

Sound Oil Plc ("the Company")

Preliminary results for the period ended 31 December 2006

The Board of Sound Oil Plc announces its preliminary results for the year ended 31 December 2006.

Highlights

- § Successful acquisition of first business:
 - Gasfield onshore Indonesia
 - 83.5 bcfg of gas resources
 - Two exploration licences
- § Exploration well spudded May 2007
- § Three exploration wells planned for 2007
- § Plan of development approved for gasfield
- § Raised £11 million working capital from institutional investors
- § Significant talent joins Board and senior management
- § New offices in UK and Indonesia

Gerry Orbell, Chairman of the Company, commented: "I am delighted with our progress. During the coming year we expect to consolidate our position in Indonesia and focus on adding value to our portfolio, both through starting development at Kerendan and by acquisitions."

"We are also looking forward to exploration success at our current operation at Pasundan-1 and subsequently Kujang-1".

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Chairman's Statement

Sound Oil plc has made solid progress in the last year. In mid 2006 we acquired Mitra Energia of Indonesia in an all-share deal and raised funds of £10.7 million net of costs. We returned to the market in mid July following the suspension brought about by this acquisition, with total cash reserves of £21 million.

The Company now has two large and prospective assets in Indonesia – the Citarum Contract area in Java where we hold a 20% position and the Bangkanai Contract in Central Kalimantan with equity of 34.99%. We anticipated that these licenses would fit with our strategy of adding significant value in the event of an early discovery or an early revenue return, and preferably both.

In Citarum, the Great Wall drilling rig has now commenced drilling the Pasundan No 1 well. There had

been a delay in drilling of several months brought about by unusually severe flooding and consequent damage to the wellsite; and a more extensive refit of the rig than had been expected. The Kujang well nearby is expected to follow Pasundan directly. Further detailed geophysical work has confirmed that these two prospects are at least as big as we first thought – this is not always the case! We shall also be acquiring a series of 2D seismic programs across the more prospective parts of the Citarum license during the course of 2007 to firm up more drilling opportunities.

At Bangkanai, we are progressing with exploration drilling and the development of the proven Kerendan gas field in the centre of this large license. We are currently concentrating our exploration efforts in and around the Kerendan gas field which is an area of lower exploration risk. Here we have identified a significant new exploration target below the existing gas reservoir. We will be drilling the Sungei Lahei No 1 well towards the end of the year, through both the proven Kerendan gas level and the new exploration horizon below. Whatever the exploration outcome at the deep level, we expect to complete this well as a gas producer in the shallow reservoir, thus saving the cost of one development well. Should the deep level prove the volumes of gas that we anticipate, this will have a significant impact on our reserves.

We have experienced significant escalation in drilling costs during the year. We are confident, however, in fulfilling the programme we set out at re-admission time by financial prudence and adopting cost saving strategies as at Sungei Lahei. Sound finished the year as we started - with cash reserves which we believe to be sufficient for our commitments. We had £17.4 million in the bank. Our major expenditures in 2006 were related to long lead items for the wells in the Citarum Contract area.

We have increased the technical capability of the Company over the year by the addition of expert staff and we are now making a significant contribution to the technical understanding of the Contracts. I would like to thank all the staff for their hard work during the year.

During the coming year we shall consolidate our position in Indonesia and complete the integration of the UK and Indonesia offices. We expect to focus on adding production to our portfolio, both through development of Kerendan but also through acquisition.

This is the first opportunity I have had to welcome to the Board our new colleagues, Jossy Rachmanto, Ilham Habibie and Patrick Alexander. I would like to thank them and the original Sound Directors, Simon Davies, Michael Nobbs and Tony Heath, for their contribution and support during the year.

Gerry Orbell
Chairman

Financial Review

Economic environment

The high oil prices seen in 2005 and 2006 have encouraged a major expansion in oil and gas exploration and development activity and this has led to a severe shortage of drilling equipment and a considerable increase in the cost of these facilities. On the other hand, the high oil price has also brought an increase in the number of opportunities becoming economic to explore and develop, although this in turn has caused a rise in the price being sought for such opportunities.

