

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about what action you should take, you should consult an independent financial adviser authorised and regulated under the Financial Services and Markets Act 2000 (as amended) who specialises in advising on the acquisition of shares and other securities before taking any action. The whole of this document should be read. You should be aware that an investment in the Company involves a high degree of risk and prospective investors should carefully consider the section entitled “Risk Factors” set out in Part III of this document.**

If you have sold or otherwise transferred all of your Ordinary Shares, please send this document and accompanying Application Form at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom you have sold or transferred your shares for delivery to the purchaser or transferee. Such documents should, however, not be forwarded to or transmitted into any jurisdiction outside of the UK. Any failure to comply with such restriction may constitute a violation of the securities laws of any such jurisdiction. If you have sold only part of your holding of Ordinary Shares, please contact your stockbroker, bank or other agent through whom the sale or transfer was effected immediately.

**This document does not comprise a prospectus in the UK within the meaning of the Prospectus Rules and, pursuant to section 85 and Schedule 11A of the Financial Services and Markets Act 2000 (as amended), has not been drawn up in accordance with the Prospectus Rules. This document has not been approved by the Financial Conduct Authority or by any other authority in any jurisdiction.**

The Existing Ordinary Shares are currently admitted to trading on AIM. Application will be made to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective, and dealings for normal settlement in the New Ordinary Shares will commence, at 8.00 a.m. on 4 February 2014. It is emphasised that no application is being made for admission of the Existing Ordinary Shares or the New Ordinary Shares to the Official List. Neither the Existing Ordinary Shares nor the New Ordinary Shares will be dealt on any other recognised investment exchange and no other such application will be made.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Neither the London Stock Exchange nor the UK Listing Authority has examined or approved the contents of this document. The AIM Rules are less demanding than those of the Official List. This document does not comprise an admission document under the AIM Rules.**

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# SOUND OIL PLC

*(Incorporated and registered in England and Wales with registered number 05344804)*

## **Open Offer of up to 38,349,139 New Ordinary Shares at 4.2p per share**

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**This document should be read as a whole. Your attention is drawn to the letter from the Chairman of the Company which is set out as Part I of this document and the section headed “Risk Factors” in Part III of this document.**

The Open Offer closes at 11.00 a.m. on 31 January 2014. If you are an Eligible Shareholder and wish to apply for Open Offer Shares under the Open Offer you should follow the procedure set out in Part II of this document and, if you are an Eligible non-CREST Shareholder, complete and return the accompanying Application Form. Eligible CREST Shareholders (who will not receive an Application Form) will receive instead a credit to their appropriate stock accounts in CREST in respect of their Open Offer Entitlements which will be enabled for settlement on 4 February 2014. If you do not wish to participate in the Open Offer then you should not return your Application Form or send a USE instruction through CREST. Applications under the Open Offer may only be made by the Eligible Shareholders originally entitled thereto or by persons becoming so entitled, by virtue of a *bona fide* market claim arising out of the sale or transfer of Existing Ordinary Shares prior to the date on which the Existing Ordinary Shares are marked ‘ex’ the entitlement by the London Stock Exchange.

The New Ordinary Shares will, following allotment, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions declared made or paid on the Ordinary Share capital of the Company.

**This document is being sent to all Shareholders, but in relation to those Shareholders who are not Eligible Shareholders (which means any Shareholders resident outside of the United Kingdom) it is being sent to them for information purposes only.**

## IMPORTANT INFORMATION

This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful. Securities may not be offered or sold in the United States absent registration under the U.S. Securities Act of 1933, as amended (the “Securities Act”) or an applicable exemption from such registration requirements. The Existing Ordinary Shares and the New Ordinary Shares have not been, and will not be, registered under the Securities Act or under the securities legislation of any state of the United States. There will be no public offering of the Existing Ordinary Shares or the New Ordinary Shares in the United States. The relevant clearances have not been, and will not be, obtained from the Securities Commission of any province or territory of Canada; no document in relation to the Open Offer has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission; and no registration statement has been, or will be, filed with the Japanese Ministry of Finance in relation to the Open Offer. The New Ordinary Shares may not, directly or indirectly, be offered or sold within any territory other than the United Kingdom or offered or sold to a person within any territory other than the United Kingdom. Any failure to comply with these restrictions may constitute a violation of the securities law of any jurisdiction. Persons (including, without limitation, nominees and trustees) receiving this document and/or an Application Form should not, in connection with the Open Offer, distribute or send this document or Application Form into any jurisdiction when to do so would, or might contravene local securities laws or regulations or be contrary to the terms and conditions of the Open Offer.

This document contains “forward-looking statements” which includes all statements other than statements of historical fact including, without limitation those regarding the Company’s financial position, business strategy, plans and objectives of management for future operations, or any statements preceded by, followed by or that include the words “targets”, “believes”, “expects”, “aims”, “intends”, “will”, “may”, “might”, “anticipates”, “would”, “could” or similar expressions or negatives thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company’s control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of this document. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to forward-looking statements contained herein to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based unless required to do so by applicable law or the AIM Rules.

The Open Offer Shares have not been and are not intended to be registered or qualified for sale in any jurisdiction other than the United Kingdom. Accordingly, unless otherwise determined by the Company and effected by the Company in a lawful manner, the Application Form will not be sent to Existing Shareholders with registered addresses in any jurisdiction other than the United Kingdom since to do so would require compliance with the relevant securities laws of that jurisdiction. Applications from any such person will be deemed to be invalid. If an Application Form is received by any Shareholder whose registered address is elsewhere but who is in fact a resident or domiciled in a territory other than the United Kingdom, he/she should not seek to take up his/her allocation.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Record Date for entitlement under the Open Offer	5.00 p.m. on 15 January 2014
Existing Ordinary Shares marked 'ex' by London Stock Exchange	8.00 a.m. on 16 January 2014
Posting of this document and the Application Forms	16 January 2014
Open Offer Entitlements and Excess CREST Open Offer Entitlements credited to stock accounts in CREST of Eligible CREST Shareholders	8.00 a.m. 17 January 2014
Recommended latest time for requesting withdrawal of Open Offer Entitlements and Excess CREST Open Offer Entitlements from CREST	4.30 p.m. on 27 January 2014
Latest time for depositing Open Offer Entitlements into CREST	3.00 p.m. on 28 January 2014
Latest time for splitting of Application forms (to satisfy <i>bona fide</i> market claims only)	3.00 p.m. on 29 January 2014
<b>Latest time and date for receipt of Application Form and payment in full under the Open Offer and settlement of relevant CREST instructions</b>	11.00 a.m. on 31 January 2014
Expected date of announcement of results of the Open Offer through an RIS	3 February 2014
Expected time and date for Admission and commencement in dealings in the New Ordinary Shares on AIM	8.00 a.m. on 4 February 2014
Expected date for crediting of the New Ordinary Shares in uncertificated form to CREST accounts	4 February 2014
Expected date of dispatch of definitive share certificates for the New Ordinary Shares	12 February 2014

### Notes:

- (1) References to times in this document are to London time (unless otherwise stated).
- (2) The dates and timing of the events in the above timetable and in the rest of this document are indicative only and may be subject to change at the absolute discretion of the Company. If any of the above times or dates should change, the details of the revised times and/or dates will be notified to AIM and, where appropriate, to Shareholders.
- (3) In order to subscribe for Open Offer Shares under the Open Offer, Eligible Shareholders will need to follow the procedure set out in Part II of this document and, where relevant, complete the accompanying Application Form. If you have any questions relating to this document, and the completion and return of the Application Form, please telephone Share Registrars between 9.00 a.m. and 5.00 p.m. (London time) Monday to Friday on 01252 821390 from within the UK or +44(0)1252 821390 if calling from outside the UK.

## OPEN OFFER STATISTICS

Market price per Existing Ordinary Share <sup>1</sup>	6.25p
Issue price per Open Offer Share	4.2p
Number of Existing Ordinary Shares <sup>2</sup>	287,618,544
Number of Ordinary Shares available under the Open Offer	up to 38,349,139
Number of Ordinary Shares in issue on Admission <sup>4</sup>	up to 325,967,683
Basis of Open Offer	2 New Ordinary Shares for every 15 Existing Ordinary Shares
Approximate percentage of the Enlarged Share Capital represented by the New Ordinary Shares <sup>4</sup>	11.76%
Estimated net proceeds of the Open Offer <sup>4</sup>	£1.45 million

*Notes:*

- (1) The closing price on 13 January 2014, being the last practicable Business Day prior to the announcement of the Open Offer.
- (2) As at the close of business on 15 January 2014, being the last practicable Business Day prior to the publication of this document.
- (3) The actual number of New Ordinary Shares to be issued will be subject to rounding down to eliminate fractional entitlements.
- (4) Assuming the maximum number of Open Offer Shares are allotted pursuant to the Open Offer.

## DEFINITIONS

The following definitions apply throughout this document, except where the context requires otherwise:

“Admission”	the admission of the New Ordinary Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the AIM market operated by the London Stock Exchange
“AIM Rules”	the rules for AIM Companies as issued by the London Stock Exchange from time to time governing, <i>inter alia</i> , the admission of securities to AIM
“Apennine Energy”	Apennine Energy S.p.a, a company incorporated in Italy with registered number 01348720358, which is a wholly owned subsidiary of Consul
“Apennine Oil and Gas”	Apennine Oil and Gas S.p.a unipersonale, a company incorporated in Italy with registered number 79353, which is a wholly-owned subsidiary of Apennine Energy S.p.a
“Application Form”	the application form which accompanies this circular on which Eligible non-CREST Shareholders may apply for Open Offer Shares under the Open Offer
“Articles”	the articles of association of the Company
“Board” or “Directors”	the board of directors of the Company, whose names are set out in paragraph 6 of Part IV of this document
“Business Day”	any day (excluding Saturdays, Sundays and public holidays) on which banks are open in the City of London for the conduct of normal banking business
“certificated” or “certificated form”	not in uncertificated form
“Company” or “Sound Oil”	Sound Oil plc, a company incorporated in England & Wales with registered number 05344804, whose registered office is at Third Floor, 55 Gower Street, London WC1E 6HQ
“Consul”	Consul Oil & Gas Limited, a company incorporated in England & Wales with registered number 5811564 whose registered office is at Third Floor, 55 Gower Street, London WC1E 6HQ and which is a wholly-owned subsidiary of the Company
“Companies Act” or “Act”	Companies Act 2006 (as amended)
“CREST”	the relevant system for the paperless settlement of trades and the holding of uncertificated securities (as defined in the Regulations) in respect of which Euroclear UK & Ireland Limited is the operator (as defined in the Regulations)
“Eligible CREST Shareholders”	Eligible Shareholders holding Ordinary Shares in uncertificated form
“Eligible non-CREST Shareholders”	Eligible Shareholders holding Ordinary Shares in certificated form

“Eligible Shareholders”	Shareholders whose names appear on the register of members of the Company on the Record Date as holders of Existing Ordinary Shares and who are eligible to be offered Open Offer Shares under the Open Offer in accordance with the terms and conditions set out in this document and, where relevant, in the Application Form
“Enlarged Share Capital”	the issued ordinary share capital of the Company comprising the Existing Ordinary Shares and the New Ordinary Shares
“Ex-date”	8.00 a.m. on 16 January 2014 in respect of the entitlements of Eligible Shareholders under the Open Offer
“Excess Application Facility”	the arrangement pursuant to which Eligible Shareholders may apply for Open Offer Shares in excess of their Open Offer Entitlements
“Excess CREST Open Offer Entitlements”	in respect of each Eligible CREST Shareholder, the entitlement to apply for Open Offer Shares in addition to his Open Offer Entitlement credited to his stock account in CREST, pursuant to the Excess Application Facility which is conditional on him taking up his Open Offer Entitlement in full and which may be subject to scaling back in accordance with the provisions of this circular
“Excess Open Offer Entitlement”	an entitlement for each Eligible Shareholder to apply to subscribe for Open Offer Shares in addition to his Open Offer Entitlement pursuant to the Excess Application Facility which is conditional on him taking up his Open Offer Entitlement in full and which may be subject to scaling back in accordance with the provisions of this circular
“Excess Shares”	New Ordinary Shares in addition to the Open Offer Entitlement for which Eligible Shareholders may apply under the Excess Application Facility
“Existing Ordinary Shares”	the 287,618,544 Ordinary Shares in issue at the date of this document
“FCA”	Financial Conduct Authority
“FSMA”	the Financial Services and Markets Act 2000 (as amended)
“Group”	the Company and its subsidiaries as at the date of this document
“Issue Price”	4.2 pence per New Ordinary Share
“London Stock Exchange”	London Stock Exchange plc
“New Ordinary Shares”	the Excess Shares and the Open Offer Shares
“Open Offer Entitlements”	an Eligible Shareholder’s pro rata entitlement to Open Offer Shares
“Open Offer”	the Open Offer of up to 38,349,139 New Ordinary Shares at a price of 4.2p per Open Offer Share
“Open Offer Shares”	the new Ordinary Shares to be issued pursuant to the Open Offer
“Ordinary Shares”	the ordinary shares of 1p each in the capital of the Company

