

20 June 2008

Sound Oil Plc (“the Company”)

Preliminary results for the year ended 31 December 2007

The Board of Sound Oil Plc announces its preliminary results for the year ended 31 December 2007.

Highlights

- § Encouraging signs of hydrocarbons from Indonesian well
- § Change of ownership of operator on Indonesian PSC accelerating exploration
- § Net cash of £13.6 million

Gerry Orbell, Chairman of the Company, commented: “We have made good progress with the exploration of our Citarum licence in Indonesia on two fronts. In mid 2007 we drilled a well which has encouraging signs of hydrocarbons and is now suspended pending testing. Furthermore, the operator of the PSC is now owned by Pan Orient. This is excellent news, providing Sound with an operator partner eager to progress the exploration of this exciting area.”

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Chairman's Statement

We have made good progress with the exploration of our Citarum licence in Indonesia on two fronts. In mid 2007 we drilled a well which has encouraging signs of hydrocarbons and is now suspended pending testing. Furthermore, the operator of the PSC is now owned by Pan Orient. This is excellent news, providing Sound with an operator partner eager to progress the exploration of this exciting area.

During the year progress on both of our Production Sharing Contracts has been slower than expected due to activities beyond our immediate control. During this time we have kept our outgoings as low as possible and finished the year with £13.6 million in cash and no debt. I expect the next twelve months to be much busier than the last and we will continue to evaluate new opportunities.

Over the last year or more we have been negotiating a change in how we hold our 20% interest in the Citarum Production Sharing Contract (PSC). Originally we held 20% of the shares in the Operator BPREC which in turn held 100% of the participating interest in the PSC. Following the late February 2008 rearrangements, each of the original shareholders now holds a direct participating interest in the PSC in proportion to their original shareholding.

On 18 March 2008, the Company was obliged to place its Partners, BPREC and BPE, in default on the Citarum PSC in the amount of \$5.8 million. The defaulting parties, whose combined interest in the PSC is 80%, cured their default in early May 2008. BPREC's shareholders immediately advised the Company that they intended to sell all of the shares of BPREC, which holds a 60% participating interest in Citarum, to Pan Orient plus a further 9% participating interest from BPE. This sale also involves a rearrangement of the shareholding of BPE which will be carried in the future by Pan Orient for the whole of its participating interest. Even though the sale has yet to be completed, this is positive news for Sound as we expect the new Operator to have sufficient funds available to carry forward the work programme in an enthusiastic and businesslike manner.

The Company participated in the Pasundan No 1 well at Citarum during the year. The well encountered cavernous porosity which led to major drilling fluid losses and cost overruns. Nevertheless it proved that an excellent reservoir system exists in the area. Given the amount of foreign drilling and other material lost into this pore system, the presence of hydrocarbons even in the minor amounts encountered, was very encouraging. The interval could not be drill stem tested at the time for operational reasons but the Company will support the new Operator should it recommend this for early action in the future. Other operations at Citarum over the next 18 months are not certain given the expected changes in Operatorship. We do expect however that the previously approved seismic program to identify exploration prospects across the PSC will go ahead in the second half of 2008.

At Bangkanai, the Operator gave much of its attention in the year to an IPO in Indonesia. This is now concluded and the Operator has advised that they are in negotiations with a third party for a Gas Sales Agreement for the Kerendan Field. Should this GSA occur, then field development will commence towards the very end of 2008 and into 2009. In the interim we anticipate that the approved seismic program will go forward in the second half of 2008 to firm up a substantial exploration prospect at Jupoi for drilling in 2009. At Bangkanai there have been significant increases in anticipated well costs which are no longer consistent with a company of our size. We are therefore negotiating a farm-out or divestment of part of our interest in Bangkanai to reduce our exposure, and to release funds for other exploration and exploitation opportunities. This process has just been approved by the Indonesian authorities and already we have received positive feedback from those potential farminees that we have contacted.

I would like to thank the staff and the Board members of Sound for their efforts during the year and the shareholders for their continuing support.