Income statement

Loss after tax for 2006 was £2,170,000 compared with £193,000 in 2005. Pre licence exploration expenditure was £653,000 (2005 £151,000). Administration costs rose from £210,000 to £999,000 due to higher staff levels and office costs following the acquisition of the Mitra group in mid 2006. Operating loss was £1,735,000 compared with £361,000. Net interest received was £641,000 (2005 £234,000), due to an increase in cash balances following from a share issue at mid year. There was an unrealised foreign exchange loss of £1,142,000 on the group's holdings of US\$ following the weakness of that currency. The US\$ were bought after the Mitra acquisition in order to protect the purchasing power of the group's funds since most of the group's expenditure is now in US\$.

Although accounting requirements are for this to be shown as a loss, albeit unrealised, the sterling cost of the Indonesian assets being acquired with the US dollars has fallen pro rata, so the purchasing power remains the same. Basic loss per share was 0.45 pence compared with 0.12 pence in 2005.

Cash flow/balance sheet

Net cash outflow before movements relating to financing was £5,004,000 (2005 £102,000). Following the £11,554,000 raised from share issues, the group's cash balance at year end was £17,389,000 (2005 £10,839,000). Cash balances were invested in short term deposits.

Technical Review

Licence interests

The group participates in two Production Sharing Contract (PSC) areas in Java and Kalimantan, Indonesia through its subsidiary company Mitra Energia Limited.

Our working interests and partners are:

- Citarum PSC (participation through shareholding Bangkanai PSC in BPREC operating company)
- Bangkanai PSC

Citarum PSC

Activity during the last year has been focused on the preparations for drilling the first two exploration wells on the Pasundan and Kujang prospects in the northern part of the licence close to the Jatirarongan gas field and the JGN-1 oil discovery. Both wells will be drilled to test multiple reservoir levels in Miocene (carbonates; Baturaja Fm) and Oligocene (clastics; Talang Akar and Jatibarang Fms); the Jatibarang Fm is the producing formation in nearby Jatirarongan field. The wells will target separate wrench-controlled fault compartments along a NW-SE trend. The compartments are probably sealed from one another, but could be part of a connected megastructure at certain levels. Estimated P50 prospective resources⁴ for both structures combined are 570 bcfg (gas case P10, 910 bcfg).

These two wells will form part of the work commitment on the licence. The remaining obligations of 750 km of new 2D seismic data and two further exploration wells will be undertaken in 2007-2008. The Pasundan-1 well was spudded with the Great Wall rig 93 on 9 May 2007 and the Kujang-1 wellsite is currently being prepared.

Bangkanai PSC

Independent assessment of Kerendan Field contingent recoverable resources by RML-Senergy³ are:

	Gross	Net to Sound (34.99%)
Proved (P1, bcfg)	187.0	65.4
Proved + Probable (P1 +P2, bcfg)	238.5	83.5

A Plan of Development (POD) for the Kerendan gas field was granted in August 2006 by BPMigas (the Indonesian government agency responsible for the supervision and control of upstream oil and natural gas business activities). The field, first discovered in the 1980s, will be developed to supply gas to a local, new-build integrated power plant operated by Medco Power. The POD calls for the supply of 134 bcfg¹ over 20 years at a maximum rate of 20 mmcf/day². The development plan will include re-entry of existing wells and up to five new development wells. Initial field development activities are anticipated to commence in 2007.

Exploration activity on the licence included the acquisition of a 205 km 2D seismic survey as part of the PSC work commitment. Study of the new seismic data identified new prospect areas and deeper prospective horizons below the existing Kerendan field Berai Fm reservoir. A location has been identified (Sungai Lahei-1) to test this deeper play at several levels in the clastic Tanjung Formation. The well will target estimated P50 prospective resources⁴ of more than 400 bcfg. Planning for the well is currently being undertaken for drilling in 2007. This well is one of two obligation exploration wells on the licence, for which BPMigas has granted an extension of the first exploration period to 31 December 2007.

