

Sound Oil plc  
("Sound Oil" or the "Company")

Unaudited interim results for the six months ended 30 June 2007

Sound Oil, the upstream oil and gas company with assets in Indonesia, announces its unaudited interim results for the six month period ended 30 June 2007.

Key features

- Pasundan well reached total depth on Citarum PSC
- Testing programme underway at Pasundan
- Cash balances of over £15 million
- Loss of £885,000 for the period to 30 June 2007

Sound Oil's portfolio consists of 34.99% working interest in the Bangkanai PSC which includes the Kerendan gas field in Kalimantan, Indonesia, and a 20% working interest in the Citarum PSC in Java, Indonesia

Commenting on the results, Gerry Orbell Chairman of Sound Oil said:

"We have made good progress over the last few months including drilling the Pasundan well. Owing to mechanical difficulties this well took longer to drill than scheduled but is now being suspended pending testing a cavernous zone between 6770 ft and 6900 ft, where we recovered some hydrocarbons from a testing tool. We shall continue to look for new licence interests in Indonesia to add to our current exploration and development opportunities."

Further information on the Company can be found at [www.soundoil.co.uk](http://www.soundoil.co.uk)

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## Chairman's Statement

During the course of 2007, Sound Oil continued to move forward with work on the two Indonesian Production Sharing Contracts where the Company has an interest.

At Citarum where we have 20% equity, we commenced drilling the Pasundan well in early May with the Great Wall rig GW93. The well has taken 113 days to reach its total depth of 10,412 feet rather than the planned 50 days. Delays were caused by the inefficiencies of the rig and by the time spent trying to cure the lost circulation encountered in the Baturaja Limestones at around 6,700 to 7,000 feet. Minor amounts of hydrocarbons have been sampled at a number of horizons in the well and the partners are currently discussing a testing programme. A contractor has been selected to undertake the 750km of seismic acquisition across the Citarum area and this will commence shortly. The preparation of the Kujang wellsite has been delayed because of slow local planning permissions. Therefore the GW93 rig will be released shortly at the suspension of drilling of the Pasundan well. A decision on the location of the next well will be taken after the seismic has been acquired.

The activity at the Bangkanai PSC (Sound 34.99%) has also been slower than expected due to several personnel changes within the Operating Company. Preparation of the Sungei Lahei wellsite in central Kalimantan will be underway within the next few weeks when river access becomes possible. I anticipate that the well will be drilled in the first half of 2008. This will be our first exploration well on the PSC. It will also be our first production well at the Kerendan Gas field, since we intend to drill through the proven gas accumulation on the way down to our exploration target. The well will be completed as a gas producer in this upper section.

In the first six months of 2007 the group incurred a net loss of £885,000. This compares with £441,000 in the same period last year which was before the acquisition of Mitra. Exploration expenditure in the profit and loss account was £307,000 (2006 £305,000). Administration costs of £628,000 increased from £302,000 in 2006 due to the addition of our Indonesian office. Following the fund raising in mid 2006, bank deposit interest received increased from £222,000 to £386,000 and there was an unrealised currency loss of £329,000 (2006 £122,000) on our US\$ holdings due to the continued weakness of that currency. Capital investment on our Indonesian licences, mainly on the Pasundan exploration well, was £1.3 million. Cash balances were £15.2 million at end June and shareholders funds £32 million.

As required by the AIM Rules, we have prepared these half year accounts for the first time in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. This has involved converting the accounts for 2006 from UK Generally Accepted Accounting Principles to IFRS. In doing so an anomaly has arisen. Our auditors advise that technical accounting interpretation of the relevant Standards is that we should recognise a substantial provision of £3.9 million in the Balance Sheet for hypothetical deferred tax on the acquisition of Mitra and show a hypothetical "goodwill" asset of £3.9 million shown as Intangible Asset. In view of the size of these accounting entries, we wish to emphasise that they (a) have no effect on profit and loss, (b) have no effect on our cash position, (c) do not imply that we have a tax liability relating to oil or gas production and (d) do not imply any increase in the value of Mitra over the price paid by Sound.

