SOUND OIL plc
oil and gas exploration

www.soundoil.co.uk

Sound Oil plc
Interim Report 2013

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

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

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Chairman's Statement

Dear Shareholder

As we predicted at the start of the year, 2013 to date has been a productive period for your Company and I am pleased to say that there is more to come in 2014.

The highlight has been the successful drilling and completion of the first of our four planned high impact wells in Italy. The onshore Nervesa well has confirmed a gas discovery, achieving a stabilised total flow rate of 2.7mm scf/day from a dual string completion. The results of this well enabled the Company to revise its subsurface model for the full Nervesa field, leading to an increase in recoverable resources from 21 to 24 Bcf with an estimated NPV10 circa €50m.

With this first Nervesa well, the Company has demonstrated to all its stakeholders (investors, the Italian authorities and the local Italian communities where it operates) that it can secure permits in Italy and safely and successfully execute complex drilling programmes. We will now commence development planning to move the Nervesa project into production with first gas expected in the second quarter of 2015.

Furthermore, I am delighted that the operations team in Milan has brought our first producing asset on-stream with the onshore Rapagnano gas field providing the Company's first revenue.

We are now pressing ahead with an ambitious exploration and appraisal programme in 2014 with plans to appraise Laura (30 Bscf, €66 million NPV), a significant offshore discovery, and to de-risk our exciting onshore exploration prospect Badile (175 Bscf, €302 million NPV). Badile and Laura, together with income from Nervesa, will give a solid platform for growth in Europe and around the Mediterranean from which to deliver our objective of significant total shareholder return.

To achieve this growth we have expanded our Executive Team, under CEO James Parsons. In the past few months, we have welcomed Stuart Joyner as Chief Financial Officer in London and Leonardo Spicci to supervise the Badile project in Milan, working alongside Luca Maddedu, Managing Director of our Italian operation.

Loss for the period at £1 million was 35% lower than in the previous period and, for the first time, it included a small gross profit from the start of Rapagnano production. In the Balance Sheet, expenditure on exploration assets was £2.9million mainly incurred on preparation for appraisal drilling on the first Nervesa well; £0.6 million was invested in production facilities at Rapagnano.

At end June, we had a cash balance of £6.4m. Your Board remains focused on increasing shareholder value, taking a prudent view of financing and maintaining a strong balance sheet.

In all of our activities, our prime concern is the protection of the environment in which we operate and the health and safety of our employees, contractors and stakeholders. I am proud to say that during a very active 2013 we have not incurred a single lost time incident. The Company remains committed to working with local communities and the authorities wherever we operate to ensure that Sound Oil continues to develop as a professional, responsible operator.

In closing, the Board and I would like to thank all of our shareholders for their continued support as always.

Andrew Hockey
Chairman
26th September 2013

Condensed Interim Consolidated Income Statement

for the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 Unaudited £'000	Six months ended 30 June 2012 Unaudited £'000	Year ended 31 December 2012 Audited £'000
Revenue		106	-	-
Operating costs		(35)	-	-
Exploration and development costs		(15)	(49)	(1,455)
Gross profit / (loss)		56	(49)	(1,455)
Administrative expenses		(1,032)	(1,398)	(3,176)
Group trading loss from continuing operations		**(976)**	**(1,447)**	**(4,631)**
Finance revenue		5	8	11
Foreign exchange gain / (loss)		73	(112)	(174)
External interest costs [1]		(103)	-	(10)
Loss before income tax		**(1,001)**	**(1,551)**	**(4,804)**
Income tax		-	-	-
Loss for the period attributable to continuing operations		**(1,001)**	**(1,551)**	**(4,804)**
Loss on disposal from discontinued operations			-	(8,934)
Loss for the period attributable to owners of the parent		**(1,001)**	**(1,551)**	**(13,738)**
Other comprehensive income/(loss):				
Foreign currency translation income/(loss)		586	(579)	427
Total comprehensive loss for the period attributable to owners of the parent		**(415)**	**(2,130)**	**(13,311)**
Loss per share (basic) from continuing operations [2]		(0.35)	(0.80)	(2.00)
Loss per share (diluted) from discontinued operations		-	-	(3.70)

