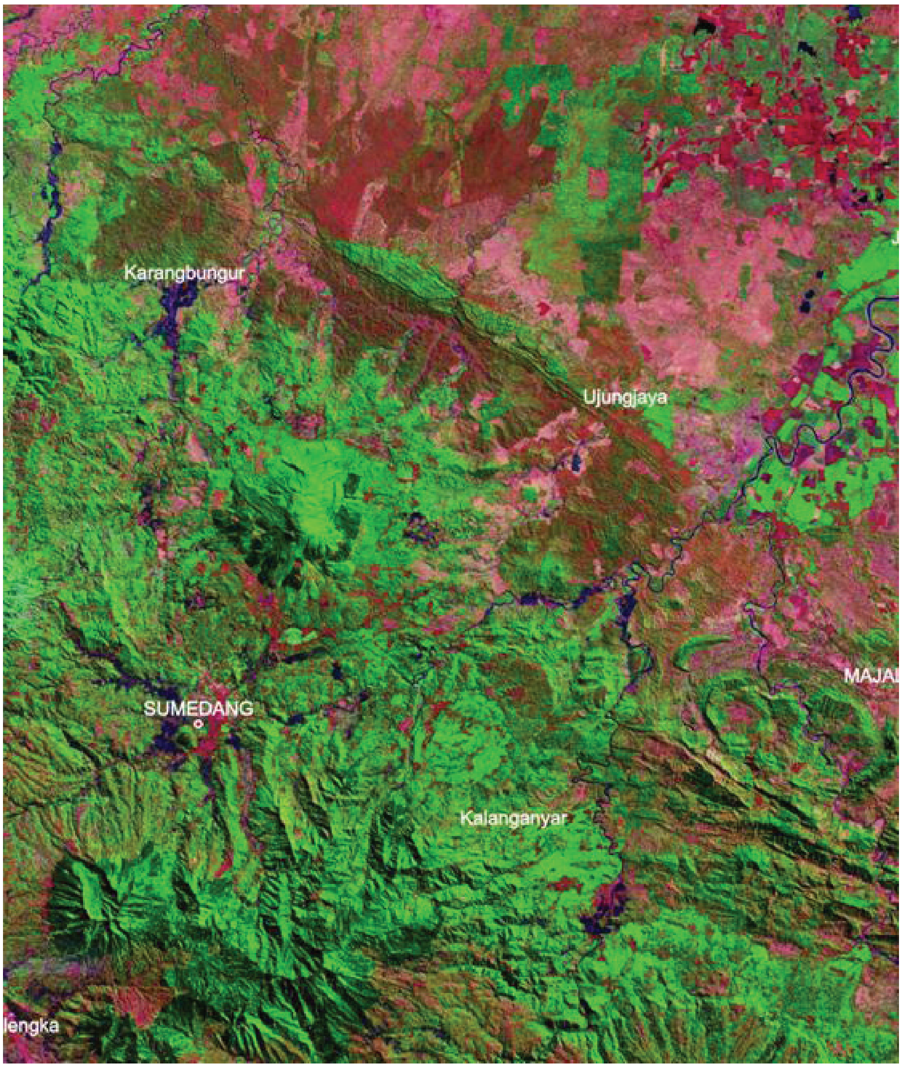

SOUND OIL

Interim Report 2010

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

The long-running acquisition of 865 km 2D seismic data over a wide area of the Citarum Production Sharing Contract was completed in July and the processed results are currently being interpreted. This data fulfils the outstanding 750 km firm seismic commitment on the PSC. The new data covers an area of complex geology south of several existing oil and gas fields along the southern flank of the Northwest Java Basin. Preliminary interpretation of the data has revealed a number of interesting leads and prospects, including a structure in the Subang area at the level of the Parigi carbonate formation. Although this is complex, at its maximum extent this structure is recognised by the Operator to be more than 25 km^2 in area and prospective for over 500 Bscf[(1)] of gas (unrisked, P50 basis[(2)]). Interpretation of the other areas further east at Sumedang and Majalengka, is expected to be completed by early October.

Plans are in preparation to drill three exploration wells commencing in 1Q2011 in fulfilment of the remaining firm drilling commitment on the licence. The final locations will be decided in autumn 2010 and will be chosen from an inventory of existing prospects in the Jonggol (western) area and from any structures identified in eastern areas from the new seismic data.