Gerry Orbell
Chairman

Financial Review

Accounting standards

The Group has prepared its 2007 full year accounts for the first time under International Financial Reporting Standards (IFRS). This has required restatement of the published results for the previous year 2006 so that the comparison of 2007 with 2006 results is shown in this report on a consistent basis.

Income statement

The Group's loss after tax for 2007 was £1,811,000 compared with £2,170,000 in 2006. Pre licence exploration expenditure was very similar to 2006 at £630,000. Administration costs at £1,513,000 were £445,000 higher reflecting a full year of the staff and office costs of the Mitra group acquired in mid 2006. Operating loss was £2,202,000 compared with £1,735,000. Net interest received was £704,000 (2006 £641,000), due to a full year's interest on the increase in cash balances following from the share issue in mid 2006. There was an unrealised foreign exchange loss of £313,000 (2006: £1,142,000) on the Group's holdings of US\$ reflecting the continuing weakness of that currency. This unrealised book loss has recently been reduced by gains following the recent weakness of sterling. Basic and diluted loss per share was 0.26 pence compared with 0.45 pence in 2006.

Goodwill and deferred tax

Relevant accounting standards require us to 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 as Intangible Asset. We wish to emphasise that (a) they have no effect on profit and loss, (b) 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. Since then, the accounting authorities have made no progress in ironing out this anomaly so the situation remains the same for these full year accounts with the provision and matching "goodwill" remaining in the Balance Sheet.

Cash flow/balance sheet

Net cash outflow before movements relating to financing was £3,766,000 (2006 £5,005,000). Of this, exploration expenditure including investment in Associate, was £2,042,000 (2006 £1,855,000) mainly on the Pasundan-1 well on the Citarum licence. The Group's cash balance at year end was £13,623,000 (2006 £17,389,000). Cash balances were invested in short term deposits. Shareholder equity was £31,236,000 compared with £33,188,000 at end 2006.

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.

Summary

On both the Citarum and Bangkanai PSCs we are acquiring seismic to identify and firm-up prospects which will lead to some exploration commitment wells being drilled within the next 18 months. These seismic programmes will not commence until the dry season in Java (2Q-3Q 2008) and not before November 2008 in Kalimantan. Subsequent interpretations and decisions on drilling locations are expected to be completed at the end of 2008 at Citarum and on Bangkanai well into Q1 2009. Lead times for sourcing of drilling rigs and the ordering of tangible long-lead items are such that drilling on both PSCs is likely to occur in the second half of 2009.

On the Bangkanai PSC, the operator has informally proposed a drilling programme to include two exploration wells and two Kerendan field re-entry wells commencing in November 2008. This programme is dependent on conclusion of a GSPA for the Kerendan POD in October 2008. At this time, the operator has not indicated a defined schedule for the Kerendan field development and how this fits into the exploration drilling in the same area. It is our opinion that the drilling of the proposed Sungai Lahei-1 well is now likely to be deferred until early 2010. This would realise cost savings to all Partners by combining this well with both the drilling of development wells for the Kerendan gas field and the Jupoi exploration well.

Citarum PSC

Sound Oil successfully completed the drilling of its first well in Indonesia on 27 September 2007. The Pasundan-1 well reached a total depth of 10412 ft in the Eocene Jatibarang Formation after 122 days on location. This was somewhat longer than anticipated due to extended operations to control severe down-hole losses in a subsurface cavernous zone in the principal Baturaja Formation carbonate reservoir objective. The well tested two intervals in the lower part of the Baturaja Formation with the second test (8024- 8069 ft) flowing water with a trace of hydrocarbon gas to the surface at a stabilised rate of 3000 barrels per day. Although no significant quantities of oil or gas were recovered the test demonstrates that the Baturaja reservoir has effective porosity and a strong aquifer drive in this area.