1 bcfg = billion cubic feet of gas

2 mmcfd/day = million cubic feet of gas per day

3 RML-Senergy compiled the Competent Person's Report included in the Admission Document of July 2006, from which these figures are taken.

4 Prospective resources, consistent with SPE (the Society of Petroleum Engineers) guidelines, are quantified in terms of the statistical probability to find a given recoverable hydrocarbon (oil or gas) volume in a prospective structure considering all the geological variables involved. The P50 figure indicates a 50% chance of finding a given volume and is generally considered the best or most-likely estimate. The P10 figure indicates a 10% chance of finding a given volume and is generally used to express the high estimate. The figures quoted in this report have been verified by Sound Oil's Head of Exploration Dr. M. J. Cope BSc PhD FGS, a qualified petroleum geologist.

Consolidated Profit and Loss Account for the year ended 31 December 2006

	Note	2005 £'000's	2006 £'000's
Exploration costs		(151)	(653)
Share of loss of associate		-	(14)
Gross loss		(151)	(667)
Administrative costs		(210)	(999)
Share-based payments	16	-	(69)
Operating loss	2	(361)	(1,735)
Interest receivable	5	234	641
Foreign exchange gains/(losses)		-	(1,142)
Loss on ordinary activities before tax		(127)	(2,236)
Tax	6	(66)	66
Loss after tax from continuing operations		(193)	(2,170)
Loss per share (pence): basic	7	(0.12)	(0.45)

Consolidated Statement of Group Total Recognised Gains and Losses for the year ended 31 December 2006

	2005 £'000's	2006 £'000's
Net loss for the year attributable to members of the Company	(193)	(2,170)
Foreign currency loss	-	(157)
Total recognised losses	(193)	(2,327)

Group Reconciliation of Movements in Shareholders' Funds for the year ended 31 December 2006

	2005 £'000's	2006 £'000's
Total recognised losses relating to the year	(193)	(2,327)
New shares issued	11,115	26,123
Costs associated with raising capital	(174)	(608)
Provisions for share-based payments	-	69
Total movements during the year	10,748	23,257
Shareholders' funds at 1 January	-	10,748
Shareholders' funds at 31 December	10,748	34,005

Balance Sheets as at 31 December 2006

	Note	Group 2005 £'000's	Group 2006 £'000's	Company 2005 £'000's	Company 2006 £'000's
Fixed assets					
Intangible assets	8	-	16,105	-	-
Tangible assets	10	-	54	-	8
Investments in subsidiaries and associated undertakings	11	-	13	-	-
Total fixed assets		-	16,172	-	8
Current assets					
Debtors falling due after one year	12	-	583	-	17,885
Debtors due within one year	13	24	601	24	47
Cash and short-term deposits		10,839	17,389	10,839	16,762
Total current assets		10,863	18,573	10,863	34,694
Creditors: amounts falling due within one year	14	(115)	(684)	(115)	(153)
Net current assets		10,748	17,889	10,748	34,541
Total assets less current liabilities		10,748	34,061	10,748	34,549
Creditors: amounts falling due after one year		-	-	-	-
Provisions for liabilities and charges		-	(56)	-	-
Net assets		10,748	34,005	10,748	34,549
Capital and reserves					
Share capital	16	300	692	300	692
Share premium account	16	10,641	35,764	10,641	35,764
Profit and loss account	16	(193)	(2,363)	(193)	(1,976)
Foreign currency translation	16	-	(157)	-	-
Share-based payments	16	-	69	-	69
Total equity shareholders' funds		10,748	34,005	10,748	34,549

Consolidated Cash Flow Statement for the year ended 31 December 2006

	Note	2005 £'000's	2006 £'000's
Net cash outflow from operating activities	17	(336)	(3,063)
Returns on investment and servicing of finance			
Interest received		234	641
		234	641
Capital expenditure and financial investment			
Capital expenditure		-	(1,483)
Cash acquired through acquisition		-	27
Acquisition costs		-	(692)
Loan to associate		-	(434)
		-	(2,582)
Cash outflow before management of liquid resources and financing		(102)	(5,004)
Financing			
Issue of Ordinary Shares		11,115	12,162
Costs associated with raising capital		(174)	(608)
Net cash from financing		10,941	11,554
Increase in cash		10,839	6,550

1 Accounting policies

These financial statements are presented in UK£.