A further extension of the First Exploration Period (Contract Years 1-3) to October 2010 of the Citarum Production Sharing Contract has already been negotiated with BPMigas[(3)]. Granting of a further one-year extension to October 2011 is fully expected in view of the firm drilling plans presented by the Operator.

As a result of equity changes in Bangkanai PSC, Sound no longer carries a third party's exploration costs but instead is carried for its 5% interest. This carry covers all of the Company's exploration and development costs for two exploratory wells up to the delivery of first gas. Senergy[(4)], the independent petroleum consultancy company, has re-valued Sound's net entitlement for best case contingent resources in Kerendan Field POD at 6.9 Bscf + 0.07 MMbo[(5)]. Their calculation of the NPV is $5.6 million. Additional net contingent prospective resources for discovered, but un-contracted Kerendan gas are estimated at 5.3 Bscf + 0.05 MMbo. Senergy has also identified substantial net P50 prospective resource potential at Bangkanai PSC of 227 Bscf in four exploration prospects where chances of success range from 5% to 35%.

Cash balances in sterling terms at the end of the period were £9.1 million compared with £10.6 million at end 2009.

Due to the £13.4 million write down of the Bangkanai exploration and evaluation asset, the Group incurred a loss after tax of £13.9 million in the first six months of 2010 (2009 £1.9 million). This included exploration costs of £197,000 (2009 £244,000) and administration costs of £685,000 (2009 £610,000). The recovery in the US$ since mid 2009 resulted in an unrealised gain on holdings of that currency of £341,000 compared with a loss of £1,028,000. This left a net loss, prior to the write down, of £531,000 (2009 loss £1,861,000).
In the balance sheet, the currency movement resulted in an increase of £2 million in the foreign currency reserve in the balance sheet. However, the £13.4 million write down resulted in total assets and equity decreasing by £12.7 million to £20.2 million.

The Company has reduced its farm in liabilities at Bangkanai and enters the expected drilling phase at Citarum with sufficient funds for this programme. Having substantially reduced our commitments we are now in a position to widen our range of interests and are actively investigating opportunities both in Indonesia and elsewhere.

Notes:

(1) Billion standard cubic feet of gas.

(2) Prospective resources, consistent with SPE (The Society of Petroleum Engineers) guidelines, are quantified in terms of the statistical probability to find a given recoverable hydrocarbon (oil or gas) volume in a prospective structure considering all the geological variables involved. The P50 figure indicates a 50% chance of finding a given volume and is generally considered as the best or most-likely estimate. The figures quoted in this report have been verified by Sound Oil's Executive Head of Exploration Dr. M. J. Cope BSc PhD CGeol FGS, a qualified petroleum geologist.

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

(4) Senergy (GB) Limited is an independent petroleum consultancy company providing resource and reserve assessments.

(5) Million barrels of oil.

Gerry Orbell

Chairman

28 September 2010

Interim Consolidated Income Statement

for the six months ended 30 June 2010

	Notes	Six months ended 30 June 2010 Unaudited £'000	Six months ended 30 June 2009 Unaudited £'000	Year ended 31 December 2009 Audited £'000
Exploration costs		(197)	(244)	(334)
Gross loss		**(197)**	**(244)**	(334)
Administrative expenses		(685)	(610)	(1,596)
Group trading loss		(882)	(854)	(1,930)
Other income		–	15	50
Group operating loss from continuing operations		(882)	(839)	(1,880)
Finance revenue		10	6	19
Foreign exchange gain/(loss)		341	(1,028)	(786)
Loss on disposal of licence interests	7	(13,425)	–	–
Loss before income tax		(13,956)	(1,861)	(2,647)
Income tax credit		–	–	27
Loss for the period attributable to the equity holders of the parent		**(13,956)**	**(1,861)**	(2,620)
Other comprehensive income/(loss):				
Foreign currency translation income/(loss)		1,175	(3,087)	(2,258)
Total comprehensive loss for the period attributable to the equity holders of the parent		(12,781)	(4,948)	(4,878)
Loss per share basic and diluted for the period attributable to the equity holders of the parent (pence)	4	(2.02)	(0.27)	(0.38)