Gerry Orbell  
Chairman  
27 September 2007

Interim Consolidated Income Statement  
For the six months ended 30 June 2007

		Six months ended 30 June 2007 Unaudited	Six months ended 30 June 2006 Unaudited Restated	Year ended 31 December 2006 Unaudited Restated
	Notes	£'000	£'000	£'000
Exploration costs		307	305	653
<b>Gross loss</b>		<b>(307)</b>	<b>(305)</b>	<b>(653)</b>
Administrative expenses		628	302	1,068
<b>Group trading loss</b>		<b>(935)</b>	<b>(607)</b>	<b>(1,721)</b>
Share of post tax loss of associates accounted for using the equity method		7	-	14
<b>Group operating loss from continuing operations</b>		<b>(942)</b>	<b>(607)</b>	<b>(1,735)</b>
Finance revenue		386	222	641
Other finance expense (foreign exchange loss)		(329)	(122)	(1,142)
<b>Loss from continuing operations before tax</b>		<b>(885)</b>	<b>(507)</b>	<b>(2,236)</b>
Tax credit		-	66	66
<b>Loss for the period attributable to the equity holders of the parent</b>		<b>(885)</b>	<b>(441)</b>	<b>(2,170)</b>
<b>Loss per share basic and diluted for the period attributable to ordinary equity holders of the</b>	6	<b>(0.18)</b>	<b>(0.27)</b>	<b>(0.45)</b>

Interim Consolidated Balance Sheet  
At 30 June 2007

	Notes	30 June 2007 Unaudited £'000	30 June 2006 Unaudited Restated £'000	31 December 2006 Unaudited Restated £'000
<b>Non-current assets</b>				
Property, plant and equipment	3	81	–	54
Intangible assets		3,813	–	3,905
Exploration and evaluation assets		15,327	–	15,288
Investments in associates	5	1,431	–	528
Other debtors		–	–	68
		20,652	–	19,843
<b>Current assets</b>				
Trade and other receivables		66	–	552
Prepayments		52	10	49
Other debtors		304	–	–
Cash and short term deposits		15,244	10,304	17,389
		15,666	10,314	17,990
<b>Total assets</b>		<b>36,318</b>	<b>10,314</b>	<b>37,833</b>
<b>Current liabilities</b>				
Trade and other payables		225	205	684
Accruals and other creditors		156	–	–
		381	205	684
<b>Non-current liabilities</b>				
Deferred tax liabilities		3,813	–	3,905
Provisions		59	–	56
		3,872	–	3,961
<b>Total liabilities</b>		<b>4,253</b>	<b>205</b>	<b>4,645</b>
<b>Net assets</b>		<b>32,065</b>	<b>10,109</b>	<b>33,188</b>
<b>Capital and reserves</b>				
Equity share capital		36,456	10,941	36,456
Foreign currency reserve		(1,254)	–	(974)
Retained earnings		(3,137)	(832)	(2,294)
<b>Total equity</b>		<b>32,065</b>	<b>10,109</b>	<b>33,188</b>

Interim Consolidated Statement of Changes in Equity  
For the six months ended 30 June 2007

	Notes	Issued capital £'000	Share premium £'000	Retained earnings £'000	Other reserves £'000	Total equity £'000
At 1 January 2007		692	35,764	(2,294)	(974)	33,188
Foreign currency translation		-	-	-	(280)	(280)
Total income and expense for the period recognised in equity		-	-	-	(280)	(280)
Total loss for the period		-	-	(885)	-	(885)
Total income and expense for the period		-	-	(885)	(280)	(1,165)
Share based payments	4	-	-	42	-	42
At 30 June 2007 (unaudited)		692	35,764	(3,137)	(1,254)	32,065

		Issued capital £'000	Share premium £'000	Retained earnings £'000	Other reserves £'000	Total equity £'000
At 1 January 2006 (unaudited)		300	10,641	(193)	-	10,748
Total loss for the period		-	-	(441)	-	(441)
Total income and expense for the period		-	-	(441)	-	(441)
Write down of deferred expenditure		-	-	(198)	-	(198)
At 30 June 2006 (unaudited, restated)		300	10,641	(832)	-	10,109

