



Bangkanai Block - 34% exploration plus development of gasfield

Citarum Block
20% share - exploration

SOUND OIL

Sound Oil plc

Interim Report 2006

CHAIRMAN'S STATEMENT

Dear Shareholder

The first six months of 2006 have been eventful and very successful for Sound Oil. Early in the year, we reached agreement in principle to merge, in an all share deal, with Mitra Energia, a private Indonesian oil and gas company which has exploration and development acreage in Java and Kalimantan, Indonesia. In March we requested AIM to suspend dealings in the Company's shares pending a period of due diligence. We were re-admitted to trading in June. As part of this process, we placed 161,500,000 new shares in the market at 7.25p to raise approximately £11 million. The merger and share placement were approved at an Extraordinary General Meeting of the Company on 12 July.

After all of this legal and commercial activity we are now pushing ahead with the development of the Kerendan gasfield and with the exploration opportunities available to the enlarged group in Java and Kalimantan. We expect to drill our first well in Java, Pasundan 1, around the turn of this year.

Four exploration wells are now planned for late 2006 and 2007. Ranhill, our operator in the Citarum license, has been evaluating rigs and ordering long lead items. This process is also getting underway in Kalimantan, where Elnusa, a subsidiary of the state oil company Pertamina, is our operator. All four are onshore wells and, if successful, will each have a major impact on our hydrocarbon reserves.

The Kerendan gas accumulation in Kalimantan, where we own 34% equity, is in the final stages of being granted Indonesian Government approval for development. This is an important step towards monetizing this asset. During 2007 we shall be drilling two new production wells and re-entering two existing wells to complete them as gas producers. On the basis of our current schedule, revenues are expected to start to flow from Kerendan in 2008.

In all areas we are endeavoring to ensure that the construction of access roads and wellsites has minimal impact on the environment. I have recently visited the location of our first wells and could see for myself that our operator is working with the full co-operation of the local people and the authorities.

The next 18 months will therefore be very busy and we are fortunate to have sufficient cash reserves to cover all of our current obligations and activities during that period.

In the coming period we will continue to examine expansion opportunities in SE Asia and Africa.

In the first six months of 2006 the company, prior to the merger, incurred a net loss of £441,000. Expenditure on investment opportunities and administration was £607,000 and there was an unrealized currency loss of £122,000. These were partly offset by £222,000 of income from bank deposit interest and £66,000 reversal of the 2005 tax provision. Cash balances at 30 June were £10.3 million and shareholders funds £10.2 million.

I would like to welcome all the Mitra staff to Sound Oil and wish them a successful future with the company. I would also like to extend a warm welcome to our three new Board members who are based in Jakarta. Jossy Rachmantio heads up the Indonesia operation, and Ilham Habibie and Patrick Alexander are business development specialists in the region. Finally I would like to thank the original members of Sound's Board, Michael Nobbs, Simon Davies and Tony Heath for all their hard work and support.

Gerry Orbell

Chairman

28 September 2006

Further information can be found at www.soundoil.co.uk

PROFIT AND LOSS ACCOUNT

	Note	Six months to 30 June 2006 (unaudited) £'000's	27 January to 31 December 2005 (audited) £'000's
Exploration expenditure		(305)	(151)
Gross loss		(305)	(151)
Administrative costs		(302)	(210)
Operating loss		(607)	(361)
Interest receivable		222	234
Foreign exchange loss		(122)	–
Loss on ordinary activities before tax		(507)	(127)
Tax		66	(66)
Loss after tax		(441)	(193)
Loss per share (pence): basic	3	(0.27)	(0.12)
Loss per share (pence): diluted	3	(0.27)	(0.12)

Results for the period reflect ongoing operations which were based in the UK at 30 June 2006.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Six months to 30 June 2006 (unaudited) £'000's	27 January to 31 December 2005 (audited) £'000's
Net loss for the period attributable to members of the company	(441)	(193)
Total recognised losses	(441)	(193)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Six months to 30 June 2006 (unaudited) £'000's	27 January to 31 December 2005 (audited) £'000's
Total recognised losses relating to the period	(441)	(193)
New shares issued	–	11,115
Costs associated with raising capital	–	(174)
Total movements during the period	(441)	10,748
Shareholders' funds at 1 January	10,748	–
Shareholders' funds at 31 December 2005		10,748
Shareholders' funds at 30 June 2006	10,307	