“Overseas Shareholder”	a Shareholder who is resident, or who is a citizen of, or who has a registered address in a jurisdiction outside the United Kingdom
“Record Date”	5.00 p.m. on 15 January 2014 in respect of the entitlements of Eligible Shareholders under the Open Offer
“Registrar” or “Receiving Agent”	Share Registrars Limited
“Regulations”	the Uncertificated Securities Regulations 2001 (S1 2001 No. 3755) as amended
“Shareholders”	holders of Ordinary Shares
“Underwriting Agreement”	the conditional agreement dated 14 January 2014 between the Company, Peel Hunt and Simon Davies relating to the Open Offer
“uncertificated” or “uncertificated form”	held in uncertificated form in CREST



## GLOSSARY OF TECHNICAL TERMS

1C/2C/3C	contingent resource categories equivalent to low/best/high estimates (correspond to proved, probable and possible categories of reserve estimates)
Bar	a non-SI unit of pressure equal to 100,000 Pa (pascal)
bopd	barrels of oil per day
Bscf	billion standard cubic feet of gas
Bscfe	billion standard cubic feet gas equivalent
MMbbl	million barrels
MMscfd	million standard cubic feet of gas per day
Mscf	thousand standard cubic feet of gas
NPV10	NPV10 refers to net present value at a discount rate of 10%
P50/best estimate	probabilistic estimate of resources equivalent to the most likely or best estimate
psi	per square inch
Scm	standard cubic metre
Scmd	standard cubic metres per day
Tscf	trillion standard cubic feet of gas

## PART I

### LETTER FROM THE CHAIRMAN

# SOUND OIL PLC

*(Incorporated and registered in England and Wales with registered number 05344804)*

*Directors:*

Andrew Hockey (*Non-Executive Chairman*)

James Parsons (*Chief Executive Officer*)

Tony Heath (*Non-Executive Director*)

*Registered Office:*

Third Floor  
55 Gower Street  
London WC1E 6HQ

16 January 2014

Dear Shareholder

**Open Offer of up to 38,349,139 New Ordinary Shares  
at an Issue Price of 4.2p per share**

#### **1. Introduction**

On 14 January 2014 the Company announced its intention to raise approximately £1.6 million (before expenses) by way of an Open Offer to Eligible Shareholders of up to 38,349,139 Open Offer Shares at an Issue Price of 4.2p per share.

The Open Offer has been fully underwritten by Peel Hunt LLP (“Peel Hunt”) and Simon Davies, subject to certain conditions. All Directors and Simon Davies have each agreed to apply in full for their allocation under the Open Offer.

The purpose of this letter is to outline the background to and reasons for, and to explain the terms of, the Open Offer.

#### **2. Background to and reasons for the Open Offer**

The Open Offer is intended to further secure the Company’s funding position whilst minimising dilution to existing shareholders and rewarding loyal shareholders.

In addition to underwriting the Open Offer, Simon Davies has provided the Company with an 18 month asset backed loan of £1.0 million (“the Loan”), increasable at the Company’s discretion to £1.5 million. The asset backed bridge loan facility announced by the Company on 4 September 2013 was not required, was not drawn and has now been cancelled without having incurred significant facility fees. The Loan provided by Simon Davies carries a coupon of 10 per cent. per annum and a deferred fee of £175,000; its terms replicate the key commercial terms of the now cancelled bridge loan facility. The Loan has been specifically customised to meet the short term funding needs of the Company by matching the term with the expected date of first revenues from Nervesa, deferring the fee by six months and allowing early repayment without penalty from a future reserve based lending facility or other funding event.

The Open Offer and loan proceeds, including the Company’s current cash of approximately £0.6 million, total some £3.7 million and will be used to fund the business’ working capital requirements as it executes its 2014 work programme, including a second well on the Nervesa field (€5 million cost; 100 per cent. interest) and the drilling of the Badile prospect (€23 million cost; 100 per cent. interest).

The Company is in discussion with third parties on various potential funding structures at both the individual asset and subsidiary company level. The drilling of both Badile and Nervesa are therefore expected to be financed by the introduction of partners at either the asset or corporate level.

**4. Information on the Company**

Sound Oil acquired its initial assets in Italy through the acquisition of the private company Consul Oil & Gas in 2011. Through its 100 per cent. owned subsidiary, Apennine Energy the Company is now interested in 18 oil and gas assets in Italy: 2 production concessions, 7 exploration permits, 8 exclusive permit applications and 1 concession application is pending on an existing permit. Apennine Energy is the operator of its assets and holds high equity positions ranging from 75 per cent. to 100 per cent., which give it control over the level and pace of development and spending. The portfolio consists of a mix of oil and gas exploration, development and production opportunities. Italy is a proven hydrocarbon region which provides attractive fiscal terms in a relatively stable political environment.

A map of the Italian licences and applications is shown below.



The following is a table showing the Company's assets in Italy:

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

*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. Carità, 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 Giudice 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.

## ***Production Concessions***

### *Rapagnano*

The concession is located in Fermo Province, Marche Region, central Italy. 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 estimated 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 annualized 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.

### *Casa Tiberi*

The permit is located in Ancona, Marche in central Italy, 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 later in 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 Assets***

### *Nervesa Discovery*

The permit is located in northeast Italy, within the Alpine foredeep province.

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 per cent. interest in November 2011.

The Nervesa field has the potential of five further completions on the remaining 12 sand intervals at 1,829 m to 1,964 m depth. Gross P50 contingent resources have been independently estimated to be 20.7 Bscf. Sound Oil’s strategy is to drill two new wells to re-develop the gas field.

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 will apply 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.

### *Laura Discovery*

D150 DR-CS is located in the Ionia Sea Zone D within the Sibari Basin in offshore Calabria. 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 (Pleistocene,

1,306-1,343m and Messinian, 1,437-1,452m; the upper interval tested at 11 MMscfd). 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 strategy and intends to submit a drilling application on award of the permit to enable drilling in 2015.

### ***Exploration Assets***

#### ***Badile Prospect***

Consul filed an application in January 2006 and the permit in respect of the Badile Prospect was awarded in March 2010. To date Environmental Impact Assessment (“EIA”) and Geographical & Geophysical data studies have been completed on this permit.

An independent Competent Person’s Report (CPR) on this prospect has confirmed a Best estimate NPV10 of €486 million, an increase of 60 per cent. on the previous CPR (which was €302 million). The CPR has also estimated a High Case NPV10 of €1.7 billion and a Low Case NPV10 of €101 million.

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 per cent. geological chance of success for the prospect. In December 2013 Sound Oil applied for the drilling of the exploratory well Moirago-1 submitting both the well project and the relevant EIA documentation.

#### ***24 month Work Programme***

The Company’s recently announced 24 month Italian work programme is focused on:

- Accelerating material cash flows from existing discoveries on the Carita (Nervesa) and Santa Maria Goretti (“SMG”) permits.
- Prioritising the high upside exploration prospects, including Badile.
- Funding key drills, including Nervesa and Badile, through the introduction of partners.
- Building a portfolio of producing assets to cover the Company’s essential overheads.
- Capturing rig cost synergies and minimising rig non availability risk.

The 24 month programme will include:

- Maintaining strong production from Rapagnano, an onshore gas field, in the Marche region.
- Field development of Casa Tiberi, a second onshore gas discovery in the Marche region, during H1 2014. Production skid construction began in Q4 2013. The combination of Rapagnano and Casa Tiberi cash flow is expected to completely fund the Italian cost base.
- Farm out, secure the drilling permission and then drill a second appraisal well addressing the southern structure of the Nervesa discovery in Q2/Q3 2014 with a view to accelerating production and cash flow from this flagship asset. A letter of intent has recently been signed for the rig and first gas from the northern structure is expected in mid 2015.
- Contracting of a 3,000 horsepower electric rig to cover Badile and Laura, thereby securing significant cost efficiencies.
- Securing the drilling permission, farming out and then drilling the Badile prospect, currently scheduled for Q4 2014 – Q1 2015. Badile is the largest and most strategic asset in the portfolio.
- Drilling an appraisal well in H1 2015 in the onshore SMG permit, in the Marche region. A Competent Person’s Report is being commissioned in Q1 2014 on this low risk discovery.

- Drilling the Laura discovery in H2 2015 using a long reach deviated well from onshore. The permit for Laura is expected to be awarded shortly.
- Preparation for drilling the Zibido prospect, a second material exploration prospect in Po Valley, Northern Italy.

### ***Board changes***

The Company has recently announced its intention to appoint Simon Davies and Gerry Orbell to the Board as Non Executive Directors following the conclusion of the Open Offer.

Simon Davies has 30 years' experience as a financier in the City of London and was previously Executive Chairman of Threadneedle Asset Management. Simon 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. He is currently Chairman of JP Morgan Overseas Investment Trust, a Non Executive Director of Grainger and a Director of a number of subsidiaries of Old Mutual Wealth Management. Simon was previously a Non Executive Director of Sound Oil.

He currently owns 7 million shares in the Company (some 2.43 per cent. of the issued share capital) and brings key institutional relationships and expertise to evaluate alternative financing options.

Gerry Orbell, who retired as Executive Chairman of Sound Oil in 2012, is a petroleum geologist with over 40 years of international experience, including with Premier Oil and Petrofina, and brings an intimate knowledge of Sound Oil's Italian assets. Gerry is currently Chairman of the AIM company Antrim Energy and serves as a director on a number of private company boards. Gerry is currently interested in 1,151,000 shares in the Company (some 0.4 per cent. of the issued share capital).

The new Board now has the right balance of technical and financial skills to drive the Company forward.

### ***Financial information***

Audited accounts for the Group for each of the three years ended 31 December 2012, 31 December 2011 and 31 December 2010 are available on the Company's website [www.soundoil.co.uk](http://www.soundoil.co.uk) as are the unaudited interim accounts for the 6 months ended 30 June 2013.

As at 31 December 2013, the Group's current cash balance was approximately £0.6 million with no debt other than an amount of £2.2 million due to CSTI Srl in relation to the capex involved in developing Rapagnano and Nervesa, which is repayable only out of net revenues from Rapagnano and Nervesa respectively.

## **4. Principal terms of the Open Offer**

A total of approximately £1.6 million is being raised through the Open Offer pursuant to which up to 38,349,139 New Ordinary Shares are being hereby offered at an issue price of 4.2p per share to Eligible Shareholders on the terms and conditions set out in this document and in the Application Form. The Issue Price represents a discount of approximately 32.8 per cent. to the closing mid-market price of 6.25p per Existing Ordinary Share on 13 January 2014 being the last practicable Business Day prior to the announcement of the Open Offer.

The Open Offer is only being made to Eligible Shareholders whose names appear on the register of members of the Company on the Record Date as holders of Existing Ordinary Shares and who are resident in the United Kingdom. Each Eligible Shareholder's entitlement has been calculated on the basis of 2 Open Offer Shares for every 15 Existing Ordinary Shares held at the Record Date.

Eligible Shareholders may apply for more or less Open Offer Shares than they are entitled to under the Open Offer and applications in excess of the Open Offer Entitlements will be dealt with under the Excess Application Facility. Once subscriptions under the Open Offer Entitlements have been satisfied, the Company shall, in its absolute discretion, determine whether to meet any excess applications in full or in part, and no assurance can be given that applications by Eligible Shareholders under the Excess



Application Facility will be met in full or in part or at all. To the extent that additional Open Offer Shares are not subscribed by existing Shareholders, Open Offer Entitlements will lapse.

Fractions of Open Offer Shares will not be allotted to Eligible Shareholders in the Open Offer and, where necessary, entitlements under the Open Offer will be rounded down to the nearest whole number of New Ordinary Shares.