Interim Consolidated Cash Flow Statement  
For the six months ended 30 June 2007

	Six months ended 30 June 2007	Six months ended 30 June 2006 Unaudited Restated	Year ended 31 December 2006 Unaudited Restated
Notes	Unaudited £'000	Unaudited Restated £'000	Unaudited Restated £'000
<b>Cash flow from operating activities</b>			
Cash flow from operations	(947)	(635)	(1,613)
Interest received	386	222	641
<b>Net cash flow from operating activities</b>	<b>(561)</b>	<b>(413)</b>	<b>(972)</b>
<b>Cash flow from investing activities</b>			
Capital expenditure and disposals	(34)	-	(60)
Exploration expenditure	(323)	-	(1,327)
Investment in associate	(910)	-	(528)
<b>Net cash flow from investing activities</b>	<b>(1,267)</b>	<b>-</b>	<b>(1,915)</b>
<b>Cash flow from financing activities</b>			
Proceeds from equity issue	-	-	11,555
<b>Net cash flow used in financing activities</b>	<b>-</b>	<b>-</b>	<b>11,555</b>
Net increase/(decrease) in cash and cash equivalents	(1,828)	(413)	8,668
Net foreign exchange difference	(317)	(122)	(2,118)
Cash and cash equivalents at the beginning of the period	17,389	10,839	10,839
<b>Cash and cash equivalents at the end of the period</b>	<b>15,244</b>	<b>10,304</b>	<b>17,389</b>

Notes to cash flow

	June 2007 £'000	June 2006 £'000	December 2006 £'000
<b>Cash flow from operations reconciliation</b>			
Loss before tax	(885)	(507)	(2,236)
Finance revenue	(386)	(222)	(641)
Foreign exchange loss	329	122	1,142
Increase/(decrease) in short term creditors	(459)	158	101
Increase/(decrease) in accruals and other short term creditors	156	-	534
Net movement in depreciation	6	-	6
Write down of deferred expenditure	-	(198)	-
Increase in share based payments	42	-	69
Increase in long term provisions	3	-	56
Decrease/(increase) in long term debtors	-	12	(68)
Decrease/(increase) in short term debtors	247	-	(576)
<b>Cash flow from operations</b>	<b>(947)</b>	<b>(635)</b>	<b>(1,613)</b>

## Notes to the financial information

### 1. Accounting policies

These financial statements are presented in UK£.

#### Basis of preparation and accounting policies.

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they are expected to apply to the financial statements of the group for the year ended 31 December 2007 and applied in accordance with the Companies Act 1985.

The interim consolidated financial statements are unaudited and do not represent statutory accounts within the meaning of section 240 of the Companies Act 1985. The comparative financial information is based upon the statutory accounts for the year ended 31 December 2006. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

This is the first year in which the group will prepare its financial statements under IFRS and the comparatives have been restated from UK GAAP to comply with IFRS. The reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in note 7.

The interim consolidated financial statements for the six months ended 30 June 2007 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim consolidated financial statements do not include all of the information and disclosures required in the annual financial statements and have been prepared on a historical cost basis except for where separately identified.

The financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds except when otherwise indicated.

#### Basis of consolidation

The interim consolidated financial statements consolidate the financial statements of Sound Oil plc and the entities it controls (its subsidiaries) which are drawn up to 31 December each year.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

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

#### Foreign currency translation

The functional and presentational currency of Sound Oil plc is pounds sterling.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year. The resulting exchange differences are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### **Business combinations and goodwill**

Business combinations are accounted for using the purchase method of accounting. The purchase price of an acquisition is measured as the cash paid plus the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Goodwill on acquisition is initially measured at cost being the excess of purchase price over the fair market value of identifiable assets, liabilities and contingent liabilities acquired. Following initial acquisition it is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to an impairment test at least annually and more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, including goodwill, an impairment loss is recognised.

#### **Joint venture activities**

The group conducts oil and gas exploration and production activities jointly with other venturers who each have direct ownership in and jointly control the assets of the ventures. These are classified as jointly controlled assets and consequently, these financial statements reflect only the group's proportionate interest in such activities.

#### **Associates**

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's financial statements associates are accounted for using the equity method.

Financial statements of associates are prepared for the same reporting period as the group. Where necessary, adjustments are made to bring the accounting policies used into line with those of the group; to take into account fair values assigned at the date of acquisition and to reflect impairment losses where appropriate.