Accounting convention

The accounts are prepared under the historical cost convention and UK GAAP and in accordance with the Oil Industry Accounting Committee Statement of Recommended Practice – ‘Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities’ and applicable accounting standards.

Consolidation

The group accounts consolidate the accounts of Sound Oil plc (the Company) and all its subsidiary undertakings drawn up to 31 December. No profit and loss account is presented for the Company as provided by Section 230 of the Companies Act 1985. Mitra Energia Limited has been included in the group financial statements using the acquisition method of accounting. Accordingly, the group profit and loss account and statement of cash flows include the results and cash flows of Mitra Energia Limited for the five and a half month period from its acquisition on 12 July 2006. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Entities in which the group holds an interest on a long-term basis and are jointly controlled by the group and one or more other ventures under a contractual arrangement are treated as joint arrangements. In the group accounts Sound Oil’s proportion of operating profit or loss, exceptional items, interest, taxation, gross assets and gross liabilities of the joint arrangements are included.

Entities, other than subsidiary undertakings or joint arrangements, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence are treated as associates. In the group financial statements, associates are accounted for using the equity method.

Adoption of new accounting standard FRS20, share-based payments

With effect from 1 January 2006, the group has adopted FRS20 share-based payments. The adoption of this standard has not resulted in the re-statement of retained earnings and has had immaterial impact on the results or net assets for the prior year.

Fixed assets

Oil and Gas assets

The group applies the successful efforts method of accounting for exploration and evaluation (E&E) costs.

(a) Intangible assets

Under the successful efforts method of accounting, all licence acquisition, exploration and appraisal costs are initially capitalised in well, field or specific exploration cost centres as appropriate, pending determination. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

Exploration and evaluation costs: Costs are initially capitalised as intangible assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as intangible assets.

Treatment of E&E assets at conclusion of appraisal activities: Intangible E&E assets relating to each exploration licence/prospect are carried forward, until the existence (or otherwise) of commercial reserves has been determined subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered, and development has been approved, the carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets. If, however, commercial reserves have not been

found, the capitalised costs are charged to expense after conclusion of appraisal activities.

Development and production assets

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in accounting policy (a) above.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning.

(b) Impairment of development and production assets

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount.

The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single income generating unit where the cash flows of each field are inter-dependent.

Acquisitions, asset purchases and disposals

Acquisitions of oil and gas properties are accounted for under the purchase method where the transaction meets the definition of a business combination.

Transactions involving the purchases of an individual field interest, or a group of field interests, that do not qualify as a business combination are treated as asset purchases, irrespective of whether the specific transactions involve the transfer of the field interests directly, or the transfer of an incorporated entity. Accordingly, no goodwill arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation, less the estimated residual value of each asset, over its expected useful life, as follows:

Equipment and fixtures 25% straight line basis

Translation of foreign currencies

In the accounts of individual companies, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

For the purposes of consolidation, the closing rate method is used under which translation gains and losses on the opening net assets of overseas undertakings are shown as a movement in reserves. All other translation differences are taken to the profit and loss account. Profit and loss accounts of overseas undertakings are translated at the average exchange rate for the period.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources comprise funds held in term deposit accounts.

Share-based payments

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event and it is probable that the group would be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Post-Retirement Benefits

Provision is made for post-retirement benefits under Indonesian law.

Production Sharing Contracts

The group has interests in various Production Sharing Contracts (PSC) the terms of which provide for the Company and its joint-venture participants to recover all costs out of the proceeds of production. Where these are insufficient in any one year to recover costs fully, they are carried forward. Production remaining after cost recovery is divided between joint-venture participants and the Indonesian governing authority according to pre-agreed formulae. Whilst under the form of a PSC, the title of all property, equipment and inventories passes to the Indonesian governing authority, so the substance of each contract is that the participants have use of all assets and market all oil produced.