(1):- the monies funded from CST1 as part of their funding contract are accounted for as loans. Therefore there is an external interest charge
(2):- prior period comparatives restated for the impact of the share consolidation completed in January 2013

Condensed Interim Consolidated Balance Sheet

at 30 June 2013

	Notes	30 June 2013 Unaudited £'000	30 June 2012 Unaudited £'000	31 December 2012 Audited £'000
Non-current assets				
Property, plant and equipment	6	1,556	1,125	853
Intangible assets		2,209	3,508	2,126
Exploration and evaluation assets	7	15,737	25,649	12,420
Other debtors		-	742	-
		19,502	**31,024**	**15,399**
Current assets				
Other debtors		1,472	1,436	2,774
Prepayments		120	24	38
Cash and short term deposits		6,399	5,149	6,909
		7,991	**6,609**	**9,721**
Total assets		**27,493**	**37,633**	**25,120**
Current liabilities				
Trade and other payables		2,036	2,039	719
Loans repayable in under one year		318	-	82
		2,354	**2,039**	**801**
Non-current liabilities				
Deferred tax liabilities		2,207	3,507	2,125
Loans due in over one year		1,062	-	-
Provisions		735	356	680
		4,004	3,863	2,805
Total liabilities		**6,358**	**5,902**	**3,606**
Net assets		**21,135**	**31,731**	**21,514**
Capital and reserves attributable to equity holders of the company				
Issued equity share capital and share premium		63,085	58,676	63,083
Accumulated deficit		(43,240)	(30,134)	(42,273)
Foreign currency reserve		1,290	3,189	704
Total equity		**21,135**	**31,731**	**21,514**

Approved by the Board on 26th September 2013

J Parsons
Director

A Hockey
Director

The notes on pages 6 to 11 form part of these accounts

Condensed Interim Consolidated Statement of Changes in Equity

for the six months ended 30 June 2013

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Total equity £'000
At 1 January 2013	**2,870**	**60,213**	**(42,273)**	**704**	**21,514**
Total loss for the period	-	-	(1,001)	-	(1,001)
Other comprehensive income	-	-	-	586	586
Total comprehensive income/(loss)	-	-	**(1,001)**	**586**	**(415)**
Issue of share capital	6	43	-	-	49
Transaction costs	-	(47)	-	-	(47)
Share based payments	-	-	34	-	34
At 30 June 2013 (unaudited)	**2,876**	**60,209**	**(43,240)**	**1,290**	**21,135**

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Foreign currency reserves £'000	Total equity £'000
At 1 January 2012	**1,833**	**52,871**	**(28,606)**	**3,768**	**29,866**
Total loss for the period	-	-	(1,551)	-	(1,551)
Other comprehensive income gain/(loss)	-	-	-	(579)	(579)
Total comprehensive income/(loss)	-	-	(1,551)	(579)	(2,130)
Issue of share capital	263	3,737	-	-	4,000
Share issue costs	-	(28)	-	-	(28)
Share based payments	-	-	23	-	23
At 30 June 2012 (unaudited)	**2,096**	**56,580**	**(30,134)**	**3,189**	**31,731**

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

Condensed Interim Consolidated Cash Flow Statement

for the six months ended 30 June 2013

	Six months ended 30 June 2013 Unaudited £'000	Six months ended 30 June 2012 Unaudited £'000	Year ended 31 December 2012 Audited £'000
Cash flow from operating activities			
Cash flow from operations	(979)	(1,715)	(4,327)
Interest received	5	8	11
Net cash flow from operating activities	**(974)**	**(1,707)**	**(4,316)**
Cash flow from investing activities			
Capital expenditure and disposals	(14)	(10)	(80)
Exploration expenditure	(2,222)	(3,344)	(3,913)
Net cash inflow on disposal of subsidiary	-	-	2,515
Net cash flow from investing activities	**(2,236)**	**(3,354)**	**(1,478)**
Proceeds from CSTI funding contract	1,208	-	-
Net proceeds from equity issue	1,576	3,972	6,804
Net cash flow from financing activities	**2,784**	**3,972**	**6,804**
Net increase/(decrease) in cash and cash equivalents	(426)	(1,089)	1,010
Net foreign exchange difference	(84)	(48)	(387)
Cash and cash equivalents at the beginning of the period	6,909	6,286	6,286
Cash and cash equivalents at the end of the period	**6,399**	**5,149**	**6,909**