#### **Oil and gas assets**

The group's entire capitalised oil and gas costs relate to properties that are in the exploration and evaluation stage.

As allowed under IFRS 6 the group has continued to apply its existing accounting policy to exploration and evaluation activity, subject to the specific requirements of the standard.

The group will continue to monitor the application of these policies in the light of expected future guidance on accounting for oil and gas activities.

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

##### **(a) Exploration and evaluation 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.

##### **(b) Exploration and evaluation cost**

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

(c) 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 have 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.

(d) 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 the accounting policy 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.

(e) 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.

**Property, plant and equipment**

Fixtures, fittings and equipment are recorded at cost as tangible assets.

The straight-line method of depreciation is used to depreciate the cost of these assets over their estimated useful lives, which is estimated to be four years.

**Investments**

In its separate financial statements the company recognises its investments in subsidiaries at cost.

**Financial Instruments**

Financial instruments comprise financial assets, financial liabilities and equity instruments.

(a) Fair values

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and pricing models. Otherwise assets will be carried at cost.

(b) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at

amortised cost. Provision is made when there is objective evidence that the group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

(c) **Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of consolidated cash flow statements, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**Provisions**

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the group expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain.

The expense relating to any provision is presented in the income statement net of any reimbursement.

Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

**Share-based payment transactions**

The group issues equity-settled share-based payments to certain employees. The fair value of each option at the date of the grant is estimated using the binomial option-pricing model based upon the option price, the share price at the date of issue, volatility and the life of the option. The estimated fair value of the option is amortised to expense over the options' vesting period on a straight-line basis with a corresponding increase to equity. It is assumed that all performance criteria are met. Estimated associated national insurance charges are expensed in the income statement and accrued as per the provisions of UK law and IAS 37.

No expense is recognised for awards that do not ultimately vest except for awards when vesting is conditional on a market condition, in which case such awards are treated as vesting provided that all other performance conditions are satisfied.

Where an option is forfeited without meeting the vesting conditions, the associated prior charges are credited to the profit and loss account with an equivalent reduction to equity.

**Equity**

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

**Employee benefits**

The group's principal subsidiary provides long term employee benefits in accordance with Indonesian law. This is considered a defined contribution scheme under IAS 19. A provision is calculated using a projected unit credit method, taking into account actuarial assumptions such as mortality rate and disability rate.

**Related party transactions**

IFRS requires all entities to disclose related party transactions. The company's policy is to have regard to materiality from the shareholder's perspective.

**Income taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are presented net only if there is a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

#### Earnings per share

Earnings per share are calculated using the weighted average number of ordinary shares outstanding during the period per IAS 33. Diluted earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all potentially dilutive shares to ordinary shares. It is assumed that any proceeds obtained on the exercise of any options and warrants would be used to purchase ordinary shares at the average price during the period. Where the impact of converted shares would be anti-dilutive, these are excluded from the calculation of diluted earnings.

#### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

#### New standards and interpretations not applied

The following standards and interpretations have an effective date after the beginning of the accounting period:

- IFRIC Interpretation 11 - IFRS 2 'Group and Treasury Share Transactions' (effective date 1 March 2007)
- IFRIC Interpretation 12 'Service Concession Arrangements' (effective date 1 January 2008)
- IFRS 8 'Operating Segments' (effective date 1 January 2009)

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the group's financial statements in the period of initial application.

Upon adoption of IFRS 7, the group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks to which they give rise.

## 2. Segment information

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

## 3. Property, plant and equipment

#### Acquisitions and disposals

During the six months ended 30 June 2007 the group acquired assets with a cost of £34,000.

#### 4. Share-based payments

In February 2007, 4,250,000 share options were granted to senior executives. The fair value of equity-settled share options granted is estimated 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 options granted on 28 February 2007:

Dividend yield (%)	0
Expected volatility (%)	91.91
Risk free interest rates (%):	
Tranche 1	4.38
Tranche 2	4.56
Tranche 3	4.75
Expected life (years)	10
Weighted average share price (pence)	4.40

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 historical volatility is indicative of future trends, which may not necessarily be the actual outcome. No other features of the options grant were incorporated into the measurement of fair value.