2 Operating loss and segmental analysis

The loss is stated after charging:

	Note	2005 £'000's	2006 £'000's
Depreciation		–	3
Auditors remuneration	3	29	100
Staff costs	4	142	931

The loss comprises:

	2005 £'000	2006 £'000
Operations (UK)	361	1,277
Acquisition (South Asia)	-	444
Investment in associate (South Asia)	-	14
Total – continued operations	361	1,735

Net assets comprise:

	2005 £'000	2006 £'000
UK	10,748	16,664
South Asia	-	17,341
Total	10,748	34,005

3 Auditors' remuneration

	2005 £'000's	2006 £'000's
Audit of the financial statements	11	90
Other fees to auditors	–	10
Fees in relation to corporate finance services	18	-
Charged to profit and loss	29	100
Non-audit services - taken to equity	-	174
Total	29	274

The non-audit services in 2005 were for reporting on the Admission Document on 29 June 2005 and in 2006 for reporting on the Admission Document on 24 June 2006.

Audit services relate entirely to the current auditors, Ernst & Young LLP. Non audit services relate to the Company's previous auditors Chapman Davis LLP in 2005 and to the Company's current auditors Ernst & Young LLP in 2006.

4 Employee costs

	2005 £'000's	2006 £'000's
Staff costs, including executive directors		
Share-based payments	-	69
Wages and salaries	126	786
Social security costs	16	76
Total	142	931

The expense of share-based payments all arose from transactions accounted for as equity-settled share-based payment transactions.

Average number of employees (including executive directors) during the year

Technical and operations	1	9
Management and administration	1	8
Total	2	17

5 Interest Receivable

	2005 £'000's	2006 £'000's
Short-term deposits	234	641
Total	234	641

6 Tax on profit on ordinary activities

Analysis of tax charge	2005 £'000's	2006 £'000's
Loss on ordinary activities before tax	(127)	(2,236)
Loss on ordinary activities at Standard Rate of UK corporation Tax (30%)	38	671
Non-deductible expenditure at Standard Rate	(108)	(7)
Small companies relief	4	-
Tax loss not recognised for deferred tax purposes	-	664
Adjustment for prior year	-	66
Total tax – Current	(66)	-
Total tax	(66)	66

Tax on management expenses carried forward of £700,000 (2006: £664,000, 2005: £36,000) may be available for offset against tax on future taxable income in the UK.

The most significant event to affect the tax charge in the future will be the commencement of production activity.

7 Loss per share

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

	Loss after tax		Weighted average number of shares		Earnings per share	
	2005 £'000's	2006 £'000's	2005 million	2006 million	2005 pence	2006 pence
Basic	(193)	(2,170)	165	486	(0.12)	(0.45)

Diluted loss per share has not been disclosed as inclusion of unexercised options would be anti-dilutive in 2006.

8 Intangible fixed assets

	Oil and gas properties	
	South Asia £'000 2006	Total £'000 2006
Group Cost		
At 1 January 2006	-	-
Acquisition of subsidiary undertaking, Mitra Energia Limited	14,791	14,791
Additions during the year	1,314	1,314
At 31 December 2006	16,105	16,105

The Company has no intangible fixed assets.

9 Acquisition

On 12 July 2006, the group acquired the entire issued share capital of Mitra Energia Limited, an unquoted gas exploration and development company with interests in Indonesia for a consideration of £13,961,039 satisfied by the issue of 223,376,633 ordinary shares of 0.1p at 6.25p each. The investment in Mitra Energia Limited has been included in the group's balance sheet at its fair value at the date of acquisition at the market price of the shares at the date of the transaction.

Analysis of the acquisition of Mitra Energia Limited:

Net assets at date of acquisition:	Book value Indonesian GAAP £'000	Book Value UK GAAP £'000	Adjustments Revaluation £'000	Fair Value to company £'000
Intangible Assets	-	957	13,834	14,791
Tangible fixed assets	11	43		43
Investments	1,167	-		-
Investment in associate undertaking	-	27		27
Debtors due within one year	176	194		194
Debtors due after more than one year	1	33		33
Loan to employee	66	66		66
Cash	22	27		27
Creditors due within one year	(305)	(447)		(447)
Provision for liabilities and charges	(39)	(81)		(81)
Net Assets	1,099	819	13,834	14,653
Discharged by:				
Fair value of shares issued				13,961
Costs associated with the acquisition				692
				14,653

Adjustments

*increase in value since expenditure was incurred

Prior to acquisition, the loss after tax of Mitra Energia Limited for 2005 was US\$785,000. For 2006 until date of acquisition there was a profit of US\$492,000.