The upper cavernous interval (6770-6900 ft) remains to be tested at a later date. Losses to this zone were estimated at 100,000 barrels of drilling fluid and a drill stem test must be designed to recover these losses and properly sample the formation fluid. The quantity of losses, their chemical composition and their estimated surface temperature necessitate the design of a logistic and environmental plan to cope with their safe surface handling. It is currently the intention to return to test this zone with a separate rig in conjunction with the next drilling campaign. One possible advantage to the delay in testing this zone is that subsurface conditions may equilibrate and any hydrocarbons could segregate from the lost drilling fluids under gravity, and be recovered more easily. It is estimated that this zone contains P50 prospective resources¹ of 35 MMbo²; in view of observed pressures in the well it is now thought that oil is the most likely hydrocarbon in place.

In view of results at Pasundan-1 it was decided to delay drilling of the nearby Kujang Prospect (estimated P50 prospective resources 42 MMbo) pending additional seismic data to verify it is separate from the Pasundan structure. Kujang will also be assessed as to its overall ranking in a full prospect inventory for the licence following new seismic surveys in 2008.

Preparations are in progress to acquire 750 km of new 2D seismic data over four prospective areas identified from geological study. This will fulfil the First Exploration Period seismic commitment on the PSC. There is also the option to acquire an additional 100 km in the event that the survey results are encouraging. In addition, the survey will be supplemented by a programme of geological field studies, gravity survey and magnetotelluric measurements (subsurface resistivity survey). It is anticipated that the new seismic programme will commence in the second half of 2008 and allow interpretation of results to define prospect locations for a new drilling campaign in 2009 to fulfil the outstanding PSC well commitments.

Bangkanai PSC

A Plan of Development (POD) for the Kerendan gas field was granted in 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. In January 2008, a Memorandum of Understanding was signed with PT Valco Mulia International for co-operation to conclude a Gas Sales and Purchase Agreement which would allow the field development to move forward. It is hoped that this Agreement can be completed in the course of 2008. The POD calls for the supply of 133 Bscfg³ over 20 years at a maximum rate of 20 MMscfd⁴. 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.

Independent assessment of Kerendan Field contingent recoverable resources by RML-Senergy⁵ are:

	Gross (100.00%)	Net to Sound (34.99%)
Proved (P1, Bscfg)	187.0	65.4
Proved + Probable (P1 +P2, Bscfg)	238.5	83.5

Progress on implementation of the POD has been delayed by scheduling difficulties for PLN (the state electricity company) to install the necessary transmission link to export the power from Kerendan to the existing grid connection at Tanjung Batu. As a result, discussions are in progress to examine the field development and electricity production costs and gas price structure that may be necessary to finance and accelerate construction of the transmission link. It is now estimated that first gas could be delivered by 2011.

BPMigas has granted the Bangkanai Partners a further extension of the PSC First Exploration Period to 31 December 2008 in order to fulfil the outstanding work commitment of two exploration wells. Plans to drill the Kerendan Deep Prospect in the clastic Tanjung Formation below the Kerendan field have been affected by the delay to the development schedule as this well (designated Sungai Lahei-1) was designed to be a deepening of a new development well. Partners are currently discussing other cost-effective options to drill this prospect which will fulfil the requirements of the authorities, including the re-entry and deepening of an existing development well. The Kerendan Deep structure has estimated P50 prospective resources⁴ of 940 Bscfg.

In order to define a drilling location for the second exploration well a new seismic survey has been planned for the first half of 2008 to focus on the Jupoi structure to the south of Kerendan. Acquisition of 302 km of 2D data will fulfil the Year 5 work commitment on the PSC. The Jupoi structure is a complex faulted anticline prospective at the Oligocene Berai Formation (the same reservoir as at Kerendan) and at the deeper Eocene Tanjung Formation level. Although not fully defined the structure could contain P50 prospective resources of ~ 4 Tscfg⁶. It is intended to drill Kerendan Deep and Jupoi (dependant on seismic results) with a single rig operation in conjunction with Kerendan field development drilling. On current estimates this is unlikely to be before the second half of 2009.