#### 5. Related party transactions

The following table provides the total amount of significant transactions, which have been entered into with related parties during the six months ended 30 June 2007 and 2006.

		Sales to related parties £'000	Purchases from related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Associate:					
BPREC	2007	–	–	1,431	–
	2006	–	–	–	–

#### 6. Loss per share

The calculation of basic and diluted 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 and diluted loss per share is calculated as follows:

	Loss after tax			Weighted average number of shares			Loss per share		
	June 2007	June 2006	December 2006	June 2007	June 2006	December 2006	June 2007	June 2006	December 2006
	£'000	£'000	£'000	million	million	million	pence	pence	pence
Basic and diluted	(885)	(441)	(2,170)	486	165	486	(0.18)	(0.27)	(0.45)

## 7. Reconciliation of Balance Sheet and Income Statement reported under UK GAAP and IFRS

An explanation of the reconciling items between UK GAAP and IFRS is provided as follows:

### 7.1 Transition balance sheet

The date of transition to IFRS for the group is the 1 January 2006. There were no material re-statements or re-classifications from UK GAAP to IFRS at this date.

### 7.2 Deferred expenditure

The UK GAAP balance sheet at 30 June 2006 contained a deferred expenditure sum of £198,000 relating to an expected acquisition, which is not allowable under IFRS 6 'Exploration for and Evaluation of Mineral Resources'. This is because IFRS 6 does not apply to expenditures incurred before the entity has obtained the legal rights to explore a specific area. As no such legal rights were acquired before the 30 June 2006 this amount has been written off to reserves.

### 7.3 Excess of fair value of cost on acquisition

The acquisition of Mitra Energy on the 12 July 2006 gave rise to an excess of fair value to book value of £13,834,000. Under IAS 21 'The Effects of Foreign Exchange Rates' the closing balance has been retranslated at the dollar spot rate at 31 December 2006 giving rise to an unrealised foreign currency charge to reserves of £817,000.

### 7.4 Non-current assets and liabilities

#### 7.4.1 Intangible and exploration assets

Under IFRS 6 the intangible assets under UK GAAP of £16,105,000 have been re-classified into exploration evaluation and assets.

Under IFRS 3 'Business Combinations' and IAS 12 'Income Taxes' the fair value adjustment on the acquisition of Mitra Energia on 12 July 2006 has been restated. This has required the recognition of a goodwill asset of £3,905,000 shown as Intangible Assets and a deferred tax provision of £3,905,000. This deferred tax provision will be written down to profit or loss when the exploration project moves to the development phase. The goodwill will be subject to impairment testing on an annual basis.

#### 7.4.2 Net investment in associate

Under UK GAAP a long term loan to the BPREC associate was included as a current asset. The loan has now been re-classified under IAS 28 'Investments in Associates' as part of the net investment in the associate and has been disclosed at the year end in accordance with IAS 24 'Related Party Disclosures' (see note 5).

### 7.5 Long term debtor

A long term debtor of £68,000 has been re-classified from current debtors under UK GAAP.

### 7.6 Current assets

Under IFRS prepayments must be disclosed on the face of the balance sheet and have been presented accordingly.

### 7.7 Other amendments

Share based payments under UK GAAP were shown as part of shareholders equity and have been re-classified as part of retained earnings under IFRS.

Share-based payments were also disclosed as a line item in the income statement for the period ended 31 December 2006 under the UK GAAP. These items have been included as part of administration expense under IAS 1.

The net loss from the associate has been moved from cost of sales under UK GAAP in the income statement to below trading profit in accordance with IFRS presentation.

#### 7.8 Explanation of material adjustments to cash flow

Material adjustments to cashflow concern the removal of foreign currency translation effects as per IAS 7 'Cash Flow Statements', which requires such items to be shown as a reconciling adjustment. Under UK GAAP these items were shown as part of the operating cash flow.

The principal presentational differences between cashflow statements presented in accordance with UK GAAP and cashflow statements presented in accordance with IFRS are as follows:

- Under UK GAAP, net cash flow from operating activities was determined before considering cashflows from:
  - returns on investment and servicing of finance
  - dividends received from associates
  - taxes paid

Under IFRS, net cashflow from operating activities is determined after these items.

