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If you sell or have sold or otherwise transferred all of your Existing Shares prior to the date on which the existing Ordinary Shares were marked ex-entitlement by the London Stock Exchange on 17 December 2015, please forward this document, and (in the case of Qualifying Non-CREST Shareholders) the Application Form (and reply-paid envelope for use within the UK only), as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward delivery to the purchaser or transferee. This document should not, however, be distributed, forwarded to or transmitted in or into any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including, but not limited to (subject to certain exceptions), the United States and any other Restricted Jurisdiction.

This document, which comprises: (a) a prospectus relating to the Open Offer Shares prepared in accordance with the Prospectus Rules; and (b) an admission document prepared in compliance with the AIM Rules, has been approved by the FCA in accordance with section 87A of the FSMA. This document has been filed with the FCA and has been made available to the public in accordance with paragraph 3.2.1 of the Prospectus Rules by the same being made available, free of charge, at the Company's registered office, details of which are set out in paragraph 15 of Part III of this document.

Gulfsands and the Directors, whose names appear on page 41 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of Gulfsands and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

The Existing Shares are admitted to trading on AIM. Application will be made for the Open Offer Shares to be admitted to trading on AIM. It is expected that admission to AIM will become effective and that dealings in the Open Offer Shares will commence on 7 January 2016. **AIM is a market designed primarily for emerging and smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UKLA. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consulting with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.**

Gulfsands Petroleum PLC

(Incorporated and registered in England and Wales with registered number 5302880)

Open Offer of 354,837,296 Open Offer Shares at 4.0 pence per Open Offer Share

Financial Adviser, Nominated Adviser and Broker **Cantor Fitzgerald Europe**

Cantor Fitzgerald, which is authorised and regulated in the UK by the FCA, is acting exclusively for Gulfsands as financial adviser, nominated adviser and broker and for no one else in relation to the Open Offer and will not be responsible to anyone other than Gulfsands for providing the protections afforded to clients of Cantor Fitzgerald or for giving advice in relation to the Open Offer, or any other matter referred to in this document.

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Investors should only rely on the information contained in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised by Gulfsands, the Directors or Cantor Fitzgerald. Apart from the responsibilities and liabilities, if any, which may be imposed on Cantor Fitzgerald under the FSMA or the regulatory regime established thereunder, Cantor Fitzgerald accepts no responsibility whatsoever nor makes any warranty, express or implied, in relation to the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Ordinary Shares or the Open Offer. Cantor Fitzgerald accordingly disclaims, to the fullest extent permitted by law, all and any liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this document or any such statement. In particular, the contents of the Company's website do not form part of this document and investors should not rely on them. Without prejudice to any legal or regulatory obligation on Gulfsands to publish a supplementary prospectus pursuant to section 87G of the FSMA and paragraph

3.4 of the Prospectus Rules, neither the delivery of this document nor Admission shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Group taken as a whole since the date of this document or that the information in it is correct as of any time after the date of this document. Gulfsands will comply with its obligation to publish a supplementary prospectus containing further information required by law or by any regulatory authority, but assumes no further obligation to publish additional information.

The Open Offer closes at 11.00 a.m. on 5 January 2016. If you are a Qualifying Shareholder and wish to apply for Open Offer Shares under the Open Offer you should follow the procedure set out in Part VIII of this document and, if you are a Qualifying Non-CREST Shareholder, complete and return the accompanying Application Form. Qualifying CREST Shareholders (who will not receive an Application Form) will receive instead a credit to their appropriate stock accounts in CREST in respect of their Open Offer Entitlements which will be enabled for settlement on 17 December 2015. If you do not wish to participate in the Open Offer then you should not return your Application Form or send a USE instruction through CREST. Applications under the Open Offer may only be made by the Qualifying Shareholders originally entitled thereto or by persons becoming so entitled, by virtue of a bona fide market claim arising out of the sale or transfer of Existing Shares prior to the date on which the Existing Shares are marked 'ex' the entitlement by the London Stock Exchange.

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

Persons into whose possession this document comes should inform themselves about and observe any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this document or the Open Offer. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction. The contents of this document should not be construed as legal, business or tax advice. This document has been prepared to comply with the requirements of English law, the AIM Rules and the Prospectus Rules and information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside England.

Notice to overseas Shareholders

These materials do not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Securities may not be offered or sold in the United States absent (i) registration under the Securities Act or (ii) an available exemption from registration under the Securities Act. The securities mentioned in this document have not been, and will not be, registered under the Securities Act and will not be offered to the public in the United States. Subject to certain exceptions, the securities mentioned in this document will not be offered or sold to investors in the United States or any other Restricted Jurisdiction.

The Ordinary Shares have not been recommended by any US federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

The Ordinary Shares have not been and will not be registered under the applicable securities laws of the United States or Australia. Subject to certain exceptions, the Ordinary Shares may not be offered or sold in any jurisdiction, or to or for the account or benefit of any national, resident or citizen in the United States or Australia.

This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to subscribe for or purchase, any securities other than the Open Offer Shares or any offer or invitation to sell or issue, or any solicitation of any offer to purchase, such Open Offer Shares by any person in any circumstances in which such offer or solicitation is unlawful.

The distribution of this document and the offer and sale of the Open Offer Shares in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company or Cantor Fitzgerald to permit a public offering of the Open Offer Shares under the applicable securities laws of any jurisdiction. Other than in the UK, no action has been taken or will be taken to permit the possession or distribution of this document (or any other offering or publicity materials relating to the Open Offer Shares) in any jurisdiction where action for that purpose may be required or where doing so is restricted by law. Accordingly, neither this document, nor any advertisement, nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction.

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PART I

SUMMARY

Summaries are made up of disclosure requirements known as 'Elements'. The Elements are numbered in Sections A–E (A.1–E.7).

This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some of the Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of the words 'not applicable'.

Section A – Introduction and warnings		
Element	Disclosure Requirement	Disclosure
A.1	Warning	<p>This summary should be read as an introduction to this document only.</p> <p>Any decision to invest in the Open Offer Shares should be based on consideration of this document as a whole by the investor.</p> <p>Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the member states of the EU, have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in such securities.</p>
A.2	Subsequent resale of securities or final placement of securities through financial intermediaries	Not applicable – Gulfsands has not given consent to the use of this document for the subsequent resale of securities or any final placement of securities through financial intermediaries.

Section B – Issuer		
Element	Disclosure Requirement	Disclosure
B.1	Legal and commercial name	Gulfsands Petroleum plc.
B.2	Domicile and legal form and legislation and country of incorporation	The Company was incorporated and registered in England and Wales on 2 December 2004 under the Companies Act 1985 as a public company limited by shares with the name Gulfsands Petroleum plc and with registered number 05302880. The Company is domiciled in England and Wales and its registered office is One America Square, Crosswall, London EC3N 2SG (telephone number: + 44 20 7024 2130). The principal legislation under which the Company operates is the Act and the regulations made thereunder.
B.3	Current operations and principal activities	Gulfsands is an independent oil and gas company engaged in the exploration, development and production of oil and gas resources in Morocco, Syria, Tunisia and Colombia. The Company's strategy is to maintain its interests in Syria, while seeking to reduce its financial exposure on its assets in Morocco, Tunisia and Colombia by way of a divestment or farm-out of these interests.

		<p>Moroccan Assets</p> <p>Gulfsands currently holds a 75 per cent. interest in, and is operator of, the Moulay Bouchta petroleum agreement in northern Morocco (ONHYM: 25 per cent.), for which the initial period expires in June 2016. The Company has identified best estimate prospective resources of 11.4MMboe in the Moulay Bouchta permit area (working interest basis).</p> <p>The Company has initiated a process of divestment or farm-down of its interest in the Moulay Bouchta petroleum agreement as a means of reducing its future financial commitments. If the Company is unable to farm-down or divest its working interest in the agreement, the Company is at risk of forfeiting its interest and US\$1.75 million of restricted cash held as a performance guarantee for completing the minimum work programme on the permit area.</p> <p>The Company also holds interests in three exploitation concessions in northern Morocco as follows:</p> <ul style="list-style-type: none"> ● Zhana 1, a 25 year concession that expires in June 2025 (GPX: 65 per cent., ONHYM: 35 per cent.); ● Zhana 2, a 15 year concession that expires in February 2018 (GPX: 75 per cent., ONHYM: 25 per cent.); and ● Sidi Amer 1, a 15 year concession that expires in July 2019 (GPX: 75 per cent., ONHYM: 25 per cent.). <p>There are four wells on these three concessions that penetrate depleted, or near depleted gas reservoirs. The Company has no plans to re-enter or produce from these wells.</p> <p>Syrian Assets</p> <p>Gulfsands is the operator of the Block 26 PSC in Syria, and holds a 50 per cent. working interest in the PSC along with Emerald Energy plc (50 per cent.), a company owned 100 per cent. by Sinochem Group of China. Block 26 covers an area of 5,414km² in north east Syria and the PSC grants rights to explore, develop and produce hydrocarbons from all depths outside the pre-existing fields within the area and from the deeper stratigraphic levels below the pre-existing discovered fields.</p> <p>The Company also holds a 50 per cent. interest in 25 year production licences for (i) Khurbet East (Massive and Kurrachine Dolomite reservoirs); (ii) Yousefieh; and (iii) Khurbet East (Butmah reservoir). The licences run from 2008, 2010 and 2011 respectively, and each licence has a possible extension, at the contractor's option, of ten years.</p> <p>The Company has discovered within the Massive, Butmah and Kurrachine reservoirs of Khurbet East field, and the Yousefieh field, 2C contingent resources of 71.5MMbbls of oil and condensate, and 33.4Bcf of gas (working interest basis) which were reclassified from 2P reserves as a result of the continuing EU Sanctions in Syria.</p> <p>The Company has also identified a discovery at Al Khairat which is estimated to contain 2C contingent resources of 12.0MMbbls of oil (working interest basis), however has not yet declared commerciality for the discovery.</p> <p>As a consequence of the EU's imposition of further sanctions in Syria which came into effect in early December 2011, in accordance with the terms of the PSC for Block 26, a Notice of Force Majeure was served on GPC, the principal counterparty to the PSC. The imposition of EU Sanctions has prohibited Gulfsands' involvement in petroleum production operations in Syria and restricted its activities in relation to Block 26 generally and unless and until these sanctions are lifted or otherwise modified so as to permit the Company's return to its prior involvement in those activities, the Company will be obliged to maintain its current position with respect to Block 26 PSC matters. Following the Company's service of its Notice of Force Majeure and various legal steps taken by GPC in Syria, GPC has assumed operational control and responsibility for the management of Dijila, the legal entity established to undertake the management and control of petroleum production operations and related</p>
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		<p>infrastructure on Block 26. It remains unclear as to when the Company can return to its previous role at Dijila and there are uncertainties as to whether GPC and the MPNR will facilitate the resumption of that role without modification to the status the Company previously enjoyed under the Block 26 PSC.</p> <p>The final exploration period of the PSC was set to expire in August 2012 when Force Majeure was declared in December 2011. The Company is optimistic that an extension in the exploration period can be negotiated with the Syrian authorities to at least replace that period of time which was lost when Force Majeure was declared. The Company has ensured that it remains compliant with all applicable sanctions in relation to Syria and intends to return to production and exploration activities as soon as permitted and conditions allow.</p> <p>Tunisian Assets</p> <p>Gulfsands currently holds a 100 per cent. interest in the Chorbane permit, located mainly onshore in central Tunisia. The permit is in close proximity to a number of producing oil fields and associated oil and gas infrastructure. The Company estimates the Chorbane permit may contain 44.2MMboe (best estimate) of prospective resources. The current first renewal period expired in July 2015. The Company has submitted an application to seek an extension or renewal of the permit. The Company received a formal response from the Tunisian Ministry of Industry and Technology in August 2015 which indicated that its Hydrocarbon Advisory Committee had issued a 'favourable opinion' toward the application, and that the formal extension would be gazetted or published in the Official Journal of the Tunisian Republic. As at the date of this document, the formal extension has not been gazetted and there remains a risk that the renewal is not granted in which case the Company would forfeit the Chorbane PSC. Simultaneously the Company has initiated a process of divestment or farm-down of its interests in the contract area prior to any significant financial commitment with respect to further exploration work. If the extension is not granted or the Company is unsuccessful in farming-down its working interest, the Company will cease its operations and leave Tunisia. There is no financial performance guarantee for the minimum work obligations under the Chorbane contract.</p> <p>Colombian Assets</p> <p>Gulfsands is the operator of two exploration contracts in Colombia as follows:</p> <ul style="list-style-type: none"> ● Llanos Block 50 (100 per cent. working interest and operator); and ● Putumayo Block 14 (100 per cent. working interest and operator). <p>Both blocks are in established oil producing basins and both are on trend with existing oil fields and new discoveries. The Company is actively pursuing a process of divestment or farm-down options for its interests in the contract areas prior to any significant financial commitment with respect to further exploration work. The Company has approximately US\$3.2 million of restricted cash associated with performance guarantees for completing the minimum work obligations for these two blocks.</p>
B.4a	<p>Significant recent trends affecting Gulfsands and the industries in which it operates</p>	<p>The Company is currently affected by two significant recent trends in its industry and the jurisdictions in which it operates:</p> <ul style="list-style-type: none"> ● <i>Oil and gas prices</i> – as an explorer, developer and producer of oil and gas, the Company is impacted by the prevailing market prices for oil and gas. The Brent crude oil price has experienced significant recent volatility and as at the date of this document it has fallen by 67.5 per cent. from its 2014 highs. This impacts on the Company's ability to realise revenues from its future operations, as well as creating general negative sentiment from investors and other providers of funding to the Company. ● <i>EU Sanctions in Syria</i> – in December 2011, the EU imposed further sanctions in Syria which has resulted in the suspension of the Company's involvement in production activities from its assets in Syria and the receipt of revenues from oil produced from that production. As a result of these sanctions the Company is unable to realise revenues from these assets, while incurring costs in safeguarding the assets for the future.

B.5	Description of the Group and the Company's position therein	<p>Gulfsands is the holding company of the Group. Set out below is a list of the principal (but not necessarily direct) subsidiaries of the Company. The Company holds a 100 per cent. interest in each of the following subsidiaries:</p> <p>Direct</p> <ul style="list-style-type: none">● Gulfsands Petroleum Ltd. (Cayman Islands); <p>Indirect</p> <ul style="list-style-type: none">● Gulfsands Petroleum Holdings Ltd (Cayman Islands);● Gulfsands Petroleum Levant Ltd (Cayman Islands);● Gulfsands Petroleum Iraq Ltd (Cayman Islands);● Gulfsands Petroleum Tunisia Ltd (Cayman Islands);● Gulfsands Petroleum Morocco Ltd (Cayman Islands);● Gulfsands Petroleum Morocco Ltd (Cyprus);● Gulfsands Petroleum (MENA) Ltd (Cayman Islands); and● Gulfsands Petroleum Sud America Ltd (Cayman Islands).																																																																													
B.6	Notifiable interests in the Existing Shares, different voting rights and controlling interests	<p>As at 14 December 2015 (being the latest practicable date prior to the publication of this document), the interests (all of which are beneficial unless otherwise stated) of the Directors, and senior managers (as well as their immediate families) in the share capital of the Company and the interests of persons connected (within the meaning of section 252 of the Act) with the relevant Director or senior manager, the existence of which was known to or could, with reasonable due diligence, be ascertained by the relevant Director or senior manager, are as follows:</p> <table><tr><th></th><th>Number of Ordinary Shares</th><th>Number of options over Ordinary Shares⁽¹⁾</th><th>% total Existing Shares⁽²⁾</th></tr><tr><td>Director/senior manager</td><td></td><td></td><td></td></tr><tr><td>Alastair Beardsall</td><td>0</td><td>0</td><td>0.0%</td></tr><tr><td>Andrew West</td><td>140,144</td><td>0</td><td>0.1%</td></tr><tr><td>Andrew Morris</td><td>80,000</td><td>0</td><td>0.1%</td></tr><tr><td>Joe Darby</td><td>25,000</td><td>0</td><td>0.0%</td></tr><tr><td>John Bell</td><td>0</td><td>0</td><td>0.0%</td></tr><tr><td>James Ede-Golightly</td><td>20,000</td><td>0</td><td>0.0%</td></tr><tr><td>Ian Conway</td><td>0</td><td>112,490</td><td>0.0%</td></tr><tr><td>Vicky Bartlett</td><td>0</td><td>0</td><td>0.0%</td></tr><tr><td>Total</td><td>265,144</td><td>112,490</td><td>0.2%</td></tr></table> <p>⁽¹⁾ Options over Ordinary Shares includes share options and restricted share options. ⁽²⁾ Calculation excludes options over Ordinary Shares.</p> <p>Save as disclosed below, the Company is not aware of any person who, directly or indirectly, was, as at 14 December 2015 (being the latest practicable date prior to the publication of this document) interested in three per cent. or more of the voting rights in respect of the issued ordinary share capital of the Company:</p> <table><tr><th></th><th>Number of Ordinary Shares</th><th>% total Existing Shares</th></tr><tr><td>Shareholder</td><td></td><td></td></tr><tr><td>Waterford</td><td>33,100,513</td><td>28.08%</td></tr><tr><td>Mr. Griffiths</td><td>11,780,717</td><td>9.99%</td></tr><tr><td>Mr. Abdul Rahman Kayed</td><td>11,500,000</td><td>9.76%</td></tr><tr><td>Schroder Investment Management</td><td>9,213,660</td><td>7.81%</td></tr><tr><td>Mr. Mahdi Sajjad</td><td>8,685,268</td><td>7.37%</td></tr><tr><td>Al Mashrek Global Invest</td><td>7,000,000</td><td>5.94%</td></tr><tr><td>Mr. Hugh Sloan</td><td>5,000,000</td><td>4.24%</td></tr><tr><td>SEP African Ventures Ltd.</td><td>4,866,842</td><td>4.13%</td></tr><tr><td>Total</td><td>91,147,000</td><td>77.32%</td></tr></table>		Number of Ordinary Shares	Number of options over Ordinary Shares ⁽¹⁾	% total Existing Shares ⁽²⁾	Director/senior manager				Alastair Beardsall	0	0	0.0%	Andrew West	140,144	0	0.1%	Andrew Morris	80,000	0	0.1%	Joe Darby	25,000	0	0.0%	John Bell	0	0	0.0%	James Ede-Golightly	20,000	0	0.0%	Ian Conway	0	112,490	0.0%	Vicky Bartlett	0	0	0.0%	Total	265,144	112,490	0.2%		Number of Ordinary Shares	% total Existing Shares	Shareholder			Waterford	33,100,513	28.08%	Mr. Griffiths	11,780,717	9.99%	Mr. Abdul Rahman Kayed	11,500,000	9.76%	Schroder Investment Management	9,213,660	7.81%	Mr. Mahdi Sajjad	8,685,268	7.37%	Al Mashrek Global Invest	7,000,000	5.94%	Mr. Hugh Sloan	5,000,000	4.24%	SEP African Ventures Ltd.	4,866,842	4.13%	Total	91,147,000	77.32%
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Total	91,147,000	77.32%																																																																													

		<p>The Shareholders detailed in the above table do not have different voting rights from those of other Shareholders.</p> <p>The Panel has deemed that Waterford and Mr. Griffiths are acting in concert. While neither Waterford nor Mr. Griffiths holds a controlling interest in the Company, together their shareholding represents 38.07 per cent. of the Company's issued share capital. The Panel has deemed that Mr. Alastair Beardsall is acting in concert with Waterford. The Company has entered into the Waterford Relationship Deed with Waterford to ensure that such control is not abused. Furthermore the Panel has deemed that Mr. James Ede-Golightly is acting in concert with Mr. Griffiths.</p> <p>The level of take-up of Shareholders under the Open Offer will impact the final shareholding of Waterford and Mr. Griffiths on the basis that any Open Offer Shares not subscribed for by existing Shareholders, will be subscribed for by Waterford and Mr. Griffiths under the terms of the Underwriting agreement. If no other Shareholders subscribe for their entitlement of Open Offer Shares, Waterford and Mr. Griffiths will together hold an interest of approximately 85 per cent. of the Enlarged Share Capital.</p> <p>As at 14 December 2015 (being the latest practicable date prior to the publication of this document), the Company was not aware (i) of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control or ownership over the Company, nor (ii) of any arrangements, apart from as disclosed above, the operation of which may at a subsequent date result in a change of control of the Company.</p>																																																																																										
B.7	Selected historical financial information and significant change	<p>The selected historical financial information set out below has been extracted without material adjustment from the audited annual report and accounts of the Group for the years ended 31 December 2012, 31 December 2013 and 31 December 2014 and from the reviewed half-yearly financial report for the six months ended 30 June 2015.</p> <table><tr><th></th><th>6 months ended 30 June 2015⁽¹⁾ US\$'000</th><th>Year ended 31 December 2014^(2,3) US\$'000</th><th>2013⁽²⁾ US\$'000</th><th>2012^(2,4,5) US\$'000</th></tr><tr><td>From continuing operations^(3,5)</td><td></td><td></td><td></td><td></td></tr><tr><td>Profit and loss</td><td></td><td></td><td></td><td></td></tr><tr><td>Revenue</td><td>–</td><td>–</td><td>4,367</td><td>5,622</td></tr><tr><td>Gross profit/(loss)</td><td>–</td><td>–</td><td>182</td><td>(1,320)</td></tr><tr><td>Operating loss</td><td>(30,569)</td><td>(11,767)</td><td>(26,331)</td><td>(26,811)</td></tr><tr><td>Loss before tax</td><td>(31,314)</td><td>(12,113)</td><td>(26,757)</td><td>(27,030)</td></tr><tr><td>Earnings/(loss) per Existing Share (basic and diluted) (US cents)</td><td>(26.52)</td><td>(10.28)</td><td>(22.70)</td><td>(22.94)</td></tr><tr><td>Balance sheet</td><td></td><td></td><td></td><td></td></tr><tr><td>Cash</td><td>1,509</td><td>7,907</td><td>33,824</td><td>90,982</td></tr><tr><td>Investments</td><td>102,000</td><td>102,000</td><td>102,000</td><td>102,000</td></tr><tr><td>Total assets</td><td>149,850</td><td>178,447</td><td>211,202</td><td>232,363</td></tr><tr><td>Total liabilities</td><td>20,640</td><td>17,892</td><td>34,551</td><td>29,440</td></tr><tr><td>Net assets</td><td>129,210</td><td>160,555</td><td>176,651</td><td>202,923</td></tr><tr><td>Cash flow statement</td><td></td><td></td><td></td><td></td></tr><tr><td>Net cash used in operating activities</td><td>(3,919)</td><td>(3,799)</td><td>(7,887)</td><td>(14,178)</td></tr><tr><td>Net cash used in investing activities</td><td>(7,448)</td><td>(23,997)</td><td>(49,240)</td><td>(19,095)</td></tr><tr><td>Net cash provided by/(used in) financing activities</td><td>4,969</td><td>4,724</td><td>(31)</td><td>15</td></tr></table> <p>⁽¹⁾ Reviewed financial statements prepared under IFRS.</p> <p>⁽²⁾ Audited financial statements prepared under IFRS.</p> <p>⁽³⁾ The Group disposed of its US assets during 2014 and the results of those operations were disclosed as discontinued, and therefore not included in the summary table</p>		6 months ended 30 June 2015 ⁽¹⁾ US\$'000	Year ended 31 December 2014 ^(2,3) US\$'000	2013 ⁽²⁾ US\$'000	2012 ^(2,4,5) US\$'000	From continuing operations^(3,5)					Profit and loss					Revenue	–	–	4,367	5,622	Gross profit/(loss)	–	–	182	(1,320)	Operating loss	(30,569)	(11,767)	(26,331)	(26,811)	Loss before tax	(31,314)	(12,113)	(26,757)	(27,030)	Earnings/(loss) per Existing Share (basic and diluted) (US cents)	(26.52)	(10.28)	(22.70)	(22.94)	Balance sheet					Cash	1,509	7,907	33,824	90,982	Investments	102,000	102,000	102,000	102,000	Total assets	149,850	178,447	211,202	232,363	Total liabilities	20,640	17,892	34,551	29,440	Net assets	129,210	160,555	176,651	202,923	Cash flow statement					Net cash used in operating activities	(3,919)	(3,799)	(7,887)	(14,178)	Net cash used in investing activities	(7,448)	(23,997)	(49,240)	(19,095)	Net cash provided by/(used in) financing activities	4,969	4,724	(31)	15
	6 months ended 30 June 2015 ⁽¹⁾ US\$'000	Year ended 31 December 2014 ^(2,3) US\$'000	2013 ⁽²⁾ US\$'000	2012 ^(2,4,5) US\$'000																																																																																								
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		<p>above. In the 2014 audited financial statements the 2013 comparatives were re-presented to show the results of the US operations as discontinued, in accordance with the requirements of IFRS 5.</p> <p>(4) Other finance expenses previously included in general administrative expenses, and foreign exchange gains/(losses) totalling US\$0.1 million have been re-presented in the summary table above for the year ended 31 December 2012 as financing costs, so are not included within operating losses. This is to enable consistent presentation with the results of the subsequent periods. This is an unaudited adjustment.</p> <p>(5) During the year ended 31 December 2012, suspended Syrian operations consumed US\$1.1 million of cash in operating activities and paid US\$1.1 million for investing activities. The cash was provided by entities within the Group and was used to settle obligations incurred prior to the suspension of activities and in full compliance with all applicable sanctions. These cash flows were not presented separately in the consolidated cash flow statement but were instead disclosed in the notes to the consolidated financial statements, as allowed under IFRS 5. The cash flows presented above are as presented in the cash flow statement in the annual report and accounts so include this US\$2.2 million cash outflow resulting from discontinued operations.</p> <p>Set out below are details of significant changes in the financial condition, operating results and trading position of the Group during the three years ended 31 December 2012, 31 December 2013 and 31 December 2014, for the six months ended 30 June 2015 and for the period since 30 June 2015.</p> <p>Year ended 31 December 2012</p> <p>Key operational changes during the period included:</p> <ul style="list-style-type: none"> ● Imposition of EU Sanctions in Syria at the end of 2011 resulting in the Company declaring Force Majeure status for the Block 26 PSC; the Company received no revenue from production under the Block 26 PSC; ● Execution of an agreement to acquire Cabre Maroc Limited with working interests onshore Morocco, which remained subject to completion at 31 December 2012; and ● Award of two exploration and production contracts onshore Colombia. <p>The Group reported a net loss after tax from continuing operations for the year ended 31 December 2012 of US\$27.0 million (2011: loss US\$52.4 million).</p> <p>Due to the suspension of Syrian production activities at the end of 2011, cash consumed by operations was US\$14.2 million (2011: US\$94.3 million cash generated). The Group placed US\$5.0 million in escrow to guarantee bonds related to the acquisition of Cabre Maroc Limited and spent US\$7.8 million on exploration and evaluation activities. The total net decrease in cash during the period was US\$33.3 million (2011: US\$43.6 million increase).</p> <p>At 31 December 2012 the Group had cash balances of US\$91.0 million (2011: US\$124.2 million) and long-term financial assets of US\$7.8 million (2011: US\$4.0 million).</p> <p>The audit report at 31 December 2012 also contained an emphasis of matter statement relating to the fair value of the Group's producing operations in Syria.</p> <p>As at 1 January 2013 the Group had working interest 2P reserves of 75.9MMboe and 2C unrisked contingent resources of 31.5MMboe.</p> <p>Year ended 31 December 2013</p> <p>Key operational changes during the period included:</p> <ul style="list-style-type: none"> ● Completion of the acquisition of Cabre Maroc Limited with working interests onshore Morocco, and commencement of an exploration programme in Morocco; ● Completion of farm-out arrangements with Luna Energy for interests in both of the Group's blocks in Colombia; ● Restructuring of interests in Tunisia, including the withdrawal from the Kerkouane PSC and assuming operatorship of the Chorbane PSC; and ● Restructuring of senior management and staffing resulting in reduced general and administrative expenses.
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	<p>The Group reported a loss before tax for the year of US\$26.8 million (2012: loss US\$27.0 million).</p> <p>The total decrease in cash and cash equivalents during the year was US\$57.2 million (2012: US\$33.3 million). Net cash used in investing activities increased to US\$49.2 million (2012: US\$19.1 million) mainly reflecting the US\$17.1 million paid in respect of the Cabre Maroc Limited acquisition and US\$17.3 million of exploration and evaluation expenditure.</p> <p>In line with the acquisition of Cabre Maroc Limited and subsequent exploration work, capital expenditures on exploration and evaluation assets increased substantially in the year and totalled US\$46.1 million (2012: US\$5.0 million) on an accrued basis including US\$19.3 million of fair value attributed to the Group's Moroccan interests at acquisition.</p> <p>The Group had total cash and cash equivalents at 31 December 2013 of US\$33.8 million (2012: US\$91.0 million) and restricted cash balances of US\$19.1 million (2012: US\$7.8 million).</p> <p>The audit report at 31 December 2013 also contained two emphasis of matter statements relating to the fair value of the Group's producing operations in Syria and the reporting on a going concern basis.</p> <p>As at 1 January 2014 the Group had working interest 2P reserves of 75.8MMboe, 2C unrisked contingent resources of 12.3MMboe and best estimate unrisked prospective resources of 525.7MMboe.</p> <p>Year ended 31 December 2014</p> <p>Key operational changes during the period included:</p> <ul style="list-style-type: none"> ● Disposal of US business for a nominal sum; ● A new petroleum agreement was awarded in Morocco; ● The Group consolidated its interest in the Chorbane PSC for a cash payment of US\$1.75 million; and ● The Group entered into a Strategic Cooperation Agreement and a US\$20.0 million Convertible Loan Facility with Arawak International and Arawak respectively. The Group drew-down US\$5.0 million under the Convertible Loan Facility. <p>The Group reported a reduced loss for the year of US\$16.1 million (2013: loss US\$26.8 million). The Group also sold its investment in its wholly-owned US subsidiary, Gulfsands Petroleum USA, Inc., to Hillcrest Resources Ltd for a consideration of US\$50,000. Losses from discontinued operations in the year were US\$4.0 million (2013: loss US\$1.4 million).</p> <p>The Group drew-down the first US\$5.0 million tranche of the Convertible Loan Facility in November 2014. As at 31 December 2014, the Group had total unrestricted cash and cash equivalents of US\$7.9 million (2013: US\$33.8 million) and restricted cash balances of US\$11.5 million.</p> <p>The audit report at 31 December 2014 also contained two emphasis of matter statements relating to the fair value of the Group's producing operations in Syria and the reporting on a going concern basis.</p> <p>As at 1 January 2015 the Group had working interest 2P reserves of 73.5MMboe, 2C unrisked contingent resources of 12.3MMboe and best estimate unrisked prospective resources of 525.7MMboe.</p> <p>6 months ended 30 June 2015</p> <p>Key operational changes during the period included:</p> <ul style="list-style-type: none"> ● Draw-down of a further US\$5.0 million under the Convertible Loan Facility; ● Termination of the strategic cooperation agreement with Arawak International and advice from Arawak that the US\$10.0 million drawn under the Convertible Loan Facility was to be repaid with fees and interest of US\$1.0 million;
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		<ul style="list-style-type: none"> ● In June 2015 the Convertible Loan Facility was acquired by Waterford and Mr. Griffiths; ● At 30 June 2015, the Company recorded an impairment of US\$22.1 million in relation to the Fes permit in Morocco which subsequently lapsed on 24 September 2015; and ● Further initiatives were implemented to restructure the business and reduce the size and cost of managing the organisation. <p>The Group reported a loss before tax for continuing operations for the half-year ended 30 June 2015 of US\$31.3 million (H1 2014: loss US\$7.2 million from continuing operations). The loss was primarily attributable to the full impairment of the Moroccan Fes permit amounting to US\$22.1 million.</p> <p>The total decrease in cash and cash equivalents during the period was US\$6.4 million (H1 2014: US\$25.4 million). Cash received from financing activities totalled US\$5.0 million, due to the draw-down of the second tranche of the Convertible Loan Facility.</p> <p>The independent review report at 30 June 2015 also contained two emphasis of matter statements relating to the fair value of the Group's producing operations in Syria and the reporting on a going concern basis.</p> <p>As at 30 June 2015 the Group had working interest 2P reserves of 73.5MMboe, 2C unrisked contingent resources of 13.5MMboe and best estimate unrisked prospective resources of 70.7MMboe.</p> <p>Period since 1 July 2015</p> <p>Since 1 July 2015 the Group has drawn-down a further US\$3.0 million under the Convertible Loan Facility. The Company has also embarked upon a financing process to raise US\$22.0 million of which approximately US\$14.2 million will be used to repay the Convertible Loan Facility in full.</p> <p>On 24 September 2015 the Fes petroleum agreement expired and ONHYM called the US\$5.0 million bank guarantee for the non-fulfilment of the outstanding minimum work obligations of 350km 2D seismic, 100km² 3D seismic and drilling of three exploration wells.</p> <p>On 9 November 2015, the extension period of the Rharb Petroleum Agreement expired and the Company submitted a request to further extend the Rharb Petroleum Agreement for a period of two years to allow the Company to appraise the gas discoveries made in 2014/15.</p> <p>On 30 November 2015, the Company received a response from ONHYM, dated 26 November 2015, advising that its request for an extension to the Rharb Petroleum Agreement had been rejected and furthermore that:</p> <ul style="list-style-type: none"> ● Gulfsands Morocco will forfeit its US\$1.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Rharb Petroleum Agreement; ● ONHYM is seeking a penalty equal to the estimated cost of the minimum exploration work programme of the Rharb Petroleum Agreement less the costs actually incurred in respect of exploration work required, whereby ONHYM is claiming a sum of US\$7.5 million; ● ONHYM advised they will also, by separate request, seek the outstanding amount under the training obligation of the Rharb Petroleum Agreement; and ● ONHYM was seeking an update on the Company's progress in relation to the abandonment of the legacy producing wells and the cleaning and restoring of the well sites in the Rharb Centre permit area. <p>The Company strongly refutes the claims for financial sums and penalties and is seeking legal advice on the matter.</p> <p>As at the date of this document, the Company had US\$0.6 million in unrestricted cash and cash equivalents, with an amount of US\$14.1 million outstanding under the Convertible Loan Facility, including rolled up accrued interest and commitment fees.</p>
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		<p>Notwithstanding that the hydrocarbons discovered on the Block 26 PSC in Syria have been evaluated as reserves for several years leading up to, and after, the imposition of EU Sanctions in Syria, and that commercial production from the Block 26 area has exceeded 21MMbbls, for the purposes of this document the volumes of oil previously reported as 2P reserves have been reclassified by the Company as 2C contingent resources on the basis that the Company cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. This has resulted in total 2C contingent resources in Syria of 89.1MMboe as at the date of this document. This estimation of, and reclassification as, contingent resources has been prepared by the Company and reviewed by Senergy, an independent reserve/resource engineer who has completed several annual independent audits of the Company's reserves and resources. Senergy has confirmed that, based upon its review of the resource calculations and the various assumptions adopted by the Company, the estimate of contingent resources reclassified from 2P reserves is reasonable.</p> <p>Whilst no definite timeline can be substantiated, the Board continues to believe that the EU Sanctions will be lifted within five years and will continue to monitor all activity focused on resolving the situation in Syria and reconsider the basis for reversing this reclassification in line with any future developments.</p> <p>The fair value of the Group's net investment in Syrian interests will be reviewed at year end for the preparation of the 2015 annual report and accounts. This review will consider the reclassification of the Syrian reserves to 2C contingent resources.</p> <p>At the date of this document the Group had working interest 2C unrisks contingent resources of 90.7MMboe and best estimate unrisks prospective resources of 70.7MMboe.</p>
B.8	Selected unaudited key pro forma financial information	Not applicable – there is no pro forma financial information contained in this document.
B.9	Profit forecast or estimate	Not applicable – there are no outstanding profit forecasts or estimates. No profit forecast or estimate is included in this document.
B.10	Qualifications in the audit report on the historical financial information	<p>Not applicable – there are no qualifications in any audit report on the historical financial information relating to the Company included in this document. However as at 31 December 2012, 2013 and 2014 and 30 June 2015, the auditors provided the following emphasis of matter statement:</p> <p><i>Emphasis of matter – Fair value of the Group's producing operations in Syria</i></p> <p>With reference to the financial statements for the years ended 31 December 2012, 2013 and 2014 and the 6 months ending 30 June 2015, the auditors drew attention to the disclosures made in the financial statements concerning the valuation of the Group's suspended producing operations in Syria, which are recorded at the Directors' best estimate of their fair value following the loss of joint control in December 2011. There is significant uncertainty as to the duration of the EU Sanctions imposed in December 2011 and the eventual outcome of events in Syria. The potential impact any outcome will have on the recoverable amount from the producing operations in Syria (current value of US\$102.0 million) is not known.</p> <p>In addition, at 31 December 2013 and 2014, and 30 June 2015 the auditors provided the following emphasis of matter statement:</p> <p><i>Emphasis of matter – Going concern</i></p> <p>With reference to the financial statements for the years ended 31 December 2013 and 2014, and the 6 months ending 30 June 2015, the auditors considered the adequacy of the disclosures made by the Directors in the consolidated financial statements and within the Financial Review of the Strategic Report concerning the Group and the Company's ability to continue as a going concern. They identified that the Group requires additional funding</p>

		<p>and careful management of its commitments in order to meet both capital and administrative obligations and liabilities as they fall due. The Directors believe, based upon discussions with major shareholders that the Group will be able to secure the necessary funds within the required timescale, but there are currently no binding agreements in place.</p> <p>These conditions, along with the other matters explained in the going concern note in the respective financial statements indicated the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The respective financial statements did not include the adjustments that would result if the Group was unable to continue as a going concern, which would principally relate to the impairment of the Group's non-current assets as licence commitments would not be met and licences may then be revoked with restricted cash balances not recovered.</p>
B.11	Working capital	<p>In the opinion of the Company, taking into account existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company, the Group does not have sufficient working capital for its present requirements, that is, for at least twelve months following the date of this document.</p> <p>The Board is of the opinion that, excluding the potential liability in relation to the Rharr Petroleum Agreement, its existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company should give it sufficient working capital for its present requirements, being its operational requirements (and any anticipated legal expenses associated with litigation), to January 2017. As the Company has no immediate sources of revenue, it will require further working capital in January 2017.</p> <p>However, as a result of the rejection of the Company's application for an extension of the Rharr Petroleum Agreement by ONHYM, and the claims for penalty fees amounting to US\$7.5 million in respect of the unfulfilled minimum exploration work programme and a further amount of approximately US\$117,000 relating to the training obligations under the agreement, the Board is unable to give a clean working capital statement. While the Board strongly refutes the claims by ONHYM and is seeking legal advice on the matter, there is the potential that such penalties become due and payable within the period that is twelve months from the date of this document. In the event that these penalties become due and payable within the period that is twelve months from the date of this document, the timing of which at the date of this document is uncertain; the Company will likely be required to raise further working capital immediately thereafter.</p> <p>In order to address its working capital requirements, either during the twelve months from the date of this document as a result of the claims by ONHYM becoming due and payable or in January 2017 when in any event, the Company will require further working capital; the Board will consider all financing options available to it. These options include the sale of its oil and gas assets in Morocco, Tunisia or Colombia and the recovery of its associated restricted cash and/or a further issue of equity which would likely rely upon the support of its Shareholders. The Board is of the view that given the current conditions in the oil and gas exploration and production market as a result of the recent decline in oil prices, the probability of achieving significant proceeds from the sale or farm-out of its assets is low. However, the Board is confident that in the absence of sufficient proceeds generated from the sale or farm-out of its assets, its Shareholders would be supportive of a further equity fundraising for its working capital requirements.</p> <p>In the event that the Company is unable to raise further working capital for its requirements, including any penalty payable in relation to the Rharr Petroleum Agreement, either during the twelve months from the date of this document or in January 2017, it may no longer be able to operate as a going concern, in which case the Board will place the Company into an insolvency process.</p>

Section C – Securities		
<i>Element</i>	<i>Disclosure Requirement</i>	<i>Disclosure</i>
C.1	Type and the class of securities being admitted to trading, including the security identification number	<p>Subject to the Open Offer becoming unconditional, 354,837,296 Open Offer Shares will be admitted to trading on AIM, comprising the issue of 350,733,941 new Ordinary Shares and the sale of 4,103,355 Treasury Shares, pursuant to the Open Offer.</p> <p>When admitted to trading on AIM, which is expected to take place on 7 January 2016, the Open Offer Shares will be registered with ISIN GB00B06VGC01.</p>
C.2	Currency	The Ordinary Shares are denominated in sterling.
C.3	Shares issued and fully paid and issued but not fully paid	<p>As at 14 December 2015 (being the latest practicable date prior to the date of this document), there were 117,886,145 Existing Shares in issue and 4,103,355 Treasury Shares in issue (all of which were fully paid).</p> <p>As at 14 December 2015, (being the latest practicable date prior to the date of this document), the Ordinary Shares in issue have a nominal value of 1.0 pence each.</p>
C.4	Rights attached to the securities	The Ordinary Shares rank equally for voting purposes. On a show of hands, each Shareholder has one vote and on a poll each Shareholder has one vote for every Ordinary Share held. Each Ordinary Share ranks equally for any dividend declared or any distributions made on a winding up of the Company. Each Ordinary Share ranks equally in the right to receive a relative proportion of shares in the case of a capitalisation of reserves.
C.5	Restrictions on the free transferability of the securities	The Ordinary Shares are freely transferable and there are no restrictions on transfer in the UK.
C.6	Application for admission to trading on a regulated market	<p>Application will not be made for the Open Offer Shares to be admitted to trading on a regulated market. However, application will be made for the Open Offer Shares to be admitted to trading on AIM. The AIM market for listed securities is recognised as a multi-lateral trading facility.</p> <p>It is expected that Admission of the Open Offer Shares on AIM will become effective, and that dealings for normal settlement in the Open Offer Shares will commence on AIM at or shortly after 8.00 a.m. (London time) on 7 January 2016.</p>
C.7	Description of dividend policy	The declaration and payment by the Group of any future dividends on the Ordinary Shares and the amount of any such future dividends will depend on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time. However, the Directors do not envisage that the Company will pay dividends in the foreseeable future and intend to re-invest surplus funds in the development of the business.

Section D – Risks		
<i>Element</i>	<i>Disclosure Requirement</i>	<i>Disclosure</i>
D.1	Key information on the key risks that are specific to the issuer or its industry	<p><i>The Company has no revenues and is currently loss making</i></p> <p>With the Company's Syrian operations currently under Force Majeure, the Company has no production assets to cover the cost of its exploration activities, nor its ongoing general and administrative costs. Therefore, the Company continues to be loss making as a result of its current net cash outflows from current operations. There can be no certainty that the Company will achieve or sustain significant revenues, profits or positive cash flow from its future operational activities. Continued loss making could impair the Company's ability to sustain operations or secure any required funding.</p> <p><i>Failure to complete the Open Offer could compromise the Company's ability to continue as a going concern</i></p> <p>If the Company fails to complete the Open Offer and does not receive the net proceeds of the Capital Raising, the Company will not have sufficient</p>

		<p>working capital to continue its operations as a going concern and there is a possibility that the Directors may be required to consider placing the Company into an insolvency process. Furthermore, after 31 January 2016 the holders of the Convertible Loan Facility may issue a demand for repayment, and if the outstanding balance is not repaid the holders of the Convertible Loan Facility may exercise their security over some of the assets of the Company, namely the interests in Block 26, Syria, and the interests in the Moulay Bouchta petroleum agreement in Morocco.</p> <p>Notwithstanding this, in the opinion of the Company, following completion of the Open Offer and taking into account existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company, the Group does not have sufficient working capital for its present requirements, that is, for at least twelve months following the date of this document.</p> <p><i>Qualified working capital statement</i></p> <p>As a result of the rejection of the Company's application for an extension of the Rharb Petroleum Agreement by ONHYM, and the claims for penalty fees under the agreement, the Board has stated that the Group does not have sufficient working capital for its present requirements, being the period that is twelve months from the date of this document. While the Board strongly refutes the claims by ONHYM and is seeking legal advice on the matter, there is a risk that such penalties could become due and payable within this period and the Company will be required to raise further working capital which could impact its ability to continue as a going concern.</p> <p><i>Geopolitical instabilities in operational areas</i></p> <p>The Company operates in areas in which it may suffer the effects of political instability and civil disturbances disrupting its operations. Currently the Company's interests in Syria are under Force Majeure consequent to EU Sanctions being imposed. Such instabilities can seriously impact upon the ability of the Company to carry out its operations leading to loss of time and value. In Syria the value of the Company's interests continues to be at risk from the continuing sanctions, the loss of ability to develop the portfolio of interests, the loss of physical control over its assets and civil conflict.</p> <p>Furthermore, when EU Sanctions are lifted and the Company resumes operations in Syria there is no certainty that the incumbent government will continue to recognise the Company's working interest in Block 26.</p> <p><i>Failure to meet work commitments</i></p> <p>The terms for the Company's portfolio of exploration interests (licences), include minimum work obligations agreed with the relevant state regulator. Additional work programmes will ordinarily be required to fully evaluate the exploration potential. This work will require significant investment. The non-satisfaction of work obligations under each licence could put the Company's interests, including restricted cash balances, at risk. The Company strategy is to seek finance for the work obligations under each licence via a farm-out of part of its working interest; alternatively the Company will consider divestment of its entire working interest. In the event that the Company cannot secure a farm-in partner, or divest the interests on favourable terms, the Company may lose its interest in the particular asset and any restricted cash that has been placed as a guarantee with the respective host government.</p> <p>On 9 November 2015, the extension period of the Rharb Petroleum Agreement expired and the Company submitted a request to further extend the Rharb Petroleum Agreement for a period of two years to allow the Company to appraise the gas discoveries made in 2014/15.</p> <p>On 30 November 2015, the Company received a response from ONHYM, dated 26 November 2015, advising that its request for an extension to the Rharb Petroleum Agreement had been rejected and furthermore that:</p> <ul style="list-style-type: none"> ● Gulfsands Morocco will forfeit its US\$1.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Rharb Petroleum Agreement;
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		<ul style="list-style-type: none"> ● ONHYM is seeking a penalty equal to the estimated cost of the minimum exploration work programme of the Rharrb Petroleum Agreement less the costs actually incurred in respect of exploration work required, whereby ONHYM is claiming a sum of US\$7.5 million; ● ONHYM advised they will also, by separate request, seek the outstanding amount under the training obligation of the Rharrb Petroleum Agreement; and ● ONHYM was seeking an update on the Company's progress in relation to the abandonment of the legacy producing wells and the cleaning and restoring of the well sites in the Rharrb Centre permit area. <p>The Company strongly refutes the claims for financial sums and penalties and is seeking legal advice on the matter. However, there is a risk that the Company could become liable for such financial sums and penalties.</p> <p>Under some of the Company's other exploration licences there is a notional monetary value ascribed to the minimum work programme. In the event that the licence expires with elements of the work programme unfulfilled, the relevant authorities may have the right for monetary damages equivalent to either (a) the value of the outstanding work obligations or (b) the difference between the notional value of the minimum work programme and the actual costs incurred in the fulfilment of that part of the work programme that has been completed.</p> <p><i>Waterford and Mr. Griffiths will own a significant percentage of Ordinary Shares</i></p> <p>On a combined basis, dependent upon the take-up of other Qualifying Shareholders, Waterford, Mr. Griffiths and persons acting in concert with them will together own a minimum of 38.09 per cent. and a maximum of 84.41 per cent. of the Enlarged Share Capital. This significant concentration of share ownership may adversely affect the market value of the Ordinary Shares because investors may believe that there are disadvantages in owning shares in companies with controlling shareholders. By virtue of their shareholdings, Waterford, Mr. Griffiths and parties acting in concert with them may be able to determine the outcome of matters requiring Shareholder approval, including appointments to the Board of Directors and significant corporate transactions. In addition, the interests of Waterford and Mr. Griffiths may be different from, and conflict with, the interests of the Company or the Company's other Shareholders. This control may also have the effect of delaying or preventing an acquisition or other change of control of the Company.</p>
D.3	Key information on the key risks that are specific to the securities	<p><i>Realising an investment on AIM</i></p> <p>It may be more difficult for an investor to realise his or her investment in the Company than to realise an investment in a company whose shares or other securities are listed on the Official List or other similar stock exchange. Shares held on AIM are perceived to involve higher risks.</p> <p><i>Market price of Ordinary Shares</i></p> <p>The price at which Ordinary Shares are traded and the price at which investors may realise their investment are influenced by a large number of factors, some specific to the Company and its operations and some which may affect growth companies or quoted companies generally. Admission to AIM does not imply that there will be a liquid market for Ordinary Shares. Consequently, the price of Ordinary Shares may be subject to fluctuation on small volumes of shares, and Ordinary Shares may be difficult to sell at a particular price.</p> <p><i>Payment of dividends</i></p> <p>There can be no assurance as to the level of future dividends. The declaration, payment and amount of any future dividends of the Company are subject to the discretion of the Directors and will depend on, among other things, the Company's results of operations and financial condition, its future business prospects, any applicable legal or contractual restrictions and availability of profits. A dividend may never be paid and, at present, there is no intention to pay a dividend.</p>

		<p>Dilution</p> <p>To the extent that Qualifying Shareholders do not take up their entitlement of Open Offer Shares, their proportionate ownership and voting interest in the Company will be reduced by the Underwriting. If any Shareholder does not take up their rights under the Open Offer their individual holding will be diluted by 75.06 per cent.</p>
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Section E – Offer																
Element	Disclosure Requirement	Disclosure														
E.1	Net proceeds and expenses	The gross proceeds of the Capital Raising will be approximately £14.2 million (US\$21.4 million). The net proceeds of the Capital Raising will be approximately £13.9 million (US\$21.0 million), after estimated expenses of approximately £0.3 million (US\$0.4 million).														
E.2a	Reasons for the offer and use of proceeds	<div><div>The proceeds of the Capital Raising of approximately £14.2 million (US\$21.4 million) will be used as follows:</div><table><tr><td>Sources and use of funds</td><td>US\$M</td></tr><tr><td>Open Offer gross proceeds</td><td>21.4</td></tr><tr><td>Open Offer costs</td><td>0.4</td></tr><tr><td>Total net proceeds</td><td>21.0</td></tr><tr><td>Repayment of Convertible Loan Facility</td><td>14.2</td></tr><tr><td>Working capital</td><td>6.8</td></tr><tr><td>Total use of funds</td><td>21.4</td></tr></table><div>Without the net proceeds of the Open Offer, the Company would have a limited period of time in which to take remedial measures available to it to address its cash flow requirements. The outcome of some of these measures lies outside the full control of the Company and, as a result, the Directors cannot be certain that they will be successful.</div><div>Should the Open Offer not proceed and alternative immediate funding not be obtained in the limited time available to the Company, it would have a material adverse impact on the Company’s business prospects and financial condition and the Directors would need to consider the options available to them, including whether it is appropriate for the Company to cease trading and enter into an insolvency process.</div></div>	Sources and use of funds	US\$M	Open Offer gross proceeds	21.4	Open Offer costs	0.4	Total net proceeds	21.0	Repayment of Convertible Loan Facility	14.2	Working capital	6.8	Total use of funds	21.4
Sources and use of funds	US\$M															
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Open Offer costs	0.4															
Total net proceeds	21.0															
Repayment of Convertible Loan Facility	14.2															
Working capital	6.8															
Total use of funds	21.4															
E.3	Terms and conditions of the offer	<div>Subject to the Open Offer becoming unconditional, 354,837,296 Open Offer Shares, comprising 350,733,941 new Ordinary Shares and 4,103,355 Treasury Shares, will be issued and sold by the Company pursuant to the Open Offer.</div> <div>The Open Offer</div> <div>The Open Offer will be made on a pre-emptive basis to holders of Existing Shares on the register of members of the Company at the Record Date (with the exclusion (subject to certain exemptions) of Overseas Shareholders) at the Open Offer Price of 4.0 pence on the basis of:</div> <div>3.01 Open Offer Shares for every 1 Existing Share</div> <div>Fractional entitlements under the Open Offer will be rounded down to the nearest whole number and any fractional entitlements will be aggregated and subscribed for in the Underwriting.</div> <div>Underwriting</div> <div>Waterford and Mr. Griffiths have each irrevocably undertaken to subscribe for their full entitlements under the Open Offer, amounting in aggregate to 135,092,502 Open Offer Shares (£5,403,700.08).</div> <div>Further, Waterford and Mr. Griffiths have undertaken to underwrite the remaining Open Offer Shares whereby they will acquire any of these shares</div>														

		<p>that are not subscribed for by shareholders under the Open Offer. As a result, Waterford and Mr. Griffiths have each separately agreed to Underwrite up to a maximum of 109,872,397 Open Offer Shares for a combined total of 219,744,794 Open Offer Shares (£8,789,791.78).</p> <p>The undertakings from Waterford and Mr. Griffiths are conditional upon the principal amount and interest, and all fees and penalties accrued and outstanding under the Convertible Loan Facility, being applied in paying up in full the Open Offer Shares to be subscribed pursuant to the Open Offer and the Underwriting.</p> <p>Conditions</p> <p>The Open Offer is conditional only upon Admission occurring on or before 8.00 a.m. on 31 January 2016.</p> <p>Admission</p> <p>It is expected that Admission will become effective and that dealings for normal settlement on AIM in the Open Offer Shares will commence at 8.00 a.m. on 7 January 2016. No application is currently intended to be made for the Existing Shares and the Open Offer Shares to be admitted to listing or dealing on any other exchange.</p>
E.4	A description of any interest that is material to the issue/offer including conflicting interests	<p>The Panel has deemed that Waterford and Mr. Griffiths are acting in concert. While neither Waterford nor Mr. Griffiths holds a controlling interest in the Company, together their shareholding represents 38.07 per cent. of the Company's issued share capital. The Panel has deemed that Mr. Alastair Beardsall is acting in concert with Waterford. The Company has entered into the Waterford Relationship Deed with, inter alia, Waterford to ensure that such control is not abused. Furthermore the Panel has deemed that Mr. James Ede-Golightly is acting in concert with Mr Griffiths.</p>
E.5	<p>Name of the person or entity offering to sell the security</p> <p>Lock-up agreements: the parties involved; and indication of the period of the lock up</p>	<p>As part of the Open Offer, in conjunction with the issue of 350,733,941 Ordinary Shares, the Company is seeking to sell 4,103,355 Treasury Shares to Qualifying Shareholders at the Open Offer Price.</p> <p>As far as the Company is aware, there are no other parties seeking to sell Ordinary Shares as part of the Open Offer, and hence there are no lock-up agreements in place.</p>
E.6	<p>The amount and percentage of immediate dilution resulting from the offer</p> <p>In the case of a subscription offer to existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer</p>	<p>Assuming that all Open Offer Entitlements are taken up in full by Qualifying Shareholders, the holders of Existing Shares shall account for 100.0 per cent. of the Enlarged Share Capital immediately following Admission and shall suffer nil dilution.</p> <p>If none of the holders of Existing Shares, with the exception of the Underwriters, take up their Open Offer Entitlements and do not subscribe for any other Open Offer Shares, their individual holdings will be diluted by approximately 75.06 per cent. following Admission, i.e. if a shareholder does not take up their rights under the Open Offer their individual holding will be diluted by 75.06 per cent.</p>
E.7	Estimated expenses charged to the investor by the issuer or the offeror	<p>Gulfsands does not propose to charge any expenses to Qualifying Shareholders in connection with their subscription for Open Offer Shares.</p>

PART II

RISK FACTORS

Investing in and holding the Ordinary Shares involves financial risk. Prior to investing in the Ordinary Shares, investors should carefully consider all of the information contained in this document, paying particular attention to the risk factors set out below. Investors should note that the risk factors set out below do not purport to be a complete list or explanation of all risk factors which may affect Gulfsands, the Ordinary Shares or the Open Offer. Additional risks and uncertainties not currently known to Gulfsands or which the Company currently deems immaterial may arise or become material in the future. The occurrence of any of these risks may have a material adverse effect on the Company's business, results of operations, financial condition and/or prospects and/or the price of the Ordinary Shares to the detriment of the Company and/or the Shareholders and investors could lose all of their investment. The order in which risks are presented is not necessarily an indication of the likelihood of the risks actually materialising, of the potential significance of the risks or the scope of any potential harm to the Company's business, prospects, results of operation and financial position. Investors should consider carefully whether an investment in the Ordinary Shares is suitable for them in light of the information contained in this document and their personal circumstances.

Prospective investors should note that the risks relating to the Company, its industry and the Ordinary Shares summarised in the section of this document headed "Summary" are the risks that the Company believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Ordinary Shares. However, as the risks which the Company faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below, together with all other information contained in this document herein.

You should consult a legal adviser, an independent financial adviser duly authorised under the FSMA or a tax adviser for legal, financial or tax advice.

The information given is at the date of this document and, except as required by the FCA, the Prospectus Rules, the AIM Rules or any other applicable law, will not be updated. Any forward looking statements are made subject to the reservations specified under "Forward-looking statements" on page 35 of this document.

1. Risks relating to the Company and its business

1.1 The Company has no revenues and is currently loss making

With the Company's Syrian operations currently under Force Majeure, the Company has no production assets to cover the cost of its exploration activities, nor its ongoing general and administrative costs. Therefore, the Company continues to be loss making as a result of its current net cash outflows from current operations. There can be no certainty that the Company will achieve or sustain significant revenues, profits or positive cash flow from its future operational activities. Continued loss making could impair the Company's ability to sustain operations or secure any required funding. Following completion of the Open Offer, the Company will not have sufficient working capital to fund its operations for the period that is twelve months from the date of this document. Following completion of the Open Offer and excluding the potential liability in relation to the Rharb Petroleum Agreement, the Company should have sufficient working capital for its operational requirements to January 2017, following which it will require further working capital. However, as a result of the rejection of the Company's application for an extension of the Rharb Petroleum Agreement by ONHYM, and the claims for penalty fees under the agreement, the Board is unable to give a clean working capital statement. While the Board strongly refutes the claims by ONHYM and is seeking legal advice on the matter, there is the potential that such penalties become due and payable within the period that is twelve months from the date of this document, in which circumstances the Company will likely be required to raise further working capital immediately thereafter.

As the Company has no immediate sources of revenue, in order to address its working capital requirements, either during the twelve months from the date of this document as a result of claims by ONHYM becoming due and payable, or in January 2017 when in any event, the Company expects

that it will require further working capital, the Board will consider all options available to it including the sale of assets and/or a further issue of equity. In the event that the Company is unable to raise further working capital for its requirements, it may no longer be able to operate as a going concern, in which case the Board will place the Company into an insolvency process.

1.2 *Failure to complete the Open Offer could compromise the Company's ability to continue as a going concern*

The Open Offer is conditional only upon Admission becoming effective by not later than the Open Offer Long Stop Date being 31 January 2016. Accordingly, if Admission of the Open Offer Shares does not occur prior to the Open Offer Long Stop Date, the Company will not receive any of the proceeds of the Capital Raising.

If the Company does not receive the net proceeds of the Capital Raising, the Company will not have sufficient working capital to continue its operations as a going concern and there is a possibility that the Directors may be required to consider placing the Company into an insolvency process. Furthermore, after 31 January 2016 the holders of the Convertible Loan Facility may issue a demand for repayment, and if the outstanding balance is not repaid the holders of the Convertible Loan Facility may exercise their security over some of the assets of the Company, namely the interests in Block 26, Syria, and the various interests in Morocco.

Notwithstanding this, in the opinion of the Company, following completion of the Open Offer and taking into account existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company, the Group does not have sufficient working capital for its present requirements, that is, for at least twelve months following the date of this document.

1.3 *Qualified working capital statement*

As a result of the rejection of the Company's application for an extension of the Rharb Petroleum Agreement by ONHYM, and the claims for penalty fees under the agreement, the Board has stated that the Group does not have sufficient working capital for its present requirements, being the period that is twelve months from the date of this document. While the Board strongly refutes the claims by ONHYM and is seeking legal advice on the matter, there is a risk that such penalties could become due and payable within this period and the Company will be required to raise further working capital which could have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations, the market price of Ordinary Shares and/or its ability to continue as a going concern.

1.4 *The Company operates in areas in which it may suffer the effects of political instability and civil disturbances disrupting its operations*

Currently the Company's material interests in Syria are under Force Majeure as a result of the imposition of EU Sanctions in December 2011 following civilian unrest. Such instabilities can seriously impact upon the ability of the Company to carry out its operations leading to loss of time and value. In addition, Syria continues to suffer from, amongst other things, ongoing civil conflict by certain political, religious and terrorist groups. While it is believed that the Company has taken appropriate measures to protect its employees and operations, such conflict could endanger the employees of the Company and disrupt, delay or interrupt its operations and adversely affect its profitability.

As a result, the value of the Company's interests in Syria continues to be at risk from the continuing sanctions and civil conflict, the loss of ability to develop the portfolio of interests and the loss of physical control over its assets. Furthermore, when EU Sanctions are lifted and the Company resumes operations in Syria there is no certainty that the incumbent government will continue to recognise the Company's working interest in Block 26. The existence of EU Sanctions also imposes certain complexities with regard to the Company's management of its investment in Syria. For example, before certain changes or appointments can be made the approval of GPC must be sought, and therefore licences (derogations from the restrictions imposed by the sanctions) are required from both the UK and Cayman Island governments before the change can be effected.

The Company's operations in Syria, Morocco, Tunisia and Colombia may also be subject to political, economic and other uncertainties, including, but not limited to, terrorism, military repression, war, unrest, earthquakes, changes in energy policies and regulations or in the personnel administering them,

nationalisation or expropriation of property, cancellation or modification of contractual rights, foreign exchange rates and restrictions, currency instability or non-convertibility, high rates of inflation, royalty and tax increases, changes in policies or laws governing foreign ownership and the operations of foreign-based companies and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted. In the event of a dispute arising in connection with its foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of the courts in the Company's home jurisdiction or enforcing judgments obtained in its home jurisdiction in such other jurisdictions. In addition, jurisdictions in which the Company operates may have relatively less developed legal systems than in more established economies. Local business, judicial or regulatory customs and practice may not favour strict adherence to legal requirements or the negotiated terms of contractual agreements. As a result, the Company's operations may be subject to a higher degree of uncertainty, and legal redress, if needed, may be limited or uncertain.

Changes in government regulations and policies could have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

1.5 *Failure to discover hydrocarbons in commercial quantities could impact the Company's financial performance and ability to finance the growth and development of the Company's assets*

Exploration is a high risk activity; historic industry drilling results indicate only one exploration well out of six drilled identifies hydrocarbons.

Failure to discover hydrocarbons in commercial quantities and/or generate early revenues from production will impact the Company's financial performance and ability to finance the growth and development of the Company's assets and could have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

1.6 *The Company is exposed to the risk of bribery and corruption*

Taking substantive measures to prevent bribery and corruption being perpetrated on the business and within the business is critical to the business model. However bribery and corruption remain significant risks to the Company in terms of possible reputational damage, legal liability and financial loss.

1.7 *The Company may be adversely affected by prosecution, litigation or adverse publicity*

There can be no guarantee that the past, current or future actions of the Company will not result in litigation, and there have been a number of cases where the rights and privileges of oil and gas companies have been the subject of litigation. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares. In addition, the adverse publicity surrounding such claims may have a material adverse effect on business performance and reputation.

In many of Gulfsands' exploration and production contracts the Company is part of a joint venture group formed with government entities and in Syria the Company is part of a joint venture with Emerald Energy plc, a company 100 per cent. owned by Sinochem Group of China. Furthermore, as designated operator of some joint venture projects the Company is obliged to perform its duties in a responsible, fair and transparent manner, in compliance with the prevailing laws and regulations, and following good international oil-field practices. In the event the joint venture obligations are not fully met the non-operating joint venture partners may attempt to hold the operator liable for any apparent deficiencies that may apparently have been a reason for not fully achieving the joint venture objectives. There is no certainty that such claims may not be made in the future.

Specific litigations in which the Company is involved as at the date of this document are as follows:

- (a) Mahdi Sajjad, former CEO of Gulfsands, has brought a claim in the High Court against Gulfsands Levant, a subsidiary of the Group, which arises out of his removal by the Board as CEO and termination

of his employment on notice on 13 April 2015. Mr. Sajjad claims that the Board's action entitled him to terminate an employment contract with Gulfsands Levant on 8 May 2015 and subsequently to receive a payment of £412,000 comprising of annual salary and hardship allowance plus interest at £90.30 per day running from 8 May 2015. In the alternative, Mr. Sajjad claims damages for fundamental breach of his contract with Gulfsands Levant and claims that he is entitled to damages arising out of Gulfsands Levant's failure to pay notice up to 31 March 2017. Gulfsands Levant strongly refutes these claims. Gulfsands Levant has brought a counterclaim for £75,160 against Mr. Sajjad in relation to a payment to HM Revenue & Customs in respect of his unpaid tax and National Insurance contributions during the period 2008-2014. No date has yet been set for the hearing.

Mr. Sajjad has also brought a claim in the Employment Tribunal against Gulfsands Levant for constructive unfair dismissal based on the same factual circumstances as his High Court claim. He is currently claiming £89,922 by way of compensation. Gulfsands Levant strongly refutes the claim. Tribunal proceedings are currently stayed pending proceedings in the High Court.

In October 2015 Mr. Sajjad also brought a claim before the Lebanese Arbitration Board against Gulfsands (MENA) in relation to the branch office in Beirut. He claims that he was employed by Gulfsands (MENA) as a manager of the branch from August 2011 until 1 October 2015 when he was allegedly dismissed. He claims US\$400,000 for four years non-payment salary plus interest, US\$100,000 as compensation for 'abusive/summary' dismissal and US\$16,666 for two months' notice plus interest. Gulfsands (MENA) strongly refutes the claims. To date, no hearing has been set.

The Company continued to pay Mr. Sajjad as an Executive Director for the period from 14 April 2015 to 8 May 2015, when Mr. Sajjad terminated his employment contract (as required during his notice period), and as a Non-Executive Director for the period 9 May 2015 to 30 June 2015 when he was not re-elected as a Director at the Company's Annual General Meeting.

The Company is currently engaged in defending Mr. Sajjad's claims and in pursuing its counter-claim against Mr. Sajjad. In the event that Mr. Sajjad succeeds with respect to his claims against the Company and/or the Company is unsuccessful with its counter-claim against Mr. Sajjad, the Company may be adversely affected. Beyond assessing the financial costs associated with such outcomes, the Company is presently unable to accurately predict what other impact such a decision might have on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

- (b) In October 2015 the Company received a demand for payment from Hillcrest Resources Ltd of US\$82,534, relating to outstanding charges from its former subsidiary, Gulfsands Petroleum USA, Inc. for the services and expenses of certain staff. Gulfsands is preparing a response and will challenge the validity of this demand as it believes this demand to be unfounded with no service agreement in place between the parent, Gulfsands, and its former subsidiary. These re-charges by the former subsidiary had previously been raised as a form of inter-company funding from the parent company, with the intercorporate debt being assigned to Hillcrest Resources Ltd as part of the sale of the subsidiary.
- (c) On 9 November 2015, the extension period of the Rharrb Petroleum Agreement expired and the Company submitted a request to further extend the Rharrb Petroleum Agreement for a period of two years to allow the Company to appraise the gas discoveries made in 2014/15.

On 30 November 2015, the Company received a response from ONHYM, dated 26 November 2015, advising that its request for an extension to the Rharrb Petroleum Agreement had been rejected and furthermore that:

- Gulfsands Morocco will forfeit its US\$1.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Rharrb Petroleum Agreement;
- ONHYM is seeking a penalty equal to the estimated cost of the minimum exploration work programme of the Rharrb Petroleum Agreement less the costs actually incurred in respect of exploration work required, whereby ONHYM is claiming a sum of US\$7.5 million;
- ONHYM advised they will also, by separate request, seek the outstanding amount under the training obligation of the Rharrb Petroleum Agreement; and

- ONHYM was seeking an update on the Company's progress in relation to the abandonment of the legacy producing wells and the cleaning and restoring of the well sites in the Rharb Centre permit area.

The Company strongly refutes the claims for financial sums and penalties and is seeking legal advice on the matter.

1.8 *Shortages of rigs, equipment, supplies and personnel could delay or otherwise adversely affect the Company's cost of operations or its ability to operate according to its business plans*

From time to time, shortages of drilling rigs, field equipment and qualified personnel could occur, resulting in sharp increases in costs. The demand for wage rates of qualified drilling rig crews generally rises in response to the increased number of active rigs in service and could increase sharply in the event of a shortage. Shortages of drilling rigs, field equipment or qualified personnel could delay, restrict or curtail the Company's exploration operations, which may have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

1.9 *The Company is reliant for processing and transportation of its production on pipelines and facilities operated by others over which it has no control*

The Company is reliant upon government and third party owned pipelines and processing facilities for the export of its oil and gas products to local and international markets. These facilities are not owned or operated by the Company.

As such, the Company's oil and gas production levels may be adversely affected by events relating to such infrastructure, including repairs and maintenance, shut-downs, civil conflict and terrorism, regulatory changes, competition from other suppliers and other operational matters which are unrelated to the performance of the Company's oil and gas fields. Such events may have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

1.10 *Failure to meet work commitments, premature termination, suspension or withdrawal of licences or failure to extend licences may have an adverse effect on the Company's reserves, resources and prospects*

The Company has numerous exploration interests (licences), many of which have minimum work programme commitments that must be carried out within certain agreed timeframes. This work will require significant investment. Material non-compliance with these work commitments within the currently required timeframes, or failure to successfully negotiate extensions to the time permitted to carry out these work plan commitments, could result in the Company losing those relevant interests and the associated resource potential therein and may also restrict the ability to obtain new licences in the relevant jurisdictions. The Company's rights to exploit many of its oil and gas assets are limited in time. There is no guarantee or assurance that such rights can be extended or that new rights can be obtained to replace any of the rights that expire.

If the Company is unable or unwilling to fulfil the specific terms of any of its existing or future rights, concessions, licences, permits and other authorisations or if it operates its business in a manner that violates applicable law, government regulators may impose fines or suspend or terminate the relevant right, concession, licence, permit or other authorisation, any of which could have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares. Furthermore, as licence terms and commitments are typically set by governments, unexpected and significant changes to licence terms and commitments could significantly impact the value of those licences to the Company.

On 9 November 2015, the extension period of the Rharb Petroleum Agreement expired and the Company submitted a request to further extend the Rharb Petroleum Agreement for a period of two years to allow the Company to appraise the gas discoveries made in 2014/15.

On 30 November 2015, the Company received a response from ONHYM, dated 26 November 2015, advising that its request for an extension to the Rharb Petroleum Agreement had been rejected and furthermore that:

- Gulfsands Morocco will forfeit its US\$1.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Rharr Petroleum Agreement;
- ONHYM is seeking a penalty equal to the estimated cost of the minimum exploration work programme of the Rharr Petroleum Agreement less the costs actually incurred in respect of exploration work required, whereby ONHYM is claiming a sum of US\$7.5 million;
- ONHYM advised they will also, by separate request, seek the outstanding amount under the training obligation of the Rharr Petroleum Agreement; and
- ONHYM was seeking an update on the Company's progress in relation to the abandonment of the legacy producing wells and the cleaning and restoring of the well sites in the Rharr Centre permit area.

The Company strongly refutes the claims for financial sums and penalties and is seeking legal advice on the matter. The estimated cost of the minimum exploration work programme per the Rharr Petroleum Agreement is US\$15.0 million and at least US\$15.0 million has been spent on exploration activity during the extension period.

However, there is a risk that the Company could be liable for the payment of such financial sums and penalties.

On 16 October 2015 the Company announced that the extension period of the Fes Petroleum Agreement expired on 24 September 2015 and the request to further extend the agreement was not granted by ONHYM, and furthermore that:

- ONHYM advised that Gulfsands Morocco will forfeit its US\$5.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Fes Petroleum Agreement and the restricted cash had been drawn by ONHYM; and
- ONHYM had requested details of the costs incurred during the six year extension period in order to determine if a penalty was payable, with such penalty being the estimated cost of the minimum exploration work programme of US\$18.5 million, less the costs actually incurred in respect of exploration work required to be carried out during the extension period. At least US\$18.5 million has been spent on exploration activity during the extension period.

The Company believes there are no grounds for any potential claims for financial sums and penalties and is seeking legal advice on the matter.

Notwithstanding this, there is a risk that the Company could become liable for the payment of such financial sums and penalties.

The Company has also initiated a farm-out process for the Moulay Bouchta permit in Morocco for a carried work programme. In the event that the Company is not able to renew and/or successfully conclude a farm-out of this permit it shall forfeit all or part of the US\$1.75 million of restricted cash held as a performance guarantee for completing the minimum work programme on the permit area. Note there is no parent company guarantee under any of the Moroccan petroleum agreements.

The Company has also lodged a renewal application for its Chorbane PSC in Tunisia which expired in July 2015. The Company received a formal response from the Tunisian Ministry of Industry and Technology in August 2015 which indicated that its Hydrocarbon Advisory Committee had issued a 'favourable opinion' toward the application, and that the formal extension would be gazetted or published in the Official Journal of the Tunisian Republic. As at the date of this document, the formal extension has not been gazetted and there remains a risk that the renewal is not granted in which case the Company would forfeit the Chorbane PSC. There is no restricted cash, financial performance guarantee, or parent company guarantee for completion of the minimum work obligations under the Chorbane contract.

In Colombia, the Company is in discussions to agree extensions for both the Llanos Block 50 and Putumayo Block 14 exploration and production contracts in order to have more time to farm-out all or part of its working interests and complete the minimum work obligations. In the event that the Company is not able to extend and/or successfully conclude a farm-out of its blocks in Colombia it shall forfeit

its interests and all or part of the US\$3.2 million of restricted cash held as performance guarantees for completing the minimum work programme on the blocks.

The Company's strategy is to farm-out its interests in Morocco, Tunisia and Colombia to complete the respective work programme obligations in respect of these licences. In the absence of the completion of successful farm-outs, the Company's working capital on completion of the Open Offer would not be sufficient to complete the respective work programmes for each of these licences and as a result, the licences would lapse and the Company may forfeit any restricted cash balances. In the event that the relevant authorities in Morocco, Tunisia and Colombia take into consideration the Company's limited financial position when considering the applications for renewal or extension of each of its respective licences in these jurisdictions, there may be an increased risk that such renewals will not be granted.

In addition to the risk of forfeiting the restricted cash, under some of the Company's other exploration licences in Morocco, Tunisia and Colombia, there is also a notional monetary value ascribed to the minimum work programme. In the event that the licence expires with elements of the work programme unfulfilled, the relevant authorities may have the right for monetary damages equivalent to either (a) the value of the outstanding work obligations or (b) the difference between the notional value of the minimum work programme and the actual costs incurred in the fulfilment of that part of the work programme that has been completed. As at the date of this document, the gross notional value of the minimum work programme amounts to US\$3.5 million in respect of licences in Morocco, US\$3.8 million in respect of the Chorbane PSC in Tunisia, and US\$30.0 million in respect of licences in Colombia. Further details of the key terms of the Company's licences is set out in paragraph 16.8 of Part X "Information on Gulfsands" of this document. These amounts exclude any reductions made as the result of possible forfeiture of the restricted cash balances.

Separately, certain of the Company's permits or PSCs, and the national petroleum codes and/or the environmental legislation in the countries in which the Company operates, also require that exploration, development and production wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of the applicable regulatory authorities. Compliance with such permit obligations and legislative requirements can require significant expenditures and a breach may result in the imposition of significant remedial liabilities, fines and penalties.

In the event that the licences in Morocco, Tunisia or Colombia lapse and, in Morocco or Colombia, the Company forfeits its restricted cash balances, or in the event that the Company becomes liable for costs, fines and penalties associated with the abandonment and/or reclamation of oil and gas wells and associated facilities, there could be a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares. Furthermore, in the event that all of the Company's licences in Morocco, Tunisia and Colombia lapse, its sole operations would be in Syria which is subject to EU Sanctions. The Board is of the opinion that, excluding the potential liability in relation to the Rharr Petroleum Agreement, its existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company should give it sufficient working capital for its operational requirements to January 2017, following which it will require further working capital.

However, as a result of the rejection of the Company's application for an extension of the Rharr Petroleum Agreement by ONHYM, and the claims for penalty fees under the agreement, the Board is unable to give a clean working capital statement. While the Board strongly refutes the claims by ONHYM and is seeking legal advice on the matter, there is the potential that such penalties become due and payable within the period that is twelve months from the date of this document, in which circumstances the Company will likely be required to raise further working capital immediately thereafter.

As the Company has no immediate sources of revenue, in order to address its working capital requirements, either during the twelve months from the date of this document as a result of claims by ONHYM becoming due and payable, or in January 2017 when in any event, the Company expects that it will require further working capital, the Board will consider all financing options available to it including the sale of assets and/or a further issue of equity.

1.11 *Dry wells may lead to a downgrading of the potential value of the Company's licences or require further funds to continue exploration work*

Many of the areas being explored by the Company have a number of prospects that may contain oil and gas. Should drilling be undertaken in a particular geographic area but no oil or gas is discovered (a "dry well"), this may lead to a downgrading of the potential value of the licences concerned and may impact the value of other licences within the same geological basin, as well as implying that the other prospects within that geographic area may be less likely to yield exploration success, thereby potentially decreasing the value of the Company's assets. If this is the case, once the minimum work commitments under the relevant licences have been satisfied, the Company may relinquish its interests in the licences, in which case they would have no further exploration rights, even though they may have identified a number of additional prospects in that area.

Dry wells may also result in the Company requiring substantially more funds if it chooses to continue exploration work and drill further wells beyond the existing minimum work commitments. Such funding may be unavailable or may have to be obtained on unfavourable terms, leading to a potential deterioration in the Company's financial position. Drilling a dry well would also mean that the Company may not be able to recover the costs incurred in drilling that well or make a return on its investment, resulting in significant exploration expenditure being written-off. Any of these circumstances may have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

1.12 *The Company is typically required to consult with third-party operators and other joint venture partners in relation to significant matters*

The Company operates some of its assets within joint ventures with other companies, or has partnered with government entities through which exploration, development and operating activities for a particular property or concession area are conducted. Where the Company is the operator and has a joint venture partner, either in the form of a government entity or a private company, the relevant operating agreement typically provides that the joint venture partner must be consulted or that it must provide its consent in relation to significant matters. As at the date of this document, other than governmental entities, the Company only contracts with Emerald Energy plc, a wholly owned subsidiary of Sinochem Group of China for the Block 26 PSC in Syria. Accordingly, while the Company generally has control over day-to-day management and operation of those assets, it may be unable to undertake certain activities because of opposition from a joint venture partner, or it may experience delays in undertaking activities due to time taken to obtain the consent of the relevant joint venture partner. Any such opposition or delay could result in losses or increased costs to the Company.

Where the Company is not the operator of an asset, although it may have consultation rights or the right to withhold consent in relation to significant operational matters (depending on the level of the Company's interest in such asset), it has limited control over day-to-day management so that mismanagement of an asset by the operator or disagreements with the operator as to the most appropriate course of action may result in significant delays, losses or increased costs to the Company.

The terms of the relevant operating agreement generally impose standards and requirements in relation to the operator's activities. The Company transfers operatorship to a third party or acquires an interest in assets operated by third party operators only if it believes that the respective third party is reputable and financially and technically able to perform the role of operator. Any transfer of operatorship is usually also subject to the consent of the relevant government. Governments generally require certain criteria to be satisfied by the proposed new operator before they will approve any transfer in the role of operator. However, there can be no assurance that such operators will observe such standards or requirements and this could result in a breach of the relevant operating agreement.

There is a risk that other parties with interests in the Company's assets may not be able to fund or may elect not to participate in, or consent to, certain activities relating to those assets which require that party's consent (including decisions relating to drilling programmes, including the number, identity and sequencing of wells, appraisal and development decisions and decisions relating to production). In these circumstances, it may not be possible for such activities to be undertaken by the Company alone or in conjunction with other participants at the desired time or sequence or at all.

Other participants in the Company's assets may default on their obligations to fund capital or other funding obligations in relation to the assets. In such circumstances, the Company may be required under the terms of the relevant operating agreement or otherwise to contribute all or part of such funding shortfall itself.

Any disagreement, absence of consent, delay, opposition, breach of agreement, or inability to undertake activities or failure to provide funding of the kind identified above could have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

1.13 *The Company's investment in the Block 26 PSC joint venture may reduce its degree of control, as well as its ability to identify and manage risks*

The Company's Block 26 PSC in Syria is operated through a joint venture with Emerald Energy plc, a company owned 100 per cent. by Sinochem Group of China. This means that the Company has less influence over and control of the behaviour, performance and cost of operations than if it were to hold a 100 per cent. interest in the Block 26 PSC. The Company may be unable to undertake certain activities because of opposition from its joint venture partner, or it may experience delays in undertaking activities due to the time taken to obtain the necessary joint venture consent. Additionally, the Company's joint venture partner or associated company may not be able to meet its financial or other obligations to the Block 26 PSC, threatening the viability of the PSC. As a result, this may have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

1.14 *The Company may not be able to effectively achieve its strategy*

The Company's short-term strategy is to maintain compliance with EU Sanctions with respect to its interests in Syria and to seek to reduce its expenditure obligations and/or extract value through a farm-out or divestment of its interests in Morocco, Tunisia and Colombia. As such, its short-term strategy is not to pursue any growth projects.

There is no certainty that all, or indeed any, of the elements of the strategy for the Company will develop as anticipated or that the Company will become profitable as a result of the risks relating to the Company set out in this Part II. No representation is or can be made as to the future performance of the Company and there can be no assurance that the Company will achieve its objectives. Any failure of the Company to implement its strategy correctly could have a material adverse effect on the Company's business, financial condition, prospects, capital resources, cash flows, share price, liquidity, results and/or future operations.

1.15 *The Company is dependent on the attraction and retention of key employees*

The Company's long-term success depends, to a large extent, on key personnel, which include, *inter alia*, certain key executives, senior management and technical personnel. The loss of the services of any of these personnel could have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares. The competition for qualified personnel in the oil and gas industry is intense. There can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

1.16 *Fluctuations in currency exchange rates may impact the business, results of operations and/or financial condition of the Company*

The Company's results of operations are affected by movements in exchange rates, particularly movements in the value of the US Dollar, the reporting currency of the Company, against the basket of currencies where the Company's operations are based. While this is mitigated somewhat by the fact that the US Dollar is the currency most commonly used in the pricing of petroleum commodities, the Company's results of operations could be adversely or positively affected by movements in exchange rates, given that a proportion of the Company's costs are denominated in currencies other than the US Dollar.

1.17 *Waterford and Mr. Griffiths will own a significant percentage of Ordinary Shares*

Following the completion of the Capital Raising, dependent upon the take-up of other Qualifying Shareholders, Waterford will own a minimum of 28.08 per cent. and a maximum of 51.24 per cent. of the Enlarged Share Capital, and Mr. Griffiths will own a minimum of 9.99 per cent. and a maximum of 33.15 per cent. of the Enlarged Share Capital. This is assuming the Directors who are also Qualifying Shareholders take up their Open Offer Entitlements in full, which they have each stated is their intention. The Panel has deemed that Waterford, Mr. Griffiths and parties acting in concert with them are acting in concert for purposes of the Open Offer. The Panel has deemed that Mr. Alastair Beardsall is acting in concert with Waterford. The Company has entered into the Waterford Relationship Deed with *inter alia*, Waterford, to ensure that such control is not abused. Furthermore the Panel has deemed that Mr. James Ede-Golightly is acting in concert with Mr. Griffiths. On a combined basis, dependent upon the take-up of other Qualifying Shareholders, Waterford, Mr. Griffiths and persons acting in concert with them will together own a minimum of 38.09 per cent. and a maximum of 84.41 per cent. of the Enlarged Share Capital.

This significant concentration of share ownership may adversely affect the market value of the Ordinary Shares because investors may believe that there are disadvantages in owning shares in companies with controlling shareholders. By virtue of their shareholdings, Waterford, Mr. Griffiths and parties acting in concert with them may be able to determine the outcome of matters requiring Shareholder approval, including appointments to the Board of Directors and significant corporate transactions. In addition, the interests of Waterford and Mr. Griffiths may be different from, and conflict with, the interests of the Company or the Company's other Shareholders. This control may also have the effect of delaying or preventing an acquisition or other change of control of the Company.

1.18 *Foreign exchange controls*

Gulfsands operates in areas with foreign exchange controls restricting the movements of hard currency and could be affected if countries implement new or amend their existing foreign exchange rules and regulations. Additionally, sanctions and their application in the banking industry restricts the ability of the Group to fund its activities in Syria or otherwise connected with Syria.

2. Risks related to the oil and gas industry

2.1 *Oil and gas price volatility*

The demand for, and price of, oil and natural gas is highly dependent on a variety of factors including international supply and demand, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments.