10 Tangible fixed assets

	Furniture, fittings and office equipment	
	Company	Group
	£'000	£'000
Group Cost		
At 1 January 2006	-	-
Additions during the year	9	14
Acquisition of subsidiary undertaking	-	43
At 31 December 2006	9	57
Amortisation and depreciation		
At 1 January 2006	-	-
Charge for the year	(1)	(3)
At 31 December 2006	(1)	(3)
Net book value at 31 December 2006	8	54
Net book value at 31 December 2005	-	-

11 Investments

	Associated undertakings £ million	Subsidiary undertakings £ million	Total £ million
Group			
Cost and net book value			
At 1 January 2006	-	-	-
Acquisitions	27	-	27
Share of loss	(14)	-	(14)
At 31 December 2006	13	-	13

The Company had no investments in 2005 or 2006 other than in Sound Oil International Limited, an intermediate holding company.

The subsidiary undertakings of the Company, all of which are 100 per cent owned, are as follows:

Name of Company	Business and area of operation	Country of incorporation or registration
Sound Oil International Limited	Intermediate holding company, UK	British Virgin Islands
Mitra Energia Limited	Intermediate holding company, Indonesia	Mauritius
Mitra Energia Bangkanai Limited	Exploration and development, Indonesia	Mauritius
Mitra Energia Citarum Limited	Exploration, Indonesia	Mauritius

Investment in associated company comprises:

Name of Company	Business and area of operation	Classification	Ordinary Shares held %	Country of incorporation or registration
PT. Bumi Parahyangan Ranhill Energia Citarum	Exploration, Indonesia	Associate	20	Indonesia

The group accounts for its 20 per cent share in PT. Bumi Parahyangan Ranhill Energia Citarum (BPREC) as interest in associate under FRS 9 – ‘Associates and Joint Ventures’. The remaining interest in BPREC is owned by Ranhill Energy SDN BHD (60 per cent) and Bumi Parahyangan Energi (20 percent).

12 Debtors: amounts due in more than one year

	Group 2005 £'000's	Group 2006 £'000's	Company 2005 £'000's	Company 2006 £'000's
Amounts owed by subsidiary undertakings	-	-	-	17,885
Loan due from BPREC*	-	515	-	-
Other debtors	-	68	-	-
Total	-	583	-	17,885

*For advances made to associated undertaking

13 Debtors: amounts due within one year

	Group 2005 £'000's	Group 2006 £'000's	Company 2005 £'000's	Company 2006 £'000's
Amounts owned by fellow licence participants	-	344	-	-
Prepayments	24	55	24	43
VAT receivables	-	151	-	4
Sundry debtors	-	51	-	-
Total	24	601	24	47

14 Creditors: amounts falling due within one year

	Group 2005 £'000's	Group 2006 £'000's	Company 2005 £'000's	Company 2006 £'000's
Trade Creditors	11	8	11	8
Taxes payable	66	35	66	-
Employee benefits*	-	104	-	-
Accruals	38	270	38	124
Other Creditors	-	267	-	21
Total	115	684	115	153

* Based on internal estimates to cover the requirements of Indonesian Labour Law 13, 2003

15 Share capital

Ordinary shares	0.1p shares	2005 £	0.1p shares	2006 £
Authorised	3,000,000,000	3,000,000	3,000,000,000	3,000,000
Called up, issued and fully paid	300,272,309	300,272	692,427,348	692,427

On 12 July 2006, following approval at an Extraordinary General Meeting of shareholders on that date, the Company acquired the entire issued share capital of Mitra Energia Limited, an unquoted gas exploration and development company with interests in Indonesia comprising a 34% interest in the Bangkanai Block onshore central Kalimantan and a 20% interest in the Citarum Block onshore central Java.