**The Open Offer Shares have not been and are not intended to be registered or qualified for sale in any jurisdiction other than the United Kingdom. Accordingly, unless otherwise determined by the Company and effected by the Company in a lawful manner, the Application Form will not be sent to Existing Shareholders with registered addresses in any jurisdiction other than the United Kingdom since to do so would require compliance with the relevant securities laws of that jurisdiction. Applications from any such person will be deemed to be invalid. If an Application Form is received by any Shareholder whose registered address is elsewhere but who is in fact a resident or domiciled in a territory other than the United Kingdom, he/she should not seek to take up his/her allocation.**

Part II of this document, together with the accompanying Application Form, contains further terms and conditions of the Open Offer.

## **6. Action to be taken**

**If an Eligible Shareholder does not wish to apply for Open Offer Shares he should not complete or return the Application Form nor send a USE message through CREST.**

(i) *Eligible Non-CREST Shareholders (i.e. holders of Ordinary Shares who hold their shares in certificated form)*

If you are an Eligible Non-CREST Shareholder and wish to participate in the Open Offer, you should carefully read the Application Form accompanying this document and send the Application Form along with the appropriate remittance to Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL by no later than 11.00 a.m. on 31 January 2014 and in accordance with the procedure set out at paragraph 4 of Part II of this document.

(ii) *Eligible CREST Shareholders (i.e. holders of Ordinary Shares who hold their shares in uncertificated form through CREST)*

If you are an Eligible CREST Shareholder, no Application Form is enclosed. You will instead receive a credit to your account in CREST in respect of your Entitlement. You should refer to the procedure for application set out in paragraph 4 of Part II of this document.

Eligible CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Open Offer. Eligible Shareholders with holdings of Existing Ordinary Shares in both certificated and uncertificated form will be treated as having separate holdings for the purpose of their applications. If you are not an Eligible Shareholder and a person who has a contractual or other legal obligation to forward this document or an Application Form into a jurisdiction outside the UK and who has a registered address in, or who is resident or ordinarily resident in, or a citizen of, or which is a corporation, partnership or another entity created or organised under the law of a country other than the UK, then your attention is drawn to the information in paragraph 7 of Part II of this document.

Eligible CREST Shareholders should note that, although Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Eligible Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear's Claim Processing Unit. Eligible non-CREST Shareholders should note that their Application Form is not a negotiable entitlement and cannot be traded.



## **10. Further Information**

Your attention is drawn to the Risk Factors relating to the Group set out in Part III of this document, the additional information set out in Part IV of this document and the terms and conditions of the Open Offer set out in Part II of this document and the Application Form

Yours faithfully,

Andrew Hockey  
*Chairman*

## PART II

### DETAILS OF THE OPEN OFFER

#### 1. Introduction

The Company hereby invites Eligible Shareholders to apply, on and subject to the terms and conditions set out in this document and in the Application Form, and subject to the Articles of the Company, for Open Offer Shares at the Issue Price, free from all expenses, payable in cash in full on application. Subject to certain minimum subscriptions set out below, Eligible Shareholders are being given the opportunity to subscribe for their Entitlement at the Issue Price payable in full on application and free of all expenses, *pro rata* to their existing shareholdings.

Only Eligible Shareholders, that is Shareholders who are resident in the United Kingdom and not including participants in the Private Placement, will be eligible to make an application for Open Offer Shares. Shareholders domiciled in any other territory, including any other EEA member state, will not be permitted to apply for any Open Offer Shares.

The Open Offer Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions declared, made or paid after the date of their issue. The allotment and issue of the Open Offer Shares will be made upon and be subject to the terms and conditions set out in this document and in the Application Form.

Application will be made to the London Stock Exchange for the Open Offer Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Open Offer Shares will commence on AIM at 8.00 a.m. on 4 February 2014.

**If an Eligible Shareholder does not wish to apply for Open Offer Shares he should not complete or return the Application Form.**

A maximum number of 38,349,139 Open Offer Shares will be offered to Eligible Shareholders as part of the Open Offer. In no circumstances will more than this number of Ordinary Shares be issued pursuant to the Open Offer.

#### 2. Principal terms and conditions of the Open Offer

Eligible Shareholders are being given the opportunity to subscribe for their Entitlement at the Issue Price payable in full on application and free of all expenses, *pro rata* to their existing shareholdings on the basis of:

##### **2 Open Offer Shares for every 15 Existing Ordinary Shares**

held at the Record Date. Entitlements will be rounded down to the nearest whole number of shares and fractional entitlements which would have otherwise arisen will not be issued.

Eligible Shareholders may apply for, on and subject to the terms and conditions set out in this document and in the accompanying Application Form, any whole number of Open Offer Shares at the Issue Price. Once initial *pro rata* entitlements have been satisfied, the Company shall, in its absolute discretion, determine whether to meet any excess applications in full or in part.

Only Eligible Shareholders, which means only Shareholders who are resident in the United Kingdom, will be eligible to make an application for Open Offer Shares. Shareholders domiciled in any other territory, including any other EEA member state, will not be permitted to apply for any Open Offer Shares.

Eligible Shareholders should be aware that the Open Offer is not a rights issue and the Application Form is not a negotiable document and cannot be traded. Applications for Open Offer Shares may only be made by the Eligible Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear's Claims Processing Unit. Open Offer Shares not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open

Offer but will be made available under the Excess Application Facility and the net proceeds will be retained for the benefit of the Company and Eligible Shareholders who do not apply to take up Open Offer Shares will have no rights under the Open Offer.

### **3. Further terms of the Open Offer**

No temporary documents of title will be issued in respect of the Open Offer Shares held in uncertificated form. Definitive certificates in respect of Open Offer Shares taken up are expected to be posted to those Eligible Shareholders who have validly elected to hold their Open Offer Shares in certificated form by 12 February 2014. In respect of those Eligible Shareholders who have validly elected to hold their Open Offer Shares in uncertificated form, the Open Offer Shares are expected to be credited to their stock accounts maintained in CREST by as soon as possible after 8.00 a.m. on 4 February 2014.

All monies received by the Receiving Agent in respect of Open Offer Shares will be credited to a non interest bearing account by the Receiving Agent.

If for any reason it becomes necessary to adjust the expected timetable as set out in this document, the Company will make an appropriate disclosure to AIM and, where appropriate, to Shareholders.

### **4. Procedure for Application and Payment**

The action to be taken by you in respect of the Open Offer depends on whether, at the relevant time, you have an Application Form in respect of the Open Offer or you have Open Offer Entitlements credited to your CREST stock account.

Eligible Shareholders who hold all their Existing Ordinary Shares in certificated form will receive a personalised Application Form. The Application Form will show the number of Ordinary Shares held at the Record Date. It will also show Eligible Shareholders their Entitlement and the total number of Open Offer Shares available under their Open Offer Entitlement that can be allotted in certificated form. Eligible Shareholders who hold all their Existing Ordinary Shares in CREST will be allotted Open Offer Shares in CREST. Eligible Shareholders who hold Existing Ordinary Shares partly in certificated and partly in uncertificated form will be allotted Open Offer Shares in uncertificated form to the extent that their entitlement to Open Offer Shares arises as a result of holding Existing Ordinary Shares in uncertificated form. However, it will be possible for Eligible Shareholders to deposit Open Offer Entitlements into, and withdraw them from, CREST.

**Eligible Shareholders who do not wish to apply for any Open Offer Shares under the Open Offer should not complete or return the Application Form or submit a USE message through CREST. Eligible Shareholders who hold their Ordinary Shares through a nominee and who wish to apply for Open Offer Shares must contact their nominee as such Eligible Shareholders will not be able to apply for Open Offer Shares directly using the Application Form.**

#### ***(a) If you receive an Application Form in respect of your Open Offer Entitlements under the Open Offer***

##### ***(i) General***

Subject as provided in paragraph 1 of this Part II in relation to Overseas Shareholders, Eligible Non-CREST Shareholders will receive an Application Form. The Application Form shows the number of Existing Ordinary Shares registered in your name on the Open Offer Record Date. It also shows the number of Open Offer Shares for which you may apply pursuant to your Entitlement, (on an initial *pro rata* basis) as shown by the total number of Open Offer Shares allocated to you. You may apply for less than your initial *pro rata* entitlement should you wish to do so. You may apply for more or less Open Offer Shares than you are entitled to should you wish to do so. The total number of Open Offer Shares is fixed and will not be increased in response to any applications in excess of what is available under the Excess Application Facility. Applications under the Excess Application Facility will therefore only be satisfied to the extent that other Eligible Shareholders do not apply for their Open Offer Entitlements in full. Applications under the Excess Application Facility shall be allocated in such manner as the Directors may determine, in their absolute discretion, and no assurance can be given that the applications for excess Open Offer Shares by Eligible Shareholders will be met in full or in part or at all.

Eligible Non-CREST Shareholders may also hold such an Application Form by virtue of a *bona fide* market claim. The instructions and other terms set out in the Application Form forms part of the terms of the Open Offer in relation to Eligible Non-CREST Shareholders.

*(ii) Bona fide market claims*

Applications to acquire Open Offer Shares may only be made on the Application Form and may only be made by the Eligible Non-CREST Shareholder named in it or by a person entitled by virtue of a *bona fide* market claim in relation to a purchase of Ordinary Shares through the market prior to the ex-entitlement date. Application Forms may not be assigned, transferred or split, except to satisfy *bona fide* market claims up to 3 p.m. on 29 January 2014. The Application Form will not be a negotiable document and will not be separately tradeable.

An Eligible Non-CREST Shareholder who has sold or otherwise transferred all or part of his holding of Ordinary Shares prior to the ex-entitlement date, should consult his broker or other professional adviser as soon as possible, as the invitation to acquire Open Offer Shares under the Open Offer may be a benefit which may be claimed by the transferee. Eligible Non-CREST Shareholders who have sold all or part of their registered holdings should, if the market claim is to be settled outside CREST, complete Box J on the Application Form and immediately send it to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The Application Form should not, however be forwarded to or transmitted to any territory outside the United Kingdom. If the market claim is to be settled outside CREST, the beneficiary of the claim should follow the procedures set out in the Application Form. If the market claim is to be settled in CREST, the beneficiary of the claim should follow the procedure set out in paragraph 4.2(b) below.

*(iii) Application procedures*

Eligible Non-CREST Shareholders wishing to apply to acquire Open Offer Shares should complete the Application Form in accordance with the instructions printed on it.

Completed Application Forms should be posted in the pre-paid envelope accompanying the Application Form or returned by post or by hand (during normal business hours only) to the Receiving Agent, Share Registrars Limited (who will act as Receiving Agent in relation to the Open Offer) so as to be received by the Receiving Agent by no later than 11.00 a.m. on 31 January 2014 – after which time Application Forms will not be valid. Eligible Non-CREST Shareholders should note that applications, once made, will be irrevocable and receipt thereof will not be acknowledged. Eligible Shareholders are recommended to allow at least four working days for delivery if posted by first class post. If you have any questions relating to this document, and the completion and return of the Application Form, please telephone Share Registrars between 9.00 a.m. and 5.00 p.m. (London time) Monday to Friday on 01252 821390 from within the UK or +44 (0) 1252 821390 if calling from outside the UK.

**All payments must be in pounds sterling and made by cheque or bankers' draft and should be made payable to "Share Registrars Limited re: Sound Oil PLC a/c" and crossed "A/C payee only".** Cheques and bankers' drafts must be drawn in sterling on a bank or building society in the UK which is either a settlement member of the Cheques & Credit Clearing Company Limited or the CHAPS & Town Clearing Company Limited or a member of the Committee of Scottish or Belfast Clearing Houses or which has arranged for its cheques and bankers' drafts to be cleared through facilities provided for the members of either of those companies or committees and must bear the appropriate sorting code in the top right hand corner. **No application will be considered unless these requirements are fulfilled. Eurocheques will not be accepted.**

Cheques should be drawn on the personal account to which the Eligible Shareholder has sole or joint title to the funds. Third party cheques will not be accepted with the exception of bankers' drafts/building society cheques where the bank/building society has confirmed the name of the account holder on the back of the draft/cheque and has added their stamp. The account name must be the same as that of the applicant.