International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. Fluctuations in oil and gas prices and, in particular, a material decline in the price of oil and gas may have a material adverse effect on the Company's future oil and gas production operations in the form of lower revenues and associated cash flows. Such fluctuations may also have a material adverse effect on investor sentiment in the sector, which could have a material adverse effect on the Company's access to capital and the commercial viability of its exploration, development and production operations.

2.2 *The oil and gas resource and reserve data are only estimates, and the Company's cash flows with respect to its resources may be materially different from such estimates*

There are numerous uncertainties inherent in estimating quantities of proved, probable and possible reserves and prospective and contingent resources and associated future production and cash flows, including many factors beyond the control of the Company. The resources and reserves set forth in this document or elsewhere in respect of the Company represent estimates only. In general, any estimate of the quantity of economically recoverable oil and gas resources will be based upon a number of variable factors and assumptions made as at the date on which the resources estimates were determined, such as historic production rates, ultimate reserves recovery, interpretation of geological and geophysical data, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, continuity of current fiscal policies and regulatory regimes, future oil and gas prices, operating costs, development and production costs and workover and remedial costs, all of which may vary from actual results. Estimates are also to some degree speculative, and classifications of resources

are only attempts to define the degree of speculation involved. For these reasons, estimates of the economically recoverable oil and gas resources attributable to a particular group of properties, the classification of such resources based on risk of recovery and estimates of expected future net revenues prepared by different engineers, or by the same engineers at different times, may vary. As a result, the estimates of the Company's resources may require substantial upward or downward revisions if subsequent drilling and testing reveals differences. Any downward adjustment could indicate lower future production and thus have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares. Furthermore, a decline in the Company's resources may affect its ability to raise or access sufficient capital in the longer term for its future operations.

Estimates of proved, probable and possible reserves and resources that may be developed and produced in the future are often not based on actual production history but on volumetric calculations and analogies to similar types of reserves and resources. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves and resources based on production history and production practices may result in variations in the estimated reserves and resources and these variations could be material.

2.3 *The Company's success depends on its ability to explore, appraise and develop oil and gas resources that are economically recoverable*

The Company's long-term commercial success depends on its ability to explore, appraise, develop and commercially produce oil and gas resources. Exploration and development activities are inherently risky and there can be no assurance that any material resources will be established from any of its assets, any of the Company's contingent resources or prospective resources, nor that they will be converted into commercial production, or that the Company will meet its targeted production timelines. Future increases in the Company's resources or conversion of any of them into reserves will depend not only on its ability to explore, appraise and develop its existing assets but also on its ability to select and acquire suitable additional assets either through awards at licensing rounds or through acquisitions.

The Company may submit applications for further licences. However, there can be no assurance that the Company will be awarded such licences, that the Company will accept such licences (if so awarded) or that the Company will be able to commercially develop the assets which are the subject of such licences. There are many reasons why the Company may not be able to find or acquire oil and gas reserves or resources or develop them for commercially viable production. For example, the Company may be unable to negotiate commercially reasonable terms for its acquisition, appraisal, development or production activities. Factors such as adverse weather conditions, natural disasters, equipment or services shortages, procurement delays or difficulties arising from the political, environmental and other conditions in the areas where the reserves or resources are located or through which the Company's products are transported may increase costs and make it uneconomical to develop potential reserves or resources. The costs of drilling, completing and operating wells is often uncertain. As a result, the Company may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of many factors, including unexpected drilling conditions, irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with environmental regulations, governmental requirements and shortages and delays in the availability of drilling rigs and the delivery of equipment. Without successful acquisition or exploration activities, there may be a material adverse effect on the Company's business, financial condition, prospects, capital resources, cash flows, share price, liquidity, results and/or future operations. There is no assurance that the Company will discover, acquire or develop commercial quantities of oil and gas.

2.4 *The Company may miss out on operational opportunities if it is unable to successfully co-ordinate its projects*

The Company's operational projects require key asset delivery personnel to be resourced and the co-ordination of a number of activities including obtaining seismic data and securing rig capacity for the necessary drilling. There are long lead times to arrange these activities and if the Company fails to successfully obtain the necessary personnel in time or to co-ordinate the timely delivery or completion, as the case may be, of any of these activities, it may miss out on operational opportunities or may be required to make additional expenditure. The Company's exploration projects also require the procurement of long lead items such as rig contracts, well heads, well test equipment and specialist logging tools. A failure to procure these items in a timely manner may delay operations and increase

expenditure and have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

2.5 *Exploration and appraisal projects do not necessarily result in a profit on the investment or the recovery of costs*

Exploration and appraisal activities are capital intensive and inherently uncertain in their outcome. The Company's oil and gas exploration and appraisal projects may involve unprofitable efforts, either from dry wells or from wells that are productive but do not produce sufficient net revenues to return a profit after development, operating and other costs. Completion of a well does not guarantee a profit on the investment or recovery of the costs associated with that well. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity, adverse geological conditions and technical and operational difficulties of the drilling environment (including operational difficulties in avoiding drilling fluid losses and preventing substantial formation damage during drilling) and other factors. While diligent well supervision and effective maintenance operations can contribute to maximising production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and may have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

2.6 *The Company's operations are subject to a number of risks and hazards that may result in material losses in excess of insurance proceeds*

Oil and gas exploration, development and production operations are inherently risky and hazardous. Risks typically associated with these operations include unexpected formations or pressures, premature decline of reservoirs, drilling damage (which can lead to reduced productivity), early water encroachment and the intrusion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Company's business, financial position, results of operations and prospects. Hazards typically associated with oil and gas exploration, development and production operations include fires, explosions, blowouts, gas leaks and oil spills, each of which could result in substantial damage to oil and gas wells, production facilities, other property and the environment or in personal injury. Oil and gas installations are also known to be likely objects, and even targets, of military operations and terrorism.

Since the introduction of additional EU Sanctions in December 2011 and Gulfsands Levant's withdrawal from any participation in the management of Dijila, day to day operations of the Company's assets in Syria has rested with representatives of GPC and the MPNR. Consequently, the Company has limited insight into Dijila's affairs and the conduct of oil production operations on Block 26 and is therefore unable to determine what effect (if any) Dijila's activities while under the control of GPC and MPNR representatives, might have had upon the future performance and state of repair of those assets.

Although the Company will exercise due care in the conduct of its business and obtains insurance prior to drilling in accordance with industry standards to cover certain of these risks and hazards, insurance is subject to limitations on liability and, as a result, may not be sufficient to cover all of the Company's losses. In addition, the risks or hazards associated with the Company's operations may not in all circumstances be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific events due to the high premiums associated with such insurance or for other reasons. The occurrence of a significant event against which the Company is not fully insured, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

2.7 *The Company's business is subject to government regulation with which it may be difficult to comply and which may change*

The Company's oil and gas operations are subject to various laws and regulations of the countries in which it operates, including those relating to health and safety, the environment and the production, pricing and marketing of oil and gas. In addition, the Company will be subject to laws affecting taxation, royalties and duties. In order to conduct its operations in compliance with these laws and regulations, the Company must obtain licences and permits from various government authorities. The grant,

continuity and renewal of the necessary approvals, permits, licences and contracts, including the timing of obtaining such licences and the terms on which they are granted, are subject to the discretion of the relevant governmental and local authorities and cannot be assured. In addition, the Company may incur substantial costs in order to maintain compliance with these existing laws and regulations and additional costs if these laws are revised or if new laws affecting the Company's operations are passed. Any such circumstances may have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

2.8 *The Company's operations expose it to significant compliance costs and liabilities in respect of health, safety and environment (HSE) matters*

The Company's operations and assets are affected by numerous laws and regulations concerning HSE matters including, but not limited to, those relating to discharges of hazardous substances into the environment, the handling and disposal of waste and the health and safety of employees. The technical requirements of these laws and regulations are becoming increasingly complex, stringently enforced and expensive to comply with and this trend is likely to continue. Any failure to comply with HSE laws and regulations may result in regulatory action (which can include statutory orders requiring steps to be taken or prohibiting certain operations), the imposition of fines or the payment of compensation to third parties. All of these liabilities and any other regulatory actions could have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

Certain HSE laws provide for strict, joint and several liability, without regard to negligence or fault, for natural resource damages, health and safety, remediation and clean-up costs of spills and other releases of hazardous substances, and such laws may impose liability for personal injury or property damage as a result of exposure to hazardous substances. Further, such HSE laws and regulations may expose the Company to liability for the conduct of others or for acts that complied with all applicable HSE laws when they were performed. In addition, the enactment of new HSE laws or regulations or stricter enforcement or new interpretations of existing HSE laws or regulations could have a significant impact on the Company's operating or capital costs and require further expenditure to modify operations, upgrade employee and contractor accommodation and other infrastructure, install pollution control equipment, perform clean-up operations, curtail or cease certain operations, or pay fines or make other payments for pollution, discharges or other breaches of HSE requirements. There can be no assurances that the Company will be able to comply with such HSE laws in the future.

In particular, the existence of EU Sanctions on the Company's operations in Syria restricts the ability of the Company to continue to meet its HSE responsibilities in Syria. The failure to comply with such HSE laws or regulations could result in substantial costs and/or liabilities to third parties or government entities which could have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

2.9 *A violation of HSE requirements and the occurrence of any accidents could disrupt the Company's operations and increase operating costs*

HSE authorities have extensive enforcement powers under HSE laws. These powers extend to statutory notices to require operational steps and to prohibit certain activities or operations until compliance is achieved. A violation of HSE laws or failure to comply with the instructions of the relevant HSE authorities could therefore lead to, among other things, a temporary shutdown of all, or a portion of, the Company's facilities and the imposition of costly compliance procedures. If HSE authorities shut down all, or a portion of, the Company's facilities or impose costly compliance measures, the Company's business, financial condition, results of operations and prospects could be materially and adversely affected.

The nature of the Company's operations creates a risk of accidents and fatalities among its workforce, and the Company may be required to pay compensation or suspend operations as a result of such accidents or fatalities, which could have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

2.10 *The Company operates in a competitive industry*

The Company competes with numerous other participants, including major international oil and gas companies, in the search for and the acquisition of oil and gas assets, in the marketing of oil and gas

and in securing capital for its operations. The Company's ability to increase resources and create reserves in the future will depend not only on its ability to exploit and develop its present assets but also on its ability to select and acquire suitable producing assets or prospects for exploratory or appraisal drilling, and to attract the capital necessary to develop such assets or prospects. A number of the Company's competitors have substantially greater financial and personnel resources. Larger and better capitalised competitors may be in a position to outbid the Company for particular licences and such competitors may be able to secure rigs for drilling operations preferentially to the Company. These competitors may also be better able to withstand sustained periods of unsuccessful drilling. Larger competitors may be able to absorb the burden of any changes in law and regulations more easily than the Company, which would adversely affect its competitive position. In addition, many of the Company's competitors have been operating for a much longer time and have demonstrated the ability to operate through industry cycles.

2.11 *The Company's tax liability could increase substantially as a result of changes in, or new interpretations of, tax laws in the relevant jurisdictions*

The amount of tax the Company pays could increase substantially as a result of changes in, or new interpretations of, relevant tax laws, which could have a material adverse effect on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares. During periods of high profitability in the oil and gas industry, there are often calls for increased or windfall taxes on oil and gas revenue. Taxes have increased or been imposed in the past and may increase or be imposed again in the future. Levels of taxation relief may also decrease or be no longer available to the Company due to changes in, or new interpretations of, tax laws. In addition, taxing authorities could review and question the Company's tax returns leading to additional taxes and penalties which could be material. Decommissioning (where relevant) could also have a material tax impact on the Company's financial condition.

2.12 *Macroeconomic risks could result in an adverse impact on the Company's financial condition*

The extent to which global economic conditions may adversely affect the Company's major operations and the timing of that impact is uncertain. The links between economic activities in different markets and sectors are complex and depend not only on direct drivers such as the balance of trade and investment between countries, but also on domestic monetary, fiscal and other policy responses to address macroeconomic conditions.

2.13 *Speculative nature of oil and gas exploration*

Oil and gas exploration operations are inherently speculative with no assurance that any exploration operations will result in any kind of commercial production. The techniques presently available to engineers and geologists to identify the existence and location of hydrocarbons are not infallible. Personal subjective judgment of engineers and/or geologists is involved in the selection of any prospect for drilling. In addition, even when drilling successfully identifies commercial volumes of hydrocarbons, unforeseeable operating problems may render it uneconomic for the Company to produce oil from a particular well.

3. Risk factors associated with the Ordinary Shares

3.1 *It may be difficult to realise an investment on AIM. The market price of Ordinary Shares may fluctuate widely in response to different factors*

The Open Offer Shares will be traded on AIM. The AIM Rules are less demanding than those of the Official List and an investment in a security that is traded on AIM may carry a higher risk than an investment in securities listed on the Official List. The price of publicly traded securities can be highly volatile.

It may be more difficult for an investor to realise his or her investment in the Company than to realise an investment in a company whose shares or other securities are listed on the Official List or other similar stock exchange. Shares held on AIM are perceived to involve higher risks. AIM is a market designed for small and growing companies but its future success and liquidity as a market for Ordinary Shares cannot be guaranteed.

The price at which Ordinary Shares are traded and the price at which investors may realise their investment are influenced by a large number of factors, some specific to the Company and its

operations and some which may affect growth companies or quoted companies generally. Admission to AIM does not imply that there will be a liquid market for Ordinary Shares. Consequently, the price of Ordinary Shares may be subject to fluctuation on small volumes of shares, and Ordinary Shares may be difficult to sell at a particular price.

3.2 *Market price of Ordinary Shares*

The price at which Ordinary Shares are traded and the price at which investors may realise their investment are influenced by a large number of factors, some specific to the Company and its operations and some which may affect growth companies or quoted companies generally. Admission to AIM does not imply that there will be a liquid market for Ordinary Shares. Consequently, the price of Ordinary Shares may be subject to fluctuation on small volumes of shares, and Ordinary Shares may be difficult to sell at a particular price.

3.3 *The Company does not plan on making dividend payments in the foreseeable future*

There can be no assurance as to the level of future dividends. The declaration, payment and amount of any future dividends of the Company are subject to the discretion of the Directors and will depend on, among other things, the Company's results of operations and financial condition, its future business prospects, any applicable legal or contractual restrictions and availability of profits. A dividend may never be paid and, at present, there is no intention to pay a dividend.

3.4 *The interests of a Qualifying Shareholder will be diluted*

To the extent that Qualifying Shareholders do not take up their entitlement of Open Offer Shares, their proportionate ownership and voting interest in the Company will be reduced. The level of take-up of Shareholders under the Open Offer will also impact the final shareholding of Waterford and Mr. Griffiths on the basis that any Open Offer Shares not subscribed for by existing Shareholders, will be subscribed for by Waterford and Mr. Griffiths under the terms of the Underwriting agreement. If any Shareholder does not take up their rights under the Open Offer their individual holding will be diluted by 75.06 per cent.

In the opinion of the Company, taking into account existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company, the Group does not have sufficient working capital for its present requirements, that is, for at least twelve months following the date of this document.

The Board is of the opinion that, excluding the potential liability in relation to the Rharr Petroleum Agreement, its existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company should give it sufficient working capital for its operational requirements to January 2017, following which it will require further working capital. However, as a result of the rejection of the Company's application for an extension of the Rharr Petroleum Agreement by ONHYM, and the claims for penalty fees under the agreement, the Board is unable to give a clean working capital statement. While the Board strongly refutes the claims by ONHYM and is seeking legal advice on the matter, there is the potential that such penalties become due and payable within the period that is twelve months from the date of this document, in which circumstances the Company will likely be required to raise further working capital immediately thereafter.

As the Company has no immediate sources of revenue, in order to address its working capital requirements, either during the twelve months from the date of this document as a result of claims by ONHYM becoming due and payable, or in January 2017 when in any event, the Company expects that it will require further working capital, the Board will consider all financing options available to it including the sale of assets and/or a further issue of equity.

If the funding is a result of a further issue of equity, then the Shareholders may experience further dilution.

The risks noted above do not necessarily comprise all those potentially faced by the Company and are not intended to be presented in any assumed order of priority.

PART III

IMPORTANT INFORMATION

1. General

Investors should only rely on the information contained in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised by Gulfsands, the Directors or Cantor Fitzgerald. No representation or warranty, express or implied, is made by Cantor Fitzgerald as to the accuracy or completeness of such information, and nothing contained in this document is, or shall be relied upon as, a promise or representation by Cantor Fitzgerald as to the past, present or future. Without prejudice to any legal or regulatory obligation on Gulfsands to publish a supplementary prospectus pursuant to section 87G of the FSMA and Prospectus Rule 3.4, neither the delivery of this document nor Admission shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company taken as a whole since the date of this document or that the information in it is correct as of any time after the date of this document.

The Company will update the information provided in this document by means of a supplement hereto if a significant new factor, material mistake or inaccuracy arises or is noted relating to the information included in this document. Any supplementary prospectus will be subject to approval by the FCA and will be made public in accordance with the Prospectus Rules.

Gulfsands will comply with its obligation to publish supplementary prospectuses containing further updated information required by law or by any regulatory authority but assumes no further obligation to publish additional information.

The contents of this document are not to be construed as legal, financial or tax advice. Each prospective investor should consult a legal adviser, an independent financial adviser duly authorised under the FSMA or a tax adviser for legal, financial or tax advice in relation to any investment in or holding of Ordinary Shares. Each prospective investor should consult with such advisers as needed to make its investment decision and to determine whether it is legally permitted to hold shares under applicable legal investment or similar laws or regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

Investing in and holding the Ordinary Shares involves financial risk. Prior to investing in the Ordinary Shares, investors should carefully consider all of the information contained in this document, paying particular attention to the section entitled Risk Factors in Part II of this document. Investors should consider carefully whether an investment in the Ordinary Shares is suitable for them in light of the information contained in this document and their personal circumstances.

Cantor Fitzgerald and its respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services to the Company, for which they would have received customary fees. Cantor Fitzgerald and its respective affiliates may provide such services to the Company and any of their affiliates in the future.

2. Presentation of financial information

The historical consolidated financial information relating to the Company included in Part XIV of this document has been prepared in accordance with IFRS. The significant accounting policies are set out in the notes of the Company's historical consolidated financial information included in Part XIV of this document.

3. Rounding

Percentages and certain amounts included in this document have been rounded for ease of presentation. Accordingly, figures shown as totals in certain tables may not be the precise sum of the figures that precede them.

4. Currencies

Unless otherwise indicated in this document, all references to:

- “Sterling”, “£” or “pence” are to the lawful currency of the UK;

- “US dollars”, “dollars”, “US\$” or “cents” are to the lawful currency of the United States; and
- “Euro” or “€” are to the lawful currency of the EU (as adopted by certain Member States of the Eurozone).

Unless otherwise indicated, the financial information contained in this document has been expressed in US Dollars. The Company presents its financial statements in US Dollars.

5. Forward-looking statements

Certain statements contained in this document, including those in the sections headed “Summary”, “Risk Factors”, “Letter from the Executive Chairman of Gulfsands”, “Information on Gulfsands”, and “Operating and Financial Review” constitute “forward-looking statements”. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “projects”, “aims”, “plans”, “predicts”, “prepares”, “anticipates”, “expects”, “intends”, “may”, “will”, “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Investors should specifically consider the factors identified in this document, which could cause actual results to differ before making an investment decision. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company’s present and future business strategies and the environment in which the Company will operate in the future. Such risks, uncertainties and other factors are set out more fully in the section of this document headed “Risk Factors”. These forward-looking statements speak only as at the date of this document. Except as required by the FCA, the AIM Rules or applicable law, Gulfsands expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The statements above relating to forward-looking statements should not be construed as a qualification on, and do not in any way seek to qualify, the opinion of Gulfsands as to working capital set out in paragraph 2 of Part XIII of this document.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend upon circumstances that may or may not occur in the future or are beyond the Company’s control. Forward-looking statements are not guarantees of future performance. The Company’s actual results of operations, financial condition and the development of the business sector in which the Company operates may differ materially from those suggested by the forward-looking statements contained in this document including, but not limited to, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, currency changes, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Company and its affiliates operate. In addition, even if the Company’s actual results of operations, financial condition and the development of the business sector in which the Company operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. No statement in this document is intended to be a profit forecast or to imply that earnings of the Company for the current year or future years will necessarily match or exceed the historical or published earnings of the Company.

Prospective investors are advised to read, in particular, the following parts of this document for a more complete discussion of the factors that could affect the Company’s future performance and the industry in which the Company operates: Part II (Risk Factors), Part VII (Letter from the Executive Chairman of Gulfsands), Part X (Information on Gulfsands), Part XIII (Operating and Financial Review) and Part XIV (Historical Financial Information). In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

The forward-looking statements contained in this document speak only as of the date of this document. The Company, the Directors and Cantor Fitzgerald expressly disclaim any obligations or undertaking to

update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable law or regulation, the Prospectus Rules or the AIM Rules.

6. Notice to Overseas Shareholders

Neither this document nor the Application Form constitutes or forms part of an offer to sell or issue, or the solicitation of an offer to subscribe for or buy, any Open Offer Shares to any person in any Restricted Jurisdiction.

Securities may not be offered or sold in the United States absent:

- (i) registration under the Securities Act; or
- (ii) an available exemption from registration under the Securities Act. The securities mentioned in this document have not been, and will not be, registered under the Securities Act and will not be offered to the public in the United States or any other Restricted Jurisdiction. Subject to certain exceptions, the securities mentioned in this document may not be offered, sold, taken up, resold, transferred, delivered or distributed, directly or indirectly, within, into or from the United States or any other Restricted Jurisdiction. Overseas Shareholders should consult their professional advisers as to whether they require any governmental or other consent or need to observe any other formalities to enable them to receive Open Offer Shares or to take up their entitlements under the Open Offer.

All Overseas Shareholders and any person (including, without limitation, a nominee, custodian or trustee) that has a contractual or other legal obligation to forward this document or any Application Form or other document to a jurisdiction outside the UK, should read paragraph 6 of Part VIII of this document.

The ability of any Overseas Shareholder to bring an action against the Company may be limited under law. The Company is a public limited company incorporated in England and Wales under the Companies Act 1985. The rights of holders of Ordinary Shares are governed by English law and by the Articles. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations.

7. Notice to all Shareholders

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information contained in this document for any purpose other than considering an investment in the Open Offer Shares is prohibited. By accepting delivery of this document, you agree to the foregoing.

The distribution of this document and/or Application Form into jurisdictions other than the UK may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, such documents should not be distributed, forwarded to or transmitted in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. The Application Form and the Open Offer Shares are not transferable, except in accordance with, and the distribution of this document is subject to, the restrictions set out in Part VIII of this document. No action has been taken by Gulfsands or by Cantor Fitzgerald that would permit an offer of Open Offer Shares or rights thereto or possession or distribution of this document or any other offering or publicity material or the Application Form in a jurisdiction where action for that purpose is required, other than the UK.

8. Market, economic and industry data

This document contains information regarding the Company's business and the industry in which it operates and competes, which the Company has obtained from various third party sources. Where information contained in this document originates from a third party source, it is identified where it appears in this document together with the name of its source. Such third party information has been accurately reproduced and, so far as Gulfsands is aware and is able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

9. No incorporation of website information

Neither the content of the Company's website (www.gulfsands.com) (or any other website) nor the content of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this document and investors should not rely on them.

10. Definitions

Certain terms used in this document, including capitalised terms, have the meanings ascribed to them in Parts XV and XVI of this document.

11. Time

All references to time are to London time unless stated otherwise.

12. General notice

Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice. You should consult with an appropriate professional adviser for specific advice rendered on the basis of your situation.

13. Consents

Cantor Fitzgerald has given and not withdrawn its consent to the inclusion of its name and references to it in this document in the form and context in which they appear.

Waterford has given and not withdrawn its consent to the inclusion of its name and references to it in this document in the form and context in which they appear.

Mr. Griffiths has given and not withdrawn his consent to the inclusion of his name and references to it in this document in the form and context in which they appear.

Weighbridge has given and not withdrawn its consent to the inclusion of its name and references to it in this document in the form and context in which they appear.

Mr. Conway has given and not withdrawn his consent to the inclusion of his name and references to it in this document in the form and context in which they appear.

14. Responsibility statements

Mr. Ian Conway, who has Bachelors and Masters degrees in Physics and has 29 years' of experience in petroleum exploration and management, accepts responsibility for the technical information contained in this document on page 42, and on pages 75 to 83 (inclusive). To the best of the knowledge and belief of Mr. Conway, the technical information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

15. Documents on display

Copies of the following documents are available for inspection on request by a Shareholder, person with information rights or other person to whom this Prospectus is sent at the offices of the Company during normal business hours on any weekday, (Saturdays, Sundays and public holidays excepted) from the date of this document until the conclusion of the Open Offer:

- (a) the Memorandum and Articles of Association;
- (b) the annual financial statements for the periods ending 31 December 2012, 2013 and 2014 and the interim financial statements for the period ending 30 June 2015; and
- (c) this Prospectus.

Copies of the documents set out above are also available on the Gulfsands website at the following address: www.gulfsands.com.

PART IV

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication date of this document	16 December 2015
Record Date for the Open Offer	5.00 p.m. on 14 December 2015
Announcement of the Open Offer	16 December 2015
Ex-entitlement date for the Open Offer	8.00 a.m. on 17 December 2015
Open Offer Entitlements credited to stock accounts of Qualifying CREST Shareholders	As soon as possible after 8.00 a.m. on 17 December 2015
Recommended latest time for requesting withdrawal of Open Offer Entitlements from CREST	4.30 p.m. on 29 December 2015
Latest time for depositing Open Offer Entitlements into CREST	3.00 p.m. on 30 December 2015
Latest time and date for splitting of Application Forms	3.00 p.m. on 31 December 2015
Latest time and date for receipt of completed Application Forms, and payment in full under the Open Offer or settlement of relevant CREST instructions (as appropriate)	11.00 a.m. on 5 January 2016
Admission effective and trading expected to commence in the Open Offer Shares	8.00 a.m. on 7 January 2016
CREST members' accounts credited in respect of Open Offer Shares in uncertificated form	As soon as possible after 8.00 a.m. on 7 January 2016
Share certificates in respect of Open Offer Shares expected to be despatched by no later than	by 13 January 2016
Open Offer Long Stop Date	31 January 2016

If you have any queries on the procedures for application under the Open Offer, you should contact Capita Asset Services on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Capita Asset Services is open between 9.00 a.m. and 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Capita Asset Services cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

If any of the details contained in the timetable above should change, the revised times and dates will be notified by means of an announcement through a Regulatory Information Service.

All times are London times and each of the times and dates are subject to change.

PART V

ISSUE STATISTICS

Number of Existing Shares	117,886,145
Number of Treasury Shares	4,103,355
Total number of Open Offer Shares	354,837,296
Total number of Ordinary Shares in issue immediately following the Open Offer	472,723,441
Total percentage of Enlarged Share Capital represented by the Open Offer Shares	75.06 per cent.
Closing price per Existing Share ⁽¹⁾	4.75p
Open Offer Price	4.00p
Discount of Open Offer Price to closing price per Existing Share ⁽¹⁾	15.8 per cent.
Maximum amount, before expenses, to be raised under the Open Offer	£14.2 million
Market capitalisation of the Company at the Open Offer Price upon Admission	£18.9 million

⁽¹⁾ The closing price on AIM on 26 August 2015, being the latest practicable business day prior to the date of announcement of the Capital Raising.

PART VI

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Alastair Beardsall, <i>Executive Chairman</i> Andrew West, <i>Non-Executive Director</i> Andrew Morris, <i>Non-Executive Director</i> Joe Darby, <i>Senior Independent Non-Executive Director</i> John Bell, <i>Independent Non-Executive Director</i> James Ede-Golightly, <i>Non-Executive Director</i>
Company Secretary	Ben Harber
Registered Office	One America Square Crosswall London EC3N 2SG Tel: + 44 20 7024 2130
Nominated Adviser and Broker	Cantor Fitzgerald Europe 1 Churchill Place Canary Wharf London E14 5RB
Auditors	BDO LLP 55 Baker Street London W1U 7EU
Solicitors to the Company	Fieldfisher LLP Riverbank House 2 Swan Lane London EC4R 3TT
Registrar	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Receiving Agent	Capita Asset Services Corporate Actions The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

PART VII

LETTER FROM THE EXECUTIVE CHAIRMAN OF GULFSANDS

Gulfsands Petroleum PLC

(Incorporated and registered in England and Wales, Registration No. 5302880)

Directors:

Alastair Beardsall, *Executive Chairman*
Andrew West, *Non-Executive Director*
Andrew Morris, *Non-Executive Director*
Joe Darby, *Senior Independent Non-Executive Director*
John Bell, *Independent Non-Executive Director*
James Ede-Golightly, *Non-Executive Director*

Registered Office:

One America Square
Crosswall
London
EC3N 2SG

16 December 2015

To Qualifying Shareholders and, for information purposes only, to other Shareholders and the holders of options over Ordinary Shares

Dear Shareholder,

OPEN OFFER OF 354,837,296 OPEN OFFER SHARES TO RAISE US\$22.0 MILLION

1. Introduction

On 27 August 2015, the Company announced a Capital Raising to raise gross proceeds of approximately US\$22.0 million before costs by way of an Open Offer. The Open Offer was conditional upon, among other things, the passing of certain resolutions to permit the Open Offer to proceed. On 14 September 2015, the Company convened a general meeting of Shareholders to vote on the resolutions, at which all the resolutions were duly passed by Shareholders.

As a result, the Company is pleased to dispatch this Prospectus to Shareholders setting out the detailed terms and conditions of the Open Offer. The Open Offer is to be made to all Qualifying Shareholders (which excludes those Shareholders resident in Australia and the US) to provide an opportunity to subscribe for an aggregate of 354,837,296 Open Offer Shares (representing a subscription of 350,733,941 new Ordinary Shares and a purchase of 4,103,355 Treasury Shares) on the basis of 3.01 Open Offer Shares for every 1 Existing Share held as at the Record Date, at an Open Offer Price of 4.0 pence per Open Offer Share. The Company proposes to issue and allot the Open Offer Shares to Qualifying Shareholders who have validly subscribed for such shares following the Open Offer Closing Date.

Waterford and Mr. Griffiths, as existing Shareholders in the Company, have each irrevocably undertaken to subscribe for their full entitlements under the Open Offer and have undertaken to underwrite the remaining Open Offer Shares whereby they will acquire any of these shares that are not subscribed for by Qualifying Shareholders under the Open Offer. The net result of this is that, in the event that no other Qualifying Shareholder elects to take up its Open Offer Entitlements, the Open Offer shall be fully subscribed by Waterford and Mr. Griffiths by way of the Underwriting.

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

2. Background to the Open Offer

Gulfsands is an independent oil and gas exploration and production company, whose major focus is on the Middle East and North Africa. It has oil exploration and development projects in Syria (currently under Force Majeure owing to EU Sanctions), Morocco and Tunisia. The Company also holds interests in Colombia. A summary of the Company's current asset portfolio is detailed in the table below.

<i>Licence</i>	<i>Working interest (%)</i>	<i>Operator</i>	<i>Status</i>	<i>2P reserves (MMboe)</i>	<i>2C contingent resources (MMboe)</i>	<i>Best estimate prospective resources (MMboe)</i>
Syria						
Block 26 (PSC) ⁽¹⁾	50	Gulfsands	<ul style="list-style-type: none"> ● Under Force Majeure since December 2011 due to EU Sanctions ● Remain in good order in Syria/Kurdish controlled areas 	–	89.1	–
Morocco						
Moulay Bouchta	75	Gulfsands	● Seeking farm-out for carried work programme or divestment	–	–	11.4
Zhana 1	65	Gulfsands	● Shut-in, partially depleted gas reservoir	–	–	–
Zhana 2	75	Gulfsands	● Shut-in depleted gas reservoir	–	–	–
Sidi Amer 1	75	Gulfsands	● Shut-in depleted gas reservoir	–	–	–
Tunisia						
Chorbane ⁽²⁾ (PSC)	100	Gulfsands	● Seeking farm-out for carried work programme or divestment	–	–	44.2
Colombia						
Llanos Block 50	100	Gulfsands	● Seeking farm-out for carried work programme or divestment	–	–	–
Putumayo Block 14	100	Gulfsands	● Seeking farm-out for carried work programme or divestment	–	–	–
Total				<u>–</u>	<u>89.1</u>	<u>55.6</u>

⁽¹⁾ Notwithstanding that the hydrocarbons discovered on the Block 26 PSC in Syria have been evaluated as reserves for several years leading up to, and after, the imposition of EU Sanctions in Syria, and that commercial production from the Block 26 area has exceeded 21MMbbls, for the purposes of this document the volumes of oil previously reported as 2P reserves have been reclassified by the Company as 2C contingent resources on the basis that the Company cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. This estimation of, and reclassification as, contingent resources has been prepared by the Company and reviewed by Senergy, an independent reserve/resource engineer who has completed several annual independent audits of the Company's reserves and resources. Senergy has confirmed that, based upon its review of the resource calculations and the various assumptions adopted by the Company, the estimate of contingent resources reclassified from 2P reserves is reasonable. Whilst no definite timeline can be substantiated, the Board continues to believe that the EU Sanctions will be lifted within five years and will continue to monitor all activity focused on resolving the situation in Syria and reconsider the basis for reversing this reclassification in line with any future developments.

⁽²⁾ The first renewal period expired in July 2015 and the Company has submitted an application for extension or renewal. The Company received a formal response from the Tunisian Ministry of Industry and Technology in August 2015 which indicated that its Hydrocarbon Advisory Committee had issued a 'favourable opinion' toward the application, and that the formal extension would be gazetted or published in the Official Journal of the Tunisian Republic. As at the date of this document, the formal extension has not been gazetted and there remains a risk that the renewal is not granted in which case the Company would forfeit the Chorbane PSC.

The Company has had a successful history of oil and gas production and exploration, principally at its Block 26 PSC in Syria which contributed positive cash flows to the Group. The imposition of EU Sanctions in Syria at the end of 2011 resulted in the Company declaring Force Majeure status for the Block 26 PSC in December 2011, and since this time the Company has received no revenues from production under the Block 26 PSC.

At the time, the Company had significant cash reserves, and undertook to pursue a diversification strategy in Morocco, resulting in the acquisition of its interests in January 2013 while at the same time, maintaining compliance with EU Sanctions in Syria. As part of this strategy, the Company's cash reserves were deployed toward exploration activities in Morocco, while rationalising the remainder of the Company's portfolio in the US and seeking farm-out partners in Tunisia and Colombia.

Due to the continuing imposition of EU Sanctions in Syria and the ongoing exploration activities in Morocco, the Company had a requirement for working capital by mid-2014. In order to pursue a strategy to generate short-term cash flows in Morocco, the Company entered into a strategic cooperation agreement with Arawak International and a US\$20.0 million Convertible Loan Facility with Arawak, drawing down US\$5.0 million in November 2014 and a further US\$5.0 million in January 2015. In January 2015, as a result of public statements made by certain Shareholders of the Company, Arawak International determined that it should terminate the strategic cooperation agreement and as a result, Arawak maintained the right to require repayment of all monies advanced under the Convertible Loan Facility.

On 29 June 2015, the Convertible Loan Facility was assigned to Waterford and Mr. Griffiths, two of the Company's major Shareholders. As part of its granting of consent for the assignment of the Convertible Loan Facility to Waterford and Mr. Griffiths, the Company secured an undertaking from Weighbridge, which holds the Convertible Loan Facility on behalf of both parties, that as holder of the Convertible Loan Facility, it would not demand immediate repayment of the outstanding balance of the Convertible Loan Facility together with additional fees and expenses, estimated at approximately US\$1.0 million, at any time prior to 23 September 2015. This undertaking has since been extended to 31 January 2016, being the Open Offer Long Stop Date.

As at 30 June 2015, the Company had cash and cash equivalents of US\$1.5 million with net current trade and other payables of US\$3.2 million and an amount drawn of US\$10.0 million under the Convertible Loan Facility. As at the date of this document, the Company had drawn a further US\$3.0 million under the Convertible Loan Facility, resulting in cash and cash equivalents of US\$0.6 million and net financial indebtedness, including rolled-up accrued interest and committee fees, of US\$13.5 million. The Company has no immediate sources of revenue.

As a result, the Company is seeking to complete the Capital Raising to repay the Convertible Loan Facility and secure the future of the Company in order to execute its renewed strategy. The Open Offer Long Stop Date has been set to allow the Company sufficient time to complete the Capital Raising in order to repay the Convertible Loan Facility in full.

Shareholders should however be aware that should the Open Offer not proceed by the Open Offer Long Stop Date, the Company will not be in a position to continue its operations as a going concern and there is a possibility that the Directors may be required to consider placing the Company into an insolvency process. Furthermore, Weighbridge may issue a demand for repayment of the Convertible Loan Facility in full, and if the outstanding balance is not repaid Weighbridge may exercise its security over some of the assets of the Group, namely the interests in Block 26, Syria, and the various interests in Morocco.

Notwithstanding this, in the opinion of the Company, following completion of the Open Offer and taking into account existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company, the Group does not have sufficient working capital for its present requirements, that is, for at least twelve months following the date of this document.

3. Company strategy

As a result of its current financial position, the Company's primary strategy is to maintain its interests in Syria, in compliance with the EU Sanctions that are currently in place, with a view to resuming the development of Block 26, with the associated generation of revenues, upon the lifting of EU Sanctions.

At the same time, the Company is seeking to reduce its financial exposure to the exploration activity on its assets in Morocco, Tunisia and Colombia by way of a divestment or farm-out of these interests. The Company will seek to extract value by way of reimbursement of back costs and restricted cash held as a performance guarantee on some of the assets.

If the Company is unable to divest or farm-out its interests, it will not have sufficient cash resources after the Capital Raising to complete the minimum work obligations outstanding under each of its contracts or agreements. In this event the Company will be at risk of losing restricted cash held as performance guarantees, which at the date of this document is US\$4.9 million, and may be liable for damages relating to the unfulfilled work programme obligations, further details of which can be found under paragraph 1.10 set out in Part II: "Risk Factors" of this document.

4. Use of proceeds

The purpose of the Open Offer is to raise proceeds sufficient to repay the full amount advanced under the Convertible Loan Facility with accumulated interest and fees and to fund the Company's ongoing working capital requirements. The Open Offer is intended to raise gross proceeds of US\$21.4 million before costs and net proceeds of US\$21.0 million. A summary of the use of proceeds of the Open Offer is shown in the table below:

<i>Sources and use of funds</i>	<i>US\$M</i>
Open Offer gross proceeds	21.4
Costs of the Open Offer	0.4
Net proceeds	21.0
Repayment of Convertible Loan Facility	14.2
Working capital	6.8
Total use of funds	21.4

In the opinion of the Company, taking into account existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company, the Group does not have sufficient working capital for its present requirements, that is, for at least twelve months following the date of this document.

The Board is of the opinion that, excluding the potential liability in relation to the Rharb Petroleum Agreement, its existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company should give it sufficient working capital for its operational requirements to January 2017 following which it will require further working capital. However, as a result of the rejection of the Company's application for an extension of the Rharb Petroleum Agreement by ONHYM, and the claims for penalty fees under the agreement, the Board is unable to give a clean working capital statement. While the Board strongly refutes the claims by ONHYM and is seeking legal advice on the matter, there is the potential that such penalties become due and payable within the period that is twelve months from the date of this document, in which circumstances the Company will likely be required to raise further working capital immediately thereafter.

As the Company has no immediate sources of revenue, in order to address its working capital requirements, either during the twelve months from the date of this document as a result of claims by ONHYM becoming due and payable, or in January 2017 when in any event, the Company expects that it will require further working capital, the Board will consider all financing options available to it including the sale of assets and/or a further issue of equity. The proceeds of any such future fundraising would be expected to be applied toward corporate overheads and associated expenses in accordance with the Company's strategy.

In the event that the Company is unable to raise further working capital for its requirements, it may no longer be able to operate as a going concern, in which case the Board will place the Company into an insolvency process.

5. Details of the Open Offer

5.1 Structure

The Directors have given consideration as to the best way to structure the proposed Capital Raising, having regard to current market conditions, the composition of the Company's Shareholder register, the Company's share price, the importance of pre-emption rights to Shareholders and ensuring the Company is sufficiently capitalised following completion of the Capital Raising.

The Directors have concluded that the structure of the fundraising by way an Open Offer is the most suitable option available to the Company and its Shareholders as a whole. The Open Offer provides an opportunity for all Qualifying Shareholders to participate in the Capital Raising by acquiring Open Offer Shares pro rata to their holdings of Existing Shares.

The Open Offer Price of 4.0 pence per Open Offer Share represents a 15.8 per cent. discount to the closing middle market price of 4.75 pence per Existing Share on 26 August 2015, being the last business day before the date of announcement of the Capital Raising.

5.2 **Principal terms of the Open Offer**

Subject to fulfilment of the condition set out in paragraph 5.4 below, Qualifying Shareholders are being given the opportunity to subscribe for the Open Offer Shares at the Open Offer Price of 4.0 pence per Open Offer Share, pro rata to their holdings of Existing Shares held on the Record Date on the basis of:

3.01 Open Offer Shares for every 1 Existing Share

The Open Offer Shares will, upon issue, rank *pari passu* with the Existing Shares now in issue. Fractions of Open Offer Shares will not be allotted to Qualifying Shareholders in the Open Offer and entitlements under the Open Offer will be rounded down to the nearest whole number of Open Offer Shares.

Qualifying Shareholders with holdings of Existing Shares in both certificated and uncertificated form will be treated as having separate holdings for the purpose of calculating the Open Offer Entitlements.

Application will be made for the Open Offer Entitlements in respect of Qualifying CREST Shareholders to be admitted to CREST. It is expected that such Open Offer Entitlements will be admitted to CREST as soon as possible after 8.00 a.m. on 17 December 2015. Such Open Offer Entitlements will also be enabled for settlement in CREST. Applications through the means of the CREST system may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim.

Qualifying Non-CREST Shareholders will have received an Application Form with this document which sets out their entitlement to Open Offer Shares as shown by the number of Open Offer Entitlements allocated to them. Qualifying CREST Shareholders will receive a credit to their appropriate stock accounts in CREST in respect of their Open Offer Entitlements on 17 December 2015.

Shareholders should note that the Open Offer is not a rights issue. Qualifying CREST Shareholders should note that although the Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim. Qualifying Non-CREST Shareholders should note that the Application Form is not a negotiable document and cannot be traded. Qualifying Shareholders should be aware that in the Open Offer, unlike in a rights issue, any Open Offer Shares not applied for will not be sold in the market or placed for the benefit of Qualifying Shareholders who do not apply under the Open Offer.

For Qualifying Non-CREST Shareholders, completed Application Forms, accompanied by full payment, should be returned by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, so as to arrive as soon as possible and in any event so as to be received by no later than 11.00 a.m. on 5 January 2016. For Qualifying CREST Shareholders, the relevant CREST instructions must have been settled as explained in this document by no later than 11.00 a.m. on 5 January 2016.

Further information on the Open Offer and the terms and conditions on which it is made, including the procedure for application and payment, are set out in Part VIII of this document.

5.3 **Underwriting of the Open Offer**

Waterford and Mr. Griffiths have each irrevocably undertaken to subscribe for their full entitlements under the Open Offer, amounting in aggregate to 135,092,502 Open Offer Shares (£5,403,700.08).

Further, Waterford and Mr. Griffiths have underwritten the remaining Open Offer Shares whereby they will acquire any of these shares that are not subscribed for by Qualifying Shareholders under the Open Offer. As a result, Waterford and Mr. Griffiths have each separately agreed to Underwrite up to a maximum of 109,872,397 Open Offer Shares for a combined total of 219,744,794 Open Offer Shares (£8,789,791.78).

The undertakings from Waterford and Mr. Griffiths are conditional upon the principal amount and interest, and all fees and penalties accrued and outstanding under the Convertible Loan Facility, being applied in paying up in full the Open Offer Shares to be subscribed pursuant to the Open Offer and the Underwriting.

5.4 **Other information relating to the Capital Raising**

The Open Offer is conditional upon Admission of the Open Offer Shares becoming effective by not later than 31 January 2016. Accordingly, if this condition is not satisfied, the Open Offer will not proceed.

The Open Offer will result in the issue of 354,837,296 Open Offer Shares, comprising the issue of 350,733,941 new Ordinary Shares and the sale of 4,103,355 Treasury Shares (representing, in aggregate, approximately 75.06 per cent. of the Enlarged Share Capital). The Open Offer Shares, when issued and fully paid, will rank *pari passu* in all respects with the Existing Shares and therefore rank equally for all dividends or other distributions declared, made or paid after the date of issue of the Open Offer Shares.

Application will be made to the London Stock Exchange for the Open Offer Shares to be admitted to trading on AIM. It is expected that Admission will become effective on 7 January 2016 and that dealings for normal settlement in the Open Offer Shares will commence at 8.00 a.m. on 7 January 2016.

6. **Effect of the Open Offer**

Upon Admission, the Enlarged Share Capital is expected to be 472,723,441 Ordinary Shares. On this basis, the Open Offer Shares will represent approximately 75.06 per cent. of the Enlarged Share Capital.

Following the issue of the Open Offer Shares pursuant to the Capital Raising, Qualifying Shareholders who take up their full entitlements in respect of the Open Offer will not undergo any dilution to their interests in the Company. Qualifying Shareholders who do not take up all of their Open Offer Entitlements in respect of the Open Offer will experience a dilution which will be dependent upon the percentage of their take up of their Open Offer Entitlements, but in the worst case assuming nil take up of their Open Offer Entitlements, the dilution will amount to 75.06 per cent. of their interests in the Company as a result of the Capital Raising.

7. **Action to be taken**

If you are a Qualifying Shareholder and you wish to take up all or a portion of your Open Offer Entitlements, please refer to the paragraphs below with regard to the action to be taken.

If you are a Qualifying Shareholder and you do not wish to take up any of your Open Offer Entitlements, you should take no action.

7.1 **Qualifying Non-CREST Shareholders**

If you are a Qualifying Non-CREST Shareholder you will have received an Application Form which gives details of your pro-rata entitlement under the Open Offer (as shown by the number of Open Offer Entitlements allocated to you). If you wish to apply for Open Offer Shares under the Open Offer in respect of your Open Offer Entitlement, you should complete the accompanying Application Form in accordance with the procedure for application set out in paragraph 4.1 of Part VIII of this document and on the Application Form itself.

7.2 **Qualifying CREST Shareholders**

If you are a Qualifying CREST Shareholder and do not hold any Existing Shares in certificated form, no Application Form accompanies this document and you will receive a credit to your appropriate stock account in CREST in respect of the Open Offer Entitlements representing your pro-rata entitlement under the Open Offer except (subject to certain exceptions) if you are an Overseas Shareholder who has a registered address in, or is a resident in or a citizen of, a Restricted Jurisdiction.

The latest time for applications under the Open Offer to be received is 11.00 a.m. on 5 January 2016. The procedure for application and payment depends on whether, at the time at which application and payment is made, you have an Application Form in respect of your entitlement under the Open Offer or have Open Offer Entitlements credited to your stock account in CREST in respect of such entitlement. The procedures for application and payment are set out in paragraph 4.2 of Part VIII of this document.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Open Offer.

7.3 Overseas Shareholders

Information for Overseas Shareholders who have registered addresses outside the UK or who are citizens or residents of countries other than the UK appears in paragraph 6 of Part VIII of this document, which sets out the restrictions applicable to such persons. If you are an Overseas Shareholder, it is important that you read that part of this document.

8. Admission to trading and dealing arrangements

An application will be made to AIM for the Open Offer Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Open Offer Shares will commence at 8.00 a.m. on 7 January 2016 on AIM.

No application is currently intended to be made for the Existing Shares or the Open Offer Shares to be admitted to listing or dealt in on any other exchange.

Subject to the satisfaction of the conditions of the Open Offer, the Open Offer Shares to be issued under the Open Offer will be registered in the names of the person to whom they are issued and who applied for their Open Offer Shares, either:

- In certificated form, with the relevant share certificate expected to be despatched by post, at the applicant's risk, by 13 January 2016; or
- In CREST, with delivery (to the designated CREST account) of the Open Offer Shares applied for expected to take place on 7 January 2016 unless the Company exercises its right to issue the Open Offer Shares in certificated form.

The results of the Open Offer will be announced via a Regulatory Information Service.

9. Additional Information

Your attention is drawn to the additional information set out in Parts II to VI and Parts VIII to XIV (inclusive) of this document. You are recommended to read all the information contained in this document and not just rely on the key or summarised information.

The technical information contained in this document has been reviewed and approved by Ian Conway, who has Bachelors and Masters degrees in Physics and has 28 years' of experience in petroleum exploration and management. Mr. Conway has consented to the inclusion of the technical information in this document in the form and context in which it appears.

10. Risk Factors

Shareholders should consider fully the risk factors associated with the business of the Company and the Company's securities. Your attention is drawn to the Part II entitled "Risk Factors" set out in pages 19 to 33 (inclusive) of this document.

11. Taxation

Information about UK taxation is set out in Part XII of this document. This information is a general guide only. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than the UK, you should consult your own independent professional adviser without delay.

12. Directors' participation in the Open Offer

Each of the Directors is supportive of the Capital Raising. The Directors who are also Qualifying Shareholders intend to take up their Open Offer Entitlements in full, which amount to 798,083 Open Offer Shares.

13. Directors' support

The Board considers the terms of the Open Offer to be in the best interests of Shareholders as a whole to secure the future of the Company, and unanimously supports the Capital Raising.

Yours faithfully

Alastair Beardsall

Executive Chairman

PART VIII

TERMS AND CONDITIONS OF THE OPEN OFFER

1. Introduction

As explained in the letter set out in Part VII: "Letter from the Executive Chairman of Gulfsands" of this document, the Company is proposing to issue 354,837,296 Open Offer Shares, comprising the issue of 350,733,941 new Ordinary Shares and the sale of 4,103,355 Treasury Shares, at the Open Offer Price of 4.0 pence, to raise US\$22.0 million (before expenses incurred in relation to the Open Offer). The Open Offer is an opportunity for Qualifying Shareholders to apply for Open Offer Shares pro rata to their current holdings at the Open Offer Price.

The Record Date for entitlements under the Open Offer for Qualifying Shareholders is close of business on 14 December 2015. Application Forms for Qualifying Non-CREST Shareholders are enclosed with this document and Open Offer Entitlements are expected to be credited to stock accounts of Qualifying CREST Shareholders in CREST on 17 December 2015.

The latest time and date for receipt of completed Application Forms and payment in full under the Open Offer and settlement of relevant CREST instructions (as appropriate) is expected to be 11.00 a.m. on 5 January 2016 with Admission and commencement of dealings in Open Offer Shares expected to take place at 8.00 a.m. on 7 January 2016.

This document and, for Qualifying Non-CREST Shareholders only, the Application Form contains the formal terms and conditions of the Open Offer. The attention of Qualifying Non-CREST Shareholders is drawn to paragraph 4.1, and the attention of Qualifying CREST Shareholders is drawn to paragraph 4.2, of this Part VIII: "Terms and Conditions of the Open Offer" which gives details of the procedure for application and payment for the Open Offer Shares.

The Open Offer Shares will, when issued and fully paid, rank equally in all respects with the Existing Shares, including the right to receive all dividends or other distributions made, paid or declared, if any, by reference to a record date after the date of their issue.

Subject to Admission, the Open Offer Shares will represent approximately 75.06 per cent. of the Enlarged Share Capital and the Existing Shares will represent approximately 24.94 per cent. of the Enlarged Share Capital. The Company is proposing to issue 354,837,296 Open Offer Shares at the Open Offer Price subject to Admission, in respect of valid applications by Qualifying Shareholders. Application will be made to AIM for the Open Offer Shares to be admitted to trading on AIM.

Any Qualifying Shareholder who has sold or transferred all or part of his/her registered holding(s) of Existing Shares prior to the date the Shares were marked ex-entitlement is advised to consult his or her stockbroker, bank or other agent through or to whom the sale or transfer was effected as soon as possible since the invitation to apply for Open Offer Shares under the Open Offer may be a benefit which may be claimed from him/her by the purchasers under the AIM Rules.

The attention of Overseas Shareholders is drawn to paragraph 6 of this Part VIII.

2. The Open Offer

Subject to the terms and conditions set out below (and, in the case of Qualifying Non-CREST Shareholders, in the Application Form), Qualifying Shareholders are being given the opportunity under the Open Offer to apply for Open Offer Shares pro rata to their holdings, at the Open Offer Price on the basis of:

3.01 Open Offer Shares for every 1 Existing Share

registered in their name at the Record Date and so in proportion for any greater or lesser number of Existing Shares then held.

The Open Offer Price is at a discount of 15.8 per cent. to the closing middle market price of 4.75 pence per Existing Share on 26 August 2015 (being the last practicable date before announcement of the Capital Raising).

Fractional entitlements to Open Offer Shares will be rounded down to the nearest whole number and any fractional entitlements will be aggregated and subscribed by the Underwriters under the Underwriting.

Holdings of Existing Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer, as will holdings under different designations and in different accounts.

If you are a Qualifying Non-CREST Shareholder, the Application Form shows the number of Existing Shares registered in your name on the Record Date in Box 4. Qualifying Non-CREST Shareholders should refer to paragraph 4.1 of this Part VIII: "Terms and Conditions of the Open Offer" for information on the relevant application procedures as well as the Application Form.

Qualifying CREST Shareholders will have Open Offer Entitlements credited to their stock accounts in CREST and should refer to paragraph 4.2 of this Part VIII: "Terms and Conditions of the Open Offer" for information on the relevant CREST procedures. Qualifying CREST Shareholders can also refer to the CREST Manual for further information on the relevant CREST procedures.

Following the issue of the Open Offer Shares to be allotted pursuant to the Open Offer, a Qualifying Shareholder who holds Existing Shares who takes up his entitlement under the Open Offer pro rata to his current holding will suffer nil dilution of his interest in the Company. ***If the same Qualifying Shareholder does not take up any of his entitlement under the Open Offer, he will suffer a dilution of 75.06 per cent. of his interest in the Company.***

Qualifying Shareholders should be aware that the Open Offer is not a rights issue. Qualifying Non-CREST Shareholders should also note that their respective Application Form is not a negotiable document and cannot be traded. Qualifying CREST Shareholders should note that, although the Open Offer Entitlements will be credited to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a bona fide market claim raised by Euroclear's Claims Processing Unit.

Open Offer Shares not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer and Qualifying Shareholders who do not apply to take up Open Offer Shares will have no rights under the Open Offer. Any Open Offer Shares which are not applied for by Qualifying Shareholders under their Open Offer Entitlements will be subscribed by Waterford and Mr. Griffiths via the Underwriting.

Application will be made for the Open Offer Entitlements to be credited to Qualifying CREST Shareholders' CREST accounts. The Open Offer Entitlements are expected to be credited to CREST accounts as soon as possible after 8.00 a.m. on 17 December 2015.

The Open Offer Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Shares. The Open Offer Shares are not being made available in whole or in part to the public except under the terms of the Open Offer.

3. Conditions and further terms of the Open Offer

The Open Offer is conditional only upon Admission of the Open Offer Shares becoming effective by not later than 8.00 a.m. on 31 January 2016.

Accordingly, if this condition is not satisfied, the Open Offer will not proceed and any applications made by Qualifying Shareholders will be rejected. In such circumstances, application monies will be returned (at the applicant's sole risk), without payment of interest, as soon as practicable thereafter.

No temporary documents of title will be issued in respect of Open Offer Shares held in uncertificated form. Definitive certificates in respect of Open Offer Shares taken up are expected to be posted to those Qualifying Shareholders who have validly elected to hold their Open Offer Shares in certificated form, by 13 January 2016. In respect of those Qualifying Shareholders who have validly elected to hold their Open Offer Shares in uncertificated form, the Open Offer Shares taken up are expected to be credited to their stock accounts maintained in CREST by as soon as possible after 8.00 a.m. on 7 January 2016.

Applications will be made for the Open Offer Shares to be admitted to trading on AIM. Admission is expected to occur on 7 January 2016, when dealings in the Open Offer Shares are expected to begin.

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

If for any reason it becomes necessary to adjust the expected timetable as set out in this document, the Company will make an appropriate announcement to a Regulatory Information Service giving details of the revised dates.

4. Procedure for application and payment

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

Qualifying Shareholders who hold all their Existing Shares in certificated form will receive the Application Form, enclosed with this document. The Application Form shows the number of Existing Shares held at the Record Date. It will also show Qualifying Shareholders the number of Open Offer Shares available under their Open Offer Entitlement that can be allotted in certificated form.

Qualifying Shareholders who hold all their Existing Shares in CREST will be allocated Open Offer Entitlements in CREST. Qualifying Shareholders who hold part of their Existing Shares in uncertificated form will be allotted Open Offer Shares in uncertificated form to the extent that their entitlement to Open Offer Shares arises as a result of holding Existing Shares in uncertificated form. However, it will be possible for Qualifying Shareholders to deposit Open Offer Entitlements into, and withdraw them from, CREST. Further information on deposit and withdrawal from CREST is set out in paragraph 4.2 of this Part VIII: "Terms and Conditions of the Open Offer".

CREST sponsored members should refer to their CREST sponsor, as only their CREST sponsor will be able to take the necessary action specified below to apply under the Open Offer in respect of the Open Offer Entitlements of such members held in CREST. CREST members who wish to apply under the Open Offer in respect of their Open Offer Entitlements in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below.

Qualifying Shareholders who do not want to apply for the Open Offer Shares under the Open Offer should take no action and should not complete or return the Application Form, or send a USE message through CREST.

4.1 If you have an Application Form in respect of your Open Offer Entitlements under the Open Offer

(a) General

Subject as provided in paragraph 6 of Part VIII: "Terms and Conditions of the Open Offer" in relation to Overseas Shareholders, Qualifying Non-CREST Shareholders will receive an Application Form. The Application Form shows the number of Existing Shares registered in their name on the Record Date in Box 4. It also shows (in Box 5) the Open Offer Entitlement allocated to them. Fractional entitlements to Open Offer Shares will be disregarded and will be aggregated and subscribed via the Underwriting. Box 6 shows how much they would need to pay if they wish to take up their Open Offer Entitlements in full. Qualifying Non-CREST Shareholders may apply for less than their Open Offer Entitlement should they wish to do so. Qualifying Non-CREST Shareholders may also hold such an Application Form by virtue of a bona fide market claim.

The instructions and other terms set out in the Application Form forms part of the terms of the Open Offer in relation to Qualifying Non-CREST Shareholders.

In the event that the Open Offer does not become unconditional by 8.00 a.m. on 31 January 2016, the Open Offer will lapse, any Application Forms submitted to the Receiving Agent will be deemed invalid and the Receiving Agent will refund the amount paid by a Qualifying Non-CREST Shareholder by way of cheque, without interest, as soon as practicable thereafter.

(b) *Bona fide market claims*

Applications to acquire Open Offer Shares may only be made on the Application Form and may only be made by the Qualifying Non-CREST Shareholder named in it or by a person entitled by virtue of a bona fide market claim in relation to a purchase of Existing Shares through the market prior to the date upon which the Existing Shares were marked “ex” the entitlement to participate in the Open Offer. Application Forms may not be assigned, transferred or split, except to satisfy bona fide market claims up to 3.00 p.m. on 31 December 2015. The Application Form is not a negotiable document and cannot be separately traded. A Qualifying Non-CREST Shareholder who has sold or otherwise transferred all or part of his holding of Existing Shares prior to the date upon which the Existing Shares were marked “ex” the entitlement to participate in the Open Offer, should consult his broker or other professional adviser as soon as possible, as the invitation to acquire Open Offer Shares under the Open Offer may be a benefit which may be claimed by the transferee. Qualifying Non-CREST Shareholders who have sold all or part of their registered holdings should, if the market claim is to be settled outside CREST, complete Box 8 on the Application Form and immediately send it to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The Application Form should not, however be forwarded to or transmitted in or into the United States or any Restricted Jurisdiction. If the market claim is to be settled outside CREST, the beneficiary of the claim should follow the procedures set out in the accompanying Application Form. If the market claim is to be settled in CREST, the beneficiary of the claim should follow the procedure set out in paragraph 4.2b) of this Part VIII.

(c) *Application procedures*

Qualifying Non-CREST Shareholders wishing to apply to acquire Open Offer Shares in respect of all or part of their Open Offer Entitlement should complete the Application Form in accordance with the instructions printed on it.

Completed Application Forms should be posted in the accompanying pre-paid envelope or returned by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU (who will act as Receiving Agent in relation to the Open Offer) so as to be received by the Receiving Agent by no later than 11.00 a.m. on 5 January 2016, after which time Application Forms will not be valid. Qualifying Non-CREST Shareholders should note that applications, once made, will be irrevocable and receipt thereof will not be acknowledged. If an Application Form is being sent by first-class post in the UK, Qualifying Non-CREST Shareholders are recommended to allow at least four working days for delivery.

All payments must be made by cheque or duly endorsed banker’s draft in pounds sterling and made payable to Capita Registrars Limited re Gulfsands Petroleum plc Open Offer A/C and crossed “A/C Payee Only”. Cheques or banker’s drafts must be drawn on a bank or building society or branch of a bank or building society in the UK or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker’s drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner and must be for the full amount payable in respect of the application. Third party cheques will not be accepted with the exception of building society cheques or banker’s drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the back of the cheque or draft to confirm that the relevant Non-CREST Qualifying Shareholder has title to the underlying funds. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted.

Cheques or banker's drafts will be presented for payment upon receipt. The Company reserves the right to instruct the Receiving Agent to seek special clearance of cheques and banker's drafts to allow the Company to obtain value for remittances at the earliest opportunity (and withhold definitive share certificates (or crediting to the relevant member account, as applicable) pending clearance thereof). No interest will be paid. It is a term of the Open Offer that cheques shall be honoured on first presentation and the Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured. All documents, cheques and banker's drafts sent through the post will be sent at the risk of the sender. Third party cheques will not be accepted except banker's drafts or building society cheques which must be endorsed by the bank or building society on the back of the draft or cheque. Payments via CHAPS, BACS or electronic transfer will not be accepted.

If cheques or banker's drafts are presented for payment before the conditions of the Open Offer are fulfilled, the application monies will be credited to a non-interest bearing account by the Receiving Agent. If the Open Offer does not become unconditional, no Open Offer Shares will be issued and all monies will be returned (at the applicant's sole risk), without payment of interest, to applicants as soon as practicable following the lapse of the Open Offer.

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

- (i) Application Forms received after 11.00 a.m. on 5 January 2016; or
- (ii) applications in respect of which remittances are received before 11.00 a.m. on 5 January 2016 from authorised persons (as defined in FSMA) specifying the Open Offer Shares applied for and undertaking to lodge the Application Form in due course but, in any event, within two Business Days.

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

If Open Offer Shares have already been allotted to a Qualifying Non-CREST Shareholder and such Qualifying Non-CREST Shareholder's cheque or banker's draft is not honoured upon first presentation or such Qualifying Non-CREST Shareholder's application is subsequently otherwise deemed to be invalid, the Receiving Agent shall be authorised (in its absolute discretion as to manner, timing and terms) to make arrangements, on behalf of the Company, for the sale of such Qualifying Non-CREST Shareholder's Open Offer Shares and for the proceeds of sale (which for these purposes shall be deemed to be payments in respect of successful applications) to be paid to and retained by the Company. None of the Receiving Agent, Cantor Fitzgerald, nor the Company nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Qualifying Non-CREST Shareholders.

All enquiries in connection with the procedure for application and completion of the Application Form should be addressed to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. Calls made from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. Please note the Receiving Agent cannot provide advice on the merits of the Open Offer or as to whether applicants should take up their Open Offer Entitlements or give any financial, legal or tax advice.

Qualifying Non-CREST Shareholders who do not want to take up or apply for the Open Offer Shares under the Open Offer should take no action and should not complete or return the Application Form.

A Qualifying Non-CREST Shareholder who is also a CREST member may elect to receive the Open Offer Shares to which he is entitled in uncertificated form in CREST. Please see paragraph 4.2e) below for more information.

(d) *Effect of application*

By completing and delivering an Application Form, the applicant:

- (i) Represents and warrants to the Company and Cantor Fitzgerald that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for Open Offer Shares or acting on behalf of any such person on a non-discretionary basis;
- (ii) Agrees with the Company and Cantor Fitzgerald that all applications under the Open Offer and contracts resulting therefrom shall be governed by and construed in accordance with the laws of England and Wales;
- (iii) Confirms to the Company and Cantor Fitzgerald that in making the application he is not relying on any information or representation in relation to Gulfsands other than that contained in this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all information in relation to Gulfsands contained in this document;
- (iv) Represents and warrants to the Company and Cantor Fitzgerald that he is the Qualifying Shareholder originally entitled to the Open Offer Entitlements or that he received such Open Offer Entitlements by virtue of a bona fide market claim;
- (v) Represents and warrants to the Company and Cantor Fitzgerald that if he has received some or all of his Open Offer Entitlements from a person other than Gulfsands he is entitled to apply under the Open Offer in relation to such Open Offer Entitlements by virtue of a bona fide market claim;
- (vi) Requests that the Open Offer Shares, to which he will become entitled, be issued to him on the terms set out in this document and the Application Form, subject to the memorandum and articles of association of the Company;
- (vii) Represents and warrants to the Company and Cantor Fitzgerald that he is not, nor is he applying on behalf of any person who is, in the United States or is a citizen or resident, or which is a corporation, partnership or other entity created or organised in or under any laws, of any Restricted Jurisdiction or any jurisdiction in which the application for Open Offer Shares is prevented by law and he is not applying with a view to re-offering, re-selling, transferring or delivering any of the Open Offer Shares which are the subject of his application in the United States or to, or for the benefit of, a person who is a citizen or resident or which is a corporation, partnership or other entity created or organised in or under any laws of any Restricted Jurisdiction or any jurisdiction in which the application for Open Offer Shares is prevented by law (except where proof satisfactory to the Company has been provided to the Company that he is able to accept the invitation by the Company free of any requirement which it (in its absolute discretion) regards as unduly burdensome), nor acting on behalf of any such person on a non-discretionary basis nor a person(s) otherwise prevented by legal or regulatory restrictions from applying for Open Offer Shares under the Open Offer;
- (viii) Represents and warrants to the Company and Cantor Fitzgerald that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in sections 67, 70, 93 or 96 (depository receipts and clearance services) of the Finance Act 1986; and
- (ix) Confirms to the Company and Cantor Fitzgerald that in making the application he is not relying and has not relied on Cantor Fitzgerald or any person affiliated with Cantor Fitzgerald in connection with any investigation of the accuracy of any information contained in this document or his investment decision.

4.2 ***If you have Open Offer Entitlements credited to your stock account in CREST in respect of your entitlement under the Open Offer***

(a) *General*

Subject as provided in paragraph 6 of Part VIII: “Terms and Conditions of the Open Offer” in relation to certain Overseas Shareholders, each Qualifying CREST Shareholder will receive a credit to his stock account in CREST of his Open Offer Entitlements equal to the maximum number of Open Offer Shares for which he is entitled to apply to acquire under the Open Offer. Fractional entitlements to Open Offer Shares will be rounded down to the nearest whole number and any fractional entitlements will be aggregated and subscribed by the Underwriters as part of the Underwriting.

The CREST stock account to be credited will be an account under the participant ID and member account ID that applies to the Existing Shares held on the Record Date by the Qualifying CREST Shareholder.

If for any reason the Open Offer Entitlements cannot be admitted to CREST by, or the stock accounts of Qualifying CREST Shareholders cannot be credited by, 3.00 p.m. on 30 December 2015, or such later time and/or date as the Company may decide, an Application Form will be sent to each Qualifying CREST Shareholder in substitution for the Open Offer Entitlements which should have been credited to his stock account in CREST. In these circumstances the expected timetable as set out in this document will be adjusted as appropriate and the provisions of this document applicable to Qualifying Non-CREST Shareholders with Application Forms will apply to Qualifying CREST Shareholders who receive such Application Forms.

CREST members who wish to apply to acquire some or all of their entitlements to Open Offer Shares should refer to the CREST Manual for further information on the CREST procedures referred to below. Should you need advice with regard to these procedures, please contact Capita Asset Services on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. The helpline is open between 9.00 a.m. and 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Capita Asset Services cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes. If you are a CREST sponsored member you should consult your CREST sponsor if you wish to apply for Open Offer Shares as only your CREST sponsor will be able to take the necessary action to make this application in CREST.

Qualifying CREST Shareholders who do not want to take up or apply for the Open Offer Shares under the Open Offer should take no action and should not give, or procure that there is given, any USE instruction to Euroclear.

(b) *Market claims*

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

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

Qualifying CREST Shareholders who are CREST members and who wish to apply for Open Offer Shares in respect of all or some of their Open Offer Entitlements in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an USE instruction to Euroclear which, on its settlement, will have the following effect:

- (i) The crediting of a stock account of the Receiving Agent under the participant ID and member account ID specified below, with a number of Open Offer Entitlements corresponding to the number of Open Offer Shares applied for; and

- (ii) The creation of a CREST payment, in accordance with the CREST payment arrangements in favour of the payment bank of the Receiving Agent in respect of the amount specified in the USE instruction which must be the full amount payable on application for the number of Open Offer Shares referred to in (i) above.
- (d) *Content of USE instruction in respect of Open Offer Entitlements*
- The USE instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:
- (i) The number of Open Offer Shares for which application is being made (and hence the number of the Open Offer Entitlements being delivered to the Receiving Agent);
 - (ii) The ISIN of the Open Offer Entitlement. This is GB00BYYWZF91;
 - (iii) The CREST participant ID of the accepting CREST member;
 - (iv) The CREST member account ID of the accepting CREST member from which the Open Offer Entitlements are to be debited;
 - (v) The participant ID of the Receiving Agent in its capacity as a CREST receiving agent. This is 7RA33;
 - (vi) The member account ID of the Receiving Agent in its capacity as a CREST receiving agent. This is 28597GUL;
 - (vii) The amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of Open Offer Shares referred to in (i) above;
 - (viii) The intended settlement date. This must be on or before 11.00 a.m. on 5 January 2016; and
 - (ix) The corporate action number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 5 January 2016.

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

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

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE instruction may settle on 5 January 2016 in order to be valid is 11.00 a.m. on that day.

In the event that the Open Offer does not become unconditional by 8.00 a.m. on 31 January 2016, the Open Offer will lapse. Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, as soon as practicable thereafter.

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

A Qualifying Non-CREST Shareholder's entitlement under the Open Offer as shown by the number of Open Offer Entitlements set out in his Application Form may be deposited into CREST (either into the account of the Qualifying Shareholder named in the Application Form or into the name of a person entitled by virtue of a bona fide market claim), provided that such Qualifying Non-CREST Shareholder is also a CREST member. Similarly, Open Offer Entitlements held in CREST may be withdrawn from CREST so that the entitlement under the Open Offer is reflected in an Application Form. Normal CREST procedures (including timings) apply in relation to any such deposit or withdrawal, subject (in the case of a deposit into CREST) as set out in the Application Form.

A holder of an Application Form who is proposing to deposit the entitlement set out in such form into CREST is recommended to ensure that the deposit procedures are implemented in sufficient time to enable the person holding or acquiring the Open Offer Entitlements following their deposit into CREST to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 5 January 2016.

In particular, having regard to normal processing times in CREST and, on the part of the Receiving Agent, the recommended latest time for depositing an Application Form with the CREST Courier and Sorting Service, where the person entitled wishes to hold his Open Offer Entitlement set out in such Application Form as Open Offer Entitlements in CREST, is 3.00 p.m. on 30 December 2015 and the recommended latest time for receipt by Euroclear of a dematerialised instruction requesting withdrawal of Open Offer Entitlements from CREST is 4.30 p.m. on 29 December 2015 in either case so as to enable the person acquiring or (as appropriate) holding the Open Offer Entitlements following the deposit or withdrawal (whether as shown in an Application Form or held in CREST) to take all necessary steps in connection with applying in respect of the Open Offer Entitlements, as the case may be, prior to 11.00 a.m. on 5 January 2016.

Delivery of an Application Form with the CREST deposit form duly completed whether in respect of a deposit into the account of the Qualifying Shareholder named in the Application Form or into the name of another person, shall constitute a representation and warranty to the Company and the Receiving Agent by the relevant CREST member(s) that it/they is/are not in breach of the provisions of the notes under the paragraph headed "Instructions for depositing entitlements under the Open Offer into CREST" on page 3 of the Application Form, and a declaration to the Company and the Receiving Agent from the relevant CREST member(s) that it/they is/are not in the United States or citizen(s) or resident(s) of any Restricted Jurisdiction or any jurisdiction in which the application for Open Offer Shares is prevented by law and, where such deposit is made by a beneficiary of a market claim, a representation and warranty that the relevant CREST member(s) is/are entitled to apply under the Open Offer by virtue of a bona fide market claim.

(f) *Validity of application*

A USE instruction complying with the requirements as to authentication and contents set out above which settles by no later than 11.00 a.m. on 5 January 2016 will constitute a valid application under the Open Offer.

(g) *CREST procedures and timings*

CREST members and (where applicable) their CREST sponsors should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the Open Offer. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above by 11.00 a.m. on 5 January 2016. CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(h) *Incorrect or incomplete applications*

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

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

(i) *Effect of valid application*

A CREST member who makes or is treated as making a valid application in accordance with the above procedures thereby:

- (i) Represents and warrants to the Company and Cantor Fitzgerald that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations, under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for Open Offer Shares or acting on behalf of any such person on a non-discretionary basis;
- (ii) Agrees with the Company and Cantor Fitzgerald to pay the amount payable on application in accordance with the above procedures by means of a CREST payment in accordance with the CREST payment arrangements (it being acknowledged that the payment to the Receiving Agent's payment bank in accordance with the CREST payment arrangements shall, to the extent of the payment, discharge in full the obligation of the CREST member to pay to the Company the amount payable on application);
- (iii) Agrees with the Company and Cantor Fitzgerald that all applications and contracts resulting therefrom under the Open Offer shall be governed by, and construed in accordance with, the laws of England and Wales;
- (iv) Confirms to the Company and Cantor Fitzgerald that in making the application he is not relying on any information or representation in relation to Gulfsands other than that contained in this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all the information in relation to Gulfsands contained in this document;
- (v) Represents and warrants to the Company and Cantor Fitzgerald that he is the Qualifying Shareholder originally entitled to the Open Offer Entitlements or that he has received such Open Offer Entitlements by virtue of a bona fide market claim;
- (vi) Represents and warrants to the Company and Cantor Fitzgerald that if he has received some or all of his Open Offer Entitlements from a person other than Gulfsands, he is entitled to apply under the Open Offer in relation to such Open Offer Entitlement by virtue of a bona fide market claim;
- (vii) Requests that the Open Offer Shares to which he will become entitled be issued to him on the terms set out in this document, subject to the memorandum and articles of association of the Company;
- (viii) Represents and warrants to the Company and Cantor Fitzgerald that he is not, nor is he applying on behalf of any Shareholder who is, in the United States or is a citizen or resident, or which is a corporation, partnership or other entity created or organised in or under any laws, of any Restricted Jurisdiction or any jurisdiction in which the application for Open Offer Shares is prevented by law and he is not applying with a view to re-offering, re-selling, transferring or delivering any of the Open Offer Shares which are the subject of his application in the United States or to, or for the benefit of, a Shareholder who is a citizen or resident or which is a corporation, partnership or other entity created or organised in or under any laws of any Restricted Jurisdiction or any jurisdiction in which the application for Open Offer Shares is prevented by law (except where proof satisfactory to the Company has been provided to the Company that he is able to accept the invitation by the Company free of any requirement which it (in its absolute discretion) regards as unduly burdensome), nor acting on behalf of any such person on a non-discretionary basis nor person(s) otherwise prevented by legal or regulatory restrictions from applying for Open Offer Shares under the Open Offer;
- (ix) Represents and warrants to the Company and Cantor Fitzgerald that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in sections 67, 70, 93 or 96 (depository receipts and clearance services) of the Finance Act 1986; and

- (x) Confirms to the Company and Cantor Fitzgerald that in making the application he is not relying and has not relied on Cantor Fitzgerald or any person affiliated with Cantor Fitzgerald in connection with any investigation of the accuracy of any information contained in this document or his investment decision.
- (j) *Company's discretion as to the rejection and validity of applications*
The Company may in its sole discretion:
 - (i) Treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in this Part VIII: "Terms and Conditions of the Open Offer";
 - (ii) Accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE instruction and subject to such further terms and conditions as the Company may determine;
 - (iii) Treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid application if, at the time at which the Receiving Agent receives a properly authenticated dematerialised instruction giving details of the first instruction or thereafter, either the Company or the Receiving Agent has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
 - (iv) Accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable to validly apply for Open Offer Shares by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.
- (k) *Lapse of the Open Offer*
In the event that the Open Offer does not become unconditional by 8.00 a.m. on 31 January 2016, the Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and the Receiving Agent will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, as soon as practicable thereafter.

5. Money laundering regulations

5.1 Holders of Application Forms

To ensure compliance with the Money Laundering Regulations, the Receiving Agent may require, at its absolute discretion, verification of the identity of the person by whom or on whose behalf the Application Form is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). If the Application Form is submitted by a UK regulated broker or intermediary acting as agent and which is itself subject to the Money Laundering Regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not of the Receiving Agent. In such case, the lodging agent's stamp should be inserted on the Application Form.

The person lodging the Application Form with payment and in accordance with the other terms as described above (the "acceptor"), including any person who appears to the Receiving Agent to be acting on behalf of some other person, accepts the Open Offer in respect of such number of Open Offer Shares as is referred to therein (for the purposes of this paragraph 5 the "relevant Open Offer Shares") shall thereby be deemed to agree to provide the Receiving Agent with such information and other evidence as the Receiving Agent may require to satisfy the verification of identity requirements.

If the Receiving Agent determines that the verification of identity requirements apply to any acceptor or application, the relevant Open Offer Shares (notwithstanding any other term of the Open Offer) will not be issued to the relevant acceptor unless and until the verification of identity requirements have been satisfied in respect of that acceptor or application. The Receiving Agent is entitled, in its absolute discretion, to determine whether the verification of identity requirements apply to any acceptor or application and whether such requirements have been satisfied, and neither the Receiving Agent nor the Company will be liable to any person for any loss or damage suffered or incurred (or alleged), directly or indirectly, as a result of the exercise of such discretion.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in delays in the despatch of share certificates or in crediting CREST accounts. If, within a reasonable time following a request for verification of identity, the Receiving Agent has not received evidence satisfactory to it as aforesaid, the Company may, in its absolute discretion, treat the relevant application as invalid, in which event the monies payable on acceptance of the Open Offer will be returned (at the acceptor's risk) without interest to the account of the bank or building society on which the relevant cheque or banker's draft was drawn.

Submission of an Application Form with the appropriate remittance will constitute a warranty to each of the Company, the Receiving Agent, and Cantor Fitzgerald from the applicant that the Money Laundering Regulations will not be breached by application of such remittance.

The verification of identity requirements will not usually apply:

- (i) If the applicant is an organisation required to comply with the Money Laundering Directive (the Council Directive on prevention of the use of the financial system for the purpose of money laundering (no.2005/60/EC));
- (ii) If the acceptor is a regulated UK broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations; or
- (iii) If the aggregate subscription price for the Open Offer Shares is less than €15,000 (approximately £11,000).

In other cases the verification of identity requirements may apply. Satisfaction of these requirements may be facilitated in the following ways:

- (i) If payment is made by cheque or banker's draft in sterling drawn on a branch in the UK of a bank or building society which bears a UK bank sort code number in the top right hand corner, the following applies. Cheques, should be made payable to "Capita Registrars Limited re Gulfsands Petroleum Open Offer A/C" in respect of an application by a Qualifying Shareholder and crossed "A/C Payee Only". Third party cheques may not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the back of the cheque/banker's draft to such effect. The account name should be the same as that shown on the Application Form; or
- (ii) The Application Form is lodged with payment by an agent which is an organisation of the kind referred to in (i) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-EU members of which are Argentina, Australia, Brazil, Canada, China, Gibraltar, Hong Kong, Iceland, Japan, Mexico, New Zealand, Norway, Russian Federation, Singapore, South Africa, Switzerland, Turkey, UK Crown Dependencies and the US and, by virtue of their membership of the Gulf Cooperation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), the agent should provide with the Application Form written confirmation that it has that status and a written assurance that it has obtained and recorded evidence of the identity of the person for whom it acts and that it will on demand make such evidence available to the Receiving Agent. If the agent is not such an organisation, it should contact the Receiving Agent at the address set out on page 1 of the Application Form.

To confirm the acceptability of any written assurance referred to in (ii) above, or in any other case, the acceptor should contact Capita Asset Services on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable

international rate. Capita Asset Services is open between 9.00 a.m. and 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Capita Asset Services cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

If the Application Form(s) is/are in respect of Open Offer Shares with an aggregate subscription price of €15,000 (approximately £11,000) or more and is/are lodged by hand by the acceptor in person, or if the Application Form(s) in respect of Open Offer Shares is/are lodged by hand by the acceptor and the accompanying payment is not the acceptor's own cheque, he or she should ensure that he or she has with him or her evidence of identity bearing his or her photograph (for example, his or her passport) and separate evidence of his or her address.

If, within a reasonable period of time following a request for verification of identity, and in any case by no later than 11.00 a.m. on 5 January 2016, the Receiving Agent has not received evidence satisfactory to it as aforesaid, the Receiving Agent may, at its discretion, as agent of the Company, reject the relevant application, in which event the monies submitted in respect of that application will be returned without interest to the account at the drawee bank from which such monies were originally debited (without prejudice to the rights of the Company to undertake proceedings to recover monies in respect of the loss suffered by it as a result of the failure to produce satisfactory evidence as aforesaid).

5.2 Open Offer Entitlements in CREST

If you hold your Open Offer Entitlements in CREST and apply for Open Offer Shares in respect of some or all of your Open Offer Entitlements as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, the Receiving Agent is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf you are making the application. You must therefore contact the Receiving Agent before sending any USE or other instruction so that appropriate measures may be taken.

Submission of a USE instruction which on its settlement constitutes a valid application as described above constitutes a warranty and undertaking by the applicant to provide promptly to the Receiving Agent such information as may be specified by the Receiving Agent as being required for the purposes of the Money Laundering Regulations. Pending the provision of evidence satisfactory to the Receiving Agent as to identity, the Receiving Agent may in its absolute discretion take, or omit to take, such action as it may determine to prevent or delay issue of the Open Offer Shares concerned. If satisfactory evidence of identity has not been provided within a reasonable time, then the application for the Open Offer Shares represented by the USE instruction will not be valid. This is without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of failure to provide satisfactory evidence.

5.3 Withdrawal rights

Qualifying Shareholders wishing to exercise the withdrawal rights under section 87Q(4) of FSMA after the issue by the Company of a prospectus or offer document supplementing this document (if any) must do so by lodging a written notice of withdrawal, which shall not include a notice sent by email to withdraw@capita.co.uk or any other form of electronic communication, that must include the full name and address of the person wishing to exercise such statutory withdrawal rights and, if such person is a Qualifying CREST Shareholder, the participant ID and the member account ID of such Qualifying CREST Shareholder at Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received no later than two Business Days after the date on which the supplementary prospectus or offer document is published. Notice of withdrawal given by any other means or which is deposited with or received by Capita Asset Services after expiry of such period will not constitute a valid withdrawal. The Company will not however permit the exercise of withdrawal rights after payment by the relevant person for the Open Offer Shares applied for in consideration of their Open Offer Entitlements.

6. Overseas Shareholders

The details set out in this paragraph 6 are intended as a general guide only and any Overseas Shareholders who are in any doubt as to their position should consult their professional advisers without delay.

6.1 General

The distribution of this document and the making of the Open Offer is to persons who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of countries other than the UK. Persons who are nominees of or custodians, trustees or guardians for citizens, residents in or nationals of, countries other than the UK may be affected by the laws or regulatory requirements of the relevant jurisdictions. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirement or other formalities to enable them to apply for Open Offer Shares under the Open Offer.

No action has been or will be taken by the Company, Cantor Fitzgerald, or any other person, to permit a public offering or distribution of this document (or any other offering or publicity materials or application form(s) relating to the Open Offer Shares) in any jurisdiction where action for that purpose may be required, other than in the UK.

Receipt of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST will not constitute an invitation or offer of securities for subscription, sale or purchase in those jurisdictions in which it would be illegal to make such an invitation or offer and, in those circumstances, this document and/or the Application Form must be treated as sent for information only and should not be copied or redistributed.