BALANCE SHEET

	30 June 2006 (unaudited) £'000's	31 December 2005 (audited) £'000's
Current assets		
Deferred expenditure	198	–
Debtors	10	24
Cash and short-term deposits	10,304	10,839
Total current assets	10,512	10,863
Creditors: amounts falling due within one year	(205)	(115)
Net current assets	10,307	10,748
Total assets less current liabilities	10,307	10,748
Creditors: amounts falling due after one year	–	–
Provisions for liabilities and charges	–	–
Net assets	10,307	10,748
Capital and reserves		
Share capital	300	300
Share premium account	10,641	10,641
Profit and loss account	(634)	(193)
Total equity shareholders' funds	10,307	10,748

Approved by the Board on 28 September 2006

G Orbell

J A Heath

Directors

CASH FLOW STATEMENT

	Note	Six months to 30 June 2006 (unaudited) £'000's	27 January to 31 December 2005 (audited) £'000's
Net cash outflow from operating activities	4(a)	(757)	(336)
Returns on investment and servicing of finance			
Interest received		222	234
Taxation			
		–	–
Cash outflow before management of liquid resources and financing		(535)	(102)
Financing			
Issue of Ordinary Shares		–	11,115
Costs associated with raising capital		–	(174)
Net cash from financing		–	10,941
(Decrease)/increase in cash		(535)	10,839

NOTES TO THE ACCOUNTS

1. Basis of preparation

The interim statement does 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 2005. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies. Interim accounts were not prepared for the period from 27 January to 30 June 2005.

The interim financial information has been prepared on the basis of the accounting policies set out in the 2005 statutory accounts.

2. Dividends

No interim dividend is proposed (30 June 2005: £nil).

3. 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. Diluted earnings per Ordinary Share reflect the notional exercise of the weighted average number of dilutive Ordinary Share options outstanding during the period. Basic and diluted loss per share are calculated as follows:

	Loss after tax		Weighted average number of shares		Loss per share	
	Six months to 30 June 2006 (unaudited) £'000's	27 January to 31 December 2005 (audited) £'000's	Six months to 30 June 2006 (unaudited) Million	27 January to 31 December 2005 (audited) Million	Six months to 30 June 2006 (unaudited) Pence	27 January to 31 December 2005 (audited) Pence
Basic	(441)	(193)	165	165	(0.27)	(0.12)
Diluted	(441)	(193)	166	166	(0.27)	(0.12)

NOTES TO THE ACCOUNTS (continued)

4. Cash flow statement analysis

a) Reconciliation of operating loss to net cash flow from operating activities

	Six months to 30 June 2006 £'000's (unaudited)	27 January to 31 December 2005 £'000's (audited)
Operating loss	(607)	(361)
Foreign exchange loss	(122)	–
Decrease/(increase)	14	(24)
Increase in creditors	156	49
Increase in deferred expenditure	(198)	–
Net cash outflow from operating activities	(757)	(336)

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

	£'000's	£'000's
Opening net cash	10,839	–
(Decrease)/increase in cash in the period	(535)	10,839
Closing net cash	10,304	10,839

c) Analysis of Net Cash (unaudited)

	At 1 January 2006 £'000's	Cash Flow £'000's	At 30 June 2006 £'000's
Cash in hand and at bank	144	225	369
Short term deposits	10,695	(760)	9,935
Total net cash	10,839	(535)	10,304

NOTES TO THE ACCOUNTS (continued)

5. Post Balance Sheet Events

Acquisition and Share Placing

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 which, at the placing price, valued Mitra at £16.2 million.

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.

Further details of the acquisition and share placing may be seen in the Admission document on the company's website www.soundoil.co.uk

INDEPENDENT REVIEW REPORT TO SOUND OIL plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the Profit and Loss Account, Balance Sheet, Cash Flow Statement, Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds and the related notes 1 to 5. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company having regard to guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report as required by the AIM Rules issued by the London Stock Exchange.

Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

Ernst & Young LLP
1 More Place
London

28 September 2006

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DEALING INFORMATION

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