Cheques and bankers' drafts will be presented for payment upon receipt and it is a term of the Open Offer that cheques will be honoured on first presentation. If cheques or bankers' drafts are presented for payment before the conditions of the Open Offer are fulfilled, the application monies will be kept in a separate bank account pending fulfilment of such conditions. If all the conditions of the Open Offer have not been fulfilled or (where appropriate) waived by 4 February 2014 (or such later date as the

Company and its advisers may agree but in any event not later than 12 February 2014), application monies will be returned, without interest, by crossed cheque in favour of the applicant(s) (at the applicant's risk) through the post as soon as is practicable after that date.

The Company may in its sole discretion, but shall not be obliged to, treat an Application Form as valid and binding on the person by whom or on whose behalf it is lodged, even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required, or if it otherwise does not strictly comply with the terms and conditions of the Open Offer. The Company further reserves the right (but shall not be obliged) to accept either:

- (i) Application Forms received after 11.00 a.m. on 31 January 2014; or
- (ii) applications in respect of which remittances are received before 11.00 a.m. on 31 January 2014 from authorised persons (as defined in FSMA) specifying the Open Offer Shares applied for and undertaking to lodge the Application Form in due course but, in any event, within two Business Days.

Multiple applications will not be accepted. All documents and remittances sent by post by or to an applicant (or as the applicant may direct) will be sent at the applicant's own risk.

If Open Offer Shares have already been allotted to an Eligible Non-CREST Shareholder and such Eligible Non-CREST Shareholder's cheque or banker's draft is not honoured upon first presentation or such Eligible Non-CREST Shareholder's application is subsequently otherwise deemed to be invalid, Share Registrars shall be authorised (in its absolute discretion as to manner, timing and terms) to make arrangements, on behalf of the Company, for the sale of such Eligible Non-CREST Shareholder's Open Offer Shares and for the proceeds of sale (which for these purposes shall be deemed to be payments in respect of successful applications) to be paid to and retained by the Company. Neither Share Registrars nor the Company nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Eligible Non-CREST Shareholders.

The instructions, notes and other terms set out in the Application Form constitute part of the terms of the Open Offer.

All enquiries in connection with the procedure for application and completion of the Application Form should be addressed to the Receiving Agent, Share Registrars Limited, Suite E, First Floor, 9 Lion & Lamb Yard, Farnham, Surrey GU9 7LL, or you can contact the Receiving Agent on 01252 821390 between 9.00 a.m. and 5.00 p.m. (London time) Monday to Friday.

***(b) If you have your Entitlement credited to your stock account in CREST in respect of your entitlement under the Open Offer***

***(i) General***

Each Eligible CREST Shareholder will receive a credit to his stock account in CREST in respect of his Entitlement. The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Ordinary Shares held on the Record Date by the Eligible CREST Shareholder in respect of whom the Open Offer Entitlements have been allocated. An Eligible CREST Shareholder may apply for more or less Open Offer Shares than he is entitled to should he wish to do so. Applications under the Excess Application Facility shall be allocated in such manner as the Directors may determine, in their absolute discretion, and no assurance can be given that the applications for excess Open Offer Shares by Eligible CREST Shareholders will be met in full or in part or at all. If for any reason the Open Offer Entitlements cannot be admitted to CREST by, or the stock accounts of Eligible CREST Shareholders cannot be credited by, 5.00 p.m. on 17 January 2014, or such later time and/or date as the Company may decide, an Application Form will be sent to each Eligible CREST Shareholder in substitution for the Open Offer Entitlements which should have been credited to his stock account in CREST. In these circumstances the expected timetable as set out in this document will be adjusted as appropriate and the provisions of this document applicable to Eligible Non-CREST Shareholders with Application Forms will apply to Eligible CREST Shareholders who receive such Application Forms.

CREST members who wish to apply to acquire some or all of their entitlements to Open Offer Shares should refer to the CREST Manual for further information on the CREST procedures referred to below.



Should you need advice with regard to these procedures, please contact the Receiving Agent on 01252 821390. Lines are open between 9.00 a.m. and 5.00 p.m. (London time) Monday to Friday. The helpline cannot provide advice on the merits of the Proposals nor give any financial, legal or tax advice.

*(ii) Market claims*

Although Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of Open Offer Entitlements may only be made by the Eligible Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim. Transactions identified by the CREST Claims Processing Unit as “cum” the Open Offer Entitlement will generate an appropriate market claim transaction and the relevant Open Offer Entitlement(s) will thereafter be transferred accordingly.

*(iii) Excess Application Facility*

Eligible CREST Shareholders at the Record Date who wish to make applications for additional Open Offer Shares (in excess of their initial *pro rata* entitlement) should follow the instructions below for submitting a USE in respect of the Excess Application Facility.

*(iv) Unmatched Stock Event (“USE”) instructions*

Eligible CREST Shareholders who are CREST members and who want to apply for Open Offer Shares in respect of all or some of their Open Offer Entitlements in CREST must send(or, if they are CREST sponsored members, procure that their CREST sponsor sends) an USE instruction to Euroclear which, on its settlement, will have the following effect: (i) the crediting of a stock account of the Receiving Agent under the participant ID and member account ID specified below, with a number of Open Offer Entitlements corresponding to the number of Open Offer Shares applied for; and (ii) the creation of a CREST payment, in accordance with the CREST payment arrangements in favour of the payment bank of the Receiving Agent in respect of the amount specified in the USE instruction which must be the full amount payable on application for the number of Open Offer Shares referred to in (i) above.

*(v) Content of USE instruction in respect of Entitlements*

The USE instruction must be properly authenticated in accordance with Euroclear’s specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (a) the number of Open Offer Shares for which application is being made and the number of Entitlements being delivered to the Receiving Agent;
- (b) the ISIN of the Entitlement. This is GB00BJ2RY870;
- (c) the CREST participant ID of the accepting CREST member;
- (d) the CREST member account ID of the accepting CREST member from which the Basic Entitlements are to be debited;
- (e) the participant ID of the Receiving Agent in its capacity as a CREST receiving agent. This is 7RA36;
- (f) the member account ID of the Receiving Agent in its capacity as a CREST receiving agent. This is RECEIVE;
- (g) the amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of Open Offer Shares referred to in (i) above;
- (h) the intended settlement date. This must be on or before 11.00 a.m. on 31 January 2014; and
- (i) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 31 January 2014. In order to assist prompt settlement of the USE instruction, CREST members (or

their sponsors, where applicable) may consider adding the following non-mandatory fields to the USE instruction:

- (i) a contact name and telephone number (in the free format shared note field); and
- (ii) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE instruction may settle on 31 January 2014 in order to be valid is 11.00 a.m. on that day.

In the event that the Open Offer does not become unconditional by 8.00 a.m. on 4 February 2014 or such later time and date as the Company determine (being no later than 8.00 a.m. on 12 February 2014), the Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a Eligible CREST Shareholder by way of a CREST payment, without interest, as soon as practicable thereafter.

*(vi) Content of USE Instructions in respect of the Excess Application Facility*

The USE instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (a) the number of excess Open Offer Shares for which application is being made (and hence the number of the Open Offer Entitlement(s) being delivered to the Registrar);
- (b) the ISIN of the Excess Application Facility. This is GB00BJ2RY987;
- (c) the participant ID of the accepting CREST member;
- (d) the CREST member account ID of the accepting CREST member from which the Open Offer Entitlements are to be debited;
- (e) the participant ID of the Registrar, in its capacity as a CREST receiving agent. This is 7RA36;
- (f) the member account ID of the Registrar, in its capacity as a CREST receiving agent. This is RECEIVE;
- (g) the amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of Open Offer Shares referred to in paragraph (i) above;
- (h) the intended settlement date. This must be on or before 11.00 a.m. on 31 January 2014; and
- (i) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 31 January 2014.

In order to assist prompt settlement of the USE instruction, CREST members (or their sponsors, where applicable) may consider adding the following non-mandatory fields to the USE instruction:

- (i) a contact name and telephone number (in the free format shared note field);

and

- (ii) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE instruction may settle on 31 January 2014 in order to be valid is 11.00 a.m. on that day.

In the event that the Open Offer does not become unconditional by 8.00 a.m. on or about 4 February 2014 or such later time and date as the Company may, in its absolute discretion, elect (being no later than 8.00 a.m. on 12 February 2014), the Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a

Qualifying CREST Holder by way of a CREST payment, without interest, within 14 days thereafter. The interest earned on such monies will be retained for the benefit of the Company.

*(vii) Deposit of Open Offer Entitlements into, and withdrawal from, CREST*

An Eligible Non-CREST Shareholder's entitlements to apply for Open Offer Shares under the Open Offer set out in this Application Form may be deposited into CREST (either into the account of the Eligible Shareholder named in the Application Form or into the name of a person entitled by virtue of a *bona fide* market claim), provided that such Eligible Non-CREST Shareholder is also a CREST member. Similarly, Open Offer Entitlements held in CREST may be withdrawn from CREST so that the entitlements under the Open Offer are reflected in an Application Form. Normal CREST procedures (including timings) apply in relation to any such deposit or withdrawal, subject (in the case of a deposit into CREST) to the provisions of the Application Form. A holder of an Application Form who is proposing to deposit the entitlements set out in such form into CREST is recommended to ensure that the deposit procedures are implemented in sufficient time to enable a person holding or acquiring such Open Offer Entitlements following their deposit into CREST, to take all necessary steps in connection with taking up such entitlements prior to 3.00 p.m. on 28 January 2014. A holder of an Application Form who deposits his Open Offer Entitlement into his CREST account, will receive a credit to such account for his Open Offer Entitlement which will be managed by the Registrars.

In particular, having regard to normal processing times in CREST and on the part of the Receiving Agent, the recommended latest time for depositing an Application Form with the CREST Courier and Sorting Service, where the person entitled wishes to hold the entitlement under the Open Offer set out in such Application Form as Open Offer Entitlements, is 3.00 p.m. on 28 January 2014 and the recommended latest time for receipt by Euroclear of a dematerialised instruction requesting withdrawal of Open Offer Entitlements from CREST is 4.30 p.m. on 27 January 2014 in either case so as to enable the person acquiring or (as appropriate) holding the Open Offer Entitlements following the deposit or withdrawal (whether as shown in an Application Form or held in CREST) to take all necessary steps in connection with applying in respect of the Open Offer Entitlements prior to 11.00 a.m. on 31 January 2014. Delivery of an Application Form with the CREST deposit form duly completed whether in respect of a deposit into the account of the Eligible Shareholder named in the Application Form or into the name of another person, shall constitute a representation and warranty to the Company and the Receiving Agent by the relevant CREST member(s) that it/they is/are not in breach of the provisions of the notes under the paragraph headed "Instructions for depositing entitlements under the Open Offer into CREST" on page 3 of the Application Form, and a declaration to the Company and the Receiving Agent from the relevant CREST member(s) that they are not a citizen or resident (of any territory other than the United Kingdom, where such deposit is made by a beneficiary of a market claim, a representation and warranty that the relevant CREST member(s) is/are entitled to apply under the Open Offer by virtue of a *bona fide* market claim.

*(viii) Validity of application*

A USE instruction complying with the requirements as to authentication and contents set out above which settles by no later than 11.00 a.m. on 31 January 2014 will constitute a valid application under the Open Offer.

*(ix) CREST procedures and timings*

CREST members and (where applicable) their CREST sponsors should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the Open Offer. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above by 11.00 a.m. on 31 January 2014. In this connection CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.



*(x) Incorrect or incomplete applications*

If a USE instruction includes a CREST payment for an incorrect sum, the Company, through the Registrar, reserves the right:

- (a) to reject the application in full and refund the payment to the CREST member in question (without interest);
- (b) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of Open Offer Shares as would be able to be applied for with that payment at the Issue Price, refunding any unutilised sum to the CREST member in question (without interest); and
- (c) in the case that an excess sum is paid, to treat the application as a valid application for all the Open Offer Shares referred to in the USE instruction, refunding any unutilized sum to the CREST member in question (without interest).

*(xi) Company's discretion as to the rejection and validity of applications*

The Company may in its sole discretion:

- (a) treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in this Part II;
- (b) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE instruction and subject to such further terms and conditions as the Company may determine;
- (c) treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid application if, at the time at which the Registrar receives a properly authenticated dematerialised instruction giving details of the first instruction or thereafter, either the Company or the Receiving Agent has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (d) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to apply for Open Offer Shares by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.

*(xii) Lapse of the Open Offer*

In the event that the Open Offer does not become unconditional by 8.00 a.m. on 4 February 2014 or such later time and date as the Company may agree (being no later than 12 February 2014), the Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a Eligible CREST Shareholder by way of a CREST payment, without interest, as soon as practicable thereafter.