Application Forms will not be sent to, and Open Offer Entitlements will not be credited to stock accounts in CREST of, persons with registered addresses in the United States or a Restricted Jurisdiction or their agent or intermediary, except where the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

No person receiving a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST in any territory other than the UK may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use any such Application Form and/or credit of Open Offer Entitlements to a stock account in CREST unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her and such Application Form and/or credit of Open Offer Entitlements to a stock account in CREST could lawfully be used, and any transaction resulting from such use could be effected, without contravention of any registration or other legal or regulatory requirements. In circumstances where an invitation or offer would contravene any registration or other legal or regulatory requirements, this document and/or the Application Form must be treated as sent for information only and should not be copied or redistributed.

It is the responsibility of any person (including, without limitation, custodians, agents, nominees and trustees) outside the UK wishing to apply for Open Offer Shares under the Open Offer to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any governmental or other consents that may be required, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes due in such territory.

None of the Company, Cantor Fitzgerald, nor any of their respective representatives, is making any representation to any offeree or purchaser of the Open Offer Shares regarding the legality of an investment in the Open Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser.

Persons (including, without limitation, custodians, agents, nominees and trustees) receiving a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST, in connection with the Open Offer or otherwise, should not distribute or send either of those documents nor transfer Open Offer Entitlements in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST is received by any person in any such territory, or by his or her custodian, agent, nominee or trustee, he or she must not seek to apply for Open Offer Shares in respect of the Open Offer unless the Company and Cantor Fitzgerald determine that such action would not violate applicable legal or regulatory requirements. Any person (including, without limitation, custodians, agents, nominees and trustees)

who does forward a copy of this document and/or an Application Form and/or transfers Open Offer Entitlements into any such territory, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this Part VIII: “Terms and Conditions of the Open Offer” and specifically the contents of this paragraph 6.

The Company reserves the right to treat as invalid any application or purported application for Open Offer Shares that appears to the Company or its agents to have been executed, effected or dispatched from the United States or a Restricted Jurisdiction or in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements or if it provides an address for delivery of the share certificates of Open Offer Shares or in the case of a credit of Open Offer Entitlements to a stock account in CREST, to a CREST member whose registered address would be, in the United States or a Restricted Jurisdiction or any other jurisdiction outside the UK in which it would be unlawful to deliver such share certificates or make such a credit.

Notwithstanding any other provision of this document or the relevant Application Form, the Company reserves the right to permit any person to apply for Open Offer Shares in respect of the Open Offer if the Company, in its sole and absolute discretion, is satisfied that the transaction in question is exempt from, or not subject to, the legislation or regulations giving rise to the restrictions in question.

Overseas Shareholders who wish, and are permitted, to apply for Open Offer Shares should note that payment must be made in sterling denominated cheques or banker’s drafts or where such Overseas Shareholder is a Qualifying CREST Shareholder, through CREST.

Due to restrictions under the securities laws of the United States and the Restricted Jurisdictions, and subject to certain exceptions, Qualifying Shareholders in the United States or who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, any Restricted Jurisdiction will not qualify to participate in the Open Offer and will not be sent an Application Form nor will their stock accounts in CREST be credited with Open Offer Entitlements.

No public offer of Open Offer Shares is being made by virtue of this document or the Application Forms into the United States or any Restricted Jurisdiction. Receipt of this document and/or an Application Form and/or a credit of an Open Offer Entitlement to a stock account in CREST will not constitute an invitation or offer of securities for subscription, sale or purchase in those jurisdictions in which it would be illegal to make such an invitation or offer and, in those circumstances, this document and/or the Application Form must be treated as sent for information only and should not be copied or redistributed.

6.2 United States

The Open Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and, accordingly, may not be offered or sold, re-sold, taken up, transferred, delivered or distributed, directly or indirectly, within the United States except in reliance on an exemption from the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

Accordingly, the Company is not extending the Open Offer into the United States unless an exemption from the registration requirements of the Securities Act, is available and, subject to certain exceptions, neither this document nor the Application Form constitutes or will constitute an offer or an invitation to apply for or an offer or an invitation to acquire any Open Offer Shares in the United States. Subject to certain exceptions, neither this document nor an Application Form will be sent to, and no Open Offer Shares will be credited to a stock account in CREST of, any Qualifying Shareholder with a registered address in the United States. Subject to certain exceptions, Application Forms sent from or postmarked in the United States will be deemed to be invalid and all persons acquiring Open Offer Shares and wishing to hold such Open Offer Shares in registered form must provide an address for registration of the Open Offer Shares issued upon exercise thereof outside the United States.

Subject to certain exceptions, any person who acquires Open Offer Shares will be deemed to have declared, warranted and agreed, by accepting delivery of this document or the Application Form and delivery of the Open Offer Shares, that they are not, and that at the time of acquiring the Ordinary Shares they will not be, in the United States or acting on behalf of, or for the account or benefit of a

person on a non-discretionary basis in the United States or any state of the United States. The Company reserves the right to treat as invalid any Application Form that appears to the Company or its agents to have been executed in, or dispatched from, the United States, or that provides an address in the United States for the receipt of Open Offer Shares, or which does not make the warranty set out in the Application Form to the effect that the person completing the Application Form does not have a registered address and is not otherwise located in the United States and is not acquiring the Open Offer Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Open Offer Shares in the United States or where the Company believes acceptance of such Application Form may infringe applicable legal or regulatory requirements.

The Company will not be bound to allot or issue any Open Offer Shares to any person with an address in, or who is otherwise located in, the United States in whose favour an Application Form or any Open Offer Shares may be transferred. In addition, the Company and Cantor Fitzgerald reserve the right to reject any USE instruction sent by or on behalf of any CREST member with a registered address in the United States in respect of the Open Offer Shares.

In addition, until 45 days after the commencement of the Open Offer, an offer, sale or transfer of Ordinary Shares within the United States by a dealer (whether or not participating in the Open Offer) may violate the registration requirements of the Securities Act as amended.

6.3 ***Restricted Jurisdictions***

Due to restrictions under the securities laws of the Restricted Jurisdictions and subject to certain exemptions, Shareholders who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, any Restricted Jurisdiction will not qualify to participate in the Open Offer and will not be sent an Application Form nor will their stock accounts in CREST be credited with Open Offer Entitlements.

The Open Offer Shares have not been and will not be registered under the relevant laws of any Restricted Jurisdiction or any state, province or territory thereof and may not be offered, sold, resold, delivered or distributed, directly or indirectly, in or into any Restricted Jurisdiction or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any Restricted Jurisdiction except pursuant to an applicable exemption.

No offer of Open Offer Shares is being made by virtue of this document or the Application Forms into any Restricted Jurisdiction.

6.4 ***Other overseas territories***

Application Forms will be sent to Qualifying Non-CREST Shareholders and Open Offer Entitlements will be credited to the stock account in CREST of Qualifying CREST Shareholders in jurisdictions other than the United States or the Restricted Jurisdictions. Qualifying Shareholders in jurisdictions other than the United States or the Restricted Jurisdictions may, subject to the laws of their relevant jurisdiction, take up Open Offer Shares under the Open Offer in accordance with the instructions set out in this document and the Application Form.

Qualifying Shareholders who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, countries other than the UK should, however, consult appropriate professional advisers as to whether they require any governmental or other consents or need to observe any further formalities to enable them to apply for any Open Offer Shares in respect of the Open Offer.

6.5 ***Representations and warranties relating to Overseas Shareholders***

(a) *Qualifying Non-CREST Shareholders*

Any person completing and returning an Application Form or requesting registration of the Open Offer Shares comprised therein represents and warrants to the Company, Cantor Fitzgerald and the Receiving Agent that, except where proof has been provided to the Company's satisfaction that such person's use of the Application Form will not result in the contravention of any applicable legal requirements in any jurisdiction: (i) such person is not requesting registration of the relevant Open Offer Shares from within the United States or any Restricted Jurisdiction; (ii) such person is not in any territory in which it is unlawful to make or accept an offer to acquire Open Offer

Shares in respect of the Open Offer or to use the Application Form in any manner in which such person has used or will use it; (iii) such person is not acting on a non-discretionary basis for a person located within any Restricted Jurisdiction (except as agreed with the Company) or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) such person is not acquiring Open Offer Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Open Offer Shares into any of the above territories. The Company and/or the Receiving Agent may treat as invalid any acceptance or purported acceptance of the allotment of Open Offer Shares comprised in an Application Form if it: (i) appears to the Company or its agents to have been executed, effected or dispatched from the United States or a Restricted Jurisdiction or in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; or (ii) provides an address in the United States or a Restricted Jurisdiction for delivery of the share certificates of Open Offer Shares (or any other jurisdiction outside the UK in which it would be unlawful to deliver such share certificates); or (iii) purports to exclude the warranty required by this sub-paragraph (a).

(b) *Qualifying CREST Shareholders*

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part VIII: “Terms and Conditions of the Open Offer” represents and warrants to the Company and Cantor Fitzgerald that, except where proof has been provided to the Company’s satisfaction that such person’s acceptance will not result in the contravention of any applicable legal requirement in any jurisdiction: (i) he or she is not within the United States or any Restricted Jurisdiction; (ii) he or she is not in any territory in which it is unlawful to make or accept an offer to acquire Open Offer Shares; (iii) he or she is not accepting on a non-discretionary basis for a person located within any Restricted Jurisdiction (except as otherwise agreed with the Company) or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) he or she is not acquiring any Open Offer Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Open Offer Shares into any of the above territories.

6.6 Waiver

The provisions of this paragraph 6 and of any other terms of the Open Offer relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders or on a general basis by the Company and/or Cantor Fitzgerald in their absolute discretion. Subject to this, the provisions of this paragraph 6 supersede any terms of the Open Offer inconsistent herewith. References in this paragraph 6 to Shareholders shall include references to the person or persons executing an Application Form and, in the event of more than one person executing an Application Form, the provisions of this paragraph 6 shall apply to them jointly and to each of them.

7. Underwriting

On 15 December 2015 the Company, Waterford and Blake, a company owned and controlled by Mr. Griffiths, entered into an agreement pursuant to which the Underwriters agreed to subscribe in full for their entitlements in the Open Offer amounting in aggregate to 135,092,502 Open Offer Shares and to subscribe or purchase the remaining 219,744,794 Open Offer Shares in the event that these are not subscribed for by Qualifying Shareholders under the Open Offer. The Underwriting shall be completed on an equal basis, meaning Waterford and Blake have each separately agreed to Underwrite up to a maximum of 109,872,397 Open Offer Shares. The agreement is conditional on Admission becoming effective by no later than 8.00 a.m. on the Open Offer Long Stop Date. To the extent that the amount payable by the Underwriters in respect of the Underwriting exceeds the amount due to the Underwriters by the Company under the Convertible Loan Facility the Underwriters shall pay such amount to the Company by no later than 3.00 p.m. on the Business Day immediately preceding the date of Admission. The Underwriting agreement also contains provisions acknowledging repayment of the Convertible Loan Facility in lieu of the monies for subscription of Open Offer Shares, in respect of the amount outstanding, including rolled up accrued interest and commitment fees, under the Convertible Loan Facility.

Further details of the Underwriters are set out in the table below:

<i>Name</i>	<i>Address</i>
Waterford Finance & Investment Limited	Channel House, Forest Lane, St. Peter Port, Guernsey
Blake Holdings Limited	Kensington Chambers, 46/50 Kensington Place, St Helier, Jersey, JE1 1ET

8. Admission, settlement and dealings

The result of the Open Offer is expected to be announced via a Regulatory Information Service on 7 January 2016. Application will be made to London Stock Exchange for the Open Offer Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Open Offer Shares will commence at 8.00 a.m. on 7 January 2016.

The Existing Shares are already admitted to CREST. No further application for admission to CREST is accordingly required for the Existing Shares. All such Ordinary Shares, when issued and fully paid, may be held and transferred by means of CREST.

Open Offer Entitlements held in CREST are expected to be disabled in all respects after 11.00 a.m. on 5 January 2016 (the latest date for applications under the Open Offer). If the condition(s) to the Open Offer are satisfied, Open Offer Shares will be issued in uncertificated form to those persons who submitted a valid application for Open Offer Shares by utilising the CREST application procedures and whose applications have been accepted by the Company. On 5 January 2016, the Receiving Agent will instruct Euroclear to credit the appropriate stock accounts of such persons with such persons' entitlements to Open Offer Shares with effect from Admission (expected to be 7 January 2016). The stock accounts to be credited will be accounts under the same CREST participant IDs and CREST member account IDs in respect of which the USE instruction was given.

Notwithstanding any other provision of this document, the Company reserves the right to send Qualifying CREST Shareholders an Application Form instead of crediting the relevant stock account with Open Offer Entitlements, and to allot and/or issue any Open Offer Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.

For Qualifying Non-CREST Shareholders who have applied by using an Application Form, share certificates in respect of the Open Offer Shares validly applied for are expected to be dispatched by post by 13 January 2016. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers will be certified against the UK share register of the Company. All documents or remittances sent by or to applicants, or as they may direct, will be sent through the post at their own risk. For more information as to the procedure for application, Qualifying Non-CREST Shareholders are referred to paragraph 4.1 above and their respective Application Form.

9. Times and dates

The Company shall, in agreement with Cantor Fitzgerald and after consultation with its financial and legal advisers, be entitled to amend the dates that Application Forms are dispatched or amend or extend the latest date for acceptance under the Open Offer and all related dates set out in this document and in such circumstances shall notify AIM, and make an announcement on a Regulatory Information Service approved by AIM, but Qualifying Shareholders may not receive any further written communication.

10. Further information

Your attention is drawn to the further information set out in this document and also, in the case of Qualifying Non-CREST Shareholders and other Qualifying Shareholders to whom the Company has sent Application Forms, to the terms, conditions and other information printed on the accompanying Application Form.

11. Governing law and jurisdiction

The terms and conditions of the Open Offer as set out in this document, the Application Form and any non-contractual obligation related thereto shall be governed by, and construed in accordance with, English law. The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Open Offer, this document or the Application Form. By taking up Open Offer Shares, in accordance with the instructions set out in this document and, where applicable, the Application Form, Qualifying Shareholders irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

PART IX

QUESTIONS AND ANSWERS ABOUT THE OPEN OFFER

The questions and answers set out in this Part IX: “Questions and Answers about the Open Offer” are intended to be in general terms only and, as such, you should read Part VIII: “Terms and Conditions of the Open Offer” of this document for full details of what action to take. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank, fund manager, solicitor, accountant or other appropriate independent financial adviser, who is authorised under FSMA if you are in the UK, or, if not, from another appropriately authorised independent financial adviser.

This Part IX deals with general questions relating to the Open Offer and more specific questions relating principally to persons resident in the UK who hold their Existing Shares in certificated form only. If you are an Overseas Shareholder, you should read paragraph 6 of Part VIII: “Terms and Conditions of the Open Offer” of this document and you should take professional advice as to whether you are eligible and/or you need to observe any formalities to enable you to take up your Open Offer Entitlements. If you hold your Existing Shares in uncertificated form (that is, through CREST) you should read Part VIII: “Terms and Conditions of the Open Offer” of this document for full details of what action you should take. If you are a CREST sponsored member, you should also consult your CREST sponsor.

If you do not know whether your Existing Shares are in certificated or uncertificated form, please contact Capita Asset Services on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Capita Asset Services is open between 9.00 a.m. and 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Capita Asset Services cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes. The contents of this document should not be construed as legal, business, accounting, tax, investment or other professional advice. Each prospective investor should consult his, her or its own appropriate professional advisers for advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action.

1. What is an open offer?

An open offer is a way for companies to raise money. Companies usually do this by giving their existing shareholders a right to acquire further shares at a fixed price in proportion to their existing shareholdings. The fixed price is normally at a discount to the market price of the Existing Shares prior to the announcement of the open offer.

This Open Offer is an invitation by Gulfsands to Qualifying Shareholders to apply to acquire up to an aggregate of 354,837,296 Open Offer Shares, comprising the issue of 350,733,941 new Ordinary Shares and the sale of 4,103,355 Treasury Shares, at an Open Offer Price of 4.0 pence per share. If you hold Existing Shares on the Record Date or have a bona fide market claim, other than, subject to certain exceptions, where you are a Shareholder with a registered address or are located in the United States, or a Restricted Jurisdiction, you will be entitled to subscribe for Open Offer Shares under the Open Offer.

The Open Offer is being made on the basis of 3.01 Open Offer Shares for every 1 Existing Share held by Qualifying Shareholders on the Record Date. If your entitlement to Open Offer Shares is not a whole number, you will not be entitled to a fraction of an Open Offer Share and your entitlement will be rounded down to the nearest whole number.

Open Offer Shares are being offered to Qualifying Shareholders at a 15.8 per cent. discount to the closing price of 4.75 pence per Existing Share on AIM on 26 August 2015 (being the last trading day prior to the date of announcement of the Capital Raising).

Unlike in a rights issue, Application Forms are not negotiable documents and neither they nor the Open Offer Entitlements can themselves be traded.

2. I hold my Existing Shares in certificated form. How do I know I am eligible to participate in the Open Offer?

If you receive an Application Form and, subject to certain exceptions, are not a holder with a registered address and are not located in the United States or any other Restricted Jurisdiction, then you should be eligible to participate in the Open Offer as long as you have not sold all of your Existing Shares before 17 December 2015 (the time when the Existing Shares are expected to be marked “ex-entitlement” by AIM).

3. I hold my Existing Shares in certificated form. How do I know how many Open Offer Shares I am entitled to take up?

If you hold your Existing Shares in certificated form and, subject to certain exceptions, do not have a registered address and are not located in the United States or any Restricted Jurisdiction, you will be sent an Application Form that shows:

- How many Existing Shares you held at the close of business on the Record Date;
- How many Open Offer Shares are comprised in your Open Offer Entitlement; and
- How much you need to pay if you want to take up your right to buy all of your entitlement to the Open Offer Shares.

4. I hold my Existing Shares in certificated form and I am eligible to receive an Application Form. What are my choices in relation to the Open Offer?

(a) If you do not want to take up your Open Offer Entitlement

If you do not want to take up the Open Offer Shares to which you are entitled, you do not need to do anything. In these circumstances, you will not receive any Open Offer Shares. You will also not receive any money when the Open Offer Shares you could have taken up are sold, as would happen under a rights issue. You cannot sell your Application Form or your Open Offer Entitlement to anyone else. If you do not return your Application Form subscribing for the Open Offer Shares to which you are entitled by 11.00 a.m. on 5 January 2016, the Open Offer Shares to which you are entitled will be issued to the Underwriters as part of the Underwriting.

If you do not take up your Open Offer Entitlement then, following the issue of the Open Offer Shares pursuant to the Open Offer, your interest in the Company will be diluted by 75.06 per cent.

(b) If you want to take up some but not all of your Open Offer Entitlement

If you want to take up some but not all of the Open Offer Shares to which you are entitled, you should write the number of Open Offer Shares you want to take up in Box 2 of your Application Form; for example, if you are entitled to take up 500 shares but you only want to take up 250 shares, then you should write ‘250’ in Box 2. To work out how much you need to pay for the Open Offer Shares, you need to multiply the number of Open Offer Shares you want (in this example, ‘250’) by 4.0 pence, which is the price in sterling of each Open Offer Share (giving you an amount of £10.00 in this example). You should write this amount in Box 3 and this should be the amount your cheque or banker’s draft is made out for. You should then return the completed Application Form, together with a cheque or banker’s draft for that amount, in the accompanying pre-paid envelope or return by post or by hand (during normal office hours only), to the Receiving Agent, Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU so as to be received by the Receiving Agent by no later than 11.00 a.m. on 5 January 2016, after which time Application Forms will not be valid.

All payments must be in pounds sterling and made by cheque or banker’s draft made payable to Capita Registrars Limited re Gulfsands Petroleum Open Offer A/C and crossed “A/C Payee Only”. Cheques or banker’s drafts must be drawn on a bank or building society or branch of a bank or building society in the UK or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker’s drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner and must be for the full amount payable on application. Third party cheques will not be accepted with the exception of building society cheques or banker’s drafts where the building society or bank has confirmed the name of the account holder and the number of an account held in the applicant name at the building society or bank by stamping or endorsing the back of

the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted. Third party cheques (other than building society cheques or banker's drafts where the building society or bank has confirmed that the relevant Qualifying Shareholder has title to the underlying funds) will not be accepted (see paragraph 5 of Part VIII).

Cheques or banker's drafts will be presented for payment upon receipt. The Company reserves the right to instruct the Receiving Agent to seek special clearance of cheques and banker's drafts to allow the Company to obtain value for remittances at the earliest opportunity. No interest will be paid on payments. It is a term of the Open Offer that cheques shall be honoured on first presentation and the Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured. All documents, cheques and banker's drafts sent through the post will be sent at the risk of the sender. Payments via CHAPS, BACS or electronic transfer will not be accepted.

A definitive share certificate will then be sent to you for the Open Offer Shares that you take up. Your definitive share certificate for Open Offer Shares is expected to be dispatched to you by no later than 13 January 2016.

(c) If you want to take up all of your Open Offer Entitlement

If you want to take up all of the Open Offer Shares to which you are entitled, all you need to do is send the Application Form (ensuring that all joint holders sign (if applicable)), together with your cheque or banker's draft for the amount (as indicated in Box 6 of your Application Form), payable to Capita Registrars Limited re Gulfsands Petroleum Open Offer A/C and crossed "A/C payee only", in the accompanying pre-paid envelope or return by post or by hand (during normal office hours only), to the Receiving Agent, Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU – so as to be received by the Receiving Agent by no later than 11.00 a.m. on 5 January 2016, after which time Application Forms will not be valid. If you post your Application Form by first-class post, you should allow at least four Business Days for delivery.

All payments must be in pounds sterling and made by cheque or banker's draft made payable to Capita Registrars Limited re Gulfsands Petroleum Open Offer A/C and crossed "A/C payee only". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the UK or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner. Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder and the number of an account held in the applicant name at the building society or bank by stamping or endorsing the back of the cheque or draft to such effect. The account name should be the same as that shown on the application.

Post-dated cheques will not be accepted. Third party cheques (other than building society cheques or banker's drafts where the building society or bank has confirmed that the relevant Qualifying Shareholder has title to the underlying funds) will not be accepted.

A definitive share certificate will then be sent to you for the Open Offer Shares that you take up. Your definitive share certificate for Open Offer Shares is expected to be dispatched to you by no later than 13 January 2016.

(d) If you want to apply for more than your Open Offer Entitlement

The terms and conditions do not provide for Qualifying Shareholders to subscribe for Open Offer Shares in excess of their Open Offer Entitlement. Any Open Offer Shares, or fractions of shares not subscribed for by Qualifying Shareholders will be aggregated and subscribed by the Underwriters as part of the Underwriting.

5. I hold my Existing Shares in uncertificated form in CREST. What do I need to do in relation to the Open Offer?

CREST members should follow the instructions set out in paragraph 4.2 of Part VIII: "Terms and Conditions of the Open Offer" of this document. Persons who hold Existing Shares through a CREST member should be informed by the CREST member through whom they hold their Existing Shares of the number of Open

Offer Shares which they are entitled to acquire under their Open Offer Entitlement and should contact them should they not receive this information.

6. I acquired my Existing Shares prior to the Record Date and hold my Existing Shares in certificated form. What if I do not receive an Application Form or I have lost my Application Form?

If you do not receive an Application Form, this probably means that you are not eligible to participate in the Open Offer. Some Qualifying Non-CREST Shareholders, however, will not receive an Application Form but may still be eligible to participate in the Open Offer, namely:

- Qualifying CREST Shareholders who held their Existing Shares in uncertificated form on 14 December 2015 and who have converted them to certificated form;
- Qualifying Non-CREST Shareholders who bought Existing Shares before 8.00 a.m. on 17 December 2015 but were not registered as the holders of those shares at the close of business on 14 December 2015; and
- Certain Overseas Shareholders.

If you do not receive an Application Form but think that you should have received one or you have lost your Application Form, please contact Capita Asset Services on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. The helpline is open between 9.00 a.m. and 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Capita Asset Services cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes. Capital Asset Services is open between 9.00 a.m. and 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Capita Asset Services cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

7. Can I trade my Open Offer Entitlement?

Qualifying Shareholders should be aware that the Open Offer is not a rights issue. As such, Qualifying Non-CREST Shareholders should also note that their Application Forms are not negotiable documents and cannot be traded. Qualifying CREST Shareholders should note that, although the Open Offer Entitlements will be admitted to CREST, they will have limited settlement capabilities (for the purposes of market claims only). The Open Offer Entitlements will not be tradable or listed and applications in respect of the Open Offer may only be made by the Qualifying Shareholders originally entitled or by a person entitled by virtue of a bona fide market claim. Open Offer Shares for which application has not been made under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer and Qualifying Shareholders who do not apply to take up their Open Offer Entitlement will have no rights under the Open Offer or receive any proceeds from it.

8. What is the effect of the Underwriting?

The Open Offer Shares are fully underwritten under the terms of the Underwriting. This means that if any Qualifying Shareholder does not subscribe for their Open Offer Entitlement in full, the remaining Open Offer Shares will be subscribed by the Underwriters on the same terms as the Open Offer. The net effect of the Underwriting is that upon completion of the Open Offer, the Company will receive the proceeds of the Open Offer in full and the entire number of Open Offer Shares will be issued and admitted to trading on AIM.

9. What if I change my mind?

If you are a Qualifying Non-CREST Shareholder, once you have sent your Application Form and payment to the Receiving Agent, you cannot withdraw your application or change the number of Open Offer Shares for which you have applied, except in the very limited circumstances which are set out in this document.

If you are a Qualifying CREST Shareholder, once you have completed the CREST payment in respect of your entitlements to Open Offer Shares, you cannot withdraw your application or change the number of Open Offer Shares for which you have applied, except in the very limited circumstances which are set out in this document.

10. What if the number of Open Offer Shares to which I am entitled is not a whole number: am I entitled to fractions of Open Offer Shares?

If the number is not a whole number, you will not receive a fraction of an Open Offer Share and your entitlement will be rounded down to the nearest whole number. The remaining fractions of Open Offer Shares will be aggregated and subscribed by the Underwriters as part of the Underwriting.

11. I hold my Existing Shares in certificated form. What should I do if I have sold some or all of my Existing Shares?

If you hold shares in Gulfsands directly and have sold some or all of your Existing Shares before 17 December 2015, you should contact the buyer or the person/company through whom you sold your shares. You may be entitled to apply for Open Offer Shares under the Open Offer. If you sell any of your Existing Shares on or after 17 December 2015, you will not be able to apply for the Open Offer Shares.

12. I hold my Existing Shares in certificated form. How do I pay?

Completed Application Forms should be returned with a cheque or banker's draft drawn in the appropriate form. All payments must be in pounds sterling and made by cheque or banker's draft made payable to Capita Registrars Limited re Gulfsands Petroleum Open Offer A/C and crossed "A/C Payee Only". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the UK or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner. Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder and the number of an account held in the applicant name at the building society or bank by stamping or endorsing the back of the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted. Third party cheques (other than building society cheques or banker's drafts where the building society or bank has confirmed that the relevant Qualifying Shareholder has title to the underlying funds) will not be accepted.

13. Will the Existing Shares that I hold now be affected by the Open Offer?

If you decide not to apply for any of the Open Offer Shares to which you are entitled under the Open Offer, or only apply for some of your entitlement, your proportionate ownership and voting interest in Gulfsands will be reduced.

14. I hold my Existing Shares in certificated form. Where do I send my Application Form?

You should send your completed Application Form in the accompanying pre-paid envelope or return by post or by hand (during normal office hours only), together with the monies in the appropriate form, to: Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU (who will act as receiving agent in relation to the Open Offer). If you post your Application Form by first-class post, you should allow at least four Business Days for delivery. If you do not want to take up or apply for Open Offer Shares then you need take no further action.

15. I hold my Existing Shares in certificated form. When do I have to decide if I want to apply for Open Offer Shares?

The Receiving Agent must receive the Application Form and required payment by cheque by no later than 11.00 a.m. on 5 January 2016, after which time Application Forms will not be valid. If an Application Form is being sent by first class post in the UK, Qualifying Shareholders are recommended to allow at least four Business Days for delivery.

16. How do I transfer my entitlements into the CREST system?

If you are a Qualifying Non-CREST Shareholder, but are a CREST member and want your Open Offer Shares to be in uncertificated form, you should complete the CREST deposit form (contained in the Application

Form), and ensure it is delivered to a CREST Courier and Sorting Service in accordance with the instructions in the Application Form. CREST sponsored members should arrange for their CREST sponsors to do this.

17. I hold my Existing Shares in certificated form and applied for Open Offer Shares under the Open Offer. When will I receive my new share certificate?

It is expected that Capita Asset Services will post all new share certificates by 13 January 2016.

18. If I buy Ordinary Shares after the Record Date, will I be eligible to participate in the Open Offer?

If you bought your Existing Shares after the Record Date but before the ex-entitlement date, you will be able to participate in the Open Offer in respect of such Existing Shares.

19. What should I do if I live outside the UK?

Your ability to apply to acquire Open Offer Shares may be affected by the laws of the country in which you live and you should take professional advice as to whether you require any governmental or other consents or need to observe any other formalities to enable you to take up your Open Offer Entitlement. Shareholders with registered addresses or who are located in the United States or any Restricted Jurisdiction are, subject to certain exceptions, not eligible to participate in the Open Offer. Your attention is drawn to the information in paragraph 6 of Part VIII: "Terms and Conditions of the Open Offer" of this document.

20. Further assistance

Should you require further assistance please call Capita Asset Services on 0371 664 0321. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Capita Asset Services is open between 9.00 a.m. and 5.30 p.m., Monday to Friday excluding public holidays in England and Wales. Please note that Capita Asset Services cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

PART X

INFORMATION ON GULFSANDS

Investors should read the whole of this document and should not just rely on the information set out in this Part X and the financial information set out in Part XIII and Part XIV of this document.

1. Introduction

Gulfsands is an independent oil and gas company engaged in the exploration, development and production of oil and gas reserves and resources in Morocco, Syria, Tunisia and Colombia. Gulfsands is a public company incorporated in the UK on 2 December 2004 with a listing on AIM, and is subject to the Act, the Takeover Code and the AIM Rules.

2. History of the Group

Gulfsands listed on AIM in April 2005 with a highly prospective portfolio of oil and gas exploration and production assets in the Gulf of Mexico, US; and Syria. Since its listing on AIM, the Company pursued exploration activities in Syria which resulted in the successful development of oil production operations. During such time, the Company resolved to divest its US assets and focus on its profitable oil production operations in Syria, and other exploration prospects acquired in North Africa (principally Morocco and Tunisia).

A summary of the key changes in the Company's business since this period is set out as follows:

- April 2005 – the Company is admitted to trading on AIM with a portfolio of oil and gas exploration and production assets in the Gulf of Mexico, US; and Syria including a 20 per cent. working interest in the Block 26 PSC;
- May 2005 – the Company acquired an additional 30 per cent. working interest in, and became operator of, the Block 26 PSC, Syria, from Devon Syria Limited, a subsidiary of Devon Energy Inc. of the US;
- December 2005 – the Company completes the restructuring of its holding of assets in the Gulf of Mexico, US through acquiring a 52.6 per cent. direct interest in the assets and repayment of US\$24.2 million in debt;
- July 2008 – the Company announces commencement of production from its Khurbet East field in Syria;
- April 2010 – the Company announces commencement of production from its Yousefieh field in Syria;
- May 2010 – the Company agrees to acquire interests in blocks in Tunisia and southern Italy;
- December 2010 – the Company disposes of three non-core producing properties in the Gulf of Mexico, US;
- December 2011 – the Company invokes the Force Majeure provisions of its Block 26 PSC in Syria as a result of EU Sanctions. While production is allowed to continue under such provisions, Gulfsands is not due any revenues from such production however expects to be compensated following the lifting of EU Sanctions;
- November 2012 – the Company acquires an additional participating interest in its permits in Tunisia and Italy;
- January 2013 – the Company acquires interests in a portfolio of oil and gas exploration permits and gas exploitation concessions in northern Morocco;
- March 2013 – the Company is awarded two exploration and production contracts in Colombia;
- December 2013 – the Company announces that it has agreed to acquire the remaining interest in the Chorbane permit and relinquish its interests in the Kerkouane permit in Tunisia, to relinquish its interest in its Italian assets and to farm-out interests in its Colombian assets;
- April 2014 – the Company is awarded a new exploration permit in Morocco;
- July 2015 – the first renewal period of the Chorbane PSC in Tunisia expires, the Company lodges an application for an extension;

- September 2014 – the Company announces that it has consolidated the minority holdings in its Chorbane permit in Tunisia, with Gulfsands holding a 100.0 per cent. interest in the permit;
- November 2014 – the Company establishes a MENA region strategic cooperation agreement with Arawak International, a subsidiary of Vitol S.A., including a US\$20 million Convertible Loan Facility with Arawak;
- December 2014 – the Company announces the disposal of its remaining interests in the Gulf of Mexico, US;
- January 2015 – Arawak International terminates its MENA region strategic cooperation agreement with the Company; Gulfsands terminates farm-out agreements with Luna Energy in Colombia relating to blocks Llanos 50 and Putumayo 14;
- June 2015 – two of the Company's major shareholders, Waterford and Mr. Griffiths, acquire the Convertible Loan Facility from Arawak;
- September 2015 – the Fes petroleum agreement in Morocco expires; and
- November 2015 – the second extension period of the Rharb Petroleum Agreement expires, the Company lodges an application for an extension, which is subsequently rejected by ONHYM.

3. Business overview

3.1 Moroccan assets

Gulfsands holds a 75 per cent. interest in, and is operator of, the Moulay Bouchta petroleum agreement in northern Morocco (ONHYM: 25 per cent.). Under the terms of the agreement, for which the initial period expires in June 2016, the minimum work obligation outstanding is the acquisition of 500km of new 2D seismic, re-processing of legacy 2D and 3D seismic data and a field study. The Company has identified best estimate prospective resources of 11.4MMboe of oil and gas within the Moulay Bouchta permit area.

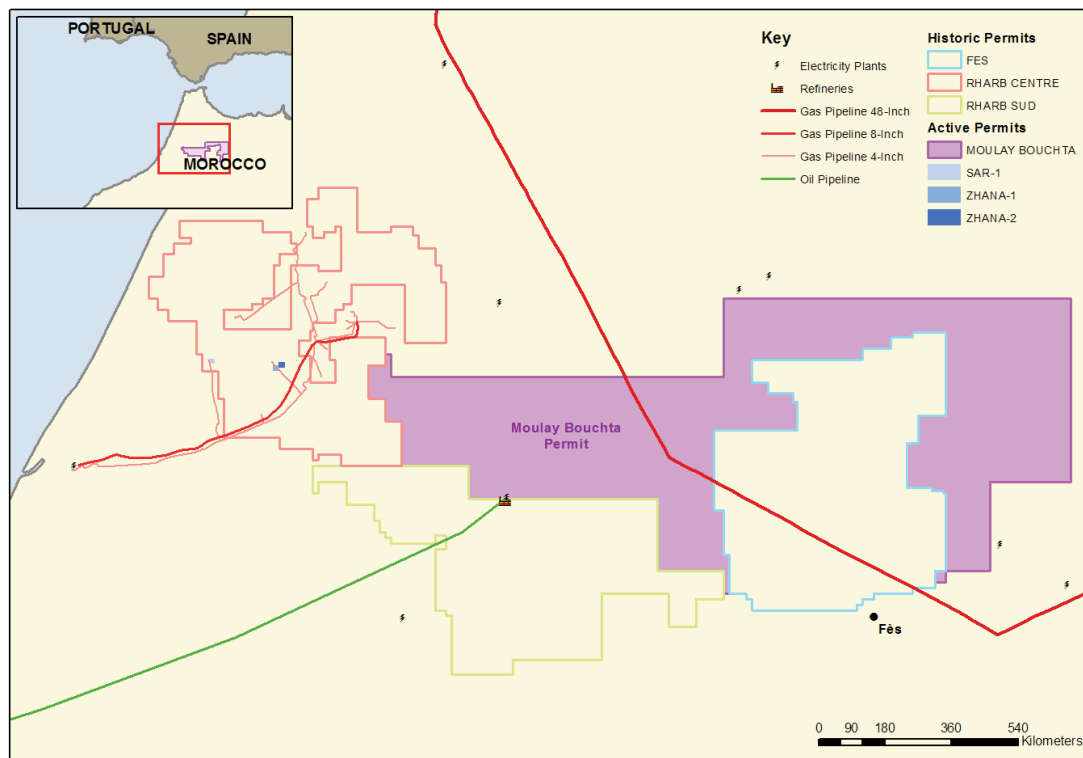
The Company has initiated a process of divestment or farm-down of its interest in the Moulay Bouchta petroleum agreement, as a means of reducing its future financial commitments. If the Company is unable to farm-down or divest its interest in the agreement on favourable terms the Company is at risk of forfeiting its interest, and all or part of the US\$1.75 million of restricted cash held as a performance guarantee for completing the minimum work programme on the permit area. Note there is no parent company guarantee under any of the Moroccan petroleum agreements.

The Company also holds interests in three exploitation concessions in northern Morocco:

- Zhana 1, a 25 year concession that expires in June 2025, (GPX: 65 per cent., ONHYM: 35 per cent.);
- Zhana 2, a 15 year concession that expires in February 2018, (GPX: 75 per cent., ONHYM: 25 per cent.); and
- Sidi Amer 1, a 15 year concession that expires in July 2019, (GPX: 75 per cent., ONHYM: 25 per cent.).

There are four wells on these three concessions that penetrate depleted, or near depleted gas reservoirs. The Company has no plans to re-enter or produce from these wells.

A map of the Moroccan assets is set out below:



3.2 Syrian assets

Gulfsands is the operator of the Block 26 PSC in Syria, and holds a 50 per cent. working interest in the PSC along with Emerald Energy plc (50 per cent.), a company owned 100 per cent. by Sinochem Group of China. Sinochem Group is a Chinese conglomerate primarily engaged in the production and trading of chemicals and fertilizer, and exploration and production of oil.

Block 26 covers an area of 5,414km² in north east Syria and the PSC grants rights to explore, develop and produce hydrocarbons from all depths outside the pre-existing fields within the area and from the deeper stratigraphic levels below the pre-existing discovered fields.

The Company holds a 50 per cent. interest in 25 year production licences for (i) Khurbet East (Massive and Kurrachine Dolomite reservoirs); (ii) Yousefieh; and (iii) Khurbet East (Burmah reservoir). The licences run from 2008, 2010 and 2011 respectively, and each licence has a possible extension, at the contractor's option, of ten years.

The Company had discovered 2P reserves of 68.2MMbbls of oil and condensate and 31.5Bcf of gas (working interest basis) which were reclassified as 2C resources as at the date of this document owing to continued EU Sanctions in Syria. Notwithstanding that the hydrocarbons discovered on the Block 26 PSC in Syria have been evaluated as reserves for several years leading up to, and after, the imposition of EU Sanctions in Syria, and that commercial production from the Block 26 area has exceeded 21MMbbls, for the purposes of this document the volumes of oil previously reported as 2P reserves have been reclassified by the Company as 2C contingent resources on the basis that the Company cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. This has resulted in total 2C contingent resources in Syria of 89.1MMboe as at the date of this document. This estimation of, and reclassification as, contingent resources has been prepared by the Company and reviewed by Senergy, an independent reserve/resource engineer who has completed several annual independent audits of the Company's reserves and resources. Senergy has confirmed that, based upon its review of the resource calculations and the various assumptions adopted by the Company, the estimate of contingent resources reclassified from 2P reserves is reasonable.

Whilst no definite timeline can be substantiated, the Board continues to believe that the EU Sanctions will be lifted within five years and will continue to monitor all activity focused on resolving the situation in Syria and reconsider the basis for reversing this reclassification in line with any future developments.

The Company has also identified a discovery at Al Khairat which is estimated to contain 2C contingent resources of 12.0MMbbls of oil (working interest basis), however commerciality has not yet been declared for the discovery.

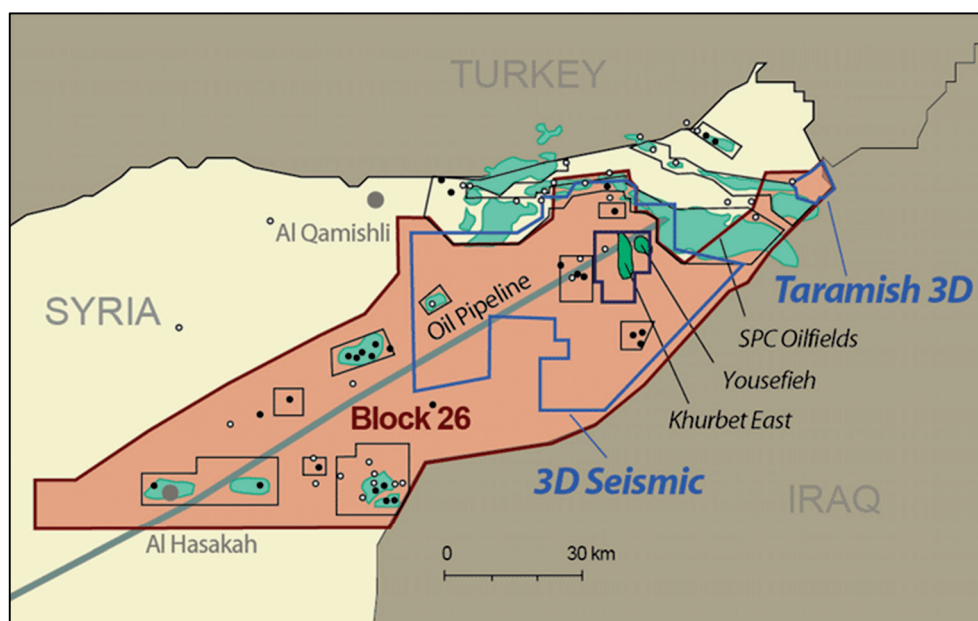
As a consequence of the EU's imposition of further sanctions in Syria which came into effect in early December 2011, in accordance with the terms of the PSC for Block 26, a Notice of Force Majeure was served on GPC, the principal counter-party to the PSC. GPC subsequently informed the Company that it had forwarded the Company's Notice of Force Majeure to the MPNR and requested that further correspondence on the matter be directed to the MPNR. The Company has however insisted that its dialogue over matters arising in respect of the Notice of Force Majeure be recognised by GPC as the Block 26 PSC requires. The imposition of EU Sanctions and subsequently the promulgation of Cayman Islands' regulations reflecting in broad terms, the scope and legislative intent of the EU Sanctions, when taken together, has effectively prohibited Gulfsands' involvement in petroleum production operations in Syria and restricted its activities in relation to Block 26 since December 2011. Unless and until this combined framework of sanctions and regulations is lifted or otherwise modified so as to permit the Company's return to its prior involvement in those activities, the Company will be obliged to maintain its current position with respect to Block 26 PSC matters. It is anticipated that the EU and Cayman Islands regulations will be lifted or otherwise modified in a coordinated manner following consultation between the respective regulatory authorities. Once those changes are implemented, Gulfsands, and its subsidiaries, should then no longer be restrained from involvement in its former activities in Syria.

It should be noted that following the Company's service of its Notice of Force Majeure and various legal steps taken by GPC in Syria, GPC has assumed operational control and responsibility for the management of Dijila, the legal entity established to undertake the management and control of petroleum production operations and related infrastructure on Block 26. It remains unclear as to when the Company can return to its previous role at Dijila and there are uncertainties as to whether GPC and the MPNR will facilitate the resumption of that role without modification to the status the Company previously enjoyed under the Block 26 PSC.

The final exploration period of the PSC was set to expire in August 2012 when Force Majeure was declared in December 2011. While the final exploration period legally expired in August 2012, it is understood that the Syrian authorities may be prepared to grant the Company an additional period to undertake exploration work on Block 26 to replace that period of time which was lost when Force Majeure was declared. The Company has ensured that it remains compliant with all applicable sanctions in relation to Syria and intends to return to production and exploration activities as soon as permitted.

The Company believes the Syria assets are intact, are being maintained by the Syrian authorities and are generally in a good operating condition. This observation is made based upon various articles in the media and periodic production reports received from the authorities in Syria that the Block 26 fields are being produced from time to time.

A map of Block 26 is set out below:

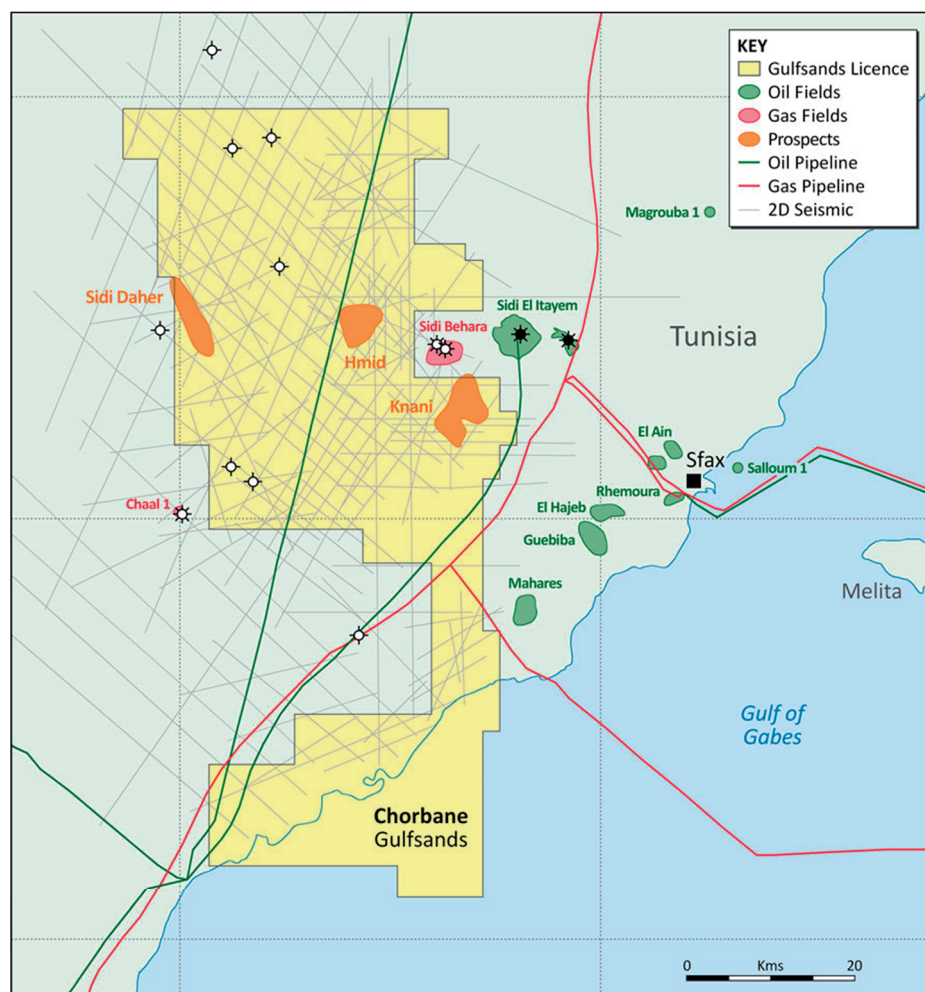


3.3 *Tunisian assets*

GulfSands currently holds a 100 per cent. interest in the Chorbane PSC, located mainly onshore in central Tunisia. The permit is in close proximity to a number of producing oil fields and associated oil and gas infrastructure. The Company estimates the Chorbane permit may contain 44.2MMboe (best estimate) of prospective resources. The first renewal period expired in July 2015 and the Company has submitted an application for renewal or extension. The Company received a formal response from the Tunisian Ministry of Industry and Technology in August 2015 which indicated that its Hydrocarbon Advisory Committee had issued a 'favourable opinion' toward the application, and that the formal extension would be gazetted or published in the Official Journal of the Tunisian Republic. As at the date of this document, the formal extension has not been gazetted and there remains a risk that the renewal is not granted in which case the Company would forfeit the Chorbane PSC. Simultaneously, the Company has initiated a process of divestment or farm-down of its interests in the contract area prior to any significant financial commitment with respect to further exploration work. If the extension is not granted or the farm-down or divestment of the Company's working interest is not successful, the Company will cease its operations and leave Tunisia.

The minimum work obligation offered in the application for a contract extension is 200km of 2D seismic and the carry forward of one exploration well from the previous exploration period. There is no restricted cash, financial performance guarantee, or parent company guarantee for completion of the minimum work obligations under the Chorbane PSC.

A map of the Chorbane PSC is set out below:



3.4 Colombian assets

Gulfsands is the operator of two exploration and production contracts in Colombia as follows:

- Llanos Block 50 (100 per cent. working interest and operator), phase 1 expires in November 2016 and has a minimum work programme of 103km of 2D seismic and drilling of 1 exploration well. The Company has also undertaken to spend US\$100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5km of 2D seismic; and
- Putumayo Block 14 (100 per cent. working interest and operator), phase 1 expires in November 2017 and has a minimum work programme of 93km of 2D seismic and drilling of 1 exploration well. The Company has also undertaken to spend US\$100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5km of 2D seismic.

Both blocks are in established oil producing basins and both are on trend with existing oil fields and new discoveries. The Company has not prioritised exploration activities in Colombia and is actively pursuing a process of divestment or farm-down options for its interests in the contract areas prior to any significant financial commitment with respect to further exploration work.

The Company has approximately US\$3.2 million of restricted cash associated with performance guarantees for completing the minimum work obligations under these contracts (US\$1.5 million in relation to Llanos Block 50 and US\$1.7 million in relation to Putumayo Block 14).

A map of the Colombian assets is set out below:



3.5 **Company strategy**

As a result of its current financial position, the Company's primary strategy is to maintain its interests in Syria, in compliance with the EU Sanctions that are currently in place, with a view to resuming the development of Block 26, with the associated generation of revenues, upon the lifting of EU Sanctions.

At the same time, the Company is seeking to reduce its financial exposure to the exploration activity on its assets in Morocco, Tunisia and Colombia by way of a divestment or farm-out of these interests. The Company will seek to extract value by way of reimbursement of back costs and restricted cash held as a performance guarantee on some of the assets.

In the opinion of the Company, taking into account existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company, the Group does not have sufficient working capital for its present requirements, that is, for at least twelve months following the date of this document.

The Board is of the opinion that, excluding the potential liability in relation to the Rharb Petroleum Agreement, its unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company should give it sufficient working capital for its operational requirements to January 2017, following which it will require further working capital. However, as a result of the rejection of the Company's application for an extension of the Rharb Petroleum Agreement by ONHYM, and the claims for penalty fees under the agreement, the Board is unable to give a clean working capital statement. While the Board strongly refutes the claims by ONHYM and is seeking legal advice on the matter, there is the potential that such penalties become due and payable within the period that is twelve months from the date of this document, in which circumstances the Company will likely be required to raise further working capital immediately thereafter.

As the Company has no immediate sources of revenue, in order to address its working capital requirements, either during the twelve months from the date of this document as a result of claims by ONHYM becoming due and payable, or in January 2017 when in any event, the Company expects that it will require further working capital, the Board will consider all financing options available to it including the sale of assets and/or a further issue of equity. The proceeds of any such future fundraising would be expected to be applied toward corporate overheads and associated expenses in accordance with the Company's strategy.

3.6 **Resources and reserves**

The technical information in this paragraph, referring to reserves and resources, has been prepared in accordance with the PRMS as adopted in 2007 and the PRMS Guidelines as adopted in 2011. The Company prepares its estimate of reserves and resources for each of its assets in accordance with the PRMS and the PRMS Guidelines and, unless stated otherwise, these estimates are independently audited by Senergy.

For hydrocarbon accumulations to be classified as reserves they must be discovered, recoverable and commercial; a further consideration is the timing of their proposed development and the PRMS refers to a benchmark of five years from the date of the evaluation for the initiation of development. Furthermore, the PRMS Guidelines consider the rare situation for reserves to be reclassified as contingent resources as a consequence of an unforeseen event that is beyond the control of the operator and partners in the asset, such as unexpected political or legal change that causes the development activity to be delayed beyond a reasonable time frame (as defined in the PRMS) of five years.

Notwithstanding that the hydrocarbons discovered on the Block 26 PSC in Syria have been evaluated as reserves for several years leading up to, and after, the imposition of EU Sanctions in Syria, and that commercial production from the Block 26 area has exceeded 21MMbbls, for the purposes of this document the volumes of oil previously reported as 2P reserves have been reclassified by the Company as 2C contingent resources on the basis that the Company cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. This estimation of, and reclassification as, contingent resources has been prepared by the Company and reviewed by Senergy, an independent reserve/resource engineer who has completed several annual independent audits of the Company's reserves and resources. Senergy has confirmed that, based upon its review of the resource calculations and the various assumptions adopted by the Company, the estimate of contingent resources reclassified from 2P reserves is reasonable.

Whilst no definite timeline can be substantiated, the Board continues to believe that the EU Sanctions will be lifted within five years and will continue to monitor all activity focused on resolving the situation in Syria and reconsider the basis for reversing this reclassification in line with any future developments.

A summary of the Company's reserves as at 31 December 2014, and the reconciliation of reserves for the period from 1 January 2013 to the date of this document are set out in the table below:

	Syria		US		Group total		
	Oil MMbbls	Gas (Bcf)	Oil MMbbls	Gas (Bcf)	Oil MMbbls	Gas (Bcf)	Oil and Gas (MMboe)
<i>Working interest basis</i>							
Reserves as at 31 December 2014							
Proved	38.5	11.0	0.0	0.0	38.5	11.0	40.3
Probable	29.7	20.5	0.0	0.0	29.7	20.5	33.1
Proved and Probable	68.2	31.5	0.0	0.0	68.2	31.5	73.5
Possible	41.8	35.5	0.0	0.0	41.8	35.5	47.7
Proved, Probable and Possible	110.0	67.0	0.0	0.0	110.0	67.0	121.2
Reconciliation of Proved and Probable reserves – 1 January 2013 to the date of this document							
As at 31 December 2012	68.8	33.0	1.0	2.6	69.9	35.7	75.9
Discoveries and additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revisions	0.1	0.0	0.0	(0.5)	0.1	(0.5)	0.0
Less: Estimated production	0.0	0.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
As at 31 December 2013	68.9	33.0	1.0	2.0	69.9	35.0	75.8
Discoveries and additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	(0.9)	(1.9)	(0.9)	(1.9)	(1.2)
Revisions	(0.5)	(1.5)	0.0	0.0	(0.5)	(1.5)	(0.8)
Less: Estimated production	(0.2)	(0.0)	(0.1)	(0.1)	(0.3)	(0.1)	(0.3)
As at 31 December 2014	68.2	31.5	0.0	0.0	68.2	31.5	73.5
Discoveries and additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revisions	(68.2)	(31.5)	0.0	0.0	(68.2)	(31.5)	(73.5)
Less: Estimated production	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at the date of this document	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note, certain figures may not add up due to rounding.

"Oil" includes condensate and non-gas liquids.

Gas is converted to MMboe at the conversion factor 1Bcf = 0.1667MMboe.

Reserves figures are updated with available metered oil production information up to the end of August 2015.

Metered oil production during 2015 is 41,700bbls; due to rounding this is shown as 0.0MMbbls.

As a consequence of the EU's imposition of further sanctions in Syria which came into effect in early December 2011, GPC has assumed operational control and responsibility for the management of Dijila, and Gulfsands has withdrawn all of its staff previously seconded to Dijila.

Since this time Gulfsands has periodically received updates on fiscally metered oil volumes produced from the Company's Syrian fields under Dijila's operation, such that it has been possible for the Company to update its remaining recoverable reserves figures for these fields on at least an annual basis.

During 2015, the Company has received information regarding produced oil volumes up until the end of August 2015 stating that a total metered volume of 41,700bbls of oil had been produced from the Company's fields during 2015. More recent production information has not as yet been made available. These figures have been taken into account in the reclassification of the Company's 2P reserves to 2C contingent resources.

The Company has become aware of recent reports in the media to the effect that across Syria oil volumes may be being lifted from some Syrian fields in a manner that is not subject to any form of fiscal metering. The Company understands that these reports are not confirmed or verified as to the existence of such unmetered oil production, the location of such unmetered production or the scale on which it might be occurring.

Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by the application of development projects, but are not currently considered to be commercially recoverable due to one or more contingencies that may be related to technical or non-technical factors, and are categorised under the PRMS into 1C, 2C and 3C according to the level of uncertainty associated with the estimates. Furthermore, in accordance with the PRMS, a risk factor should be stated that indicates the likelihood that the contingent resources will ultimately be commercially developed. The risk factor considers all technical and non-technical factors that are impacting or are likely to impact on the likelihood of development, and is termed the “chance of development”. A summary of the Company’s contingent resources as at the date of this document are set out in the table below:

<i>Unrisked, working interest basis</i>	<i>Constituent</i>	<i>1C</i>	<i>2C</i>	<i>3C</i>	<i>Risk factor (chance of development)</i>
Syria Block 26 (working interest 50%)					
Block 26 PSC reserves	Oil and sales gas, MMboe	43.6	77.1	125.4	90%
Al Khairat discovery	Oil, MMbbbls	2.9	12.0	45.7	30%
Syria total	Oil and sales gas, MMboe	46.5	89.1	171.1	

Note, certain figures may not add up due to rounding.

“Oil” includes condensate and non-gas liquids.

Gas is converted to MMboe at the conversion factor 1Bcf = 0.1667MMboe.

Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. The Low, Best and High estimates are the 90 per cent. probability (P90), 50 per cent. probability (P50), and 10 per cent. probability (P10) values respectively derived from probabilistic estimates generated using a Monte Carlo statistical approach. Furthermore, in accordance with the PRMS, a risk assessment should be provided for Low, Best and High estimate categories. The risk assessment is the chance of discovery; the risk assessment relating to the chance of development is not normally quantified at this level of resource classification. A summary of the Company’s prospective resources as at the date of this document are set out in the table below:

<i>Unrisked, working interest basis</i>	<i>Constituent</i>	<i>Low</i>	<i>Best</i>	<i>High</i>	<i>Risk factor (chance of development)</i>
Moulay Bouchta permit (working interest 75%)					
Jurassic leads	Oil and sales gas, MMboe	0.5	11.4	74.9	Low-Med
Morocco total	MMboe	0.5	11.4	74.9	
Tunisia					
Upper Miocene prospects	Oil, MMbbbls	8	27	63	9-25%
Upper Miocene leads	Sales gas, Bcf	21	103	398	Low
Tunisia total	MMboe	11.5	44.2	129.3	

Note, certain figures may not add up due to rounding.

“Oil” includes condensate and non-gas liquids.

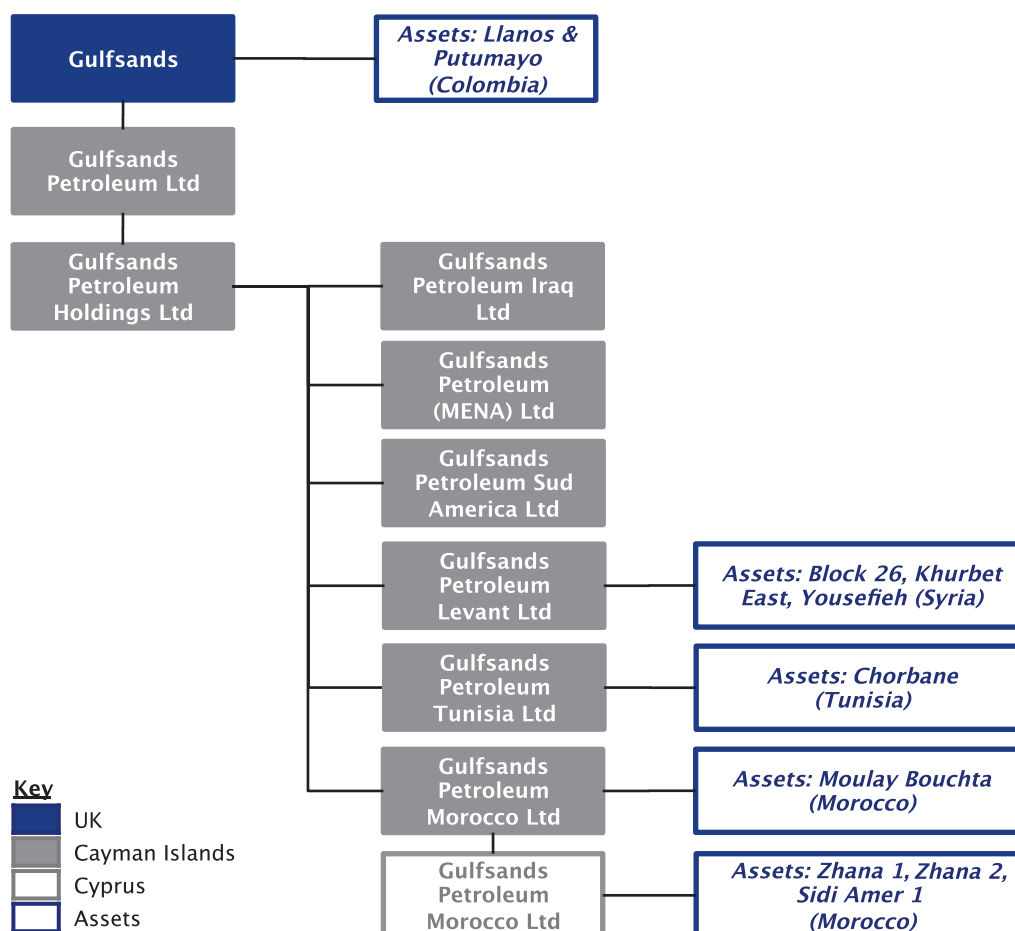
Gas is converted to MMboe at the conversion factor 1Bcf = 0.1667MMboe.

3.7 Group description

Gulfsands is the parent entity of the Group, which holds a 100 per cent. direct interest in Gulfsands Petroleum Ltd, which acts as a holding Company for the Group's operating subsidiaries. Gulfsands holds a 100 per cent. indirect interest in each of its subsidiaries. A summary of the Group's subsidiary companies is set out in the table below:

<i>Name of company</i>	<i>Proportion of voting shares</i>	<i>Nature of business</i>	<i>Country of incorporation</i>
Directly held by the Company:			
Gulfsands Petroleum Ltd	100%	Holding company	Cayman Islands
Indirectly held by the Company:			
Gulfsands Petroleum Holdings Ltd	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd	100%	Oil and gas exploration	Cyprus
Gulfsands Petroleum (MENA) Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Sud America Ltd	100%	Oil and gas exploration	Cayman Islands

A summary of the group structure is set out in the diagram below:



3.8 **Principal markets**

The Group does not currently generate any revenues. Notwithstanding this, the Group is interested in the oil and gas industries in Syria, Morocco, Tunisia and Colombia for the provision of future revenues from the sale of oil and gas.

Syria

Syria's energy sector has encountered a number of challenges as a result of conflict and subsequent sanctions imposed by the US and the EU. Damage to energy infrastructure – including oil and natural gas pipelines and electricity transmission networks – has hindered the exploration, development, production, and transport of the country's energy resources.

Syria, previously the eastern Mediterranean's leading oil and natural gas producer, has seen its production fall to a fraction of pre-conflict levels. Syria is no longer able to export oil, and as a result, government revenues from the energy sector have fallen significantly. Prior to the current conflict, when Syria produced 383,000bopd of oil and 316MMscf of natural gas, Syria's oil and gas sector accounted for approximately one quarter of government revenues.

Morocco

Morocco is a net hydrocarbon importer. The country produces marginal amounts of oil, natural gas, and refined petroleum products, which is mainly consumed domestically. Morocco has two refineries with a total crude oil distillation capacity of about 155,000bopd.

Production of petroleum and other liquids in Morocco was 5,100boepd in 2013, while total petroleum consumption stood at 209,000boepd. Likewise, natural gas production falls well below consumption, totalling 2Bcf in 2012, while consumption was 38Bcf.

Tunisia

Tunisia is a relatively small hydrocarbon producer. Production of petroleum and other liquids has been steadily declining from its peak of 120,000boepd in the mid-1980s to 60,000boepd in 2013. Tunisia produced 66Bcf of dry natural gas in 2012. Tunisia has one oil refinery with a crude oil distillation capacity of 34,000bopd, but it is not enough to meet domestic demand, which averaged 90,000bopd in 2013. As a result, Tunisia imports a majority of the petroleum products it consumes.

Colombia

Colombia is currently the third-largest oil producer in Latin America and is the seventh-largest crude exporter to the US. Colombia produced 1 million boepd of petroleum and other liquids in 2014, which includes crude oil, condensate, natural gas plant liquids, other liquids, and refinery processing gain. Colombia's oil production has increased by an annual average of almost 10 per cent. since 2008, but growth has slowed in recent years, and production was relatively flat from 2013 to 2014. Colombia consumed 290,000boepd in 2014, allowing the country to export most of its oil production.

4. Property, plant and equipment

As at the date of this document, Gulfsands and its subsidiaries occupy the following properties:

<i>Property⁽¹⁾</i>	<i>Current use</i>	<i>Owned/leased</i>	<i>Lease end/ break date</i>
6 Duke Street, St James', London UK SW1Y 6BN	Office	Leased	24 March 2017
Avenida Carrera 9 No. 113-52 Oficina 703, Torres Unidas II, Bogotá 110111 Colombia	Office	Leased	31 May 2017

⁽¹⁾ Only includes leases with remaining lease commitments in excess of US\$50,000 as at the date of this document.

The Company has no other material tangible fixed assets, nor any major encumbrances thereon.

5. Summary historical financial information

5.1 Consolidated income statement

The consolidated income statement for the Group for the twelve months ending 31 December 2012, 2013 and 2014, and the six month period ending 30 June 2015 is set out below:

US\$'000 ⁽¹⁾	30 June 2015	31 December 2014 ⁽²⁾	31 December 2013	31 December 2012 ⁽³⁾
Continuing Operations				
Revenue	0	0	4,367	5,622
Cost of sales				
Depletion	0	0	(1,267)	(1,430)
Impairment	0	0	(58)	(568)
Other cost of sales	0	0	(2,860)	(4,944)
Gross profit/(loss)	<u>0</u>	<u>0</u>	<u>182</u>	<u>(1,320)</u>
General administrative expenses	(3,523)	(5,469)	(10,408)	(16,624)
Share-based payments	0	(56)	(516)	(1,751)
Total administrative expenses	<u>(3,523)</u>	<u>(5,525)</u>	<u>(10,924)</u>	<u>(18,375)</u>
Impairment of exploration and evaluation assets	(22,107)	0	0	0
Provision against restricted cash balances	(3,500)	0	0	0
Exploration costs written-off	(1,439)	(6,040)	(12,301)	(7,082)
Syrian inventory provision/write-off	0	0	(2,905)	0
Other Syrian adjustments	0	(202)	(383)	(34)
Operating loss	<u>(30,569)</u>	<u>(11,767)</u>	<u>(26,331)</u>	<u>(26,811)</u>
Loan financing cost	(536)	(70)	0	0
Other finance income	8	18	89	375
Other finance expenses	(152)	(76)	(104)	(92)
Foreign exchange (losses)/gains	(65)	(218)	89	(26)
Discount expense on decommissioning provision	0	0	(500)	(476)
Loss before taxation from continuing activities	<u>(31,314)</u>	<u>(12,113)</u>	<u>(26,757)</u>	<u>(27,030)</u>
Taxation	0	0	0	0
Loss for the period from continuing activities	<u>(31,314)</u>	<u>(12,113)</u>	<u>(26,757)</u>	<u>(27,030)</u>
Discontinued operations				
Loss for the period from discontinued operations	0	(3,978)	0	0
Loss for the period – attributable to owners of the parent company	<u>(31,314)</u>	<u>(16,091)</u>	<u>(26,757)</u>	<u>(27,030)</u>

⁽¹⁾ All the information presented in the above table is based on the audited financial statements for the twelve months ended 31 December 2012, 2013 and 2014, and the reviewed financial statements for the six month period ending 30 June 2015.

⁽²⁾ The Group disposed of its US assets during 2014 and the results of those operations were disclosed as discontinued. In the 2014 audited financial statements the 2013 comparatives were re-presented to show the results of the US operations as discontinued, in accordance with the requirements of IFRS 5.

⁽³⁾ Other finance expenses previously included in general administrative expenses, and foreign exchange gains/(losses) totalling US\$0.1 million have been re-presented in the summary table above for the year ended 31 December 2012 as financing costs, so are not included within operating losses. This is to enable consistent presentation with the results of the subsequent periods. These adjustments are unaudited.

5.2 Consolidated balance sheet

The consolidated balance sheet for the Group as at 31 December 2012, 2013 and 2014, and 30 June 2015 is set out below:

US\$'000 ⁽¹⁾	30 June 2015	31 December 2014	31 December 2013	31 December 2012 ⁽²⁾
ASSETS				
Non-current assets				
Property, plant and equipment	244	285	12,893	13,872
Intangible assets	36,303	53,352	37,558	6,207
Long-term financial assets	6,431	11,514	19,138	7,837
Investments	102,000	102,000	102,000	102,000
Total non-current assets	144,978	167,151	171,589	129,916
Current assets				
Inventory	2,213	2,361	2,247	2,905
Trade and other receivables	1,150	1,028	3,542	8,560
Cash and cash equivalents	1,509	7,907	33,824	90,982
Total current assets	4,872	11,296	39,613	102,447
Total assets	149,850	178,447	211,202	232,363
LIABILITIES				
Current liabilities				
Trade and other payables	4,316	5,882	15,245	11,779
Provision for decommissioning	380	580	2,573	2,352
Loan facility	10,391	0	0	0
Total current liabilities	15,087	6,462	17,818	14,131
Non-current liabilities				
Trade and other payables	4,090	6,178	6,155	0
Provision for decommissioning	1,463	397	10,578	15,309
Loan facility	0	4,855	0	0
Total non-current liabilities	5,553	11,430	16,733	15,309
Total liabilities	20,640	17,892	34,551	29,440
Net assets	129,210	160,555	176,651	202,923
EQUITY				
Share capital	13,131	13,131	13,131	13,131
Share premium	105,926	105,926	105,926	105,926
Merger reserve	11,709	11,709	11,709	11,709
Treasury shares	(11,502)	(11,502)	(11,502)	(11,619)
Retained profit	9,946	41,291	57,387	83,776
Total equity	129,210	160,555	176,651	202,923

⁽¹⁾ All the information presented in the above table is based on the audited financial statements for the twelve months ended 31 December 2012, 2013 and 2014, and the reviewed financial statements for the six month period ending 30 June 2015.

⁽²⁾ In the 2013 audited financial statements and following periods thereafter, the Group re-presented its statement of changes in equity, and therefore the Equity section of the balance sheet, to include the share-based payment reserve as part of retained profit and to separate treasury shares from retained profit, both as permitted by IFRS. The Equity section of the balance sheet presented above as at 31 December 2012 has been re-presented to be consistent with the subsequent periods.

5.3 Consolidated cash flow statement

The consolidated cash flow statement for the Group for the twelve months ending 31 December 2012, 2013 and 2014, and the six month period ending 30 June 2015 is set out below:

<i>US\$'000⁽¹⁾</i>	<i>30 June 2015</i>	<i>31 December 2014⁽²⁾</i>	<i>31 December 2013</i>	<i>31 December 2012^(3,4)</i>
OPERATING ACTIVITIES				
Operating loss from continuing operations	(30,569)	(11,767)	(26,331)	(26,811)
Depreciation and amortisation	100	602	2,144	2,430
Impairment of exploration and evaluation assets	22,107	0	0	0
Impairment of oil and gas assets	0	0	58	568
Provision against long-term financial assets	3,500	0	0	0
Exploration costs written-off	1,439	6,040	12,301	7,082
Other Syrian adjustments	0	202	383	34
Decommissioning costs in excess of provision	0	0	0	1,104
Share-based payment charge	0	56	516	1,751
Syrian inventory provision/write-off	0	0	2,905	0
(Increase)/decrease in receivables	(79)	1,598	(286)	(152)
(Decrease)/increase in payables	(341)	(254)	349	(441)
Foreign exchange (losses)/gains	(65)	(218)	89	(26)
Finance expenses paid	(19)	(76)	(104)	(92)
Interest received	8	18	89	375
Net cash used in operating activities by continuing operations	<u>(3,919)</u>	<u>(3,799)</u>	<u>(7,887)</u>	<u>(14,178)</u>
Net cash generated by operating activities of discontinued operations	<u>0</u>	<u>2,347</u>	<u>0</u>	<u>0</u>
Total net cash used in operating activities	<u><u>(3,919)</u></u>	<u><u>(1,452)</u></u>	<u><u>(7,887)</u></u>	<u><u>(14,178)</u></u>
INVESTING ACTIVITIES				
Acquisition of subsidiary undertaking	0	0	(17,103)	0
Exploration and evaluation expenditure	(7,387)	(26,987)	(17,302)	(7,830)
Oil and gas properties expenditure	0	0	(1,245)	(312)
Movements in balances due to or from oil and gas partnerships	0	0	0	(3,057)
Inventory purchased	(49)	(1,420)	(2,247)	(1,086)
Other capital expenditures	(12)	(340)	(642)	(1,019)
Change in restricted cash balances	0	4,750	(8,550)	(3,872)
Decommissioning costs paid	0	0	(2,151)	(1,919)
Net cash used in investing activities by continuing operations	<u>(7,448)</u>	<u>(23,997)</u>	<u>(49,240)</u>	<u>(19,095)</u>
Net cash used in investing activities by discontinued operations	<u>0</u>	<u>(5,011)</u>	<u>0</u>	<u>0</u>
Total net cash used in investing activities	<u><u>(7,448)</u></u>	<u><u>(29,008)</u></u>	<u><u>(49,240)</u></u>	<u><u>(19,095)</u></u>

<i>US\$'000⁽¹⁾</i>	<i>30 June 2015</i>	<i>31 December 2014⁽²⁾</i>	<i>31 December 2013</i>	<i>31 December 2012^(3,4)</i>
FINANCING ACTIVITIES				
Loan draw-down	5,000	5,000	0	0
Transaction costs paid on loan facility	0	(215)	0	0
Cash proceeds from issue of shares	0	0	0	145
Purchase of own shares	0	0	0	(119)
Other payments in connection with options exercised/issued	(31)	(61)	(31)	(11)
Net cash provided by/(used in) financing activities of continuing operations	<u>4,969</u>	<u>4,724</u>	<u>(31)</u>	<u>15</u>
Net cash used in financing activities of discontinued operations	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total net cash provided by/(used in) financing activities	<u>4,969</u>	<u>4,724</u>	<u>(31)</u>	<u>15</u>
Cash disposed as part of disposal of discontinued operations	<u>0</u>	<u>(181)</u>	<u>0</u>	<u>0</u>
Decrease in cash and cash equivalents	<u>(6,398)</u>	<u>(25,917)</u>	<u>(57,158)</u>	<u>(33,258)</u>
Cash and cash equivalents at beginning of year	<u>7,907</u>	<u>33,824</u>	<u>90,982</u>	<u>124,240</u>
Cash and cash equivalents at end of year	<u><u>1,509</u></u>	<u><u>7,907</u></u>	<u><u>33,824</u></u>	<u><u>90,982</u></u>

⁽¹⁾ All the information presented in the above table is based on the audited financial statements for the twelve months ended 31 December 2012, 2013 and 2014, and the reviewed financial statements for the six month period ending 30 June 2015.

⁽²⁾ The Group disposed of its US assets during 2014 and the results of those operations were disclosed as discontinued. In the 2014 audited financial statements the 2013 comparatives were re-presented to show the results of the US operations as discontinued, in accordance with the requirements of IFRS 5.

⁽³⁾ During the year ended 31 December 2012, suspended Syrian operations consumed US\$1.1 million of cash in operating activities and paid US\$1.1 million for investing activities. The cash was provided by entities within the Group and was used to settle obligations incurred prior to the suspension of activities and in full compliance with all applicable sanctions. These cash flows were not presented separately in the consolidated cash flow statement but were instead disclosed in the notes to the consolidated financial statements, as allowed under IFRS 5. The cash flows presented above are as presented in the cash flow statement in the annual report and accounts so include this US\$2.2 million of cash outflow resulting from discontinued operations.

⁽⁴⁾ Other finance expenses previously included in general administrative expenses, and foreign exchange gains/(losses) totalling US\$0.1 million have been re-presented in the cash flow statement above for the year ended 31 December 2012 as financing costs, so are not included within operating losses but are instead separately identified within operating cash flows. This is to enable consistent presentation with the cash flows for the subsequent periods. These adjustments are unaudited.

6. Share capital

A summary of the Company's share capital as at the date of this document is set out in the table below:

	<i>Undiluted</i>		<i>Fully diluted</i>	
	<i>No.</i>	<i>% Total⁽¹⁾</i>	<i>No.</i>	<i>% Total⁽²⁾</i>
Existing Shares	117,886,145	100.0%	117,886,145	99.4%
Share options over Ordinary Shares	0	0.0%	531,000	0.4%
Restricted share options over Ordinary Shares	0	0.0%	136,693	0.2%
Total	<u>117,886,145</u>	<u>100.0%</u>	<u>118,553,838</u>	<u>100.0%</u>
Treasury Shares	<u>4,103,355</u>	<u>N/A</u>	<u>4,103,355</u>	<u>N/A</u>
Total (including treasury shares)	<u>121,989,500</u>	<u>N/A</u>	<u>122,657,193</u>	<u>N/A</u>
Deferred shares ⁽³⁾	121,989,500	N/A	121,989,500	N/A

⁽¹⁾ Calculated as a percentage of the total Ordinary Shares in issue, excluding Treasury Shares.

⁽²⁾ Calculated as a percentage of the total Ordinary Shares plus share options over Ordinary Shares in issue, excluding Treasury Shares.

⁽³⁾ The Company completed a capital reorganisation on 14 September 2015 which resulted in the subdivision of the existing ordinary shares at the time into Ordinary Shares and deferred shares. The rights and obligations attaching to the deferred shares are summarised in paragraph 5 of Part XI of this document.

A summary of the changes in the Company's share capital for the periods ending 31 December 2012, 2013 and 2014, the six month period ending 30 June 2015 and the period from 1 July 2015 to the date of this document, is set out in the table below:

	<i>No. Ordinary Shares</i>	<i>No. Treasury Shares</i>	<i>No. share options over Ordinary Shares</i>	<i>No. restricted share options over Ordinary Shares</i>	<i>Total Ordinary Shares and share options⁽¹⁾</i>
Ordinary Shares as at 1 January 2012	117,743,819	4,245,681	8,806,000	225,155	131,020,655
Share options settled cashless	90,000	(90,000)	(90,000)	0	(90,000)
Restricted share options settled cashless	10,861	(10,861)	0	(20,000)	(20,000)
Share options and restricted share options lapsing unexercised	0	0	(1,280,000)	(116,028)	(1,396,028)
Share options and restricted shares issued	0	0	0	357,012	357,012
At 31 December 2012	117,844,680	4,144,820	7,436,000	446,139	129,871,639
Restricted share options settled cashless	41,465	(41,465)	0	(79,990)	(79,990)
Restricted share options cash-settled	0	0	0	(2,500)	(2,500)
Share options lapsing unexercised	0	0	(5,800,000)	0	(5,800,000)
At 31 December 2013	117,886,145	4,103,355	1,636,000	363,649	123,989,149
Restricted share options cash-settled	0	0	0	(98,221)	(98,221)
Restricted share options lapsing unexercised	0	0	0	(31,692)	(31,692)
Share options lapsing unexercised	0	0	(250,000)	0	(250,000)
At 31 December 2014	117,886,145	4,103,355	1,386,000	233,736	123,609,236
Restricted share options cash settled	0	0	0	(90,043)	(90,043)
Share options and restricted share options lapsing unexercised	0	0	(855,000)	(7,000)	(862,000)
At 30 June 2015	117,886,145	4,103,355	531,000	136,693	122,657,193
At the date of this document	117,886,145	4,103,355	531,000	136,693	122,657,193

⁽¹⁾ Excluding 121,989,500 deferred shares which are a result of the capital reorganisation completed by the Company on 14 September 2015 which resulted in the subdivision of the existing ordinary shares at the time into Ordinary Shares and deferred shares. The rights and obligations attaching to the deferred shares are summarised in paragraph 5 of Part XI of this document.

Further details of the Company's share options over Ordinary Shares in issue as at the date of this document is set out in the table below:

<i>Exercise period</i>	<i>Year share options or restricted share options vest</i>	<i>Weighted average exercise price of share options (GBP)</i>	<i>Number of share options</i>	<i>Number of restricted share options</i>
3 June 2012 – 2 June 2016	2012	2.350	265,500	–
3 June 2013 – 2 June 2016	2013	2.350	265,500	–
3 June 2012 – 2 June 2016	2012	0.057	–	9,533
3 June 2013 – 2 June 2016	2013	0.057	–	9,532
4 April 2013 – 3 April 2017	2013	0.057	–	58,814
4 April 2014 – 3 April 2017	2014	0.057	–	58,814
Total			<u>531,000</u>	<u>136,693</u>

7. Dividend policy

The strategy of the Directors is to generate capital growth for Shareholders. They will recommend the payment of dividends when it becomes commercially prudent to do so and then subject to the availability of distributable reserves and the retention of funds required to finance future growth.

8. Directors and senior management

8.1 Directors

Alastair John Beardsall, Executive Chairman

Mr. Beardsall, aged 61, was appointed to the Board in April 2015. He has been involved in the oil industry for over 35 years. For the first twelve years Mr. Beardsall worked on international assignments with Schlumberger, the oil-field services company. From 1992 he began working for exploration and production operators, with increasing responsibility for exploration, development and production ventures. Between September 2003 and October 2009, Mr. Beardsall was executive chairman of Emerald Energy plc; which was acquired by Sinochem Resources UK Limited in October 2009 for £7.50 per share in a transaction that valued Emerald at £532.0 million. Mr. Beardsall is executive chairman of Sterling Energy plc (AIM:SEY), a non-executive director of Jupiter Energy Limited (AIM:JPRL) and advises other private companies in the oil and gas industry. Mr. Beardsall holds and/or has held positions as an officer and/or director of several other companies in which Waterford has been and/ or remains a substantial shareholder. Mr. Beardsall has no business, financial or commercial interests with Waterford beyond the fact of him being an officer or director of such other companies. Waterford is a substantial shareholder in Gulfsands and Mr. Beardsall and Waterford have entered into the Waterford Relationship Deed with the Company which embodies customary terms providing for the proper handling of any potential conflicts.

Joseph Darby, Senior Independent Non-Executive Director

Mr. Darby, aged 67, has over 40 years of experience in the energy sector, including eight years with Shell Petroleum before becoming managing director of Thomson North Sea Ltd and later the Chief Executive of LASMO plc. He has held non-executive roles at Nordaq Energy plc, British Nuclear Fuels plc, Mowlem plc, Centurion Energy Inc and Alkane Energy plc. Mr. Darby was previously chairman of Mowlem plc (2005-06) and Faroe Petroleum plc (2003-07). Mr. Darby is currently a non-executive director of Premier Oil plc and was appointed a Non-Executive Director of Gulfsands in November 2012.

Andrew Thomas West, Non-Executive Director

Mr. West, aged 58, has spent much of his career as an investment banker specialising in mergers and acquisitions. He worked for Smith Barney (1981-85), Lehman Brothers (1985-90), Guinness Mahon (1990-96) and from 1996-99 was managing director of Strand Partners, a privately-owned investment banking firm specialising in energy and natural resources among other sectors. For the past 16 years he has run his own consultancy practice. Mr. West is currently a non-executive director of or adviser to numerous companies, both public and private, and has had considerable experience as both a financial adviser and a non-executive director

in the oil and gas sector. Mr. West was appointed to the Board in March 2006 and became Chairman in July 2006; he stepped down as Chairman in April 2015 and remains on the Board as a Non-Executive Director.

Andrew James Morris, Non-Executive Director

Mr. Morris, aged 47, has extensive international business experience and advises and sits on the boards of several companies, ranging from early stage resource companies to emerging technology companies. He is currently non-executive chairman of Madagascar Oil Limited, an AIM listed company with oil and gas assets situated onshore Madagascar. He was founder of Persistency Capital, a private investment company, where he acted as both investor in, and adviser to, companies across a broad range of sectors and geographies focusing on value investing, deal structuring and turnarounds. Mr. Morris joined the Board of Gulfsands in April 2015. He is also director of Vokings Advisers Limited, a business advisory firm of which he is the principal. Previous directorships include Falcon Oil & Gas Ltd, SouthWest Energy Ltd, Kriisa Research Inc. and Direct Petroleum Exploration Inc. as well as Blake Oil and Gas Limited and various related parties. Previously, Mr. Morris spent 15 years in the financial services industry, during which time he served as a director of Ernst & Young in London, where he advised a broad range of organisations on Enterprise Risk Management including advice on corporate governance, management reporting, financial control, operational risk and process improvement. Mr. Morris holds a BSc (Hons.) degree in Mathematics from Bristol University and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mr. Morris holds a 3.4 per cent. interest in Swiss Energy Partners AG, the parent company of SEP African Ventures Ltd which is a substantial shareholder of Gulfsands. Vokings Advisers Limited also provides services to Swiss Energy Partners AG.