Notes to cash flow

	Six months ended 30 June 2013 Unaudited £'000	Six months ended 30 June 2012 Unaudited £'000	Year ended 31 December 2012 Audited £'000
Cash flow from operations reconciliation			
Loss before tax	**(1,001)**	**(1,551)**	**(13,738)**
Payroll bonuses paid in shares	-	-	-
Finance revenue	(5)	(8)	(11)
Foreign exchange (gain)/loss	-	-	
Accrued interest charges	103	-	-
Exploration expenditure written off	15	49	13,538
Amortisation and depreciation	17	5	24
Share based payments charge	34	23	71
Increase in long term provisions	49	(1)	(20)
Decrease/(increase)in long term debtors	-	(81)	668
Decrease/(increase) in short term debtors	(356)	1	393
(Decrease)/increase in trade and other payables	165	(152)	(1,432)
(Profit)/loss on disposal of subsidiaries	-	-	(3,820)
Cash flow from operations	**(979)**	**(1,715)**	**(4,327)**

	Six months ended 30 June 2013 Unaudited £'000	Six months ended 30 June 2012 Unaudited £'000	Year ended 31 December 2012 Audited £'000
Cash flow from discontinued operations			
Cashflow from investing activities	-	-	(2,184)
Cashflow from operating activities	-	-	(805)
Total cash outflow from discontinued operations	**-**	**-**	**(2,989)**

Notes to the Condensed Interim Consolidated Financial Statements

1. Basis of preparation

The condensed interim consolidated financial statements were approved for issue by the directors on 26 September 2013. They 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 2012. 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 2012 statutory accounts in accordance with IAS 34 Interim Financial Reporting.

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

2. Segment information

The Group 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 the first half of 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 2013 are as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Sales and other operating revenues	-	106	-	106
Operating costs	-	(35)	-	(35)
Exploration costs	-	-	(15)	(15)
Administration expenses	(1,032)	-	-	(1,032)
Operating loss segment result	**(1,032)**	**71**	**(15)**	**(976)**
Interest receivable	5	-	-	5
Finance costs	(30)	-	-	(30)
Loss for the period before taxation	**(1,057)**	**71**	**(15)**	**(1,001)**

2. Segment information (continued)

The segments' assets and liabilities at 30 June 2013 are as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Non-current assets	119	1,093	18,290	19,502
Current assets	7,991	-	-	7,991
Total liabilities	(6,358)	-	-	(6,358)

The segments' results for the period ended 30 June 2012 were as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Sales and other operating revenues	-	-	-	-
Other income/(loss)	-	-	-	-
Exploration costs	-	-	(49)	(49)
Impairment of exploration and evaluation assets	-	-	-	-
Administration expenses	(1,398)	-	-	(1,398)
Operating loss segment result	**(1,398)**	**-**	**(49)**	**(1,447)**
Interest receivable	8	-	-	8
Finance costs	(112)	-	-	(112)
Cost of acquiring subsidiaries	-	-	-	-
Loss on farmout disposals	-	-	-	-
Loss for the period before taxation	**(1,502)**	**-**	**(49)**	**(1,551)**

The segments' assets and liabilities at 30 June 2012 were as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Non-current assets	37	1,088	29,157	30,282
Current assets	7,351	-	-	7,351
Total liabilities	(5,902)	-	-	(5,902)

2. Segment information (continued)

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

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

The segments assets and liabilities at 31 December 2012 were as follows:

	Corporate £'000	Development & production £'000	Exploration & appraisal £'000	Total £'000
Non-current assets	89	764	14,546	15,399
Current assets	9,721	-	-	9,721
Total liabilities	(3,606)	-	-	(3,606)

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

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

3. Share based payments
No share options were awarded during the first half of 2013. The charge of £34,000 recognises the impact of the amortisation of the vesting period of previously made awards.

4. Related party transactions
On 16th February 2013, the Group sold its 100% interest in its Indonesian subsidiary Mitra Energia Limited to a former non-executive director for $1. The company had no assets on disposal.