## **5. Warranties**

An Eligible Shareholder who makes or is treated as making a valid application or Open Offer Shares:

- (i) represents and warrants that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations, under any contracts resulting therefrom and that he is not a person otherwise prohibited or restricted by legal or regulatory requirements from applying for Open Offer Shares or acting on behalf of any such person on a non-discretionary basis;

- (ii) agrees to pay the amount payable on application in accordance with the payment procedures described in this Part II;
- (iii) agrees that all applications and contracts resulting therefrom under the Open Offer shall be governed by, and construed in accordance with, the laws of England;
- (iv) confirms that in making the application he is not relying on any information or representation in relation to the Company other than that contained in this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all the information in relation to the Company contained in this document;
- (v) represents and warrants that he is the Eligible Shareholder originally entitled to relevant Open Offer Entitlements or that he has received such Open Offer Entitlements by virtue of a *bona fide* market claim;
- (vi) represents and warrants that in relation to each and every Open Offer Entitlement that he has received from a person other than the Company, he is entitled to apply under the Open Offer in relation to such Open Offer Entitlements by virtue of a *bona fide* market claim;
- (vii) requests that the New Ordinary Shares to which he will become entitled shall be issued to him on the terms set out in this document, subject to the memorandum of association and articles of association of the Company;
- (viii) represents and warrants that they are resident in the United Kingdom and not resident of any other territory and they will not offer to sell, directly or indirectly, any of the Open Offer Shares (or any rights in respect of such Open Offer Shares) in any such other territory or for the benefit of a resident of any other territory other than the United Kingdom. In addition, completion of an Application Form will constitute a representation and warranty that the person in whose name registration is applied for is a resident of the United Kingdom and not resident in any other territory and that they do not hold and have not acquired the Open Offer Shares comprised in the Application Form for the account or benefit of a resident of any such other territory or with a view to the offer, sale or delivery, directly or indirectly, of any Open Offer Shares or any rights in respect of such Open Offer Shares in any territory other than the United Kingdom or to a resident of any other territory;
- (ix) represents and warrants that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in sections 67, 70, 93 or 96 (depository receipts and clearance services) of the Finance Act 1986; and
- (x) represents and warrants that that acceptance by them of their application for subscription under the Open Offer will not result in them and/or persons acting in concert with them obtaining an interest in greater than 29.9 per cent. of the total number of Ordinary Shares in issue following the Open Offer.

## **6. Money Laundering Regulations**

To ensure compliance with the Money Laundering Regulations 2007 (the “Regulations”) as subsequently amended, it is a term of the Open Offer that the Registrars may, at their absolute discretion, require verification of identity including by electronic means from any person completing an Application Form or sending a USE message through CREST (the “Applicant”) and, without prejudice to the generality of the foregoing, in particular any person who either (i) tenders payment by way of a cheque or banker’s draft drawn on an account in the name of any person or persons other than the Applicant or (ii) appears to Share Registrars to be acting on behalf of some other person.

This may involve verification of the identity of any person on whose behalf the Applicant appears to be acting.

Lodging of an Application Form and sending the USE message through CREST with the appropriate remittance constitutes a warranty by the Applicant that the Regulations will not be breached by the acceptance of the remittance and an undertaking to provide such evidence of identity at the time of lodging an Application Form or, in the absolute discretion of the Company, within a reasonable time thereafter (in each case to be determined at the absolute discretion of the Company and the Registrars) as may be required to ensure compliance with the Regulations.

If satisfactory evidence of identity has not been received by Share Registrars Limited within a reasonable period of time, then the Application Form or USE message through CREST in question may be rejected, in which event the application will not proceed any further and the application monies (without interest) will be returned to the bank account on which the cheque was drawn at the Applicant's own risk. Where possible Applicants should make payment by cheque in their own name. If a bankers' draft or building society cheque is used, the Applicant should write his/her name and address on the back of the draft or cheque and, in the case of an individual, record his/her date of birth against his/her name; and ask the bank or building society to endorse on the reverse of the draft or cheque the full name and account number of the person whose account number is being debited and stamp such endorsement.

The above information is provided by way of guidance to reduce the likelihood of difficulties, delays and potential rejection of an Application Form (but without limiting Share Registrars Limited's right to require verification of identity as indicated above).

## **7. Overseas Shareholders**

Only Eligible Shareholders, which means only Shareholders that are resident and domiciled in the United Kingdom, will be eligible to make an application for Open Offer Shares, and in particular no person receiving a copy of this document or the Application Form in any other territory may treat the same as constituting an offer or invitation to him/her nor should he/she in any event complete the Application Form. Accordingly, persons receiving this document and Application Form should not send the same into any other territory, and any copy of this document or the Application Form which is received in any such jurisdiction is sent for information only, is confidential and should not be copied or distributed.

The Company reserves the right to treat as invalid any application or purported application to subscribe for new Ordinary Shares pursuant to the Open Offer which appears to the Company or its agent to have been executed, effected or dispatched in a manner which may involve a breach of the securities laws or regulations of any jurisdiction or which does not include the warranties set out in the Application Form.

**The Open Offer Shares have not been and are not intended to be registered or qualified for sale under in any jurisdiction other than the United Kingdom. Accordingly, unless otherwise determined by the Company and effected by the Company in a lawful manner, the Application Form will not be sent to Shareholders with registered addresses in any other jurisdiction other than the United Kingdom since to do so would require compliance with the relevant securities laws of that jurisdiction. Applications from any such person will be deemed to be invalid. If an Application Form is received by any Shareholder whose registered address is elsewhere but who is in fact a resident or domiciled in a territory other than the United Kingdom, he/she should not seek to take up his/her allocation.**

## **8. Admission, Settlement and Dealings**

Application will be made for the admission of the New Ordinary Shares to trading on AIM. The result of the Open Offer is expected to be announced on or about 3 February 2014 and, subject to the Open Offer becoming unconditional in all respects, trading in the Open Offer Shares is anticipated to commence on AIM for normal settlement on 4 February 2014.

Application will be made for the New Ordinary Shares to be admitted to CREST with effect from AIM Admission and applicants for Open Offer Shares will be able to hold their Open Offer Shares in certificated or uncertificated form.

Notwithstanding any other provision of this document or of the Application Form, the Company reserves the right to allot and/or issue any Open Offer Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST), or on the part of the facilities and/or systems operated by the Company's registrars in connection with CREST. This right may also be exercised if the correct details in respect of *bona fide* market claims (such as the Member Account ID and Participation ID details) are not provided as requested on the Application Form.

For more information as to the procedure for application in each case, Eligible Shareholders are referred to the Application Form.

## PART III

### RISK FACTORS

**In addition to the other relevant information set out in this document, the following specific factors should be considered carefully when evaluating an investment in the Group. The investment offered in this document may not be suitable for all of its recipients. If you are in any doubt as to the action you should take, you should consult a person authorised under FSMA who specialises in advising on the acquisition of shares and other securities. A prospective investor should consider carefully whether an investment in the Group is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her.**

**In addition to the usual risks associated with an investment in a business at an early stage of its development, the Directors consider that the risks and other factors described below are the most significant and should be considered carefully together with all the information contained in this document, prior to applying for New Ordinary Shares. It should be noted that the risks described below are not the only risks faced by the Group; there may be additional risks that the Directors currently consider not to be material or of which they are currently unaware.**

**If any of the risks referred to in this Part III crystallise, the Company's business, financial condition, results or future operations could be materially adversely affected. In such case, the price of its shares could decline and investors may lose all or part of their investment.**

#### **SECTION A: COUNTRY RISKS**

##### ***Economic risk***

There may be a number of associated risks over which the Group will have no, or limited, control. These may include contract renegotiation, contract cancellation, economic, social, or political instability or change, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing and petroleum export licensing and export duties as well as government control over domestic oil and gas pricing. While most of the Group's financial obligations are denominated in US\$ or Euros, foreign currency effects may arise from exchange rate movements. The Group does not currently hedge its exchange rate risk.

#### **SECTION B: RISKS RELATING TO THE COMPANY**

##### ***Exploration risk and permitting regulations***

The future value of the Group is largely dependent on the success or otherwise of the Group's activities, which are directed towards the search, evaluation and development of oil and gas reserves. Exploration for and development of resources is speculative and involves a significant degree of risk. While the rewards can be substantial, there is no guarantee that exploration by the Group will lead to commercial discovery or, if there is such discovery, that the Group will be able to realise such reserves as intended. If at any stage the Group is precluded from pursuing its exploration or production programmes, or decides not to continue with any of these, this is likely to have an adverse effect on the value of investors' holdings. Moreover, if the Group does not meet its work and/or expenditure obligations under its existing or future permits, licences or production sharing agreements in which it has a participating interest this may lead to dilution of its interest in, or the loss of, such production sharing agreements, permits or licences. A loss of any of the Group's licences or permits may also result in the requirement to make payments for the uncompleted work programs.

##### ***Drilling and operating risk***

Exploration and development activities may be delayed or adversely affected by factors outside the control of the Group. These include adverse climatic conditions, environmental hazards, the performance of joint venture or farm-in partners on whom the Group may be or may become reliant, compliance with governmental requirements, unscheduled shutdowns or other drilling problems, labour disputes, shortage or delays in installing and commissioning plant and equipment or import or customs delays.

Problems may also arise due to the quality or failure of locally obtained equipment or interruptions to services (such as power, water, fuel or transport or processing capacity) or technical support which result in failure to achieve expected target dates for exploration or production and/or result in a requirement for greater expenditure.

Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some oil or gas, are not sufficiently productive to justify commercial development or cover operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

Substantial operational risks are involved in seismic exploration and the drilling for, development of and production from oil and gas fields, including blow-outs, cratering, explosions, pollution, seepage or leaks, fire, earthquake activity, unusual or unexpected geological conditions and other hazards which may delay, or ultimately prevent, the exploitation of such fields or may result in cost overruns or substantial losses to the Group due to substantial environmental pollution or damage, personal injury or loss of life, clean up responsibilities, regulatory investigation and penalties or suspension of operations. Such hazards can also severely damage or destroy equipment, surrounding areas or property of third parties. Damage or loss occurring as a result of such risks may give rise to claims against the Group.

Although the Group proposes to maintain insurance which the Directors consider to be appropriate in accordance with industry practice, there may be circumstances where the Group's insurance or that of the operator of a field will not cover or be adequate to cover the consequences of such events or where the Group may become liable for pollution or other operational hazards against which it either cannot insure or may have elected not to have insured on account of high premium costs or otherwise. Moreover, there can be no assurance that the Group will be able to maintain adequate insurance in the future at rates the Directors consider reasonable.

#### ***Hydrocarbon reserve and resource estimates***

No assurance can be given that the hydrocarbon resources and reserves reported by the Group from time to time are present as estimated, that reserves will be recovered in the quantities and at the rates estimated or that they can be brought into profitable production. Hydrocarbon reserve and resource estimates may require revisions and/or changes (either up or down) based on additional technical data, new interpretations of data, actual production experience and in light of the prevailing market price of oil and gas. A decline in the market price for oil and gas could render reserves uneconomic to recover and may ultimately result in a reclassification of reserves as resources.

There are uncertainties inherent in estimating the quantity of reserves and resources and in projecting future rates of production, including factors beyond the Group's control. Estimating the amount of hydrocarbon reserves and resources is an interpretive process and, in addition, results of drilling, testing and production subsequent to the date of an estimate may result in material revisions to original estimates.

The hydrocarbon resources data historically reported by the Company are estimates only and should not be construed as representing exact quantities. The nature of quantification studies means that there can be no guarantee that estimates of quantities and quality of the resources disclosed will be available for extraction. Therefore, actual production, revenues, cash flows, royalties and development and operating expenditures may vary from these estimates. Such variances may be material. Estimates of resources as reported by the Company may be based upon production data, prices, costs, ownership, geophysical, geological and engineering data, and other information assembled by the Group (which it may not necessarily have produced itself). The estimates may prove to be incorrect and potential investors should not place reliance on the forward looking statements contained in such reports (including data that has been expressed to have been certified by the relevant competent persons or otherwise).

Hydrocarbon reserves and resources estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates that were reasonable when made may change significantly when new information from additional analysis and drilling becomes available. This may result in alterations to development and production plans which may, in turn, adversely affect operations.