John Bell, Independent Non-Executive Director

Mr. Bell, aged 50, is a Chartered Engineer with over 30 years' experience in the energy sector having worked at vice president or managing director level at BP plc, Statoil AS and Suncor Energy (Syria). He has spent a large part of his career in the Middle East, as well as time in North Africa, the Americas, the UK North Sea, Scandinavia and the Caribbean. Mr. Bell is currently executive chairman of Tethys Petroleum Ltd, a TSX and London Stock Exchange listed public oil and gas company. From May 2014 to December 2014, a company associated with Mr. Bell had a consultancy agreement with a subsidiary of the Company. Subsequent to the termination of that agreement, the Board has considered Mr. Bell to be an independent Non-Executive Director.

James Lawrence Ede-Golightly, Non-Executive Director

Mr. Ede-Golightly, aged 36, is chairman of East Balkan Properties plc and Quoram plc and has extensive experience as a non-executive director on the boards of AIM-quoted companies with international business interests. Mr. Ede-Golightly was a founder of ORA Limited in 2006, having previously worked as an analyst at Merrill Lynch Investment Managers and Commerzbank AG. He is a CFA Charterholder and holds an MA in Economics from Cambridge University. In 2012 he was awarded New Chartered Director of the Year by the Institute of Directors. Mr. Ede-Golightly was appointed a Non-Executive Director of Gulfsands in August 2014.

Mr. Ede-Golightly holds a 5.0 per cent. interest in, and is a Non-Executive Director of, ORA Limited, which is a company chaired and majority owned by Mr. Griffiths. Mr. Griffiths, through other associated entities, is a substantial shareholder in Gulfsands.

8.2 Senior management

Ian Conway, Technical Director

Mr. Conway is a British citizen and holds a BA and MA in Physics from Oxford University, and an MSc in Finance from London Business School. He has 29 years of experience in petroleum/reservoir engineering, technical leadership and commercial roles.

Mr. Conway has worked extensively on reservoir development studies in the Middle East, Europe and Asia. He started his career with BP Exploration in 1985, progressing through a number of technical, commercial and operational roles. In 1993 he joined Maersk Oil International as a senior reservoir engineer. Following a period as an independent consultant, he joined ExxonMobil International Ltd in 2002, reaching the position of lead reservoir advisor for the UK and Netherlands. Mr. Conway joined Gulfsands in 2009 as Vice President, Petroleum Engineering, and became Technical Director of Gulfsands in 2014.

Vicky Bartlett, Group Financial Controller

Ms. Bartlett is a Chartered Accountant and holds a LLB in Law. She was admitted to the Institute of Chartered Accountants in England and Wales in 2009 after training with Baker Tilly International. In 2010 she joined Whale Rock Accounting Limited providing outsourced accounting support to AIM listed companies specialising in the upstream oil and gas industry. During this time, Ms. Bartlett undertook a portfolio of financial control functions as well as ad hoc projects for clients including capital market transactions and asset level technical accounting. Ms. Bartlett joined Gulfsands in October 2013.

8.3 Directors and senior management interests

As at the date of this document, the Directors and senior management interests in the Company's Ordinary Shares are as follows:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Number of options over Ordinary Shares⁽¹⁾</i>	<i>% total Existing Shares</i>
Alastair Beardsall	0	0	0.0%
Andrew West	140,144	0	0.1%
Andrew Morris	80,000	0	0.1%
Joe Darby	25,000	0	0.0%
John Bell	0	0	0.0%
James Ede-Golightly	20,000	0	0.0%
Ian Conway	0	112,490	0.0%
Vicky Bartlett	0	0	0.0%
Total	265,144	112,490	0.2%

⁽¹⁾ Options over Ordinary Shares includes share options and restricted share options.

8.4 Directors remuneration

The remuneration of the Directors for the years ended 31 December 2012, 2013 and 2014 was as follows:

	<i>Salary and fees (US\$'000)</i>			<i>Bonuses (US\$'000)</i>			<i>Benefits in kind (US\$'000)</i>			<i>Total (US\$'000)</i>		
<i>Director</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>
Alastair Beardsall ⁽¹⁾	0	0	0	0	0	0	0	0	0	0	0	0
Andrew West ⁽²⁾	228	235	238	0	0	0	0	0	0	228	235	238
Andrew Morris ^(2,3)	0	0	0	0	0	0	0	0	0	0	0	0
Joe Darby ⁽²⁾	99	94	10	0	0	0	0	0	0	99	94	10
John Bell ^(2,4)	31	0	0	0	0	0	0	0	0	31	0	0
James Ede-Golightly ^(2,4)	31	0	0	0	0	0	0	0	0	31	0	0
Alan Cutler ⁽⁵⁾	330	97	0	0	0	0	6	5	0	336	102	0
Mahdi Sajjad ⁽⁶⁾	680	636	622	0	152	0	27	24	21	707	812	643
Ken Judge ⁽⁷⁾	579	504	350	0	320	0	6	0	0	585	824	350
Ian Conway ⁽⁸⁾	142	0	0	0	0	0	2	0	0	144	0	0
David Cowan ^(2,9)	42	78	80	0	0	0	0	0	0	42	78	80
Michel Faure ^(2,10)	41	37	0	0	0	0	0	0	0	41	37	0
Richard Malcolm ⁽¹¹⁾	0	992	555	0	0	0	0	4	2	0	996	557
Andrew Rose ⁽¹²⁾	0	0	254	0	0	0	0	0	1	0	0	255
Total	2,203	2,673	2,109	0	472	0	41	33	24	2,244	3,178	2,133

⁽¹⁾ Appointed 14 April 2015.

⁽²⁾ Non-Executive Director.

⁽³⁾ Appointed 22 April 2015.

⁽⁴⁾ Appointed 13 August 2014.

⁽⁵⁾ Appointed 13 September 2013, resigned as a Director on 26 August 2015.

⁽⁶⁾ Removed as CEO on 14 April 2015 and retired as a Director on 30 June 2015.

⁽⁷⁾ Resigned as a Director on 3 February 2015.

⁽⁸⁾ Appointed 30 June 2014, retired as a Director on 30 June 2015.

⁽⁹⁾ Resigned as a director on 30 June 2014.

⁽¹⁰⁾ Appointed 15 May 2013, resigned as a Director on 13 August 2014.

⁽¹¹⁾ Resigned 10 April 2013. Salaries and fees in 2013 included US\$837,815 compensation for loss of office.

⁽¹²⁾ Resigned 30 April 2012. Salaries and fees in 2012 included US\$109,000 compensation for loss of office.

The Company provides life assurance cover and medical insurance cover for substantially all staff. There is no Company pension scheme and the Company does not make any contribution to individual employee pension schemes.

8.5 **Directors' terms of appointment**

Each of the Non-Executive Directors has a letter of appointment. The Non-Executive Directors receive fees of £33,000 per annum with the Chair of the Audit Committee and the Remuneration Committee receiving an additional £5,000 per annum.

The remuneration of Mr. Alastair Beardsall, Gulfsands Executive Chairman, is a salary of £72,000 per annum for 4 days per month with additional days-worked paid at £1,500 per day. In the period from his appointment on 14 April 2015 to 31 October 2015, Mr. Beardsall has worked 106.5 days, his salary has been accruing and will be paid after the Open Offer is completed. The Company makes no pension contribution or provisions for holidays but provides Mr. Beardsall with health and travel insurance. The notice period for both the Company and Mr. Beardsall is less than 3 months.

9. **Major Shareholders**

As at 14 December 2015 (being the latest practicable date prior to the publication of this document), the Company is aware of the following parties who, directly or indirectly, were interested in three per cent. or more of the voting rights in respect of the issued ordinary share capital of the Company:

<i>Shareholder</i>	<i>Number of Ordinary Shares</i>	<i>% total Existing Shares</i>
Waterford	33,100,513	28.08%
Mr. Griffiths	11,780,717	9.99%
Mr. Abdul Rahman Kayed	11,500,000	9.76%
Schroder Investment Management	9,213,660	7.81%
Mr. Mahdi Sajjad	8,685,268	7.37%
Al Mashrek Global Invest	7,000,000	5.94%
Mr. Hugh Sloan	5,000,000	4.24%
SEP African Ventures Ltd.	4,866,842	4.13%
Total	91,147,000	77.32%

As a company incorporated under the Act, parties acquiring an interest in three per cent. or more of the voting rights in respect of the issued ordinary share capital of the Company are required to notify the Company in writing of such interest. Save for those parties disclosed above, the Directors are not aware of any other party who, directly or indirectly, was interested in three per cent. or more of the voting rights in respect of the issued ordinary share capital of the Company as at 14 December 2015 (being the latest practicable date prior to the publication of this document).

The Panel has deemed that Waterford and Mr. Griffiths are acting in concert. While neither Waterford nor Mr. Griffiths holds a controlling interest in the Company, together their shareholding represents 38.07 per cent. of the Company's issued share capital. The Company has entered into the Waterford Relationship Deed with Waterford to ensure that such control is not abused.

As at 14 December 2015 (being the latest practicable date prior to the publication of this document), the Company was not aware (i) of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control or ownership over the Company; nor (ii) of any arrangements, apart from as disclosed above, the operation of which may at a subsequent date result in a change of control of the Company.

10. **Corporate governance**

The Company, taking into account its size, seeks to comply with the relevant requirements of the Combined Code. As a result, the Board comprises six members, five of whom are Non-Executive Directors, with two of whom the Company views to be independent for the purposes of the Combined Code.

The Board of Directors holds scheduled Board meetings approximately six times per year plus such other ad hoc meetings as are deemed necessary to deal with urgent business matters. All the necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively. At Board meetings, there is a formal schedule of matters reserved for consideration by the Board and other matters are delegated to Board committees. The Board is responsible for leading and controlling the Company and in particular for formulating, reviewing and approving the Company's strategy, budget, major items of capital expenditure, acquisitions and senior personnel appointments. The Company has established subcommittees of the Board, comprising an Audit Committee and a Remuneration Committee.

Audit Committee

The Audit Committee meets at least three times each year. Its primary duties are: to review the company's financial statements; to review the effectiveness of the Company's internal controls; to review the Company's risk management processes and the risks to which the Company is exposed; to oversee the relationship with the external auditor; and to review the Company's whistle-blowing processes. For the annual results the independent auditors are invited to discuss the conclusions arising from their audit and their assessment of the Company's internal controls. The Chairman of the Audit Committee is Mr. Morris and the other participating members of the committee are Mr. Bell and Mr. Ede-Golightly.

Remuneration Committee

The Remuneration Committee meets at least twice a year and is responsible for considering and making recommendations to the Board in respect of remuneration for the Executive Chairman. The committee also has oversight of the remuneration arrangements for the direct reports to the Executive Chairman, the remuneration policy for which is set by the Executive Chairman. The Chairman of the Remuneration Committee is Mr. Darby and the other participating members of the committee are Mr. Bell and Mr. Ede-Golightly.

Dealing Code

The Directors will comply with Rule 19 of the AIM Rules relating to dealings in the Company's Ordinary Shares and the Company has adopted a code on dealing in securities to ensure compliance by its Directors and applicable employees.

11. Directors' confirmation

Mr. West is currently a director of Irtys Petroleum Limited, which was placed into a creditors' voluntary liquidation on 26 May 2015.

Save as disclosed above, none of the Directors has, during the five years prior to the date of this document:

- (a) any unspent convictions in relation to indictable offences;
- (b) been convicted in relation to a fraudulent offence;
- (c) been associated with any bankruptcies or individual voluntary arrangements of such director;
- (d) been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or of senior manager of any company;
- (e) been associated with any receiverships, compulsory liquidations, creditors' voluntary liquidations, administrations, company voluntary arrangements or any composition or arrangement with its creditors generally or any class of its creditors of any company where such director was a director at the time of or within the twelve months preceding such events;
- (f) been associated with any compulsory liquidations, administrations or partnership voluntary arrangements of any partnerships where such director was a partner at the time of or within the twelve months preceding such events;
- (g) been associated with receiverships of any asset of such director or of a partnership of which the director was a partner at the time of or within the twelve months preceding such events;
- (h) been subject to any official public incrimination, criticism and/or sanction by statutory or regulatory authorities (including designated professional bodies); or

- (i) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any company.

Save as disclosed in this Part X of this document, no person (excluding the Company's professional advisers otherwise disclosed in this document and trade suppliers) has:

- (a) received, directly or indirectly, from the Company within the twelve months preceding the date of this document; or
- (b) entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:
 - (i) fees totalling £10,000 or more;
 - (ii) securities in the Company with a value of £10,000 or more calculated by reference to the Open Offer Price; or
 - (iii) any other benefit with a value of £10,000 or more at the date of Admission;

Save as disclosed in this Part X of this document, no director, or member of a director's family, has a related financial product referenced to the Company's securities.

12. Conflicts of interest

As a public company listed on AIM, a number of the Company's Directors have relationships with some of its major Shareholders. These include:

- Mr. Beardsall, who has an existing relationship with Waterford, which holds 28.1 per cent. of the Company's Existing Shares;
- Mr. Ede-Golightly, who has an existing relationship with Mr. Griffiths, who holds 10.0 per cent. of the Company's Existing Shares; and
- Mr. Morris, who has an existing relationship with SEP African Ventures Ltd, which holds 4.0 per cent. of the Company's Existing Shares.

The nature of these relationships is further described as follows:

- Mr. Beardsall has no formal existing relationship with Waterford, however he has previously worked as a consultant for Waterford, although this involvement was terminated in 2003. Mr. Beardsall was also a director of two companies in which Waterford had substantial shareholdings, being Emerald Energy plc and First Calgary Petroleum Limited, and is currently executive chairman of Sterling Energy plc and non-executive director of Jupiter Energy Limited in which Waterford has substantial shareholdings;
- Mr. Ede-Golightly is a director of ORA Limited. Mr. Griffiths is the founder, chairman and major shareholder of Ora Limited; and
- Mr. Morris holds a 3.4 per cent. interest in Swiss Energy Partners AG, the parent company of SEP African Ventures Ltd. Mr. Morris is also a director of Madagascar Oil Limited, a company in which SEP African Ventures Ltd has a substantial shareholding, and of Vokings Advisers Limited which provides services to Swiss Energy Partners AG.

The Board recognises these potential conflicts and believes these are managed through the composition of the Board as outlined in paragraph 10 above.

Save as disclosed above, there are no actual or potential conflicts of interests between any Director's duties to Gulfsands and the private interests and/or other duties he/she may also have.

No Director was selected to be a director of Gulfsands pursuant to any arrangement or understanding with any major customer, supplier or other person having a business connection with the Group.

No restrictions have been agreed by any Director on the disposal within a certain period of time of his holding in Gulfsands securities.

There are no family relationships between any of the Directors.

13. Directorships and partnerships

Save as set out below, the Directors have not held any directorships of any company, other than those companies in the Group which are subsidiaries of the Company, or been a partner in a partnership at any time in the five years prior to the date of this document:

<i>Director</i>	<i>Current directorships/partnerships</i>	<i>Former directorships/partnerships</i>
Alastair Beardsall	Jupiter Energy Ltd Sterling Energy plc Astrakhan Oil Corporation Forceten Development Company Limited	None
Andrew West	Progression Capital Limited (Jersey) Progression Capital Advisers LLC Khanty-Mansiysk Recoveries Limited Green's (St. James's) Limited Ganymede Limited Bellamy's of Bruton Place Limited Arbutus Renewables Limited Buck's Club Limited Irtys Petroleum Limited	Alterra at Lloyd's Limited First City Insurance Group Limited GreenComm Environmental Limited Tri-Artisan Partners Advisors Europe LLC First City Partnership Limited Greenwich Insurance Holdings Limited
Andrew Morris	Madagascar Oil Limited Vokings Advisors Limited	Kriisa Research Inc SouthWest Energy Limited Falcon Oil & Gas Limited Direct Petroleum Exploration Inc Blake Oil and Gas Limited and related entities Persistency Capital and related entities
Joe Darby	Premier Oil plc Sandleigh Limited	Alkane Energy plc
John Bell	Tethys Petroleum Ltd	Gulf Keystone Petroleum Limited Babylon Petroleum Limited KPA Western Desert Energy Easiwash UK Limited
James Ede-Golightly	ORA Limited (Jersey) Quoram Plc Plant Health Care Plc East Balkan Properties Plc Fermain Capital Limited Cronin Group Plc	Oraeleon Trading Systems Ltd Osceola Hydrocarbons LLC Osceola Royalties LLC ORA Limited (Guernsey) ORA (Guernsey) Limited Eland Oil and Gas Plc Obtala Resources Limited Paragon Diamonds Limited Bendell Enterprises Grandinex Ltd

14. Employees

The average number of staff employed by the Group for the three years ended 31 December 2012, 2013 and 2014 is set out below:

<i>Year ended</i>	<i>Average number of employees⁽¹⁾</i>
31 December 2012	67
31 December 2013	57
31 December 2014	52

⁽¹⁾ Including Executive Directors

As at 30 November 2015 (being the latest practicable date prior to the publication of this document), the Group had 38 employees. Of this number, 27 per cent. were located in the UK, 38 per cent. were located in Morocco, 27 per cent. were located in Syria, 5 per cent. were located in Colombia and 3 per cent. were located in Lebanon.

15. Share schemes

Up until 2015, there were two active share-based schemes in operation: the Gulfsands Share Option Plan and the Gulfsands Restricted Share Plan. The Share Option Plan, which expired in February 2015, was reserved for Directors and senior management while other employees received rewards under the Restricted Share Plan which will continue through to January 2020. No share awards have been made to Directors or employees since 2011.

As a result of the fall in share price since the imposition of EU Sanctions against Syria towards the end of 2011, options held at that time have either lapsed or, if still outstanding, are exercisable at share prices significantly in excess of the current share price.

16. Material Contracts

The following are the material contracts (not being contracts entered into in the ordinary course of business) which have been entered into within the two years prior to the date of this document by the Company:

16.1 The financial adviser agreement

On 22 July 2015, the Company and Cantor Fitzgerald entered into an agreement pursuant to which Cantor Fitzgerald agreed to act as nominated adviser, broker and financial adviser to the Company for the Capital Raising. Under the terms of the agreement, Cantor Fitzgerald shall provide, *inter alia*, such independent advice and guidance to the Company in relation to the Open Offer, including the drafting of documentation and project management of the Open Offer process. The Company has agreed to pay Cantor Fitzgerald a fixed fee as well as payment of any disbursements and expenses reasonably incurred by it in the course of carrying out its duties as nominated adviser, broker and financial adviser. The agreement is terminable by either party at any time by giving written notice to the other party.

16.2 The nominated adviser and broker agreement

On 6 May 2015, the Company, the Directors and Cantor Fitzgerald entered into an agreement pursuant to which Cantor Fitzgerald agreed to act as nominated adviser and broker to the Company. Under the terms of the agreement, Cantor Fitzgerald shall provide, *inter alia*, such independent advice and guidance to the directors of the Company and the Company as they may require from time to time as to the nature of their responsibilities and obligations to ensure compliance by the Company on a continuing basis with the AIM Rules. The Company has agreed to pay Cantor Fitzgerald a retainer fee as well as payment of any disbursements and expenses reasonably incurred by it in the course of carrying out its duties as nominated adviser and broker. The agreement is terminable on three months' notice given by either Cantor Fitzgerald or the Company. The agreement also contains provisions for early termination in certain circumstances and an indemnity given by the Company to Cantor Fitzgerald in relation to the provision by Cantor Fitzgerald of its services under the agreement.

16.3 Convertible Loan Facility

On 18 November 2014, the Company (as guarantor), Gulfsands Petroleum Holdings Ltd (a subsidiary of the Company) and Arawak (the Lender) entered into an agreement pursuant to which the Lender agreed to provide Gulfsands Petroleum Holdings Ltd, with a three year loan facility of up to US\$20.0 million. The Convertible Loan Facility (including amounts drawn, accrued but unpaid interest and fees) is convertible at any time prior to maturity into ordinary shares, initially at a price of eighty pence (80p), a premium of approximately 100 per cent. to the share price at the close of trading on the date of the agreement.

In the event that the Company issues new ordinary shares prior to conversion, repayment or maturity of the Convertible Loan Facility, the Lender has the right but not the obligation to subscribe for new ordinary shares, up to the amount of the loan facility outstanding at that time, at the same subscription price per share as paid by the other subscribers. If the Lender elects not to participate in such issue of new ordinary shares, the mechanics of conversion of the Convertible Loan Facility provide that an adjustment be made in order that the Lender's conversion rights will continue to represent an entitlement to the same proportion of the

Company's issued share capital after the new issue of ordinary shares as they represented prior to such new issue of ordinary shares.

Except with the prior agreement of the Lender, in the event of a new issue of ordinary shares the Company is required to apply any proceeds of such issue in excess of US\$10.0 million to the repayment of amounts outstanding under the Convertible Loan Facility at that time.

The Company may require conversion of the outstanding balance of the Convertible Loan Facility into ordinary shares in the event that the quoted price for the Company's ordinary shares on AIM, on an unadjusted basis, exceeds one hundred and four pence per share (104p) for a period of more than twenty consecutive trading days at any time prior to the expiry of the term of the Convertible Loan Facility.

Interest at the rate of 10 per cent. is capitalised quarterly and is to be repaid at the end of the term. A commitment fee is also capitalised quarterly and is to be repaid at the end of the term, equivalent to three per cent. of available undrawn amounts during the twelve month availability period.

An initial advance of US\$5.0 million was made by the Lender to the Group in November 2014 and a further US\$5.0 million was advanced in January 2015, of which half was to fund the Group's ongoing exploration and development activities in Morocco and half to provide working capital for the Group's general corporate purposes. Under the terms of the Convertible Loan Facility, two further advances, each of US\$5.0 million, are to be made available contingent upon additional exploration drilling success in Morocco, satisfactory to the Lender. The further advances will be available exclusively to progress the Group's Moroccan work programme.

The Convertible Loan Facility is secured by a floating charge over all of the assets of Gulfsands Petroleum Holdings Ltd, the holding company for the Group's interest in Block 26, and a share mortgage over the shares in Gulfsands Petroleum Morocco Ltd (the holding company for the Group's interests in Morocco) with further credit support provided by a guarantee from the Company.

The Convertible Loan Facility contains representations, warranties and indemnities in favour of the Lender and provides for events of default and a negative pledge.

The Group is entitled to retain any collateralised deposits released to it during the term of the Convertible Loan Facility together with the first US\$5.0 million proceeds of any farm-out arrangement into which it enters with respect to its Moroccan interests, provided that such cash is retained and applied to the Group's Moroccan work programme.

The Company may prepay the facility upon 60 days' notice.

The Lender may require repayment of the Convertible Loan Facility in certain circumstances, namely in the event of (a) a change of control of the Company; (b) the dismissal of two or more of the Company's Executive Directors; (c) the removal of two of the Directors of the Company at a General Meeting; and (d) Gulfsands' termination of the strategic cooperation agreement with Arawak International.

On 23 January 2015, Arawak International terminated its strategic cooperation agreement with the Company. On 3 February 2015, Mr. Ken Judge was removed as an Executive Director of the Company and on 30 June 2015, Mr. Mahdi Sajjad was removed as a Non-Executive Director of the Company (having been removed as CEO on 22 April 2015). Under the terms of the Convertible Loan Agreement, these events constitute circumstances under which the holder of the facility may demand repayment of the Convertible Loan Facility in full, albeit that such request for repayment has not been made at the date of this document.

In all circumstances of repayment, a repayment fee of US\$1.0 million is payable, less any interest or fees already capitalised or paid on the amount repaid. If no drawing is made and the facility is cancelled, a cancellation fee of US\$1.0 million will be payable.

The Company announced on 30 June 2015 that Arawak had entered into an assignment agreement with Weighbridge, acting as agent for Waterford and Mr. Griffiths, to acquire the Convertible Loan Facility from the Lender and as at the date of this document, both Waterford and Mr. Griffiths hold interests in the Convertible Loan Facility. As a result, the interest of Waterford and Mr. Griffiths in the Convertible Loan Facility is held by Weighbridge. Subsequent to the assignment of the Convertible Loan Facility, a further

US\$3.0 million was advanced under the facility. As a result, as at the date of this document, a total of US\$13.0 million has been advanced under the Convertible Loan Facility.

In providing the undertakings to subscribe for their existing entitlements under the Open Offer, and to Underwrite the remaining Open Offer Shares to be issued under the Open Offer (as described in paragraph 16.5 below), it has been agreed that the principal amount and interest and all fees and penalties accrued and outstanding under the Convertible Loan Facility will be applied in paying up in full the Open Offer Shares to be subscribed pursuant to the Open Offer and the Underwriting.

16.4 *Weighbridge undertakings*

On 22 June 2015, the Company, its wholly owned subsidiary Gulfsands Petroleum Holdings Ltd and Weighbridge entered into an agreement pursuant to which Weighbridge, acting as trustee for Waterford and Mr. Griffiths with respect to their interests in the Convertible Loan Facility, provided certain undertakings to the Company. Under the terms of the agreement, Weighbridge provides undertakings that it shall not, at any time prior to 23 September 2015, exercise its rights to call for repayment of all outstanding amounts, whether immediately or within the notice period of ninety days, to exercise its conversion rights or to exercise its right to participate in any issue of new ordinary shares pursuant to the terms of the Convertible Loan Facility. Under the terms of the agreement, the Company agreed to grant its consent to the assignment of the Convertible Loan Facility from Arawak to Weighbridge. On 27 August 2015, Weighbridge agreed to extend each of its undertakings to 31 January 2016, being the Open Offer Long Stop Date. It also agreed to release the Company from its undertakings regarding necessary share authorities contained in the Convertible Loan Facility agreement.

16.5 *Waterford and Griffiths undertakings and Underwriting agreement*

On 27 August 2015, Waterford and Mr. Griffiths entered into an undertaking to subscribe in full for their entitlements in the Open Offer amounting in aggregate to 135,092,502 Open Offer Shares and to Underwrite the remaining 219,744,794 Open Offer Shares in the event these are not subscribed for by Shareholders. The Underwriting shall be completed on an equal basis, meaning Waterford and Mr. Griffiths have each separately agreed to Underwrite up to a maximum of 109,872,397 Open Offer Shares.

The undertakings from Waterford and Mr. Griffiths are conditional upon the principal amount and interest, and all fees and penalties accrued and outstanding under the Convertible Loan Facility, being applied in paying up in full the Open Offer Shares to be subscribed pursuant to the Open Offer and the Underwriting. The undertakings from Waterford and Mr. Griffiths to underwrite the Open Offer were superseded by the Underwriting agreement, which was entered into between the Company, Waterford and Mr. Griffiths on 15 December 2015. A summary of the terms of the Underwriting agreement is set out in paragraph 7 of Part VIII of this document.

The subscriptions by Waterford, as a holder of in excess of 10 per cent. of the Existing Shares, for Open Offer Shares under the Underwriting, are considered a related party transaction under the AIM Rules. The independent Directors for the purposes of the Open Offer being Mr. West, Mr. Morris, Mr. Darby and Mr. Bell, consider, having consulted with Cantor Fitzgerald as the Company's nominated adviser, that the terms of the Underwriting are fair and reasonable insofar as the Company's Shareholders are concerned.

In addition, under the Underwriting agreement it was acknowledged by the parties thereto that upon payment and settlement in accordance with the terms of the agreement, the Convertible Loan Facility would be terminated and cease to be of any further force or effect and that all security granted thereunder would be released.

16.6 *Waterford Relationship Deed*

On 13 April 2015, the Company, Waterford, Mr. Michael Kroupeev and Mr. Beardsall entered into the Waterford Relationship Deed pursuant to which the parties agreed to regulate the relationship between them on an arm's length and normal commercial basis so that the Company is capable at all times of carrying on its business independently of Waterford, as a substantial Shareholder. The Waterford Relationship Deed also proposed the appointment of Mr. Beardsall as a Director of the Company, with the support of Shareholders who, when aggregated with Waterford, represented over 50 per cent. of the Company's Ordinary Shares then in issue.

Under the terms of the Waterford Relationship Deed, Waterford undertakes to do all such things as it is reasonably able to do, including exercising its voting rights, to ensure that the Group carries on its business independently, all transactions are at arm's length and the Board acts in the best interests of Shareholders. These undertakings remain for so long as Waterford maintains a shareholding in excess of 20 per cent. of the Company's Ordinary Shares in issue and Mr. Beardsall remains a Director of the Company.

The parties can elect to terminate the Waterford Relationship Deed at any time by agreement in writing. The Waterford Relationship Deed otherwise terminates automatically upon Waterford ceasing to hold an aggregate interest in 20 per cent. or more of the Company's Ordinary Shares in issue, or should Mr. Beardsall cease to be a Director of the Company.

16.7 *Joint operating agreement*

On 25 May 2005, SNG Overseas Limited (subsequently acquired by Emerald Energy plc), and Gulfsands Petroleum Syria Ltd (now Gulfsands Petroleum Levant Ltd), a wholly owned subsidiary of the Group, entered into an operating agreement setting out the individual rights and obligations of the parties with respect to their joint capacity as "contractor" under the Block 26 PSC in Syria. The parties' interests under the operating agreement and therefore in respect of the rights of the contractor under the Block 26 PSC are 50 per cent. for SNG Overseas Limited and 50 per cent. for Gulfsands Petroleum Syria Ltd. Gulfsands Petroleum Syria Ltd is designated as "operator" and as such has conduct of operations subject to directions of an "operating committee", which has the authority to authorise operations to be carried out by the operator, comprised of one representative from each party. Each member of the operating committee has that number of votes as is equal to its interest in the agreement. The agreement otherwise establishes the respective rights and obligations of the parties with regard to operations under the Block 26 PSC including the exploration, appraisal, development, production and disposition of hydrocarbons from the Block 26 PSC area and sets out the terms upon which the operator shall interact with the other parties to the agreement. The agreement provides that all rights and interests in and under the Block 26 PSC, all joint property and any hydrocarbons produced from the contract area shall be owned by the parties in accordance with their participating interests. All liabilities and expenses incurred by the operator in connection with the joint operations shall be charged to the joint account and shared by the parties in accordance with their respective participating interests.

16.8 **Summary of licences**

A summary of the Company's licences including material terms, is set out in the table below:

<i>Licence</i>	<i>Expiry</i>	<i>Minimum work obligation outstanding</i>	<i>Restricted cash balances</i>	<i>Minimum expenditure obligation outstanding⁽³⁾</i>
Syria				
Block 26 (PSC) exploration	9 August 2012 ⁽¹⁾	None.	US\$0.5 million	N/A
Block 26 (PSC) Khurbet East production licence (Massive and Kurrachine Dolomite reservoirs)	4 Feb 2033 with optional ten year extension	None.	N/A	N/A
Block 26 (PSC) Yousefieh production licence	25 Jan 2035 with optional ten year extension	None.	N/A	N/A
Block 26 (PSC) Khurbet East production licence (Butmah reservoir)	1 Dec 2036 with optional ten year extension	None.	N/A	N/A
Morocco				
Moulay Bouchta	Initial period, 19 June 2016	Acquisition of 500km of 2D seismic data to be captured in a new survey. Reprocessing and interpretation of selected legacy 2D seismic lines and the existing 3D seismic data. A legacy oil field reactivation study.	US\$1.75 million	US\$3.5 million
Zhana 1	18 May 2025	None.	N/A	N/A
Zhana 2	23 February 2018	None.	N/A	N/A
Sidi Amer 1	21 July 2018	None.	N/A	N/A
Tunisia				
Chorbane (PSC)	First renewal period, 12 July 2015 ⁽²⁾	Drilling one exploration well.	US\$Nil	US\$3.8 million
Colombia				
Llanos Block 50	Phase 1, 7 November 2016	Acquisition of an additional 103km of 2D seismic data to be captured in a new survey. Drilling one exploration well. The Company has also undertaken to spend US\$100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5km of 2D seismic.	US\$1.48 million	US\$13.89 million

<i>Licence</i>	<i>Expiry</i>	<i>Minimum work obligation outstanding</i>	<i>Restricted cash balances</i>	<i>Minimum expenditure obligation outstanding⁽³⁾</i>
Colombia (continued)				
Putumayo Block 14	Phase 1, 7 November 2017	Acquisition of an additional 93km of 2D seismic data to be captured in a new survey. Drilling one exploration well. The Company has also undertaken to spend US\$100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5km of 2D seismic.	US\$1.7 million	US\$16.12 million

⁽¹⁾ Force Majeure was declared in December 2011. The Company is optimistic that an extension to the exploration period can be negotiated with the Syrian authorities to at least replace that period of time which was remaining when Force Majeure was declared. Rights to the benefits of production from discovered fields last for a minimum of 25 years from the date of development approval with extension thereto at the partners' option.

⁽²⁾ In May 2015 the Company applied for an extension of the Chorbane PSC.

⁽³⁾ Minimum expenditure obligation outstanding is the total obligation and excludes any reduction were restricted cash balances to be offset against the obligation.

In the event that the licences reach expiry and are not renewed, there is a possibility that Company may be liable for damages relating to unfulfilled work programme obligations. This is further discussed under paragraph 1.10 of Part II of this document entitled "Risk Factors".

16.9 *Payments to regulatory authorities*

Apart from as disclosed in paragraph 16.8 under restricted cash balances and as detailed in the table below, no payments aggregating over £10,000 have been made to any government or regulatory authority or similar body made by the issuer or on behalf of it, with regard to the acquisition of, or maintenance of, its assets.

	<i>Training funds</i>	<i>Land rentals</i>	<i>Economic and technology rights</i>	<i>Acquisition of technical information</i>
Moroccan petroleum agreements and exploitation concessions	2014 payments: US\$14,855 MAD 240,776 €71,960 Payments in 2015 to the date of this document: US\$15,020 MAD 32,214 €34,070	2014 payments: MAD 40,000 Payments in 2015 to the date of this document: MAD Nil	N/A	N/A
Tunisian Chorbane PSC	2014 payments: £24,000 TND 9,278 \$50,000 Payments in 2015 to the date of this document: US\$8,380	N/A	N/A	N/A

	<i>Training funds</i>	<i>Land rentals</i>	<i>Economic and technology rights</i>	<i>Acquisition of technical information</i>
Colombian Llanos Block 50 exploration and production contract	N/A	N/A	2014 payments: COP 9,481,339 Payments in 2015 to the date of this document: COP Nil	2014 payments: COP Nil Payments in 2015 to the date of this document: COP 33,671
Colombian Putumayo Block 14 exploration and production contract	N/A	N/A	2014 payments: COP 8,265,174 Payments in 2015 to the date of this document: COP Nil	N/A

17. Whitewash

On 14 September 2015, the Company held a general meeting of Shareholders to vote on resolutions relating to the Open Offer. Resolution three proposed at the meeting related to a waiver of Rule 9 of the Takeover Code, without which an obligation may be triggered for the Concert Party, comprising Waterford, Mr. Griffiths, Mr. Beardsall and Mr. Ede-Golightly, to make a general offer to Shareholders, as a consequence of the Open Offer. All resolutions proposed at the general meeting were passed on a poll.

As a result, immediately following the issue of the Open Offer Shares and dependent upon the take-up of Open Offer Entitlements by Qualifying Shareholders, the Concert Party may hold in aggregate up to a maximum of 399,000,644 Ordinary Shares, representing 84.41 per cent. of the Enlarged Share Capital. This is assuming the Directors who are also Qualifying Shareholders take up their Open Offer Entitlements in full, which they have each stated is their intention. Following the issue of the Open Offer Shares, as a result of the waiver of the obligations under Rule 9 of the Takeover Code, the Concert Party will not be required to make a general offer to Shareholders under Rule 9 of the Takeover Code provided that Admission occurs prior to the Open Offer Long Stop Date.

The Concert Party's existing shareholdings in the Company and its proposed interest in the Enlarged Share Capital immediately following the Open Offer are set out in the table below:

	<i>Existing Shares</i>		<i>Open Offer Entitlement</i>	<i>Following completion of Capital Raising</i>			
	<i>Interest in Existing Shares (no. Existing Shares)</i>	<i>Interest in Existing Shares as % of Existing Shares (%)</i>	<i>Open Offer Entitlement (no. Open Offer Shares)</i>	<i>Minimum interest at Admission</i>	<i>Minimum interest at Admission as % of Enlarged Share Capital</i>	<i>Maximum interest at Admission</i>	<i>Maximum interest at Admission as % of Enlarged Share Capital⁽¹⁾</i>
<i>Shareholder groups</i>							
Waterford	33,100,513	28.08	99,632,544	132,733,057	28.08	242,206,413	51.24
Mr. Griffiths	11,780,717	9.99	35,459,958	47,240,675	9.99	156,714,031	33.15
Mr. Beardsall	0	0.00	0	0	0.00	0	0.00
Mr. Ede-Golightly	20,000	0.02	60,200	60,200	0.02	80,200	0.02
Total Concert Party	44,901,230	38.09	135,152,702	180,053,932	38.09	399,000,644	84.41

⁽¹⁾ Assuming the Directors who are Qualifying Shareholders take up their Open Offer Entitlements in full, which they have each stated is their intention.

18. Legal and arbitration proceedings

Mahdi Sajjad, former CEO of Gulfsands, has brought a claim in the High Court against Gulfsands Levant, a subsidiary of the Group, which arises out of his removal by the Board as CEO and termination of his employment on notice on 13 April 2015. Mr. Sajjad claims that the Board's action entitled him to terminate an employment contract with Gulfsands Levant on 8 May 2015 and subsequently to receive a payment of £412,000 comprising of annual salary and hardship allowance plus interest at £90.30 per day running from 8 May 2015. In the alternative, Mr. Sajjad claims damages for fundamental breach of his contract with Gulfsands Levant and claims that he is entitled to damages arising out of Gulfsands Levant's failure to pay notice up to 31 March 2017. Gulfsands Levant strongly refutes these claims. Gulfsands Levant has brought a counterclaim for £75,160 against Mr. Sajjad in relation to a payment to HM Revenue & Customs in respect of his unpaid tax and National Insurance contributions during the period 2008-2014. No date has yet been set for the hearing.

Mr. Sajjad has also brought a claim in the Employment Tribunal against Gulfsands Levant for constructive unfair dismissal based on the same factual circumstances as his High Court claim. He is currently claiming £89,922 by way of compensation. Gulfsands Levant strongly refutes the claim. Tribunal proceedings are currently stayed pending proceedings in the High Court.

In October 2015 Mr. Sajjad also brought a claim before the Lebanese Arbitration Board against Gulfsands (MENA) in relation to the branch office in Beirut. He claims that he was employed by Gulfsands (MENA) as a manager of the branch from August 2011 until 1 October 2015 when he was allegedly dismissed. He claims US\$400,000 for four years non-payment salary plus interest, US\$100,000 as compensation for 'abusive/summary' dismissal and US\$16,666 for two months' notice plus interest. Gulfsands (MENA) strongly refutes the claims. To date, no hearing has been set.

The Company continued to pay Mr. Sajjad as an Executive Director for the period from 14 April 2015 to 8 May 2015 (as required during his notice period), and as a Non-Executive Director for the period 9 May 2015 to 30 June 2015 when he was not re-elected as a Director at the Company's Annual General Meeting.

The Company is currently engaged in defending Mr. Sajjad's claims and in pursuing its counter-claim against Mr. Sajjad. In the event that Mr. Sajjad succeeds with respect to his claims against the Company and/or the Company is unsuccessful with its counter-claim against Mr. Sajjad, the Company may be adversely affected. Beyond assessing the financial costs associated with such outcomes, the Company is presently unable to accurately predict what other impact such a decision might have on the Company's business, financial condition, prospects, results and/or future operations and the market price of Ordinary Shares.

In October 2015 the Company received a demand for payment from Hillcrest Resources Ltd of US\$82,534, relating to outstanding charges from its former subsidiary, Gulfsands Petroleum USA, Inc. for the services and expenses of certain staff. Gulfsands is preparing a response and will challenge the validity of this demand as it believes this demand to be unfounded with no service agreement in place between the parent, Gulfsands, and its former subsidiary. These re-charges by the former subsidiary had previously been raised as a form of inter-company funding from the parent company, with the intercorporate debt being assigned to Hillcrest Resources Ltd, as part of the sale of the subsidiary.

On 9 November 2015, the extension period of the Rharb Petroleum Agreement expired and the Company submitted a request to further extend the Rharb Petroleum Agreement for a period of two years to allow the Company to appraise the gas discoveries made in 2014/15.

On 30 November 2015, the Company received a response from ONHYM, dated 26 November 2015, advising that its request for an extension to the Rharb Petroleum Agreement had been rejected and furthermore that:

- Gulfsands Morocco will forfeit its US\$1.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Rharb Petroleum Agreement;
- ONHYM is seeking a penalty equal to the estimated cost of the minimum exploration work programme of the Rharb Petroleum Agreement less the costs actually incurred in respect of exploration work required, whereby ONHYM is claiming a sum of US\$7.5 million;
- ONHYM advised they will also, by separate request, seek the outstanding amount under the training obligation of the Rharb Petroleum Agreement; and

- ONHYM was seeking an update on the Company's progress in relation to the abandonment of the legacy producing wells and the cleaning and restoring of the well sites in the Rharr Centre permit area.

The Company strongly refutes the claims for financial sums and penalties and is seeking legal advice on the matter.

Save as disclosed above, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the period covering the twelve months preceding the date of this document which may have, or have had in the recent past, significant effects on the Company's and/or the Group's financial position or profitability.

PART XI

INFORMATION CONCERNING THE OPEN OFFER SHARES

1. Description of the type and class of securities being offered

The Open Offer Shares, comprising the issue of 350,733,941 new Ordinary Shares and the sale of 4,103,355 Treasury Shares, will be Ordinary Shares with a nominal value of 1.0 pence each, with ISIN GB00B06VGC01. Following Admission, which is expected to occur on 7 January 2016, the Company will have one class of Ordinary Shares, the rights of which are set out in the Articles.

The Open Offer Shares will be credited as fully paid and free from all liens, equities, charges, encumbrances and other interests.

2. Legislation under which the Open Offer Shares have been created

The Open Offer Shares will be created under the Act and regulations made thereunder.

3. Listing

The Existing Shares are currently admitted to trading on AIM. Applications will be made to AIM for the Open Offer Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings for normal settlement in the Open Offer Shares will commence at 8.00 a.m. on 7 January 2016, however this time may be subject to change.

4. Form and currency of Open Offer Shares

The Open Offer Shares will, when issued, be in registered form and will be capable of being held in certificated and uncertificated form. The registrars of the Company are Capita Asset Services of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Title to the certificated Open Offer Shares will be evidenced by entry in the register of members of the Company and title to uncertificated Open Offer Shares will be evidenced by entry in the operator register maintained by Euroclear which forms part of the register of members of the Company. If any such shares are converted to be held in certificated form, share certificates will be issued in respect of those shares in accordance with applicable legislation. It is expected that definitive share certificates will be posted to those Shareholders who have requested the issue of Open Offer Shares in certificated form by 13 January 2016. The Open Offer Shares will be denominated in sterling.

5. Rights attached to the Open Offer Shares

Each Open Offer Share (including new Ordinary Shares and Treasury Shares) will rank *pari passu* in all respects with each Existing Share, and will have the same rights and restrictions as each Existing Share. The rights and restrictions attaching to each Existing Share and Open Offer Share are set out in the memorandum of association and the Articles of the Company, a summary of which is set out below.

The memorandum of association of the Company provides that the objects of the Company are unrestricted. The Articles include provisions to the following effect:

(a) Meetings of members

All general meetings of the Company other than annual general meetings shall be called general meetings. The Board shall convene and the Company shall hold general meetings as annual general meetings in accordance with the requirements of the Act.

Subject to the requirement to convene and hold annual general meetings in accordance with the requirements of the Act, the Board may call general meetings whenever and at such times and places as it shall determine and, on the requisition of members pursuant to the provisions of the Act, shall forthwith proceed to convene a general meeting in accordance with the requirements of the Act. If there are not within the UK sufficient Directors to call a general meeting, any Director of the Company may call a general meeting.

An annual general meeting shall be called by at least twenty-one clear days' notice. All other general meetings shall be called by at least fourteen clear days' notice.

Subject to the provisions of the Articles and to any restrictions imposed on any shares, the notice shall be given to all the members, to each of the Directors and to the auditors.

The notice shall specify the time and place of the meeting and, in the case of special business, the general nature of such business.

The accidental omission to give notice of a meeting, or to send a form of proxy with a notice where required by the Articles, to any person entitled to receive the same, or the non-receipt of a notice of meeting or form of proxy by any person, shall not invalidate the proceedings of that meeting.

The Directors may from time to time make such arrangements for the purpose of controlling the level of attendance as they shall in their absolute discretion consider appropriate.

The appointment of a proxy shall be executed by or on behalf of the appointer. Delivery of a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned. A member may appoint more than one proxy to attend on the same occasion.

A corporation or corporation sole which is a member of the Company may authorise such person as it thinks fit to act as its representative at any meeting of the Company or at any separate meeting of the holders of any class of shares.

No business shall be transacted at any general meeting unless a quorum is present, but the absence of a quorum shall not preclude the choice or appointment of a chairman, which shall not be treated as part of the business of the meeting. Save as otherwise provided by the Articles, two members present in person or by proxy and entitled to vote upon the business to be transacted shall be a quorum.

(b) Voting rights

A resolution put to the vote of a general meeting shall be decided on a show of hands unless, before or on the declaration of the result of a vote on the show of hands or on the withdrawal of any other demand for a poll, a poll is duly demanded.

Subject to any rights or restrictions attached to any shares, on a show of hands every member who is present in person or by proxy shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

Subject to the provisions of the Companies Acts (as defined in section 2 of the Act), a poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least two members present in person or by proxy having the right to vote at the meeting; or
- (iii) any member or members present in person or by proxy representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) any member or members present in person or by proxy holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right, and a demand by a person as proxy for a member shall be the same as a demand by the member.

(c) Alteration of capital

The Company may by ordinary resolution:

- (i) increase its share capital by such sum to be divided into shares of such amount as the resolution prescribes;
- (ii) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;

- (iii) subject to the provisions of the Companies Acts, sub-divide its shares, or any of them, into shares of a smaller amount than is fixed by the memorandum and the resolution may determine that, as between the shares resulting from the sub-division, any of them may have any preference or advantage as compared with the others; and
- (iv) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

(d) Variation of rights

All or any of the rights attached to any class of shares may be varied or abrogated either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of such holders (but not otherwise).

(e) Purchase of own shares

Subject to and in accordance with the provisions of the Companies Acts and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase any of its own shares of any class (including redeemable shares) at any price (whether at par or above or below par), and so that any shares to be so purchased may be selected in any manner whatsoever. Every contract for the purchase of, or under which the Company may become entitled or obliged to purchase, shares in the Company shall be authorised by such resolution of the Company as may be required by the Companies Acts and by a special resolution passed at a separate general meeting of the holders of each class of shares (if any) which, at the date on which the contract is authorised by the Company in general meeting, entitle them, either immediately or at any time later on, to convert all or any of the shares of that class held by them into equity share capital of the Company.

(f) Transfer of shares

Any member may transfer all or any of his shares. Save where any rules or regulations made under the Act permit otherwise, the instrument of transfer of a share shall be in any usual form or in any other form which the Board may approve and shall be executed by or on behalf of the transferor and (in the case of a share which is not fully paid) by the transferee. The Board may in its absolute discretion and without giving any reason decline to register any transfer of shares which are not fully paid or on which the Company has a lien.

(g) Dividends and other distributions

The Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends if it appears that they are justified by the profits of the Company available for distribution.

If the share capital is divided into different classes, the Board may pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividends as well as on shares which confer preferential rights with regard to dividends, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears. The Board may also pay at intervals settled by it any dividend payable at a fixed rate if it appears to the Board that the profits available for distribution justify the payment. Provided the Board acts in good faith it shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid; but no amount paid on a share in advance of the date on which a call is payable shall be treated as paid on the share. All dividends shall be apportioned and paid proportionate to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but, if any share is issued on terms providing that it shall rank for dividends as from a particular date, that share shall rank for dividends accordingly.

Any dividend unclaimed after a period of twelve years from the date when it became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company.

The Board may, if authorised by an ordinary resolution of the Company, offer members the right to elect to receive shares credited as fully paid, instead of cash, in respect of the dividend specified by the ordinary resolution.

The Company may cease to send any cheque or dividend warrant through the post if such instruments have been returned undelivered or remain uncashed by a member on at least two consecutive occasions. The Company shall recommence sending cheques or dividend warrants if the member claims the dividend or cashes a dividend warrant or cheque.

In a winding up, the liquidator may, with the sanction of an extraordinary resolution and subject to the Insolvency Act 1986, divide among the members in specie the whole or any part of the assets of the Company and/or vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator determines.

(h) Restrictions on shares

If the Board is satisfied that a member or any person appearing to be interested in shares in the Company has been duly served with a notice under Section 793 of the Act and is in default in supplying to the Company the information thereby required within a prescribed period after the service of such notice or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular, the Board may serve on such member or on any such person a notice ("a direction notice") in respect of the shares in relation to which the default occurred ("default shares") directing that a member shall not be entitled to vote at any general meeting or class meeting of the Company.

Where default shares represent at least 0.25 per cent. of the class of shares concerned (less any shares of that class held in treasury) the direction notice may in addition direct that (i) except in a liquidation of the Company, no payment shall be made of any sums due from the Company on the default shares, whether in respect of capital or dividends or otherwise, and the Company shall not meet any liability to pay interest on any such payment when it is finally paid to the member; (ii) no other distribution shall be made on the default shares; and (iii) no transfer of any of the shares held by such member shall be registered unless: the member is not himself in default as regards supplying the information requested and the transfer when presented for registration is accompanied by a certificate from the member in such form as the Board may in its absolute discretion require to the effect that after due and careful enquiry the member is satisfied that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer or the transfer is an approved transfer.

The prescribed period referred to above means 14 days from the date of service of the notice under Section 793 where the default shares represent at least 0.25 per cent. of the class of shares concerned and 28 days in all other cases.

(i) The deferred shares

The Company has in issue deferred shares. The rights and restrictions attached to the deferred shares are as follows:

- (i) as regards income the holders of the deferred shares shall not be entitled to receive any dividend out of the profits of the Company available for distribution and resolved to be distributed in respect of any financial year or any other income or right to participate therein;
- (ii) as regards capital on a distribution of assets on a winding-up or other return of capital (otherwise than on conversion or redemption on purchase by the Company of any of its shares) the holders of the deferred shares shall be entitled to receive the amount paid up on their shares after there shall have been distributed (in cash or in specie) to the holders of the ordinary shares the amount of £100,000,000 in respect of each ordinary share held by them respectively. For this purpose distributions in currency other than sterling shall be treated as converted into sterling, and the value for any distribution in specie shall be ascertained in sterling, in each case in such manner as the directors of the Company in general meeting may approve. The deferred shares shall not entitle the holders thereof to any further or other right of participation in the assets of the Company;
- (iii) as regards voting the holders of deferred shares shall not be entitled to receive notice of or to attend (either personally or by proxy) any general meeting of the Company or to vote (either personally or by proxy) on any resolution to be proposed thereat;

- (iv) the rights attached to the deferred shares shall not be deemed to be varied or abrogated by the creation or issue of any new shares ranking in priority to or *pari passu* with or subsequent to such shares. In addition neither the passing by the Company of any resolution for the cancellation of the deferred shares for no consideration by means of a reduction of capital requiring the confirmation of the court nor the obtaining by the Company nor the making by the court of any order confirming any such reduction of capital nor the becoming effective of any such order shall constitute a variation, modification or abrogation of the rights attaching to the deferred shares and accordingly the deferred shares may at any time be cancelled for no consideration by means of a reduction of capital effected in accordance with applicable legislation without sanction on the part of the holders of the deferred shares;
- (v) notwithstanding any other provision of the Articles, the Company shall have the power and authority at any time to purchase all or any of the deferred shares for an aggregate consideration of £1;
- (vi) the Company shall have irrevocable authority to appoint any person to execute on behalf of the holders of the deferred shares a transfer/cancellation of the deferred shares and/or an agreement to transfer/cancel the same, without making any payment to the holders of the deferred shares to such person or persons as the Company may determine as custodian thereof and, pending such transfer and/or cancellation and/or purchase, to retain the certificate(s) if any, for such shares;
- (vii) the Company may, at its option and subject to compliance with the provisions of applicable legislation, cancel such shares by way of reduction of capital for no consideration; and
- (viii) notwithstanding any other provision of the Articles, and unless specifically required by the provisions of applicable legislation, the Company shall not be required to issue any certificates or other documents of title in respect of the deferred shares.

(j) *Directors*

Unless otherwise determined by ordinary resolution, the number of Directors (other than alternate directors) shall be not less than two but shall not be subject to any maximum in number.

At the first annual general meeting all the Directors shall retire from office, and at every subsequent annual general meeting one-third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to, but greater than, one-third shall retire from office; but, if there is only one Director who is subject to retirement by rotation, he shall retire.

The Directors to retire by rotation shall be those who have been longest in office since their last appointment or re-appointment, but as between persons who became or were last re-appointed Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. The Directors to retire on each occasion (both as to number and identity) shall be determined by the composition of the Board at the date of the notice convening the annual general meeting and no Director shall be required to retire or be relieved from retiring or be retired by reason of any change in the number or identity of the Directors after the date of the notice but before the close of the meeting.

A Director shall not vote at a meeting of the Board or a committee of the Board on any resolution of the Board concerning a matter in which he has an interest which together with any interest of any person connected with him is to his knowledge a material interest (other than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company) unless his interest arises only because the case falls within one or more of the following paragraphs:

- (i) the resolution relates to the giving of any guarantee, security, or indemnity in respect of money lent, or obligations incurred by him or by any other person at the request of or for the benefit of, the Company or any of its subsidiaries;
- (ii) the resolution relates to the giving of any guarantee, security, or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which the director has assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by giving of security;
- (iii) his interest arises by virtue of his being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any shares, debentures, or other securities by the Company or any of its subsidiaries for subscription, purchase or exchange;

- (iv) his interest arises in relation to the subscription or purchase by him of shares, debentures or other securities of the Company pursuant to an offer or invitation to members or debenture holders of the Company, or any class of them;
- (v) any proposal concerning any other company in which he and any persons connected with him do not to his knowledge hold an interest in shares representing one per cent. or more of either any class of the equity share capital, or the voting rights, in such company;
- (vi) the resolution relates to an arrangement for the benefit of employees of the Company or of any of its subsidiaries and does not provide in respect of the Director any privilege or benefit not awarded to the employees to whom such arrangement relates; and
- (vii) any proposal concerning any insurance which the Company is empowered to purchase or maintain for the benefit of any Directors of the Company or for the benefit of persons who include Directors of the Company provided that for the purposes of this paragraph insurance shall mean only insurance against liability incurred by a Director in respect of any such act or omission by him or any other insurance which the Company is empowered to purchase or maintain for or for the benefit of any groups of persons consisting of or including Directors of the Company.

A Director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

The Company may by ordinary resolution suspend or relax to any extent, either generally or in respect of any particular matter, any provision of the Articles prohibiting a Director from voting at a meeting of the Board or of a committee of the Board, or ratify any transaction not duly authorised by reason of a contravention of any such provision.

The ordinary remuneration of the Directors who do not hold executive office for their services (excluding amounts payable under any other provision of the Articles) shall not exceed in aggregate £250,000 per annum or such higher amount as the Company may from time to time by ordinary resolution determine. Subject thereto, each such Director shall be paid a fee (which shall be deemed to accrue from day to day) at such rate as may from time to time be determined by the Board.

The Directors shall be entitled to all such reasonable expenses as they may properly incur in attending meetings of the Board or in the discharge of their duties as Directors. Any Director who by request of the Board performs special services may be paid such extra remuneration by way of salary, commission or otherwise as the Board may determine.

The Directors may pay pensions and other benefits to, *inter alia*, present and past employees and Directors and may set up and maintain schemes for the purpose.

(k) Borrowing powers

The Directors may exercise all the powers of the Company to borrow money, to guarantee, to indemnify and to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to secure (so far as regards subsidiaries as by such exercise they can secure) that the aggregate principal amount (including any premium payable on final payment) for the time being outstanding of all monies borrowed by the Company and its subsidiaries and for the time being owing to third parties shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to four times the Adjusted Capital and Reserves (as defined in the Articles).

6. Dilution

Assuming that all Open Offer Entitlements are taken up in full by Qualifying Shareholders, the holders of Existing Shares shall account for 100.0 per cent. of the Enlarged Share Capital immediately following Admission.

If none of the holders of Existing Shares, with the exception of the Underwriters, take up their Open Offer Entitlements and do not subscribe for any other Open Offer Shares, their individual holdings will be diluted by approximately 75.06 per cent. following Admission.

7. Taxation

Please see Part XII of this document for information relating to UK taxation considerations (including a discussion of UK stamp duty and SDRT which is relevant to holders of Ordinary Shares, irrespective of their tax residence).

PART XII

UK TAXATION CONSIDERATIONS

The following comments do not constitute tax advice and are intended only as a guide to current UK law and HMRC's published practice (which are both subject to change at any time, possibly with retrospective effect). They relate only to certain limited aspects of the UK taxation treatment of Shareholders and are intended to apply only to Shareholders who are resident in the UK for UK tax purposes and who are and will be the direct absolute beneficial owners of their Ordinary Shares and who hold, and will hold, them as investments (and neither as securities to be realised in the course of a trade, nor through a New Individual Savings Account or a Self-Invested Personal Pension). They may not apply to certain Shareholders, such as dealers in securities, insurance companies and collective investment schemes, Shareholders who are exempt from taxation and Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment (whether current, historic or prospective). Such persons may be subject to special rules. The position may be different for future transactions and may alter between the date of this document and Admission. Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the UK should consult an appropriate professional adviser.

1. Taxation of Open Offer Shares acquired under Open Offer

As a matter of UK law, the acquisition of Open Offer Shares by Qualifying Shareholders pursuant to the Open Offer may not be regarded as a reorganisation of the share capital of the Company for the purposes of UK taxation of chargeable gains. The published practice of HMRC to date has been to treat an acquisition of shares by an existing shareholder up to his pro-rata entitlement pursuant to the terms of an open offer as a reorganisation but it is understood that HMRC may not apply this practice in circumstances where an open offer is not made to all Shareholders. Specific confirmation as to whether the Open Offer will be treated as a reorganisation has not been requested from HMRC.

To the extent that the issue of the Open Offer Shares by the Company will be regarded as a reorganisation of the Company's share capital for the purposes of UK taxation on chargeable gains, a Shareholder will not be treated as acquiring a new asset nor will it be treated as making a disposal of any part of their corresponding holding of Ordinary Shares by reason of taking up all or part of their entitlements to Open Offer Shares. No liability to UK taxation on chargeable gains should arise in respect of the issue of Open Offer Shares to the extent that a Shareholder takes up their Open Offer Entitlements. To the extent that a Qualifying Shareholder takes up the Open Offer Shares allotted to them under the Open Offer, the Open Offer Shares so allotted, will, for the purposes of UK tax on chargeable gains, be treated as having been acquired at the same time as the Qualifying Shareholder's existing holding was acquired. The amount of subscription monies paid for such Open Offer Shares will be added to the allowable expenditure for the Qualifying Shareholder's existing holding(s). In the case of a corporate Qualifying Shareholder, indexation allowance will apply to the new amount paid for such Open Offer Shares only from the date the monies for the Open Offer Shares are paid or liable to be paid.

If, or to the extent that, the acquisition of Open Offer Shares under the Open Offer is not regarded by HMRC as a reorganisation, the Open Offer Shares acquired by each Qualifying Shareholder under the Open Offer will, for the purposes of UK taxation of chargeable gains, be treated as acquired as part of a separate acquisition of shares when computing any gain or loss on any subsequent disposal. When computing any gain or loss on a disposal of shares, for UK chargeable gains purposes, HMRC's share identification provisions will need to be taken into consideration.

2. Taxation of chargeable gains on disposal of Ordinary Shares

Any future disposal of the Ordinary Shares should be treated as a disposal of those shares for UK tax purposes. This may, subject to the Shareholder's individual circumstances and any available exemption or relief, give rise to a chargeable gain (or allowable loss) for the purposes of capital gains tax.

The amount of capital gains tax, if any, payable by a Shareholder (on any disposal of Ordinary Shares) who is an individual will depend on his or her own personal tax position. No tax will be payable on any gain realised if the amount of the net chargeable gains realised by a Shareholder, when aggregated with other net gains realised by that Shareholder in the year of assessment (and after taking account of allowable

losses), does not exceed the annual exemption (£11,100 for 2015/2016). Broadly, any gains in excess of this amount will be taxed at a rate of 18 per cent. (2015/2016) for a taxpayer paying tax at the basic rate and 28 per cent. (2015/2016) for a taxpayer paying tax at a rate above the basic rate of income tax. Where the gains of a basic rate taxpayer subject to capital gains tax exceed the unused part of his or her basic rate band, that excess is subject to tax at the 28 per cent. rate.

Individual Shareholders who are not resident in the UK will not be subject to UK capital gains tax in respect of gains arising on disposals of Ordinary Shares. However, a Shareholder who has previously been resident or ordinarily resident in the UK may in some cases be subject to UK tax on capital gains in respect of a disposal of Ordinary Shares in the event that they re-establish residence in the UK.

A corporate Shareholder resident in the UK is normally taxable on all of its chargeable gains, subject to any reliefs and exemptions for the purposes of UK corporation tax. Such UK corporate shareholders should be entitled to indexation allowance to reduce the amount of the chargeable gain when realised.

A Shareholder which is a company not resident in the UK for tax purposes and such Shareholder carries on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a non-UK resident corporate Shareholder, a permanent establishment to which the Ordinary Shares are attributable) will have no liability to UK tax on chargeable gains in respect of a disposal of Ordinary Shares, though may be subject to foreign tax on the capital gain under local law.

3. Dividend income

3.1 General

There is no UK withholding tax on dividends paid by the Company.

3.2 Individual Shareholders within the charge to UK income tax

If the Company pays a dividend to a Shareholder who is an individual resident (for tax purposes) in the UK, the Shareholder will be entitled to a tax credit equal to one-ninth of the dividend received. The dividend received plus the related tax credit (the "gross dividend") will be part of the Shareholder's total income for UK income tax purposes and will, generally, be regarded as the top slice of that income. However, in calculating the Shareholder's liability to income tax in respect of the gross dividend, the tax credit (which equates to 10.0 per cent. of the gross dividend) is set off against the tax chargeable on the gross dividend.

3.3 Basic rate taxpayers

In the case of a Shareholder who is liable to income tax at the basic rate only, the Shareholder will be subject to tax on the gross dividend at the rate of 10.0 per cent. (2015/2016). The tax credit will, in consequence, satisfy in full the Shareholder's liability to income tax on the gross dividend.

3.4 Higher rate taxpayers

To the extent that, after taking into account the Shareholder's other taxable income, the gross dividend falls above the threshold for the higher rate of income tax but below the threshold for the additional rate of income tax, the Shareholder will be subject to tax on the gross dividend at the rate of 32.5 per cent. (2015/2016). This means that the tax credit will satisfy only part of the Shareholder's liability to income tax on the gross dividend, so that to that extent the Shareholder will have to account for income tax equal to 22.5 per cent. of the gross dividend (which equates to 25.0 per cent. of the dividend received). For example, assuming the entire gross dividend falls above the higher rate threshold and below the additional rate threshold, a dividend of £90.00 from the Company would represent a gross dividend of £100.00 (after the addition of the tax credit of £10.00) and the Shareholder would be required to account for income tax of £22.50 on the dividend, being £32.50 (i.e. 32.5 per cent. of £100.00) less £10.00 (the amount of the tax credit).

3.5 Additional rate taxpayers

To the extent that, after taking into account the Shareholder's other taxable income, the gross dividend falls above the threshold for the additional rate of income tax, the Shareholder will be subject to tax on the gross dividend at the rate of 37.5 per cent. (2015/2016). This means that the tax credit will satisfy only part of the Shareholder's liability to income tax on the gross dividend, so that to that extent the Shareholder will have to account for income tax equal to 27.5 per cent. of the gross dividend (which

equates to approximately 30.6 per cent. of the dividend received). For example, assuming the entire gross dividend falls above the additional rate threshold, a dividend of £90.00 from the Company would represent a gross dividend of £100.00 (after the addition of the tax credit of £10.00) and the Shareholder would be required to account for income tax of £27.50 on the dividend, being £37.50 (i.e. 37.5 per cent. of £100.00) less £10.00 (the amount of the tax credit).

3.6 Dividends paid from 6 April 2016 onwards

The Finance Bill 2015-16 announced withdrawal of the dividend tax credit for individuals for dividends paid after 5 April 2016 and the introduction of a new tax-free £5,000 dividend allowance and change of the rates at which dividend income in excess of the tax-free allowance are taxed. The new rates are due to be 7.5 per cent. for basic rate taxpayers, 32.5 per cent. for higher rate taxpayers and 38.1 per cent. for additional rate taxpayers. The changes are not expected to change the principle that dividend income is treated as the top slice of a shareholders total income for UK income tax purposes. The Finance Bill 2015-16 has yet to receive Royal Assent but this is expected by the end of 2015.

4. Corporate Shareholders within the charge to UK corporation tax

Shareholders within the charge to UK corporation tax which are “small companies” (for the purposes of UK taxation of dividends) should not generally expect to be subject to tax on dividends from the Company.

Other Shareholders within the charge to UK corporation tax will not be subject to tax on dividends from the Company so long as the dividends fall within an exempt class and certain conditions are met. In general, dividends paid to a UK corporate shareholder holding less than 10.0 per cent. of the issued share capital of the payer (or any class of that share capital in respect of which the dividend is paid) is an example of a dividend that falls within an exempt class. Shareholders will need to ensure that they satisfy the requirements of any exempt class before treating any dividend as exempt, and seek appropriate professional advice where necessary.

5. No payment of tax credit

A Shareholder (whether an individual or a company) who is not liable to tax on dividends from the Company will not be entitled to claim payment of the tax credit in respect of those dividends.

6. Non-residents

The right of a Shareholder who is not resident (for tax purposes) in the UK to a tax credit in respect of a dividend and to claim payment from HMRC of any part of that tax credit will depend on the existence and terms of any double tax treaty between the UK and the country in which the Shareholder is resident for tax purposes. As explained in paragraph 3.6 above, no tax credit can arise for dividends paid on or after 6 April 2016. A Shareholder resident outside the UK (for tax purposes) may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident in the UK (for tax purposes) should consult their own tax adviser concerning their tax liabilities on dividends received from the Company.

7. Stamp duty and SDRT

The statements below are intended as a general guide to the current position. They do not apply to certain intermediaries who are not liable to stamp duty or SDRT or to persons connected with depositary arrangements or clearance services who may be liable at higher rates.

There should be no liability to stamp duty or SDRT arising on the issue of the Open Offer Shares by the Company. The registration of and the issue of definitive share certificates in respect of the Open Offer Shares to Shareholders in the name of a member of CREST should not give rise to any liability to stamp duty or SDRT.

Any unconditional agreement (whether written or verbal) to sell Ordinary Shares will normally give rise to a liability on the purchaser to SDRT, at the rate of 0.5 per cent. of the actual consideration paid. If an instrument of transfer (usually a stock transfer form) is subsequently produced it will generally be subject to stamp duty at the rate of 0.5 per cent. of the actual consideration paid (rounded up to the nearest £5.00 if necessary). However, an exemption from stamp duty is available where the amount or value of the consideration is

£1,000.00 or less, and it is certificated on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate amount or value of the consideration exceeds £1,000.00. When stamp duty is duly paid on the instrument, or it is certified as exempt, the SDRT charge will be cancelled and any SDRT already paid will be refunded. Stamp duty and SDRT are generally the liability of the purchaser.

Where Ordinary Shares are held in uncertificated form within CREST, a transfer of shares through CREST will generally be subject to SDRT (rather than stamp duty) at the rate of 0.5 per cent. of the value of the consideration given. CREST is obliged to collect SDRT on relevant transactions settled within the system. Deposits of Ordinary Shares into CREST will generally not be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration. Special rules apply in connection with depositary arrangements and clearance services.

The statements above are general in character and are intended only as a general guide to certain aspects of current law and HMRC practice. They apply to the beneficial owners of Ordinary Shares who are resident in the UK for tax purposes and who hold shares as investments and may not apply to certain classes of tax payers (such as dealers in securities). Prospective subscribers for or purchasers of Ordinary Shares, and, in particular, those who are subject to taxation in a jurisdiction other than in the UK, are strongly advised to consult their own professional advisers.

PART XIII

OPERATING AND FINANCIAL REVIEW

1. Operating and financial review

Note the actual and comparative figures disclosed in the operating and financial reviews below are as stated in the financial statements for each period of review. The 2013 comparative figures disclosed in the operating and financial review for the year ended 31 December 2014 and the 2014 comparative figures for the operating and financial review for the six month period ended 30 June 2015 have been re-presented, from those presented in the original financial statements for that comparative period, to show the results of the Gulf of Mexico US operations as discontinued as required under IFRS 5.

1.1 *Operating and financial review for the year ended 31 December 2012*

Morocco

In December 2012 the Group announced that an agreement had been reached with Caithness Petroleum Limited to acquire their wholly owned subsidiary, Cabre Maroc Limited. This transaction delivered to the Group operatorship of a large contiguous and prospective onshore acreage position of 13,352km² in onshore Morocco, with two very distinct components. Firstly, potential for high impact oil discoveries in a thrust and folded tectonic environment within a proven petroleum system, and secondly, an established business of gas exploration with near term production potential. The transaction completed on 16 January 2013 and the total consideration was: US\$17.3 million in cash; the payment of outstanding trade payables of US\$1.7 million; and the provision for a carry of up to US\$10.0 million of the vendor's share of exploration costs on its retained interests in the assets.

Colombia

In 2012, the Group participated in the Ronda 2012 bid round in Colombia and was successful in acquiring a 100 per cent. interest in two frontier blocks, Llanos Block 50 and Putumayo Block 14, located in prospective areas on trend with existing oil discoveries.

Tunisia

In November 2012 agreements were reached with ADX Energy Limited, Xstate Resources Limited and Verus Investments Limited to extend the Group's interests in the Chorbane, Kerkouane and Pantellaria permits. The total consideration for these transactions was approximately US\$1.15 million plus an agreement to fund the remaining share of a seismic survey to be carried out in the onshore Chorbane permit during 2013.

The acquisition was still subject to Government approval at 31 December 2012, following which the Group was to hold a 70 per cent. operated interest in the Chorbane permit and a 40 per cent. non-operated interest in both the offshore Kerkouane and Pantellaria permits.

Syria

The Group remained in full compliance with EU Sanctions throughout the year. Gulfsands continued to maintain a presence in Syria and employ the majority of its Syrian staff throughout the period.

United States

Production on a working interest basis, including NGLs, averaged 311boepd in 2012, compared with 410boepd in 2011. The composition of this production was 50 per cent. oil, 46 per cent. gas and 4 per cent. NGLs. In September 2011 the Group had sold a package of properties with an effective date of 1 June 2011. When excluding these properties from the 2011 working interest production the underlying production for the retained properties in 2011 was 322boepd.

At Eugene Island 32, Gulfsands continued to participate in the reprocessing of 3D seismic data to optimise further field development and identify new drill opportunities. Recompletions were undertaken of the Ship Shoal 249 D5, Vermilion 225 B5 and West Delta 64 C1 wells leading to incremental increases to 2P working interest reserves of approximately 175,000boe. The cost of these operations to Gulfsands was less than US\$300,000. Decommissioning projects continued on various properties, most significantly High Island A 561, where the operator had substantial difficulties with permanently abandoning several wells. These problems were subsequently resolved with platform abandonment still ongoing at 31 December 2012.

Financial performance

The Group reported a net loss after tax from continuing operations for the year ended 31 December 2012 of US\$27.0 million (2011: loss US\$52.4 million). The decreased loss was predominantly due to: the 2011 write-off of the Syrian Abu Ghazal and Safa wells (US\$8.8 million); the 2011 impairment provisions (US\$10.0 million) against the remaining Syrian exploration assets as it was unclear whether the Group would be able to apply for commercial development approval in the manner contemplated by the PSC; and the 2011 write-off of the Lambouka-1 well, offshore Tunisia of US\$13.8 million; this was partially offset by the 2012 write-off of Sidi Dhaher well, onshore Tunisia (US\$7.1 million) and gains on US asset disposals in 2011 (US\$6.6 million).

The overall loss for the year attributable to the owners of the parent company was US\$27.0 million (2011: profit US\$55.1 million). This was due to the profits from discontinued operations in 2011 of US\$107.5 million representing the suspended Syrian production activities on imposition of EU Sanctions. No revenue had been recorded in Syria since 1 December 2011.

Revenues from sales of hydrocarbons reduced by 29 per cent. to US\$5.6 million (2011: US\$7.9 million) and related to production from US assets only. The Group's production on a net revenue interest basis reduced by 26 per cent. from 323boepd to 239boepd. Average sales prices were US\$102.1 per barrel for oil (2011: US\$103.0 per barrel), US\$3.2 per Mcf for gas (2011: US\$4.0 per Mcf) and US\$1.1 per gallon (US) for NGLs (2011: US\$1.4 per gallon (US)).

Depletion charges dropped to US\$1.4 million (2011: US\$3.9 million) due to the fall in production and changes in the production mix on an asset by asset basis. Impairment charges of US\$0.6 million were incurred (2011: US\$0.1 million) principally in respect of the East Cameron 160 lease where the operator concluded that no further economic production could be achieved following sanding up of the well bore. Other cost of sales of US\$4.9 million (2011: US\$6.4 million) included repair and workover costs of US\$2.0 million and decommissioning costs in excess of provisions of US\$1.1 million. The overall decrease in cost of sales resulted in a reduced gross loss of US\$1.3 million (2011: gross loss US\$2.4 million).

General administrative expenses (including depreciation) decreased to US\$16.6 million (2011: US\$19.7 million) principally due to a US\$2.1 million reduction in general administrative expenditure in Syria.

Cash flow

Cash consumed by operations was US\$14.2 million (2011: US\$94.3 million cash generated). The Group had delayed payment of certain suppliers at year-end 2011 whilst it reviewed the implications of the imposition of EU Sanctions, for both its exploration and production operations in Syria, a situation that resulted in payments during 2012 for operations of US\$1.8 million and for capital expenditure of US\$6.3 million. At 31 December 2012, US\$4.2 million of creditors were still unpaid as payment of these obligations would contravene EU Sanctions. Excluding these items, US\$0.6 million was consumed from an increase in working capital (2011: US\$3.0 million generated). US\$7.8 million (2011: US\$22.9 million) was expended on exploration and evaluation activities and US\$0.3 million (2011: US\$20.5 million) on oil and gas development assets. US\$1.0 million was spent on other tangible assets and software (2011: US\$2.2 million). The Group paid US\$1.9 million to decommission assets in the Gulf of Mexico (2011: US\$5.1 million). US\$5.0 million was placed in escrow to guarantee bonds related to the acquisition of Cabre Maroc Limited which was offset by releases from restricted cash balances of US\$1.1 million (2011: US\$11.2 million). The 2011 release from restricted cash is related to the disposal of a package of assets in the Gulf of Mexico and the associated decommissioning provisions. The exercise of options, less cash paid to buy back options issued, contributed US\$0.1 million

(2011: US\$0.6 million) and US\$0.1 million was spent relating to a share buyback programme that terminated in December 2011 (2011: US\$13.0 million). The resultant net decrease in cash during the period was US\$33.3 million (2011: US\$43.6 million increase).

Financial position

Despite the challenges provided by the situation in Syria, the Group remained in a strong financial position at 31 December 2012. The Group had cash balances of US\$91.0 million (2011: US\$124.2 million) of which US\$87.4 million (2011: US\$111.8 million) was denominated in US Dollars and held in money market funds through UK regulated financial institutions. Long-term financial assets increased during the period to US\$7.8 million (2011: US\$4.0 million) primarily related to a US\$5.0 million financial guarantee placed in Morocco on behalf of Cabre Maroc Limited.

The provision for decommissioning held by the Group increased slightly during the period to US\$17.7 million (2011: US\$16.8 million), of which US\$15.3 million related to long-term provisioning (2011: US\$14.7 million) and US\$2.4 million to short-term provisioning (2011: US\$2.1 million).

Emphasis of matter – Fair value of the Group's producing operations in Syria

With reference to the financial statements for the year ended 31 December 2012, the auditors drew attention to the disclosures made in the financial statements concerning the valuation of the Group's suspended producing operations in Syria, which were recorded at the Directors' best estimate of their fair value following the loss of joint control in December 2011. There is significant uncertainty as to the duration of the EU Sanctions imposed in December 2011 and the eventual outcome of events in Syria. The potential impact any outcome will have on the recoverable amount from the producing operations in Syria (current value of US\$102.0 million) is not known.

1.2 Operating and financial review for the year ended 31 December 2013

Morocco

Following the completion of the acquisition of the Cabre Maroc Limited portfolio of onshore permits in northern Morocco in January 2013, the Group commenced two seismic programmes, a 3D seismic programme on the Rharb Centre permit and a 2D seismic programme on the Fes permit. The 220km² 3D seismic programme on the Rharb Centre permit was carried out to assist in the further delineation of potential drilling targets for the second phase of the nine well drilling campaign. Processing and interpretation of the acquired data was completed in March 2014 identifying a number of quality prospects. The initial 650km 2D seismic programme on the Fes permit concluded in February 2014. As the Fes area is known to be structurally complex, prior to the Group's receipt of this seismic data, it was to undergo a number of additional more sophisticated processing techniques than would normally be the case.

During 2013, the Group commenced the process for exploration drilling on the Rharb Centre permit with the importation to Morocco of a drill rig operated by COFOR. The first phase of the nine well drilling campaign, commenced in October 2013 with three exploration wells being drilled based on the legacy 2D and swath seismic data. Each of these wells intersected gas bearing reservoirs but these were not considered to be of sufficient magnitude as to be commercial with the consequence that each of the wells was plugged and abandoned.

Colombia

Following the award of Putumayo Block 14 and Llanos Block 50 in the Ronda 2012 bid round, the Group established itself in Bogota, Colombia during 2013 with a team of experienced local professionals. Late in the fourth quarter of the year the Group finalised joint venture farm-out arrangements with Luna Energy on both of its blocks resulting in the Group retaining a 55 per cent. operated working interest of both Blocks. Luna Energy held a 45 per cent. working interest but was carrying Gulfsands in respect of 10 per cent. on the minimum exploration programme for each contract area up to a maximum value net to Gulfsands of US\$3.0 million.

Tunisia

During early 2013 the Group concluded arrangements with its former partners, and assumed operatorship of the Chorbane permit. Following completion of a geological and prospectivity review in 2013, an agreement was reached with ADX Energy Limited, which remained subject to final regulatory approval as at 31 December 2013, to withdraw from its non-operated 40 per cent. interest in the

Kerkouane permit offshore Tunisia and the adjacent Pantellaria permit in Italian waters while at the same time increase its interest in the Chorbane onshore PSC to 100 per cent.

Syria

The Group remained in full compliance with EU Sanctions throughout the year. Gulfsands continued to maintain a presence in Syria and employ Syrian staff throughout the period.

United States

Production on a working interest basis, including NGLs, averaged 226boepd in 2013, compared with 311boepd in 2012. The composition of this production was 53 per cent. oil, 43 per cent. gas and 4 per cent. NGLs. After tax and royalties, net revenue interest production in 2013 averaged 175boepd (2012: 239boepd) generating revenues of US\$4.4 million (2012: US\$5.6 million).

During the year, the Group participated in development operations on four wells to access booked reserves, including recompletion operations at Ship Shoal and recompletion and side-track operations at Eugene Island. Substantial decommissioning activities were also undertaken in 2013 across the portfolio.

Despite efforts to divest the remaining portfolio early in the year, the Group did not attract bids that sufficiently valued the assets to be sold and at 31 December 2013 it was considering its options with respect to the US interests.

Financial performance

Average prices realised in the period for US oil production were US\$102.2 per barrel (2012: US\$102.10 per barrel) and US\$3.8 per Mcf of gas (2012: US\$3.2 per Mcf of gas). This increase in both the gas and oil price helped offset the decline in production resulting in a US\$1.2 million decrease in revenues for the year to US\$4.4 million (2012: US\$5.6 million).

US operations provided a gross profit for the year of US\$0.2 million (2012: gross loss US\$1.3 million). This improvement on 2012 was largely due to the fact that US\$1.1 million of costs in excess of provisions were incurred in 2012 on decommissioned assets. There were no similar costs incurred during the period.

Total administrative expenses decreased significantly to US\$10.9 million (2012: US\$18.4 million). This decrease was a result in part of the sustained focus on cost reduction across the Group, which encompassed all areas of general and administrative costs. In addition to this programme, during 2013 the Group substantially changed its business, diversifying its exploration opportunities and focusing on operatorship of its interests, taking on operatorship of the Tunisian Chorbane permit and its Moroccan and Colombian interests. As a result it was able to both recover overhead from partners and capitalise costs relating to operational offices.

Exploration write-offs in the year totalled US\$12.3 million (2012: US\$7.1 million). These consisted of write-offs of Tunisian and Moroccan expenditures. US\$3.2 million was written-off in respect of expenditures attributed to the Kerkouane permit in Tunisia after withdrawal from the permit as part of an agreement with ADX Energy Limited in December 2013. This was offset by a release of the decommissioning provision previously held for the Kerkouane asset of US\$1.0 million as all historic and future obligations associated with the Kerkouane interest were assumed by ADX Energy Limited. US\$10.1 million was written-off during 2013 in relation to the expenditures and acquisition fair value attributed to the three wells drilled on the Rharb Centre permit in Morocco. The drilling programme commenced in October 2013. All of these wells were determined as non-commercial and so were plugged and abandoned.

Due to a theft at the Qamishli warehouse in Syria in the year a loss of US\$0.7 million of inventory was also recognised. At 31 December 2013, the Group decided to fully provide against the remaining Syrian inventory balance of US\$2.2 million as, at this time, Gulfsands did not have full control over and access to the warehouse in which the inventory was held due to civil conflict.

The Group reported a loss before tax for the year of US\$26.8 million (2012: loss US\$27.0 million).

Cash flow

Operating cash outflow was substantially reduced in the year to US\$7.9 million (2012: US\$14.2 million) largely as a consequence of cost reductions. Net cash used in investing activities increased to US\$49.2

million (2012: US\$19.1 million) mainly reflecting the US\$17.1 million paid in respect of the Cabre Maroc Limited acquisition in 2013, US\$5.0 million of additional letters of credit posted with the Moroccan authorities in respect of interests acquired, US\$3.2 million of letters of credit posted with the Colombian authorities in respect of interests awarded and US\$17.3 million of exploration and evaluation expenditure. The total decrease in cash and cash equivalents during the year was US\$57.2 million (2012: US\$33.3 million).

Financial position

Gulfsands added to its exploration portfolio during the year with new exploration permits in Morocco as a result of the acquisition of Cabre Maroc Limited and the award of two contracts in Colombia. As a result, capital expenditures on exploration and evaluation assets increased substantially in the year and totalled US\$46.1 million (2012: US\$5.0 million) on an accrued basis. This included US\$19.3 million of fair value attributed to the Group's Moroccan interests at acquisition and US\$2.3 million in respect of Gulfsands' progressive acquisition of partners' interests in the Chorbane permit in Tunisia.

The most significant capital expenditures in the year were the drilling and seismic costs in the Rharrb Centre and Fes permits in Morocco. Drilling related costs of US\$5.9 million were incurred in respect of the three well drilling programme in Rharrb Centre which commenced in the fourth quarter of 2013. The 3D seismic acquisition for Rharrb was completed in 2013 with processing continuing into 2014. Seismic related costs for Rharrb in 2013 totalled US\$4.9 million. The 2D seismic acquisition for the Fes area commenced in 2013 and continued into 2014. The 2013 seismic related costs for Fes totalled US\$5.5 million. As a result of a change in the Group's business with the acquisition of new operatorships in Morocco, Tunisia and Colombia, US\$5.3 million of costs associated with offices which were operational in nature were capitalised and attributed to related exploration assets.

The Group's producing oil and gas assets were held at a net book value of US\$12.4 million (2012: US\$13.2 million). Movements consisted of US\$2.5 million of capital expenditure, offset by a US\$1.3 million depletion charge and a US\$1.9 million reduction in decommissioning cost estimates. The capital expenditures represented the Group's participation in development operations on four wells in the Gulf of Mexico, US to access booked reserves.

Decommissioning provisions decreased during the period to US\$13.2 million (2012: US\$17.7 million) principally as a result of decommissioning expenditures of US\$2.2 million on US properties in 2013, a change in decommissioning estimates of US\$1.9 million on the US properties still to be decommissioned and a release of the US\$1.0 million provision held for the Kerkouane assets after withdrawing from the permit at the end of 2013.