Apart from the above, 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.

Notes to the Condensed Interim Consolidated Financial Statements
continued

5. Loss per share

The calculations 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 2013 £'000	June 2012 £'000	December 2012 £'000	June 2013 million	June 2012 million	December 2012 million	June 2013 pence Continuing	June 2012 pence Continuing	December 2012 pence Continuing	December 2012 pence Discontinuing
Basic	(1,001)	(1,551)	(4,804)	288	204	242	(0.35)	(0.80)	(2.00)	(3.70)

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

6. Property, plant and equipment

	30 June 2013 Unaudited £'000	30 June 2012 Unaudited £'000	31 December 2012 Audited £'000
Development and production assets			
Costs			
At start of period	2,218	1,246	1,246
Additions	627	-	-
Decommissioning provisions	16	-	341
Disposals	-	-	(1,246)
Transfers (1)	-	-	1,877
Exchange adjustments	43	(158)	-
At end of period	2,904	1,088	2,218
Amortisation and depreciation			
At start of period	1,453	-	-
Charge for the period	13	-	-
Disposals	-	-	-
Transfers (1)	-	-	1,453
Exchange adjustments	-	-	-
At end of period	1,466	-	1,453
Net book amount at end of period	1,438	1,088	765

6. Property, plant and equipment (continued)

	30 June 2013 Unaudited £'000	30 June 2012 Unaudited £'000	31 December 2012 Audited £'000
Fixtures, fittings and office equipment			
Costs			
At start of period	191	204	204
Additions	14	10	80
Disposals	-	1	(88)
Transfers (1)	-	-	-
Exchange adjustments	5	(4)	(5)
At end of period	210	211	191
Depreciation			
At start of period	88	172	172
Charge for the period	4	5	24
Disposals	-	1	(88)
Transfers (1)	-	-	-
Exchange adjustments	-	(4)	(5)
At end of period	92	174	103
Net book amount at end of period	118	37	88
Total net book amount at end of period	1,556	1,125	853

(1) Transfers represents the reclassification of assets from exploration and evaluation assets.

7. Exploration and evaluation assets

	30 June 2013 Unaudited £'000	30 June 2012 Unaudited £'000	31 December 2012 Audited £'000
Costs			
At start of period	13,494	26,856	26,856
Additions	2,925	3,381	4,247
Disposals	-	-	(15,970)
Transfers (1)	-	-	(1,879)
Exchange adjustments	394	(585)	240
At end of period	16,813	29,652	13,494
Impairment			
At start of period	(1,076)	(4,131)	(4,131)
Additions	-	(49)	(1,455)
Disposals	-	-	3,055
Transfers (1)	-	-	1,455
Exchange adjustments	-	177	-
At end of period	(1,076)	(4,003)	(1,076)
Net book amount at end of period	15,737	25,649	12,420

(1) Transfers represents the reclassification of assets to property, plant and equipment.

Notes to the Condensed Interim Consolidated Financial Statements
continued

8. Share Issues

On 4th January 2013, Sound Oil 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 22nd March 2013, Sound Oil announced the results of its Open Offer which had been announced on 24th 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.

9. Post Balance Sheet events

Appraisal drilling commenced in the Carita permit addressing the Nervesa discovery on 7th June 2013. The well was successfully drilled and 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 a revision of the reservoir model for the full field, the P50 estimate of recoverable gas resources at Nervesa has increased to 24 Bscf.

In December 2012, at the request of the Italian Ministry for Economic Development, a bank guarantee was raised for €500,000 to cover any potential decommissioning liability relating to the Rapagnano license. The bank guarantee has now been returned by the Ministry and the guarantee has been cancelled.

On 4th September, the Company entered into an asset backed bridge loan facility for £2.5m with a syndicate of private investors. The bridge loan matures in February 2015 and carries a coupon of 10% per annum with an average annual fee of 9%. It is the Company's intention to draw down the bridge loan as required and to repay the loan with a portion of the proceeds from a Reserve Based Lending facility once secured.

Dealing Information

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Financial Calendar

Announcements
2013 Preliminary – May 2014
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