If the assumptions upon which the estimates of the Group's hydrocarbon resources and reserves have been based prove to be incorrect, the Group (or the operator of an asset in which the Group has an interest) may be unable to recover and produce the estimated levels or quality of hydrocarbons and the Group's business, prospects, financial condition or results of operations could be materially and adversely affected.

#### ***Availability of drilling, exploration and production equipment***

The availability of drilling rigs and other equipment and services is affected by the level and location of drilling activity around the world. An increase in drilling operations outside the current focus area of the Group or in other areas may reduce the availability of equipment and services to the Group. Similarly, the Group may have difficulty sourcing the exploration and production equipment it requires in the timeframe envisaged by the Group's plans due to high global demand for such equipment. The reduced availability of equipment and services may delay the Group's ability to exploit any reserves and adversely affect the Group's operations and profitability.

#### ***Legal systems***

Jurisdictions in which the Group operates or might operate in the future may have less developed legal systems than more established economies which could result in risks such as:

- effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or in an ownership dispute, being more difficult to obtain;
- a higher degree of discretion on the part of governmental authorities;
- the lack of judicial or administrative guidance on interpreting applicable rules and regulations;
- inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or
- relative inexperience of the judiciary and courts in such matters.

In certain jurisdictions, the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to the Group's licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that production sharing agreements, joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

#### ***Corporate and regulatory formalities***

The jurisdictions in which the Group may obtain interests, conduct operations and the steps involved in the Group acquiring its current interests involve or may involve the need to comply with numerous procedures and formalities. In some cases, failure to follow such formalities or obtain relevant evidence may call into question the validity of the entity or the actions taken.

#### ***Ability to exploit successful discoveries***

It may not always be possible for the Group to participate in the exploitation of successful discoveries made in areas in which the Group has an interest. Such exploitation may involve the need to obtain licences or clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretion by such authorities. It may or may not be possible for such conditions to be satisfied. Furthermore, the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not be the same as those of the Group. Such further work may also require the Group to meet or commit to financing obligations, which it may not have anticipated or may not be able to commit to due to lack of funds or inability to raise funds.

#### ***Environmental regulation***

Environmental and safety legislation (e.g. in relation to plugging and abandonment of wells, discharge of materials into the environment and otherwise relating to environmental protection) may change in a manner that may require stricter or additional standards than those now in effect, a heightened degree

of responsibility for companies and their directors and employees, increased penalties for non-compliance and more stringent enforcement of existing laws and regulations. This may have the effect of increasing the future costs of environmental compliance. There may also be unforeseen environmental liabilities resulting from oil and gas activities, which may be costly to remedy. In particular, the acceptable level of pollution and the potential clean up costs and obligations and liability for toxic or hazardous substances for which the Group may become liable as a result of its activities may be impossible to assess against the current legal framework and current enforcement practices of the various jurisdictions.

### ***Market risk***

In the event of successful development of oil and gas reserves, the marketing of the Group's prospective production of oil and gas from such reserves will be dependent on market fluctuations and the availability of processing and refining facilities and transportation infrastructure, including access to ports, shipping facilities, pipelines and pipeline capacity at economic tariff rates over which the Group may have limited or no control. Pipelines may be inadequately maintained and subject to capacity constraints and economic tariff rates may be increased with little or no notice and without taking into account producer concerns. The right to export oil and gas may depend on obtaining licences and quotas, the granting of which may be at the discretion of the relevant regulatory authorities. There may be delays in obtaining such licences and quotas leading to the income receivable by the Group being adversely affected, and it is possible that from time to time export licences may be refused.

### ***Farm-out and joint venture partners***

From time to time, the Group may enter into farm-out agreements to fund a portion of the exploration and development costs associated with its assets. In addition, other companies may operate some of the assets in which the Group has an ownership interest. Liquidity and cash flow problems encountered by the partners and co-owners of such assets and any non-compliance or disagreements by the partners and co-owners (including, without limitation, disputes as to funding required or otherwise) may lead to a delay in the pace of exploration, development or production programmes that may be detrimental to such programmes or may otherwise have adverse consequences for the Group. In addition, any farm-out partners and working interest owners may be unwilling or unable to pay their share of the costs of projects as they become due. In the case of a farm-out partner, the Group may have to obtain alternative funding in order to complete the exploration and development of the assets subject to the farm-out agreement, or the interpretations by partners may differ, disputes may arise and outcomes including costs may vary from expectations. In the case of a working interest owner, the Group may be required to pay the working interest owner's share of the project costs in order to protect its interest in the asset. The Group cannot assure investors that it would be able to obtain the capital necessary in order to fund either of these contingencies. It is also possible that the interests of the Group and those of its joint venture partners (who may have other interests and who may prefer to dedicate their resources to other projects) are not aligned resulting in project delays or additional costs or losses.

Government approval may be required for farm-out transactions and negotiations with the government could delay exploration or development programmes or negatively impact the existing economics on a given Block.

### ***Competition***

A number of other oil and gas companies operate, and are allowed to bid for, production sharing agreements in the regions in which the Group currently operates and may operate in the future, thereby providing competition to the Group. Larger companies, in particular, may have access to greater resources than the Group which may give them a competitive advantage.

### ***Market perception***

Market perception of oil and gas exploration and development companies may change which could impact on the value of investors' holdings and impact on the ability of the Company to raise further funds through the issue of further Ordinary Shares in the Company.

### ***Dependence on key personnel***

The Group has a small management team and the loss of a key individual or the Group's inability to attract suitably qualified personnel in the future could affect the Group's business. Whilst the Company has entered into contractual arrangements with the Directors, details of which are set out in Part IV of this document, the retention of their services cannot be guaranteed. In addition, difficulties may also be experienced in certain jurisdictions in employing and retaining qualified personnel who are willing to work in such jurisdictions.

### ***Results to date and additional requirement for capital***

Actual future production, oil and gas prices, revenues, taxes, transportation costs, capital expenditures and operating expenses and geological success will all be factors which have an impact on the amount of additional capital required. Any additional equity financing may be dilutive to Shareholders and debt financing, if available, may involve restrictions on financing and operating activities. If the Group is unable to obtain additional financing as and when needed, it will be required to reduce the scope of its operations or anticipated expansion and will be unable to fulfil its commitments which could result in them being terminated.

## **SECTION C: OIL & GAS MARKET RISKS**

### ***Volatility of prices for oil and gas***

The demand for, and price of, oil and gas is highly dependent on a variety of factors, including international supply and demand, the level of consumer demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. Geographic location and a lack of adequate infrastructure may also result in any oil or gas produced being sold at a discount to world market prices for oil and gas. International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future.

## **SECTION D: RISKS RELATING TO THE ORDINARY SHARES**

### ***Possible volatility of the price of ordinary shares***

The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets and could be subject to significant fluctuations due to a change in sentiment in the market regarding the Ordinary Shares (or securities similar to them) or in response to various factors and events, including any regulatory changes affecting the Group's operations, variations in the Group's operating results and business developments of the Group or its competitors. Stock markets have from time to time experienced significant price and volume fluctuations which have affected the market prices for securities which may be unrelated to the Group's operating performance or prospects. Furthermore the Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Ordinary Shares. The trading prices of the Ordinary Shares may go down as well as up and Shareholders may, therefore, not recover their original investment costs.

### ***Substantial sales of Ordinary Shares could cause the price of Ordinary Shares to decline***

There can be no assurance that the Directors or other shareholders will not elect to sell their Ordinary Shares when they are legally entitled so to do. The market price of Ordinary Shares could decline as a result of any sales of such Ordinary Shares or as a result of the perception in the market which may occur as a result of such a sale. If these or any other sales were to occur, the Company may in the future have difficulty in offering or selling Ordinary Shares at a time or at a price it deems appropriate.

### ***General economic conditions***

Market conditions may affect the ultimate value of the Company's share price regardless of operating performance of the Group. The Company could be affected by unforeseen events outside of its control, including natural disasters, terrorist attacks or changes in Governmental legislation or policy.



### ***Dividends***

The dividend policy of the Company is dependent upon its financial condition, cash requirements, future Prospects, profits available for distribution and other factors deemed to be relevant at the time and on the continued health of the markets in which it operates. As a matter of English law, the Company can pay dividends only to the extent that it has distributable reserves available which, as the Company is a group holding company is dependent on the Company's ability to receive funds for such purposes, directly or indirectly, from operating subsidiaries in a manner which creates distributable reserves for the Company. The Company's ability to pay dividends to shareholders is therefore a function of existing Group distributable reserves, future Group profitability, the ability to distribute or dividend profits from subsidiaries up the Group structure to the Company and other factors that the Directors deem significant from time to time, such as capital requirements and general economic conditions. There can be no guarantee that the Company will pay dividends in the foreseeable future.

### ***Tax considerations***

Changes in tax laws or subordinate legislation or the practice of any taxation authority could have a material adverse effect on the Group. An investment in the Company may involve complex tax considerations which may differ for each investor and each investor is advised to consult its own tax advisers. Any tax legislation and its interpretation and the legal and regulatory regimes which apply in relation to an investment in the Company may change at any time.

### ***Securities traded on AIM***

The Ordinary Shares will be traded on AIM rather than on the Official List. An investment in shares traded on AIM is generally perceived to carry a higher degree of risk and be less liquid than an investment in shares listed on the Official List. Consequently, it may be more difficult for an investor to sell his or her Ordinary Shares than it would be if the Ordinary Shares were listed on the Official List, and he or she may receive less than the amount paid. Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment especially since the market in the Ordinary Shares on AIM may have limited liquidity. The price at which investors may dispose of their shares in the Company may be influenced by a number of factors some of which may pertain to the Company and others of which are extraneous. Investors may realise less than the original amount invested and shareholders who need to dispose of their Ordinary Shares may be forced to do so at prices that do not fully reflect the net asset value per share.

### ***Limited regulatory control***

Shareholders of the Company will not enjoy protection or rights other than those reflected in the Articles or those conferred by law. Although the Directors recognize the importance of good corporate governance, neither the Listing Rules of the United Kingdom Listing Authority nor the UK Corporate Governance Code apply to the Company.

### ***Forward looking statements***

This document contains "forward-looking statements" which includes all statements other than statements of historical fact including, without limitation those regarding the Company's financial position, business strategy, plans and objectives of management for future operations, or any statements preceded by, followed by or that include the words "targets", "believes", "expects", "aims", "intends", "will", "may", "might", "anticipates", "would", "could" or similar expressions or negatives thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of this document. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based unless required to do so by applicable law or the AIM Rules.

## PART IV

### ADDITIONAL INFORMATION

#### 1. Responsibility

- 1.1 The Company, whose registered office appears in paragraph 2.3 below and the Directors, whose names appear on paragraph 6.1 below of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company, the Directors (each of whom has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

#### 2. Information on the Group

- 2.1 The legal and commercial name of the Company is Sound Oil plc.
- 2.2 The Company was incorporated and registered in England and Wales on 27 January 2005 under the Companies Act 1985 as a public company limited by shares with registered number 5344804. The domicile of the Company is England and Wales.
- 2.3 The Company's registered office is at Third Floor 55, Gower Street, London, WC1E 6HQ. Its principal place of business is at Riverbridge House, Guildford Road, Leatherhead, Surrey KT22 9AD.
- 2.4 The principal legislation under which the Company operates and under which the New Ordinary Shares will be created is the Act and the Company is subject to the AIM Rules. The liability of the members of the Company is limited.
- 2.5 The Company is the ultimate parent company of the Group. All operating activities are conducted by companies which are members of the Group. The significant subsidiaries of the Company are listed in paragraph 2.6 below.
- 2.6 The following table shows the significant subsidiaries of the Company (being those subsidiaries that the Company considers are likely to have a significant effect on the assessment of its own assets and liabilities, financial position or profits and losses):

<i>Company Name</i>	<i>% interest owned by the Company</i>	<i>Country of Incorporation</i>	<i>Principal activity</i>
Sound Oil International Limited	100	British Virgin Islands	Holding company
Sound Oil Asia Limited	100	British Virgin Islands	Holding company
Consul Oil & Gas Limited	100	England and Wales	Holding company
Mitra Energia Citarum Limited	100	Mauritius	Exploration company
Apennine Energy S.p.a	100	Italy	Exploration company
Apennine Oil and Gas S.p.a Unipersonale	100	Italy	Exploration company

#### 3. Share Capital

- 3.1 The following table shows the issued share capital of the Company as at the date of this document and at Admission (assuming full subscription for the Open Offer):

	<i>Issued Ordinary Shares</i>		
	<i>£</i>	<i>Number</i>	<i>Nominal Value £</i>
Date of this document	2,876,185.44	287,618,544	0.01
Admission	3,259,676.83	325,967,683	0.01

3.2 Following the implementation of the Act and the adoption of the Articles, the Company does not have an authorised share capital.