The fair value of the Group's net investment in Syria remained unchanged at US\$102.0 million.

Whilst trade and other receivables and trade and other payables both reduced consequent to the review of Syrian balances, payables increased due to the increased activity in Morocco with Moroccan payable balances of US\$12.6 million as at 31 December 2013.

The Group had cash and cash equivalents of US\$33.8 million (2012: US\$91.0 million) of which approximately US\$27.3 million was held in money market funds with EU financial institutions, and a further US\$2.7 million was held in accounts with banks in the UK and US.

Restricted cash balances at 31 December 2013 totalled US\$19.1 million (2012: US\$7.8 million) representing funds securitised as collateral in respect of future work obligations – principally in respect of the Group's Moroccan interests. These funds are to be released to the Group as work programmes are completed with US\$2.5 million funded by, and to be repaid to, Caithness Petroleum Limited, the former parent of Cabre Maroc Limited.

Emphasis of matter – Fair value of the Group's producing operations in Syria

With reference to the financial statements for the year ended 31 December 2013, the auditors drew attention to the disclosures made in the financial statements concerning the valuation of the Group's suspended producing operations in Syria, which were recorded at the Directors' best estimate of their fair value following the loss of joint control in December 2011. There is significant uncertainty as to the duration of the EU Sanctions imposed in December 2011 and the eventual outcome of events in Syria.

The potential impact any outcome will have on the recoverable amount from the producing operations in Syria (current value of US\$102.0 million) is not known.

Emphasis of matter – Going concern

With reference to the financial statements for the year ended ended 31 December 2013, the auditors considered the adequacy of the disclosures made by the Directors in the consolidated financial statements and within the financial review of the strategic report concerning the Group and the Company's ability to continue as a going concern. They identified that the Group requires additional funding and careful management of its commitments in order to realise its assets and discharge its liabilities in the normal course of business. The Board was pursuing leads on a number of alternative funding sources but at the time there was no certainty that such additional funding would be received.

These conditions, along with the other matters explained in the going concern note in the financial statements indicated the existence of a material uncertainty which may have cast significant doubt about the Group's ability to continue as a going concern. The financial statements did not include the adjustments that would result if the Group was unable to continue as a going concern.

1.3 Operating and financial review for the year ended 31 December 2014

Morocco

In June 2014 the Group finalised agreements with ONHYM and the government of Morocco for the award of the newly created Moulay Bouchta permit. Gulfsands acquired operatorship of the permit with a 75 per cent. participating interest, while ONHYM retained a 25 per cent. participating interest. US\$1.75 million was placed on deposit as security against the agreed minimum work programme.

During 2014 the Group made good progress in Morocco completing the acquisition and processing of the 3D seismic data on Rharrb Centre. Following this, Gulfsands spudded its fourth and fifth gas exploration wells in the Rharrb Centre permit, LTU-1 and DRC-1, which were drilled using this 3D seismic survey data. Both of these exploration wells resulted in gas discoveries. During the period the Group commenced discussions with ONHYM and other local operators to start connecting these wells to local gas sales pipelines to enable the Group to enter into a gas sales contract to monetise the gas.

The 650km 2D seismic survey on the Fes permit was completed in February 2014 and the initial conventional seismic processing of the data was completed in July 2014. The results of this processing work did not yield the step change uplift in data quality and imaging that was anticipated so towards the end of the year a data processing specialist in Calgary, Canada was engaged to further reprocess the data using a bespoke approach more specifically tailored to the geological fold and thrust belt setting in the Fes permit.

In July 2014 ONHYM granted a six month extension of the Rharrb petroleum contract. During the period, Gulfsands was also in discussions with ONHYM regarding the outstanding work commitments on its petroleum contracts for the Rharrb and Fes permits, to secure a forward plan that would allow Gulfsands to continue to explore and develop its interests in Morocco.

Tunisia

In December 2013 the Group entered into a transaction with ADX Energy Limited whereby Gulfsands would acquire its interest in the Chorbane PSC in Tunisia for US\$1.75 million giving the Group a 100 per cent. interest in the Chorbane PSC. The transaction closed during 2014 with final consideration amounts paid in early 2015.

Colombia

During 2014 the Group continued to undertake the preliminary studies required to be completed prior to the commencement of either 2D or exploration-orientated 3D seismic acquisition programmes. The Putumayo Block 14 was granted a twelve month extension to the first exploration phase during the year.

Syria

The Group remained in full compliance with EU Sanctions throughout the year. Gulfsands continued to maintain a presence in Syria and employ Syrian staff throughout the period.

United States

In December 2014 the Group sold its interest in Gulfsands Petroleum USA, Inc., for US\$50,000, thus divesting itself of its operations in the US. Under the terms of the transaction all staff associated with the US operations were transferred to the purchaser along with all abandonment obligations.

Financial performance

Gulfsands made significant progress in 2014 to further reduce its operating cost base with general administrative expenses reducing to US\$5.5 million in the year (2013: US\$9.4 million). US\$1.7 million of the reduction represents a reduction in office expenses after partner recoveries. In addition to this, a reduction in depreciation as well as increased operational activity, particularly in Morocco, resulted in increased amounts capitalised, which further reduced general administrative expenses by US\$2.3 million in the year.

Exploration write-offs for the year totalled US\$6.0 million (2013: US\$12.3 million), of which US\$5.2 million related to Moroccan operations and US\$0.8 million related to Tunisian operations. Expenditure written-off in relation to Moroccan operations included US\$1.5 million of expenditure related to 2014 expenditures on the wells drilled in the first phase of drilling on the Rharb Centre permit, which commenced in October 2013 and completed in January 2014. These wells were deemed non-commercial and plugged and abandoned. A further US\$3.7 million of expenditure, on activities that were unsuccessful, was written-off in the year.

The Group reported a reduced loss before tax from continuing operations of US\$12.1 million (2013: loss US\$25.4 million) for the year. In addition to the reduction in general administrative expenses and reduced exploration write-offs in the year, this improved performance also reflected the incurrence of exceptional one-off Syrian inventory write-offs and impairments in 2013 of US\$2.9 million.

The Group also sold its investment in its wholly-owned US subsidiary, Gulfsands Petroleum USA, Inc., to Hillcrest Resources Ltd for a consideration of US\$50,000. As part of the sale and purchase agreement, the intercorporate debt owed by Gulfsands Petroleum USA, Inc. to the Group was also assigned to Hillcrest Resources Ltd. The sale of the investment in Gulfsands Petroleum USA, Inc. meant that all of the Group's interests in oil and gas licences in the Gulf of Mexico as well as their related decommissioning liabilities and amounts held in escrow to guarantee those decommissioning liabilities had been disposed of. The transaction was completed on 18 December 2014. Losses from discontinued operations in the year were US\$4.0 million (2013: US\$1.4 million) consisting of a loss on disposal of US\$2.5 million in addition to the loss for the 11 months to disposal generated by the US operations of US\$1.5 million (2013: 12 months loss US\$1.4 million). The results of the discontinued US operations were consolidated to 30 November 2014 which was treated as the effective completion date; the results for the 18 days to 18 December 2014 were considered not material to the Group. Under the requirements of IFRS 5, the 2013 comparatives for the discontinued operations were re-presented in the Consolidated Income Statement and Consolidated Cash Flow Statement and within the comparatives stated in the operating and financial review for the year ended 31 December 2014.

The Group reported a reduced loss for the year of US\$16.1 million (2013: loss US\$26.8 million).

Cash flow

Operating cash outflow from continuing operations was substantially reduced in the year to US\$3.8 million (2013: US\$8.6 million) largely as a consequence of the reduction in general administrative expenses. Investing cash outflow from continuing operations during the year totalled US\$24.0 million (2013: US\$45.6 million). This predominantly consisted of US\$27.0 million of exploration expenditure (inclusive of US\$24.8 million spent on Moroccan operations and US\$1.75 million being placed as security with respect to the newly awarded Moulay Bouchta petroleum agreement obligations); partially offset by restricted cash balances released during the year totalling US\$6.5 million. The total cash outflow for the US discontinued operation in the year was US\$2.8 million (2013: US\$3.0 million). This consisted of cash outflows for investing activities of US\$5.0 million (2013: US\$3.7 million); and cash disposed of as part of the disposal of US\$0.2 million; which were partially offset by cash generated by production operations of US\$2.4 million (2013: US\$0.7 million). The total decrease in cash and cash equivalents during the year was US\$25.9 million (2013: US\$57.2 million).

Financial position

Property, plant and equipment reduced as the Group's producing Gulf of Mexico oil and gas assets were disposed of in December 2014. The Group continued to build on its exploration portfolio and was awarded the Moulay Bouchta contract, onshore Morocco, in April 2014. At 31 December 2014, intangible exploration and evaluation assets were held at a net book value of US\$53.0 million (2013: US\$37.1 million) of which US\$46.6 million related to cumulative expenditure capitalised against Moroccan permits (2013: US\$31.6 million). Capital expenditures during the year totalled US\$21.0 million (2013: US\$46.5 million) on an accrued basis, including US\$7.9 million of drilling related costs incurred in respect of successful drilling on the Rharb Centre permit. As a result of the increased operational activity during the year, US\$7.3 million of operations office expenses were capitalised against the Moroccan, Tunisian and Colombian contracts. Exploration write-offs for the year totalled US\$6.0 million (2013: US\$12.3 million); the previous year included the cost of the three unsuccessful wells drilled.

At 31 December 2014, the fair value of the Group's net investment in its Syrian interests remained unchanged at US\$102.0 million.

Trade and other receivables decreased during the year to US\$1.0 million (2013: US\$3.5 million). This was predominantly due to the recovery of historic balances due from oil and gas partners totalling US\$1.3 million. Current trade and other payables at 31 December 2014 decreased significantly from 2013 year end to US\$5.9 million (2013: US\$15.2 million) predominantly as a result of the timing of drilling operations in Morocco with substantially lower activity at the 2014 year end than the previous year end.

Decommissioning provisions related to abandonment and restoration provisions on the Rharb Centre Moroccan wells and totalled US\$1.0 million at 31 December 2014 (2013: US\$13.2 million).

On 19 November 2014, the Group announced the closing of a US\$20.0 million convertible loan facility with Arawak and subsequently drew-down the first US\$5.0 million tranche on 25 November 2014. The loan bears interest at 10 per cent. per annum in addition to a commitment fee of 3 per cent. per annum on the available facility, both of which are rolled up quarterly into the loan balance. The loan matures on 30 November 2017 and is repayable in full on the maturity date.

The Group had total unrestricted cash and cash equivalents of US\$7.9 million as at 31 December 2014 (2013: US\$33.8 million). Restricted cash balances at the end of the period totalled US\$11.5 million, and represented funds securitised as collateral in respect of future work obligations – principally in respect of the Group's Moroccan interests. Restricted cash balances decreased by US\$7.6 million during the year as a result of a release of US\$6.5 million due to partial completion of the Moroccan work programmes and disposal of the US\$2.9 million US guarantees as part of the disposal of its US interests, all partially offset by a new US\$1.75 million deposit being placed for future work obligations relating to the award of the Moulay Bouchta petroleum agreement.

Emphasis of matter – Fair value of the Group's producing operations in Syria

With reference to the financial statements for the year ended 31 December 2014, the auditors drew attention to the disclosures made in the financial statements concerning the valuation of the Group's suspended producing operations in Syria, which were recorded at the Directors' best estimate of their fair value following the loss of joint control in December 2011. There is significant uncertainty as to the duration of the EU Sanctions imposed in December 2011 and the eventual outcome of events in Syria. The potential impact any outcome will have on the recoverable amount from the producing operations in Syria (current value of US\$102.0 million) is not known.

Emphasis of matter – Going concern

With reference to the financial statements for the year ended ended 31 December 2014, the auditors considered the adequacy of the disclosures made by the Directors in the consolidated financial statements and within the financial review of the strategic report concerning the Group and the Company's ability to continue as a going concern. They identified that the Group required additional funding and careful management of its commitments in order to meet both capital and administrative obligations and liabilities as they fall due. The Directors believed based upon discussions with major

shareholders that the Group would be able to secure the necessary funds within the required timescale, but there were no binding agreements in place.

These conditions, along with the other matters explained in the going concern note in the financial statements indicated the existence of a material uncertainty which may have cast significant doubt about the Group's ability to continue as a going concern. The financial statements did not include the adjustments that would result if the Group was unable to continue as a going concern, which would principally relate to the impairment of the Group's non-current assets as licence commitments would not be met and licences may then be revoked with restricted cash balances not recovered.

1.4 Operating and financial review for the six months ended 30 June 2015

Morocco

During the period, the Group completed the drilling and testing of its fifth and sixth biogenic gas exploration wells in the Rharb Centre permit area, DRC-1 and DOB-1. Both wells proved discoveries, and both were completed and then suspended as future gas production wells. The Group also completed the reprocessing of 2D seismic data at its Fes permit during the period, with the subsequent in-house re-interpretation and remapping of lead concepts having also commenced.

Tunisia

The exploration period under the Chorbane permit originally ran to mid-July 2015 and during the period, Gulfsands submitted an application for a two year extension to this period during which the work obligation of acquiring 200km 2D seismic and drilling one exploration well must be completed.

Colombia

During the period, the Company terminated its existing joint venture arrangements with Luna Energy under the terms of the original farm-out agreements.

The Group also initiated a farm-out exercise during the period for its interests in both contract areas prior to any significant financial commitment with respect to further exploration work.

Syria

The Group remained in full compliance with EU Sanctions throughout the year. Gulfsands continued to maintain a presence in Syria and employ Syrian staff throughout the period.

Financial performance

General administrative expenses for the first half of 2015 totalled US\$3.5 million (H1 2014: US\$2.7 million). This increase reflects one-off restructuring costs incurred during the period as well as a decreased level of partner recoveries resulting in part from the termination of the Colombian joint venture agreement at the start of 2015. Underlying office expenses decreased by some 31 per cent., resulting from the increasing efforts to manage costs to fit the current business model and strategy.

Exploration write-offs for the period were US\$1.4 million (H1 2014: US\$4.4 million) and predominantly related to the write-off of costs associated with restructuring and terminating drilling contracts for the Moroccan Rharb Centre permit.

Exploration and evaluation asset impairments for the period were US\$22.1 million and related to the Moroccan Fes permit only. The financial commitments of the Fes permit were deemed inconsistent with the Group's revised strategy, and therefore Gulfsands initiated a farm-out process for the Fes permit. However given the Fes petroleum agreement expiry date in September 2015, the outstanding work commitments on the permit which could not physically be fulfilled before this date and the uncertainty of securing an industry partner before the petroleum agreement expiry date, the expenditure to date attributed to the Fes permit of US\$22.1 million, inclusive of US\$10.5 million fair value attributed at acquisition, was fully impaired at 30 June 2015. In addition to the impairment of exploration and evaluation assets a provision was made against related restricted cash balances securing minimum work obligations on the Fes contract of US\$5.0 million, as it was viewed that these may not be recoverable if the petroleum agreement is not extended. As part of this restricted cash was payable to a third party on its release the resulting net charge to the Income Statement was reduced to US\$3.5 million.

The Group reported a loss before tax for continuing operations for the half year ended 30 June 2015 of US\$31.3 million (H1 2014: loss US\$7.2 million from continuing operations). The first half of 2014 also included a loss from discontinued operations of US\$1.9 million in respect of the US Gulf of Mexico operations which were disposed of in December 2014.

Cash flow

The total decrease in cash and cash equivalents during the period was US\$6.4 million (H1 2014: US\$25.4 million). Operating cash outflow from continuing operations increased in the period to US\$3.9 million (H1 2014: US\$2.2 million) largely as a result of exceptional recoveries from partners in 2014 in relation to historic expenditure. Investing cash outflow from continuing operations during the period totalled US\$7.4 million (H1 2014: US\$21.0 million). This predominantly consisted of exploration expenditure inclusive of US\$5.5 million spent on Moroccan operations and US\$1.5 million paid in final settlement of the amount payable for the 2013 acquisition of the additional interest in the Chorbane permit. Cash received from financing activities totalled US\$5.0 million, due to the draw-down of the second tranche of the Convertible Loan Facility.

Financial position

The Group's intangible exploration and evaluation assets were held at a net book value of US\$36.0 million at 30 June 2015 (31 December 2014: US\$53.0 million). Capital expenditures for the six months to 30 June 2015 totalled US\$5.7 million (H1 2014: US\$11.6 million) including external third party drilling costs of US\$2.8 million on the sixth Rharb Centre well, DOB-1, for which drilling commenced on 28 January 2015; US\$0.8 million of external third party drilling costs remaining for the DRC-1 well which commenced drilling in December 2014; and US\$1.8 million of capitalised general office expenditure against the Moroccan and Colombian assets, relating to operational offices. US\$0.8 million was also capitalised in the period in relation to an increase in estimates for Rharb Centre decommissioning provisions as a result of these wells being drilled.

The Group recorded write-offs totalling US\$1.4 million in the period predominantly relating to costs associated with restructuring and terminating drilling operations contracts for the Moroccan Rharb Centre permit. Expenditure attributed to the Moroccan Fes permit of US\$22.1 million, including US\$10.5 million of fair value attributed at acquisition, was fully impaired in the period.

At 30 June 2015, the fair value of the Group's net investment in its Syrian interests remained unchanged at US\$102.0 million.

Decommissioning provisions related to abandonment and restoration provisions for the Rharb Centre Moroccan wells and totalled US\$1.8 million at 30 June 2015 (31 December 2014: US\$1.0 million). Decommissioning provisions increased during the period as a result of the completion of the DOB-1 and DRC-1 wells on the Rharb Centre permit.

The outstanding Convertible Loan Facility balance at 30 June 2015 was US\$10.4 million (31 December 2014: US\$4.9 million) following the draw-down of the second US\$5.0 million tranche on 9 January 2015 and interest and commitment fees rolled up in the period. At the end of June 2015, Arawak entered into an assignment agreement with Weighbridge, acting as agent for Waterford and Mr. Griffiths under which Weighbridge acquired the facility.

At 30 June 2015 the Group had total unrestricted cash and cash equivalents of US\$1.5 million (31 December 2014: US\$7.9 million). Restricted cash balances at the end of the period totalled US\$6.4 million (31 December 2014: US\$11.5 million), and represented funds securitised as collateral in respect of future work obligations – principally in respect of the Group's Moroccan and Colombian interests. At 30 June 2015 a provision was made against the restricted cash balance securitised as collateral in respect of future work obligations on the Fes permit of US\$5.0 million, consistent with the impairment of the Fes exploration and evaluation asset.

Emphasis of matter – Fair value of the Group's producing operations in Syria

With reference to the half-yearly financial statements for the six month period ended 30 June 2015, the auditors drew attention to the disclosures made in the half-yearly financial statements concerning the valuation of the Group's suspended producing operations in Syria, which were recorded at the Directors' best estimate of their fair value following the loss of joint control in December 2011. There

is significant uncertainty as to the duration of the EU Sanctions imposed in December 2011 and the eventual outcome of events in Syria. The potential impact any outcome will have on the recoverable amount from the producing operations in Syria (current value of US\$102.0 million) is not known.

Emphasis of matter – Going concern

With reference to the half-yearly financial statements for the six month period ended 30 June 2015, the auditors considered the adequacy of the disclosures made by the Directors in the consolidated financial statements and within the financial review concerning the Group and the Company's ability to continue as a going concern. They identified that the Group required additional funding and careful management of its commitments in order to meet both capital and administrative obligations and liabilities as they fall due. The Directors believed, based upon discussions with major shareholders that the Group would be able to secure the necessary funds within the required timescale, but there were currently no binding agreements in place.

These conditions, along with the other matters explained in the going concern note in the half-yearly financial statements indicated the existence of a material uncertainty which may have cast significant doubt about the Group's ability to continue as a going concern. The half-yearly financial statements did not include the adjustments that would result if the Group was unable to continue as a going concern, which would principally relate to the impairment of the Group's non-current assets as licence commitments would not be met and licences may then be revoked with restricted cash balances not recovered.

1.5 *Operating and financial review for the period from 1 July 2015 to the date of this document*

Morocco

The Group has continued its process for divestment or farm-down of its interests in Morocco, which remains ongoing as at the date of this document. The Fes permit expired on 24 September 2015 and ONHYM called on the US\$5.0 million bank guarantee associated with the performance of the minimum work obligations under the Fes petroleum agreement resulting in the forfeiture of US\$5.0 million of restricted cash of which US\$3.5 million was outstanding to Gulfsands.

On 9 November 2015, the extension period of the Rharb Petroleum Agreement expired and the Company submitted a request to further extend the Rharb Petroleum Agreement for a period of two years to allow the Company to appraise the gas discoveries made in 2014/15.

On 30 November 2015, the Company received a response from ONHYM, dated 26 November 2015, advising that its request for an extension to the Rharb Petroleum Agreement had been rejected and furthermore that:

- Gulfsands Morocco will forfeit its US\$1.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Rharb Petroleum Agreement;
- ONHYM is seeking a penalty equal to the estimated cost of the minimum exploration work programme of the Rharb Petroleum Agreement less the costs actually incurred in respect of exploration work required, whereby ONHYM is claiming a sum of US\$7.5 million;
- ONHYM advised they will also, by separate request, seek the outstanding amount under the training obligation of the Rharb Petroleum Agreement; and
- ONHYM was seeking an update on the Company's progress in relation to the abandonment of the legacy producing wells and the cleaning and restoring of the well sites in the Rharb Centre permit area.

The Company strongly refutes the claims for financial sums and penalties and is seeking legal advice on the matter.

Tunisia

The Company received a formal response from the Tunisian Ministry of Industry and Technology in August 2015 which indicated that its Hydrocarbon Advisory Committee had issued a 'favourable opinion' toward the application, and that the formal extension would be gazetted or published in the Official Journal of the Tunisian Republic. As at the date of this document, the formal extension has not been gazetted and there remains a risk that the renewal is not granted in which case the Company

would forfeit the Chorbane PSC. The Group has initiated a process of divestment or farm-down of its interests in the contract.

Colombia

The Group has continued to actively pursue a process of divestment or farm-down of its interests in the contracts, and is in discussions to agree extensions for both blocks in order to have more time to farm-out all or part of its working interests.

Syria

Notwithstanding that the hydrocarbons discovered on the Block 26 PSC in Syria have been evaluated as reserves for several years leading up to, and after, the imposition of EU Sanctions in Syria, and that commercial production from the Block 26 area has exceeded 21MMbbls, for the purposes of this document the volumes of oil previously reported as 2P reserves have been reclassified by the Company as 2C contingent resources on the basis that the Company cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. This has resulted in total 2C contingent resources in Syria of 89.1MMboe as at the date of this document. This estimation of, and reclassification as, contingent resources has been prepared by the Company and reviewed by Senergy, an independent reserve/resource engineer who has completed several annual independent audits of the Company's reserves and resources. Senergy has confirmed that, based upon its review of the resource calculations and the various assumptions adopted by the Company, the estimate of contingent resources reclassified from 2P reserves is reasonable.

Whilst no definite timeline can be substantiated, the Board continues to believe that the EU Sanctions will be lifted within five years and will continue to monitor all activity focused on resolving the situation in Syria and reconsider the basis for reversing this reclassification in line with any future developments.

The Group remained in full compliance with EU Sanctions throughout the period. Gulfsands continued to maintain a presence in Syria and employ Syrian staff throughout the period.

The fair value of the Group's net investment in its Syrian interests will be reviewed at year end for the preparation of the 2015 annual report and accounts. This review will consider the reclassification of the Syrian reserves to 2C contingent resources.

Financials

Since 30 June 2015, the Group has made further draw-downs under the Convertible Loan Facility totalling US\$3.0 million. As a result, as at the date of this document the total outstanding balance under the Convertible Loan Facility including rolled up accrued interest and commitment fees is US\$14.1 million. There have been no other material changes in the Group's financial performance in the period from 1 July 2015 to the date of this document. The Company has continued to take steps to restructure its exposure to exploration expenditure and its general and administrative costs.

The Company has proposed to undertake the Capital Raising pursuant to this document in order to repay the Convertible Loan Facility in full and to provide sufficient working capital to continue its operations as a going concern. Should the Open Offer not proceed by the Open Offer Long Stop Date, the Directors may be required to consider placing the Company into an insolvency process. Furthermore, the holders of the Convertible Loan Facility may issue a demand for repayment, and if the outstanding balance is not repaid the holders of the Convertible Loan Facility may exercise their security over some of the assets of the Group, namely the interests in Block 26, Syria, and the various interests in Morocco.

2. Working capital statement

In the opinion of the Company, taking into account existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company, the Group does not have sufficient working capital for its present requirements, that is, for at least twelve months following the date of this document.

The Board is of the opinion that, excluding the potential liability in relation to the Rharr Petroleum Agreement, its existing unrestricted cash balances and the net proceeds of the Open Offer receivable by the Company

should give it sufficient working capital for its present requirements, being its operational requirements (and any anticipated legal expenses associated with litigation), to January 2017. As the Company has no immediate sources of revenue, it will require further working capital in January 2017.

However, as a result of the rejection of the Company's application for an extension of the Rharb Petroleum Agreement by ONHYM, and the claims for penalty fees amounting to US\$7.5 million in respect of the unfulfilled minimum exploration work programme and a further amount of approximately US\$117,000 relating to the training obligations under the agreement, the Board is unable to give a clean working capital statement. While the Board strongly refutes the claims by ONHYM and is seeking legal advice on the matter, there is the potential that such penalties become due and payable within the period that is twelve months from the date of this document. In the event that these penalties become due and payable within the period that is twelve months from the date of this document, the timing of which at the date of this document is uncertain; the Company will likely be required to raise further working capital immediately thereafter.

In order to address its working capital requirements, either during the twelve months from the date of this document as a result of the claims by ONHYM becoming due and payable or in January 2017 when in any event, the Company will require further working capital; the Board will consider all financing options available to it. These options include the sale of its oil and gas assets in Morocco, Tunisia or Colombia and the recovery of its associated restricted cash and/or a further issue of equity which would likely rely upon the support of its Shareholders. The Board is of the view that given the current conditions in the oil and gas exploration and production market as a result of the recent decline in oil prices, the probability of achieving significant proceeds from the sale or farm-out of its assets is low. However, the Board is confident that in the absence of sufficient proceeds generated from the sale or farm-out of its assets, its Shareholders would be supportive of a further equity fundraising for its working capital requirements.

In the event that the Company is unable to raise further working capital for its requirements, including any penalty payable in relation to the Rharb Petroleum Agreement, either during the twelve months from the date of this document or in January 2017, it may no longer be able to operate as a going concern, in which case the Board will place the Company into an insolvency process.

3. Capitalisation and indebtedness

3.1 Indebtedness

The Group's total borrowings at 30 November 2015 (being the latest practicable date prior to the publishing of this document), were US\$14.1 million. As at the date of this document, the Company confirms that there have been no material changes since this date.

The following table sets out the indebtedness of the Group as at 30 June 2015, as the latest date of published financial information of the Company prior to the date of this document, and the material changes to this position from 30 June 2015 to 30 November 2015 (being the latest practicable accounting date prior to the publishing of this document):

	<i>US\$'000</i>
Current debt	
Convertible Loan Facility drawn (secured)	10,000
Accrued interest and commitment fees under Convertible Loan Facility	569
Total current debt	<u>10,569</u>
Non-current debt	<u>0</u>
Total non-current debt	<u>0</u>
Total indebtedness as at 30 June 2015	<u>10,569</u>
Further draw-downs under Convertible Loan Facility	3,000
Further interest accrued under Convertible Loan Facility	555
Total indebtedness as at the date of this document	<u><u>14,124</u></u>

Under the terms of the Convertible Loan Facility, interest at the rate of ten per cent. is capitalised quarterly and is to be repaid at the end of the term. A commitment fee was also capitalised quarterly and is to be repaid at the end of the term, equivalent to three per cent. of available undrawn amounts during the twelve month availability period. There are no covenants applicable to the Convertible Loan Facility.

The Convertible Loan Facility is secured by a floating charge over all of the assets of Gulfsands Petroleum Holdings Ltd, the holding company for the Group's interest in Block 26, and a share mortgage over the shares in Gulfsands Petroleum Morocco Ltd (the holding company for the Group's interests in Morocco) with further credit support provided by a guarantee from the Company.

3.2 **Capitalisation**

The following table, which has been derived from the Company's latest published financial information, sets out the capitalisation of the Group as at 30 June 2015 and as at the date of this document, the Company confirms there has been no material change since this date:

	<i>US\$'000</i>
Shareholders' Equity	
Share capital	13,131
Share premium	105,926
Merger reserve	11,709
Treasury shares	(11,502)
Retained profit	9,946
Total equity	<u>129,210</u>

3.3 **Net financial indebtedness**

The following table sets out the net financial indebtedness of the Group as at 30 November 2015 (being the latest practicable accounting date prior to the publishing of this document) and as at the date of this document, the Company confirms there has been no material change since this date:

	<i>US\$'000</i>
Liquidity	
Unrestricted cash and cash equivalents	627
Total liquidity	<u>627</u>
Total current debt	14,124
Net current funds	<u>(13,497)</u>
Non-current financial indebtedness	0
Net financial indebtedness	<u>(13,497)</u>

Of the existing cash and cash equivalents, US\$0.3 million is held in US dollars, US\$0.1 million is held in British Pounds, US\$0.1 million is held in Euros and US\$0.1 million is held in other local currencies. The net proceeds of the Open Offer are to be received in pounds sterling and will be paid to the Company after setting off, where applicable, the Company's indebtedness under the Convertible Loan Facility with the subscription money under the Open Offer payable by the lenders under the Convertible Loan Facility, with the resulting net proceeds to be used to repay all of the remaining existing financial indebtedness as described above. The remaining net proceeds shall be applied toward working capital. On completion of the Open Offer, the net liquidity of the Company is anticipated to be approximately US\$6.8 million.

3.4 **Indirect and contingent indebtedness**

The Company had no off-balance sheet arrangements as at 30 November 2015 (being the latest practicable date prior to the date of this document) and as at the date of this document, the Company confirms there has been no material change since this date.

3.5 **Restrictions on use of capital**

As at 30 June 2015, the Group had restricted cash balances of US\$11.4 million relating to commitments against work programme obligations in Morocco, Colombia and Syria. Included within this are amounts relating to the Fes petroleum agreement of US\$5.0 million which were provided against in the half-yearly financial statements. These restricted cash balances are held on the Group's balance sheet as long-term financial assets.

On 24 September 2015 the Fes petroleum agreement expired and ONHYM called the US\$5.0 million bank guarantee for the non-fulfilment of the outstanding minimum work obligations of 350km 2D seismic, 100km² 3D seismic and drilling of three exploration wells. On 9 November 2015 the Rharrb Petroleum Agreement expired and ONHYM advised the Company that it will forfeit its US\$1.0 million bank guarantee for the non-fulfilment of the outstanding minimum work obligations, being the drilling of three exploration wells. As a result, as at the date of this document the restricted cash balances amount to US\$5.4 million.

The Group shall also have restrictions on the use of the net proceeds of the Open Offer. Under the Underwriting agreement, the Company has undertaken to apply the net proceeds of the Open Offer toward the repayment of the outstanding balance of the Convertible Loan Facility in full. The outstanding balance of the facility as at 30 November 2015 (being the latest practicable date prior to the publishing of this document), including rolled up accrued interest and commitment fees, was US\$14.1 million. As a result, the Company considers that US\$14.2 million of the net proceeds of the Open Offer is restricted and will be applied toward repayment of the Convertible Loan Facility.

4. **Significant change**

Save as disclosed below, there has been no significant change in the financial or trading position of the Company since 30 June 2015, being the date up to which the last reviewed financial statements of the Company were prepared.

The significant changes disclosed since 30 June 2015 are as follows:

- The first renewal period of the Chorbane PSC expired on 12 July 2015. The Company received a formal response from the Tunisian Ministry of Industry and Technology in August 2015 which indicated that its Hydrocarbon Advisory Committee had issued a 'favourable opinion' toward the application, and that the formal extension would be gazetted or published in the Official Journal of the Tunisian Republic. As at the date of this document, the formal extension has not been gazetted and there remains a risk that the renewal is not granted in which case the Company would forfeit the Chorbane PSC;
- The Fes petroleum agreement expired on 24 September 2015 and ONHYM called on the US\$5.0 million bank guarantee associated with the performance of the minimum work obligations under the Fes petroleum agreement resulting in the forfeiture of US\$5.0 million of restricted cash;
- On 9 November 2015, the extension period of the Rharrb Petroleum Agreement expired and the Company submitted a request to further extend the Rharrb Petroleum Agreement for a period of two years to allow the Company to appraise the gas discoveries made in 2014/15.

On 30 November 2015, the Company received a response from ONHYM, dated 26 November 2015, advising that its request for an extension to the Rharrb Petroleum Agreement had been rejected and furthermore that:

- Gulfsands Morocco will forfeit its US\$1.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Rharrb Petroleum Agreement;
- ONHYM is seeking a penalty equal to the estimated cost of the minimum exploration work programme of the Rharrb Petroleum Agreement less the costs actually incurred in respect of exploration work required, whereby ONHYM is claiming a sum of US\$7.5 million;
- ONHYM advised they will also, by separate request, seek the outstanding amount under the training obligation of the Rharrb Petroleum Agreement; and
- ONHYM was seeking an update on the Company's progress in relation to the abandonment of the legacy producing wells and the cleaning and restoring of the well sites in the Rharrb Centre permit area.

The Company strongly refutes the claims for financial sums and penalties and is seeking legal advice on the matter.

- Since 30 June 2015, the Group has made further draw-downs under the Convertible Loan Facility totalling US\$3.0 million. As a result, as at the date of this document the total outstanding balance under the Convertible Loan Facility, including rolled up accrued interest and commitment fees, is US\$14.1 million;
- Notwithstanding that the hydrocarbons discovered on the Block 26 PSC in Syria have been evaluated as reserves for several years leading up to, and after, the imposition of EU Sanctions in Syria, and that commercial production from the Block 26 area has exceeded 21MMbbls, for the purposes of this document the volumes of oil previously reported as 2P reserves have been reclassified by the Company as 2C contingent resources on the basis that the Company cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. This has resulted in total 2C contingent resources in Syria of 89.1MMboe as at the date of this document. This estimation of, and reclassification as, contingent resources has been prepared by the Company and reviewed by Senergy, an independent reserve/resource engineer who has completed several annual independent audits of the Company's reserves and resources. Senergy has confirmed that, based upon its review of the resource calculations and the various assumptions adopted by the Company, the estimate of contingent resources reclassified from 2P reserves is reasonable. In addition, the fair value of the Group's net investment in Syrian interests will be reviewed at year end for the preparation of the 2015 annual report and accounts. This review will consider the reclassification of the Syrian reserves to 2C contingent resources. Whilst no definite timeline can be substantiated, the Board continues to believe that the EU Sanctions will be lifted within five years and will continue to monitor all activity focused on resolving the situation in Syria and reconsider the basis for reversing this reclassification in line with any future developments; and
- The Company has proposed to undertake the Capital Raising pursuant to this document in order to repay the Convertible Loan Facility in full and to provide sufficient working capital to continue its operations as a going concern.

PART XIV

HISTORICAL FINANCIAL INFORMATION

The financial information presented in this section has been prepared in accordance with IFRS.

The interim financial statements for the 6 month period ending 30 June 2015 are presented on a reviewed basis.

The annual financial statements for the 12 month periods ending 31 December 2012, 2013 and 2014 are presented on an audited basis.

Gulfsands Petroleum plc – Half-Yearly Financial Report
Six months to 30 June 2015 (unaudited)

INDEPENDENT REVIEW REPORT TO GULFSANDS PETROLEUM PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2015 which comprises the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Changes in Equity, the Consolidated Cash Flow Statement and notes to the Half-Yearly Financial Report.

We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The Half-Yearly Financial 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 Half-Yearly Financial Report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the Half-Yearly Financial Report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half-Yearly Financial Report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

Emphasis of matter – Fair value of the Group's producing operations in Syria

Without modifying our conclusion on the Half-Yearly Financial Report for the period ended 30 June 2015, we draw attention to the disclosures made in note 9 to the Half-Yearly Financial Report concerning the valuation of the Group's suspended producing operations in Syria, which are recorded at the Directors' best estimate of their fair value following the loss of joint control in December 2011. There is significant uncertainty as to the duration of the EU sanctions imposed in December 2011 and the eventual outcome of events in Syria. The potential impact any outcome will have on the recoverable amount from the producing operations in Syria (current value of \$102.0 million) is not known.

INDEPENDENT REVIEW REPORT TO GULFSANDS PETROLEUM PLC (continued)

Emphasis of matter – Going concern

Without modifying our conclusion on the Half-Yearly Financial Report for the period ended 30 June 2015, we have considered the adequacy of the disclosures made by the Directors in note 2 to the Half-Yearly Financial Report and the Executive Chairman's Statement concerning the Group's ability to continue as a going concern. The Group requires additional funding and careful management of its commitments in order to meet both capital and administrative obligations and liabilities as they fall due. The Directors believe, based upon discussions with major shareholders that the Group will be able to secure the necessary funds required within the timescale, but there are currently no binding agreements in place.

These conditions, along with the other matters explained in note 2 to the Half-Yearly Financial Report and the Executive Chairman's Statement, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The condensed financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern, which would principally relate to the impairment of the Group's non-current assets as licence commitments would not be met and licences may then be revoked with restricted cash balances not recovered.

BDO LLP

Chartered Accountants and Registered Auditors
London
United Kingdom
4 August 2015

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2015

		6 months ended 30 June 2015 (Unaudited) \$'000	6 months ended 30 June 2014 (Unaudited) \$'000	Year ended 31 December 2014 (Audited) \$'000
	Notes			
Continuing operations				
General administrative expenses		(3,523)	(2,665)	(5,469)
Share-based payments		–	(47)	(56)
Total administrative expenses	3	(3,523)	(2,712)	(5,525)
Impairment of exploration and evaluation assets	7	(22,107)	–	–
Provision against restricted cash balances	4	(3,500)	–	–
Exploration costs written off	7	(1,439)	(4,390)	(6,040)
Other Syrian adjustments		–	–	(202)
Operating loss	3	(30,569)	(7,102)	(11,767)
Loan financing cost	10	(536)	–	(70)
Other finance income		8	14	18
Other finance expenses		(152)	(28)	(76)
Foreign exchange losses		(65)	(129)	(218)
Loss before taxation from continuing activities		(31,314)	(7,245)	(12,113)
Taxation		–	–	–
Loss for the period from continuing activities		(31,314)	(7,245)	(12,113)
Discontinued operations				
Loss for the period from discontinued operations	5	–	(1,913)	(3,978)
Loss for the period – attributable to owners of the parent company		<u>(31,314)</u>	<u>(9,158)</u>	<u>(16,091)</u>
Loss per share from continuing operations (cents)				
Basic and diluted	6	<u>(26.52)</u>	<u>(6.14)</u>	<u>(10.28)</u>
Loss per share attributable to the owners of parent company (cents)				
Basic and diluted	6	<u>(26.52)</u>	<u>(7.77)</u>	<u>(13.65)</u>

There are no items of comprehensive income not included in the Income Statement.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2015

	Notes	30 June 2015 (Unaudited) \$'000	31 December 2014 (Audited) \$'000
ASSETS			
Non-current assets			
Property, plant and equipment		244	285
Intangible assets	7	36,303	53,352
Long-term financial assets		6,431	11,514
Investments	9	102,000	102,000
		<u>144,978</u>	<u>167,151</u>
Current assets			
Inventory		2,213	2,361
Trade and other receivables		1,150	1,028
Cash and cash equivalents		1,509	7,907
		<u>4,872</u>	<u>11,296</u>
Total assets		<u>149,850</u>	<u>178,447</u>
LIABILITIES			
Current liabilities			
Trade and other payables		4,316	5,882
Loan facility	10	10,391	–
Provision for decommissioning		380	580
		<u>15,087</u>	<u>6,462</u>
Non-current liabilities			
Trade and other payables		4,090	6,178
Loan facility	10	–	4,855
Provision for decommissioning		1,463	397
		<u>5,553</u>	<u>11,430</u>
Total liabilities		<u>20,640</u>	<u>17,892</u>
Net assets		<u>129,210</u>	<u>160,555</u>
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	11	13,131	13,131
Share premium		105,926	105,926
Merger reserve		11,709	11,709
Treasury shares		(11,502)	(11,502)
Retained profit		9,946	41,291
Total equity		<u>129,210</u>	<u>160,555</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	<i>Share capital \$'000</i>	<i>Share premium \$'000</i>	<i>Merger reserve \$'000</i>	<i>Treasury shares \$'000</i>	<i>Retained profit \$'000</i>	<i>Total equity \$'000</i>
At 31 December 2013	13,131	105,926	11,709	(11,502)	57,387	176,651
Options settled or exercised	–	–	–	–	(16)	(16)
Share-based payment charge	–	–	–	–	47	47
Loss for the period	–	–	–	–	(9,158)	(9,158)
At 30 June 2014	13,131	105,926	11,709	(11,502)	48,260	167,524
Options settled or exercised	–	–	–	–	(45)	(45)
Share-based payment charge	–	–	–	–	9	9
Loss for the period	–	–	–	–	(6,933)	(6,933)
At 31 December 2014	13,131	105,926	11,709	(11,502)	41,291	160,555
Options settled or exercised	–	–	–	–	(31)	(31)
Loss for the period	–	–	–	–	(31,314)	(31,314)
At 30 June 2015	<u>13,131</u>	<u>105,926</u>	<u>11,709</u>	<u>(11,502)</u>	<u>9,946</u>	<u>129,210</u>

The merger reserve arose on the acquisition of Gulfsands Petroleum Ltd and its subsidiaries by the Company by way of share-for-share exchange in April 2005, in conjunction with the flotation of the Company on the Alternative Investment Market of the London Stock Exchange.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2015

		6 months ended 30 June 2015 (Unaudited) \$'000	6 months ended 30 June 2014 (Unaudited) \$'000	Year ended 31 December 2014 (Audited) \$'000
	Notes			
Cash flows from operating activities				
Operating loss for continuing operations		(30,569)	(7,102)	(11,767)
Depreciation, depletion and amortisation		100	354	602
Impairment of exploration and evaluation assets	7	22,107	–	–
Provision against long term financial assets	4	3,500	–	–
Exploration costs written off	7	1,439	4,390	6,040
Other Syrian adjustments		–	–	202
Share-based payment charge		–	47	56
(Increase)/decrease in receivables		(79)	(673)	1,598
(Decrease)/increase in payables		(341)	976	(254)
Finance expenses paid		(19)	(28)	(76)
Interest received		8	14	18
Foreign exchange losses		(65)	(129)	(218)
Net cash used in operating activities by continuing operations		(3,919)	(2,151)	(3,799)
Net cash generated by operating activities of discontinued operations		–	137	2,347
Net cash used in operating activities		(3,919)	(2,014)	(1,452)
Investing activities				
Exploration and evaluation expenditure		(7,387)	(18,828)	(26,987)
Inventory purchased		(49)	(78)	(1,420)
Other capital expenditures		(12)	(296)	(340)
Change in restricted cash balances		–	(1,750)	4,750
Net cash used in investing activities by continuing operations		(7,448)	(20,952)	(23,997)
Net cash used in investing activities of discontinued operations		–	(2,454)	(5,011)
Net cash used in investing activities		(7,448)	(23,406)	(29,008)
Financing activities				
Loan draw-down	10	5,000	–	5,000
Transaction costs paid on loan facility		–	–	(215)
Other payments in connection with options exercised		(31)	(16)	(61)
Net cash generated by/(used in) financing activities of continuing operations		4,969	(16)	4,724
Net cash used in financing activities of discontinued operations		–	–	–
Total net cash generated by/(used in) financing activities		4,969	(16)	4,724
Cash disposed as part of disposal of discontinued operations		–	–	(181)
Decrease in cash and cash equivalents		(6,398)	(25,436)	(25,917)
Cash and cash equivalents at beginning of period		7,907	33,824	33,824
Cash and cash equivalents at end of period		1,509	8,388	7,907

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

For the six months ended 30 June 2015

1. General information

This Half-Yearly Financial Report was approved by the Board of Directors and authorised for issue on 4 August 2015.

This condensed set of financial statements for the six months ended 30 June 2015 is unaudited and does not constitute statutory accounts as defined by the Companies Act.

The information for the year ended 31 December 2014 contained within the condensed financial statements does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The financial statements for the year ended 31 December 2014 have been delivered to the Registrar of Companies and the auditor's report on those financial statements was unqualified, and did not contain a statement made under Section 498 of the Companies Act 2006. The auditor's report included an emphasis of matter in respect of the fair value of the Group's suspended operations in the Syrian Arab Republic, and in respect of the Group's ability to continue as a going concern.

2. Accounting policies

This Half-Yearly Financial Report, which includes a condensed set of financial statements of the Company and its subsidiary undertakings ("the Group") has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS").

Basis of preparation

The condensed set of financial statements included in this Half-Yearly Financial Report has been prepared on a going concern basis of accounting which has been approved by the Board. The basis on which the Board has reached this decision is as follows:

Going concern

As at the date of this Report, the Group has cash balances immediately available to it totaling approximately \$2.0 million with net current trade and other payables of approximately \$3.3 million and ongoing costs currently approximating to \$0.7 million per month. Restricted cash balances and the work commitments to which they relate are described in note 8. In addition the Company intends to repay the loan facility as soon as practicable, which at the date of this Report \$11.0 million has been drawn-down, this loan is described in note 10. Early repayment will cause a minimum of \$1.0 million of interest and fees to also become payable.

The Board is in the process of restructuring the business and actioning its strategy for each asset as laid out in the Operations Review of this Report. This includes substantially reducing its costs whilst, farming-down, divesting or otherwise rationalising certain interests and the associated work commitments.

The Company is preparing a financing to raise approximately \$22 million via an open offer to all shareholders ("Fundraising"). The Company is preparing a circular for shareholders to include details of the Fundraising and a notice of an extraordinary general meeting to approve the resolutions to facilitate the Fundraising. The open offer to all shareholders will require the publication of an open offer prospectus.

In the short-term the Group has been tightly managing its payables on a daily basis and has been able to draw-down some limited interim funding from the newly-assigned loan facility. At the end of June 2015 Arawak Energy Bermuda Limited entered into an assignment agreement ("Assignment") with Weighbridge Trust Limited ("Weighbridge"), which is acting as agent for Waterford Finance and Investment Limited ("Waterford") and Richard Griffiths (and companies owned and controlled by him) ("Griffiths"). Under the Assignment, Weighbridge acquired the Arawak Loan Facility for the benefit of Waterford and Griffiths (now referred to as the Weighbridge Loan Facility). It is the intention of the Group to repay the Loan Facility as soon as the Fundraising is completed. Waterford and Griffiths, as existing shareholders in the Company, acquired the Loan Facility on this basis, and they have given a firm undertaking to subscribe for up to \$11 million of new shares in Gulfsands as part of the proposed Fundraising to facilitate repayment of the facility in full. In July 2015 a further \$1.0 million has been drawn-down under the facility and further

draw-downs may be required prior to completion of the Fundraising. Based on discussions with all parties, the Directors have reasonable expectation that the Group will be able to draw-down another \$1.0 million under the facility.

This Fundraising should allow the Group to achieve the following:

- repayment of the Weighbridge Loan Facility;
- rationalisation of existing minimum work commitments; and
- further appraisal and exploitation of selected assets.

Following completion of a review of the going concern position of the Company and Group at the meeting of the Board of Directors on 4 August 2015, including the uncertainties described above, the Board has concluded that, with current consolidated cash and cash equivalents totaling \$2.0 million and taking into account both the revised strategy of farming-down or divesting assets and the new financial resources that the Board might reasonably expect to become available, the Company and the Group will have sufficient resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of approval of this Half-Yearly Financial Report. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these Financial Statements.

Notwithstanding the confidence that the Board has in its ability to stabilise and finance the Group's re-shaped business, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that such finance can be procured and failure to do so might cast significant doubt upon the Company's and the Group's ability to continue as a going concern and that the Company and the Group may therefore be unable to realise their assets and discharge their liabilities in the normal course of business. Such scenario could impact upon the carrying value of intangible exploration and evaluation assets as disclosed in note 7 and on the recoverability of certain restricted cash amounts held in escrow to support guarantees of performance of minimum work obligations, as disclosed in note 8.

New accounting standards, amendments and interpretations issued and effective during the period

The condensed set of financial statements have been prepared using accounting bases and policies consistent with those used in the preparation of the audited financial statements of the Group for the year ended 31 December 2014 and those to be used in the year ending 31 December 2015.

Since the 2014 annual report and accounts was published, no new standards and interpretations have been issued that would have a material financial impact on adoption on the condensed financial statements for the six months ended 30 June 2015.

3. Segmental information

The Group currently operates in three principal geographical areas: Morocco, Colombia and Tunisia with suspended operations in Syria. All segments are involved with oil and gas exploration or production activities. The other column represents corporate and head office costs. The Group's revenue, results and certain asset and liability information for the period are analysed by reportable segment as follows. The comparatives for the six months ended 30 June 2014 and the year end 31 December 2014 have been re-presented to reflect the US Gulf of Mexico operations as discontinued operations.

30 June 2015 (Unaudited)

	<i>Syria</i> \$'000	<i>Morocco</i> \$'000	<i>Tunisia</i> \$'000	<i>Colombia</i> \$'000	<i>Other</i> \$'000	<i>Total</i> \$'000
Total administrative expenses	(111)	(57)	(198)	(94)	(3,063)	(3,523)
Exploration costs written-off	–	(1,439)	–	–	–	(1,439)
Impairment of exploration and evaluation assets	–	(22,107)	–	–	–	(22,107)
Provision against restricted cash balances	–	(3,500)	–	–	–	(3,500)
Operating loss	(111)	(27,103)	(198)	(94)	(3,063)	(30,569)
Net financing (costs)/income						(745)
Net loss from continuing operations						(31,314)
Total assets	102,382	28,581	5,278	1,582	12,027	149,850
Total liabilities	(3,723)	(5,652)	(45)	(43)	(11,177)	(20,640)
E&E capital expenditure	–	5,455	25	245	–	5,725

30 June 2014 (Unaudited)

	<i>Syria</i> \$'000	<i>Morocco</i> \$'000	<i>Tunisia</i> \$'000	<i>Colombia</i> \$'000	<i>Other</i> \$'000	<i>Total</i> \$'000
Total administrative expenses	(344)	(107)	(3)	(54)	(2,204)	(2,712)
Exploration costs written-off	–	(3,936)	(454)	–	–	(4,390)
Operating loss	(344)	(4,043)	(457)	(54)	(2,204)	(7,102)
Net financing (costs)/income						(143)
Net loss from continuing operations						(7,245)
Total assets	105,116	44,905	5,288	1,161	41,906	198,376
Total liabilities	(4,049)	(6,783)	(1,510)	(26)	(18,484)	(30,852)
E&E capital expenditure	–	10,852	454	331	–	11,637

31 December 2014 (Audited)

	<i>Syria</i> \$'000	<i>Morocco</i> \$'000	<i>Tunisia</i> \$'000	<i>Colombia</i> \$'000	<i>Other</i> \$'000	<i>Total</i> \$'000
Total administrative expenses	(482)	(149)	10	(168)	(4,736)	(5,525)
Exploration costs written-off	–	(5,246)	(794)	–	–	(6,040)
Other Syrian adjustments	(202)	–	–	–	–	(202)
Operating loss	(684)	(5,395)	(784)	(168)	(4,736)	(11,767)
Net financing (costs)/income						(346)
Net loss from continuing operations						(12,113)
Total assets	102,325	51,845	5,256	1,324	17,697	178,447
Total liabilities	(3,827)	(6,486)	(1,587)	(69)	(5,923)	(17,892)
E&E capital expenditure	–	19,188	794	982	–	20,964

4. Provision against restricted cash balances

At 30 June 2015 a provision has been made against restricted cash balances securing minimum work obligations on the Fes contract of \$5.0 million, as these may not be recoverable if the licence is not extended as minimum work commitments will not have been completed. As \$1.5 million of this restricted cash is payable to a third party on its release the resulting net charge to the Income Statement is reduced to \$3.5 million on derecognition of this liability.

	<i>6 months ended 30 June 2015 \$'000</i>	<i>6 months ended 30 June 2014 \$'000</i>	<i>Year ended 31 December 2014 \$'000</i>
Provision against restricted cash balances	5,000	–	–
Derecognition of amounts due to third parties on release of restricted cash balances	(1,500)	–	–
Net provision against restricted cash balances	<u>3,500</u>	<u>–</u>	<u>–</u>

5. Discontinued operations

In November 2014 the Group entered into a sale agreement with Hillcrest Resources Ltd to dispose of its wholly-owned US subsidiary Gulfsands Petroleum USA, Inc. The disposal completed on the 18 December 2014.

The comparative condensed Income Statement has been restated to show the discontinued operation separately from continuing operations.

	<i>6 months ended 30 June 2015 \$'000</i>	<i>6 months ended 30 June 2014 \$'000</i>	<i>Year ended 31 December 2014 \$'000</i>
Revenue	–	3,105	5,366
Expenses	–	(5,018)	(6,870)
Loss before tax	–	(1,913)	(1,504)
Loss on disposal of discontinued operations	–	–	(2,474)
Net loss attributable to discontinued operations (attributable to owners of the parent company)	<u>–</u>	<u>(1,913)</u>	<u>(3,978)</u>

6. Loss per share

The calculation of the basic and diluted earnings per share is based on the following shares in issue:

	<i>6 months ended 30 June 2015 (Unaudited)</i>	<i>6 months ended 30 June 2014 (Unaudited)</i>	<i>Year ended 31 December 2014 (Audited)</i>
Weighted average number of ordinary shares	117,886,145	117,886,145	117,886,145
Options	<u>197,102</u>	<u>323,716</u>	<u>204,749</u>
Weighted average number of diluted shares	<u>118,083,247</u>	<u>118,209,861</u>	<u>118,090,894</u>

The basic and diluted loss per share has been calculated using the loss for the six months ended 30 June 2015 of \$31.3 million (six months ended 30 June 2014: \$7.2 million, year ended 31 December 2014: \$12.1 million) for continuing operations and \$31.3 million (six months ended 30 June 2014: \$9.2 million,

year ended 31 December 2014: \$16.1 million) for the loss attributable to the owners of the parent company. The basic loss per share was calculated using a weighted average number of shares in issue less treasury shares held of 117,886,145 for all periods. The weighted average number of ordinary shares, allowing for the exercise of share options, for the purposes of calculating the diluted loss per share was 118,083,247 (six months ended 30 June 2014: 118,209,861 and year ended 31 December 2014: 118,090,894).

Where there is a loss, the impact of share options is anti-dilutive and hence, basic and diluted loss per share are the same.

7. Intangible assets

	<i>Exploration and Evaluation Assets</i>				<i>Computer software</i>	<i>Total</i>
	<i>Syria</i>	<i>Morocco</i>	<i>Tunisia</i>	<i>Colombia</i>		
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cost:						
At 31 December 2014	10,505	46,555	5,195	1,225	2,370	65,850
Additions	–	5,455	25	245	1	5,726
Change in decommissioning estimates	–	821	–	–	–	821
Exploration expenditure written-off	–	(1,439)	–	–	–	(1,439)
At 30 June 2015	10,505	51,392	5,220	1,470	2,371	70,958
Accumulated amortisation:						
At 31 December 2014	–	–	–	–	(1,518)	(1,518)
Charge for period	–	–	–	–	(50)	(50)
At 30 June 2015	–	–	–	–	(1,568)	(1,568)
Accumulated impairment:						
At 31 December 2014	(10,505)	–	–	–	(475)	(10,980)
Charge for the period	–	(22,107)	–	–	–	(22,107)
At 30 June 2015	(10,505)	(22,107)	–	–	(475)	(33,087)
Net book value at 30 June 2015	–	29,285	5,220	1,470	328	36,303
Net book value at 31 December 2014	–	46,555	5,195	1,225	377	53,352

Syria

The accumulated costs of E&E assets in Syria represent the Group's share of the drilling costs of the Al Khairat, Twaiba and Wardieh wells and certain 3D seismic surveys. The Al Khairat well was successfully tested but commercial development approval is yet to be granted by the government of the Syrian Arab Republic. The Twaiba and Wardieh wells are still under evaluation.

Following the imposition of EU sanctions against the oil industry in Syria, an impairment test was conducted and the carrying value of all E&E assets in Syria was impaired to nil as it is unclear whether the Group would be able to apply for commercial development approval in the manner contemplated by the Production Sharing Contract. That position remains at the date of this Report.

Morocco

Moroccan E&E assets at 30 June 2015 represent exploration expenditure on the Rharrb Centre, Rharrb Sud, Fes and Moulay Bouchta permits, in addition to \$17.8 million of fair value attributed to the Fes, Rharrb Centre and Rharrb Sud permits at acquisition in 2013, less write-offs of unsuccessful exploration expenditure on the Fes and Rharrb Centre permits and impairment of the expenditure attributed to the Fes permit.

In respect of the Rharrb petroleum contract, drilling of the fifth well, DRC-1, commenced in December 2014 and completed in January 2015. Shortly after, drilling of the sixth well, DOB-1 commenced and completed in February 2015. Both wells were successfully drilled to target depths, hydrocarbon discoveries made and the wells have both been temporarily suspended as future gas producers.

Management has reviewed the carrying value of all its interests in Morocco as at the date of this Report. The financial commitments of the Fes contract are inconsistent with the Group's revised strategy, and therefore Gulfsands have initiated a farm-out process for the Fes contract. However given the Fes licence expiry date in September 2015, the outstanding work commitments on the permit which could not physically be fulfilled before this date and the uncertainty of securing an industry partner before the licence expiry date, the expenditure to date attributed to the Fes permit of \$22.1 million, inclusive of \$10.5 million fair value attributed at acquisition, has been fully impaired at 30 June 2015.

Management notes that the Rharb contract expires in November 2015 and there currently remain work obligations to be performed on this contract which, if not completed before expiry, could lead to ONHYM terminating the Rharb contract. Three discoveries have been made on the Rharb permit over the last year and the Management believe that within the time frame to licence expiry it is still realistic to complete the outstanding work obligations if funding were available to finance these commitments. Management has commenced a farm-out process and would seek to restructure some of the work obligations to allow the contracts to be appropriately re-financed or divested in part or whole. The Moulay Bouchta contract expires in June 2016, again providing sufficient time to complete work obligations should funding be available. Should Management be unsuccessful in this strategy, the carrying value of those assets and the restricted cash securing those work obligations would become impaired. However, Management has considered the risks and determined that no further impairment in the carrying value of its remaining Moroccan interests is appropriate at this time.

Tunisia

At 30 June 2015 the Tunisian E&E assets represent expenditures under the Chorbane contract including amounts paid during 2013 and 2015 to increase participation in the contract. The Chorbane contract was due to expire on 12 July 2015. Gulfsands lodged a joint official extension application with the Entreprise Tunisienne d'Activités Pétrolières on 11 May 2015 to the Direction Générale de l'Energie for a two year extension but are awaiting a meeting of the Consultative Commission on Hydrocarbons for this extension to be granted. Until a decision is made the contract will not expire and Management feels confident that an extension will be granted. If an extension is granted, a farm-down or divestment of the Group's interests would be anticipated. Management have reviewed its intention for this asset and the carrying value thereof as at the date of this Report and concluded that no impairment of its carrying value is required. Management notes however, that if the contract is not extended or if satisfactory terms in any farm-down or divestment cannot be obtained then the carrying value of this asset might become impaired. There is no security deposit or other guarantee in place with respect to these work obligations.

Colombia

The Group has interests in E&P contracts over two blocks in Colombia: Llanos 50 and Putumayo 14, which expire in November 2016 and November 2017 respectively. At 30 June 2015 the E&E assets of \$1.5 million represent costs incurred in respect of these blocks which are in the early stages of exploration. Management's strategy is to farm-down or divest the Group's interests in these contracts and a broker has been engaged to run the farm-out process in-country. Management has reviewed its intentions for these assets, and believes it is too early to make a prediction on the likelihood of a successful farm-out or to determine what price could be achieved. Therefore they have concluded that no impairment of the carrying value is required. Both the asset carrying values and the restricted cash amounts could become impaired should the Group fail to satisfy the work obligations or to realise sufficient value from any divestment or farm-out.

8. Work obligation commitments

At 30 June 2015 the Group had the following capital commitments in respect of its exploration activities:

Morocco

Fes permit – licence expiry date and deadline for fulfilment of capital commitments; September 2015

- Drilling of three exploration wells.
- Acquisition of a further 350 km of 2D seismic.
- Acquisition of 100 km² of 3D seismic.
- Total cost of commitments outstanding estimated at \$32.8 million inclusive of a \$5.7 million carry in favour of a third party.

\$5.0 million (31 December 2014: \$5.0 million) of deposits have been lodged to support guarantees given to ONHYM in respect of completion of these minimum work commitments, however at 30 June 2015 the recoverability of these amounts has been fully provided against. Of these amounts, \$1.5 million (31 December 2014: \$1.5 million) that would be payable to a third party if the deposits were to be released by ONHYM has been provided against but remains a contingent liability.

Rharb permit – licence expiry date and deadline for fulfilment of capital commitments extended to November 2015

- Drilling of a further three exploration wells.
- Total cost of commitments outstanding estimated at \$7.3 million.

\$1 million (31 December 2014: \$1 million) of deposits have been lodged to support guarantees given to ONHYM in respect of completion of these minimum work commitments. Of these amounts \$0.5 million (31 December 2014: \$1 million) is payable to a third party following release of deposits by ONHYM.

Moulay Bouchta permit – licence expiry date and deadline for fulfilment of capital commitments; June 2016

- Acquisition of 500 km of 2D seismic.
- Reprocessing and interpretation of existing seismic data.
- Legacy oil field reactivation survey.
- Total cost of commitments estimated at \$6.5 million.

\$1.75 million (31 December 2014: \$1.75 million) of deposits have been lodged to support guarantees given to ONHYM in respect of completion of these minimum work commitments.

Tunisia

Chorbane permit – contract expiry date and deadline for fulfilment of capital commitments; July 2015 (subject to an application for extension)

- Drilling of one exploration well.
- Total commitments outstanding estimated at \$7.0 million.

Colombia

Putumayo 14 – licence expiry date and deadline for fulfilment of capital commitments; November 2017

- Drilling of one exploration well.
- 2D seismic minimum 93 km.
- Total commitments outstanding estimated at \$22.2 million.

Llanos 50 – licence expiry date and deadline for fulfilment of capital commitments; November 2016

- Drilling of one exploration well.
- 2D seismic minimum 103 km.
- Total commitments outstanding estimated at \$15.2 million.

\$3.2 million (2013: \$3.2 million) of deposits have been lodged to support guarantees given to the Agencia Nacional de Hidrocarburos in respect of completion of these minimum work commitments on Putumayo 14 and Llanos 50.

The deposits referenced in this note are shown as restricted cash amounts within long-term financial assets on the Balance Sheet. There were no other material obligations or contracts outstanding in relation to ongoing projects not provided or disclosed in this Half-Yearly Financial Report.

9. Available-for-sale financial assets

Available-for-sale financial assets are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

The Group is party to a PSC for the exploitation of hydrocarbon production in Block 26 in Syria. Pursuant to the PSC the Group operates its Syrian oil and gas production assets through a joint venture administered by DPC in which the Group has a 25 per cent. equity interest. The Group lost joint control of DPC on 1 December 2011 following the publication of European Union Council Decision 2011/782/CFSP. For the purposes of EU sanctions, DPC is considered to be controlled by GPC. Since the Group has neither joint control nor significant influence over the financial and operating policy decisions of the entity, it carries its investment in DPC and the associated rights under the Block 26 PSC as an available-for-sale financial asset. The fair value attributed to DPC at 30 June 2015 is \$102 million (31 December 2014: \$102 million).

The valuation that the Group carries for its investment in DPC is supported by the Group's economic model of the estimated future cash flows that could be generated in respect of the Group's entitlement reserves in Block 26. The model uses oil prices quoted on the current forward Brent oil price curve, with an assumption of 2 per cent. price inflation beyond the end of the quoted curve discounted using a 15 per cent. discount rate. The basic model also assumes a short-term resumption of production. The net present value ("NPV") derived from this model ("the base case NPV") is then subjected to scenario analysis taking into account the Board's view of specific risks associated with investments in the Syrian oil and gas sector at the current time including the potential for significant delay in resumption of oil production and in receipt of revenues, potential additional costs associated with re-establishment of operations and, ultimately, a potential inability to resume operations. This methodology supports a valuation for the Group's investment in DPC of \$102 million which represents a 74 per cent. discount to the base case NPV. The valuation represents a level 3 measurement basis as defined by IFRS 7 'Financial Instruments: Disclosures.'

There is a high degree of subjectivity inherent in the valuation due to the unknown duration of the sanctions and the eventual outcome of events in Syria. Accordingly it may change materially in future periods depending on a wide range of factors.

The following table sets out the impact that changes in the key variables would have on the carrying value of the asset:

	<i>Change</i> %	<i>Change in carrying value of investment \$'000</i>
Increase in forecast capital expenditure	5	(1,888)
Decrease in long-term commodity prices	5	(6,214)
Increase in forecast operating expenditure	5	(1,015)
Change in discount rate to 10%	5	40,022
Change in discount rate to 20%	5	(25,267)

The Directors have reviewed the carrying value of this available-for-sale financial asset at 30 June 2015 and are of the opinion that the valuation, although subject to significant uncertainty, remains appropriate in the circumstances, although not necessarily reflective of the value of the Group's investments in its Syrian operations over the long-term.

10. Convertible loan facility

At the end of June 2015 Arawak Energy Bermuda Limited entered into an assignment agreement with Weighbridge Trust Limited, which is acting as agent for Waterford Finance and Investment Limited and Richard Griffiths (and companies owned and controlled by him). Under the assignment Weighbridge acquired the loan facility.

The convertible loan facility has an initial available facility of \$10 million, followed by a further two tranches of \$5 million which are subject to certain conditions precedent. The loan bears interest at the rate of 10 per cent. per annum on the drawn-down facility, which is rolled up into the loan balance quarterly from the date of the draw-down. A commitment fee of 3 per cent. is charged on the initial \$10 million available facility undrawn during the initial twelve month availability period and is rolled up into the loan balance quarterly from the date of the loan draw-down. The loan matures on 30 November 2017 and is repayable in full on that date. Gulfsands intend to re-pay the loan balance post Fundraising and in certain circumstances the loan may be callable in advance of this date, therefore the loan balance has been reclassified as a current liability at 30 June 2015. Weighbridge however, have given a firm undertaking that they will not exercise their rights to call for repayment of the loan for a period of three months from the date of assignment.

The loan facility is secured by a share mortgage over the shares in Gulfsands Petroleum Morocco Ltd (the holding company for the Group's interests in Morocco) and a floating charge over all of the assets of Gulfsands Petroleum Holdings Ltd (a subsidiary company) with further credit support provided by a guarantee from the Company.

The loan amount (including amounts drawn and, accrued unpaid interest and fees) is convertible at any time prior to maturity into ordinary shares of the Company, initially at a price of £0.80. In the event that the Company issues new shares prior to: conversion, repayment or maturity of the loan facility; the lender shall have the right but not the obligation to subscribe for new shares, up to the amount of the loan amount at that time, at the same subscription price per share as paid by the other subscribers. If the lender elects not to participate in such issue of new shares, the mechanics of conversion of the loan amount provide that an adjustment be made in order that the lender's conversion rights will continue to represent an entitlement to the same proportion of the Company's issued share capital, after the new issue of shares, as they represented prior to such new issue of shares. Weighbridge have given a firm undertaking that they will not exercise their conversion rights under the loan agreement for a period of three months from the date of assignment.

Gulfsands may require conversion of the outstanding balance of the loan facility into ordinary shares of the Company, initially at a price of £0.80, in the event Gulfsands' share price, on an unadjusted basis, exceeds £1.04 per share for a period of more than 20 consecutive trading days at any time prior to the expiry of the term of the facility.

On 9 January 2015 the Group drew-down the second \$5.0 million tranche of the loan facility.

The movement on the loan balance in the year is represented as follows:	\$'000
At 1 January 2015	4,855
Loan draw-down	5,000
Interest expense	500
Commitment fee	5
Amortisation of transaction costs	31
At 30 June 2015	10,391

11. Share capital

	<i>30 June 2015</i>	<i>31 December 2014</i>
	<i>Number</i>	<i>Number</i>
<i>Authorised:</i>		
Ordinary shares of 5.714 pence each	175,000,000	175,000,000
<i>Allotted, called up and fully paid:</i>	<i>\$'000</i>	<i>\$'000</i>
121,989,500 (31 December 2014: 121,989,500) ordinary shares of 5.714 pence each	13,131	13,131

The movements in share capital, share options and restricted shares were as follows:

	<i>Number of ordinary shares</i>	<i>Number of share options</i>	<i>Number of restricted shares</i>	<i>Weighted average price of options £</i>
At 31 December 2014				
	121,989,500	1,386,000	233,736	2.87
Restricted share options cash settled	–	–	(87,303)	
Share options lapsed	–	(855,000)	–	3.20
At 30 June 2015	121,989,500	531,000	146,433	2.35

The restricted shares have an exercise price of 5.714 pence per share.

The Company holds 4,103,355 shares in Treasury at 30 June 2015 (31 December 2014: 4,103,355).

12. Post balance sheet events

In July 2015 a further \$1.0 million has been drawn-down under the Weighbridge Loan Facility.

GLOSSARY OF TERMS

1C	Low estimate (P90) Contingent Resources
2C	Best estimate (P50) Contingent Resources
3C	High estimate (P10) Contingent Resources
Bcf	Billion cubic feet of gas
boe	Barrels of oil equivalent where the gas component is converted into an equivalent amount of oil using a conversion rate of 1 Bcf to 0.1667 MMboe
bopd	Barrels of oil per day
Chance of Development	In accordance with the 2007 SPE PRMS, a guideline risk factor should be stated associated with the Contingent Resources quoted for each category; the risk factor indicates the likelihood that the Group will ultimately commercially develop the resource. The risk factor considers all technical and non-technical factors that are impacting or are likely to impact on the likelihood of development, and is termed the “Chance of Development”.
Chance of Discovery	In accordance with the 2007 SPE PRMS, a guideline risk assessment should be provided associated with the Prospective Resources quoted for Low, Best and High estimate categories. The risk assessment here is the Chance of Discovery; the additional risk assessment relating to the Chance of Development is not normally quantified at this level of resource classification.
Contingent Resources	Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by the application of development projects, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are further categorised by the SPE into 1C, 2C and 3C according to the level of uncertainty associated with the estimates.
DPC	Dijila Petroleum Company
E&E	Exploration and evaluation
E&P contracts	Exploration and production contracts
GPC	General Petroleum Corporation
Griffiths	Companies owned and controlled by Richard Griffiths
IFRS	International Financial Reporting Standards
MMbo	Millions of barrels of oil
MMboe	Millions of barrels of oil equivalent
NPV	Net present value
ONHYM	Office National des Hydrocarbures et des Mines (Morocco)
Prospective Resources	Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. They are further categorised by the 2007 SPE PRMS into Low, Best and High estimates. The quoted Low, Best and High estimates are the 90 per cent. probability (“P90”), 50 per cent. probability (“P50”) and 10 per cent. probability (“P10”) values respectively derived from probabilistic estimates generated using a Monte Carlo statistical approach.
Probable reserves	Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be more than a 50 per cent. probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable reserves.

Proved reserves	Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty (normally over 90 per cent. if measured on a probabilistic basis) to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.
PSC	Production Sharing Contract
P10	There exists a 10 per cent. probability that the true quantity or value is greater than or equal to the stated P10 quantity or value
P50	There exists a 50 per cent. probability that the true quantity or value is greater than or equal to the stated P50 quantity or value
P90	There exists a 90 per cent. probability that the true quantity or value is greater than or equal to the stated P90 quantity or value
Senergy Report	Reserves and resources report issued by UK subsurface consultancy Senergy (GB) Limited Waterford Waterford Finance and Investment Limited
Weighbridge	Weighbridge Trust Limited

**Gulfsands Petroleum plc –
Annual Report and Accounts 2014**

Independent Auditor's Report

to the members of Gulfsands Petroleum plc

We have audited the financial statements of Gulfsands Petroleum plc for the year ended 31 December 2014 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheet, the Consolidated and Company Cash Flow Statement, the Consolidated and Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and, as regards the parent company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's ("FRC") Ethical Standards for Auditors.

Scope of the audit of the Financial Statements A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements In our opinion:

- the Financial Statements give a true and fair view of the state of the state of the Group's and parent company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Fair value of the Group's producing operations in Syria

Without modifying our opinion on the Financial Statements for the year ended 31 December 2014, we draw attention to the disclosures made in note 4.2 to the Consolidated Financial Statements concerning the valuation of the Group's suspended producing operations in Syria, which are recorded at the Directors' best estimate of their fair value following the loss of joint control in December 2011. There is significant uncertainty as to the duration of the EU sanctions imposed in December 2011 and the eventual outcome of events in Syria. The potential impact any outcome will have on the recoverable amount from the producing operations in Syria (current value of \$102.0 million) is not known.

Emphasis of matter – Going concern

In forming our opinion on the Financial Statements, which is not modified, we have considered the adequacy of the disclosures made by the Directors in note 1.3a to the Consolidated Financial Statements and within the Financial Review of the Strategic Report concerning the Group and the Company's ability to continue

as a going concern. The Group requires additional funding and careful management of its commitments in order to meet both capital and administrative obligations and liabilities as they fall due. The Directors believe, based upon discussions with major shareholders, that the Group will be able to secure the necessary funds within the required timescale, but there are currently no binding agreements in place.

These conditions, along with the other matters explained in note 1.3a to the Consolidated Financial Statements and within the Financial Review of the Strategic Report, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern, which would principally relate to the impairment of the Group's non-current assets as licence commitments would not be met and licences may then be revoked with restricted cash balances not recovered.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Scott Knight (senior statutory auditor)

For and on behalf of BDO LLP, statutory
auditor London,
United Kingdom

19 May 2015

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Notes	2014 \$'000	2013 \$'000
Continuing operations			
General administrative expenses		(5,469)	(9,408)
Share-based payments	5.3	(56)	(514)
Total administrative expenses		(5,525)	(9,922)
Exploration costs written-off	2.3	(6,040)	(12,301)
Syrian inventory provision/write-off	3.4	–	(2,905)
Other Syrian adjustments		(202)	(383)
Operating loss	5.2	(11,767)	(25,511)
Foreign exchange (losses)/gains		(218)	89
Bank fees and charges		(76)	(49)
Loan facility finance cost	3.5	(70)	–
Net interest income	5.7	18	89
Loss before taxation from continuing activities		(12,113)	(25,382)
Taxation from continuing activities	5.8	–	–
Loss for the year from continuing operations		(12,113)	(25,382)
Discontinued operations			
Loss for the year from discontinued operations	5.9	(3,978)	(1,375)
Loss for the year attributable to owners of the parent company		(16,091)	(26,757)
Loss per share from continuing operations (cents)			
Basic and diluted	5.10	(10.28)	(21.54)
Loss per share attributable to the owners of the parent company (cents)			
Basic and diluted	5.10	(13.65)	(22.70)

There are no items of comprehensive income outside of the Consolidated Income Statement.

CONSOLIDATED BALANCE SHEET**As at 31 December 2014**

	<i>Notes</i>	<i>2014</i> <i>\$'000</i>	<i>2013</i> <i>\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	2.1	285	12,893
Intangible assets	2.3	53,352	37,558
Long term financial assets	3.2	11,514	19,138
Investments	4.2	102,000	102,000
		<u>167,151</u>	<u>171,589</u>
Current assets			
Inventory	3.4	2,361	2,247
Trade and other receivables	3.1	1,028	3,542
Cash and cash equivalents	3.2	7,907	33,824
		<u>11,296</u>	<u>39,613</u>
Total assets		<u>178,447</u>	<u>211,202</u>
LIABILITIES			
Current liabilities			
Trade and other payables	3.3	5,882	15,245
Provision for decommissioning	2.6	580	2,573
		<u>6,462</u>	<u>17,818</u>
Non-current liabilities			
Trade and other payables	3.3	6,178	6,155
Provision for decommissioning	2.6	397	10,578
Loan facility	3.5	4,855	–
		<u>11,430</u>	<u>16,733</u>
Total liabilities		<u>17,892</u>	<u>34,551</u>
Net assets		<u>160,555</u>	<u>176,651</u>
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	6.1	13,131	13,131
Share premium		105,926	105,926
Merger reserve		11,709	11,709
Treasury shares		(11,502)	(11,502)
Retained profit		41,291	57,387
Total equity		<u>160,555</u>	<u>176,651</u>

These Consolidated Financial Statements were approved by the Board of Directors on 19 May 2015 and signed on its behalf by:

Alan Cutler

Director – Finance and Administration

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	<i>Share capital \$'000</i>	<i>Share premium \$'000</i>	<i>Merger reserve \$'000</i>	<i>Treasury shares \$'000</i>	<i>Retained profit \$'000</i>	<i>Total equity \$'000</i>
At 1 January 2013	13,131	105,926	11,709	(11,619)	83,776	202,923
Options exercised	–	–	–	117	(148)	(31)
Share-based payment charge	–	–	–	–	516	516
Loss for 2013	–	–	–	–	(26,757)	(26,757)
At 31 December 2013	13,131	105,926	11,709	(11,502)	57,387	176,651
Options exercised	–	–	–	–	(61)	(61)
Share-based payment charge	–	–	–	–	56	56
Loss for 2014	–	–	–	–	(16,091)	(16,091)
At 31 December 2014	13,131	105,926	11,709	(11,502)	41,291	160,555

The merger reserve arose on the acquisition of Gulfsands Petroleum Ltd. and its subsidiaries by the Company by way of a share-for-share exchange in April 2005, in conjunction with the flotation of the Company on the Alternative Investment Market of the London Stock Exchange.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

	Notes	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Operating loss from continuing operations		(11,767)	(25,511)
Depreciation and amortisation	2.1 & 2.3	602	877
Exploration costs written-off	2.3	6,040	12,301
Other Syrian adjustments		202	383
Share-based payment charge	5.3	56	514
Syrian inventory provision/write-off	3.4	–	2,905
Decrease/(increase) in receivables		1,598	(527)
(Decrease)/increase in payables		(254)	318
Foreign exchange (losses)/gains		(218)	89
Bank fees		(76)	(49)
Interest received		18	89
Net cash used in operating activities by continuing operations		<u>(3,799)</u>	<u>(8,611)</u>
Net cash generated by operating activities of discontinued operations	5.9	<u>2,347</u>	<u>724</u>
Total net cash used in operating activities		<u><u>(1,452)</u></u>	<u><u>(7,887)</u></u>
Investing activities			
Acquisition of subsidiary undertaking		–	(17,103)
Exploration and evaluation expenditure		(26,987)	(17,302)
Inventory purchased		(1,420)	(2,247)
Other capital expenditures		(340)	(630)
Change in restricted cash balances	3.2	<u>4,750</u>	<u>(8,270)</u>
Net cash used in investing activities by continuing operations		<u>(23,997)</u>	<u>(45,552)</u>
Net cash used in investing activities by discontinued operations	5.9	<u>(5,011)</u>	<u>(3,688)</u>
Total net cash used in investing activities		<u><u>(29,008)</u></u>	<u><u>(49,240)</u></u>
Financing activities			
Loan draw-down		5,000	–
Transactions costs paid on loan facility		(215)	–
Other payments in connection with options exercised		<u>(61)</u>	<u>(31)</u>
Net cash provided by/(used in) financing activities of continuing operations		<u>4,724</u>	<u>(31)</u>
Net cash used in financing activities of discontinued operations	5.9	<u>–</u>	<u>–</u>
Total net cash provided by/(used in) financing activities		<u>4,724</u>	<u>(31)</u>
Cash disposed as part of disposal of discontinued operations	5.9	(181)	–
Decrease in cash and cash equivalents		(25,917)	(57,158)
Cash and cash equivalents at beginning of year		<u>33,824</u>	<u>90,982</u>
Cash and cash equivalents at end of year	3.2	<u><u>7,907</u></u>	<u><u>33,824</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

Section 1 – Basis of Preparation

1.1 Authorisation of Financial Statements and statement of compliance with IFRS

Gulfsands Petroleum plc is a public limited company quoted on AIM and incorporated in the United Kingdom. The principal activities of the Company and its subsidiaries ("the Group") are that of oil and gas production, exploration and development.

The Consolidated Financial Statements for the year ended 31 December 2014 were authorised for issue by the Board of Directors on 19 May 2015 and the Balance Sheets were signed on the Board's behalf by Alan Cutler, Director – Finance and Administration.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The principal accounting policies adopted are set out in note 1.3.

1.2 Adoption of International Financial Reporting Standards

The Consolidated Financial Statements for the year ended 31 December 2014 and for the comparative year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and IFRIC (IFRS Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

1.3 Significant accounting policies

a) Basis of preparation and accounting standards

The Consolidated Financial Statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU and, except for share-based payments and the valuation of available-for-sale investments, under the historical cost convention.

Going concern

The Consolidated Financial Statements have been prepared on the going concern basis which has been approved by the Board. The basis on which the Board has reached this decision is as follows:

As at the date of this Report, the Group has cash balances immediately available to it totalling approximately \$3.0 million with net current liabilities of approximately \$2.6 million and ongoing costs currently approximating to \$1.0 million per month. Restricted cash balances and the work commitments to which they relate are described in note 2.4. Additionally, the Group has an outstanding loan of \$10 million from Arawak, which they have requested be repaid. This loan is described in note 3.5. Early repayment will cause a minimum of \$1 million of interest and fees to also become payable.

The Board is in the process of actioning its strategy for each asset and these strategies are laid out in the Operations Review on pages 12 to 19 of this Report. This includes substantially reducing its costs whilst, farming-down, divesting or otherwise rationalising certain interests and the associated work commitments. In parallel the Group is actioning a financing strategy which includes accessing a short-term working capital loan from existing shareholders to provide the Group with time to progress a more significant financing exercise. The Board has received indications from certain of its shareholders of a willingness to contribute to such a working capital loan. Shortly, the Board will develop and communicate its longer-term financing strategy which should allow the Group to achieve the following:

- repayment of the Arawak facility;
- rationalisation of existing minimum work commitments;
- further appraisal and exploitation of selected assets; and
- working capital to provide stability for the medium term.

As stated elsewhere, the Group may not finance all its work commitments itself but will look to bring in partners to reduce the Group's net exposure to such commitments to a level that the Board considers sustainable and financeable or, alternatively, it will divest itself of assets as necessary.

Based upon its experience and ongoing discussions with existing shareholders and potential partners, the Board is confident that the Group will be able to access appropriate resources to finance the strategy that it is developing.

Notwithstanding the confidence that the Board has in its ability to stabilise and finance the Group's re-shaped business, the Directors, in accordance with FRC guidance in this area, conclude that at this time there is material uncertainty that such finance can be procured and failure to do so might cast significant doubt upon the Company's and the Group's ability to continue as a going concern and that the Company and the Group may therefore be unable to realise their assets and discharge their liabilities in the normal course of business. Such scenario could impact upon the carrying value of intangible exploration and evaluation assets as disclosed in note 2.3 and on the recoverability of certain restricted cash amounts, as disclosed in note 2.4, held in escrow to support guarantees of performance of minimum work obligations.

However, following completion of a review of the going concern position of the Company and Group at the meeting of the Board of Directors on 18 May 2015, including the uncertainties described above, the Board has concluded that, with current consolidated cash and cash equivalents totalling \$3.0 million and taking into account both the revised strategy of farming-down or divesting assets and new financial resources that the Board might reasonably expect to become available, the Company and the Group will have sufficient resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of approval of this Annual Report. Accordingly, the Directors consider it appropriate to continue to adopt the "going concern basis" in preparing these Financial Statements.

These Financial Statements consolidate the accounts of Gulfsands Petroleum plc and all its subsidiary undertakings drawn to 31 December each year.

b) New and amended IFRS standards

The following relevant new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2014, but had no significant impact on the Group or Company:

<i>Standard</i>	<i>Effective date as adopted by the EU</i>
Amendment to IAS 27 'Separate Financial Statements'	1 January 2014
Amendment to IAS 28 'Investments in Associates and Joint Ventures'	1 January 2014
Amendment to IAS 32 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'	1 January 2014
Amendments to IAS 36 'Impairment of Assets'	1 January 2014
Amendment to IFRS 11 'Joint Arrangements'	1 January 2014
IFRS 12 'Disclosure of Interests in Other Entities'	1 January 2014
Amendments to IFRS 10, IFRS 11 and IFRS 12	1 January 2014

c) Standards issued but not yet effective

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2014, as adopted by the EU, and have not been early adopted:

<i>Standard</i>	<i>Effective date as adopted by the EU</i>
Amendments to IFRS 11 'Acquisitions of Interests in Joint Operations'*	1 January 2016
Amendments to IAS 16 and IAS 38, 'Clarification of Acceptable Methods of Depreciations and Amortisation'*	1 January 2016
IFRS 9 'Financial Instruments'*	1 January 2019
IFRS 15 'Revenue from Contracts with Customers'*	1 January 2017
Amendment to IAS 19 'Employee Benefits'	1 February 2015

* Not yet endorsed by the EU.