Interim Consolidated Balance Sheet

at 30 June 2010

	Note	30 June 2010 Unaudited £'000	30 June 2009 Unaudited £'000	31 December 2009 Audited £'000
Non-current assets				
Property, plant and equipment		22	46	32
Intangible assets		1,565	4,625	4,797
Exploration and evaluation assets	6	11,012	20,944	22,185
Other debtors		630	672	792
		13,229	**26,287**	**27,806**
Current assets				
Other debtors		144	259	192
Prepayments		58	–	108
Current tax receivable		26	32	27
Cash and short term deposits		9,063	11,830	10,622
		9,291	**12,121**	**10,949**
Total assets		**22,520**	**38,408**	**38,755**
Current liabilities				
Trade and other payables		667	785	897
Current tax payable		–	27	–
		667	812	897
Non-current liabilities				
Deferred tax liabilities		1,565	4,625	4,797
Provisions		111	91	105
		1,676	4,716	4,902
Total liabilities		**2,343**	**5,528**	**5,799**
Net assets		**20,177**	**32,880**	**32,956**
Capital and reserves				
Equity share capital		36,456	36,456	36,456
Foreign currency reserve		4,205	2,202	3,030
Accumulated deficit		(20,484)	(5,778)	(6,530)
Total equity		**20,177**	**32,880**	**32,956**

Approved by the Board on 28 September 2010

G Orbell
Director

M Nobbs
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 2010

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Total equity £'000
At 1 January 2010	**692**	**35,764**	**(6,530)**	**3,030**	**32,956**
Total loss for the period	–	–	(13,956)	–	(13,956)
Other comprehensive income	–	–	–	1,175	1,175
Total income and expense for the period	–	–	(13,956)	1,175	(12,781)
Share based payments	–	–	2	–	2
At 30 June 2010 (unaudited)	**692**	**35,764**	**(20,484)**	**4,205**	**20,177**

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Total equity £'000
At 1 January 2009	**692**	**35,764**	**(3,927)**	**5,289**	**37,818**
Total loss for the period	–	–	(1,861)	–	(1,861)
Other comprehensive loss	–	–	–	(3,087)	(3,087)
Total income and expense for the period	–	–	(1,861)	(3,087)	(4,948)
Share based payments	–	–	10	–	10
At 30 June 2009 (unaudited)	692	35,764	(5,778)	2,202	32,880

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Total equity £'000
At 1 January 2009	**692**	**35,764**	**(3,927)**	**5,289**	**37,818**
Total loss for the year	–	–	(2,620)	–	(2,620)
Other comprehensive loss	–	–	–	(2,259)	(2,259)
Total income and expense for the year	–	–	(2,620)	(2,259)	(4,879)
Share based payments	–	–	17	–	17
At 31 December 2009 (audited)	**692**	**35,764**	**(6,530)**	**3,030**	**32,956**

Interim Consolidated Cash Flow Statement

for the six months ended 30 June 2010

	Six months ended 30 June 2010 Unaudited £'000	Six months ended 30 June 2009 Unaudited £'000	Year ended 31 December 2009 Audited £'000
Cash flow from operating activities			
Cash flow from operations	(826)	(1,073)	(2,145)
Interest received	10	6	19
Net cash flow from operating activities	**(816)**	**(1,067)**	**(2,126)**
Cash flow from investing activities			
Capital expenditure and disposals	(1)	(3)	(7)
Exploration expenditure	(994)	(569)	(953)
Net cash flow from investing activities	**(995)**	**(572)**	**(960)**
Net decrease in cash and cash equivalents	(1,811)	(1,639)	(3,086)
Net cash flow from financing activities	–	–	–
Net foreign exchange difference	252	(1,156)	(917)
Cash and cash equivalents at the beginning of the period	10,622	14,625	14,625
Cash and cash equivalents at the end of the period	**9,063**	**11,830**	**10,622**

Notes to cash flow

	Six months ended 30 June 2010 Unaudited £'000	Six months ended 30 June 2009 Unaudited £'000	Year ended 31 December 2009 Audited £'000
Cash flow from operations reconciliation			
Loss before tax	**(13,956)**	**(1,861)**	**(2,620)**
Loss on disposal of licence interests	13,425	–	–
Finance revenue	(10)	(6)	(19)
Foreign exchange (gain)/loss	(341)	1,028	786
Exploration expenditure written off	(4)	(2)	(63)
Income tax charge	–	–	(27)
Decrease in accruals and short term creditors	(262)	(313)	(210)
Depreciation	5	16	36
Share based payments charge	2	10	17
Increase in long term provisions	–	–	11
Decrease/(increase) in long term debtors	204	(112)	(204)
Decrease in short term debtors	111	167	148
Cash flow from operations	**(826)**	**(1,073)**	**(2,145)**

Notes to the Interim Consolidated Financial Statements

1. Basis of preparation

The 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 2009. 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 of 2006.