- Under UK GAAP exchange gains/(losses) on cash and cash equivalents were included in the 'Reconciliation of Net Cash Flow to Movement in Net Funds/(Debt)' while under IFRS they are included on the face of the cashflow statement as a reconciling item.
- Under UK GAAP, capital expenditure, financial investments and acquisitions were classified as capital expenditure and financial investment, while under IFRS they are classified as investing activities.
- Under UK GAAP short-term investments were not included in the reconciliation of net cash but were classified as the management of liquid resources. Under IFRS short-term investments with maturity of less than three months at the date of acquisition are included in cash and cash equivalents.

#### 7.9 UK GAAP to IFRS reconciliation of shareholders funds/total equity

	1 January 2006 £'000	30 June 2006 £'000	31 December 2006 £'000
UK GAAP shareholders funds	10,748	10,307	34,005
IFRS adjustments:			
IAS 21 'Foreign Currencies'	-	-	(817)
IFRS 6 'Exploration for and Evaluation of Mineral Resources'	-	(198)	-
IFRS total equity	10,748	10,109	33,188

UK GAAP to IFRS reconciliation of the income statements for the year ended 31 December 2006 and the six months ended 30 June 2006

	30 June 2006 £'000	31 December 2006 £'000
UK GAAP loss for the financial period	(441)	(2,170)
IFRS adjustments:		
IAS 21 'Foreign Currencies'	-	-
IFRS 6 'Exploration for and Evaluation of Mineral Resources'	-	-
IFRS loss for the financial period	(441)	(2,170)

## 7.10 Transition to IFRS

Group reconciliation of equity as at 30 June 2006

	Notes	UK GAAP £'000	Reclassi- fications £'000	Restatements £'000	IFRS £'000
<b>Current assets</b>					
Trade and other receivables	7.2	208	(10)	(198)	-
Prepayments	7.6	-	10	-	10
Cash and short term deposits		10,304	-	-	10,304
		10,512	-	(198)	10,314
<b>Total assets</b>		10,512	-	(198)	10,314
<b>Current liabilities</b>					
Trade and other payables		205	-	-	205
		205	-	-	205
<b>Total liabilities</b>		205	-	-	205
<b>Net assets</b>		10,307	-	(198)	10,109
<b>Capital and reserves</b>					
Equity share capital		10,941	-	-	10,941
Retained earnings		(634)	-	(198)	(832)
<b>Total equity</b>		10,307	-	(198)	10,109

## 7.11 Transition to IFRS

Group reconciliation of profit and loss for the period ended 30 June 2006

	UK GAAP £'000	Reclassi- fications £'000	Restatements £'000	IFRS £'000
Exploration costs	305	-	-	305
Gross loss	(305)	-	-	(305)
Administrative expenses	302	-	-	302
Group trading loss	(607)	-	-	(607)
Group operating loss from continuing operations	(607)	-	-	(607)
Finance revenue	222	-	-	222
Other finance expense (foreign exchange loss)	(122)	-	-	(122)
Loss from continuing operations before tax	(507)	-	-	(507)
Tax credit	66	-	-	66
<b>Loss for the period</b>	<b>(441)</b>	<b>-</b>	<b>-</b>	<b>(441)</b>