The Directors do not anticipate that the adoption of these standards and interpretations will have a material effect on the reported income or net assets of the Group or Company.

d) Basis of consolidation

Intra-group sales, profits and balances are eliminated fully on consolidation.

The results of subsidiaries acquired or sold are consolidated for the periods from, or to, the date when control passed. Acquisitions are accounted for under the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for the control of the acquiree. Acquisition related costs are recognised in the Income Statement as incurred. At the acquisition date the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

The Consolidated Financial Statements include the accounts of subsidiary undertakings when the Company has the control over the undertaking. The Company controls an investee if all three of the following elements are present: power over the investee; exposure to variable returns from the investee; and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The Group is engaged in oil and gas exploration, development and production through joint operations. A joint operation is whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. As a Joint Operator the Group recognises its assets, including its share of any assets incurred jointly; its liabilities, including its share of any liabilities incurred jointly; its revenues, including its share of revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses jointly incurred.

When the Group loses control or joint control of a subsidiary or joint operation, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary or joint operation and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary or joint operation are accounted for in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary or joint operation at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 'Financial Instruments: Recognition and Measurement' or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

e) Foreign and reporting currency

These Consolidated Financial Statements are presented in US Dollars. The majority of all costs associated with foreign operations are denominated in US Dollars and not the local currency of the operations. Therefore the presentational and functional currency of the Company, and the functional currency of all subsidiaries, is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2014 was £1: \$1.56 (2013: £1: US \$1.66).

Foreign currency transactions of individual companies within the Group are translated to the functional and reporting currency of US Dollars at the rates prevailing when the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the Balance Sheet date. All differences are taken to the Income Statement.

1.4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The following sets out the critical judgements that the Directors have made in the process of applying the Group's accounting policies and the key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year:

- Going concern – for further details see note 1.3a.
- Reserves estimation – for further details see note 2.1.
- Recoverability of intangible oil and gas exploration and evaluations assets – for further details see note 2.3.
- Decommissioning provisions – for further details see note 2.6.
- Fair value of the Group's investment in DPC – for further details see note 4.2.
- Recoverability of restricted cash balances – for further details see note 2.4 and 3.2.

Section 2 – Oil and Gas Assets

2.1 Property, plant and equipment

Key accounting judgements, estimates and assumptions:

Reserves estimation

The Group's definition of reserves is in accordance and consistent with the 2007 Petroleum Resources Management System, as prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers ("SPE") and reviewed and jointly sponsored by the World Petroleum Council ("WPC"), the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers. The estimation of Proved, Proved plus Probable and Proved plus Probable plus Possible commercially recoverable reserves are performed utilising relevant geological, geophysical and engineering data and with reference to the use of the probabilistic methodology as approved by SPE/WPC. The reserves are verified by a certified independent expert annually.

Proved plus Probable entitlement reserves are utilised as the basis for the Group's calculations of depletion and impairment as these represent the Group's estimate of the most likely commercially recoverable reserves as per the approved probabilistic methodology.

The Group applies the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources' and where additional guidance is needed IAS 16 'Property, Plant and Equipment' and IAS 36 'Impairment of

Assets' noting that several items in the latter two standards are exempted for assets at the exploration and evaluation stage due to the application of IFRS 6. Set out below is our interpretation of the principles set out in IFRS 6 and other IFRSs.

Recognition and measurement

Development and production assets are accumulated on a cash generating unit basis and represent the cost of developing the Proved plus Probable reserves discovered and bringing them into production, together with the exploration and evaluation ("E&E") asset expenditures incurred in finding Proved plus Probable reserves, transferred from intangible E&E assets.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, and the cost of recognising provisions for future restoration and decommissioning. See note 2.6 for further details.

Depletion of producing assets

Expenditure within each cash generating unit is depleted by a unit of production method using the ratio of oil and gas production in the year compared to the estimated quantity of Proved and Probable reserves at the beginning of the year. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs for Proved and Probable reserves. Changes in estimates of commercial reserves or future development costs are dealt with prospectively.

Impairment

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 aggregate carrying value is compared against the recoverable amount of the cash generating unit, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves.

	<i>Oil and gas properties \$'000</i>	<i>Other fixed assets \$'000</i>	<i>Total \$'000</i>
Cost:			
At 1 January 2013	34,799	2,397	37,196
Additions	2,467	217	2,684
Changes to decommissioning estimates	(1,859)	–	(1,859)
At 31 December 2013	35,407	2,614	38,021
Additions	2,787	401	3,188
Changes to decommissioning estimates	(92)	–	(92)
Disposals	(38,102)	(180)	(38,282)
At 31 December 2014	–	2,835	2,835
Accumulated depreciation and depletion:			
At 1 January 2013	(17,351)	(1,691)	(19,042)
Charge for 2013	(1,267)	(479)	(1,746)
At 31 December 2013	(18,618)	(2,170)	(20,788)
Charge for 2014	(1,686)	(556)	(2,242)
Disposals	20,304	176	20,480
At 31 December 2014	–	(2,550)	(2,550)
Accumulated impairment:			
At 1 January 2013	(4,282)	–	(4,282)
Impairment charge for 2013	(58)	–	(58)
At 31 December 2013	(4,340)	–	(4,340)
Disposals	4,340	–	4,340
At 31 December 2014	–	–	–
Net book value at 31 December 2014	–	285	285
Net book value at 31 December 2013	12,449	444	12,893

In December 2014 the Group completed the disposal of all of its US Gulf of Mexico interests, including its producing oil and gas assets, through the disposal of its wholly-owned subsidiary, GPUSA. See note 5.9 for further details of this disposal.

2.2 Property, plant and equipment other than oil and gas assets

Property, plant and equipment other than oil and gas assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write-off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Freehold land is not depreciated.

2.3 Intangible assets

Key accounting judgements, estimates and assumptions:

Recoverability of intangible oil and gas exploration and evaluation assets

If there are indicators of impairment, the carrying values of E&E assets are assessed for impairment which involves judgement as to the (i) likely commerciality of the assets, (ii) future revenues and costs pertaining and (iii) the discount rate to be applied for the purpose of deriving a recoverable value. Additional judgements apply to the Group's E&E assets affected by sanctions in Syria. See note 4.2 for further details.

The Board reviewed the carrying value of its E&E assets as at 31 December 2014 and concluded that there are no indicators that the carrying value is impaired.

The Group applies the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources', set out below is our interpretation of the principles set out in IFRS 6.

Recognition and measurement

The Group follows the successful efforts method of accounting whereby costs for unsuccessful exploration activities are expensed. All licence acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets in cost centres by licence or contract, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalised insofar as they relate to specific exploration activities. Pre-licence costs and general exploration costs not directly attributable to any particular licence or prospect are expensed as incurred.

E&E assets relating to each exploration licence/prospect are not amortised but are carried forward until the existence or otherwise of commercial reserves has been determined. If commercial reserves have been discovered, the related E&E assets are assessed for impairment on a cash generating unit basis as set out below and any impairment loss is recognised in the Income Statement. The carrying value of the E&E assets, after any impairment loss, is then reclassified as development and production assets in property, plant and equipment. Costs of unsuccessful exploration efforts are expensed at the time that a determination is made that the exploration has failed to locate commercially recoverable hydrocarbons.

Impairment

As the Group does not hold any intangibles with an indefinite useful life, non-current assets are assessed for impairment on a cash generating unit basis when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such triggering events in respect of E&E assets include: the point at which final determination is made as to whether commercial reserves exist; actual or imminent expiry of exploration licence/contract without expectation of renewal; and/or no further plans to explore the licence/contract area.

Where there has been an indication of a possible impairment, Management assess the recoverability of the carrying value of the cash generating unit by comparison with the estimated discounted future net cash flows based on Management's expectation of the future production, hydrocarbon prices and costs. Any identified impairment is charged to the Income Statement.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the Income Statement, net of any amortisation that would have been charged since the impairment.

	<i>Exploration and Evaluation Assets</i>				<i>Computer software</i>	<i>Total</i>
	<i>Syria</i>	<i>Morocco</i>	<i>Tunisia</i>	<i>Colombia</i>		
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cost:						
At 1 January 2013	10,031	–	4,796	–	2,537	17,364
Additions	474	41,783	3,553	243	421	46,474
Other write-offs	–	–	(1,000)	–	(475)	(1,475)
Exploration expenditure written-off	–	(10,147)	(2,154)	–	–	(12,301)
At 31 December 2013	10,505	31,636	5,195	243	2,483	50,062
Additions	–	19,188	794	982	10	20,974
Change in decommissioning estimates	–	977	–	–	–	977
Disposals	–	–	–	–	(123)	(123)
Exploration expenditure written-off	–	(5,246)	(794)	–	–	(6,040)
At 31 December 2014	10,505	46,555	5,195	1,225	2,370	65,850
Accumulated amortisation:						
At 1 January 2013	–	–	–	–	(1,126)	(1,126)
Charge for 2013	–	–	–	–	(398)	(398)
At 31 December 2013	–	–	–	–	(1,524)	(1,524)
Charge for 2014	–	–	–	–	(46)	(46)
Disposals	–	–	–	–	52	52
At 31 December 2014	–	–	–	–	(1,518)	(1,518)
Accumulated impairment:						
At 1 January 2013	(10,031)	–	–	–	–	(10,031)
Impairment provision for 2013	(474)	–	–	–	(475)	(949)
At 31 December 2013	(10,505)	–	–	–	(475)	(10,980)
Impairment provision for 2014	–	–	–	–	–	–
At 31 December 2014	(10,505)	–	–	–	(475)	(10,980)
Net book value at 31 December 2014	–	46,555	5,195	1,225	377	53,352
Net book value at 31 December 2013	–	31,636	5,195	243	484	37,558

Syria

The accumulated costs of E&E assets in Syria represent the Group's share of the drilling costs of the Al Khairat, Twaiba and Wardieh wells and certain 3D seismic surveys. The Al Khairat well was successfully tested but commercial development approval is yet to be granted by the government of the Syrian Arab Republic. The Twaiba and Wardieh wells are still under evaluation.

Following the imposition of EU sanctions against the oil industry in Syria, an impairment test was conducted and the carrying value of all E&E assets in Syria was impaired to nil as it was unclear whether the Group would be able to apply for commercial development approval in the manner contemplated by the Production Sharing Contract. That position remains at the date of this Report.

Morocco

Moroccan E&E assets at 31 December 2014 represent exploration expenditure on the Rharb Centre, Rharb Sud, Fes and Moulay Bouchta permits, in addition to \$17.8 million of fair value attributed to the Fes, Rharb Centre and Rharb Sud permits at acquisition in 2013, less write-offs.

In respect of the Rharb petroleum contract, the BFD-2 well was completed in early January 2014, considered non-commercial and plugged and abandoned. In 2014, \$1.3 million of costs related to the three non-

commercial wells in the first phase of drilling were written-off. In addition, during 2014, \$3.9 million of further abortive exploration expenditure was written-off.

In June 2014, a second phase of drilling commenced with the fourth Rharrb well, LTU-1. This well discovered hydrocarbons and was temporarily suspended as a future gas producer. Drilling of the fifth well on the Rharrb Centre permit, DRC-1, commenced in December 2014 and completed shortly after the year end as a discovery and was also temporarily suspended as a future gas producer. At the year end, as the commerciality of these two wells had not been determined, the cost of these wells was retained in intangible assets.

Management have reviewed the carrying value of all its interests in Morocco as at the date of this Report and notes that the Rharrb contract expires in November 2015 and the Fes contract in September 2015. There remain significant work obligations to be performed on both contracts as set out in note 2.4 and which, if not completed before expiry, could lead to ONHYM terminating those contracts. The Moulay Bouchta contract by contrast expires in June 2016. Management have considered the risks associated with licence expiry and are optimistic that through dialogue with ONHYM and with its partner it can retain these contracts in good order. Management would seek to restructure some of the work obligations to allow the contracts to be appropriately re-financed or divested in part or whole. Should Management be unsuccessful in this strategy, the carrying value of those assets and the restricted cash, set out in note 2.4, securing those work obligations would become impaired. However, Management has considered the risks and determined that no impairment in the carrying value of its Moroccan interests is appropriate at this time.

Tunisia

At 31 December 2014 the Tunisian E&E assets represent expenditures under the Chorbane contract including amounts paid during 2013 to increase participation in the contract. During 2014, \$0.8 million of abortive exploration expenditure was written-off. The Chorbane contract expires in July 2015 but Management are actively pursuing an extension to that contract following which a part or full disposal of its interests would be anticipated. Management have reviewed its intention for this asset and the carrying value thereof as at the date of this Report and concluded that no impairment of its carrying value is required. Management notes however, that if the contract is not extended or if satisfactory terms in any disposal cannot be obtained then the carrying value of this asset might become impaired. There is no security deposit or other guarantee in place with respect to these work obligations.

Colombia

The Group has interests in E&P contracts over two blocks in Colombia: LLA 50 and PUT 14, which expire in November 2016 and November 2017 respectively. At 31 December 2014 the E&E assets of \$1.2 million represent costs incurred in respect of these blocks which are in the early stages of exploration. Management have reviewed its intentions for these assets, which could include divestment thereof, and the carrying value of these assets as at the date of this Report and concluded that no impairment of their carrying value is required. The work obligations and the restricted cash securing these obligations are set out in note 2.4. Both the asset carrying values and the restricted cash amounts could become impaired should the Group fail to satisfy the work obligations or to realise sufficient value from any divestment or farm-out.

2.4 Work obligation commitments

At 31 December 2014 the Group had the following capital commitments in respect of its exploration activities:

Morocco

Rharrb permit – licence expiry date and deadline for fulfilment of capital commitments extended to November 2015

- Drilling of a further four exploration wells. Note DOB-1 was drilled in the first quarter of 2015.
- Total cost of commitments outstanding estimated at \$9.3 million including DOB-1.

\$1 million (2013: \$6 million) of deposits have been lodged to support guarantees given to ONHYM in respect of completion of these minimum work commitments. Of these amounts \$1 million (2013: \$1 million) is

payable to a third party following release of deposits by ONHYM. Note, by agreement subsequent to the year end, the amount repayable to the third party has reduced to a maximum of \$0.5 million.

Fes permit – licence expiry date and deadline for fulfilment of capital commitments; September 2015

- Drilling of three exploration wells.
- Acquisition of a further 350 km of 2D seismic.
- Acquisition of 100 km² of 3D seismic.
- Total cost of commitments outstanding estimated at \$32.8 million inclusive of a \$5.7 million carry in favour of a third party.

\$5 million (2013: \$6.5 million) of deposits have been lodged to support guarantees given to ONHYM in respect of completion of these minimum work commitments. Of these amounts, \$1.5 million (2013: \$1.5 million) is payable to a third party following release of deposits by ONHYM.

Moulay Bouchta permit – licence expiry date and deadline for fulfilment of capital commitments; June 2016

- Acquisition of a 500 km of 2D seismic.
- Reprocessing and interpretation of existing seismic data.
- Legacy oil field reactivation survey.
- Total cost of commitments estimated at \$6.5 million.

\$1.75 million (2013: \$nil) of deposits have been lodged to support guarantees given to the ONHYM in respect of completion of these minimum work commitments.

Tunisia

Chorbane permit – contract expiry date and deadline for fulfilment of capital commitments; July 2015

- Drilling of one exploration well.
- Total commitments outstanding estimated at \$7.0 million.

Colombia

Putumayo 14 – licence expiry date and deadline for fulfilment of capital commitments; November 2017

- Drilling of one exploration well.
- 2D seismic minimum 103 km.
- Total commitments outstanding estimated at \$22.9 million.

Llanos 50 – licence expiry date and deadline for fulfilment of capital commitments; November 2016

- Drilling of one exploration well.
- 2D seismic minimum 93 km.
- Total commitments outstanding estimated at \$14.6 million.

\$3.2 million (2013: \$3.2 million) of deposits have been lodged to support guarantees given to the Agencia Nacional de Hidrocarburos in respect of completion of these minimum work commitments on Putumayo 14 and Llanos 50.

The deposits referenced in this note are shown as restricted cash amounts in note 3.2.

There were no other material obligations or contracts outstanding in relation to ongoing projects not provided or disclosed in these Consolidated Financial Statements.

2.5 Intangible assets other than oil and gas assets – computer software

Intangible assets other than oil and gas assets are stated at cost less accumulated amortisation and any provision for impairment. Amortisation is charged so as to write-off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Amortisation is included with depreciation and classified as cost of sales or administrative expenses as appropriate. No intangible assets have indefinite lives.

2.6 Decommissioning

Key accounting judgements, estimates and assumptions:

At 31 December 2014 the Group has decommissioning obligations in respect of the LTU-1 well in Morocco, which has been temporarily suspended as a future gas producer, and restoration obligations on other current Moroccan well sites. The full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs. Internal technical experts provide estimates regarding the cost of future decommissioning works and the determination of the life of the field and the potential decommissioning date.

A discount rate of 10 per cent. has been used to discount the expected costs of decommissioning based upon the Group's cost of capital. A decrease in the discount rate utilised to 5 per cent. per annum would increase the total value of the decommissioning provision by \$0.1 million. An increase in the discount rate to 15 per cent. would decrease the decommissioning provision by \$0.2 million. A future cost inflation rate of 2.5 per cent. per annum has been used, based on a historical average. An increase in this estimate to 5 per cent. per annum would increase the decommissioning provision by \$0.1 million at 31 December 2014.

Actual decommissioning costs will ultimately depend upon future market prices for the decommissioning work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future gas prices, which are inherently uncertain.

The Group's Moroccan interests include certain wells drilled prior to the Group's acquisition of those interests in 2013. Management have discussed these legacy wells with the Moroccan oil and gas regulator, ONHYM, and has concluded that the Group has no liability with respect to those legacy wells. It will, however, work with the relevant authorities to maintain the safety and security of those well-sites. As a result, the Group continues to make no provision for the decommissioning of these wells in these Consolidated Financial Statements.

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. A fixed asset of an amount equivalent to the provision is also created (included in exploration and evaluation assets or development and production assets) and depleted on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset.

The movement in the provision for decommissioning was as follows:

	\$'000
At 1 January 2013	17,661
Changes in estimates	(1,859)
Decommissioning expenses	(2,151)
Discount expense	500
Disposal	(1,000)
At 31 December 2013	13,151
Current portion	2,573
Non-current portion	10,578
At 1 January 2014	13,151
Changes in estimates	885
Decommissioning expenses	(2,382)
Discount expense	354
Disposal	(11,031)
At 31 December 2014	977
Current portion	580
Non-current portion	397

In December 2014 the Group completed the disposal of all of its US Gulf of Mexico interests, including its producing oil and gas assets and related decommissioning liabilities, through the disposal of its wholly-owned subsidiary, GPUSA. See note 5.9 for further details of this disposal.

The decommissioning provision of \$1.0 million at 31 December 2014 (2013: \$nil) relates to decommissioning obligations in respect of the Moroccan Rharb Centre permit, including: well LTU-1, which was drilled successfully during 2014 and has been temporarily suspended as a future gas producer; and restoration obligations on other current Moroccan well-sites.

Section 3 – Working Capital

3.1 Trade and other receivables

Trade receivables are carried at original invoice amounts less any provision made for impairment of receivables. A provision for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the debt.

	2014 \$'000	2013 \$'000
Trade receivables	–	272
Other receivables	467	710
Prepayments and accrued income	499	1,188
Amounts due from oil and gas partnerships	62	1,372
	<u>1,028</u>	<u>3,542</u>

At 31 December 2014 and 2013 the Group was owed \$25.3 million by the government of the Syrian Arab Republic relating to oil delivered during the period of August to November 2011. The total amount invoiced was \$31.2 million and to November 2011 an amount of \$5.9 million had been paid. The government of the Syrian Arab Republic has acknowledged the debt. This asset was fully provided against in 2011 due to the uncertainties of recovery.

3.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand by banks and other short-term investments with original maturities of three months or less. Balances held in bank accounts subject to escrow agreements as collateral for performance bonds issued are excluded from cash and cash equivalents and are shown as long-term financial assets.

	2014 \$'000	2013 \$'000
Cash at bank and in hand	7,907	33,824
Restricted cash balances	11,514	19,138
Total cash and bank resources	19,421	52,962
Included in long-term financial assets	(11,514)	(19,138)
Total cash and cash equivalents	<u>7,907</u>	<u>33,824</u>

Restricted cash balances at 31 December 2014 include \$11.0 million of deposits collateralising guarantees given to state regulators to secure minimum exploration work commitments in Morocco and Colombia as set out in note 2.4.

Amounts held in escrow to cover decommissioning expenditures under the requirements of the regulatory authorities that manage the oil and gas and other mineral resources in the Gulf of Mexico were disposed of as part of the disposal of the subsidiary GPUSA in December 2014. See note 5.9 for further details of this disposal. At 31 December 2013 these totalled \$2.9 million.

3.3 Trade and other payables

Trade payables are not interest-bearing and are stated at their nominal values.

	2014 \$'000	2013 \$'000
Current liabilities		
Trade payables	816	3,059
Accruals and other payables	5,066	12,186
	<u>5,882</u>	<u>15,245</u>
Non-current liabilities		
Trade payables	1,974	1,887
Accruals and other payables	4,204	4,268
	<u>6,178</u>	<u>6,155</u>

Included within non-current liabilities is \$2.5 million which will be payable following the release of restricted cash amounts. For further details see note 3.2.

Included within non-current liabilities is \$3.7 million (2013: \$3.7 million) owed to parties subject to asset freezing regulations under the EU sanctions regime. These amounts relate to goods and services acquired before those entities were designated as sanctioned parties. The Group is not in a position to make payments for these goods or services until such time as sanctions are lifted against the named parties. These liabilities are therefore classified as non-current liabilities as payment of these balances is not expected to be permissible within the next year.

3.4 Inventory

Inventories comprise materials and equipment, which are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing the materials and equipment to its present condition and location.

	2014 \$'000	2013 \$'000
Drilling and production inventory	4,565	4,451
Provisions	(2,204)	(2,204)
	<u>2,361</u>	<u>2,247</u>

It is anticipated that inventory carried forward at 31 December 2014 will be utilised on future drilling and production activities in Morocco.

During 2013, \$0.7 million of inventory held for Syrian operations was written-off due to a theft at the warehouse. An insurance claim for the full value was submitted during 2013 however, due to complications with the insurance claim it has not been appropriate, as yet, to recognise the claim as an asset as it is not virtually certain that the claim will be paid. There has been no change in this position during 2014.

At 31 December 2014 a provision of \$2.2 million (2013: \$2.2 million) has been made against the value of the remaining Syrian stock. Management believe this is appropriate in light of the theft in 2013 and the lack of Management's control over, and access to, the warehouse at this present time due to the security situation in Syria.

3.5 Loans and borrowings

Recognition and measurement

Equity and debt instruments are classified as either equity or as financial liabilities in accordance with the substance of the contractual arrangement. Debt instruments include convertible loans.

Convertible loan – hybrid financial instrument

Where, at inception, the conversion option is denominated in foreign currency terms such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, the convertible loan (the host contract) is accounted for as a hybrid financial instrument and the option to convert is an embedded derivative.

The embedded derivative is separated from the host contract as its risks and characteristics are not closely related to those of the host contract. At each reporting date, the embedded derivative is measured at fair value with changes in fair value recognised in the Income Statement as they arise. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivative and is subsequently carried at each reporting date at amortised cost. The embedded derivative and host contract are presented under separate headings in the Balance Sheet.

Finance costs of debt are amortised over the term of the related debt using the effective interest rate method. Transaction costs are deducted from debt proceeds on initial recognition of the liability and are amortised and charged to the Income Statement as finance costs over the term of the debt.

Convertible loan – Arawak Energy Bermuda Ltd

On 19 November 2014, the Group announced the closing of a convertible loan facility of \$20 million with Arawak Energy Bermuda Ltd ("Arawak"). The loan has an initial available facility of \$10 million with the balance of the facility available contingent upon additional exploration drilling success in Morocco. The facility has a twelve month availability period.

The loan bears interest at the rate of 10 per cent. per annum on the drawn-down facility, which is rolled up into the loan balance quarterly from the date of the draw-down. A commitment fee of 3 per cent. is charged on the available facility undrawn during the twelve month availability period and is rolled up into the loan

balance quarterly from the date of the loan draw-down. The loan matures on 30 November 2017 and is repayable in full on that date. Gulfsands may prepay the facility on 60 days notice.

The loan amount (including amounts drawn and, accrued but unpaid interest and fees) is convertible at any time prior to maturity into ordinary shares of the Company, initially at a price of £0.80. In the event that the Company issues new shares prior to: conversion, repayment or maturity of the loan facility; Arawak shall have the right but not the obligation to subscribe for new shares, up to the amount of the loan amount at that time, at the same subscription price per share as paid by the other subscribers. If Arawak elects not to participate in such issue of new shares, the mechanics of conversion of the loan amount provide that an adjustment be made in order that Arawak's conversion rights will continue to represent an entitlement to the same proportion of the Company's issued share capital, after the new issue of shares, as they represented prior to such new issue of shares.

Gulfsands may require conversion of the outstanding balance of the loan facility into ordinary shares of the Company in the event Gulfsands' share price, on an unadjusted basis, exceeds £1.04 per share for a period of more than 20 consecutive trading days at any time prior to the expiry of the term of the facility.

The loan facility is secured by a share mortgage over the shares in Gulfsands Petroleum Morocco Ltd (the holding company for the Group's interests in Morocco) and a floating charge over all of the assets of Gulfsands Petroleum Holdings Ltd (a subsidiary company) with further credit support provided by a guarantee from the Company.

On 25 November 2014 the Group drew-down the first \$5.0 million tranche of the loan facility.

The embedded derivative element of the loan amount has been valued using a Black-Scholes model. The model assumes an expected life of three years, a risk free rate of 0.8 per cent. and a volatility of 60 per cent. The valuation of the embedded derivative at the date of the first draw-down, 25 November 2014, and at the year end, 31 December 2014, is not considered material and has therefore not been separately recognised from the host loan debt instrument. Management will continue to revalue the conversion option at subsequent accounting period ends and reassess its materiality. The valuation represents a level 3 measurement basis as defined by IFRS 7 'Financial Instruments: Disclosures'.

The movement on the loan balance in the year is represented as follows:

	\$'000
Loan draw-down	5,000
Transaction costs	(215)
Interest expense	49
Commitment fee	15
Amortisation of transaction costs	6
At 31 December 2014	4,855

Section 4 – Other Assets and Liabilities

4.1 Investments

The Company's investments in subsidiary undertakings are shown below. All investments are in ordinary shares and are directly or indirectly owned by the Company as stated below:

<i>Name of company</i>	<i>Proportion of voting shares at 31 December 2014</i>	<i>Nature of business</i>	<i>Country of incorporation</i>
Directly held by the Company:			
Gulfsands Petroleum Ltd.	100%	Holding company	Cayman Islands
Indirectly held by the Company:			
Gulfsands Petroleum Holdings Ltd	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd	100%	Oil and gas exploration	Cyprus
Gulfsands Petroleum (MENA) Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Sud America Ltd	100%	Oil and gas exploration	Cayman Islands

4.2 Available-for-sale financial assets

Key accounting judgements, estimates and assumptions:

Fair value of the Group's investment in Dijila Petroleum Company ("DPC")

The Group's investment in DPC, the entity established in Syria, pursuant to the PSC, to administer the Group's Syrian oil and gas development and production assets (and which is considered to also include the related rights to production under the PSC), is recorded as an available-for-sale investment at an estimate of fair value taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future activities in Syria. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, the calculation of fair value is highly subjective and subject to material change in future periods, as described further below.

Available-for-sale financial assets are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

The Group is party to a PSC for the exploitation of hydrocarbon production in Block 26 in Syria. Pursuant to the PSC the Group operates its Syrian oil and gas production assets through a joint venture administered by DPC in which the Group has a 25 per cent. equity interest. The Group lost joint control of DPC on 1 December 2011 following the publication of European Union Council Decision 2011/782/CFSP. For the purposes of EU sanctions, DPC is considered to be controlled by General Petroleum Corporation. Since the Group has neither joint control nor significant influence over the financial and operating policy decisions of the entity, it carries its investment in DPC and the associated rights under the Block 26 PSC as an available-for-sale financial asset. The fair value attributed to DPC at 31 December 2014 is \$102 million (2013: \$102 million).

The valuation that the Group carries for its investment in DPC is supported by the Group's economic model of the estimated future cash flows that could be generated in respect of the Group's entitlement reserves in Block 26. The model uses oil prices quoted on the current forward Brent oil price curve, with an assumption of 2 per cent. price inflation beyond the end of the quoted curve discounted using a 15 per cent. discount rate. The basic model also assumes a short-term resumption of production. The net present value ("NPV") derived from this model ("the base case NPV") is then subjected to scenario analysis taking into account the Board's view of specific risks associated with investments in the Syrian oil and gas sector at the current time including the potential for significant delay in resumption of oil production and in receipt of revenues, potential additional costs associated with re-establishment of operations and, ultimately, a potential inability to resume operations. This methodology supports a valuation for the Group's investment in DPC of

\$102 million which represents a 74 per cent. discount to the base case NPV. The valuation represents a level 3 measurement basis as defined by IFRS 7 'Financial Instruments: Disclosures'.

Note, in previous financial periods the Group used a long-term Brent oil price assumption of \$90/bbl in the valuation but, due to the recent significant fall in the oil price, the Board decided it was more appropriate to use the forward Brent oil price curve to value forecast production from the assets. Whilst this change would have a significant impact on the value of near-term production, because the valuation model scenarios include an assumption that the re-commencement of production is subject to a significant delay, the actual impact on forecast revenue values is limited.

There is a high degree of subjectivity inherent in the valuation due to the unknown duration of the sanctions and the eventual outcome of events in Syria. Accordingly it may change materially in future periods depending on a wide range of factors.

The following table sets out the impact that changes in the key variables would have on the carrying value of the asset:

	<i>Change</i> %	<i>Change in carrying value of investment \$'000</i>
Increase in forecast capital expenditure	5	(1,888)
Decrease in long-term commodity prices	5	(6,214)
Increase in forecast operating expenditure	5	(1,015)
Change in discount rate to 10%	5	40,022
Change in discount rate to 20%	5	(25,267)

The Directors have reviewed the carrying value of this available-for-sale financial asset at 31 December 2014 and are of the opinion that the valuation, although subject to significant uncertainty, remains appropriate in the circumstances, although not necessarily reflective of the value of the Group's investments in its Syrian operations over the long-term.

Section 5 – Results for the Year

5.1 Segmental analysis of continuing operations

For Management purposes, at 31 December 2014 the Group operated in three geographical areas: Morocco, Tunisia and Colombia with suspended operations in Syria as discussed in note 4.2. All segments are involved with the production of, and exploration for, oil and gas. The "Other" segment represents corporate and head office costs.

The Group's result and certain asset and liability information for the year are analysed by reportable segment as follows.

The comparatives for the year ended 31 December 2013 have been re-presented to remove the discontinued US operations.

Year ended 31 December 2014

	<i>Syria</i> \$'000	<i>Morocco</i> \$'000	<i>Tunisia</i> \$'000	<i>Colombia</i> \$'000	<i>Other</i> \$'000	<i>Total</i> \$'000
Total administrative expenditure	(482)	(149)	10	(168)	(4,736)	(5,525)
Exploration costs written-off	–	(5,246)	(794)	–	–	(6,040)
Other Syrian adjustments	(202)	–	–	–	–	(202)
Operating loss	(684)	(5,395)	(784)	(168)	(4,736)	(11,767)
Financing cost						(346)
Net loss from continuing operations						(12,113)
Total assets	102,325	51,845	5,256	1,324	17,697	178,447
Total liabilities	(3,827)	(6,486)	(1,587)	(69)	(5,923)	(17,892)
E&E capital expenditure	–	19,188	794	982	–	20,964

Year ended 31 December 2013

	<i>Syria</i> \$'000	<i>Morocco</i> \$'000	<i>Tunisia</i> \$'000	<i>Colombia</i> \$'000	<i>Other</i> \$'000	<i>Total</i> \$'000
Total administrative expenditure	(1,573)	(18)	(280)	(11)	(8,040)	(9,922)
Exploration costs written-off	–	(10,147)	(2,154)	–	–	(12,301)
Other Syrian adjustments	(383)	–	–	–	–	(383)
Inventory provision/written-off	(2,905)	–	–	–	–	(2,905)
Operating loss	(4,861)	(10,165)	(2,434)	(11)	(8,040)	(25,511)
Net financing cost credit						129
Net loss from continuing operations						(25,382)
Total assets	104,128	39,924	5,673	489	44,640	194,854
Total liabilities	(3,766)	(12,562)	(1,835)	(347)	(1,205)	(19,715)
E&E capital expenditure	474	41,783	3,553	243	–	46,053

5.2 Operating loss

The Group's operating loss for continuing operations is stated after charging:

	<i>2014</i> \$'000	<i>2013</i> \$'000
Share-based payment charges (note 5.3)	56	516
Depreciation and amortisation of other assets (notes 2.1 and 2.3)	602	877
Exploration expenditure written-off (note 2.3)	6,040	12,301
Other Syrian adjustments	–	383
Syrian inventory impairment/written-off (note 3.4)	–	2,905
Staff costs excluding share-based payments (note 5.5)	6,168	7,503
Operating lease rentals:		
Buildings	1,146	1,044
Vehicles and equipment	–	10

Note the 2013 results have been re-presented so they no longer include the discontinued US operations.

Operating leases

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

5.3 Share-based payments

The Company has made equity-settled share-based payments to certain employees and Directors by way of issues of share options. The fair value of these payments is calculated at grant date by the Company using the Black-Scholes option pricing model excluding the effect of non market-based vesting conditions. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of the number of options that will eventually vest. At each Balance Sheet date, the Company revises its estimates of the number of options expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained profit.

The Group operates two share-based remuneration plans issuing options and restricted shares. Options are issued to Directors and certain senior management personnel. Restricted share options are available to other staff.

Options are issued with an exercise price equivalent to the underlying share price averaged over a period immediately prior to the date of grant, or such other higher exercise price as the Remuneration Committee may determine. Restricted share options are issued with an exercise price equivalent to the par value of the shares. Both options and restricted share options will usually have a deferred vesting period and a maximum validity period of five years.

The share-based payment charge for the period is based upon the requirements of IFRS 2 'Share-based Payment'. For this purpose, the weighted average estimated fair value of the share options and restricted share options granted was calculated using a Black-Scholes option pricing model. The expected average life of options and restricted share options was assumed to be four years.

No dividends were factored into the model. Volatility has been estimated based on the historical volatility of the underlying shares. No options or restricted share options were issued in 2014 or 2013.

The estimated fair value of options and restricted share options with a deferred vesting period is charged to the Income Statement over the vesting period of the options concerned. The estimated fair value of options and restricted shares exercisable immediately is expensed at the time of issuance of the award. Further details are provided in note 6.1.

5.4 Auditor's remuneration

Details of the auditor's remuneration is set out in the table below:

	2014 \$'000	2013 \$'000
Fees payable to the Company's principal auditor for the audit of:		
Company's accounts	141	176
Company's subsidiaries	–	46
Total audit fees	141	222
Audit related assurance services	26	47
Taxation compliance services	6	49
Other taxation advisory services	–	18
Other services	–	–
Total non-audit fees	32	114
Fees payable to other auditors for the audit of:		
Company's subsidiaries	77	–
Total audit fees	77	–
Audit related assurance services	42	–
Taxation compliance services	8	–
Total non-audit fees	50	–

5.5 Staff costs

The aggregate payroll costs of staff and Directors were as follows:

	<i>2014</i>	<i>2013</i>
	<i>\$'000</i>	<i>\$'000</i>
Wages and salaries	5,224	6,780
Social security costs	528	578
Share-based payment charges	56	514
Other benefits in kind	109	145
HMRC settlement ⁽¹⁾	307	–
	<u>6,224</u>	<u>8,017</u>

(1) Shortly after the year end the Company entered into an agreement with HMRC to settle historic UK income tax and national insurance contributions with respect to non-resident Directors through to 4 April 2014. The total amount agreed in this settlement of £195,561 included £144,654 for income tax and employees' national insurance. £100,000 of the agreed settlement amount was paid during 2014 and £95,561 was accrued at year end and paid shortly thereafter.

Included in wages and salaries above is an amount of \$0.1 million in respect of termination payments to staff paid during 2014 (2013: \$1.0 million).

Note the 2013 results have been re-presented so they no longer include the discontinued US operations.

The average monthly number of persons employed by the Group, including Directors was as follows:

	<i>2014</i>	<i>2013</i>
Operational and technical	19	20
Administrative	33	37
	<u>52</u>	<u>57</u>

5.6 Directors' emoluments

Details of the remuneration of Directors are included in the Directors' Remuneration Report on pages 35 to 37. No employees other than Directors are determined to be key management personnel.

5.7 Net interest receivable

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

	<i>2014</i>	<i>2013</i>
	<i>\$'000</i>	<i>\$'000</i>
Short-term bank deposit interest	<u>18</u>	<u>89</u>

5.8 Taxation

Current tax

Current tax, including UK Corporation Tax and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Where current or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

	2014 \$'000	2013 \$'000
Current Corporation Tax:		
UK Corporation Tax	–	–
Overseas Corporation Tax	–	–
Total credit	–	–

The Group's effective tax rate differs from the theoretical amount that would arise using the UK domestic corporation tax rate applicable to profits of the consolidated companies as follows:

	2014 \$'000	2013 \$'000
Total loss before tax from continuing operations	(12,113)	(25,382)
Tax calculated at domestic rate of 21.5% (2013: 23.25%)	(2,604)	(5,901)
Effects of:		
Expenses not deductible for tax purposes	2,354	3,478
PSC expenses not subject to corporation tax ⁽¹⁾	346	1,591
Tax losses utilised	(126)	–
Tax losses for which no deferred tax asset was recognised	30	822
Impact of local tax rates	–	10
	–	–

(1) The Group's tax liabilities in Tunisia and Syria are settled on its behalf by the national oil companies out of the latter's share of royalties and profit oil and, as such, are not reflected in the Group's tax charge for the year.

In Morocco under section 42 of law no. 21-90 related to the Hydrocarbon Code, the Group benefits from a ten-year exemption from Moroccan corporate income tax in respect of each exploitation concession, commencing on the date on which regular production begins from that exploitation concession.

Deferred tax

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted, or substantively enacted, tax rates and laws that will be in effect when the differences are expected to reverse. The recoverability of deferred tax assets is evaluated annually and an impairment provision is made if it is more likely than not that the deferred tax asset will not give rise to future benefits in the Group's tax returns.

Deferred tax assets are not provided where the Group does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets. In performing this calculation the Group considers deferred tax balances relating to each tax authority separately.

The tax effect of amounts for which no deferred tax asset has been recognised is as follows:

	2014 \$'000	2013 \$'000
DD&A and impairment in excess of tax allowances	957	2,040
Other short-term temporary differences	–	2,017
Tax losses carried forward	9,019	20,943
Unprovided deferred tax asset	(9,976)	(25,000)
Deferred tax asset/(liability) at 31 December	–	–

\$0.4 million of the Group's unutilised tax losses expire within one to five years of the Balance Sheet date.

5.9 Discontinued operations

In November 2014 the Group entered into a sale agreement with Hillcrest Resources Ltd to dispose of its wholly-owned US subsidiary GPUSA. The disposal was completed on the 18 December 2014.

The results of the discontinued operations, which have been included in the Consolidated Income Statement, were as follows:

	2014 \$'000	2013 \$'000
Revenue	5,366	4,367
Expenses	(6,870)	(5,742)
Loss before tax	(1,504)	(1,375)
Attributable tax expense	–	–
	(1,504)	(1,375)
Loss on disposal of discontinued operations	(2,474)	–
	(3,978)	(1,375)
Attributable tax expense	–	–
Net loss attributable to discontinued operations (attributable to owners of the parent company)	(3,978)	(1,375)

During the year, GPUSA contributed \$2.4 million (2013: \$0.7 million) to the Group's net operating cash flows and paid \$5.0 million (2013: \$3.7 million) in respect of investing activities. Cash and cash equivalents of \$0.2 million were disposed of as part of the disposal of discontinued operations.

A loss of \$2.5 million arose on the disposal of GPUSA, being the proceeds of disposal and the carrying amount of the subsidiary's net assets, as follows:

	\$'000
Property, plant and equipment	13,458
Long-term financial assets	2,865
Trade and other receivables	609
Cash and cash equivalents	181
Trade and other payables	(3,601)
Provision for decommissioning	(11,031)
Net assets of discontinued operations at disposal	2,481
Consideration	50
Costs to sell	(57)
Loss on disposal of discontinued operations	(2,474)

5.10 Loss per share

The basic and diluted loss per share has been calculated using the loss for the year ended 31 December 2014 of \$12.1 million (2013: \$25.4 million) for continuing operations and \$16.1 million (2013: \$26.8 million) for the loss attributable to the owners of the parent company. The basic loss per share was calculated using a weighted average number of shares in issue less treasury shares held of 117,886,145 (2013: 117,855,702). The weighted average number of ordinary shares, allowing for the exercise of share options, for the purposes of calculating the diluted loss per share was 118,210,676 (2013: 118,192,648).

Where there is a loss, the impact of share options is anti-dilutive and hence, basic and diluted loss per share are the same.

Section 6 – Capital Structure and Other Disclosures

Equity instruments

Equity instruments issued by the Company, being any instruments with a residual interest in the assets of the Company after deducting all its liabilities, are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

6.1 Share capital

Group and Company

	<i>2014</i> <i>\$'000</i>	<i>2013</i> <i>\$'000</i>
Allotted, called up and fully paid:		
121,989,500 (2013: 121,989,500) ordinary shares of 5.714 pence each	<u>13,131</u>	<u>13,131</u>

The movements in share capital and share options were:

	<i>Number of ordinary shares</i>	<i>Number of share options</i>	<i>Number of restricted share options</i>	<i>Weighted average price of options £</i>
At 31 December 2013	121,989,500	1,636,000	363,649	2.72
Restricted share options cash-settled	–	–	(98,221)	–
Restricted share options lapsing unexercised	–	–	(31,692)	–
Share options lapsing unexercised	–	(250,000)	–	1.86
At 31 December 2014	<u>121,989,500</u>	<u>1,386,000</u>	<u>233,736</u>	<u>2.87</u>

All restricted share options have an exercise price of 5.714 pence per restricted share option.

Pursuant to a share buyback programme in 2011 the Company holds 4,103,355 shares in Treasury at 31 December 2014 (2013: 4,103,355). During 2014, no shares were issued from Treasury as all restricted share options settled were cash-settled (2013: 41,465 shares issued from Treasury to satisfy the exercise of restricted share options).

The detail of the share options and restricted share options outstanding at 31 December 2014 are as follows:

<i>Exercise period</i>	<i>Year options or restricted share options vest</i>	<i>Weighted average exercise price of options (£)</i>	<i>Number of options</i>	<i>Number of restricted share options</i>
4 May 2011 – 3 May 2015	2011	£3.20	427,500	–
4 May 2012 – 3 May 2015	2012	£3.20	427,500	–
3 June 2012 – 2 June 2016	2012	£2.35	265,500	–
3 June 2013 – 2 June 2016	2013	£2.35	265,500	–
4 May 2011 – 3 May 2015	2011	–	–	20,668
4 May 2012 – 3 May 2015	2012	–	–	20,667
3 June 2012 – 2 June 2016	2012	–	–	9,533
3 June 2013 – 2 June 2016	2013	–	–	9,532
4 April 2013 – 3 April 2017	2013	–	–	86,668
4 April 2014 – 3 April 2017	2014	–	–	86,668
		<u>£2.87</u>	<u>1,386,000</u>	<u>233,736</u>

Options are exercisable at prices from £2.35 to £3.20 per share and had a weighted estimated remaining contractual life of 0.7 years at 31 December 2014. The weighted remaining contractual life of the restricted share options is approximately 2.4 years.

Of the total outstanding options at 31 December 2014, the options granted to Directors numbered 1,320,000 (2013: 1,570,000) and 66,000 (2013: 66,000) had been granted to employees of the discontinued US operations. Of the restricted share options outstanding at 31 December 2014, 47,490 (2013: 47,490) had been granted to Directors, 87,303 (2013: 87,303) to employees of the discontinued US operations and 98,943 (2013: 228,856) to current staff.

The average share price during 2014 was £0.46 (2013: £0.78). The highest share price during the year was £0.70 and the lowest price was £0.23 (2013: £1.16 and £0.47).

6.2 Financial instruments, derivatives and capital management

Risk assessment

The Group's oil and gas activities are subject to a range of financial risks, as described below, which can significantly impact its performance.

Liquidity risk

At the end of the year the Group had cash and cash equivalents of \$7.9 million, and further bank balances of \$11.5 million held in escrow to guarantee minimum work obligations.

Cash forecasts identifying the liquidity requirements of the Group are produced frequently. These are reviewed regularly by Management and the Board.

The following table details the Group's remaining contractual maturity for its non-derivative financial assets and liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of the financial assets and liabilities based upon the earliest date on which the Group can be required to pay or receipt. The table includes both interest and principal cash flows.

	<i>Less than three months \$'000</i>	<i>Three months to one year \$'000</i>	<i>One to three years \$'000</i>	<i>More than three years \$'000</i>	<i>Total \$'000</i>
31 December 2014					
Long-term financial assets	–	1,083	9,931	500	11,514
Trade and other receivables	247	–	–	–	247
Current trade and other payables	(4,898)	(539)	–	–	(5,437)
Non-current trade and other payables	–	(1,000)	(1,500)	(3,678)	(6,178)
Loan facility	–	–	(6,916)	–	(6,916)
	<u>(4,651)</u>	<u>(456)</u>	<u>1,515</u>	<u>(3,178)</u>	<u>(6,770)</u>
31 December 2013					
Long-term financial assets	–	–	18,638	500	19,138
Trade and other receivables	2,185	–	–	–	2,185
Current trade and other payables	(11,897)	(1,500)	(436)	–	(13,833)
Non-current trade and other payables	–	–	(2,500)	(3,655)	(6,155)
Loan facility	–	–	–	–	–
	<u>(9,712)</u>	<u>(1,500)</u>	<u>15,702</u>	<u>(3,155)</u>	<u>1,335</u>

The loan facility bears a weighted average effective interest rate of 13 per cent. No other balances in the table above are interest bearing.

Currency risk

The Group has currency exposure arising from transactions denominated in currencies other than the functional currency of the Company and all its subsidiaries, US Dollars. These transactions relate to certain costs of its oil and gas exploration and production operations which are denominated in local currencies or in Euro, and its head office costs which are denominated in Pounds Sterling.

In Syria and Tunisia where the operations are covered by PSCs, costs incurred in currencies other than US Dollars are recoverable under the terms of the PSC at the rate of exchange between US Dollars and that currency at the date of payment of the expense.

The Group maintains part of its cash balances in Pounds Sterling to defray head office costs but limits exposure to other currencies as far as practicable.

The following table demonstrates the sensitivity to changes in the US Dollar exchange rate, with all other variables held constant, on the Group's profit before tax and the Group's equity:

	<i>Change in US Dollar rate</i>	<i>Effect on profit before tax \$'000</i>
2014	(+ or -) 5%	27
2013	(+ or -) 5%	130

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's operations are typically structured via contractual joint venture arrangements. As such, the Group is reliant on joint venture partners to fund their capital or other funding obligations in relation to assets and operations which are not yet cash generative. The Group closely monitors the risks and maintains a close dialogue with those counterparties considered to be highest risk in this regard.

The Directors do not consider that any further provision is necessary against any financial assets.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and, to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of net debt (borrowings as disclosed in note 3.5 after deducting cash and cash equivalents and restricted cash balances as disclosed in note 3.2) and equity of the Group (comprising issued capital, reserves and retained earnings).

Financial assets

The Group's financial assets consist of long-term financial assets, its available-for-sale investment in DPC, cash at bank and receivables. The interest rate profile at 31 December for these assets at US Dollar equivalents was as follows:

	<i>Financial assets on which interest is earned \$'000</i>	<i>Financial assets on which no interest is earned \$'000</i>	<i>Total \$'000</i>
2014			
US Dollar	5,111	114,556	119,667
Pound Sterling	241	57	298
Euro	105	240	345
Syrian Pounds	3	–	3
Moroccan Dirham	1,189	83	1,272
Other currencies	95	100	195
	<u>6,744</u>	<u>115,036</u>	<u>121,780</u>
2013			
US Dollar	50,310	102,573	152,883
Pound Sterling	75	223	298
Euro	730	14	744
Syrian Pounds	148	7	155
Moroccan Dirham	1,621	147	1,768
Other currencies	79	101	180
	<u>52,963</u>	<u>103,065</u>	<u>156,028</u>

The Pound Sterling, Euro, Moroccan Dirham and Syrian Pound assets principally comprise cash in hand, cash in instant access accounts and short-term money market deposits. The US Dollar assets represent an available-for-sale financial asset, cash on call accounts, money market accounts, and short-term receivables. The Group earned interest on its interest bearing financial assets at rates between 0.01 per cent. and 0.35 per cent.

In the current economic climate with exceptionally low interest rates, the Group is not sensitive to fluctuations in the interest rate received on bank and money market deposits and accordingly no sensitivity analysis is published.

Included in financial assets on which no interest is earned at 31 December 2014 and 2013 was a gross amount of \$25.3 million of trade receivables that has been fully provided against. This amount is due from the government of the Syrian Arab Republic in respect of oil sales in Syria. The receivable is acknowledged by General Petroleum Corporation of the Syrian Arab Republic but due to the ongoing sanctions against the country's oil industry the payment of this amount has been delayed and, taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future payment, has been fully impaired. The remaining trade receivables consist of amounts receivable from various counterparties where the Group considers the credit risk to be low. This risk is monitored by the Group.

Financial liabilities

The Group's financial liabilities consist of both short-term and long-term payables in addition to the loan facility. None of the short and long-term payables bear interest to external parties. However, the loan facility bears interest at 10 per cent. per annum. Note 3.5 sets out details of the loan facility. The Group's short-term liabilities are considered to be payable on demand. At 31 December financial liabilities are classified as shown below:

	<i>Financial liabilities on which interest is charged \$'000</i>	<i>Financial liabilities on which no interest is charged \$'000</i>	<i>Total \$'000</i>
2014			
US Dollar	5,065	9,268	14,333
Pound Sterling	–	821	821
Euro	–	666	666
Syrian Pounds	–	357	357
Moroccan Dirham	–	447	447
Other currencies	–	59	59
	<u>5,065</u>	<u>11,618</u>	<u>16,683</u>
2013			
US Dollar	–	15,923	15,923
Pound Sterling	–	928	928
Euro	–	446	446
Syrian Pounds	–	292	292
Moroccan Dirham	–	3,138	3,138
Other currencies	–	719	719
	<u>–</u>	<u>21,446</u>	<u>21,446</u>

Commodity price risk

The realisation of the carrying values of oil and gas assets within these Consolidated Financial Statements, and the value of the Group's available-for-sale financial assets, being the Syrian interests, are in part dependent upon future oil and gas prices achieved. Note 4.2 gives details of the impact of a change in the oil price on the valuation of available-for-sale financial assets.

In 2014 and 2013 the Group did not enter into any derivative contracts in respect of its exposure to fluctuations in the price of oil and gas.

Fair values

The Group has an available-for-sale financial asset valued by the Directors at \$102 million as described further in note 4.2.

The Group has a convertible loan facility where the conversion option is denominated in foreign currency terms such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, and therefore it is recognised as a hybrid financial instrument with the option to convert being an embedded derivative. The embedded derivative is recognised at fair value and re-measured at each subsequent reporting date. At the initial loan draw-down and subsequently at year end, Management have valued the embedded derivative at fair value using the Black-Scholes model and the value is immaterial to separate from the host debt contract. This is described further in note 3.5.

At 31 December 2014 and 2013, the Directors considered the fair values and book values of the Group's financial assets and liabilities to be materially the same.

6.3 Related party transactions and key management

Key management of the Group are considered to be the Directors of the Company. Directors' interests in shares and their remuneration and share options are disclosed in the Directors' Remuneration Report on pages 35 to 37.

The remuneration of Directors is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	<i>2014</i> <i>\$'000</i>	<i>2013</i> <i>\$'000</i>
Short-term employee benefits	2,219	3,178
Share-based payments	7	181
	<u>2,226</u>	<u>3,359</u>

In 2014 the Group received management consultancy services from Cresand Holdings Ltd, a company associated with Mr Bell, totalling \$82,590 (2013: \$nil). At 31 December 2014 no amounts were due to Cresand Holding Ltd in respect of these services (2013: \$nil).

In 2014 the Group received management consultancy services from Emiga Conseils SAS, a company associated with Mr Faure, totalling \$69,152 (2013: \$31,000). At 31 December 2014 \$4,812 (2013: \$nil) was accrued in the Consolidated Financial Statements in respect of these services.

In 2014 the Group received legal services from McMillan LLP, a company associated with Mr Cowan, totalling \$30,878 (2013: \$30,000). At 31 December 2014 \$24,502 (2013: \$nil) was accrued in the Consolidated Financial Statements in relation to these services.

All of the above related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Balances and transactions between the Company and its subsidiaries, which are related, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its subsidiaries are disclosed in note 6.5 of the Company Financial Statements.

There were no other related party transactions of the Group during the years ended 31 December 2014 or 2013.

6.4 Obligations under operating leases

At the end of the year the Group had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	<i>2014</i>		<i>2013</i>	
	<i>Land and buildings \$'000</i>	<i>Other \$'000</i>	<i>Land and buildings \$'000</i>	<i>Other \$'000</i>
Amounts payable on leases:				
Within one year	817	–	712	8
In two to five years	789	–	1,266	10
	<u>1,606</u>	<u>–</u>	<u>1,978</u>	<u>18</u>

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period is \$0.8 million (2013: \$1.2 million).

6.5 Post balance sheet events

On 23 January 2015, the Company was notified by Arawak Energy International Limited that it was taking action that would, by consequence, prevent the Group further utilising the loan facility and, in early March 2015, Arawak Energy Bermuda Ltd requested early repayment of the outstanding loan amount. See note 3.5 for further details of the loan facility.

PARENT COMPANY PRIMARY STATEMENTS

This section contains the Company's primary Financial Statements.

- Company Balance Sheet
- Company Statement of Changes in Equity
- Company Cash Flow Statement

Section 1 Basis of Preparation

This section contains the Group's significant accounting policies that relate to the financial statements as a whole. Significant accounting policies specific to one note have been included in that note. Accounting policies determined non significant are not included in these financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

- 1.1 Authorisation of Financial Statements and statement of compliance with IFRSs
- 1.2 Adoption of International Financial Reporting Standards
- 1.3. Significant accounting policies
- 1.4 Critical accounting judgements and key sources of estimation uncertainty

Section 2 Property, Plant and Equipment and Intangible Assets

This section focuses on the property, plant, equipment and computer software utilised by the Company.

- 2.1 Property, plant and equipment
- 2.2 Intangible assets

Section 3 Investments in and Loans to Subsidiaries

This section focuses on the Company's investments and loans.

- 3.1 Investments

Section 4 Working Capital

This section focuses on the working capital position of the Company supporting its business.

- 4.1 Trade and other receivables
- 4.2 Cash and cash equivalents
- 4.3 Trade and other payables

Section 5 Results for the Year

This section focuses on the results and performance of the Company.

- 5.1 Revenue recognition
- 5.2 Operating leases
- 5.3 Share-based payments
- 5.4 Taxation
- 5.5 Earnings per share

Section 6 Capital Structure and Other Disclosures

The disclosures in this section focus on the issued share capital, the share schemes in operation and other mandatory disclosures.

- 6.1 Share capital
- 6.2 Financial instruments, derivatives and capital management
- 6.3 Assets held for sale
- 6.4 Foreign currency
- 6.5 Related party transactions and key management

COMPANY BALANCE SHEET
as at 31 December 2014

	Notes	2014 \$'000	2013 \$'000
ASSETS			
Non-current assets			
Property, plant and equipment	2.1	14	232
Intangible assets	2.2	298	283
Long-term financial assets	4.2	9,931	13,181
Investments in and loans to subsidiaries	3.1	7,307	22,247
Amounts due from subsidiaries	4.1	71,394	49,158
		<u>88,944</u>	<u>85,101</u>
Current assets			
Trade and other receivables	4.1	579	1,155
Cash and cash equivalents	4.2	729	29,168
Asset held for sale	6.3	1,225	243
		<u>2,533</u>	<u>30,566</u>
Total assets		<u>91,477</u>	<u>115,667</u>
LIABILITIES			
Current liabilities			
Trade and other payables	4.3	1,077	913
Non-current liabilities			
Amounts due to subsidiaries	4.3	–	2,690
Total liabilities		<u>1,077</u>	<u>3,603</u>
Net assets		<u>90,400</u>	<u>112,064</u>
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	6.1	13,131	13,131
Share premium		105,926	105,926
Treasury shares		(11,502)	(11,502)
Retained (loss)/profit		(17,155)	4,509
Total equity		<u>90,400</u>	<u>112,064</u>

The Financial Statements of Gulfsands Petroleum plc (registered number: 05302880) were approved by the Board of Directors on 19 May 2015 and signed on its behalf by:

Alan Cutler
Director – Finance and Administration

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

	<i>Share capital \$'000</i>	<i>Share premium \$'000</i>	<i>Treasury shares \$'000</i>	<i>Retained (loss)/profit \$'000</i>	<i>Total equity \$'000</i>
At 1 January 2013	13,131	105,926	(11,619)	12,570	120,008
Options exercised	—	—	117	(148)	(31)
Share-based payment charge	—	—	—	516	516
Loss for 2013	—	—	—	(8,429)	(8,429)
At 31 December 2013	13,131	105,926	(11,502)	4,509	112,064
Options exercised	—	—	—	(61)	(61)
Share-based payment charge	—	—	—	56	56
Loss for 2014	—	—	—	(21,659)	(21,659)
At 31 December 2014	13,131	105,926	(11,502)	(17,155)	90,400

COMPANY CASH FLOW STATEMENT
for the year ended 31 December 2014

	Notes	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Operating loss		(3,597)	(8,400)
Depreciation and amortisation	2.1 & 2.2	244	562
Share-based payment charge		56	516
Decrease/(increase) in receivables		493	(811)
Increase/(decrease) in payables		167	(273)
Net cash used in operations		(2,637)	(8,406)
Interest received		9	78
Bank fees		(18)	(26)
Foreign exchange losses		(136)	(81)
Net cash used in operating activities		(2,782)	(8,435)
Investing activities			
Investment in assets held for sale		(889)	—
Capital expenditure		(42)	(62)
Change in restricted cash balances	4.2	3,250	(8,181)
Funds transferred to subsidiaries		(27,915)	(43,563)
Net cash used in investing activities		(25,596)	(51,806)
Financing activities			
Other payments in connection with options issued		(61)	(31)
Net cash used in financing activities		(61)	(31)
Decrease in cash and cash equivalents		(28,439)	(60,272)
Cash and cash equivalents at beginning of year		29,168	89,440
Cash and cash equivalents at end of year	4.2	729	29,168

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2014

Section 1 – Basis of Preparation

1.1 Authorisation of Financial Statements and statement of compliance with IFRS

Gulfsands Petroleum plc is a public limited company listed on AIM and incorporated in the United Kingdom. The principal activity of the Company is that of provision of services to its subsidiaries which are engaged in oil and gas production, exploration and development activities.

The Company Financial Statements for the year ended 31 December 2014 were authorised for issue by the Board of Directors on 19 May 2015 and the Balance Sheet was signed on the Board's behalf by Alan Cutler, Director – Finance and Administration.

The Company Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The principal accounting policies adopted are set out in note 1.3.

1.2 Adoption of International Financial Reporting Standards

The Company's Financial Statements for the year ended 31 December 2014 and for the comparative year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and IFRIC (IFRS Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

See note 1.3b to the Consolidated Financial Statements for details of new IFRSs and interpretations.

1.3 Significant accounting policies

a) Basis of preparation and accounting standards

The Company's significant accounting policies used in the preparation of the Company Financial Statements are set out in the notes below.

The Company Financial Statements have been prepared in accordance with applicable IFRS's as adopted by the EU and, except for share-based payments, under the historical cost convention. They have also been prepared on the going concern basis of accounting, for the reasons set out in note 1.3a to the Consolidated Financial Statements.

b) Reporting currency

These Company Financial Statements are presented in US Dollars. The Company's operations and the majority of all costs associated with foreign operations are paid in US Dollars and all loan balances with subsidiary undertakings are denominated in US Dollars. Therefore the presentational and functional currency of the Company is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2014 was £1: \$1.56 (2013: £1: \$1.66).

1.4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described below, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Section 2 – Property, Plant and Equipment and Intangible Assets

2.1 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write-off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years.

	<i>Office equipment, fixtures and fittings</i> \$'000
Cost:	
At 1 January 2013	898
Additions	16
At 1 January 2014	914
Additions	25
At 31 December 2014	939
Accumulated depreciation:	
At 1 January 2013	(425)
Charge for 2013	(257)
At 1 January 2014	(682)
Charge for 2014	(243)
At 31 December 2014	(925)
Net book value at 31 December 2014	14
Net book value at 31 December 2013	232

2.2 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any provision for impairment. Amortisation is charged so as to write-off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Amortisation is included with depreciation and classified as administrative expenses. No intangible assets have indefinite lives.

	<i>Computer software</i> \$'000
Cost:	
At 1 January 2013	2,364
Additions	45
Transfer to Group companies	(1,177)
At 1 January 2014	1,232
Additions	2
At 31 December 2014	1,234
Accumulated amortisation:	
At 1 January 2013	(644)
Amortisation charge for 2013	(305)
At 1 January 2014	(949)
Asset corrections	14
Amortisation charge for 2014	(1)
At 31 December 2014	(936)
Net book value at 31 December 2014	298
Net book value at 31 December 2013	283

Section 3 – Investments in and Loans to Subsidiaries

3.1 Investments

The Company's investments in subsidiary companies are included in the Company Balance Sheet at cost, less provision for any impairment.

The Company's fixed asset investment of \$7.3 million represents the historic cost of acquisition of the entire share capital of Gulfsands Petroleum Ltd. by means of a share-for-share exchange in 2005, less any required provision for impairment.

Loans to subsidiary undertakings of \$55.6 million at 31 December 2013 comprised a revolving loan from the Company to GPUSA including accrued interest of \$12.7 million. Interest was charged on this revolving loan facility at 8.5 per cent. per annum. On 18 December 2014 the Company's subsidiary Gulfsands Petroleum Ltd. disposed of its investment GPUSA and as part of the sale and purchase agreement the inter-company debt owed by GPUSA to Gulfsands Petroleum plc, the ultimate parent company, was novated to the purchaser Hillcrest Resources Ltd. At the date of novation the outstanding loan balance was \$62.0 million inclusive of \$16.6 million accrued interest and \$40.6 million of this balance had already been provided against. The remaining balance of \$21.4 million was written-off on novation.

The Company's investments in subsidiary undertakings are shown in note 4.1 to the Consolidated Financial Statements.

Section 4 – Working Capital

4.1 Trade and other receivables

Trade receivables are carried at original invoice amounts less any provision made for impairment of receivables. A provision for impairment of trade receivables is made when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debt.

	2014 \$'000	2013 \$'000
Current		
Trade receivables	–	223
Other receivables	278	407
Prepayments and accrued income	301	525
	<u>579</u>	<u>1,155</u>
Non-current		
Amounts due from subsidiaries	<u>71,394</u>	<u>49,158</u>

Further details on the amounts due from subsidiaries are included in note 6.5.

4.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand by banks and other short-term investments with original maturities of three months or less. Balances held in bank accounts subject to escrow agreements as collateral for performance bonds issued are excluded from cash and cash equivalents and are shown as long-term financial assets.

	2014 \$'000	2013 \$'000
Cash at bank and in hand	729	29,168
Restricted cash balances	9,931	13,181
Total cash and bank resources	10,660	42,349
Included in long-term financial assets	9,931	13,181
Total cash and cash equivalents	729	29,168

The restricted cash balances at 31 December 2014 consist of:

- \$6.8 million (2013: \$10.0 million) held in escrow to guarantee minimum work obligations on the Rharb, Fes and Moulay Bouchta permits in Morocco; and
- \$3.2 million (2013: \$3.2 million) held in escrow to guarantee minimum work obligations on PUT 14 and LLA 50 in Colombia.

For each of the licences above, the licence period and remaining minimum work commitments are detailed in note 2.4 to the Consolidated Financial Statements.

4.3 Trade and other payables

Trade payables are not interest-bearing and are stated at their nominal values.

Trade and other payables

	2014 \$'000	2013 \$'000
Current		
Trade payables	350	52
Accruals and other payables	727	861
	1,077	913
Non-current		
Amounts due to subsidiaries	–	2,690

Section 5 – Results for the Year

5.1 Revenue recognition

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

Income Statement and total revenue

No individual Income Statement is presented in respect of the Company as permitted by section 408 of the Companies Act 2006. The Company's loss for the year was \$21.2 million (2013: \$8.4 million). The total revenue of the Company, as defined by IAS 18 'Revenue', for 2014 was \$3.9 million (2013: \$4.2 million) comprising of interest income.

The Company operates in one segment, that of the provision of services to Group undertakings, and in one geographical area, the United Kingdom.

5.2 Operating leases

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

Obligations under operating leases

At the end of the year the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings of \$0.6 million (2013: \$0.6 million) within one year and \$0.7 million (2013: \$0.8 million) between two and five years.

5.3 Share-based payments

The Company has made equity settled share-based payments to certain employees and Directors by way of issues of share options. The fair value of these payments is calculated at grant date by the Company using the Black-Scholes option pricing model excluding the effect of non market-based vesting conditions. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of the number of options that will eventually vest. At each Balance Sheet date, the Company revises its estimates of the number of options expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained profit.

See note 5.3 to the Consolidated Financial Statements.

5.4 Taxation

Current tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

No deferred tax assets have been provided in respect of losses carried forward in the UK and other temporary timing differences as the Board does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets.

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted, or substantively enacted, tax rates and laws that will be in effect when the differences are expected to reverse. The recoverability of deferred tax assets is evaluated annually and an impairment provision is provided if it is more likely than not that the deferred tax asset will not give rise to future benefits in the Company's tax returns.

Deferred tax assets/(liabilities)

	2014 \$'000	2013 \$'000
Tax losses carried forward	7,550	9,053
Depreciation in advance of capital allowances	124	227
Unprovided deferred tax asset	(7,674)	(9,280)
Deferred tax asset/(liability) at 31 December	—	—

The tax losses of the Company have no expiry date.

5.5 Earnings per share

No earnings per share information is shown as the Company is not required to present an Income Statement.

Section 6 – Capital Structure and Other Disclosures

Equity instruments

Equity instruments issued by the Company, being any instruments with a residual interest in the assets of the Company after deducting all its liabilities, are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

6.1 Share capital

See note 6.1 to the Consolidated Financial Statements.

6.2 Financial instruments, derivatives and capital management

The financial risks of the Company are principally in respect of balances held in bank accounts and on deposit, and balances owed to, or owed by, subsidiary undertakings. Balances owed to, or owed by, subsidiary undertakings are all denominated in US Dollars. Other risks are managed on a unified basis with the Group and a full disclosure of these risks is made in note 6.2 to the Consolidated Financial Statements.

The exposure of the Company to interest rate and currency movements is not significant.

A summary of the financial assets of the Company is set out below:

	<i>Financial assets on which interest is earned \$'000</i>	<i>Financial assets on which no interest is earned \$'000</i>	<i>Total \$'000</i>
2014			
US Dollar	4,997	76,787	81,784
Pound Sterling	237	30	267
Euro	90	38	128
Other currencies	1	97	98
	<u>5,325</u>	<u>76,952</u>	<u>82,277</u>
2013			
US Dollar	42,045	49,247	91,292
Pound Sterling	214	271	485
Euro	84	–	84
Other currencies	7	53	60
	<u>42,350</u>	<u>49,571</u>	<u>91,921</u>

A summary of the financial liabilities of the Company is set out below:

	<i>Financial liabilities on which no interest is charged</i> \$'000
2014	
US Dollar	88
Pound Sterling	888
Other currencies	23
	<hr/>
	999
	<hr/>
2013	
US Dollar	2,927
Pound Sterling	529
Other currencies	22
	<hr/>
	3,478
	<hr/>

During the year ended 31 December 2014, the Company impaired balances owed from subsidiary undertakings totalling \$21.4 million (2013: \$4.2 million) in respect of activities in the Gulf of Mexico.

6.3 Assets held for sale

Assets held for sale of \$1.2 million (2013: \$0.2 million) represent exploration expenditures relating to the Colombian Putumayo 14 and Llanos 50 E&P contracts. These contracts were granted to the Colombian Branch of the Company, however it is Management's intention to transfer these contracts to the Colombian Branch of a subsidiary company, Gulfsands Petroleum Sud America Limited. This is anticipated to happen within the next twelve months.

6.4 Foreign currency

Foreign currency transactions are translated to the functional and reporting currency of US Dollars at the rates prevailing when the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the Balance Sheet date. All differences are taken to the Income Statement.

6.5 Related party transactions and key management

Key management of the Company are considered to be the Directors of the Company. Any transactions with Directors are disclosed in note 6.3 to the Consolidated Financial Statements. Interests in shares and their remuneration and share options are disclosed in the Directors' Remuneration Report on pages 35 to 37.

The Company traded with various undertakings within the same Group during the years ended 31 December 2014 and 2013. A summary of the transactions and outstanding balances at the year end is set out below.

Balances owed by/(owed to) related parties

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>Commercial terms</i>	<i>2014 \$'000</i>	<i>2013 \$'000</i>
Gulfsands Petroleum Tunisia Ltd	Subsidiary	Non-interest bearing	28,511	27,882
		Provision	(19,856)	(19,856)
Gulfsands Petroleum Levant Ltd	Subsidiary	Non-interest bearing	18,201	19,268
		Provision	(16,038)	(16,038)
Gulfsands Petroleum Ltd.	Subsidiary	Non-interest bearing	2,622	(2,378)
Gulfsands Petroleum Sud America Ltd	Subsidiary	Non-interest bearing	175	(265)
		Provision	(135)	—
Gulfsands Petroleum (MENA) Ltd	Subsidiary	Non-interest bearing	1,340	362
		Provision	(405)	—
Gulfsands Petroleum Morocco Ltd	Subsidiary	Non-interest bearing	38,256	18,505
Gulfsands Petroleum Holdings Ltd	Subsidiary	Non-interest bearing	18,621	18,952
Gulfsands Petroleum Iraq Ltd	Subsidiary	Non-interest bearing	5,867	5,781
		Provision	(5,765)	(5,698)
Gulfsands Petroleum USA, Inc. ⁽¹⁾	Subsidiary disposed of in year	Interest rate 8.5% per annum	—	55,632
		Provision	—	(40,692)
		Non-interest bearing	(82)	(47)

Services recharged to related parties

<i>Name of related party</i>	<i>2014</i>		<i>2013</i>	
	<i>Time writing \$'000</i>	<i>Indirect overhead \$'000</i>	<i>Time writing \$'000</i>	<i>Indirect overhead \$'000</i>
Gulfsands Petroleum Levant Ltd	57	118	354	—
Gulfsands Petroleum Morocco Ltd	2,758	382	1,668	367
Gulfsands Petroleum Sud America Ltd	—	—	46	13
Gulfsands Petroleum Tunisia Ltd	312	47	1,074	56
Gulfsands Petroleum USA, Inc. ⁽¹⁾	7	—	16	—

Services recharged from related parties

<i>Name of related party</i>	<i>2014</i>		<i>2013</i>	
	<i>Time writing \$'000</i>	<i>Management fee \$'000</i>	<i>Time writing \$'000</i>	<i>Management fee \$'000</i>
Gulfsands Petroleum USA, Inc. ⁽¹⁾	456	43	90	9

(1) The Company's subsidiary Gulfsands Petroleum Ltd. disposed of its investment in Gulfsands Petroleum USA, Inc. in December 2014, and at year end that company was no longer a related party.

GLOSSARY OF TERMS

1C	Low estimate (P90) Contingent Resources
2C	Best estimate (P50) Contingent Resources
3C	High estimate (P10) Contingent Resources
ADX	ADX Energy Limited
AIM	Alternative Investment Market of the London Stock Exchange
Arawak	Arawak Energy Bermuda Ltd
bbl	Barrel of oil
bcf	Billion cubic feet of gas
boe	Barrels of oil equivalent where the gas component is converted into an equivalent amount of oil using a conversion rate of 1 bcf to 0.1667mmboe
bopd	Barrels of oil per day
CCH	Comité Consultatif des Hydrocarbures
Code	UK Corporate Governance Code
CSR	Corporate social responsibility
DD&A	Depletion, depreciation and amortisation
DPC	Dijila Petroleum Company
E&E	Exploration and evaluation
E&P	Exploration and production
FRC	Financial Reporting Council
G&A	General and administrative expenses
GPC	General Petroleum Corporation
GPUSA	Gulfsands Petroleum USA, Inc.
Hillcrest	Hillcrest Resources Ltd
HSES	Health, safety, environment and security
IFRS	International Financial Reporting Standards
km	Kilometres
km ²	Square kilometres
KPI	Key performance indicators
LLA 50	Llanos Block 50
mboe	Thousand barrels of oil equivalent
mcf	Thousand cubic feet of gas
MD	Measured depth
MENA	Middle East and North Africa
mmbbl	Millions of barrels of oil
mmboe	Millions of barrels of oil equivalent
mmscfpd	Million standard cubic feet per day
NGLs	Natural gas liquids
NPV	Net present value
ONHYM	Office National des Hydrocarbures et des Mines (Morocco)

Possible reserves	Possible reserves are those additional reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible ("3P") reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be more than a 10 per cent. probability that the quantities actually recovered will equal or exceed the 3P estimate.
Probable reserves	Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be more than a 50 per cent. probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable reserves.
Proved reserves	Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty (normally over 90 per cent. if measured on a probabilistic basis) to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.
P10	There exists a 10 per cent. probability that the true quantity or value is greater than or equal to the stated P10 quantity or value
P50	There exists a 50 per cent. probability that the true quantity or value is greater than or equal to the stated P50 quantity or value
P90	There exists a 90 per cent. probability that the true quantity or value is greater than or equal to the stated P90 quantity or value
PRMS	The 2007 Petroleum Resources Management classification system of the SPE
PSC	Production Sharing Contract
psi	Pounds per square inch
PUT 14	Putumayo Block 14
Senergy	Senergy (GB) Limited
SPE	Society of Petroleum Engineers
TD	Total depth
WPC	World Petroleum Congress

**Gulfsands Petroleum plc –
Annual Report and Accounts 2013**

Independent Auditor's Report

to the members of Gulfsands Petroleum plc

We have audited the financial statements of Gulfsands Petroleum plc for the year ended 31 December 2013 which comprise the Consolidated Income Statement, Consolidated and Company Balance Sheet the Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Equity and the related notes 1 to 6 of the Consolidated Financial Statements and note 1 to 6 of the Company Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Company's affairs as at 31 December 2013 and of the Group's loss for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006;
- the Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Fair value of the Group's producing operations in Syria

In forming our conclusion on the consolidated financial statements for the year ended 31 December 2013, which is not modified, we have considered the adequacy of the disclosures made in note 4.2 to the financial statements concerning the valuation of the Group's suspended producing operations in Syria, which are recorded at the Directors' best estimate of their fair value following the loss of joint control in December 2011. As highlighted in note 4.2, there is significant uncertainty as to the duration of the EU sanctions imposed in December 2011 and the eventual outcome of events in Syria and hence whether the carrying

value of \$102.0 million is an appropriate estimate of the fair value of its suspended producing operations in that country.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made by the Directors in note 1.3a to the consolidated financial statements and within the Financial Review of the Strategic Report concerning the Group and the Company's ability to continue as a going concern. Whilst at 31 December 2013, the Group held cash and cash equivalents of \$33.8 million and its current assets exceeded its current liabilities by \$21.8 million, the Group requires additional funding or management of its commitments in order for it to realise its assets and discharge its liabilities in the normal course of business. The Board is currently pursuing leads on a number of alternative funding sources but at this time there is no certainty that such additional funding will be received. These conditions, along with the other matters explained in note 1.3a to the consolidated financial statements and within the Financial Review of the Strategic Report, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' Remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Company a quoted company.

Graham Hollis ACA (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

3 April 2014

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Revenue	5.1	4,367	5,622
Cost of sales			
Depletion	2.1	(1,267)	(1,430)
Impairment	2.1	(58)	(568)
Other cost of sales		(2,860)	(4,944)
Total cost of sales		(4,185)	(6,942)
Gross profit/(loss)		182	(1,320)
General administrative expenses		(10,408)	(16,624)
Share-based payments	5.3	(516)	(1,751)
Total administrative expenses		(10,924)	(18,375)
Exploration costs written off	2.3	(12,301)	(7,082)
Syrian inventory provision/write off	3.4	(2,905)	–
Other Syrian adjustments		(383)	(34)
Operating loss	5.2	(26,331)	(26,811)
Foreign exchange gains/(losses)		89	(26)
Bank fees and charges		(104)	(92)
Discount expense on decommissioning provision	2.5	(500)	(476)
Net interest income	5.7	89	375
Loss before taxation from continuing activities		(26,757)	(27,030)
Taxation	5.8	–	–
Loss for the year – attributable to owners of the Parent Company		(26,757)	(27,030)
Loss per share from continuing operations (cents):			
Basic	5.9	(22.70)	(22.94)
Diluted	5.9	(22.70)	(22.94)

There are no items of comprehensive income outside of the Income Statement.

The results relate entirely to continuing operations.

CONSOLIDATED BALANCE SHEET**As at 31 December 2013**

	<i>Notes</i>	<i>2013 \$'000</i>	<i>2012 \$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	2.1	12,893	13,872
Intangible assets	2.3	37,558	6,207
Long term financial assets	3.2	19,138	7,837
Investments	4.2	102,000	102,000
		<u>171,589</u>	<u>129,916</u>
Current assets			
Inventory	3.4	2,247	2,905
Trade and other receivables	3.1	3,542	8,560
Cash and cash equivalents	3.2	33,824	90,982
		<u>39,613</u>	<u>102,447</u>
Total assets		<u>211,202</u>	<u>232,363</u>
LIABILITIES			
Current liabilities			
Trade and other payables	3.3	15,245	11,779
Provision for decommissioning	2.5	2,573	2,352
		<u>17,818</u>	<u>14,131</u>
Non-current liabilities			
Trade and other payables	3.3	6,155	–
Provision for decommissioning	2.5	10,578	15,309
		<u>16,733</u>	<u>15,309</u>
Total liabilities		<u>34,551</u>	<u>29,440</u>
Net assets		<u>176,651</u>	<u>202,923</u>
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	6.1	13,131	13,131
Share premium		105,926	105,926
Merger reserve		11,709	11,709
Treasury shares	6.1	(11,502)	(11,619)
Retained profit		57,387	83,776
Total equity		<u>176,651</u>	<u>202,923</u>

These Financial Statements were approved by the Board of Directors on 3 April 2014 and signed on its behalf by:

Alan Cutler

Director – Finance and Administration

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	<i>Share capital \$'000</i>	<i>Share premium \$'000</i>	<i>Merger reserve \$'000</i>	<i>Treasury shares \$'000</i>	<i>Retained profit \$'000</i>	<i>Total equity \$'000</i>
At 1 January 2012	13,131	105,926	11,709	(11,902)	109,323	228,187
Options exercised	–	–	–	283	(149)	134
Purchase of own shares	–	–	–	–	(119)	(119)
Share-based payment charge	–	–	–	–	1,751	1,751
Loss for 2012	–	–	–	–	(27,030)	(27,030)
At 31 December 2012	13,131	105,926	11,709	(11,619)	83,776	202,923
Options exercised	–	–	–	117	(148)	(31)
Share-based payment charge	–	–	–	–	516	516
Loss for 2013	–	–	–	–	(26,757)	(26,757)
At 31 December 2013	13,131	105,926	11,709	(11,502)	57,387	176,651

The Group has represented its Statement of Changes in Equity to include the share-based payments reserve as part of retained profit and to separate treasury shares from retained profit, both as permitted by IFRS.

The merger reserve arose on the acquisition of Gulfsands Petroleum Ltd and its subsidiaries by the Company by way of share-for-share exchange in April 2005, in conjunction with the flotation of the Company on the Alternative Investment Market of the London Stock Exchange.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Operating loss from continuing operations		(26,331)	(26,811)
Depreciation, depletion and amortisation	2.1 & 2.3	2,144	2,430
Impairment charge	2.1	58	568
Exploration costs written off	2.3	12,301	7,082
Other Syrian adjustments		383	34
Decommissioning costs in excess of provision		–	1,104
Share-based payment charge	5.3	516	1,751
Syrian inventory provision/write off	3.4	2,905	–
Increase in receivables		(286)	(152)
Increase/(decrease) in payables		349	(441)
Interest received		89	375
Foreign exchange gains/(losses)		89	(26)
Bank fees		(104)	(92)
Net cash used in operating activities		(7,887)	(14,178)
Investing activities			
Acquisition of subsidiary undertaking	4.3	(17,103)	–
Exploration and evaluation expenditure		(17,302)	(7,830)
Oil and gas properties expenditure		(1,245)	(312)
Increase in inventory		(2,247)	(1,086)
Other capital expenditures		(642)	(1,019)
Change in restricted cash balances		(8,550)	(3,872)
Decommissioning costs paid	2.5	(2,151)	(1,919)
Movements in balance due to or from oil and gas partnerships		–	(3,057)
Net cash used in investing activities		(49,240)	(19,095)
Financing activities			
Cash proceeds from issue of shares		–	145
Purchase of own shares		–	(119)
Other payments in connection with options exercised		(31)	(11)
Net cash (used in)/provided by financing activities	(31)	15	
Decrease in cash and cash equivalents		(57,158)	(33,258)
Cash and cash equivalents at beginning of year		90,982	124,240
Cash and cash equivalents at end of year	3.2	<u>33,824</u>	<u>90,982</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

Section 1 – Basis of Preparation

1.1 Authorisation of Financial Statements and statement of compliance with IFRS

Gulfsands Petroleum plc is a public limited company listed on the Alternative Investment Market (“AIM”) of the London Stock Exchange and incorporated in the United Kingdom. The principal activities of the Company and its subsidiaries (the “Group”) are that of oil and gas production, exploration and development.

The Consolidated Financial Statements for the year ended 31 December 2013 were authorised for issue by the Board of Directors on 3 April 2014 and the Balance Sheets were signed on the Board’s behalf by Alan Cutler.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU. The principal accounting policies adopted are set out in note 1.3 below.

1.2 Adoption of International Financial Reporting Standards

The Consolidated Financial Statements for the year ended 31 December 2013 and for the comparative year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and IFRIC (IFRS Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

1.3 Significant accounting policies

a) Basis of preparation and accounting standards

The Financial Statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU and, except for share-based payments and the valuation of available-for-sale investments, under the historical cost convention.

Going concern

The Financial Statements have been prepared on the going concern basis which has been approved by the Board. The basis on which the Board has reached this decision is as follows:

The Group maintains rolling cash flow forecasts for the forward three year period which are reviewed regularly by the Board of Directors. These cash flows reflect the Group’s net share of all exploration contract work obligations, as summarised in note 6.5, and the contract term over which the applicable commitment for each capital project is required to be performed.

The Group’s processes require that each project is routinely reviewed to confirm that it continues to meet the Group’s criteria for further investment; a process that considers the exploration contract term, the prospective value of the project, as well as the required financial investment to determine the schedule on which any particular project can or should be performed and the appropriate financial and commercial resources (“resources”) for completion of the project – whether from current resources or new sources.

Following a review of all available information, the Board has concluded that the Company and the Group have sufficient resources to cover their minimum expenditure requirements, including licence commitments, over the forthcoming year and indeed that there is further potential to reduce the Group’s cost base.

The Board recognises that for additional projects, being expenditures on projects and other activities beyond the Group’s minimum expenditure requirements, additional resources or restructuring of commitments will be required. Based upon its experience and discussions with potential investors, debt providers and industry partners, the Board is confident that the Group will be able to access appropriate resources for approved additional projects or as otherwise required on a timely basis.