On the same date the Company raised approximately £10.7 million net of expenses through the placing of 161,500,000 new ordinary shares at 7.25p per share.

The consideration for the acquisition of Mitra was the issue of 223,376,623 ordinary shares credited as fully paid.

In connection with the acquisition and share placing, the executive directors of the Company were awarded bonuses of 1,635,172 ordinary shares to Gerry Orbell and 827,586 ordinary shares to Tony Heath. Furthermore certain advisers to the Company were issued a total of 4,795,658 ordinary shares as part of their fees.

As a result of these transactions, the issued share capital of the Company was increased to 692,427,348 ordinary shares. The former shareholders of Mitra hold approximately 32% of the enlarged share capital of the Company.

In connection with the acquisition and share placing, Gerry Orbell and Tony Heath were awarded options on 13 July 2006 over 1,400,000 and 700,000 ordinary shares respectively at an exercise price of 7.25p exercisable from six months after award until six years after award.

16 Share capital and reserves

	Foreign currency £'000's	Share Capital £'000's	Share Premium Account £'000's	Profit and Loss account £'000's	Share-based Payments £'000's	Total £'000's
Group						
At 1 January 2006	-	300	10,641	(193)	-	10,748
Shares issued	-	392	25,123	-	-	25,515
Share-based payments	-	-	-	-	69	69
Loss for the year	(157)	-	-	(2,170)	-	(2,327)
At 31 December 2006	(157)	692	35,764	(2,363)	69	34,005
Company						
At 1 January 2006	-	300	10,641	(193)	-	10,748
Shares issued	-	392	25,123	-	-	25,515
Share-based payments	-	-	-	-	69	69
Loss for the year	-	-	-	(1,783)	-	(1,783)
At 31 December 2006	-	692	35,764	(1,976)	69	34,549

17 Cash flow reconciliations**a) Reconciliation of operating loss to net cash flow from operating activities**

	2005	2006
	£'000's	£'000's
Operating loss	(361)	(1,735)
(Increase)/decrease in ST debtors	(24)	(400)
(Increase)/decrease in LT debtors	-	(35)
(Increase)/decrease in ST creditors	49	188
(Increase)/decrease in LT creditors	-	(25)
(Increase)/decrease in LT provisions	-	69
Depreciation	-	3
Foreign exchange gains/(losses)	-	(1,142)
Share of loss of associate	-	14
Net cash outflow from operating activities	(336)	(3,063)

b) Reconciliation of net cash flow to movement in net debt

	2005	2006
	£'000's	£'000's
Increase in cash in the period	10,839	6,523
Cash acquired	-	27
Cash flow from movement in liquid resources	-	-
Change in net cash resulting from cash flows	-	-
Opening net cash	-	10,839
Net cash at 31 December	10,839	17,389

c) Analysis of Net Cash

	At	Cash Flow	At
	1 January 2006	£'000's	31 December 2006
	£'000's	£'000's	£'000's
Cash in hand and at bank	144	611	755
Short term deposits	10,695	5,939	16,634
Total net cash	10,839	6,550	17,389

18 Financial Instruments

The Company has taken advantage of the exemption in FRS13 "Derivatives and Other Financial Instruments" in respect of short-term debtors and creditors and consequently those items are not included in the relevant analysis within the following note.

Interest rate and currency risk profiles of financial assets

The interest rate risk profile and the currency risk profile of the financial assets of the group as at 31 December was:

Currency	Floating rate £ million	Interest-free £ million	Total £ million	Weighted average interest rate
2006				
Cash and short-term deposits				
Sterling	1,562	-	1,562	4.47%
US\$	15,200	627	15,827	5.09%
Total	16,762	627	17,389	
2005				
Cash and short-term deposits				
Sterling	10,839	-	10,839	4.47%
US\$	-	-	-	-
Total	10,839	-	10,839	

US\$ cash balances have been converted at the exchange rate on 31 December 2006 of US\$1.9591/£1.