3.3 On 27 June 2013 the following resolutions were passed:

3.3.1 that the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares up to a maximum aggregate nominal amount of £1,500,000 provided that this authority shall expire on the date of the next annual general meeting of the Company after the passing of the resolution save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require such shares to be allotted after such expiry and the Directors shall be entitled to allot such shares pursuant to any such offer or agreement as if this authority had not expired.

3.3.2 That

(a) the directors be empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by Resolution 6 above as if section 561 of the Act did not apply to any such allotment provided that this power shall be limited to:

(i) the ratification and allotment of ordinary shares of 1p in the capital of the Company (“Ordinary Shares”) arising from the exercise of options and warrants outstanding at the date of this Resolution;

(ii) the allotment of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to the holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to their holdings of such ordinary shares but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with equity securities representing fractional entitlements and with legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in, any territory;

(iii) the allotment, other than pursuant to (a) and (b) above, of equity securities:

(A) the allotment of equity securities up to an aggregate nominal value of £1,274,075;

(B) the grant and issue of options over the authorised share capital of the Company up to £225,925 the total share capital in issue.

and this power shall, unless previously revoked or varied by special resolution of the Company in general meeting, expire on the date of the next Annual General Meeting of the Company. The Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors are hereby empowered to allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

3.4 The New Ordinary Shares will be allotted and issued by the Directors (or a duly authorised committee of the Directors) pursuant to the authorities and powers conferred on them by shareholders in accordance with the Act described in paragraph 3.3.1. It is anticipated that the allotment of New Ordinary Shares will take place on 3 February 2014.

3.5 Save as disclosed in paragraph 3.3.1 above, the provisions of section 561 of the Act, which, to the extent not disapplied pursuant to section 570 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash (other than allotments to employees under employee share schemes), apply to the authorised but unissued share capital of the Company. The Act allows the disapplication of the statutory pre-emption rights, by a special resolution of shareholders, either generally or specifically, for a maximum period not exceeding five years.

3.6 No securities of the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

3.7 The Ordinary Shares are not redeemable.

#### 4. Articles of Association

A copy of the Articles of Association can be located at the Company's website [www.soundoil.co.uk](http://www.soundoil.co.uk). Hard copies of the Articles of Association can be obtained from the company secretary by telephoning 020 7580 6075.

#### 5. Public takeover bids in the last and current financial years

There have been no public takeover bids by third parties in respect of the share capital of the Company in the last financial year ended 31 December 2013 or in the current financial year ending 31 December 2014.

#### 6. Existing Directors

6.1 The Directors and their respective functions are as follows:

##### *Executive Director*

<i>Name</i>	<i>Position</i>
James Parsons	Chief Executive Officer

##### *Non-Executive Directors*

<i>Name</i>	<i>Position</i>
Andrew Raymond Hockey	Chairman and Non-Executive Director
John Anthony (Tony) Heath	Non-Executive Director

6.2 As at 15 January 2014, being the last practicable date prior to publication of this document, the interests of the Directors and persons connected with them (within the meaning of sections 252 to 257 of the Act) in the issued share capital of the Company (all of which, unless otherwise stated, are beneficial) were as follows:

<i>Name of Directors</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued Existing Ordinary Shares</i>
Tony Heath	212,758	0.074%
Andrew Hockey	42,500	0.015%
James Parsons	263,366	0.092%

6.3 As at 15 January 2014, being the last practicable date prior to the publication of this document, the Directors listed below held the following options over Ordinary Shares.

<i>Name of Director</i>	<i>Date of Grant</i>	<i>No. of Options</i>	<i>Exercise Period</i>	<i>Exercise price</i>
J. A. Heath	01.03.2007	333,334	28.02.2008 to 01.03.2017	43.75p
	01.03.2007	333,333	28.02.2009 to 01.03.2017	43.75p
	01.03.2007	333,333	28.02.2010 to 01.03.2017	43.75p
	01.03.2011	200,000	01.03.2011 to 29.02.2016	27.5p
	29.09.2011	100,000	29.09.2011 to 28.09.2016	22p
A. R. Hockey	24.05.2011	100,000	01.04.2011 to 31.03.2016	49.5p
	26.10.2012	100,000	26.10.2012 to 25.10.2016	16.5p
	26.10.2012	100,000	26.10.2013 to 25.10.2016	16.5p
	26.10.2012	100,000	26.10.2014 to 25.10.2016	16.5p

<i>Name of Director</i>	<i>Date of Grant</i>	<i>No. of Options</i>	<i>Exercise Period</i>	<i>Exercise price</i>
J Parsons	05.09.2011	110,000	05.09.2012 to 04.09.2016	21.75p
	05.09.2011	110,000	05.09.2013 to 04.09.2016	21.75p
	05.09.2011	110,000	05.09.2014 to 04.09.2016	21.75p
	01.03.2012	150,000	01.03.2013 to 28.02.2018	25p
	01.03.2012	150,000	01.03.2014 to 28.02.2018	25p
	01.03.2012	150,000	01.03.2015 to 28.02.2018	25p
	26.10.2012	333,334	26.10.2012 to 25.10.2016	16.5p
	26.10.2012	333,333	26.10.2013 to 25.10.2016	16.5p
	26.10.2012	333,333	26.10.2014 to 25.10.2016	16.5p

- 6.4 None of the Directors or any member of their respective families (as defined in the AIM Rules) has a related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares.
- 6.5 Save as disclosed in this paragraph 6 of this Part IV, none of the Directors nor any person connected with them, has any interest in the share capital of the Company or of any of its subsidiary or associated undertakings or any rights to subscribe for or to convert any security into Ordinary Shares.
- 6.6 Since 1 January 2014 (being the date of the commencement of the current financial year of the Company) no options over Ordinary Shares have been issued to any Directors or persons connected with them.
- 6.7 In addition, the following additional options have been granted to employees:

<i>Date of Option Grant</i>	<i>No. of Options</i>	<i>Vesting Date</i>	<i>Expiry Date</i>	<i>Exercise price</i>
13.04.11	193,334	01.03.11	29.02.16	27.5p
13.04.11	193,333	01.03.12	29.02.16	27.5p
15.07.11	193,333	01.03.13	29.02.16	27.5p
01.03.12	150,000	01.03.13	28.02.18	25p
01.03.12	150,000	01.03.14	28.02.18	25p
01.03.12	150,000	01.03.15	28.02.18	25p
18.04.11	100,000	28.03.11	27.03.16	56p
01.03.12	150,000	01.03.13	28.02.18	25p
01.03.12	150,000	01.03.14	28.02.18	25p
01.03.12	150,000	01.03.15	28.02.18	25p
02.04.12	110,000	02.01.13	01.01.17	16.5p
02.04.12	110,000	02.01.14	01.01.17	16.5p
02.04.12	110,000	02.01.15	01.01.17	16.5p
26.09.13	444,444	27.09.14	26.09.18	12.15p
26.09.13	444,444	27.09.15	26.09.18	12.15p
26.09.13	444,445	27.09.16	26.09.18	12.15p
19.11.12	33,334	20.08.13	19.08.17	25p
19.11.12	33,333	20.08.14	19.08.17	25p
19.11.12	33,333	20.08.15	19.08.17	25p
26.09.13	133,333	27.09.14	26.09.18	12.15p
26.09.13	133,333	27.09.15	26.09.18	12.15p
26.09.13	133,334	27.09.16	26.09.18	12.15p
26.09.13	296,296	27.09.14	26.09.18	12.15p
26.09.13	296,296	27.09.15	26.09.18	12.15p
26.09.13	296,296	27.09.16	26.09.18	12.15p

## 7. Service Agreements of the Directors

7.1 The details of the service agreements or letters of appointment of the Directors are as follows:

(a) *Executive Director*

Mr J. Parsons Chief Executive Director has a service agreement with the Company dated 7 November 2012, at a current annual salary of £250,000 per annum subject to upward review by the Remuneration Committee on each anniversary of the agreement. The agreement is subject to a six month period of notice. The agreement requires Mr Parsons to undertake leadership of the Company and to give such time and effort as may be required to ensure the success of the Company. Mr Parsons is also entitled to the following benefits to the extent offered by the Company: health insurance, life insurance, critical illness insurance and directors' and officers' liability insurance. Pursuant to the agreement the Company shall provide 4 per cent. of Mr Parsons' salary towards a pension scheme. Mr Parsons will be considered for a non-contractual bonus payment.

(b) *Non-Executive Directors*

Mr A. R. Hockey, Non-Executive Director and Chairman, has a Chairman's Agreement dated 4 January 2013 and a separate Employment Agreement dated 31 January 2013. Under the Chairman's Agreement he receives a current annual salary of £51,500; payment for additional duties will be available as determined by the board of directors of the Company. The Chairman's Agreement is subject to a three month period of notice, save in the event of change of control of the Company when he is entitled to receive a lump sum equivalent to one year's salary. If there is a change of control he is not required to serve the notice period. The Chairman's Agreement requires Mr Hockey to ensure good order of the board of directors and to give such time and effort as may be required to ensure the success of the Company not exceeding 2 days per calendar month. Mr Hockey is covered by the Company's directors' and officers' liability insurance in a sum agreed by the board of directors. If circumstances arise which make it appropriate for Mr Hockey to seek legal advice from independent advisors, this shall be at the Company's expense. Under an employment agreement Mr Hockey is Chairman of the Exploration and Production Technical Committee receives a current annual salary of £20,000. The agreement is subject to a three month period of notice. The agreement requires Mr Hockey to perform executive and managerial services subject to the direction of the board of directors in relation to exploration and production.

Mr J. A. Heath, Non-Executive Director, has a letter of appointment with the Company dated 5 December 2011 for a fixed period of three years beginning on 5 December 2011 unless terminated earlier by giving three months' notice. Payment for additional duties will be available as determined by the Board of Directors of the Company. Under the agreement Mr Heath receives a director's fee of £31,900 per annum. Mr Heath is covered by the Company's directors' and officers' liability insurance. As a Non-Executive director of the company, Mr Heath will make himself available for regular board meetings as well as providing advice and guidance to the management of the Company as appropriate. It is anticipated that Mr Heath will spend an average of 15 days per year on work for the Company. Mr Heath will be considered for a non-contractual bonus payment.

7.2 There are no provisions in the service agreements or letters of appointment described in this paragraph 7 of this Part IV for payments or compensation to be payable to any of the Directors for the early termination of their service agreements or letters of appointment other than payments in respect of their contractual notice periods, change of control and any statutory entitlements arising by reason of such early termination.

7.3 Save as disclosed in paragraph 7.1 (a) and (b) of this Part IV there are no other provisions in the service agreements or letters of appointment described in this paragraph 7 of this Part IV regarding the Directors' fees or remuneration (including salary and other benefits) or bonus or commission or profit sharing arrangements and none of the Directors has a service agreement or letter of appointment with any other company in the Group.



## **8. United Kingdom Taxation**

The following information is intended only as a general guide to current UK tax legislation and to what is understood to be the current practice of HM Revenue & Customs and may not apply to certain classes of shareholders, such as dealers in securities, or to shareholders who are not absolute beneficial owners of their Ordinary Shares. Any person who is in any doubt as to their tax position, or is subject to tax in any jurisdiction other than the UK, should consult their professional adviser without delay.

### **8.1 *Dividends***

Under current UK tax legislation, no tax is withheld from dividends paid by the Company.

UK tax resident individual shareholders will be entitled to a tax credit in respect of any dividend received equal to one-ninth of the amount of the dividend. Liability to UK income tax is calculated on the sum of the dividend and the tax credit. The tax credit will satisfy a UK tax resident individual shareholder's basic rate (but not higher rate and the additional rate) income tax liability in respect of the dividend.

UK tax resident individual shareholders who are subject to income tax at the higher rate and the additional rate will have to account for additional income tax. The special rate of income tax set for higher rate tax payers who receive dividends is 32.5 per cent. and for the additional rate taxpayers is 37.5 per cent. After taking account of the one-ninth tax credit, higher rate tax payers would have to account for additional income tax of 25 per cent. on the actual amount of the cash dividend received, and additional rate taxpayers 30.6 per cent.