Sources of additional resources may include asset farm-out or similar risk-sharing arrangements, further direct investment in the Company itself or corporate arrangements that may bring resources into the

Company and/or the Group in the form of debt or equity or any combination thereof. The Board is currently pursuing discussions on all of these alternatives in order to maximise its options and the value attributable to existing shareholders.

However, as required by FRC guidance, the Directors have been required to conclude that at this time, there is material uncertainty that such additional resources can be procured. Failure to procure appropriate resources would require the Group to restructure its work and expenditure commitments and might cast significant doubt upon the Company's and the Group's ability to continue as a going concern and that the Company and the Group may therefore be unable to realise their assets and discharge their liabilities in the normal course of business. Such scenario could impact upon the carrying value of intangible exploration and evaluation assets as disclosed in note 2.3 and on the recoverability of certain restricted cash amounts, as disclosed in note 3.2, held in escrow to support guarantees of performance of minimum work obligations.

Following completion of its review at the meeting of the Board of Directors on 1 April 2014, and taking into account the uncertainties described above, the Board has concluded that, with total consolidated cash and bank resources at the date of this report of approximately \$40.0 million, inclusive of \$21.0 million of consolidated cash and cash equivalents, and taking into account new financial resources that the Board might reasonably expect to become available to the Company and the Group, the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of approval of this Annual Report. Accordingly, the Directors consider it appropriate to continue to adopt the "going concern basis" in preparing these Financial Statements.

These Financial Statements consolidate the accounts of Gulfsands Petroleum plc and all its subsidiary undertakings drawn up to 31 December each year.

b) New standards, amendments and interpretations issued and effective during the financial year

The following relevant new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2013, but had no significant impact on the Group:

<i>Standard</i>	<i>Key requirements</i>	<i>Effective date as adopted by the EU</i>
Amendment to IAS 1, 'Presentation of financial statements' – presentation of other items regarding other comprehensive income	The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.	1 July 2012
Amendment to IAS 1, 'Financial statement presentation regarding comparatives'	The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information.	1 January 2013
Amendment to IAS 16, 'Property, plant and equipment'	The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.	1 January 2013
Amendment to IAS 34, 'Interim financial reporting'	The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements to bring it in line with the requirements of IFRS 8.	1 January 2013
Amendment to IFRS 7, 'Financial Instruments: Offsetting Financial Assets and Financial Liabilities'	The amendments require entities to disclose information about the rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar agreement.	1 January 2013
IFRS 13, Fair value measurement	The standard's objective is to define fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement.	1 January 2013

c) Standards issued but not yet effective

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2013, as adopted by the European Union, and have not been early adopted:

<i>Standard</i>	<i>Key requirements</i>	<i>Effective date as adopted by the EU</i>
IFRS 10, 'Consolidated financial statements' and corresponding amendment to IAS 27, 'Consolidated and separate financial statements'	IFRS 10 replaces guidance in IAS 27 regarding the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.	1 January 2014
IFRS 11, 'Joint Arrangements'	IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Proportional consolidation of joint ventures is no longer allowed.	1 January 2014
Amendment to IAS 28, 'Associates and joint ventures'	IAS 28 includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.	1 January 2014
IFRS 12, 'Disclosure of interests in other entities'	Provides disclosure requirements for IFRS 10, IFRS 11 and IAS 28 (Associates) and introduces disclosure requirements for unconsolidated structured entities.	1 January 2014
Amendment to IAS 32, Offsetting Financial Assets and Financial Liabilities	The amendments clarify existing application issues relating to the offsetting requirements of financial assets and liabilities.	1 January 2014

The Directors do not anticipate that the adoption of these standards and interpretations will have a material effect on the reported income or net assets of the Group or Company.

d) Basis of consolidation

Intra-group sales, profits and balances are eliminated fully on consolidation.

The results of subsidiaries acquired or sold are consolidated for the periods from, or to, the date when control passed. Acquisitions are accounted for under the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for the control of the acquiree. Acquisition related costs are recognised in the Income Statement as incurred. At the acquisition date the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

The Consolidated Financial Statements include the accounts of subsidiary undertakings when the Company has the power to exercise, or actually exercises, dominant influence or control over the undertaking.

The Group is engaged in oil and gas exploration, development and production through joint operations. A joint operation is whereby the parties that have joint control of the arrangement have rights to the assets,

and obligations for the liabilities, relating to the arrangement. As a Joint Operator the Group recognises its assets, including its share of any assets incurred jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output of the joint operation; its share of revenue from the sale of the output by the joint operation; and its expenses including its share of any expenses jointly incurred.

When the Group loses control or joint control of a subsidiary or joint operation, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary or joint operation and any non controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary or joint operation are accounted for in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary or joint operation at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

e) Foreign and reporting currency

These Financial Statements are presented in US Dollars. The majority of all costs associated with foreign operations are denominated in US Dollars and not the local currency of the operations. Therefore the presentational and functional currency of the Company, and the functional currency of all subsidiaries, is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2013 was £1: \$1.66 (2012: £1: US \$1.61).

Foreign currency transactions of individual companies within the Group are translated to the functional and reporting currency of US Dollars at the rates prevailing when the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the Balance Sheet date. All differences are taken to the Income Statement.

1.4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The following sets out the critical judgements that the Directors have made in the process of applying the Group's accounting policies and the key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year:

- Going concern – for further details see note 1.3a.
- Reserves estimation – for further details see note 2.1.
- Recoverability of the Group's oil and gas development and production assets – for further details see note 2.1.
- Depletion and impairment of oil and gas development and production assets – for further details see note 2.1.
- Recoverability of intangible oil and gas exploration and evaluations assets – for further details see note 2.3.
- Decommissioning provisions – for further details see note 2.5.
- Fair value of the Group's investment in DPC – for further details see note 4.2.

- Fair values of the assets acquired and liabilities assumed on acquisition – for further details see note 4.3.
- Deferred taxation – for further details see note 5.8.

Section 2 – Oil and Gas Assets

2.1 Property, plant and equipment

Key accounting judgements, estimates and assumptions:

Reserves estimation

The Group's definition of reserves is in accordance and consistent with the 2007 Petroleum Resources Management System, as prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers ("SPE") and reviewed and jointly sponsored by the World Petroleum Council ("WPC"), the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers. The estimation of Proved ("1P"), Proved plus Probable ("2P") and Proved plus Probable plus Possible ("3P") commercially recoverable reserves are performed utilising relevant geological, geophysical and engineering data and with reference to the use of the probabilistic methodology as approved by SPE/WPC. The reserves are verified by a certified independent expert annually.

Proved plus Probable entitlement reserves are utilised as the basis for the Group's calculations of depletion and impairment as these represent the Group's estimate of the most likely commercially recoverable reserves as per the approved probabilistic methodology.

Recoverability of the Group's oil and gas development and production assets

The net book value of oil and gas assets held at 31 December 2013 relate to assets in the Gulf of Mexico US. Management believe there to be no indicators of impairment beyond those taken into consideration in arriving at the impairment charge for the year. Although the Group is looking to divest of these assets they are not held as assets held for sale at the year end as Management do not consider the sale of these assets to be highly probable in the twelve months from the Balance Sheet date.

Depletion and impairment of oil and gas development and production assets

Oil and gas development and production assets held in property, plant and equipment are depleted on a unit of production basis calculated by reference to 2P reserves.

Future forecast capital expenditure associated with developing Proved and Probable reserves is included in the cost base for the purposes of calculating depletion charges. 2P reserves are determined using estimates of oil and gas in place, recovery factors and future oil and gas prices. A long-term oil price of \$90/bbl (2012: \$90/bbl) and a long-term gas price in the Gulf of Mexico of \$4.00/mcf (2012: \$4.00/mcf) have been used in determining the 2P reserves. The carrying amount of oil and gas assets therefore depends upon a number of estimates at year end. The level of 2P reserves is also a key determinant in assessing whether the carrying value of any of the Group's oil and gas assets has been impaired.

Tangible oil and gas assets are grouped into a cash generating unit or groups of units for purposes of impairment testing and for depreciating the development and production assets. A cash generating unit is the smallest unit that does not have inter-related revenues and may be a well, field, area, block, region or other defined area as appropriate. Inter-relationships can be measured by oil and gas production agreements, geological analysis, or other documentation showing such relationships. The only limitation in the size of a cash generating unit is that it cannot be larger than an operating segment of the Group.

The Group applies the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources and where additional guidance is needed IAS 16 Property, Plant and Equipment and IAS 36 Impairment of Assets noting that several items in the latter two standards are exempted for assets at the exploration and evaluation stage due to the application of IFRS 6. Set out below is our interpretation of the principles set out in IFRS 6 and other IFRSs.

Recognition and measurement

Development and production assets are accumulated on a cash generating unit basis and represent the cost of developing the 2P reserves discovered and bringing them into production, together with the

exploration and evaluation (“E&E”) asset expenditures incurred in finding 2P reserves, transferred from intangible E&E assets.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, and the cost of recognising provisions for future restoration and decommissioning, see note 2.5 for further details.

Depletion of producing assets

Expenditure within each cash generating unit is depleted by a unit of production method using the ratio of oil and gas production in the year compared to the estimated quantity of 2P reserves at the beginning of the year. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs for proved and probable reserves. Changes in estimates of commercial reserves or future development costs are dealt with prospectively.

Impairment

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 aggregate carrying value is compared against the recoverable amount of the cash generating unit, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves.

	<i>Oil and gas properties \$'000</i>	<i>Other fixed assets \$'000</i>	<i>Total \$'000</i>
Cost:			
At 1 January 2012	41,267	1,796	43,063
Additions	1,461	601	2,062
Disposals	(7,929)	–	(7,929)
At 31 December 2012	34,799	2,397	37,196
Additions	2,467	217	2,684
Changes to decommissioning estimates	(1,859)	–	(1,859)
At 31 December 2013	35,407	2,614	38,021
Accumulated depreciation and depletion:			
At 1 January 2012	(21,743)	(1,270)	(23,013)
Charge for 2012	(1,430)	(421)	(1,851)
Disposals	5,822	–	5,822
At 31 December 2012	(17,351)	(1,691)	(19,042)
Charge for 2013	(1,267)	(479)	(1,746)
At 31 December 2013	(18,618)	(2,170)	(20,788)
Accumulated impairment:			
At 1 January 2012	(5,821)	–	(5,821)
Impairment charge for 2012	(568)	–	(568)
Disposals	2,107	–	2,107
At 31 December 2012	(4,282)	–	(4,282)
Impairment charge for 2013	(58)	–	(58)
At 31 December 2013	(4,340)	–	(4,340)
Net book value at 31 December 2013	12,449	444	12,893
Net book value at 31 December 2012	13,166	706	13,872

Impairment charges relate to provisions against certain of the Group's carrying values of its US producing assets, following a review of reserves at the year end.

Impairment for the assets in the Gulf of Mexico has been assessed, based on a value in use calculation, and using a pre tax discount rate of 6 per cent. (2012: 6 per cent.), a long term Brent crude oil price of \$90/bbl (2012: \$90/bbl) and a long term gas price of \$4.0/mcf (2012: \$4.0/mcf). In determining the appropriate discount rate to be used consideration is given to the risk directly incorporated in the underlying cash flow forecasts.

At the end of 2013 an independent third party review of decommissioning estimate was undertaken by TSB offshore, Inc. As a result of this report the estimates used to calculate the decommissioning provision were revised reducing the cost of the decommissioning asset by \$1.9 million. See note 2.5 for further details.

2.2 Property, plant and equipment other than oil and gas assets

Property, plant and equipment other than oil and gas assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Freehold land is not depreciated.

2.3 Intangible assets

Key accounting judgements, estimates and assumptions:

Recoverability of intangible oil and gas exploration and evaluation assets

The carrying values of E&E after impairments and write offs are assessed for impairment which involves judgement as to the (i) likely commerciality of the assets, and (ii) future revenues and costs pertaining and (iii) the discount rate to be applied for the purpose of deriving a recoverable value. Additional judgements apply to the Group's E&E assets affected by sanctions in Syria, see note 4.2 for further details.

The Board reviewed the carrying value of its E&E assets as at 31 December 2013 and concluded that there are no indicators that the carrying value is impaired.

In December 2013 the Group entered into an agreement with ADX to acquire the remaining interest in the Chorbane permit for \$1.75 million and withdraw from its interests in the Kerkouane permit. Both parties signed this agreement in December 2013 however final approval is still required from the DGE. The Board has determined that the date of acquisition to be the date the agreement was signed as this is when the risks and rewards were substantially transferred and the DGE approval is considered to be a procedural matter only, and has been recorded in these Financial Statements from that date.

The Group applies the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources, set out below is our interpretation of the principles set out in IFRS 6.

Recognition and measurement

The Group follows the successful efforts method of accounting whereby costs for unsuccessful exploration activities are expensed. All licence acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets in cost centres by field or exploration area, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalised insofar as they relate to specific exploration activities. Pre-licence costs and general exploration costs not directly attributable to any particular licence or prospect are expensed as incurred.

E&E assets relating to each exploration licence/prospect are not amortised but are carried forward until the existence or otherwise of commercial reserves has been determined. If commercial reserves have been discovered, the related E&E assets are assessed for impairment on a cash generating unit basis as set out below and any impairment loss is recognised in the Income Statement. The carrying value of the E&E assets, after any impairment loss, is then reclassified as development and production assets in property, plant and equipment. Costs of unsuccessful exploration efforts are expensed at the time that a determination is made that the exploration has failed to locate commercially recoverable hydrocarbons.

Impairment

As the Group does not hold any intangibles with an indefinite useful life, non-current assets are assessed for impairment on a cash generating unit basis when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such triggering events in respect of E&E assets include the point at which determination is made as to whether commercial reserves exist.

Where there has been an indication of a possible impairment, management assess the recoverability of the carrying value of the cash generating unit by comparison with the estimated discounted future net cash flows based on management's expectation of the future production, hydrocarbon prices and costs. Any identified impairment is charged to the Income Statement.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the Income Statement, net of any depreciation that would have been charged since the impairment.

	<i>Exploration and Evaluation Assets</i>				<i>Computer software</i>	<i>Total</i>
	<i>Morocco</i>	<i>Colombia</i>	<i>Syria</i>	<i>Tunisia</i>		
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cost:						
At 1 January 2012	–	–	9,997	6,869	2,135	19,001
Additions	–	–	17	5,026	402	5,445
Exploration expenditure written back/(written off)	–	–	17	(7,099)	–	(7,082)
At 31 December 2012	–	–	10,031	4,796	2,537	17,364
Additions	41,783	243	474	3,553	421	46,474
Other write offs	–	–	–	(1,000)	(475)	(1,475)
Exploration expenditure written off	(10,147)	–	–	(2,154)	–	(12,301)
At 31 December 2013	31,636	243	10,505	5,195	2,483	50,062
Accumulated amortisation:						
At 1 January 2012	–	–	–	–	(547)	(547)
Charge for 2012	–	–	–	–	(579)	(579)
At 31 December 2012	–	–	–	–	(1,126)	(1,126)
Charge for 2013	–	–	–	–	(398)	(398)
At 31 December 2013	–	–	–	–	(1,524)	(1,524)
Accumulated impairment:						
At 1 January 2012	–	–	(9,997)	–	–	(9,997)
Impairment provision for 2012	–	–	(34)	–	–	(34)
At 31 December 2012	–	–	(10,031)	–	–	(10,031)
Impairment provision for 2013	–	–	(474)	–	(475)	(949)
At 31 December 2013	–	–	(10,505)	–	(475)	(10,980)
Net book value at 31 December 2013	31,636	243	–	5,195	484	37,558
Net book value at 31 December 2012	–	–	–	4,796	1,411	6,207

Morocco

In 2013 the Group acquired interests in the Rharrb Centre, Rharrb Sud and Fes permits through the acquisition of Cabre Maroc Limited. Included within additions for the year is \$19.3 million fair value of E&E assets acquired as part of this business combination.

In respect of the Rharb Petroleum contract, three wells were drilled in the first phase of drilling; AKR 1 and OZI 1 were completed prior to the year end and BFD 2 completed shortly after the year end. All of these wells were considered non-commercial so were plugged and abandoned. As a result, \$10.1 million of costs have been written off in the year. At 31 December 2013 the Moroccan E&E assets represents the fair value attributed at acquisition to the Fes, Rharb Sud and Rharb Centre permits after a write off of part of the fair value attributed at acquisition to the Rharb Centre permit, and acquiring and processing seismic data on the Rharb Centre and Fes permits.

Syria

The accumulated costs of E&E assets in Syria represent the Group's share of the drilling costs of the Al Khairat, Twaiba and Wardieh wells and certain 3D seismic surveys. The Al Khairat well was successfully tested but commercial development approval is yet to be granted by the Syrian Arab Republic. The Twaiba and Wardieh wells are still under evaluation.

Following the imposition of EU sanctions against the oil industry in Syria, an impairment test was conducted and the carrying value of all E&E assets in Syria has been impaired to nil as it is presently unclear whether the Group will be able to apply for commercial development approval in the manner contemplated by the Production Sharing Contract.

Tunisia

In 2013 the Group wrote off a total of \$3.2 million of costs in respect of the Kerkouane permit on withdrawal from the permit at the end of 2013. This was offset by a release of the decommissioning provision previously held for the Kerkouane assets of \$1.0 million.

At 31 December 2013 the Tunisian E&E assets represent expenditures on the Chorbane permit including seismic acquisition and related costs plus amounts paid during 2013 to increase participation in the licence. See the key judgements and estimates section on page 57.

Colombia

In 2013 the Group was awarded E&P contracts over two blocks in Colombia; PUT 14 and LLA 50. At 31 December 2013 the E&E assets of \$0.2 million (2012: \$nil) represent costs related to these blocks incurred in the year.

2.4 Intangible assets other than oil and gas assets – computer software

Intangible assets other than oil and gas assets are stated at cost less accumulated amortisation and any provision for impairment. Amortisation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Amortisation is included with depreciation and classified as cost of sales or administrative expenses as appropriate. No intangible assets have indefinite lives.

2.5 Decommissioning

Key accounting judgements, estimates and assumptions:

The Group has decommissioning obligations in respect of its producing interests in the Gulf of Mexico. The full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs. The Group received a report from external specialist decommissioning experts regarding the cost of future works in the Gulf of Mexico at the end of 2013. The timing of the decommissioning works is inherently uncertain and depends upon the determination of the end of commercial production. The Group has utilised the expected useful lives in the year-end reserves report for the Group's Gulf of Mexico assets to estimate the timing of associated decommissioning liabilities.

A risk free interest rate of 3 per cent. (2012: 3 per cent.) has been used to discount the expected costs of decommissioning based upon a ten year US treasury bond. A decrease in the discount rate utilised to 2 per cent. per annum would increase the total value of the decommissioning provision by \$0.9 million. An increase in the discount rate to 4 per cent. would decrease the decommissioning provision by \$0.8 million. The impact

on the income statement for 2013 is immaterial. A future cost inflation rate of 2.5 per cent. per annum has been used, based on an historical average. An increase in this estimate to 4 per cent. per annum would increase the decommissioning provision by \$1.4 million. At 31 December 2013, the oil and gas properties had estimated abandonment dates between 2014 and 2027.

Actual decommissioning costs will ultimately depend upon future market prices for the decommissioning work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain. The actual amounts paid for decommissioning may ultimately vary significantly from the provision at 31 December 2013 requiring potentially material adjustments to the carrying value of the obligations.

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. A fixed asset of an amount equivalent to the provision is also created (included in development and production assets) and depleted on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset.

The movement in the provision for decommissioning was as follows:

	\$'000
At 1 January 2012	16,883
Changes in estimates	1,117
Costs in excess of provision	1,104
Decommissioning expenses	(1,919)
Discount expense	476
At 31 December 2012	17,661
Current portion	2,352
Non current portion	15,309
At 1 January 2013	17,661
Changes in estimates	(1,859)
Decommissioning expenses	(2,151)
Discount expense	500
Disposal	(1,000)
At 31 December 2013	13,151
Current portion	2,573
Non current portion	10,578

At the end of 2013 the Group withdrew from its interest in the Kerkouane permit as part of a settlement with ADX Energy Limited. As part of the settlement all existing and future liabilities in relation to the Kerkouane permit are assumed by ADX. Therefore the \$1.0 million decommissioning provision previously provided for in respect of this the permit has been released.

At the end of 2013 an independent engineer's report of the future costs of decommissioning the US assets was commissioned which reported decommissioning estimates lower than carried and resulted in an adjustment to the decommissioning provision of \$1.9 million in 2013.

Section 3 – Working Capital

3.1 Trade and other receivables

Trade receivables are carried at original invoice amounts less any provision made for impairment of receivables. A provision for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the debt.

	2013 \$'000	2012 \$'000
Trade receivables	272	58
Other receivables	710	125
Prepayments and accrued income	1,188	3,212
Amounts due from oil and gas partnerships	1,372	5,165
	<u>3,542</u>	<u>8,560</u>

At 31 December 2013 and 2012 the Group was owed \$25.3 million by the government of the Syrian Arab Republic relating to oil delivered during the period August to November 2011. The total amount invoiced was \$31.2 million and to date an amount of \$5.9 million has been paid. The government of the Syrian Arab Republic has acknowledged the debt. This asset was fully provided against in 2011 due to uncertainties of recovery.

3.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand by banks and other short-term investments with original maturities of three months or less. Balances held in bank accounts subject to escrow agreements as collateral for performance bonds issued are excluded from cash and cash equivalents and are shown as long-term financial assets.

	2013 \$'000	2012 \$'000
Cash at bank and in hand	33,824	90,982
Restricted cash balances	19,138	7,837
Total cash and bank resources	52,962	98,819
Included in long-term financial assets	(19,138)	(7,837)
Total cash and cash equivalents	<u>33,824</u>	<u>90,982</u>

The restricted cash balances at 31 December 2013 include:

- \$2.9 million (2012: \$2.7 million) held in escrow to cover decommissioning expenditures under the requirements of the regulatory authorities that manage the oil and gas and other mineral resources in the Gulf of Mexico.
- \$10.0 million (2012: \$5.0 million) held in escrow to guarantee minimum work obligations on the Rharrb and Fes permits in Morocco.
- An additional \$2.5 million (2012: \$nil) held in escrow to guarantee minimum work obligations on the Rharrb and Fes permits which was acquired as part of the acquisition of Cabre Maroc Limited (see note 4.3) which is due back to the previous parent company on its release under the terms of the sale and purchase agreement (see note 3.3).
- \$3.2 million (2012: \$nil) held in escrow to guarantee minimum work obligations on the Putumayo block 14 and Llanos block 50.

3.3 Trade and other payables

Trade payables are not interest-bearing and are stated at their nominal values.

	2013 \$'000	2012 \$'000
Current liabilities		
Trade payables	3,059	1,026
Accruals and other payables	12,186	10,753
	<u>15,245</u>	<u>11,779</u>
Non current liabilities		
Trade payables	1,887	–
Accruals and other payables	4,268	–
	<u>6,155</u>	<u>–</u>

Included within non-current liabilities is \$2.5 million which will be payable following the release of a long-term bond, for further details see note 3.2.

Included within non-current liabilities is \$3.7 million owed to parties subject to asset freezing regulations under the EU sanctions regime. These amounts relate to goods and services acquired before those entities were designated as sanctioned parties. The Group is not in a position to make payments for these goods or services until such time as sanctions are lifted against the named parties. These liabilities have therefore been reclassified to non-current liabilities in the current year as payment of these balances is not expected to be permissible within the next year.

3.4 Inventory

Inventories comprise materials and equipment, which are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing the materials and equipment to its present condition and location.

	2013 \$'000	2012 \$'000
Drilling inventory	4,451	2,905
Provisions	(2,204)	–
	<u>2,247</u>	<u>2,905</u>

During 2013 \$0.7 million of inventory held for Syrian operations was written off due to a theft at the warehouse. An insurance claim for the full value was submitted during the year however due to complications as a result of EU sanctions it is not appropriate to recognise the claim as an asset as it is not virtually certain that a settlement would be paid.

At 31 December 2013 a further provision of \$2.2 million (2012: \$nil) has been made against the value of the remaining Syrian stock. Management believe this is appropriate in light of the theft in the year and the lack of full control over and access to the warehouse that Management have at this present time due to the situation in Syria.

Section 4 – Other Assets and Liabilities

4.1 Investments

The Company's investments in subsidiary undertakings are shown below. All investments are in ordinary shares and are directly or indirectly owned by the Company as stated below:

<i>Name of company</i>	<i>Proportion of voting shares at 31 December 2013</i>	<i>Nature of business</i>	<i>Country of incorporation</i>
Directly held by the Company:			
Gulfsands Petroleum Ltd.	100%	Holding company	Cayman Islands
Indirectly held by the Company:			
Gulfsands Petroleum Holdings	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd	100%	Oil and gas exploration	Cyprus
Gulfsands Petroleum (MENA) Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Sud America Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum USA, Inc.	100%	Oil and gas exploration	US
Darcy Energy LLC	100%	Oil and gas exploration	US

On 1 August 2013 Cabre Maroc Limited (registered in Cyprus) changed its name to Gulfsands Petroleum Morocco Ltd.

4.2 Available-for-sale financial assets

Key accounting judgements, estimates and assumptions:

Fair value of the Group's investment in Dijila Petroleum Company ("DPC")

The Group's investment in DPC, the entity established in Syria, pursuant to the PSC, to administer the Group's Syrian oil and gas development and production assets (and which is considered to also include the related rights to production under the PSC), is recorded as an available-for-sale investment at an estimate of fair value taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future activities in Syria. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, the calculation of fair value is highly subjective and subject to material change in future periods, as described further below.

Available-for-sale financial assets are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

The Group is party to a PSC for the exploitation of hydrocarbon production in Block 26 in Syria. Pursuant to the PSC the Group operates its Syrian oil and gas production assets through a joint venture administered by DPC in which the Group has a 25 per cent. equity interest. The Group lost joint control of DPC on 1 December 2011 following the publication of European Union Council Decision 2011/782/CFSP. For the purposes of EU sanctions, DPC is considered to be controlled by General Petroleum Corporation. Since the Group has neither joint control nor significant influence over the financial and operating policy decisions of the entity, it carries its investment in DPC and the associated rights under the Block 26 PSC as an available-for-sale financial asset. The fair value attributed to DPC at 31 December 2013 is \$102 million (31 December 2012: \$102 million).

The basis of calculation of the fair value of the investment in DPC continues to be the estimated future cash flows that could be generated in respect of the Group's entitlement reserves in Block 26, using a long-term Brent oil price assumption of \$90/bbl, discounted at a rate of 15 per cent. per annum. The resulting net present value is further reduced to reflect the Board's view of the specific risks associated with investments in the Syrian oil and gas sector at the current time. Such risks include potential delay in resumption of oil production and in receipt of revenues from Block 26, potential additional costs associated with

recommencement of operations and the potential inability to resume operations in Block 26. The impact of this risking methodology has been to reduce the valuation of the asset by 80 per cent. The valuation represents a level 3 measurement basis as defined by IFRS 7.

There is a high degree of subjectivity inherent in the valuation due to the unknown duration of the sanctions and the eventual outcome of events in Syria. Accordingly it may change materially in future periods depending on a wide range of factors. The following table sets out the impact that changes in the key variables would have on the carrying value of the asset:

	Change %	Change in carrying value of investment \$'000
Increase in forecast capital expenditure	5	(1,902)
Decrease in long-term commodity prices	5	(11,610)
Increase in forecast operating expenditure	5	(1,113)
Change in discount rate to 10%	5	31,907
Change in discount rate to 20%	5	(21,916)
Change in the Syrian oil and gas sector risk to 90%	10	(51,000)

The Directors have reviewed the carrying value of this available-for-sale financial asset at 31 December 2013 and are of the opinion that the valuation, although subject to significant uncertainty, is appropriate. The valuation methodology reflects the difficulty of predicting the timing of future activities in Syria, taking into consideration the current exceptional circumstances in the country and is not necessarily reflective of the value of the Group's investments in its Syrian operations over the long term.

4.3 Business combinations

Key accounting judgements, estimates and assumptions:

Fair value of the assets acquired and liabilities assumed on acquisition

On acquisition of Cabre Maroc Limited the Group recognised the identifiable assets acquired and liabilities assumed at their fair value. The Directors have considered any new information which has come to light during the year in respect of conditions and circumstances that existed at the acquisition date and have recognised all assets and liabilities of which it has become aware. The Directors have taken into account advice of the Moroccan authorities with respect to legacy well decommissioning responsibilities and as a result have not recognised a provision for the decommissioning of these wells.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair value of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The acquisition of 100 per cent. of the issued share capital of Cabre Maroc Limited was completed on 16 January 2013 and the results from operations of Cabre Maroc are included in the Group results from that date.

Cabre Maroc is a Cyprus-registered company with oil and gas exploration and production operations in Morocco. Cabre Maroc changed its name to Gulfsands Petroleum Morocco Limited on 1 August 2013. Further details of its activities are included in the Operations Review in this Report. The purchase of Cabre Maroc delivers to Gulfsands a large, contiguous and highly prospective acreage in an area with proven petroleum systems, revenues from near-term production and multiple drilling targets.

On completion of the accounting for the business combination, the final amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

	<i>\$'000</i>
Financial assets	2,654
Intangible exploration and evaluation assets	19,280
Financial liabilities	(4,661)
Total identifiable assets	17,273
Total consideration	17,273
Satisfied by:	
Cash	17,273
Total consideration transferred	17,273
Net cash outflow arising on acquisition:	
Cash consideration	17,273
Less: cash consideration paid in 2012	(100)
Less: cash and cash equivalents acquired	(70)
	17,103

The fair value of intangibles exploration and evaluation assets acquired consists of the fair value attributed to the Rharb Centre, Rharb Sud and Fes permits acquired. No deferred tax liability has been recognised in respect of the accounting for the business combination, see note 5.8.

The contribution of Cabre Maroc to the Group's loss for the period since the date of acquisition was \$10.4 million and capital expenditures in that period totaled \$22.5 million.

Section 5 – Results for the Year

5.1 Total revenue and segmental analysis

Revenue recognition

Sales revenue represents amounts invoiced exclusive of sales-related taxes and royalties for the Group's share of hydrocarbon sales in the year. Hydrocarbon sales are recognised when goods are delivered and title has passed. No allowance is made for the Group's share of future revenues from costs incurred to date that have yet to be allowed for cost recovery purposes.

The total revenue of the Group, as defined by IAS 18, for 2013 was \$4.5 million (2012: \$6.0 million) comprising sales of hydrocarbons and incidental income of \$4.4 million (2012: \$5.6 million) and interest income of \$0.1 million (2012: \$0.4 million).

For Management purposes, at 31 December 2013 the Group operated in four geographical areas, Morocco, Tunisia, Colombia and the US with suspended operations in Syria as discussed in note 4.2. All segments are involved with production and exploration of oil and gas. Other, represents corporate and head office costs.

The Group's revenue, result and certain asset and liability information for the year are analysed by reportable segment as follows:

Year ended 31 December 2013

	<i>Syria</i> \$'000	<i>Morocco</i> \$'000	<i>Tunisia</i> \$'000	<i>US</i> \$'000	<i>Colombia</i> \$'000	<i>Other</i> \$'000	<i>Total</i> \$'000
Sale revenues	–	–	–	4,367	–	–	4,367
Operating loss	(4,471)	(10,165)	(2,434)	(820)	(11)	(8,430)	(26,331)
Financing cost							(426)
Net loss							(26,757)
G&A expenditure	(1,573)	(18)	(280)	(1,000)	(11)	(7,526)	(10,408)
Total assets	104,128	39,924	5,673	16,348	489	44,640	211,202
Total liabilities	(3,766)	(12,562)	(1,835)	(14,836)	(347)	(1,205)	(34,551)
Capital expenditure:							
Exploration and evaluation	474	41,783	3,553	–	243	–	46,053
Oil and gas properties	–	–	–	2,467	–	–	2,467
Exploration costs written off	–	(10,147)	(2,154)	–	–	–	(12,301)
Impairment of oil and gas assets	–	–	–	(58)	–	–	(58)
Impairment of Syrian exploration activities	(474)	–	–	–	–	–	(474)
Inventory written off	(701)	–	–	–	–	–	(701)
Inventory provision	(2,204)	–	–	–	–	–	(2,204)

Year ended 31 December 2012

	<i>Syria</i> \$'000	<i>Morocco</i> \$'000	<i>Tunisia</i> \$'000	<i>US</i> \$'000	<i>Colombia</i> \$'000	<i>Other</i> \$'000	<i>Total</i> \$'000
Sale revenues	–	–	–	5,622	–	–	5,622
Operating loss	(4,812)	–	(7,471)	(1,758)	–	(12,770)	(26,811)
Financing cost							(219)
Net loss							(27,030)
G&A expenditure	(3,078)	–	–	(1,717)	–	(11,829)	(16,624)
Total assets	108,005	–	5,497	17,406	–	101,455	232,363
Total liabilities	(8,753)	–	(2,095)	(17,259)	–	(1,333)	(29,440)
Capital expenditure:							
Exploration and evaluation	17	–	5,026	–	–	–	5,043
Oil and gas properties	–	–	–	1,461	–	–	1,461
Exploration costs written off	17	–	(7,099)	–	–	–	(7,082)
Impairment of oil and gas assets	–	–	–	(568)	–	–	(568)
Impairment of Syrian exploration activities	(34)	–	–	–	–	–	(34)
Inventory written off	–	–	–	–	–	–	–
Inventory provision	–	–	–	–	–	–	–

5.2 Operating loss

The Group's operating loss including its suspended Syrian activities is stated after charging/(crediting):

	2013 \$'000	2012 \$'000
Share-based payment charges (note 5.3)	516	1,751
Depletion of oil and gas properties (note 2.1)	1,267	1,430
Depreciation and amortisation of other assets (notes 2.1 and 2.3)	877	1,000
Impairment of development and production assets (note 2.1)	58	568
Exploration expenditure written off (note 2.3)	12,301	7,082
Other Syrian adjustments	383	34
Syrian inventory impairment/written off (note 3.4)	2,905	–
Staff costs excluding share-based payments (note 5.5)	8,844	11,154
Operating lease rentals:		
Buildings	1,044	1,473
Vehicles and equipment	10	219

Operating leases

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

5.3 Share-based payments

The Company has made equity-settled share-based payments to certain employees and Directors by way of issues of share options. The fair value of these payments is calculated at grant date by the Company using the Black-Scholes option pricing model excluding the effect of non market-based vesting conditions. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of the number of options that will eventually vest. At each Balance Sheet date, the Company revises its estimates of the number of options expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

The Group operates two share-based remuneration plans issuing options and restricted shares. Options are issued to Directors and certain senior management personnel. Restricted shares are available to other staff.

Options are issued with an exercise price equivalent to the underlying share price averaged over a period immediately prior to the date of grant, or such other higher exercise price as the Remuneration Committee may determine. Restricted shares are issued with an exercise price equivalent to the par value of the shares. Both options and restricted shares will usually have a deferred vesting period and a maximum validity period of five years.

The share-based payment charge for the period is based upon the requirements of IFRS 2 regarding share-based payments. For this purpose, the weighted average estimated fair value of the share options and restricted shares granted was calculated using a Black-Scholes option pricing model. The expected average life of options and restricted shares was assumed to be four years. No dividends were factored into the model. Volatility has been estimated based on the historical volatility of the underlying shares.

No options or restricted shares were issued in 2013 (2012: fair value of options and restricted shares issued \$0.8 million).

The estimated fair value of options and restricted shares with a deferred vesting period is charged to the Income Statement over the vesting period of the options concerned. The estimated fair value of options and restricted shares exercisable immediately is expensed at the time of issuance of the award. Further details are provided in note 6.1.

5.4 Auditor's remuneration

Details of the auditor's remuneration is set out in the table below:

	<i>2013</i> <i>\$'000</i>	<i>2012</i> <i>\$'000</i>
Fees payable to the Company's auditor for the audit of:		
Company's accounts	176	240
Company's subsidiaries	46	29
Total audit fees	222	269
Audit related assurance services	47	56
Taxation compliance services	49	44
Other taxation advisory services	18	21
Other services	–	61
Total non-audit fees	114	182

5.5 Staff costs

The aggregate payroll costs of staff and Directors were as follows:

	<i>2013</i> <i>\$'000</i>	<i>2012</i> <i>\$'000</i>
Wages and salaries	8,083	10,080
Social security costs	616	868
Share-based payment charges	516	1,751
Other benefits in kind	145	206
	9,360	12,905

Included in wages and salaries above is an amount of \$1.0 million in respect of termination payments to staff paid during 2013 (2012: \$1.5 million).

The average monthly number of persons employed by the Group, including Directors was as follows:

	<i>2013</i>	<i>2012</i>
Operational and technical	20	28
Administrative	37	39
	57	67

5.6 Directors' emoluments

Details of the remuneration of Directors are included in the Directors' Remuneration Report on page 40. No employees other than Directors are determined to be key management personnel.

5.7 Net interest receivable

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

	<i>2013</i> <i>\$'000</i>	<i>2012</i> <i>\$'000</i>
Short-term bank deposit interest	89	375

5.8 Taxation

Key accounting judgements, estimates and assumptions:

Deferred taxation

As part of the acquisition of Cabre Maroc the Board has considered whether a deferred tax liability in respect of temporary timing differences arising on the fair value attributed to E&E assets on acquisition should be recognised. As the majority of any future revenues which could arise from these assets are expected to fall within a ten-year tax holiday under the provisions of the Moroccan Hydrocarbon Code no provision has been recognised and no gross up has been applied to the E&E asset value recognised.

No deferred tax assets have been provided in respect of losses carried forward in UK and US and other temporary timing differences as the Board does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets.

Current tax, including UK Corporation Tax and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted, or substantively enacted, tax rates and laws that will be in effect when the differences are expected to reverse. The recoverability of deferred tax assets is evaluated annually and an impairment provision is made if it is more likely than not that the deferred tax asset will not give rise to future benefits in the Group's tax returns.

Deferred tax assets are not provided where the Group does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets. In performing this calculation the Group considers deferred tax balances relating to each tax authority separately.

Where current or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

	2013 \$'000	2012 \$'000
Current Corporation Tax:		
UK Corporation Tax	–	–
Overseas Corporation Tax	–	–
Total credit	<u>–</u>	<u>–</u>

The Group's effective tax rate differs from the theoretical amount that would arise using the UK domestic corporation tax rate applicable to profits of the consolidated companies as follows:

	2013 \$'000	2012 \$'000
Total loss before tax	<u>(26,757)</u>	<u>(27,030)</u>
Tax calculated at domestic rate of 23.25% (2012: 24.5%)		
Effects of:	(6,221)	(6,622)
Expenses not deductible for taxation purposes	1	2
Share-based payments	120	398
Tax losses for which no deferred taxation asset was recognised	1,228	799
Expiry of tax losses	1,286	1,497
Effect of prior period adjustment	415	1,581
Impact of local tax rates	3,591	2,332
Other tax adjustments	(420)	13
	<u>–</u>	<u>–</u>

The Group's tax liabilities in Tunisia and Syria are settled on its behalf by the national oil companies out of the latter's share of royalties and profit oil and, as such, are not reflected in the Group's tax charge for the year.

In Morocco under section 42 of law no. 21-90 related to the Hydrocarbon Code, the Group benefits from a ten-year exemption from Moroccan corporate income tax in respect of each exploitation concession, commencing on the date on which regular production begins from that exploitation concession.

Deferred tax

The tax effect of amounts for which no deferred tax asset has been recognised is as follows:

	<i>2013</i> <i>\$'000</i>	<i>2012</i> <i>\$'000</i>
DD&A and impairment in excess of tax allowances	2,040	3,329
Other short-term temporary differences	21,655	14,185
Tax losses carried forward	20,943	19,566
Unprovided deferred tax asset	(44,638)	(37,080)
Deferred tax asset/(liability) at 31 December	<u>–</u>	<u>–</u>

\$2.8 million (2012: \$2.6 million) of the Group's unutilised tax losses expire between 2014 and 2016.

5.9 Loss per share

The basic and diluted loss per share have been calculated using the loss for the year ended 31 December 2013 of \$26.8 million (2012: \$27.0 million). The basic loss per share was calculated using a weighted average number of shares in issue less treasury shares held, of 117,855,702 (2012: 117,844,680). The weighted average number of ordinary shares, allowing for the exercise of share options, for the purposes of calculating the diluted loss per share was 118,192,648 (2012: 118,202,604).

Where there is a loss, the impact of share options is anti-dilutive and hence, basic and diluted loss per share are the same.

Section 6 – Capital Structure and Other Disclosures

Equity instruments

Equity instruments issued by the Company, being any instruments with a residual interest in the assets of the Company after deducting all its liabilities, are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

6.1 Share capital Group and Company Group and Company

	<i>2013</i> <i>Number</i>	<i>2012</i> <i>Number</i>
Authorised:		
Ordinary shares of 5.714 pence each	<u>175,000,000</u>	<u>175,000,000</u>

	2013 \$'000	2012 \$'000
Allotted, called up and fully paid:		
121,989,500 (2012: 121,989,500) ordinary shares of 5.714 pence each	13,131	13,131

The movements in share capital and share options were:

	Number of ordinary shares	Number of share options	Number of restricted shares	Weighted average price of options £
At 31 December 2012	121,989,500	7,436,000	446,139	2.18
Restricted shares settled cashless	–	–	(79,990)	–
Restricted shares cash-settled	–	–	(2,500)	–
Share options and restricted shares lapsing unexercised	–	(5,800,000)	–	2.03
At 31 December 2013	121,989,500	1,636,000	363,649	2.72

All restricted shares have an exercise price of 5.714 pence per restricted share.

Pursuant to a share buyback programme in 2011 the Company holds 4,103,355 shares in Treasury at 31 December 2013 (2012: 4,144,820). During 2013, 41,465 shares were issued from Treasury to satisfy the exercise of restricted shares.

The detail of the share options and restricted shares outstanding at 31 December 2013 are as follows:

Exercise period	Year options or restricted shares vest	Weighted average exercise price of options (£)	Number of options	Number of restricted shares
9 February 2009 – 10 June 2014	2009	£1.87	125,000	–
16 February 2010 – 10 June 2014	2010	£1.88	62,500	–
16 February 2011 – 15 February 2014	2011	£1.86	62,500	–
4 May 2011 – 3 May 2015	2011	£3.20	427,500	–
4 May 2012 – 3 May 2015	2012	£3.20	427,500	–
3 June 2012 – 2 June 2016	2012	£2.35	265,500	–
3 June 2013 – 2 June 2016	2013	£2.35	265,500	–
4 May 2011 – 3 November 2015	2011	–	–	50,668
4 May 2012 – 3 November 2015	2012	–	–	50,667
3 June 2012 – 2 June 2016	2012	–	–	15,661
3 June 2013 – 2 June 2016	2013	–	–	15,659
4 April 2012 – 29 October 2017	2013	–	–	109,997
4 April 2012 – 29 October 2017	2014	–	–	109,997
4 April 2012 – 29 October 2017	2015	–	–	11,000
		£2.72	1,636,000	363,649

Options are exercisable at prices from £1.86 to £3.20 per share and had a weighted estimated remaining contractual life of 1.5 years at 31 December 2013. The weighted remaining contractual life of the restricted shares is approximately 3.2 years.

Of the total outstanding options at 31 December 2013, the options granted to the Directors numbered 1,200,000 (2012: 6,300,000) and those granted to other staff numbered 436,000 (2012: 1,061,000). In 2012 the remaining 75,000 were granted to ex-employees and ex-Directors or consultants who were at 31 December 2012 involved with or had performed work for the Group. All restricted shares outstanding were granted to non-Directors employed by the Group.

The average share price during 2013 was £0.78 (2012: £1.21). The highest share price during the year was £1.16 and the lowest price was £0.47 (2012: £1.87 and £0.87).

6.2 Financial instruments, derivatives and capital management

Risk assessment

The Group's oil and gas activities are subject to a range of financial risks, as described below, which can significantly impact its performance.

Liquidity risk

At the end of the year the Group had cash and cash equivalents of \$33.8 million, and further bank balances of \$19.1 million held in escrow to cover expected decommissioning liabilities and to guarantee minimum work obligations.

Cash forecasts identifying the liquidity requirements of the Group are produced frequently. These are reviewed regularly by management and the Board. Note 1.3a sets out how the Group monitor its cash and cash equivalents in light of its financing requirements.

Currency risk

The Group has currency exposure arising from transactions denominated in currencies other than the functional currency of the Company and all its subsidiaries, US Dollars. These transactions relate to certain costs of its oil and gas exploration and production operations which are denominated in local currencies or in Euro, and its head office costs which are denominated in Pounds Sterling.

In Syria and Tunisia where the operations are covered by PSCs costs incurred in currencies other than US Dollars are recoverable under the terms of the PSC at the rate of exchange between US Dollars and that currency at the date of payment of the expense.

The Group maintains part of its cash balances in Pounds Sterling to defray head office costs but limits exposure to other currencies as far as practicable.

The following table demonstrates the sensitivity to changes in the US Dollar exchange rate, with all other variables held constant, on the Group's profit before tax and the Group's equity:

	<i>Change in US Dollar rate</i>	<i>Effect on profit before tax \$'000</i>
2013	(+ or -) 5%	130
2012	(+ or -) 5%	125

Credit risk

During the year ended 31 December 2013, 82 per cent. of the Group's oil and gas revenues, which were all derived from the US segment, were received from Sunoco Inc and 16 per cent. from Southwest Energy LP. During the year end 31 December 2012, 79 per cent. of the Group's revenues, which were all derived from the US segment, were received from Sunoco Inc and 11 per cent. from Southwest Energy LP.

In the US the Group trades only with a small number of recognised, creditworthy third parties. The Group manages the exposures to credit risk by performing credit evaluations on such of their major customers as require credit.

The Directors do not consider that any further provision is necessary against any financial assets.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an

optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group considers capital to be its equity reserves. At the current stage of the Group's life cycle, the Group's objective in managing its capital is to ensure funds raised meet the exploration expenditure commitments.

The Group ensures it is meeting its objectives by reviewing its KPIs and other management information to ensure its activities are progressing in line with expectations, controlling costs and placing unused funds on deposit to conserve resources and increase returns on surplus cash held.

Financial assets

The Group's financial assets consist of long-term financial assets, its available-for-sale investment in DPC, cash at bank and receivables. The interest rate profile at 31 December for these assets at US Dollar equivalents was as follows:

	<i>Financial assets on which interest is earned \$'000</i>	<i>Financial assets on which no interest is earned \$'000</i>	<i>Total \$'000</i>
2013			
US Dollar	50,310	102,573	152,883
Pound Sterling	75	223	298
Euro	730	14	744
Syrian Pounds	148	7	155
Moroccan Dirham	1,621	147	1,768
Other currencies	79	101	180
	<u>52,963</u>	<u>103,065</u>	<u>156,028</u>
2012			
US Dollar	95,231	112,709	207,940
Pound Sterling	–	466	466
Euro	84	793	877
Syrian Pounds	–	55	55
Moroccan Dirham	–	–	–
Other currencies	–	–	–
	<u>95,315</u>	<u>114,023</u>	<u>209,338</u>

The Pound Sterling, Euro, Moroccan Dirham and Syrian Pound assets principally comprise cash on hand, cash in instant access accounts and short-term money market deposits. The US Dollar assets represent an available-for-sale financial asset, cash on call accounts, money market accounts, and short-term receivables. The Group earned interest on its interest bearing financial assets at rates between 0.01 per cent. and 0.5 per cent.

In the current economic climate with exceptionally low interest rates, the Group is not sensitive to fluctuations in the interest rate received on bank and money market deposits and accordingly no sensitivity analysis is published.

Included in financial assets on which no interest is earned at 31 December 2013 and 2012 was a gross amount of \$25.3 million of trade receivables that has been fully provided against. This amount is due from the Government of the Syrian Arab Republic in respect of oil sales in Syria. The receivable is acknowledged by General Petroleum Corporation of the Syrian Arab Republic but due to the ongoing sanctions against the country's oil industry the payment of this amount has been delayed and, taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future payment, has been fully impaired. The remaining trade receivables consist of amounts receivable from various counter-parties where the Group considers the credit risk to be low. This risk is monitored by the Group.

Financial liabilities

The Group's financial liabilities consist of short-term payables. None of these liabilities bear interest to external parties. The Group's short-term liabilities are considered to be payable on demand. At 31 December financial liabilities are classified as shown below:

	<i>Financial liabilities on which no interest is charged \$'000</i>
2013	
US Dollar	15,923
Pound Sterling	928
Euro	446
Syrian Pounds	292
Moroccan Dirham	3,138
Other currencies	719
	<hr/>
	21,446
2012	
US Dollar	10,298
Pound Sterling	629
Euro	230
Syrian Pounds	550
Moroccan Dirham	—
Other currencies	72
	<hr/>
	11,779
	<hr/>

Commodity price risk

The Group sells its hydrocarbon production on the spot market and has exposure to changes in oil and gas prices. The Directors make considerations as to the likely fluctuations in commodity prices and the materiality of revenue to the Group in determining if derivative contracts are required to mitigate any risk. In 2013 commodity prices averaged \$102.18 for oil (2012: \$102.10) and \$3.79 for gas (2012: \$3.20).

In 2012 and 2013 the Group did not enter into derivative contracts in respect of its exposure to fluctuations in the price of oil and gas.

Fair values

The Group has an available-for-sale financial asset valued by the Directors at \$102 million as described further above in note 4.2.

At 31 December 2013 and 2012, the Directors considered the fair values and book values of the Group's financial assets and liabilities to be materially the same.

6.3 Related party transactions and key management

Key management of the Group are considered to be the Directors of the Company. Directors' interests in shares and their remuneration and share options are disclosed in the Directors' Remuneration Report on pages 40 and 41.

The remuneration of Directors is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2013 \$'000	2012 \$'000
Short-term employee benefits	3,178	2,133
Share-based payments	181	975
	<u>3,359</u>	<u>3,108</u>

In 2013 the Group paid \$nil (2012: \$32,000) to Hamilton Capital Partners Limited, a company associated with Mr Judge, for London office representative costs.

In 2013 the Group paid \$31,000 (2012: \$nil) to Emiga Conseils SAS, a company associated with Mr Faure for management consultancy costs.

In 2013 the Group paid \$30,000 (2012: \$3,000) to McMillan LLP, a company associated with Mr Cowan for legal services. All of the above related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Balances and transactions between the Company and its subsidiaries, which are related, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its subsidiaries are disclosed in note 6.4 of the Company Financial Statements.

There were no other related party transactions of the Group during the years ended 31 December 2013 or 2012 and no amounts were due to or from related parties as at 31 December 2013 (2012: \$nil).

6.4 Obligations under operating leases

At the end of the year the Group had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2013		2012	
	<i>Land and buildings \$'000</i>	<i>Other \$'000</i>	<i>Land and buildings \$'000</i>	<i>Other \$'000</i>
Amounts payable on leases:				
Within one year	712	8	651	7
In two to five years	1,266	10	1,950	13
	<u>1,978</u>	<u>18</u>	<u>2,601</u>	<u>20</u>

6.5 Commitments

At 31 December 2013 the Group had the following capital commitments in respect of its exploration activities:

Morocco

Rharb permit – licence expiry date and deadline for fulfilment of capital commitments July 2014

- Drilling of a further six exploration wells.
- Total cost of commitments estimated at \$14.0 million.

Fes permit – licence expiry date and deadline for fulfilment of capital commitments September 2015

- Drilling of three exploration wells.
- Acquisition of 1,000 km of 2D seismic which commenced in 2013 and will be completed in 2014.
- Acquisition of 100 km² 3D seismic.
- Total commitments estimated at \$42.3 million inclusive of a \$7.0 million carry.

Tunisia**Chorbane permit – licence expiry date and deadline for fulfilment of capital commitments July 2015**

- Drilling of one exploration well.
- Total commitments estimated at \$7.0 million.

Colombia**Putumayo 14**

- Drilling of one exploration well.
- 2D seismic minimum 103 km.
- Total commitments estimated at \$7.8 million.
- To be fulfilled by November 2016.

Llanos 50

- Drilling of one exploration well.
- 2D seismic minimum 93 km.
- Total commitments estimated at \$6.8 million.
- To be fulfilled by November 2016.

There were no other material obligations or contracts outstanding in relation to ongoing projects not provided or disclosed in these Financial Statements.

PARENT COMPANY PRIMARY STATEMENTS

This section contains the Company's primary Financial Statements.

- Company Balance Sheet
- Company Statement of Changes in Equity
- Company Cash Flow Statement

Section 1 Basis of Preparation

This section contains the Group's significant accounting policies that relate to the financial statements as a whole. Significant accounting policies specific to one note have been included in that note. Accounting policies determined non-significant are not included in these financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

- 1.1 Authorisation of financial statements and statement of compliance with IFRSs
- 1.2 Adoption of International Financial Reporting Standards
- 1.3 Significant accounting policies
- 1.4 Critical accounting judgements and key sources of estimation uncertainty

Section 2 Property, Plant and Equipment and Intangible Assets

This section focuses on the property, plant, equipment and computer software utilised by the Company.

- 2.1 Property, plant and equipment
- 2.2 Intangible assets

Section 3 Investments in and Loans to Subsidiaries

This section focuses on the Company's investments and loans.

- 3.1 Investments

Section 4 Working Capital

This section focuses on the working capital position of the Company supporting its business

- 4.1 Trade and other receivables
- 4.2 Cash and cash equivalents
- 4.3 Trade and other payables

Section 5 Results for the Year

This section focuses on the results and performance of the Company.

- 5.1 Revenue recognition
- 5.2 Operating leases
- 5.3 Share-based payments
- 5.4 Taxation
- 5.5 Earnings per share

Section 6 Capital Structure and Other Disclosures

The disclosures in this section focus on the issued share capital, the share schemes in operation and other mandatory disclosures.

- 6.1 Share capital
- 6.2 Financial instruments, derivatives and capital management
- 6.3 Foreign currency
- 6.4 Related party transactions and key management

COMPANY BALANCE SHEET

As at 31 December 2013

	Notes	2013 \$'000	2012 \$'000
ASSETS			
Non-current assets			
Property, plant and equipment	2.1	232	473
Intangible assets	2.2	283	1,720
Long-term financial assets	4.2	13,181	5,000
Investments in and loans to subsidiaries	3.1	22,247	20,596
Amounts due from subsidiaries	4.1	49,158	5,755
		<u>85,101</u>	<u>33,544</u>
Current assets			
Trade and other receivables	4.1	1,398	585
Cash and cash equivalents	4.2	29,168	89,440
		<u>30,566</u>	<u>90,025</u>
Total assets		<u>115,667</u>	<u>123,569</u>
LIABILITIES			
Current liabilities			
Trade and other payables	4.3	913	1,183
Non-current liabilities			
Amounts due to subsidiaries	4.3	2,690	2,378
Total liabilities		<u>3,603</u>	<u>3,561</u>
Net assets		<u>112,064</u>	<u>120,008</u>
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	6.1	13,131	13,131
Share premium		105,926	105,926
Treasury shares		(11,502)	(11,619)
Retained profit		4,509	12,570
Total equity		<u>112,064</u>	<u>120,008</u>

The Financial Statements of Gulfsands Petroleum plc (registered number: 05302880) were approved by the Board of Directors on 3 April 2014 and signed on its behalf by:

Alan Cutler

Director – Finance and Administration

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	<i>Share capital \$'000</i>	<i>Share premium \$'000</i>	<i>Treasury shares \$'000</i>	<i>Retained profit/(loss) \$'000</i>	<i>Total equity \$'000</i>
At 1 January 2012	13,131	105,926	(11,902)	49,455	156,610
Options exercised	–	–	283	(149)	134
Purchase of own shares	–	–	–	(119)	(119)
Share-based payment charge	–	–	–	1,751	1,751
Loss for 2012	–	–	–	(38,368)	(38,368)
At 31 December 2012	13,131	105,926	(11,619)	12,570	120,008
Options exercised	–	–	117	(148)	(31)
Share-based payment charge	–	–	–	516	516
Loss for 2013	–	–	–	(8,429)	(8,429)
At 31 December 2013	13,131	105,926	(11,502)	4,509	112,064

The Company has represented its Statement of Changes in Equity to include the share-based payments reserve as part of retained profit and to separate treasury shares from retained profit, both as permitted by IFRS.

COMPANY CASH FLOW STATEMENT
For the year ended 31 December 2013

	Notes	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Operating loss		(8,400)	(8,355)
Depreciation and amortisation	2.1 & 2.2	562	608
Share-based payment charge		516	1,751
Increase in receivables		(811)	(339)
(Decrease)/increase in payables		(273)	839
Net cash used in operations		(8,406)	(5,496)
Interest received		78	373
Bank fees		(26)	(9)
Foreign exchange (losses)/gains		(81)	280
Net cash used in operating activities		(8,435)	(4,851)
Investing activities			
Capital expenditure		(62)	(1,334)
Change in restricted cash balances	4.2	(8,181)	(4,000)
Funds transferred to subsidiaries		(43,563)	(15,209)
Net cash used in investing activities		(51,806)	(20,543)
Financing activities			
Cash proceeds from issue of shares		–	145
Purchase of own shares		–	(119)
Other payments in connection with options issued		(31)	(11)
Net cash (used in)/provided by financing activities		(31)	15
Decrease in cash and cash equivalents		(60,272)	(25,379)
Cash and cash equivalents at beginning of year		89,440	114,819
Cash and cash equivalents at end of year	4.2	29,168	89,440

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2013

Section 1 – Basis of Preparation

1.1 Authorisation of financial statements and statement of compliance with IFRSs

Gulfsands Petroleum plc is a public limited company listed on the Alternative Investment Market ("AIM") of the London Stock Exchange and incorporated in the United Kingdom. The principal activity of the Company is that of provision of services to its subsidiaries which are engaged in oil and gas production, exploration and development activities.

The Company's Financial Statements for the year ended 31 December 2013 were authorised for issue by the Board of Directors on 3 April 2014 and the Balance Sheet was signed on the Board's behalf by Alan Cutler.

The Company's Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The principal accounting policies adopted are set out in note 1.3 below.

The risks faced by the Company include those related to EU sanctions, described in note 4.2 to the Consolidated Financial Statements.

1.2 Adoption of International Financial Reporting Standards

The Company's Financial Statements for the year ended 31 December 2013 and for the comparative year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and IFRIC (IFRS Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

See note 1.3b to the Consolidated Financial Statements for details of new IFRSs and interpretations.

1.3. Significant accounting policies

a) Basis of preparation and accounting standards

The Company's significant accounting policies used in the preparation of the Company Financial Statements are set out in the notes below.

The Financial Statements have been prepared in accordance with applicable IFRS as adopted by the EU and, except for share-based payments, under the historical cost convention. They have also been prepared on the going concern basis of accounting, for the reasons set out as for the Consolidated Financial Statements in note 1.3a.

b) Reporting currency

These Financial Statements are presented in US Dollars. The Company's operations and the majority of all costs associated with foreign operations are paid in US Dollars and all loan balances with subsidiary undertakings are denominated in US Dollars. Therefore the presentational and functional currency of the Company is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2013 was £1: \$1.66 (2012: £1: \$1.61).

1.4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described below, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The following set out the critical judgement that the Directors have made in the process of applying the Company's accounting policies and the key assumptions concerning the Company and other key sources of estimate uncertainty at the Balance Sheet date that has a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year:

- Deferred taxation – for further details see note 5.4.

Section 2 – Property, Plant and Equipment and Intangible Asset

2.1 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years.

	<i>Office equipment, fixtures and fittings \$'000</i>
Cost:	
At 1 January 2012	332
Additions	566
At 1 January 2013	898
Additions	16
At 31 December 2013	914
Accumulated depreciation:	
At 1 January 2012	(302)
Charge for 2012	(123)
At 1 January 2013	(425)
Charge for 2013	(257)
At 31 December 2013	(682)
Net book value at 31 December 2013	232
Net book value at 31 December 2012	473

2.2 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any provision for impairment. Amortisation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Amortisation is included with depreciation and classified as administrative expenses. No intangible assets have indefinite lives.

	<i>Computer software</i> \$'000
Cost:	
At 1 January 2012	1,596
Additions	768
At 1 January 2013	2,364
Additions	45
Transfer to Group companies	(1,177)
At 31 December 2013	1,232
Accumulated amortisation:	
At 1 January 2012	(159)
Amortisation charge for 2012	(485)
At 1 January 2013	(644)
Amortisation charge for 2013	(305)
At 31 December 2013	(949)
Net book value at 31 December 2013	283
Net book value at 31 December 2012	1,720

Section 3 – Investments in and Loans to Subsidiaries

3.1 Investments

The Company's investments in subsidiary companies are included in the Company Balance Sheet at cost, less provision for any impairment.

The Company's fixed asset investment of \$7.3 million represents the historic cost of acquisition of the entire share capital of Gulfsands Petroleum Ltd. by means of a share for share exchange in 2005, less any required provision for impairment.

Loans to subsidiary undertakings comprise a revolving loan from the Company to Gulfsands Petroleum USA, Inc. for \$55.6 million (2012: \$49.7 million) including accrued interest of \$12.7 million (2012: \$8.4 million) which is included within trade and other receivables. Interest is charged at 8.5 per cent. per annum on the outstanding principal and is payable in full on 31 December annually. The principal balance may be paid in part or in full at anytime with no penalty. On 1 January 2015 the loan converts to a term loan and the payments will be made in four instalments over the next three years.

A total impairment provision of \$40.7 million (2012: \$36.4 million) has been recognised against the carrying value of this loan in the Company's Financial Statements. This provision writes down the value of the loan to Gulfsands Petroleum USA, Inc. to the amount expected to be realisable after the anticipated disposal of the Company's assets in the Gulf of Mexico. The fair value less costs to sell has been estimated following discussions with external specialist transaction advisers retained by the Group.

The acquisition of 100 per cent. of the issued share capital of Cabre Maroc Limited ("Cabre Maroc") was completed on 16 January 2013. Following completion of the transaction the Company, indirectly, owns the entire issued share capital of Cabre Maroc, further details of the acquisition can be found in note 4.3 of the notes to the Consolidated Financial Statements.

The Company's investments in subsidiary undertakings are shown in note 4.1 of the notes to the Consolidated Financial Statements.

Section 4 – Working Capital

4.1 Trade and other receivables

Trade receivables are carried at original invoice amounts less any provision made for impairment of receivables. A provision for impairment of trade receivables is made when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debt.

Trade and other receivables

	2013 \$'000	2012 \$'000
Current		
Trade receivables	223	–
Other receivables	650	100
Prepayments and accrued income	525	485
	<u>1,398</u>	<u>585</u>
Non-current		
Amounts due from subsidiaries	<u>49,158</u>	<u>5,755</u>

Further details on the amounts due from subsidiaries are included in note 6.4.

4.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand by banks and other short-term investments with original maturities of three months or less. Balances held in bank accounts subject to escrow agreements as collateral for performance bonds issued are excluded from cash and cash equivalents and are shown as long-term financial assets.

	2013 \$'000	2012 \$'000
Cash at bank and in hand	29,168	89,440
Restricted cash balances	<u>13,181</u>	<u>5,000</u>
Total cash and bank resources	42,349	94,440
Included in long-term financial assets	<u>13,181</u>	<u>5,000</u>
Total cash and cash equivalents	<u>29,168</u>	<u>89,440</u>

The restricted cash balances at 31 December 2013 consist of:

- \$10.0 million (2012: \$5.0 million) held in escrow to guarantee minimum work obligations on the Rharrb and Fes permits in Morocco.
- \$3.2 million (2012: \$nil) held in escrow to guarantee minimum work obligations on PUT 14 and LLA 50 in Colombia.

4.3 Trade and other payables

Trade payables are not interest-bearing and are stated at their nominal values.

Trade and other payables

	2013 \$'000	2012 \$'000
Current		
Trade payables	52	327
Accruals and other payables	861	856
	<u>913</u>	<u>1,183</u>
Non-current		
Amounts due to subsidiaries	<u>2,690</u>	<u>2,378</u>

Section 5 – Results for the Year

5.1 Revenue recognition

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

Income statement and total revenue

No individual Income Statement is presented in respect of the Company as permitted by section 408 of the Companies Act 2006. The Company's loss for the year was \$8.4 million (2012: \$38.4 million). The total revenue of the Company, as defined by IAS 18, for 2013 was \$4.2 million (2012: \$4.1 million) comprising of interest income.

The Company operates in one segment, that of the provision of services to Group undertakings, and in one geographical area, the United Kingdom.

5.2 Operating leases

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

Obligations under operating leases

At the end of the year the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings of \$0.4 million (2012: \$0.6 million) within one year and \$0.8 million (2012: \$2.0 million) between two and five years.

5.3 Share-based payments

The Company has made equity-settled share-based payments to certain employees and Directors by way of issues of share options. The fair value of these payments is calculated at grant date by the Company using the Black-Scholes option pricing model excluding the effect of non market-based vesting conditions. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of the number of options that will eventually vest. At each Balance Sheet date, the Company revises its estimates of the number of options expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

See note 5.3 within the Consolidated Financial Statements.

5.4 Taxation

Key accounting judgements, estimates and assumptions:

Deferred taxation

No deferred tax assets has been provided in respect of losses carried forward in UK and other temporary timing differences as the Board does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets.

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted, or substantively enacted, tax rates and laws that will be in effect when the differences are expected to reverse. The recoverability of deferred tax assets is evaluated annually and an impairment provision is provided if it is more likely than not that the deferred tax asset will not give rise to future benefits in the Company's tax returns.

Deferred tax assets/(liabilities)

	2013 \$'000	2012 \$'000
Tax losses carried forward	9,053	8,145
Depreciation in advance of capital allowances	227	201
Other short-term temporary differences	18,926	19,132
Unprovided deferred tax asset	(28,206)	(27,478)
Deferred tax asset/(liability) at 31 December	–	–

The tax effect of amounts for which no deferred tax asset has been recognised is as follows:

	2013 \$'000	2012 \$'000
Unutilised tax losses	9,053	8,145
Other short-term temporary differences	19,153	19,333
	28,206	27,478

The tax losses of the Company have no expiry date.

Deferred tax assets are not provided where the Company does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets.

5.5 Earnings per share

No earnings per share information is shown as the Company is not required to present an Income Statement.

Section 6 – Capital Structure and Other Disclosures

Equity instruments

Equity instruments issued by the Company, being any instruments with a residual interest in the assets of the Company after deducting all its liabilities, are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

6.1 Share capital

See note 6.1 within the Consolidated Financial Statements of the Group.

6.2 Financial instruments, derivatives and capital management

The financial risks of the Company are principally in respect of balances held in bank accounts and on deposit, and balances owed to, or owed by, subsidiary undertakings. Balances owed to or owed by subsidiary undertakings are all denominated in US Dollars. Other risks are managed on a unified basis with the Group and a full disclosure of these risks is made in note 6.2 of the Group Consolidated Financial Statements.

The exposure of the Company to interest rate and currency movements is not significant.

A summary of the financial assets and financial liabilities of the Company is set out below:

	<i>Financial assets on which interest is earned \$'000</i>	<i>Financial assets on which no interest is earned \$'000</i>	<i>Total \$'000</i>
2013			
US Dollar	42,045	49,247	91,292
Pound Sterling	214	271	485
Euro	84	–	84
Other currencies	7	53	60
	<u>42,350</u>	<u>49,571</u>	<u>91,921</u>
2012			
US Dollar	92,394	7,586	99,980
Pound Sterling	–	465	465
Euro	–	335	335
Other currencies	–	–	–
	<u>92,394</u>	<u>8,386</u>	<u>100,780</u>
			<i>Financial liabilities on which no interest is charged \$'000</i>
2013			
US Dollar			2,927
Pound Sterling			529
Other currencies			22
			<u>3,478</u>
2012			
US Dollar			2,683
Pound Sterling			834
Other currencies			44
			<u>3,561</u>

During the year ended 31 December 2013 the Company impaired balances owed from subsidiary undertakings totalling \$4.2 million (2012: \$30.8 million) in respect of activities in the Gulf of Mexico. In 2012 this provision also related to its activities in Tunisia (\$3.7 million), Syria (\$6.4 million) and Iraq (\$0.8 million).

6.3 Foreign currency

Foreign currency transactions are translated to the functional and reporting currency of US Dollars at the rates prevailing when the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. All differences are taken to the Income Statement.

6.4. Related party transactions and key management

Key management of the Company are considered to be the Directors of the Company. Any transactions with Directors are disclosed in note 6.3 of the Consolidated Financial Statements. Interests in shares and their remuneration and share options are disclosed in the Directors' Remuneration Report on pages 40 and 41.

The Company traded with various undertakings within the same Group during the years ended 31 December 2013 and 2012. A summary of the transactions and outstanding balances at the year end is set out below.

Balances owed by/(owed to) related parties

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>Commercial terms</i>	<i>2013 \$'000</i>	<i>2012 \$'000</i>
Gulfsands Petroleum USA, Inc.	Subsidiary	Interest rate 8.5% per annum	55,632	49,737
		Provision	(40,692)	(36,447)
		Non-interest bearing	(47)	(11)
Gulfsands Petroleum Tunisia Ltd	Subsidiary	Non-interest bearing	27,882	24,652
		Provision	(19,856)	(19,967)
Gulfsands Petroleum Levant Ltd	Subsidiary	Non-interest bearing	19,268	16,305
		Provision	(16,038)	(16,038)
Gulfsands Petroleum Ltd	Subsidiary	Non-interest bearing	(2,378)	(2,378)
Gulfsands Petroleum Sud America Ltd	Subsidiary	Non-interest bearing	(265)	–
Gulfsands Petroleum (MENA) Ltd	Subsidiary	Non interest-bearing	362	–
Gulfsands Petroleum Morocco Ltd	Subsidiary	Non-interest bearing	18,505	–
Gulfsands Petroleum Holdings Ltd	Subsidiary	Non-interest bearing	18,952	51
Gulfsands Petroleum Iraq Ltd	Subsidiary	Non-interest bearing	5,781	5,698
		Provision	(5,698)	(5,698)

Services recharged to related parties

<i>Name of related party</i>	<i>2013</i>		<i>2012</i>	
	<i>Time writing \$'000</i>	<i>Indirect overhead \$'000</i>	<i>Time writing \$'000</i>	<i>Indirect overhead \$'000</i>
Gulfsands Petroleum USA, Inc.	16	–	–	–
Gulfsands Petroleum Levant Ltd	354	–	–	–
Gulfsands Petroleum Morocco Ltd	1,668	367	–	–
Gulfsands Petroleum Sud America Ltd	46	13	–	–
Gulfsands Petroleum Tunisia Ltd	1,074	56	–	–

Services recharged from related parties

Name of related party	2013		2012	
	Management		Management	
	Time writing \$'000	fee \$'000	Time writing \$'000	fee \$'000
Gulfsands Petroleum USA, Inc.	90	9	471	47

Five Year Summary

	unit	2013	2012	2011	2010	2009
Consolidated production						
Production – working interest	mmboe	0.1	0.1	3.1	3.8	2.7
Production – entitlement	mmboe	0.1	0.1	1.3	1.7	1.6

Summary Consolidated Income Statement

Revenue	\$MM	4.4	5.6	124.9	115.6	84.4
Operating (loss)/profit	\$MM	(26.3)	(26.9)	56.7	45.5	29.0
Net (loss)/profit to shareholders	\$MM	(26.8)	(27.0)	55.1	44.7	28.3
Basic (loss)/earnings per share	US cents	(22.70)	(22.94)	45.51	36.88	23.68

Summary Consolidated Cash Flow Statement

Net cash (used in)/from operating activities	\$MM	(7.9)	(14.2)	94.3	70.2	43.5
Net cash used in investing activities	\$MM	(49.2)	(19.1)	(38.3)	(48.0)	(26.3)
Net cash from financing activities	\$MM	0.0	0.0	(12.4)	0.8	3.6
Net (decrease) /increase in cash and cash equivalents	\$MM	(57.2)	(33.3)	43.6	23.0	20.8

Summary Consolidated Balance Sheet

Total assets	\$MM	211.2	232.4	261.1	242.9	179.3
Shareholders' equity	\$MM	176.7	202.9	228.2	183.0	134.2
Cash and cash equivalents less debt	\$MM	33.8	91.0	124.2	80.6	57.6

All amounts shown above for 2009, 2010 and 2011 include the results of the Group's Syrian operations which are required to be treated as discontinued by IFRS and are therefore non-GAAP measures.

The figures for 2009 shown above have been restated since publication of the original Financial Statements.

GLOSSARY OF TERMS

1C	Low estimate Contingent Resources
1P	Proved reserves, denotes low estimate scenario of Reserves
2C	Best estimate Contingent Resources
2P	Proved plus Probable Reserves, denotes best estimate scenario of Reserves
3C	High estimate Contingent Resources
3P	Proved plus Probable plus Possible Reserves, denotes high estimate scenario of Reserves
bbl	Barrel of oil
bcf	Billion cubic feet of gas
boe	Barrels of oil equivalent where the gas component is converted into an equivalent amount of oil using a conversion rate of 6mcf to one barrel of oil
boepd	Barrels of oil equivalent per day
CSR	Corporate Social Responsibility
DD&A	Depletion, depreciation and amortisation
DGE	Direction Générale de l’Energie (Tunisia)
DPC	Dijila Petroleum Company
E&E	Exploration and evaluation
E&P	Exploration and production
EMV	Expected monetary value
FRC	Financial Reporting Council
G&A	General and administrative expenses
GPC	General Petroleum Corporation
HSE	Health, Safety and Environment
IFRS	International Financial Reporting Standards
km	Kilometres
km ²	Square kilometres
KPI	Key Performance Indicators
mboe	Thousand barrels of oil equivalent
mcf	Thousand cubic feet of gas
MENA	Middle East and North Africa
mmbbl	Millions of barrels of oil
mmboe	Millions of barrels of oil equivalent
NGLs	Natural Gas Liquids
NRI	Net revenue interest
NSAI	Netherland, Sewell & Associates, Inc.
ONHYM	Office National des Hydrocarbures et des Mines (Morocco)
P10	There exists a 10 per cent. probability that the true quantity or value is greater than or equal to the stated P10 quantity or value
P50	There exists a 50 per cent. probability that the true quantity or value is greater than or equal to the stated P50 quantity or value

P90	There exists a 90 per cent. probability that the true quantity or value is greater than or equal to the stated P90 quantity or value
PDP reserves	Proved Developed Producing Reserves
PDNP	Proved Developed Non-Producing Reserves
PRMS	The 2007 Petroleum Resources Management classification system of the SPE
PSC	Production Sharing Contract
Senergy	Senergy (GB) Limited
SPE	Society of Petroleum Engineers
WPC	World Petroleum Congress

**Gulfsands Petroleum plc –
Annual Report and Accounts 2012**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GULFSANDS PETROLEUM PLC

We have audited the financial statements of Gulfsands Petroleum plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements, and the related notes 1 to 6 of the Consolidated Financial Statements and notes 1 to 6 of the Company Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities in the Directors' Report, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – fair value of the Group's producing operations in Syria

In forming our opinion on the Consolidated Financial Statements for the year ended 31 December 2012, which is not qualified, we have considered the adequacy of the disclosures made in notes 5.9 and 6.2 to the Financial Statements concerning the valuation of the Group's suspended producing operations in Syria, which are recorded at the Directors' best estimate of their fair value following the loss of joint control in December 2011. As highlighted in note 5.9 there is significant uncertainty as to the duration of the EU sanctions imposed in December 2011 and the eventual outcome of events in Syria and hence whether the

carrying value of \$102 million is an appropriate estimate of the fair value of its suspended producing operations in the country.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Company a quoted company.

Graham Hollis ACA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

8 April 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 \$'000	2011 \$'000
Continuing operations			
Revenue	5.1	5,622	7,907
Cost of sales			
Depletion	2.3	(1,430)	(3,883)
Impairment	2.3	(568)	(64)
Other cost of sales		(4,944)	(6,382)
Total cost of sales		(6,942)	(10,329)
Gross loss		(1,320)	(2,422)
General administrative expenses		(16,716)	(19,745)
Foreign exchange losses		(26)	(1,458)
Share-based payments	5.3	(1,751)	(2,522)
Total administrative expenses		(18,493)	(23,725)
Exploration costs written off	2.1	(7,082)	(22,547)
Impairment provision on Syrian exploration activities	2.1	(34)	(9,997)
Profit on disposal of oil and gas properties	2.3	–	6,628
Operating loss	5.2	(26,929)	(52,063)
Discount expense on decommissioning provision	4.2	(476)	(638)
Net interest income	5.7	375	270
Loss before taxation from continuing activities		(27,030)	(52,431)
Taxation credit	5.8	–	31
Profit for the year from suspended Syrian activities	5.9	–	107,476
(Loss)/profit for the year – attributable to owners of the Parent Company		(27,030)	55,076
Loss per share from continuing operations (cents):			
Basic	5.10	(22.94)	(43.30)
Diluted	5.10	(22.94)	(43.30)
(Loss)/earnings per share from continuing operations and suspended Syrian activities (cents):			
Basic	5.10	(22.94)	45.51
Diluted	5.10	(22.94)	44.80

There are no items of comprehensive income not included in the Income Statement.

CONSOLIDATED BALANCE SHEET**As at 31 December 2012**

	<i>Notes</i>	<i>2012 \$'000</i>	<i>2011 \$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	2.3	13,872	14,229
Intangible assets	2.1	6,207	8,457
Long-term financial assets	3.2	7,837	3,965
Investments	5.9	102,000	102,000
		<u>129,916</u>	<u>128,651</u>
Current assets			
Inventory – materials	3.4	2,905	2,870
Trade and other receivables	3.1	8,560	5,347
Cash and cash equivalents	3.2	90,982	124,240
		<u>102,447</u>	<u>132,457</u>
Total assets		<u>232,363</u>	<u>261,108</u>
LIABILITIES			
Current liabilities			
Trade and other payables	3.3	11,779	16,038
Provision for decommissioning	4.2	2,352	2,135
		<u>14,131</u>	<u>18,173</u>
Non-current liabilities			
Provision for decommissioning	4.2	15,309	14,748
Total liabilities		<u>29,440</u>	<u>32,921</u>
Net assets		<u>202,923</u>	<u>228,187</u>
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	6.1	13,131	13,131
Share premium		105,926	105,926
Share-based payments reserve		20,246	18,506
Merger reserve		11,709	11,709
Retained profit		51,911	78,915
Total equity		<u>202,923</u>	<u>228,187</u>

These Financial Statements were approved by the Board of Directors on 8 April 2013 and signed on its behalf by:

Ric Malcolm
Chief Executive Officer

Andrew West
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	<i>Share capital \$'000</i>	<i>Share premium \$'000</i>	<i>Share- based payments reserve \$'000</i>	<i>Merger reserve \$'000</i>	<i>Retained profit/ (loss) \$'000</i>	<i>Total equity \$'000</i>
Year ended 31 December 2012						
At 1 January 2012	13,131	105,926	18,506	11,709	78,915	228,187
Options exercised	–	–	(11)	–	145	134
Purchase of own shares	–	–	–	–	(119)	(119)
Share-based payment charge	–	–	1,751	–	–	1,751
Loss for 2012	–	–	–	–	(27,030)	(27,030)
At 31 December 2012	<u>13,131</u>	<u>105,926</u>	<u>20,246</u>	<u>11,709</u>	<u>51,911</u>	<u>202,923</u>
Year ended 31 December 2011						
At 1 January 2011	13,093	105,025	16,318	11,709	36,862	183,007
Options exercised	38	901	–	–	–	939
Purchase of own shares	–	–	–	–	(13,023)	(13,023)
Share-based payment charge	–	–	2,523	–	–	2,523
Payments made in lieu of option exercise	–	–	(335)	–	–	(335)
Profit for 2011	–	–	–	–	55,076	55,076
At 31 December 2011	<u>13,131</u>	<u>105,926</u>	<u>18,506</u>	<u>11,709</u>	<u>78,915</u>	<u>228,187</u>

The merger reserve arose on the acquisition of Gulfsands Petroleum Ltd and its subsidiaries by the Company by way of share-for-share exchange in April 2005, in conjunction with the flotation of the Company on the Alternative Investment Market of the London Stock Exchange.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012

	Notes	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Operating loss from continuing operations		(26,929)	(52,063)
Operating profit from suspended Syrian activities	5.9	–	98,774
Total operating (loss)/profit		(26,929)	46,711
Depreciation, depletion and amortisation	2.1 & 2.3	2,430	14,665
Impairment charge	2.3	568	64
Exploration costs written off	2.1	7,082	22,547
Impairment loss on Syrian exploration activities	2.1	34	9,997
Decommissioning costs in excess of provision	4.2	1,104	1,100
Share-based payment charge	5.3	1,751	2,522
Profit on disposal of assets	2.3	–	(6,628)
(Increase)/decrease in receivables		(152)	2,655
(Decrease)/increase in payables		(441)	359
Net cash (used in)/provided by operations		(14,553)	93,992
Interest received		375	270
Taxation recovered		–	55
Net cash (used in)/provided by operating activities		(14,178)	94,317
Investing activities			
Exploration and evaluation expenditure		(7,830)	(22,887)
Oil and gas properties expenditure		(312)	(20,521)
(Decrease)/increase in inventory		(1,086)	159
Disposal of oil and gas assets		–	10,403
Other capital expenditures		(1,019)	(2,228)
Change in restricted cash balances	3.2	(3,872)	11,212
Decommissioning costs paid		(1,919)	(5,082)
Movements in balance due to or from oil and gas partnerships		(3,057)	(1,092)
Net working capital adjustment in respect of Syrian production activities		–	(7,610)
Cash derecognised in respect of Syrian production activities	5.9	–	(637)
Net cash used in investing activities		(19,095)	(38,283)
Financing activities			
Cash proceeds from issue of shares		145	939
Purchase of own shares		(119)	(13,023)
Payments made in lieu of options exercised		–	(335)
Other payments in connection with options issued		(11)	–
Net cash provided by/(used in) financing activities		15	(12,419)
(Decrease)/increase in cash and cash equivalents		(33,258)	43,615
Cash and cash equivalents at beginning of period		124,240	80,625
Cash and cash equivalents at end of period	3.2	90,982	124,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

Section 1 – Basis of Preparation

This section contains the Group's significant accounting policies that relate to the financial statements as a whole. Significant accounting policies specific to one note have been included in that note. Accounting policies determined non-significant are not included in these financial statements. There have been no changes to the Group's accounting policies that are not disclosed in the financial statements.

This section also includes new EU endorsed accounting standards, amendments and interpretations and their expected impact, if any, on the performance of the Group.

1.1 Authorisation of financial statements and statement of compliance with IFRSs

Gulfsands Petroleum plc is a public limited company listed on the Alternative Investment Market ("AIM") of the London Stock Exchange and incorporated in the United Kingdom. The principal activities of the Company and its subsidiaries ("the Group") are that of oil and gas production, exploration and development.

The Consolidated Financial Statements for the year ended 31 December 2012 were authorised for issue by the Board of Directors on 8 April 2013 and the balance sheets were signed on the Board's behalf by Ric Malcolm.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The principal accounting policies adopted are set out in note 1.3 below.

1.2 Adoption of International Financial Reporting Standards

The Consolidated Financial Statements for the year ended 31 December 2012 and for the comparative year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and IFRIC (International Financial Reporting Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

1.3 Significant accounting policies

a) Basis of preparation and accounting standards

The Group's significant accounting policies used in the preparation of the financial statements are set out below.

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the European Union and, except for share-based payments and the valuation of available-for-sale investments, under the historical cost convention. They have also been prepared on the going concern basis of accounting, for the reasons set out in the "Going concern" section of the Directors' Report.

These financial statements consolidate the accounts of Gulfsands Petroleum plc and all its subsidiary undertakings drawn up to 31 December each year.

In the Consolidated Financial Statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such subsidiaries are included for the whole year in the year they join the Group.

b) New IFRS standards and interpretations

The Financial Statements have been prepared after adopting a number of new and revised pronouncements from the IASB, including amendments to IAS 12 (Income Taxes) and IFRS 7 (Financial Instruments: Disclosures). However, these have had no effect on either the reported results and financial position or the presentation or disclosure within these financial statements.

The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the Group.

IFRS 9 – Financial Instruments: Classification and Measurement

The standard introduces a new classification and measurement regime for financial assets including “available-for-sale” assets and is effective for annual periods beginning on or after 1 January 2015.

IFRS 10 – Consolidated Financial Statements

The standard supersedes IAS 27 – Consolidated and Separate Financial Statements and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It is effective for annual periods beginning on or after 1 January 2014.

IFRS 11 – Joint Ventures/Joint arrangements

The standard supersedes IAS 31 – Interest in Joint Ventures and establishes the principles for financial reporting by parties to a joint arrangement and is effective for annual periods beginning on or after 1 January 2014.