## 7.12 Transition to IFRS

### Group reconciliation of equity as at 31 December 2006

	Notes	UK GAAP £'000	Reclassi- fications £'000	Restatements £'000	IFRS £'000
<b>Non-current assets</b>					
Property, plant and equipment		54	–	–	54
Intangible assets	7.3, 7.4.1	16,105	(16,105)	3,905	3,905
Exploration and evaluation assets	7.3, 7.4.1	–	16,105	(817)	15,288
Investments in associates*	7.4.2	13	515	–	528
Other debtors	7.5	–	68	–	68
		<b>16,172</b>	<b>583</b>	<b>3,088</b>	<b>19,843</b>
<b>Current assets</b>					
Other debtors falling due after more than one year*	7.4.2	583	(583)	–	–
Trade and other receivables		601	(49)	–	552
Prepayments	7.6	–	49	–	49
Cash and short term deposits		17,389	–	–	17,389
		<b>18,573</b>	<b>(583)</b>	<b>–</b>	<b>17,990</b>
<b>Total assets</b>		<b>34,745</b>	<b>–</b>	<b>3,088</b>	<b>37,833</b>
<b>Current liabilities</b>					
Trade and other payables		112	–	–	112
Income tax payable		35	–	–	35
Accruals and other creditors		537	–	–	537
		<b>684</b>	<b>–</b>	<b>–</b>	<b>684</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	7.4.1	–	–	3,905	3,905
Provisions		56	–	–	56
		<b>56</b>	<b>–</b>	<b>3,905</b>	<b>3,961</b>
<b>Total liabilities</b>		<b>740</b>	<b>–</b>	<b>3,905</b>	<b>4,645</b>
<b>Net assets</b>		<b>34,005</b>	<b>–</b>	<b>(817)</b>	<b>33,188</b>
<b>Capital and reserves</b>					
Equity share capital	7.7	36,525	(69)	–	36,456
Currency translation	7.3	(157)	–	(817)	(974)
Retained earnings	7.7	(2,363)	69	–	(2,294)
<b>Total equity</b>		<b>34,005</b>	<b>–</b>	<b>(817)</b>	<b>33,188</b>

\*Following an analysis of the loans to associates under IFRS, which is more prescriptive than UK GAAP, it was discovered that the loan to BPREC associate that was classified as such at 31 December 2006 should have been reported as part of the net investment in associates. This classification treatment has now been corrected as part of the IFRS conversion process.

### 7.13 Transition to IFRS

#### Group reconciliation of profit and loss for the year ended 31 December 2006

	Notes	UK GAAP £'000	Reclassi- fications £'000	Restatements £'000	IFRS £'000
Exploration costs	7.7	667	(14)	–	653
<b>Gross profit/(loss)</b>		<b>(667)</b>	<b>14</b>	<b>–</b>	<b>(653)</b>
Administrative expenses		999	69	–	1,068
Share-based payments	7.7	69	(69)	–	–
		1,068	–	–	1,068
<b>Group trading (loss)/profit</b>		<b>(1,735)</b>	<b>14</b>	<b>–</b>	<b>(1,721)</b>
Share of post tax profits of associates accounted for using the equity method		–	14	–	14
<b>Group operating loss from continuing operations</b>		<b>(1,735)</b>	<b>–</b>	<b>–</b>	<b>(1,735)</b>
Finance revenue		641	–	–	641
Other finance expense (foreign exchange loss)		(1,142)	–	–	(1,142)
<b>Loss from continuing operations before tax</b>		<b>(2,236)</b>	<b>–</b>	<b>–</b>	<b>(2,236)</b>
Tax expenses		66	–	–	66
<b>Loss for the year</b>		<b>(2,170)</b>	<b>–</b>	<b>–</b>	<b>(2,170)</b>

### 7.14 Transition to IFRS

#### Group reconciliation of equity as at 1 January 2006

	Notes	UK GAAP £'000	Reclassi- fications £'000	Restatements £'000	IFRS £'000
<b>Current assets</b>					
Prepayments	7.6	24	–	–	24
Cash and short term deposits		10,839	–	–	10,839
		10,863	–	–	10,863
<b>Total assets</b>		<b>10,863</b>	<b>–</b>	<b>–</b>	<b>10,863</b>
<b>Current liabilities</b>					
Trade and other payables		11	–	–	11
Other liabilities and accruals		38	–	–	38
Income taxes		66	–	–	66
		115	–	–	115
<b>Non-current liabilities</b>					
<b>Total liabilities</b>		<b>115</b>	<b>–</b>	<b>–</b>	<b>115</b>
<b>Net assets</b>		<b>10,748</b>	<b>–</b>	<b>–</b>	<b>10,748</b>
<b>Capital and reserves</b>					
Equity share capital		10,941	–	–	10,941
Retained earnings	7.7	(193)	–	–	(193)
<b>Total equity</b>		<b>10,748</b>	<b>–</b>	<b>–</b>	<b>10,748</b>

## 8. Interim report

Copies of the interim report will be sent to shareholders in due course. Further copies will be available from the Company's nominated adviser, Smith & Williamson Corporate Finance Limited, 25 Moorgate, London EC2R 6AY, free of charge and on the Company's website [www.soundoil.co.uk](http://www.soundoil.co.uk).