In determining what tax rates apply to a UK tax resident individual shareholder, dividend income is treated as the top slice of income.

A shareholder who is not liable to income tax on the dividend (or any part of it) is not able to claim repayment of the tax credit (or part of it) in cash from HMRC.

A UK resident corporate shareholder (including authorised unit trusts and open ended investment companies) and pension funds will generally not be liable to UK corporation tax on any dividend received and will not be entitled to payment in cash of a tax credit.

Shareholders not resident (for tax purposes) in the UK are generally not taxed in the UK on dividends received by them but may be subject to foreign tax on the dividend received. The entitlement of such shareholders to claim repayment of any part of a tax credit will depend, in general, on the existence and terms of any double tax convention between the UK and the country in which the shareholder is resident. Shareholders who are not resident in the UK should consult their own tax advisers on the possible applicability of such provisions, the procedure for claiming repayment and what relief or credit may be claimed in respect of such tax credit in the jurisdiction in which they are resident.

### **8.2 *UK taxation of chargeable gains***

For the purposes of UK taxation of chargeable gains, the issue of New Ordinary Shares will be regarded as an acquisition of a new holding in the share capital of the Company.

The New Ordinary Shares so issued will, for the purposes of taxation on chargeable gains, be treated as acquired on the date of issue. The amount paid for the New Ordinary Shares will constitute the base cost of a shareholder's holding.

If a shareholder disposes of all or part of their Ordinary Shares, a liability to taxation on chargeable gains may, depending on their circumstances, arise.

Companies may be entitled to an indexation allowance which may reduce any chargeable gain but not increase an allowable loss.

### 8.3 *Inheritance tax*

For the purposes of UK Inheritance Tax, the New Ordinary shares will constitute property situated in the UK. Individuals and trustees, wherever resident, may be liable to inheritance tax in respect of shares gifted during the lifetime or on the death of an individual and on certain other occasions in relation to settled property. 100 per cent. business property relief may be available subject to satisfying the statutory conditions.

### 8.4 *Stamp duty and SDRT*

No liability to stamp duty or SDRT will arise on the issue of the New Ordinary Shares. In limited circumstances a subsequent charge may arise where the shares are issued to an EU clearance service and subsequently transferred to a clearance service or to a depositary receipt service. The Company will not be responsible for payment of stamp duty or SDRT in any such case.

## 9. **Material Contracts**

The following is a summary of each contract (not being a contract entered into in the ordinary basis of business) (i) to which any member of the Sound Oil Group is or has been a party within the two years immediately preceding the date of this document which are, or may be, material; or (ii) that has been entered into by any member of the Sound Oil Group which contains any provision under which any member of the Sound Oil Group has any obligation or entitlement which is material to the Sound Oil Group as at the date of this document:

### 9.1 *Mitra Energia Bangkanai Limited Share Sale Agreement*

On 12 December 2012 Mitra Energia Limited (“MEL”), the Company and Salamander Energy plc (“Salamander”) entered into a share sale and purchase agreement for the sale of 100 per cent. of the shares of Mitra Energia Bangkanai Limited (“MEB”) to Salamander in exchange for a total of up to US\$7.1 million in cash, structured as follows: US\$4.5 million, payable immediately; US\$1.1 million payable 60 days after the later of first gas from the Kerendan field or signature of a new gas sales agreement for the currently unsold gas in the Kerendan field; and up to US\$1.5 million to be paid as a royalty out of revenues from a future discovery on the Bangkanai PSC. MEL was a subsidiary of SOIL which in turn is a subsidiary of the Company. At the time of sale the only material asset held by MEB was a 5 per cent. working interest in the Bangkanai Production Sharing Contract (“PSC”). As part of the transaction the Company provided a tax indemnity to the purchaser. A total of US\$0.4 million of taxes was also immediately payable to the Indonesian tax authorities by the Company on this transaction. The sale agreement contained standard warranties for this type of agreement and performance by MEL was guaranteed by the Company.

### 9.2 *Mitra Energia Limited Share Sale Agreement*

On 16 February 2013 Sound Oil International (“SOIL”) and Ilham Akbar Habibie (“Habibie”) entered into a share sale agreement for the sale of 100 per cent. of the shares of Mitra Energia Limited to Habibie in exchange for a total of US\$1.00. Mitra Energia Limited was a holding company which held shares in Mitra Energia Bangkanai Limited, which was sold earlier on 12 December 2012 as stated above.

### 9.3 *Citarum PSC Sale Agreement*

On 17 October 2012 Mitra Energy Citarum Pte Ltd (“MEC”), Pan Orient Energy (Citarum) Pte Ltd (“POE”) and Pan Orient Energy Corp entered into an agreement pursuant to which MEC sold subject to approval from of the local Indonesian regulatory body its 20 per cent. working interest in the Citarum PSC POE, the operator subject to approval from the local Indonesian regulatory body prior to which MEC shall hold the working interest on trust for POE. In consideration for the working interest, POE have committed to the Company to waive a total of US\$2.4 million of cash calls; pay the Company US\$10 million in cash contingent on revenues from the first discovery; and pay the Company a further US\$6 million in cash contingent on revenues from the second discovery. All payments are guaranteed by the ultimate parent of the purchaser, Pan Orient Energy Corp, and are structured as 100 per cent. royalties on revenues from the discovery, capped at the agreed contingent consideration.



#### 9.4 ***Rapagnano Gas Sales Agreement***

On 29 November 2012 a Gas Sales Agreement (“GSA”) between the Company and Steca Energia Srl (“Steca”) was entered into. The GSA is conditional, *inter alia*, on completion of the plant’s revision and installation of the new fiscal measurement system, commissioning of the plant on the part of UNMIG and of the fire department, granting of the production permit and payment of the cash collateral by Steca. Under the GSA the gas produced from the Rapagnano field will be sold to Steca with an estimated average 2013 price based on a specific formula. There is a guarantee deposit from Steca covering one month of gas production. There are no penalties for the Company should gas production decline or if there is a period of zero production.

#### 9.5 ***July 2012 funding arrangements***

In July 2012 the Company entered into a placing agreement with Astin Capital Management Limited (“Astin”), a subscription agreement with Manxdale Holdings Limited (“Manxdale”), an instrument constituting £7,143,300 of redeemable subscription notes with Manxdale and an escrow agreement with Manxdale and XCAP Securities plc. Pursuant to the placing agreement Astin agreed to procure subscribers for 774,341,464 ordinary shares (pre-consolidation) and the Company agreed that the places would have the option to purchase the balance of any unsubscribed Ordinary Shares under the Open Offer. The placing agreement contained standard warranties for a transaction of this sort. Manxdale subscribed for all the placing shares under the subscription agreement and, in consideration, issued £7,143,300 of redeemable subscription notes. The notes are unsecured and non-interest bearing and were redeemed in seven equal amounts for cash at the end of seven separate trading periods between July 2012 and February 2014. The cash consideration for the redemption of the notes is calculated based on the volume weighted average price of the Company’s shares for each of the 20 day trading periods. 663,721,255 of the placing shares were held in escrow pursuant to the escrow agreement as security for Manxdale’s payment obligations under the redeemable subscription note instrument. As part of the arrangement certain warrants issued under a previous funding arrangement were cancelled.

#### 9.6 ***March 2013, agreement for the provision of equipment and services for oilfield operations***

On 19 March 2013 Apennine Energy executed an agreement with Weatherford Mediterranea SpA (“Weatherford”) for the provision of certain equipment and services for oilfield operations as part of the Nervesa appraisal well drilled in 2013. Following a lost in hole incident on the Nervesa appraisal well in Q2 2013, the Company has an outstanding liability for the related equipment to Weatherford of approximately £1.4 million plus VAT and expects to settle this by the end of February 2014.

#### 9.7 ***September 2013, Bridge Loan***

In September 2013 the Company entered into an asset backed bridge loan facility for some £2.5 million with a syndicate of private investors. The bridge loan matured in February 2015, carried a coupon of 10 per cent. per annum and an average annual fee of 9 per cent. The bridge loan was not drawn and has now been cancelled without having incurred significant facility fees.

#### 9.8 ***January 2014, Loan Note Instrument and Subscription Agreement***

On 13 January 2014 the Company has constituted loan notes for a total value of up to £1,500,000 to be issued to Simon Davies. In accordance with the terms of a subscription agreement of the same date Simon Davies agreed to subscribe for the loan notes with a principal value of £1,000,000 and within 5 business days of receipt of the subscription notice. Simon Davies has transferred such amount to the Company.

A fixed and floating charge granted to Simon Davies over the assets of Consul Oil & Gas Limited is part of the transaction.

The loan notes have an interest coupon of 10 per cent. and a fee of 17.5 per cent., deferred by six months.

### 9.9 *January 2014 underwriting agreement*

On 14 January 2014 the Company entered into an underwriting agreement with Peel Hunt LLP (“Peel Hunt”) and Simon Davies whereby each of Peel Hunt and Simon Davies agreed, on a several basis, to purchase as principals any new ordinary shares which are not taken up by eligible shareholders under the terms of the same underwriting agreement no later than the day before the admission of the new shares to AIM. In consideration of the covenants and obligations of the underwriters the Company will pay to Peel Hunt an underwriting commission of £84,559; and to Simon Davies an underwriting commission of £25,442. Such commissions are payable whether or not any of the New Ordinary Shares are allotted to the underwriters.

## 10. **Litigation**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the twelve months preceding the date of this document, a significant effect on the Group’s financial position or profitability.

## 11. **General**

- 11.1 The total expenses of or incidental to the Open Offer which are payable by the Company are estimated to amount to approximately £160,000. The net proceeds of the Open Offer are expected to be £1.45 million (assuming the maximum number of Open Offer Shares are allotted pursuant to the Open Offer).
- 11.2 The Company’s auditors are Clark, Crowe & Whitehill LLP whose principal place of business is at St. Bride’s House, 10 Salisbury Square, London EC4Y 8EH Clark, Crowe & Whitehill LLP are chartered accountants and registered auditors and have audited the Company’s accounts, without qualification, for the financial years ending 31 December 2010, 31 December 2011, and 31 December 2012. The Company’s previous auditors, Ernst & Young audited the Company’s accounts, without qualification, for the financial year ended 31 December 2008 and Mazars LLP audited the Company’s accounts, without qualification, for the financial year ended 31 December 2009.
- 11.3 The Company’s registrars are Share Registrars Limited of Suite E, First Floor, 9 Lion & Lamb Yard, Farnham, Surrey GU9 7LL.
- 11.4 The New Ordinary Shares have not been marketed, nor are they available, in whole or in part, to the public in connection with the application for admission to trading on AIM save under the terms of the Open Offer. Application for trading for the New Ordinary Shares is not being and will not be sought on another stock exchange other than on AIM.
- 11.5 The Existing Ordinary Shares are in registered form but, are capable of being held in uncertificated form when admitted to trading on AIM. The New Ordinary Shares will, when issued, be in registered form and will be capable of being held in certificated and uncertificated form. Title to the certificated New Ordinary Shares will be evidenced by entry in the register of members of the Company and title to uncertificated New Ordinary Shares will be evidenced by entry in the operator register maintained by Euroclear UK & Ireland (which forms part of the register of members of the Company). No share certificates will be issued in respect of the New Ordinary Shares in uncertificated form. If any such shares are converted to be held in certificated form, share certificates will be issued in respect of those shares in accordance with applicable legislation.
- 11.6 Following Admission, share certificates representing the New Ordinary Shares are expected to be despatched by post to investors who do not wish to receive shares in uncertificated form, at the relevant investors’ sole risk. It is expected that certificates in respect of the New Ordinary Shares will be despatched by 12 February 2014. No temporary documents of title will be issued in connection with the Open Offer. Pending the despatch of definitive share certificates, instruments of transfer will be certified against the register of members of the Company.

11.7 The CREST accounts of investors who have duly elected to receive their Open Offer Shares in uncertificated form are expected to be credited to the designated CREST account on 4 February 2014.

11.8 The ISIN of the New Ordinary Shares will be GB00B90XFF12.

## **12. Availability of this Circular**

This circular will be available for a period of twelve months from the date of this circular on the Company's website [www.soundoil.co.uk](http://www.soundoil.co.uk) free of charge in accordance with the requirements of Rule 26 of the AIM Rules.

Dated: 16 January 2014