The interim financial information is unaudited and has been prepared on the basis of the accounting policies set out in the Group's 2009 statutory accounts and in accordance with IAS 34 Interim Financial Reporting.

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

2. Share-based payments

6,900,000 share options were granted on 27 May 2010 at 1.5p for a three year period. No charge has been included in the consolidated financial statements as it is considered negligible.

3. 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.

4. 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 2010 £'000	June 2009 £'000	December 2009 £'000	June 2010 million	June 2009 million	December 2009 million	June 2010 pence	June 2009 pence	December 2009 pence
Basic	(13,956)	(1,861)	(2,620)	692	692	692	(2.02)	(0.27)	(0.38)

Diluted loss per share has not been disclosed as inclusion of unexercised options would be anti–dilutive.

5. Segment information

The Group has adopted IFRS 8, Operating Segments which requires information on the separate segments of a business.

The Group's activity is exploration for oil and gas in Indonesia under two Production Sharing Contracts (PSC's), Bangkanai and Citarum. To date there has been no development activity, production or turnover. The exploration expenditure written off to the Income Statement is not allocated to operating segments. Capitalised exploration expenditure in the Balance Sheet is comprised of £0.5 million for the Bangkanai PSC, £3.6 million for the Citarum PSC and £6.9 million for the fair value uplift which arose on acquisition of the company which owned the PSC's, (at end 2009 £3.8 million, £2.4 million and £16.0 million respectively). The decreases for the Bangkanai PSC and fair value uplift were due to the write down associated with the reduction of the interest in the Bangkanai PSC.

The Group has not provided information on revenue, products and services as it is not yet trading.

6. Exploration and evaluation assets

	30 June 2010 Unaudited £'000	30 June 2009 Unaudited £'000	31 December 2009 Audited £'000
Costs			
At start of period	25,123	26,248	26,248
Additions	994	569	953
Disposals	(13,402)	–	–
Exchange adjustments	1,398	(2,983)	(2,078)
At end of period	14,113	23,834	25,123
Impairment			
At start of period	2,938	2,941	2,941
Write back	(4)	(2)	(63)
Exchange adjustments	167	(49)	60
At end of period	3,101	2,890	2,938
Net book amount at end of period	11,012	20,944	22,185

7. Farm out disposal

On 25 May 2010, the company entered into an agreement under which it assigned part of its interest in the Bankanai PSC to Elnusa Bangkanai Energy Limited, the operator of the PSC. Under the agreement, the Group's existing 34.99% interest was reduced to 5% on a carry basis such that the Group is carried through the costs of two forthcoming obligatory exploration wells and also through the costs of developing the Kerendan gas field up to the point of the first production of gas.

The book value of the Company's 34.99% interest in the Bangkanai PSC was £16.5 million as at 25 May 2010. Since the Group will not receive any cash consideration pursuant to the farm out agreement (other than its share of future net revenues receivable under the retained 5% carry) the carrying value of the Company's interest in the Bangkanai PSC has been written down accordingly in these accounts by £13.4 million.

The amounts written down were:

	£'000
Non current assets	
Property, plant and equipment	7
Intangible assets	3,460
Exploration and evaluation assets	13,274
Other debtors	288
Current assets	
Other debtors	40
Prepayments	14
Current liabilities	
Trade and other payables	(198)
Non current liabilities	
Deferred tax liabilities	(3,460)
Net written down	13,425

The assignment agreement removed the Group's future financial obligation to fund its share of the Bangkanai exploration programme and Kerendan development, which the directors estimate to be approximately £22 million, resolved several areas of potential legal conflict between the partners to the PSC and insulated the Company from potential liabilities arising from the failure to complete the obligated work programme.

Perivan Financial Print 218684

Dealing Information

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Financial Calendar

Announcements

2010 Preliminary – May 2011

2011 Interim – September 2011

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