The floating rate cash and short-term deposits comprise of cash held in interest bearing current accounts and deposits placed on the money markets for periods ranging from overnight to three months.

Financial instruments exposed to interest rate risk (eg US Federal Funds Rate and UK Base Rate) were floating rate cash assets maturing within one year: £16,762,000 (2005: £10,839,000).

Cash on which no interest is received relates to balances available to meet immediate operating payments and are therefore only held for short periods interest-free.

Fair Values	2005		2006	
	Carrying amount £'000's	Fair value £'000's	Carrying amount £'000's	Fair value £'000's
Financial assets				
Cash – Sterling	10,839	10,839	1,562	1,562
– US\$	-	-	15,832	15,832

The fair values are based on market values at the end of the year.

19 Share-based payments

Share options have been granted to senior executives and the Company's stockbrokers.

An option to acquire 500,000 ordinary shares at 7.5p each was awarded to Hichens Harrison on 22 June 2005, exercisable on any date up to 29 June 2010. Options to acquire 1,400,000 and 700,000 ordinary shares at 7.25p each were awarded to Gerry Orbell and Tony Heath respectively on 13 July 2006 exercisable from six months after award until six years after award.

The exercise price of the options is equal to the estimated market price of the shares on the date of grant. The contractual life of each option granted is six years. There are no cash settlement alternatives.

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2006 is £69,353. No part of that expense arose from cash-settled share-based payment transactions.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and

movements in, share options during the year.

	2006 No	2006 WAEP
Outstanding as at 1 January	500,000	7.50p
Granted during the year	2,600,000	6.77p
Outstanding at 31 December	3,100,000	6.87p
Exercisable at 31 December	2,600,000	6.77p

For share options outstanding as at 31 December 2006, the weighted average remaining contractual life is 4.78 years (2005 5.49 years).

The weighted average fair value of options granted during the year was 2.12p (2005 1.86p). The range of exercise prices for options outstanding at the end of the year was 4.75p – 7.25p (2005 7.5p).

The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2006 and 31 December 2005.

	2006
Dividend yield (%)	0
Expected share price volatility (%)	58
Historical volatility (%)	58
Risk-free interest rate (%)	4.78
Expected life of options (years)	6

The expected life of the options is based on the maximum option period and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of options grant were incorporated into the measurement of fair value. Fair value of goods or services received during the period.

2005 - On 29 June 2005 454,545 new ordinary shares of 0.1p per share with a fair value of £25,000 were issued to the Company's stockbrokers Hichens Harrison & Co plc in settlement of their placing fee.

2006 - No shares were issued in settlement for goods or services provided.

20 Capital Commitments and Guarantees

At 31 December 2006 the Group had capital commitments of £12,000,000 (2005:Nil) on exploration and development licences. The Company had no capital commitments in 2006 (2005: Nil).

Under the terms of a farm-out agreement dated 1 October 2004 with Elnusa Bangkanai Energy Limited (Elnusa), the Company has agreed to carry Elnusa's share of the initial three year minimum work obligation costs. Under the terms of the Bangkanai PSC the Company is required to spend US\$15,100,000 to fulfil its initial three year minimum work obligations. Under the terms of the Citarum PSC the Company is required to spend US\$5,650,000 to fulfil its three year minimum work obligations.

21 Contingent liabilities

The Company has granted RAB Octane (Master) Fund Limited ("RAB") the option to put to the Company the entire issued and allotted share capital, namely two ordinary shares, of Sound Oil Bangladesh Limited at any time up to 17 May 2086. If the put option is exercised, the maximum price payable by the Company will be 2,195,222 Ordinary Shares of the Company or, with the consent of both the Company and RAB, US\$300,000 in cash.

22 Other matters

The financial information for the year ended 31 December 2006 does not constitute statutory accounts, as defined in Section 240 of the Companies Act 1985, but is based on the statutory accounts for the year then ended. Those accounts, upon which the auditors have issued an unqualified opinion, will be delivered to the Registrar of Companies.

Copies of the annual accounts will be sent to shareholders in due course and will be available from the Company's website www.soundoil.co.uk.