Notes

- 1. Prospective resources, consistent with SPE (The Society of Petroleum Engineers) guidelines, are quantified in terms of the statistical probability to find a given recoverable hydrocarbon (oil or gas) volume in a prospective structure considering all the geological variables involved. The P50 figure indicates a 50% chance of finding a given volume and is generally considered as the best or most-likely estimate. The 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 announcement have been verified by Sound Oil's Head of Exploration Dr. M.J. Cope BSc PhD CGeol FGS, a qualified petroleum geologist.*
- 2. Million barrels of oil.*
- 3. Billion standard cubic feet of gas.*
- 4. Million standard cubic feet of gas per day.*
- 5. RML-Senergy compiled the Competent Person's Report included in the Admission Document of July 2006, from which these figures are taken.*
- 6. Trillion standard cubic feet of gas.*

Consolidated Income Statement for the year ended 31 December 2007

	Notes	2006 £'000's	2007 £'000's
Exploration costs		(653)	(630)
Gross loss		(653)	(630)
Administrative expenses		(1,068)	(1,513)
Group trading loss		(1,721)	(2,143)
Share of post tax loss of associates accounted for using the equity method		(14)	(59)
Group operating loss from continuing operations	2	(1,735)	(2,202)
Finance revenue	4	641	704
Other finance expense (foreign exchange loss)		(1,142)	(313)
Loss from continuing operations before tax		(2,236)	(1,811)
Tax credit		66	-
Loss for the period attributable to the equity holders of the parent		(2,170)	(1,811)
Loss per share basic and diluted for the period attributable to ordinary equity holders of the parent (pence)	5	(0.45)	(0.26)

Consolidated Balance Sheet as at 31 December 2007

	Notes	2006 £'000's	2007 £'000's
Non-current assets			
Property, plant and equipment		54	77
Intangible assets		3,905	3,825
Exploration and evaluation assets		15,288	15,428
Investment in associate		528	2,162
Other debtors		68	231
		19,843	21,723
Current assets			
Other debtors		552	9
Prepayments		49	62
Cash and short term deposits		17,389	13,623
		17,990	13,694
Total assets		37,833	35,417
Current liabilities			
Trade and other payables		684	274
		684	274
Non-current liabilities			
Deferred tax liabilities		3,905	3,825
Provisions		56	82
		3,961	3,907
Total liabilities		4,645	4,181
Net assets		33,188	31,236
Capital and reserves			
Equity share capital	6	36,456	36,456
Foreign currency reserve		(974)	(1,205)
Accumulated deficit		(2,294)	(4,015)
Total equity		33,188	31,236

Consolidated Statement of Changes in Equity for the year ended 31 December 2007

	Issued capital £'000's	Share premium £'000s	Accumulated deficit £'000's	Other reserves £'000's	Total equity £'000's
At 1 January 2007	692	35,764	(2,294)	(974)	33,188
Foreign currency translation	-	-	20	(231)	(211)
Total income and expense for the year recognised in equity	-	-	20	(231)	(211)
Total loss for the year	-	-	(1,811)	-	(1,811)
Total income and expense for the year	-	-	(1,791)	(231)	(2,022)
Issue of share capital	-	-	-	-	-
Share based payments	-	-	70	-	70
At 31 December 2007	692	35,764	(4,015)	(1,205)	31,236

	Issued capital £'000's	Share premium £'000's	Accumulated deficit £'000's	Other reserves £'000's	Total equity £'000's
At 1 January 2006	300	10,641	(193)	-	10,748
Foreign currency translation	-	-	-	(974)	(974)
Total income and expense for the year recognised in equity	-	-	-	(974)	(974)
Total loss for the year	-	-	(2,170)	-	(2,170)
Total income and expense for the year	-	-	(2,170)	(974)	(3,144)
Issue of share capital	392	25,731	-	-	26,123
Transaction costs	-	(608)	-	-	(608)
Share based payments	-	-	69	-	69
At 31 December 2006	692	35,764	(2,294)	(974)	33,188

Consolidated Cash Flow Statement for the year ended 31 December 2007

	2006 £'000's	2007 £'000's
Cash flow from operating activities		
Cash flow from operations	(1,613)	(2,098)
Interest received	641	704
Net cash flow from operating activities	(972)	(1,394)
Cash flow from investing activities		
Capital expenditure and disposals	(60)	(73)
Exploration expenditure	(1,327)	(408)
Investment in associate	(528)	(1,634)
Net cash flow from investing activities	(1,915)	(2,115)
Cash flow from financing activities		
Proceeds from equity issue	11,555	-
Net cash flow used in financing activities	11,555	-
Net increase/(decrease) in cash and cash equivalents	8,668	(3,509)
Net foreign exchange difference	(2,118)	(257)
Cash and cash equivalents at the beginning of the year	10,839	17,389
Cash and cash equivalents at the end of December	17,389	13,623

Notes to cash flow

	2006 £'000's	2007 £'000's
Cash flow from operations reconciliation		
Loss before tax	(2,236)	(1,811)
Finance revenue	(641)	(704)
Foreign exchange loss	1,142	313
Increase/(decrease) accruals and short term creditors	635	(410)
Depreciation	6	51
Share based payments charge	69	70
Increase in long term provisions	56	26
Increase in long term debtors	(68)	(163)
Decrease/(increase) in short term debtors	(576)	530
Cash flow from operations	(1,613)	(2,098)

Notes to the financial information

1 Accounting policies

The principal accounting policies adopted in the preparation of the financial information set out in the announcement are set out in the Company's full financial statements for the period ended 31 December 2007.

The financial statements of the Group and its parent have been prepared in accordance with: (1) International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission (EC) for use in the European Union (EU); and (2) those parts of the Companies Act 1985 applicable to companies reporting under IFRSs.

The consolidated financial statements have been prepared under the historical cost convention. These are the Group's and Company's first consolidated financial statements under IFRS and in accordance with IFRS 1 First Time Adoption of International Financial Reporting Standards, the financial effects of adopting IFRS are summarised in note 26 in the Company's full financial statements.

2 Operating loss

	2006	2007
	£'000's	£'000's
Operating loss is stated after charging:		
Auditors remuneration	100	130
Depreciation	3	51
Employee costs	931	990
Foreign exchange losses	1,142	313

3 Employee costs

	2006	2007
	£'000's	£'000's
Staff costs, including executive directors		
Share based payments	69	70
Wages and salaries	786	830
Social security costs	76	90
Total	931	990
Number of employees (including executive directors) at the end of the year		
Technical and operations	7	6
Management and administration	10	11
Total	17	17

4 Finance revenue

	2006	2007
	£'000's	£'000's
Interest receivable		
Short term deposits	641	704
Total	641	704

5 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:

	2006	2007
	£'000s	£'000s
Loss after tax	(2,170)	(1,811)
	2006	2007
	million	million
Weighted average shares in issue	486	692
	2006	2007
	pence	pence
Loss per share (basic)	(0.45)	(0.26)

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

6 Capital and reserves

	Foreign Currency Reserve £'000's	Share Capital £'000's	Share Premium Account £'000's	Profit and Loss account £'000's	Total £'000's
At 1 January 2007	(974)	692	35,764	(2,294)	33,188
Shares issued	-	-	-	-	-
Loss for the year	(231)	-	-	(1,791)	(2,022)
Share based payments	-	-	-	70	70
At 31 December 2007	(1,205)	692	35,764	(4,015)	31,236
At 1 January 2006	-	300	10,641	(193)	10,748
Shares issued	-	392	25,123	-	25,515
Loss for the year	(974)	-	-	(2,170)	(3,144)
Share based payments	-	-	-	69	69
At 31 December 2006	(974)	692	35,764	(2,294)	33,188

7 Other matters

The financial information for the year ended 31 December 2007 set out in this announcement 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.