IFRS 12 – Disclosures of Interests in Other Entities

The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity and is effective for annual periods beginning on or after 1 January 2014.

IFRS 13 – Fair value measurement

The standard sets out in a single IFRS a framework for measuring fair value and required disclosures about fair value measurement and is effective for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition guidance

The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. The amendments also provide additional transition relief in IFRS 10, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments are effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income

The amendments’ aim is to improve consistency and clarity of the presentation of items of other comprehensive income statement properties and are effective for annual periods beginning on or after 1 January 2013.

IAS 19 – Employee Benefits

The revised standard prescribes the accounting and disclosure for employee benefits allowing users to make better assessment on the characteristics of a company’s defined benefit plans and is effective for annual periods beginning on or after 1 January 2013.

IAS 27 – Separate Financial Statements

The revised standard outlines the accounting and disclosure requirements for ‘separate financial statements’ which are financial statements prepared by a parent, or an investor in a joint venture or associate, where those investments are accounted for either at cost or in accordance with IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments. The standard also outlines the accounting requirements for dividends and contains numerous disclosure requirements. It is effective for annual periods beginning on or after 1 January 2013.

IAS 28 – Investment in Associated and Joint Ventures

The reissued standard outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of “significant influence”, which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those policies). It is effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation and are effective for annual periods beginning on or after 1 January 2014.

The Directors do not anticipate that the adoption of these standards and interpretations will have a material effect on the reported income or net assets of the Group or Company.

c) Basis of consolidation

Intra-group sales, profits and balances are eliminated fully on consolidation.

The results of subsidiaries acquired or sold are consolidated for the periods from, or to, the date when control passed. Acquisitions are accounted for under the purchase method, under which purchase consideration is allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

The Consolidated Financial Statements include the accounts of subsidiary undertakings when the Company has the power to exercise, or actually exercises, dominant influence or control over the undertaking.

The Group is engaged in oil and gas exploration, development and production through incorporated and unincorporated joint ventures (together “Jointly Controlled Entities”). The Group accounts for its share of the results and net assets of these Jointly Controlled Entities using the proportional consolidation method.

When the Group loses control or joint control of a subsidiary or joint venture, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary or joint venture and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary or joint venture are accounted for in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary or joint venture at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 “Financial Instruments: Recognition and Measurement” or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

d) Reporting currency

These financial statements are presented in US Dollars. The majority of all costs associated with foreign operations are denominated in US Dollars and not the local currency of the operations. Therefore the presentational and functional currency of the Group, and the functional currency of all subsidiaries, is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2012 was £1:US\$1.61 (2011 – £1: US\$1.57).

ASSETS AND INVESTMENTS

Section 2 – Oil and Gas Assets

This section focuses on the oil and gas assets which form the core of our business, including details of exploration costs incurred in the year, those written off or impaired and capital commitments existing at the year end.

Significant Accounting Judgements in this Section:

Definition of reserves

The Group's definition of reserves is in accordance and consistent with the 2007 Petroleum Resources Management System, as prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers ("SPE") and reviewed and jointly sponsored by the World Petroleum Council ("WPC"), the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers. The estimation of Proved ("1P"), Proved plus Probable ("2P") and Proved plus Probable plus Possible ("3P") commercially recoverable reserves are performed utilising relevant geological, geophysical and engineering data and with reference to the use of the probabilistic methodology as approved by SPE/WPC. The reserves are verified by a certified independent expert.

Proved plus Probable entitlement reserves are utilised as the basis for the Group's calculations of depletion and impairment as these represent the Group's estimate of the most likely commercially recoverable reserves as per the approved probabilistic methodology.

Key Estimates and Assumptions in this Section:

Intangible oil and gas exploration and evaluation assets

Costs capitalised as intangible assets are assessed for impairment when circumstances suggest that the carrying value may exceed its recoverable value. This assessment involves judgement as to the (i) likely commerciality of the assets, and (ii) future revenues and costs pertaining and the discount rate to be applied for the purpose of deriving a recoverable value. Additional judgements apply to the Group's exploration and evaluation assets affected by sanctions in Syria.

Oil and gas development and production assets and reserves

Oil and gas development and production assets held in property, plant and equipment are depleted on a unit of production basis calculated by reference to Proved and Probable ("2P") reserves. The Group's 2P reserves take the estimated future cost of developing and extracting those reserves into account.

Future forecast capital expenditure associated with developing Proved and Probable reserves is included in the cost base for the purposes of calculating depletion charges. 2P reserves are determined using estimates of oil and gas in place, recovery factors and future oil and gas prices. A long-term oil price of \$90/bbl (2011: \$90/bbl) and a long-term gas price in the Gulf of Mexico of \$4.00/mcf (2011: \$4.50/mcf) have been used in determining the commercial reserves. The gas price in Syria is linked to the price of oil through the Production Sharing Contract. The carrying amount of oil and gas assets therefore depends upon a number of estimates at year-end.

The level of 2P reserves is also a key determinant in assessing whether the carrying value of any of the Group's oil and gas assets has been impaired.

The carrying amount of oil and gas development and production assets is shown in note 2.3.

An increase in the forecast long-term oil price of \$10/bbl would reduce the 2P entitlement reserves in Syria by approximately 0.4 mmbbl. A \$10/bbl reduction in the forecast long-term oil price would not materially change the entitlement reserves. The entitlement reserves in Syria are not sensitive to gas price changes of 10 per cent. There would be no significant impact on the reserves, depletion charge or impairment attributable to the USA from a \$10/bbl or \$1/mcf change in the oil and gas prices.

An increase in the forecast future capital expenditure for Syria of \$50 million (gross) would increase the Group's entitlement reserves by 0.2 mmbbl and would increase the depletion charge by approximately 5 per cent. per entitlement barrel. An increase of 50 per cent. in the forecast future expenditure in the USA

would increase the depletion charge for 2012 by \$0.3 million but have no material impact on entitlement reserves.

The Group applies the requirements of IFRS 6 “Exploration for and Evaluation of Mineral Resources” and where additional guidance is needed IAS 16 “Property, Plant and Equipment” and IAS 36 “Impairment of Assets” noting that several items in the latter two standards are exempted for assets at the exploration and evaluation stage due to the application of IFRS 6. Set out below is our interpretation of the principles set out in IFRS 6 and other IFRSs.

There are two categories of oil and gas assets, exploration and evaluation assets which are included in Intangible assets, and development and production assets which are included in Property, plant and equipment.

2.1 Intangible assets

Recognition and measurement

The Group follows the successful efforts method of accounting whereby costs for unsuccessful exploration and development activities are expensed. All licence acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets in cost centres by field or exploration area, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalised insofar as they relate to specific exploration activities. Pre-licence costs and general exploration costs not directly attributable to any particular licence or prospect are expensed as incurred.

Exploration and evaluation (“E&E”) assets relating to each exploration licence/prospect are not amortised but are carried forward until the existence or otherwise of commercial reserves has been determined. If commercial reserves have been discovered, the related E&E assets are assessed for impairment on a cash generating unit basis as set out below and any impairment loss is recognised in the Income Statement. The carrying value of the E&E assets, after any impairment loss, is then reclassified as development and production assets in property, plant and equipment. Costs of unsuccessful exploration efforts are expensed at the time that a determination is made that the exploration has failed to locate commercially recoverable hydrocarbons.

Impairment

Non-current assets are assessed for impairment on a cash generating unit basis when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such triggering events in respect of E&E assets include the point at which determination is made as to whether commercial reserves exist.

Where there has been an indication of a possible impairment, management assess the recoverability of the carrying value of the cash generating unit by comparison with the estimated discounted future net cash flows based on management’s expectation of the future production, hydrocarbon prices and costs. Any identified impairment is charged to the Income Statement.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the Income Statement, net of any depreciation that would have been charged since the impairment.

<i>Group</i>	<i>Exploration and evaluation assets</i>		<i>Computer software</i>	<i>Total</i>
	<i>Syria</i> \$'000	<i>Tunisia</i> \$'000	<i>\$'000</i>	<i>\$'000</i>
Cost:				
At 1 January 2011	14,270	15,971	1,236	31,477
Additions	17,592	4,657	1,427	23,676
Exploration expenditure written off	(8,788)	(13,759)	–	(22,547)
Transfer to property, plant & equipment	(13,077)	–	–	(13,077)
Loss of control of DPC (note 5.9)	–	–	(528)	(528)
At 31 December 2011	9,997	6,869	2,135	19,001
Additions	17	5,026	402	5,445
Exploration expenditure (written off)/written back	17	(7,099)	–	(7,082)
At 31 December 2012	10,031	4,796	2,537	17,364
Accumulated amortisation:				
At 1 January 2011	–	–	(519)	(519)
Charge for 2011	–	–	(330)	(330)
Loss of control of DPC (note 5.9)	–	–	302	302
At 31 December 2011	–	–	(547)	(547)
Charge for 2012	–	–	(579)	(579)
At 31 December 2012	–	–	(1,126)	(1,126)
Accumulated impairment:				
At 1 January 2011	–	–	–	–
Impairment provision for 2011	(9,997)	–	–	(9,997)
At 31 December 2011	(9,997)	–	–	(9,997)
Impairment provision for 2012	(34)	–	–	(34)
At 31 December 2012	(10,031)	–	–	(10,031)
Net book value at 31 December 2012	–	4,796	1,411	6,207
Net book value at 31 December 2011	–	6,869	1,588	8,457

The accumulated costs of E&E assets in Syria represent the Group's share of the drilling costs of the Al Khairat, Twaiba and Wardieh wells and certain 3D seismic surveys. The Al Khairat well was successfully tested but commercial development approval is yet to be granted by the Syrian Arab Republic. The Twaiba and Wardieh wells are still under evaluation.

Following the imposition of EU sanctions against the oil industry in Syria, an impairment test was conducted and the carrying value of all E&E assets in Syria has been impaired to nil as it is presently unclear whether the Group will be able to apply for commercial development approval in the manner contemplated by the Production Sharing Contract. In 2011 the Group announced a discovery in the Khurbet East 101 well and the costs of this well plus the appraisal well drilled at Khurbet East 102 were transferred to property, plant & equipment following the granting of a commercial development licence.

In 2012 the Group wrote off \$7,099,000 in respect of the Sidi Dhaher well and associated seismic costs following the unsuccessful testing of the well. At 31 December 2012 the Tunisian E&E assets represent seismic acquisition and related costs invoiced to date by the operator for both the onshore and offshore Tunisian assets plus amounts paid during 2012 to increase participation in these licences.

2.2 Intangible assets other than oil and gas assets

Intangible assets other than oil and gas assets are stated at cost less accumulated amortisation and any provision for impairment. Amortisation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Amortisation is included with depreciation and classified as cost of sales or administrative expenses as appropriate. No intangible assets other than oil and gas assets have indefinite lives.

2.3 Property, plant and equipment

Tangible oil and gas assets are grouped into a cash generating unit or groups of units for purposes of impairment testing and for depreciating the development and production assets. A cash generating unit is the smallest unit that does not have inter-related revenues and may be a well, field, area, block, region or other defined area as appropriate. Inter-relationships can be measured by oil and gas production agreements, geological analysis, or other documentation showing such relationships. The only limitation in the size of a cash generating unit is that it cannot be larger than an operating segment of the Group.

Recognition and measurement

Development and production assets are accumulated on a cash generating unit 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.

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

Depletion of producing assets

Expenditure within each cash generating unit is depleted by a unit of production method using the ratio of oil and gas production in the year compared to the estimated quantity of commercial reserves at the beginning of the year. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs for proved and probable reserves. Changes in estimates of commercial reserves or future development costs are dealt with prospectively.

Impairment

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 aggregate carrying value is compared against the recoverable amount of the cash generating unit, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves.

	<i>Oil and gas properties</i>		<i>Other fixed assets</i>	<i>Total</i>
	<i>Syria</i>	<i>USA</i>		
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cost:				
At 1 January 2011	60,919	62,829	2,173	125,921
Additions	18,604	2,117	414	21,135
Disposals	–	(23,679)	–	(23,679)
Transfer from intangible assets	13,077	–	–	13,077
Loss of control of DPC	(92,600)	–	(791)	(93,391)
At 31 December 2011	–	41,267	1,796	43,063
Additions	–	1,461	601	2,062
Disposals	–	(7,929)	–	(7,929)
At 31 December 2012	–	34,799	2,397	37,196
Accumulated depreciation and depletion:				
At 1 January 2011	(23,411)	(28,563)	(1,018)	(52,992)
Charge for 2011	(9,875)	(3,883)	(577)	(14,335)
Disposals	–	10,703	–	10,703
Loss of control of DPC	33,286	–	325	33,611
At 31 December 2011	–	(21,743)	(1,270)	(23,013)
Charge for 2012	–	(1,430)	(421)	(1,851)
Disposals	–	5,822	–	5,822
At 31 December 2012	–	(17,351)	(1,691)	(19,042)
Accumulated impairment:				
At 1 January 2011	–	(9,051)	–	(9,051)
Impairment charge for 2011	–	(64)	–	(64)
Disposals	–	3,294	–	3,294
At 31 December 2011	–	(5,821)	–	(5,821)
Impairment charge for 2012	–	(568)	–	(568)
Disposals	–	2,107	–	2,107
At 31 December 2012	–	(4,282)	–	(4,282)
Net book value at 31 December 2012	–	13,166	706	13,872
Net book value at 31 December 2011	–	13,703	526	14,229

Disposals during 2012 represent the write off of several leases in the Gulf of Mexico that have been terminated where all associated decommissioning obligations have been fulfilled. Disposals during 2011 were related to the sale of a package of assets in the Gulf of Mexico.

Included in the 2012 depletion charge for the US oil and gas properties is a charge of \$44,000 (2011: \$1,147,000) related to properties substantially depleted in prior years. These depletion adjustments occur where revisions to decommissioning estimates have been made to properties with very short useful lives.

The impairment charge for 2012 includes \$493,000 in respect of the East Cameron 160 lease where the operator believes that economic production has ceased following the sanding up of the well. Other impairment charges related to provisions against the Group's carrying values of its USA producing assets, following a review of reserves at the year end.

Impairment for the assets in the Gulf of Mexico has been assessed, based on a value in use calculation, and using a pre-tax discount rate of 6 per cent. (2011: 6 per cent.), a long-term Brent crude oil price of \$90/bbl (2011: \$90/bbl) and a long-term gas price of \$4.0/mcf (2011: \$4.5/mcf). In determining the

appropriate discount rate to be used consideration is given to the risk directly incorporated in the underlying cash flow forecasts.

2.4 Property, plant and equipment other than oil and gas assets

Property, plant and equipment other than oil and gas assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Freehold land is not depreciated.

ASSETS AND INVESTMENTS

Section 3 – Working Capital

This section focuses on the funding available to the Group to pursue new business opportunities and the working capital position of the Group and Company at the year end.

3.1 Trade receivables

Trade receivables are carried at original invoice amounts less any provision made for impairment of receivables. A provision for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the debt.

	2012 \$'000	2011 \$'000
Trade receivables	58	–
Underlift	125	520
Prepayments and accrued income	3,212	2,023
Amounts due from oil and gas partnerships	5,165	2,804
	<u>8,560</u>	<u>5,347</u>

At 31 December 2012 and 2011 the Group was owed \$25,332,000 by the government of the Syrian Arab Republic relating to oil delivered during the period August to November 2011. The total amount invoiced was \$31,232,000 and to date an amount of \$5,900,000 has been paid. The government of the Syrian Arab Republic has acknowledged the debt.

This asset has been effectively impaired as part of the deconsolidation of the Group's Syrian producing operations, described in note 5.9.

Underlift at 31 December 2012 and 2011 represents the rights to gas revenue receivable as a result of the acquisition of oil and gas properties in the Gulf of Mexico in May 2004. Underlift represents a right to future economic benefits (through entitlement to receive equivalent future production), which constitutes an asset of which the timing of recovery is uncertain. During the year ended 31 December 2012 certain underlift balances were settled and cash received.

Amounts due from oil and gas partnerships represents amounts owed from its joint venture partners.

3.2 Cash and cash equivalents

Cash and cash equivalents are carried in the Balance Sheet at cost and comprise cash in hand and deposits repayable on demand by banks and other short-term investments with original maturities of three months or less. Balances held in bank accounts subject to escrow agreements as collateral for performance bonds issued are excluded from cash and cash equivalents and are shown as long-term financial assets.

	2012 \$'000	2011 \$'000
Cash at bank and in hand	90,982	124,240
Restricted cash balances	7,837	3,965
	98,819	128,205
Included in long-term financial assets	7,837	3,965
Total cash and cash equivalents	90,982	124,240

The restricted cash balances at 31 December 2012 includes amounts held in escrow to cover decommissioning expenditures under the requirements of the regulatory authorities that manage the oil and gas and other mineral resources in the Gulf of Mexico and an amount of \$5.0 million held in escrow to guarantee minimum work obligations on the Rharb Permit related to the acquisition of Cabre Maroc Limited (see note 6.6). At 31 December 2011 a further \$1.0 million was held in escrow to secure a line of credit for forward foreign currency trading.

3.3 Trade payables

Trade payables are not interest bearing and are stated at their nominal values.

	2012 \$'000	2011 \$'000
Trade payables	1,026	494
Accruals and other payables	10,753	15,544
	11,779	16,038

Included within accruals and other payables are amounts of approximately \$4.2 million that are owed to parties subject to asset freezing regulations under the EU sanctions regime. These amounts relate to goods and services acquired before those entities were designated as sanctioned parties. The Group is not in a position to make payments for these goods or services until such time as sanctions are lifted against the named parties.

ASSETS AND INVESTMENTS

3.4 Inventories

Inventories comprise materials and equipment, which are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing the materials and equipment to its present condition and location.

Assets and Investments

Section 4 – Other Assets and Liabilities

This section details the Company's investments in subsidiaries and provision for decommissioning.

Key Estimates and Assumptions in this Section:

Fair value of the Group's investment in Dijila Petroleum Company ("DPC")

The Group's investment in DPC, the entity established in Syria, pursuant to the PSC, to administer the Group's Syrian oil and gas production assets (and which is considered to also include the related rights to production under the PSC), is recorded as an available-for-sale investment at an estimate of fair value taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future activities in Syria. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, the calculation of fair value is highly subjective and subject to material change in future periods, as described further in note 5.9.

Decommissioning

The Group has decommissioning obligations in respect of its producing interests in the Gulf of Mexico and its exploration well offshore Tunisia. The full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs. The Group received a report from external specialist decommissioning experts regarding the cost of future works in the Gulf of Mexico during 2011, which has been reviewed and updated by management, and has prepared an internal estimate of the work required offshore Tunisia. The timing of the decommissioning works is inherently uncertain and depends upon the determination of the end of commercial production. The Group has utilised the expected useful lives in the year-end reserves report for the Gulf of Mexico to estimate the timing of associated decommissioning liabilities.

A risk free interest rate of 3 per cent. (2011: 3 per cent.) has been used to discount the expected costs of decommissioning. A decrease in the discount rate utilised to 2 per cent. per annum would increase the total value of the decommissioning provision by \$1.1 million. An increase in the discount rate to 4 per cent. would decrease the decommissioning provision by \$1.0 million. The impact on the income statement for 2013 is immaterial. A future cost inflation rate of 2.5 per cent. per annum has been used. An increase in this estimate to 4 per cent. per annum would increase the decommissioning provision by \$1.7 million.

4.1 Investments

The Company's investments in subsidiary undertakings are shown below. All investments are in ordinary shares and are directly or indirectly owned by the Company as stated below:

<i>Name of company</i>	<i>Proportion of voting shares at 31 December 2012</i>	<i>Nature of business</i>	<i>Country of incorporation</i>
Directly held by the Company:			
Gulfsands Petroleum Ltd	100%	Holding company	Cayman Islands
Indirectly held by the Company:			
Gulfsands Petroleum Holdings	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum USA, Inc.	100%	Oil & gas exploration	US
Darcy Energy LLC	100%	Oil & gas exploration	US

Gulfsands Petroleum Levant Limited owns a 50 per cent. interest in a contractor group that has been exploring for hydrocarbons in Block 26 in Syria prior to the imposition of EU sanctions against the Syrian oil industry. The results and net assets of the contractor group are proportionally consolidated within the Group accounts.

Gulfsands Petroleum Levant Limited owns 25 per cent. of the voting shares in Dijila Petroleum Company ("DPC"), a company incorporated in Syria. DPC is a joint venture undertaking between the General Petroleum Corporation and the other parties participating in the production of hydrocarbons from Block 26 in Syria. DPC is responsible for administering these production operations and, as such, all its costs are ultimately borne equally between the Group and its joint venture partner, Emerald Energy plc. Further information on the status of the Syrian producing operations is provided in note 5.9.

On 18 January 2013 Gulfsands Petroleum Morocco Ltd was incorporated in the Cayman Islands to hold the Group's investments in Cabre Maroc Limited (see note 6.6). On 5 March 2013 Gulfsands Petroleum Sud America Ltd was incorporated in the Cayman Islands.

4.2 Decommissioning

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. A fixed asset of an amount equivalent to the provision is also created (included in development

and production assets) and depleted on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset.

The provision for decommissioning relates to the expected present value of costs of plugging and abandoning the exploration and development assets held by Gulfsands Petroleum Tunisia Limited, Gulfsands Petroleum USA, Inc and Darcy Energy LLC. The provision for decommissioning is estimated after taking account of inflation, years to abandonment and an appropriate discount rate. At 31 December 2012, the oil and gas properties had estimated abandonment dates between 2013 and 2027.

Actual decommissioning costs will ultimately depend upon future market prices for the decommissioning work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

The actual amounts paid for decommissioning may ultimately vary significantly from the provision at 31 December 2012 requiring potentially material adjustments to the carrying value of the obligations.

The movement in the provision for decommissioning was as follows:

	<i>\$'000</i>
At 1 January 2011	28,156
Changes in estimates	1,917
Disposals	(9,999)
Costs in excess of provision	1,100
Decommissioning expenses	(4,929)
Discount expense	638
At 31 December 2011	16,883
Current portion	2,135
Non-current portion	14,748
At 1 January 2012	16,883
Changes in estimates	1,117
Costs in excess of provision	1,104
Decommissioning expenses	(1,919)
Discount expense	476
At 31 December 2012	17,661
Current portion	2,352
Non-current portion	15,309

4.3 Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are stated at fair value. Fair value is determined in the manner described in notes 5.9 and 6.2. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

4.4 Obligations under operating leases

At the end of the year the Group had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2012		2011	
	<i>Land & Buildings \$'000</i>	<i>Other \$'000</i>	<i>Land & Buildings \$'000</i>	<i>Other \$'000</i>
Amounts payable on leases:				
Within one year	651	7	1,060	12
In two to five years	1,950	13	156	–
	<u>2,601</u>	<u>20</u>	<u>1,216</u>	<u>12</u>

Section 5 – Results for the year

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operating loss, results from discontinued operations, taxation and earnings per share.

Significant Accounting Judgements in this Section:

Details of the impairment of intangible exploration/appraisal assets and depletion can be found in sections 2.1 and 2.3.

There are no other significant accounting judgements in this section.

Key Estimates and Assumptions in this Section:

Revenue recognition

Sales revenue represents amounts invoiced exclusive of sales-related taxes and royalties for the Group's share of hydrocarbon sales in the year. Hydrocarbon sales are recognised when goods are delivered and title has passed. No allowance is made for the Group's share of future revenues from costs incurred to date that have yet to be allowed for cost recovery purposes.

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

Details of share-based payments can be found in note 5.3.

5.1 Segmental analysis

Total revenue and segmental information

The total revenue of the Group, as defined by IAS 18, for 2012 was \$5,997,000 (2011: \$125,219,000) comprising sales of hydrocarbons and incidental income of \$5,622,000 (2011: \$124,948,000) and interest income of \$375,000 (2011: \$271,000).

For management purposes, at 31 December 2012 the Group operated in three geographical areas, Syria, Tunisia and the US. All segments are involved with production and exploration of oil and gas. As discussed in note 5.9, the Group has lost control of its production activities in Syria and these are separately disclosed in the analysis below.

The Group revenue and results for the year are analysed by reportable segment as follows:

Segmental income statement

	Year ended 31 December 2012					
	Syria explor- ation activities \$'000	Syria produc- tion activities \$'000	Tunisia \$'000	USA \$'000	Other \$'000	Total \$'000
Revenues from external parties	–	–	–	5,622	–	5,622
Inter-segment and other income	–	–	–	1,133	2,444	3,577
Total segment revenue	–	–	–	6,755	2,444	9,199
Depletion charges	–	–	–	(1,430)	–	(1,430)
Impairment	–	–	–	(568)	–	(568)
Other cost of sales	(354)	–	–	(4,590)	–	(4,944)
General administrative expenses before depreciation	(2,707)	–	–	(1,712)	(11,297)	(15,716)
Inter-segment administrative expense	(1,363)	–	(372)	(208)	(1,634)	(3,577)
Depreciation and amortisation	(371)	–	–	(5)	(624)	(1,000)
Foreign exchange gains/(losses)	264	–	–	–	(290)	(26)
Share-based payments	–	–	–	–	(1,751)	(1,751)
Exploration costs (written off)/ written back	17	–	(7,099)	–	–	(7,082)
Impairment provision on Syrian exploration activities	(34)	–	–	–	–	(34)
Loss before interest and taxation	(4,548)	–	(7,471)	(1,758)	(13,152)	(26,929)
Interest expense and unwinding of discount	–	–	–	(476)	–	(476)
Interest income from external parties	1	–	–	1	373	375
Inter-segment interest	–	–	–	(3,685)	3,685	4
Taxation	–	–	–	–	–	–
Loss for the year attributable to owners of the Company	<u>(4,547)</u>	<u>–</u>	<u>(7,471)</u>	<u>(5,918)</u>	<u>(9,094)</u>	<u>(27,030)</u>

Year ended 31 December 2011

	Syria explor- ation activities \$'000	Syria produc- tion activities \$'000	Tunisia \$'000	USA \$'000	Other \$'000	Total \$'000
Revenues from external parties	–	117,041	–	7,907	–	124,948
Inter-segment and other income	–	–	–	–	2,809	2,809
Total segment revenue	–	117,041	–	7,907	2,809	127,757
Depletion charges	–	(9,875)	–	(3,883)	–	(13,758)
Impairment	–	–	–	(64)	–	(64)
Other cost of sales	–	(6,001)	–	(6,382)	–	(12,383)
General administrative expenses before depreciation	(4,387)	(1,760)	–	(2,354)	(12,729)	(21,229)
Inter-segment administrative expense	(1,825)	(367)	(26)	(389)	(202)	(2,809)
Depreciation and amortisation	(462)	(265)	–	(17)	(163)	(907)
Foreign exchange gains/(losses)	(513)	–	1	–	(946)	(1,458)
Share-based payments	–	–	–	–	(2,522)	(2,522)
Exploration costs written off	(8,788)	–	(13,759)	–	–	(22,547)
Impairment provision on Syrian exploration activities	(9,997)	–	–	–	–	(9,997)
Profit on disposal of oil and gas properties	–	–	–	6,628	–	6,628
Profit/(loss) before interest and taxation	(25,972)	98,774	(13,784)	1,446	(13,753)	46,711
Interest expense and unwinding of discount	–	–	–	(638)	–	(638)
Interest income from external parties	9	–	–	4	257	270
Inter-segment interest	–	–	–	(4,365)	4,365	–
Taxation	–	–	–	–	31	31
Attributable to suspended operations	–	(98,774)	–	–	–	(98,774)
Loss for the year from continuing operations	(25,963)	–	(13,784)	(3,553)	(9,100)	(52,400)
Profit for the year from suspended operations	–	98,774	–	–	–	98,774
Profit on derecognition of Dijila Petroleum Company	–	8,702	–	–	–	8,702
Profit/(loss) for the year attributable to owners of the Company	(25,963)	107,476	(13,784)	(3,553)	(9,100)	55,076

Central costs have not been apportioned to the reportable segments and are included within “Other” above.

All external revenues are derived from production in, and sales to, the segments above. See the credit risk section of note 6.2 for details on major customers.

The segment assets and liabilities as at 31 December and the segment capital expenditure during the year ended 31 December were as follows:

Segmental balance sheet

<i>Year ended 31 December 2012</i>						
	<i>Syria explor- ation activities \$'000</i>	<i>Syria produc- tion activities \$'000</i>	<i>Tunisia \$'000</i>	<i>USA \$'000</i>	<i>Other \$'000</i>	<i>Total \$'000</i>
Assets	6,005	102,000	5,497	17,406	101,455	232,363
Liabilities	(8,753)	–	(2,095)	(17,259)	(1,333)	(29,440)
Inter-segment balances	(12,241)	–	(24,938)	(40,055)	77,234	–
Exploration and evaluation expenditure	17	–	5,026	–	–	5,043
All other additions to non-current assets	636	–	–	1,481	347	2,464
Total capital expenditure during period	<u>653</u>	<u>–</u>	<u>5,026</u>	<u>1,481</u>	<u>347</u>	<u>7,507</u>
<i>Year ended 31 December 2011</i>						
	<i>Syria explor- ation activities \$'000</i>	<i>Syria produc- tion activities \$'000</i>	<i>Tunisia \$'000</i>	<i>USA \$'000</i>	<i>Other \$'000</i>	<i>Total \$'000</i>
Assets	11,990	102,000	6,869	19,527	120,722	261,108
Liabilities	(14,468)	–	(1,000)	(16,832)	(621)	(32,921)
Inter-segment balances	(8,934)	–	(19,934)	(7,532)	36,400	–
Exploration and evaluation expenditure	17,592	–	4,657	–	–	22,249
All other additions to non-current assets	494	18,835	–	2,117	1,116	22,562
Total capital expenditure during period	<u>18,086</u>	<u>18,835</u>	<u>4,657</u>	<u>2,117</u>	<u>1,116</u>	<u>44,811</u>

Transactions between segments include management fees and are charged at estimated prevailing market prices.

5.2 Operating loss

The Group's operating loss including its suspended Syrian activities is stated after charging/(crediting):

	2012 \$'000	2011 \$'000
Foreign exchange loss	26	1,458
Share-based payment charges (note 5.3)	1,751	2,522
Depletion of oil and gas properties (note 2.3)	1,430	13,758
Depreciation and amortisation of other assets (notes 2.1 & 2.3)	1,000	907
Impairment of development and production assets (note 2.3)	568	64
Exploration expenditure written off (note 2.1)	7,082	22,547
Impairment provision on exploration assets (note 2.1)	34	9,997
Staff costs excluding share-based payments (note 5.5)	8,548	11,128
Operating lease rentals:		
Buildings	1,473	1,102
Vehicles and equipment	219	5,487
Profit on sale of assets	–	(6,628)

The operating lease rentals shown for 2012 include \$212,000 (2011: \$5,465,000) in respect of the hire of drilling rigs and operating staff.

Operating leases

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

5.3 Share-based payments

The Company has made equity-settled share-based payments to certain employees and directors by way of issues of share options. The fair value of these payments is calculated at grant date by the Company using the Black-Scholes option pricing model excluding the effect of non market-based vesting conditions. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of the number of options that will eventually vest. At each balance sheet date, the Company revises its estimates of the number of options expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

The Group operates two share-based remuneration plans issuing options and restricted shares. Options are issued to directors and certain senior management personnel. Restricted shares are available to other staff.

Options are issued with an exercise price equivalent to the underlying share price averaged over a period immediately prior to the date of grant, or such other higher exercise price as the Remuneration Committee may determine. Restricted shares are issued with an exercise price equivalent to the par value of the shares. Both options and restricted shares will usually have a deferred vesting period and a maximum validity period of five years.

The share-based payment charge for the period is based upon the requirements of IFRS 2 regarding share-based payments. For this purpose, the weighted average estimated fair value of the share options and restricted shares granted was calculated using a Black-Scholes option pricing model. The expected average life of options and restricted shares was assumed to be four years. No dividends were factored into the model. Volatility has been estimated based on the historical volatility of the underlying shares.

The fair value of options and restricted shares issued in 2012 was \$772,000 (2011: \$2,252,000). Details of grants made during the year and assumptions included in the calculation of the charge to the Income Statement are as follows:

<i>Grant date</i>	<i>Years options or restricted shares vest</i>	<i>Stock price at date of grant (£)</i>	<i>Exercise price (£)</i>	<i>Number of options or restricted shares issued</i>	<i>Risk free interest rate</i>	<i>Volatility</i>
4 April 2012	2013 & 2014	1.46	0.06	324,012	0.8%	78.0%
7 November 2012	2013 – 2015	0.90	0.06	33,000	0.5%	88.4%

The estimated fair value of options and restricted shares with a deferred vesting period is charged to the Income Statement over the vesting period of the options concerned. The estimated fair value of options and restricted shares exercisable immediately is expensed at the time of issuance of the award. Further details are provided in note 6.1.

5.4 Auditor's remuneration

Details of the auditor's remuneration is set out in the table below:

	<i>2012 \$'000</i>	<i>2011 \$'000</i>
Fees payable to the Company's auditor for the audit of:		
Company's accounts	240	234
Company's subsidiaries	29	61
Company's joint ventures	–	–
Total audit fees	269	295
Audit related assurance services	56	83
Taxation compliance services	44	71
Other taxation advisory services	21	143
Other services	61	42
Total non-audit fees	182	339

5.5 Staff cost

The aggregate payroll costs of staff and Directors were as follows:

	<i>2012 \$'000</i>	<i>2011 \$'000</i>
Wages and salaries	7,729	9,434
Social security costs	613	1,143
Share-based payment charges	1,751	2,522
Other benefits in kind	206	551
	10,299	13,650

Included in wages and salaries above is an amount of \$691,000 in respect of termination and hardship payments to staff in Syria paid during 2012 (2011: nil).

The average monthly number of persons employed by the Group, including Directors, was as follows:

	<i>2012</i>	<i>2011</i>
Operational and technical	16	19
Administrative	25	29
	<u>41</u>	<u>48</u>

Staff numbers and costs recorded above include the Group's proportionate share of staff employed by jointly controlled entities.

5.6 Directors' emoluments

Details of the remuneration of Directors are included in the Directors' Remuneration Report on pages 32 and 33. No employees other than Directors are determined to be key management personnel.

5.7 Net interest receivable

	<i>2012</i> \$'000	<i>2011</i> \$'000
Short-term bank deposit interest	375	271
Overdraft and similar interest charges	–	(1)
	<u>375</u>	<u>270</u>

5.8 Taxation

Accounting Policies

Current tax, including UK corporation tax and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted, or substantively enacted, tax rates and laws that will be in effect when the differences are expected to reverse. The recoverability of deferred tax assets is evaluated annually and an impairment provision is made if it is more likely than not that the deferred tax asset will not give rise to future benefits in the Group's tax returns.

Taxation credit

	<i>2012</i> \$'000	<i>2011</i> \$'000
Current Corporation Tax:		
UK Corporation Tax	–	31
Overseas Corporation Tax	–	–
Total credit	<u>–</u>	<u>31</u>

The Group's effective tax rate differs from the theoretical amount that would arise using the UK domestic corporation tax rate applicable to profits of the consolidated companies as follows:

	2012 \$'000	2011 \$'000
Loss before tax from continuing operations	(27,030)	(52,431)
Profit before tax from suspended Syrian operations	–	107,476
Total (loss)/profit before tax	(27,030)	55,045
Tax calculated at domestic rate of 24.5% (2011: 26.5%)	(6,622)	14,587
Effects of:		
Expenses not deductible for taxation purposes	2	23
Share-based payments	398	261
Tax losses for which no deferred taxation asset was recognised	2,366	6,870
Effect of prior period adjustment	1,510	(262)
Impact of local tax rates	2,332	(21,260)
Other tax adjustments	14	110
	–	(31)

The Group's tax liabilities in Tunisia and Syria are settled on its behalf by the national oil companies out of the latter's share of royalties and profit oil and, as such, are not reflected in the Group's tax charge for the year.

Deferred Tax

The tax effect of amounts for which no deferred tax asset has been recognised is as follows:

	2012 \$'000	2011 \$'000
DD&A and impairment in excess of tax allowances	3,329	248
Other short-term temporary differences	14,185	4,148
Tax losses carried forward	19,566	15,036
Unprovided deferred tax asset	(37,080)	(18,935)
Deferred tax asset/(liability) at 31 December	–	–

\$2 million (2011: nil) of the Group's unutilised tax losses expire between 2014 and 2017, \$31 million (2011: \$22 million) have expiry dates between 2024 and 2032. The remaining tax losses of the Group have no expiry date.

Deferred tax assets are not provided where the Group does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets. In performing this calculation the Group considers deferred tax balances relating to each tax authority separately.

5.9 Effect of sanctions applied to the Group's operations in the Syrian Arab Republic

The Group is party to a Production Sharing Contract ("PSC") for the exploitation of hydrocarbon production in Block 26 in Syria. Pursuant to the PSC the Group operates its Syrian oil and gas production assets through a joint venture administered by Dijila Petroleum Company ("DPC") in which the Group has a 25% equity interest. The Group lost control of DPC on 1 December 2011 following the publication of European Union Council Decision 2011/782/CFSP which significantly increased sanctions against the oil industry in Syria. For the purposes of EU sanctions DPC is considered to be controlled by General Petroleum Corporation.

The Group has followed the guidance in International Accounting Standard 31 "Interests in Joint Ventures" and has derecognised its share of the assets and liabilities of DPC from 1 December 2011. Until 1 December 2011 DPC had been proportionally consolidated, as explained in note 4.1 to the Financial Statements.

Subsequent to this date the Group's interest in DPC has been recognised as an available-for-sale investment, at an estimate of fair value as given the current exceptional circumstances in Syria the Group has neither joint control nor significant influence over the financial and operating policy decisions of the entity.

The fair value of the investment in DPC has been calculated based upon estimated future cash flows that could be generated from the entitlement reserves at 31 December 2012 discounted at a rate of 15% per annum and then the net present value is reduced further by 80% to reflect a market view of other risks of investments in the Syrian oil and gas sector at the current time. It has also been referenced, as a practical matter, to the Group's year-end market capitalisation (as adjusted for its substantial net cash balance). The fair value attributed to DPC at 31 December 2012 was \$102.0 million (2011: \$102.0 million) as the Directors do not consider that there has been any significant change in the underlying situation.

The fair value included within the Group's investments reflects an estimate of fair value taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future activities in the country as a consequence of the impact of the EU's sanctions and is not necessarily reflective of the value of the Group's investments in its Syrian operations over the long term.

In deriving the figure of 80% the Directors have assumed, inter alia, a delay to resumption of oil production in Syria, deferred revenue receipts for a period after resumption of production, potential further costs associated with restarting operations and the possibility of a change to the terms of the PSC or even expropriation. There is a high degree of subjectivity inherent in the valuation due to the unknown duration of the sanctions and the eventual outcome of events in Syria. Accordingly it may change materially in future periods depending on a wide range of factors.

The Group's share of the results of DPC up to 1 December 2011, which were included in the Consolidated Income Statement for the year ended 31 December 2011, together with the accounting gain recognised at the date of derecognition, were as follows:

	<i>Period ended 30 November 2011 \$'000</i>
Revenue	117,041
Expenses	(18,268)
Profit before taxation and net profit attributable to suspended activities	98,774
Profit on derecognition of DPC (see below)	8,702
Profit for the year from suspended activities	107,476

The result of these suspended activities has been treated as "discontinued operations" in the Income Statement as required by IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". There was no corresponding amount in 2012.

On 1 December 2011 the Group's ability to exercise joint control over its Syrian interests ceased. In the period ended 30 November 2011, the revenues arising from this production amounted to \$117.0 million. The cash inflows associated with these revenues amounted to \$114.1 million. There were no corresponding amounts in 2012.

During the year, suspended Syrian operations consumed \$1.1 million (2011: \$12.8 million) of cash in operating activities and paid \$1.1 million (2011: \$21.0 million) for investing activities. This cash was provided by entities within the Group. The amounts incurred in 2012 were used to settle obligations incurred prior to the suspension of activities on 1 December 2011 and in full compliance with all applicable sanctions.

As noted above, during the year ended 31 December 2011 a gain of \$8.7 million arose on the loss of joint control of DPC, being an estimate of the fair value of the remaining investment, taking into consideration the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future activities in the country, less the carrying amount of the Group's share of the net assets of DPC at the date of loss of joint control. This is summarised below.

	<i>As at 30 November 2011 \$'000</i>
Property, plant & equipment	59,959
Intangible assets	226
Restricted cash	2
Inventories	1,699
Trade and other receivables	34,851
Bank and cash balances	637
Trade and other payables	(4,076)
Net assets derecognised	93,298
Fair value of investment in DPC	102,000
Accounting gain on loss of control	8,702

Further details of the overall contribution of Syria to the Group's results for the year, including the exploration activities that were not directly caught by the EU sanctions, is provided in note 5.1.

5.10 (Loss)/earnings per share

The basic and diluted (loss)/earnings per share have been calculated using the loss for the year ended 31 December 2012 of \$27,030,000 (2011: profit of \$55,076,000). The basic (loss)/earnings per share was calculated using a weighted average number of shares in issue less treasury shares held, of 117,844,680 (2011: 121,028,071). The weighted average number of ordinary shares, allowing for the exercise of share options, for the purposes of calculating the diluted (loss)/earnings per share was 118,202,604 (2011: 122,943,300).

The loss per share from continuing operations is calculated before profits attributable to suspended Syrian activities. In 2011 this loss from continuing activities amounted to \$52,400,000. In 2012 the loss from continuing activities is the same as the total loss for the period.

Where there is a loss, the impact of share options is anti-dilutive and hence, basic and diluted loss per share are the same.

Section 6 – Capital Structure and Other Disclosures

The disclosures in this section focus on the issued share capital, the share schemes in operation and the associated share-based payment charge to profit. Other mandatory disclosures, such as details of related party transactions, can also be found here.

Equity instruments

Equity instruments issued by the Company, being any instruments with a residual interest in the assets of the Company after deducting all its liabilities, are recorded at the proceeds received, net of direct issue costs.

6.1 Share capital Group and Company

	<i>2012 Number</i>	<i>2011 Number</i>
Authorised:		
Ordinary shares of 5.714 pence each	175,000,000	175,000,000
	<i>2012 \$'000</i>	<i>2011 \$'000</i>
Allotted, called up and fully paid:		
121,989,500 (2011: 121,989,500) ordinary shares of 5.714 pence each	13,131	13,131

The movements in share capital and share options were:

	<i>Number of ordinary shares</i>	<i>Number of share options</i>	<i>Number of restricted shares</i>	<i>Weighted average price of options £</i>
At 31 December 2011*	121,989,500	8,806,000	225,155	2.17
Share options and restricted shares exercised for cash	–	(90,000)	(20,000)	1.02
Share options and restricted shares cash settled	–	–	–	–
Share options and restricted shares lapsing unexercised	–	(1,280,000)	(116,028)	2.17
Share options and restricted shares issued	–	–	357,012	–
At 31 December 2012	121,989,500	7,436,000	446,139	2.18

All restricted shares have an exercise price of £0.06 per restricted share.

* The Directors have reviewed the disclosure of share capital at 31 December 2011 and have concluded that there was an error in the disclosure of the number of ordinary shares in issue. The original and revised table of movements in share capital, share options and restricted shares is set out below:

	<i>Number of ordinary shares</i>	<i>Number of share options</i>	<i>Number of restricted shares</i>
As originally reported			
At 31 December 2010	121,577,500	8,585,000	230,835
Share options and restricted shares exercised for cash	812,000	(800,000)	(12,000)
Share options and restricted shares cash settled	–	–	(25,000)
Share options and restricted shares issued	–	1,021,000	31,320
At 31 December 2011	<u>122,389,500</u>	<u>8,806,000</u>	<u>225,155</u>
	<i>Number of ordinary shares</i>	<i>Number of share options</i>	<i>Number of restricted shares</i>
As restated			
At 31 December 2010	121,577,500	8,585,000	230,835
Share options and restricted shares exercised for cash	412,000	(400,000)	(12,000)
Share options and restricted shares exercised for cash settled from treasury shares	–	(400,000)	–
Share options and restricted shares cash settled	–	–	(25,000)
Share options and restricted shares issued	–	1,021,000	31,320
At 31 December 2011	<u>121,989,500</u>	<u>8,806,000</u>	<u>225,155</u>

Pursuant to a share buyback programme in 2011 the Company holds 4,144,820 shares in Treasury at 31 December 2012 (2011: 4,245,681). During 2012, 100,681 shares were issued from Treasury to satisfy the exercise of options and restricted shares.

In 2010 a Restricted Share Plan (“RSP”) was established to complement the existing Share Option Plan. Under the RSP restricted (deferred) shares are awarded at par value to employees. Other than the lower exercise price the restricted shares operate in the same manner as the ordinary share options.

The detail of the share options and restricted shares outstanding at 31 December 2012 are as follows:

Exercise period	<i>Year options or restricted shares vest</i>	<i>Weighted average exercise price of options (£)</i>	<i>Number of options</i>	<i>Number of restricted shares</i>
8 May 2008 – 8 December 2013	2008	£1.88	4,065,000	
8 May 2009 – 27 November 2013	2009	£1.86	425,000	
9 February 2009 – 10 June 2014	2009	£1.87	135,000	
8 May 2010 – 27 November 2013	2010	£1.86	425,000	
16 February 2010 – 10 June 2014	2010	£1.88	72,500	
16 February 2011 – 15 February 2014	2011	£1.86	62,500	
4 May 2011 – 3 May 2015	2011	£3.20	702,500	
4 May 2012 – 3 May 2015	2012	£3.20	702,500	
3 June 2012 – 2 June 2016	2012	£2.35	423,000	
3 June 2013 – 2 June 2016	2013	£2.35	423,000	
4 May 2011 – 3 November 2015	2011			51,918
4 May 2012 – 3 November 2015	2012			51,917
3 June 2012 – 2 June 2016	2012			15,661
3 June 2013 – 2 June 2016	2013			15,659
4 April 2012 – 3 April 2017	2012			16,250
4 April 2012 – 29 October 2017	2013			149,992
4 April 2012 – 29 October 2017	2014			133,742
4 April 2012 – 29 October 2017	2015			11,000
		<u>£2.18</u>	<u>7,436,000</u>	<u>446,139</u>

All restricted shares have an exercise price of £0.06 per restricted share.

Options are exercisable at prices from £1.02 to £3.20 per share and had a weighted estimated remaining contractual life of 1.2 years at 31 December 2012. The weighted remaining contractual life of the restricted shares is approximately 3.8 years.

Of the total outstanding options at 31 December 2012, the options granted to the Directors numbered 6,300,000 (2011: 7,575,000) and those granted to other staff numbered 1,061,000 (2011: 1,156,000). The remaining 75,000 (2011: 75,000) were granted to ex-employees and ex-Directors or consultants who are currently involved with or have performed work for the Group. All restricted shares outstanding were granted to non-Directors employed by the Group.

The average share price during 2012 was £1.21 (2011: £2.43). The highest share price during the year was £1.87 and the lowest price was £0.78 (2011: £4.03 and £1.41).

6.2 Financial instruments, derivatives and capital management

Risk assessment

The Group's oil and gas activities are subject to a range of financial risks, as described below, which can significantly impact its performance.

Liquidity risk

At the end of the year the Group had cash in hand of \$91.0 million, and further bank balances of \$7.8 million held in escrow to cover expected decommissioning liabilities and other obligations.

Cash forecasts identifying the liquidity requirements of the Group are produced frequently. These are reviewed regularly by management and the Board to ensure that sufficient financial headroom exists for at least 12 months. At present the Group has no loan facilities in place and has no obvious need for such facilities

based upon its current projects in hand and its available cash resources. However this position will continually be reviewed in the light of developments with existing projects and new project opportunities as they arise.

Currency risk

Foreign currency

Foreign currency transactions of individual companies within the Group are translated to the functional and reporting currency of US Dollars at the rates prevailing when the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. All differences are taken to the Income Statement.

The Group has currency exposure arising from transactions denominated in currencies other than the functional currency of the Company and all its subsidiaries, US Dollars. These transactions relate to certain costs of its oil and gas exploration and production operations which are denominated in local currencies or in Euro, and its head office costs which are denominated in Pounds Sterling.

Although sales of crude oil by the Group's Syrian operations have been invoiced in US Dollars payment has previously been made in Euro or Syrian Pounds according to the exchange rates pertaining between US Dollars and these currencies shortly before the payment is made. The Group manages any further risk through the use of short-term foreign currency forward contracts of not more than two weeks duration. Each contract is entered into with the aim of exactly covering any foreign currency risk on Euro receivables. There was no significant exposure to forward exchange contracts in place as at 31 December 2012 or 2011.

In Syria and Tunisia, where the operations are covered by Production Sharing Contracts ("PSCs"), costs incurred in currencies other than Dollars are recoverable under the terms of the PSC at the rate of exchange between US Dollars and that currency at the date of payment.

The Group maintains part of its cash balances in Pounds Sterling to defray head office costs but limits exposure to other currencies as far as practicable.

The following table demonstrates the sensitivity to changes in the US Dollar exchange rate, with all other variables held constant, on the Group's profit before tax and the Group's equity:

	<i>Change in US Dollar rate</i>	<i>Effect on profit before tax \$'000</i>
2012	(+ or -) 5%	125
2011	(+ or -) 5%	423

Credit risk

During the year ended 31 December 2012 79% of the Group's revenues, which were all derived from the US segment, were received from Sunoco Inc and 11% from Southwest Energy LP. During the year ended 31 December 2011, 94% of the Group's revenues were derived from sales to the Oil Marketing Bureau of the Government of the Syrian Arab Republic ("OMB").

In the USA the Group trades only with a small number of recognised, creditworthy third parties. The Group manages the exposures to credit risk by performing credit evaluations on such of their major customers as require credit.

In Syria, the Group's share of crude oil has previously been sold to the OMB. The Group has yet to receive payment for oil sales for the period August 2011 to December 2011 amounting to \$26.2 million. Although the resultant debt has been acknowledged by the government of the Syrian Arab Republic the ultimate recoverability of this amount is subject to a high degree of uncertainty and the Group has impaired the outstanding amount in full. No revenue has been recorded in Syria for the period since 1 December 2011.

The Directors do not consider that any further provision is necessary against any financial assets.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group considers capital to be its equity reserves. At the current stage of the Group's life cycle, the Group's objective in managing its capital is to ensure funds raised meet the exploration expenditure commitments.

The Group ensures it is meeting its objectives by reviewing its KPIs and other management information to ensure its activities are progressing in line with expectations, controlling costs and placing unused funds on deposit to conserve resources and increase returns on surplus cash held.

Financial assets

The Group's financial assets consist of long-term financial assets, its available-for-sale investment in DPC, cash at bank and receivables. The interest rate profile at 31 December for these assets at US dollar equivalents was as follows:

	<i>Financial assets on which interest is earned \$'000</i>	<i>Financial assets on which no interest is earned \$'000</i>	<i>Total \$'000</i>
2012			
US Dollar	95,231	112,709	207,940
UK Sterling	–	466	466
Euro	84	793	877
Syrian Pounds	–	55	55
	<u>95,315</u>	<u>114,023</u>	<u>209,338</u>
2011			
US Dollar	118,122	107,384	225,506
UK Sterling	2	890	892
Euro	5,544	1,044	6,588
Syrian Pounds	750	1,891	2,641
	<u>124,418</u>	<u>111,209</u>	<u>235,627</u>

The UK Sterling, Euro and Syrian Pound assets principally comprise cash on hand, cash in instant access accounts and short-term money market deposits. The US Dollar assets represent an available-for-sale financial asset, cash on call accounts, money market accounts, and short-term receivables. The Group earned interest on its interest bearing financial assets at rates between 0.01% and 1.0%. All financial assets, except the investment in DPC, are considered to be immediately available to turn into cash on demand.

In the current economic climate with exceptionally low interest rates, the Group is not sensitive to fluctuations in the interest rate received on bank and money market deposits and accordingly no sensitivity analysis is published.

Included in financial assets on which no interest is earned at 31 December 2012 and 2011 was a gross amount of \$26.2 million of trade receivables that has been impaired down to a recoverable amount of nil. This amount is due from the government of the Syrian Arab Republic in respect of oil sales in Syria. The receivable is acknowledged by General Petroleum Corporation of the Syrian Arab Republic but due to the ongoing sanctions against the country's oil industry the payment of this amount has been delayed and, taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future payment, has been fully impaired. The remaining trade receivables consist of

amounts receivable from various counter-parties where the Group considers the credit risk to be low. This risk is monitored by the Group.

Financial liabilities

The Group's financial liabilities consist of short-term payables. None of these liabilities bear interest to external parties.

At 31 December financial liabilities are classified as shown below:

	<i>Financial liabilities on which no interest is charged \$'000</i>
2012	
US Dollar	10,298
UK Sterling	629
Euro	230
Syrian Pounds	550
Other currencies	72
	<u>11,779</u>
2011	
US Dollar	16,469
UK Sterling	109
Euro	412
Syrian Pounds	1,146
	<u>18,136</u>

The Group's short-term liabilities are considered to be payable on demand.

Derivative financial instruments

The Group has in previous periods entered into regular forward-dated foreign exchange transactions as a means of reducing the exposure of the Group to exchange rate differences. These transactions were normally of a duration of less than two weeks and the amounts sold forward approximated to the monthly hydrocarbon invoicing for the Group's Syrian operations. No forward or derivative financial instruments have been entered into since September 2011.

The Group does not enter into derivative contracts in respect of its exposure to fluctuations in the price of oil and gas.

The Group sells its hydrocarbon production on the spot market and has exposure to changes in oil and gas prices. The Directors consider the Group has the financial strength to withstand such changes under all reasonable prognoses and, accordingly, no commodity derivative contracts are currently outstanding. The potential future use of derivatives will be kept under review should the Group feel that the exposure to commodity price risk significantly impacts the liquidity risk of the Group. The Group incurred no expense in respect of oil and gas price derivatives in 2012 or 2011.

Available-for-sale financial assets

The available-for-sale asset comprises the Group's investment in Dijila Petroleum Company ("DPC") and has been valued by Directors at an internal estimate of fair value at the balance sheet date taking into consideration the current exceptional circumstances in Syria.

Upon deconsolidation of this interest, IFRS requires the fair value of any remaining investment to be reinstated on the balance sheet as an investment. This investment is classified as an “available-for-sale” financial asset although it is not the Group’s intention to dispose of the asset in the foreseeable future.

The Group has recognised a fair value of \$102.0 million for the investment as described in more detail in note 5.9, this valuation is substantially different from the potential long-term value of the asset. It is based upon the entitlement reserves at 31 December 2012 discounted at a rate of 15% per annum and then the net present value is reduced further by 80% to reflect current market view of other risks of investments in the Syrian oil and gas sector. In deriving the figure of 80% we have assumed, inter alia, a long-term Brent oil price assumption of \$90/bbl, a delay to resumption of oil production in Syria, deferred revenue receipts for a period after resumption of production, potential further costs associated with restarting operations and the possibility of a change to the terms of the PSC or even expropriation. The valuation represents a level 3 measurement basis as defined by IFRS 7.

The following table sets out the impact that changes in the key variables would have on the carrying value of the asset:

	<i>Change</i>	<i>Change in carrying value of investment \$'000</i>	<i>Changes in equity \$'000</i>
Increase in forecast capital expenditure	5%	(1,535)	(1,535)
Decrease in long-term commodity prices	5%	(5,863)	(5,863)
Increase in forecast operating expenditure	5%	(810)	(810)
Change in discount rate to 10%	5%	30,167	30,167
Change in discount rate to 20%	5%	(20,456)	(20,456)
Change in the Syrian oil and gas sector risk to 50%	30%	153,000	153,000
Change in the Syrian oil and gas sector risk to 90%	10%	(51,000)	(51,000)
Expropriation of the asset	n.a.	(102,000)	(107,000)

Fair values

The Group has an available-for-sale financial asset valued by the Directors at \$102 million as described further above.

At 31 December 2012 and 2011, the Directors considered the fair values and book values of the Group’s financial assets and liabilities to be materially the same.

6.3 Related party transactions and key management

Key management of the Group are considered to be the Directors of the Company. There were no transactions with Directors, other than interests in shares and their remuneration and share options as disclosed in the Directors’ Remuneration Report on pages 32 and 33.

The remuneration of Directors is set out below in aggregate for each of the categories specified in IAS 24 “Related Party Disclosures”.

	<i>2012 \$'000</i>	<i>2011 \$'000</i>
Short-term employee benefits	2,133	4,173
Share-based payments	975	1,632
	<u>3,108</u>	<u>5,805</u>

In 2012 the Group paid \$32,000 (2011: \$31,000) to Hamilton Capital Partners Limited, a company associated with Mr Judge, for London office representative costs.

There were no other related party transactions of the Group during the years ended 31 December 2012 or 2011.

6.4 Commitments

At 31 December 2012 the Group had minimum work commitments in respect of Chorbane Permit, onshore Tunisia. This obligation is to drill one exploration well. In addition to this, the Group has entered into an undertaking with ADX Energy Limited to provide funding for their share of a seismic programme to be undertaken on the permit area. The total estimated cost to the Group for these items is \$4.8 million.

The Group has a minimum work commitment for the Kerkouane Permit, offshore Tunisia to re-enter and test the Lambouka well and to drill one further exploration well. The total estimated cost to the Group for these items is \$25.0 million.

On 18 December 2012 the Company entered into an agreement with Caithness Petroleum Limited ("Caithness") for the acquisition of its subsidiary undertaking, Cabre Maroc Limited. Upon completion of this agreement the Group became liable for several work programmes relating to the assets of Cabre Maroc Limited and the provision of funding for Caithness's residual interests as set out in the table below. The agreement completed on 16 January 2013.

<i>Permit</i>	<i>Minimum work commitment</i>	<i>Maximum carry provided to Caithness \$ million</i>	<i>Total estimated commitment \$ million</i>
Rharb	Five exploration wells	–	7.5
Fes	1,000 line km of 2D seismic plus one exploration well	10.0	17.1
Tauonate	10,000 line km of gravity survey and 350 line km of 2D seismic	1.0	4.5

In December 2010 Dijila Petroleum Company ("DPC") signed a contract with Saipem S.p.A for the construction of a central processing facility to be installed at the Khurbet East Field on Block 26, Syria. The total contract cost is denominated in Euro and the Group's share of the current approved value is approximately \$65 million. The Group has not recognised a commitment in respect of this amount as the operations of DPC are no longer included within the consolidated results of the Group. On 19 December 2011 Saipem S.p.A issued notice of *force majeure* and the contract is currently suspended.

There were no other material obligations or contracts outstanding in relation to ongoing projects not provided for at 31 December 2012 or 2011.

6.5 Contingent liabilities

Due to the nature of the Group's business, some contamination of the property owned or leased by the Group is possible. Environmental site assessments of the property would be necessary to adequately determine remediation costs, if any. The Directors do not consider the amounts that would result from any environmental site assessments to be significant to the financial position or results of operations of the Group. Accordingly, except for the provision made against decommissioning costs (note 4.2), no further provision for potential remediation costs is required.

The Group has entered into a Production Sharing Contract with the government of the Syrian Arab Republic under which it is responsible for bearing 50 per cent. of the costs and expenses of all operations in the Block 26 area, Syria. As discussed in note 5.9, a notice of *force majeure* was issued to the General Petroleum Corporation ("GPC") in December 2011 after which the GPC has continued to operate the fields through Dijila Petroleum Company ("DPC"). It is anticipated that once sanctions are lifted and the Group is able to legally resume operations DPC will seek to reclaim costs incurred during the pendency of the *force majeure* period. At 31 December 2012 the Group could not reliably estimate these costs but does not believe them to be significant.

6.6 Post balance sheet events

Acquisition of Cabre Maroc Limited

On 17 January 2013 the Company announced that, following the satisfaction or waiver of all conditions precedent to the transaction, it had completed the acquisition of Cabre Maroc Limited ("Cabre") from Caithness Petroleum Limited. Cabre is a Cyprus registered company with oil and gas exploration and production operations in the Kingdom of Morocco. Further details of its activities are included in the Operations Review on pages 6 to 13. The purchase of Cabre delivers to Gulfsands a large, contiguous and highly prospective acreage position in an area with proven petroleum systems, revenues from near term production and multiple drilling targets.

Following completion of the transaction the Group owns the entire issued share capital of Cabre.

The provisional fair value of the Cabre assets acquired and liabilities assumed by the Group to be recognised in the financial statements of the Group for the year ended 31 December 2013 include:

	<i>\$ million</i>
Property, plant & equipment	5.0
Intangible exploration & evaluation assets	15.9
Cash	0.0
Inventory	0.5
Receivables	0.1
Liabilities assumed	(1.7)
Decommissioning provisions	(0.8)
Fair value of total identified assets less liabilities	<u>19.0</u>

The total consideration for the transaction included approximately \$17.3 million which was paid in cash to the vendor upon completion and \$1.7 million paid to settle creditors of Cabre Maroc Limited at the transaction date. In addition the Group has committed to the provision to Caithness Petroleum Limited of funding for their portion of certain work programmes to be conducted on the Fes and Taounate blocks, totalling approximately \$11.0 million.

No amounts relating to Cabre are included in the Income Statement for the period ending 31 December 2012.

Acquisition of Colombia licences

On 1 March 2013 the Company announced the acquisition of two licences covering the Llamas 50 and Putumayo 14 areas in Colombia.

COMPANY BALANCE SHEET

As at 31 December 2012

	Notes	2012 \$'000	2011 \$'000
ASSETS			
Non-current assets			
Property, plant and equipment	2.1	473	30
Intangible assets	2.2	1,720	1,437
Long-term financial assets	4.2	5,000	1,000
Investments in and loans to subsidiaries	3	20,596	12,238
		<u>27,789</u>	<u>14,705</u>
Current assets			
Trade and other receivables	4.1	6,340	29,808
Cash and cash equivalents	4.2	89,440	114,819
		<u>95,780</u>	<u>144,627</u>
Total assets		<u>123,569</u>	<u>159,332</u>
LIABILITIES			
Current liabilities			
Trade and other payables	4.3	3,561	2,722
Total liabilities		<u>3,561</u>	<u>2,722</u>
Net assets		<u>120,008</u>	<u>156,610</u>
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	6.1	13,131	13,131
Share premium		105,926	105,926
Share-based payments reserve		20,246	18,506
Retained profit/(loss)		(19,295)	19,047
Total equity		<u>120,008</u>	<u>156,610</u>

The Financial Statements of Gulfsands Petroleum Plc (registered number: 05302880) were approved by the Board of Directors on 8 April 2013 and signed on its behalf by:

Ric Malcolm
Chief Executive Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	<i>Share capital \$'000</i>	<i>Share premium \$'000</i>	<i>Share-based payments reserve \$'000</i>	<i>Retained profit/(loss) \$'000</i>	<i>Total equity \$'000</i>
Year ended 31 December 2012					
At 1 January 2012	13,131	105,926	18,506	19,047	156,610
Options exercised	–	–	(11)	145	134
Purchase of own shares	–	–	–	(119)	(119)
Share-based payment charge	–	–	1,751	–	1,751
Loss for 2012	–	–	–	(38,368)	(38,368)
At 31 December 2012	13,131	105,926	20,246	(19,295)	120,008
Year ended 31 December 2011					
At 1 January 2011	13,093	105,025	16,318	(30,083)	104,353
Options exercised	38	901	–	–	939
Purchase of own shares	–	–	–	(13,023)	(13,023)
Share-based payment charge	–	–	2,523	–	2,523
Payments made in lieu of option exercise	–	–	(335)	–	(335)
Profit for 2011	–	–	–	62,153	62,153
At 31 December 2011	13,131	105,926	18,506	19,047	156,610

COMPANY CASH FLOW STATEMENT
For the year ended 31 December 2012

	Notes	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Operating loss		(11,770)	(13,514)
Depreciation and amortisation	2.1 & 2.2	608	148
Share-based payment charge		1,751	2,522
Increase/(decrease) in receivables		(339)	62
Increase/(decrease) in payables		839	(250)
Net cash used in operations		(8,911)	(11,032)
Interest received		4,060	4,622
Net cash used in operating activities		(4,851)	(6,410)
Investing activities			
Capital expenditure		(1,334)	(1,446)
Change in long-term financial assets	4.2	(4,000)	–
Loans to subsidiaries		(15,209)	(23,807)
Net cash used in investing activities		(20,543)	(25,253)
Financing activities			
Cash proceeds from issue of shares		145	939
Purchase of own shares		(119)	(13,023)
Payments made in lieu of options exercised		–	(335)
Other payments in connection with options issued		(11)	–
Dividend received		–	90,000
Net cash provided by financing activities		15	77,581
(Decrease)/increase in cash and cash equivalents		(25,379)	45,918
Cash and cash equivalents at beginning of period		114,819	68,901
Cash and cash equivalents at end of period	4.2	89,440	114,819

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2012

Section 1 – Basis of Preparation

This section contains the Group's significant accounting policies that relate to the financial statements as a whole. Significant accounting policies specific to one note have been included in that note. Accounting policies determined non-significant are not included in these financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

This section also includes new EU endorsed accounting standards, amendments and interpretations and their expected impact, if any, on the performance of the Group.

1.1 Authorisation of financial statements and statement of compliance with IFRSs

Gulfsands Petroleum plc is a public limited company listed on the Alternative Investment Market ("AIM") of the London Stock Exchange and incorporated in the United Kingdom. The principal activity of the Company is that of provision of services to its subsidiaries which are engaged in oil and gas production, exploration and development activities.

The Company's Financial Statements for the year ended 31 December 2012 were authorised for issue by the Board of Directors on 8 April 2013 and the balance sheet was signed on the Board's behalf by Ric Malcolm.

The Company's Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The principal accounting policies adopted are set out in note 1.3 below.

The risks faced by the Company include those related to EU sanctions, described in note 5.9 to the Consolidated Financial Statements.

1.2 Adoption of International Financial Reporting Standards

The Company's Financial Statements for the year ended 31 December 2012 and for the comparative year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and IFRIC (International Financial Reporting Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

See note 1.3 b) to the Consolidated Financial Statements for details of new IFRSs and interpretations.

1.3. Significant accounting policies

a) Basis of preparation and accounting standards

The Company's significant accounting policies used in the preparation of the Company Financial Statements are set out below.

The Financial Statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the European Union and, except for share-based payments, under the historical cost convention. They have also been prepared on the going concern basis of accounting, for the reasons set out in the "Going concern" section of the Directors' Report.

b) Reporting currency

These Financial Statements are presented in US Dollars. The Company's operations and the majority of all costs associated with foreign operations are paid in US Dollars and all loan balances with subsidiary undertakings are denominated in US Dollars. Therefore the presentational and functional currency of the Company is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2012 was £1: US\$1.61 (2011 – £1: US\$1.57).

ASSETS AND INVESTMENTS

Section 2 – Property, plant and equipment and Intangible assets

This section focuses on the property, plant, equipment and computer software utilised by the Company.

2.1 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years.

	<i>Office equipment, fixtures and fittings \$'000</i>
Cost:	
At 1 January 2011	310
Additions	22
At 1 January 2012	332
Additions	566
At 31 December 2012	898
Accumulated depreciation:	
At 1 January 2011	(203)
Charge for 2011	(99)
At 1 January 2012	(302)
Charge for 2012	(123)
At 31 December 2012	(425)
Net book value at 31 December 2012	473
Net book value at 31 December 2011	30

2.2 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any provision for impairment. Amortisation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Amortisation is included with depreciation and classified as administrative expenses. No intangible assets have indefinite lives.

	<i>Computer software \$'000</i>
Cost:	
At 1 January 2011	503
Additions	1,093
At 1 January 2012	1,596
Additions	768
At 31 December 2012	2,364
Accumulated amortisation:	
At 1 January 2011	(110)
Amortisation charge for 2011	(49)
At 1 January 2012	(159)
Amortisation charge for 2012	(485)
At 31 December 2012	(644)
Net book value at 31 December 2012	1,720
Net book value at 31 December 2011	1,437

ASSETS AND INVESTMENTS

Section 3 – Investments in and loans to subsidiaries

This section focuses on the Company's investments and loans.

3. Investments

The Company's investments in subsidiary companies are included in the Company Balance Sheet at cost, less provision for any impairment.

The Company's fixed asset investment of \$7,306,000 represents the historic cost of acquisition of the entire share capital of Gulfsands Petroleum Ltd by means of a share for share exchange in 2005, less any required provision for impairment.

Loans to subsidiary undertakings comprise a revolving loan from the Company to Gulfsands Petroleum USA, Inc. for \$49,737,000 (2011: \$46,039,000) including accrued interest of \$8,426,000. Interest is charged at 8.5 per cent. per annum on the outstanding principal and is payable in full on 31 December annually. The principal balance may be paid in part or in full at any time with no penalty. On 1 January 2015 the loan converts to a term loan and the payments will be made in four instalments over the next three years.

A total impairment provision of \$36,447,000 (2011: \$32,760,000) has been recognised against the carrying value of this loan in the Company's Financial Statements. This provision writes down the value of the loan to Gulfsands Petroleum USA, Inc. to the amount expected to be realisable after the anticipated disposal of the Company's assets in the Gulf of Mexico. The impairment follows the change of classification of the Gulf of Mexico assets from being valued at their expected value in use to their fair value less costs to sell. The fair value less costs to sell has been estimated following discussions with external specialist transaction advisors retained by the Group.

The Company's investments in subsidiary undertakings are shown below. All investments are in ordinary shares and are directly or indirectly owned by the Company as stated below:

<i>Name of company</i>	<i>Proportion of voting shares at 31 December 2012</i>	<i>Nature of business</i>	<i>Country of incorporation</i>
Directly held by the Company:			
Gulfsands Petroleum Ltd	100%	Holding company	Cayman Islands
Indirectly held by the Company:			
Gulfsands Petroleum Holdings	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum USA, Inc.	100%	Oil & gas exploration	US
Darcy Energy LLC	100%	Oil & gas exploration	US

Gulfsands Petroleum Levant Limited owns a 50 per cent. interest in a contractor group that has been exploring for hydrocarbons in Block 26 in Syria prior to the imposition of EU sanctions against the Syrian oil industry.

ASSETS AND INVESTMENTS

Section 4 – Working Capital

This section focuses on the funding available and the working capital position of the Company at the year-end.

4.1 Trade receivables

Trade receivables are carried at original invoice amounts less any provision made for impairment of receivables. A provision for impairment of trade receivables is made when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debt.

Trade and other receivables

	<i>Note</i>	<i>2012 \$'000</i>	<i>2011 \$'000</i>
Prepayments and accrued income		585	246
Amounts due from subsidiaries	6.4	5,755	29,562
		<u>6,340</u>	<u>29,808</u>

The amounts due from subsidiaries shown above includes \$0.2 million (2011: \$0.5 million) due from Dijila Petroleum Company, a previously proportionally consolidated subsidiary undertaking.

4.2 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost and comprise cash in hand and deposits repayable on demand by banks and other short-term investments with original maturities of three months or less. Balances held in bank accounts subject to escrow agreements as collateral for performance bonds issued are excluded from cash and cash equivalents and are shown as long-term financial assets.

	<i>2012 \$'000</i>	<i>2011 \$'000</i>
Cash at bank and in hand	89,440	114,819
Restricted cash balances	5,000	1,000
	<u>94,440</u>	<u>115,819</u>
Included in long-term financial assets	5,000	1,000
Total cash and cash equivalents	<u>89,440</u>	<u>114,819</u>

The restricted cash balance at 31 December 2012 represents an amount held in escrow to secure a bond issued in connection with the acquisition of Cabre Maroc Limited (see note 6.5). At 31 December 2011 this cash was held in escrow to secure a line of credit for forward foreign currency trading.

4.3 Trade payables

Trade payables are not interest-bearing and are stated at their nominal values.

Trade and other payables

	2012 \$'000	2011 \$'000
Trade payables	327	218
Accruals and other payables	856	126
Amounts due to subsidiaries	2,378	2,378
	<u>3,561</u>	<u>2,722</u>

Section 5 – Results for the year

This section focuses on the results and performances of the Company.

5.1 Revenue recognition

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

Income statement and total revenue

No individual Income Statement is presented in respect of the Company as permitted by section 408 of the Companies Act 2006. The Company's loss for the year was \$38,368,000 (2011: profit of \$62,153,000). The total revenue of the Company, as defined by IAS 18, for 2012 was \$6,425,000 (2011: \$7,431,000) comprising management fees of \$2,365,000 (2011: \$2,809,000) and interest income of \$4,060,000 (2011: \$4,622,000).

The Company operates in one segment, that of the provision of services to group undertakings, and in one geographical area, the United Kingdom.

5.2 Operating leases

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

Obligations under operating leases

At the end of the year the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings of \$600,000 (2011: \$390,000) within one year and \$1,950,000 (2011: \$62,000) between two and five years.

5.3 Share-based payments

The Company has made equity-settled share-based payments to certain employees and Directors by way of issues of share options. The fair value of these payments is calculated at grant date by the Company using the Black-Scholes option pricing model excluding the effect of non market-based vesting conditions. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of the number of options that will eventually vest. At each balance sheet date, the Company revises its estimates of the number of options expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

See note 5.3 within the Financial Statements of the Group.

5.4 Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted, or substantively enacted, tax rates and laws that will be in effect when the differences are expected to reverse. The recoverability of deferred tax assets is evaluated annually and an impairment provision is provided if it is more likely than not that the deferred tax asset will not give rise to future benefits in the Company's tax returns.

Deferred tax assets/(liabilities)

	2011 \$'000	2010 \$'000
Tax losses carried forward	8,145	5,489
Depreciation in advance of capital allowances	201	–
Other short-term temporary differences	19,132	–
Unprovided deferred tax asset	(27,478)	(5,489)
Deferred tax asset/(liability) at 31 December	–	–

The tax effect of amounts for which no deferred tax asset has been recognised is as follows:

	2012 \$'000	2011 \$'000
Unutilised tax losses	8,145	7,247
Other short-term temporary differences	19,333	–
	27,478	7,247

The tax losses of the Company have no expiry date.

Deferred tax assets are not provided where the Company does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets.

5.5 Earnings per share

No earnings per share information is shown as the Company is not required to present an Income Statement.

Section 6 – Capital Structure and Other Disclosures

The disclosures in this section focus on the issued share capital, the share schemes in operation and the associated share-based payment charge. Other mandatory disclosures, such as details of related party transactions, can also be found here.

Equity instruments

Equity instruments issued by the Company, being any instruments with a residual interest in the assets of the Company after deducting all its liabilities, are recorded at the proceeds received, net of direct issue costs.

6.1 Share capital

See note 6.1 within the Financial Statements of the Group.

6.2 Financial instruments, derivatives and capital management

The Company has previously entered into forward dated foreign exchange transactions as a means of reducing its exposure to exchange rate differences. There have been no such forward dated contracts entered into since August 2011.

The financial risks of the Company are principally in respect of balances held in bank accounts and on deposit, and balances owed to, or owed by, subsidiary undertakings. Balances owed to or owed by subsidiary undertakings are all denominated in US Dollars. Other risks are managed on a unified basis with the Group and a full disclosure of these risks is made in note 6.2 of the Group's Financial Statements.

The exposure of the Company to interest rate and currency movements is not significant. A summary of the financial assets and financial liabilities of the Company is set out below:

	<i>Financial assets on which interest is earned \$'000</i>	<i>Financial assets on which no interest is earned \$'000</i>	<i>Total \$'000</i>
2012			
US Dollar	92,394	7,586	99,980
UK Sterling	–	465	465
Euro	–	335	335
	<u>92,394</u>	<u>8,386</u>	<u>100,780</u>
2011			
US Dollar	116,731	38,307	155,038
UK Sterling	1	707	708
Euro	–	2,119	2,119
	<u>116,732</u>	<u>41,133</u>	<u>157,865</u>
			<i>Financial liabilities on which no interest is charged \$'000</i>
2012			
US Dollar			2,683
UK Sterling			834
Other currencies			44
			<u>3,561</u>
2011			
US Dollar			2,658
UK Sterling			64
			<u>2,722</u>

During the period ended 31 December 2012 the Company impaired balances owed from subsidiary undertakings totalling \$30.8 million (2011: \$47.4 million) in respect of activities in Tunisia (\$20.0 million), the Gulf of Mexico (\$3.7 million), Syria (\$6.4 million) and Iraq (\$0.8 million). In 2011 this provision related to its activities in the Gulf of Mexico (\$32.8 million), Syria (\$9.7 million) and Iraq (\$4.9 million).

6.3 Foreign currency

Foreign currency transactions are translated to the functional and reporting currency of US Dollars at the rates prevailing when the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. All differences are taken to the Income Statement.

6.4 Related party transactions and key management

Key management of the Company are considered to be the Directors of the Company. There were no transactions with Directors, other than interests in shares and their remuneration and share options as disclosed in the Directors' Remuneration Report on pages 32 and 33.

The remuneration of Directors is set out in note 6.3 to the Financial Statements of the Group.

The Company traded with various undertakings within the same Group during the years ended 31 December 2012 and 2011. A summary of the transactions and outstanding balances at the year-end is set out below.

Balances owed by/(owed to) related parties

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>Commercial terms</i>	<i>2012 \$'000</i>	<i>2011 \$'000</i>
Gulfsands Petroleum USA, Inc.	Subsidiary	Interest rate 8% per annum	49,737	46,040
		Asset impairment	(36,447)	(32,760)
Gulfsands Petroleum Tunisia Limited	Subsidiary	Non-interest bearing	24,652	20,655
		Impairment	(19,967)	–
Gulfsands Petroleum Levant Limited	Subsidiary	Non-interest bearing	16,038	9,683
		Impairment	(16,038)	(9,683)
All other subsidiary undertakings	Subsidiary	Non-interest bearing	3,360	2,609
		Impairment	(5,698)	(4,939)
Dijila Petroleum Company	Previously proportionately consolidated	Non-interest bearing	267	511

Services recharged to related parties

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>Commercial terms</i>	<i>2012 \$'000</i>	<i>2011 \$'000</i>
Gulfsands Petroleum USA, Inc.	Subsidiary		208	389
Gulfsands Petroleum Tunisia Limited	Subsidiary	All materials and services recharged at	112	26
Gulfsands Petroleum Levant Limited	Subsidiary	cost. Labour recharged at marked up amounts	1,499	1,099
Gulfsands Petroleum Iraq Limited	Subsidiary		761	202
Dijila Petroleum Company	Previously proportionately consolidated		(216)	367
Gulfsands Petroleum Levant Limited	Subsidiary	Management fee	(354)	726

6.5 Post balance sheet events

Acquisition of Cabre Maroc Limited

On 17 January 2013 the Company announced that, following the satisfaction or waiver of all conditions precedent to the transaction, it had completed the acquisition of Cabre Maroc Limited ("Cabre") from Caithness Petroleum Limited. Cabre is a Cyprus registered company with oil and gas exploration and production operations in the Kingdom of Morocco. Further details of its activities are included in the Operations Review on pages 6 to 13. The purchase of Cabre delivers to Gulfsands a large, contiguous and highly prospective acreage position in an area with proven petroleum systems, revenues from near term production and multiple drilling targets.

Following completion of the transaction the Company, indirectly, owns the entire issued share capital of Cabre.

The total consideration for the transaction included approximately \$17.3 million which was paid in cash to the vendor upon completion and \$1.7 million paid to settle creditors of Cabre Maroc Limited at the transaction date. In addition the Group has committed to the provision to Caithness Petroleum Limited of funding for their portion of certain work programmes to be conducted on the Fes and Taounate blocks, totalling approximately \$11.0 million.

Five Year Summary

		2012	2011	2010	2009	2008
Production						
Production – Working Interest	mmboe	0.1	3.1	3.8	2.7	1.2
Production – Entitlement	mmboe	0.1	1.3	1.7	1.6	0.8
Summary income statement						
Revenue	\$MM	5.6	124.9	115.6	84.4	53.6
Operating profit/(loss)	\$MM	(26.9)	56.7	45.5	29.0	(6.6)
Net profit/(loss) to shareholders	\$MM	(27.0)	55.1	44.7	28.3	(5.1)
Basic earnings/(loss) per share	US cents	(22.94)	45.51	36.88	23.68	(4.45)
Summary cash flow statement						
Net cash (used in)/from operating activities	\$MM	(14.2)	94.3	70.2	43.5	20.0
Net cash used in investing activities	\$MM	(19.1)	(38.3)	(48.0)	(26.3)	(21.7)
Net cash from financing activities	\$MM	0.0	(12.4)	0.8	3.6	20.0
Net (decrease)/increase in cash and cash equivalents	\$MM	(33.3)	43.6	23.0	20.8	18.3
Summary balance sheet						
Total assets	\$MM	232.4	261.1	242.9	179.3	138.8
Shareholders' equity	\$MM	202.9	228.2	183.0	134.2	101.3
Cash and cash equivalents less debt	\$MM	91.0	124.2	80.6	57.6	36.8

All amounts shown above include the results of the Group's Syrian operations which are required to be treated as discontinued by IFRS and are therefore non-GAAP measures.

The figures for 2008 and 2009 shown above have been restated since publication of original financial statements.

GLOSSARY OF TERMS

2D seismic	Seismic data, obtained using a sound source and receivers placed in a straight line on the surface of the earth, that is processed to provide a graphic representation of a vertical cross-section through the subsurface rock layers ("seismic line"). In a 2D seismic survey, several seismic lines are recorded and the cross-sections are interpolated to yield subsurface maps on which exploration prospects can be delineated
2P	Proved and Probable reserves
3D seismic	In a 3D seismic survey, multiple closely spaced seismic lines are recorded and the high density of cross sections are interpolated to yield detailed subsurface maps on which exploration prospects can be delineated
ANH	Agencia Nacional de Hidrocarburos
Appraisal well	An appraisal well is drilled to assess the characteristics (eg flow rate) of a proved oil and gas accumulation
bbl	Barrel of oil
bcf	Billion cubic feet of gas
bfpd	Barrels of fluid per day
boe	Barrels of oil equivalent where the gas component is converted into an equivalent amount of oil using a conversion rate of 6mcf to one barrel of oil
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
CPF	Central production facility
CSR	Corporate Social Responsibility
Development well	A development well is drilled within the proved area of an oil or gas reservoir to the depth of the stratigraphic horizon known to be productive
DPC	Dijila Petroleum Company, a corporate entity established in Syria, pursuant to the Block 26 PSC. DPC is considered to represent both the Group's legal interest in Dijila Petroleum Company and the associated rights to oil and gas production assets in Syria granted by the PSC
E&P	Exploration and production
EPF	Early production facility
Exploration well	An exploration well is drilled to find and produce oil or gas in an unproved area, to find a reservoir in a field previously found to be productive of oil or gas in another reservoir, or to extend a known reservoir
Force majeure	<i>Force majeure</i> is defined in the PSC as a circumstance beyond the Group's reasonable control which may result in the Group being unable to fulfil its obligations under the PSC. Examples of <i>force majeure</i> include Government law, order or regulation
HSE	Health, Safety and Environment
GIIP	Gas Initially-in-place
GPC	General Petroleum Corporation
km ²	Square kilometres
KPI	Key Performance Indicator
mcf	Thousand cubic feet of gas
mcf/d	Thousand cubic feet of gas per day
MENA	Middle East and North Africa
mmbbl	Millions of barrels of oil

mmboe	Millions of barrels of oil equivalent
mmcf/d	Millions of cubic feet of gas per day
mmstb	Millions of stock tank barrels
NGLs	Natural Gas Liquids
NGO	Non-governmental organisation
NRI	Net revenue interest
OMB	The Oil Marketing Bureau of the Government of the Syrian Arab Republic
ONHYM	L'Office National des Hydrocarbures et des Mines
P+P	Proved and Probable reserves
Possible reserves	Possible reserves are those additional reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible ("3P") reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be more than a 10 per cent. probability that the quantities actually recovered will equal or exceed the 3P estimate
Probable reserves	Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be more than a 50 per cent. probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable reserves
Proved reserves	Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty (normally over 90 per cent. if measured on a probabilistic basis) to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations
PSC	Production Sharing Contract
psi	Pounds per square inch (pressure)
SPC	Syrian Petroleum Company
SPE	Society of Petroleum Engineers
Stock tank barrel	A barrel of oil measured at standard temperature (60°F) and pressure (14.7 psi)
STOIIP	Stock Tank Oil Initially-in-place
WI	Working interest
WPC	World Petroleum Congress
WTI	West Texas Intermediate (crude)

PART XV

DEFINITIONS

“Act”	the Companies Act 2006 (as amended)
“Admission”	the admission of the Open Offer Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	AIM, a market operated by the London Stock Exchange
“AIM Rules”	the AIM Rules for Companies as published by the London Stock Exchange from time to time
“ANH”	Agencia Nacional de Hidrocarburos of Colombia
“Application Form”	for Qualifying Non-CREST Shareholders, the application form appended to this document
“Arawak”	Arawak Energy Bermuda Limited
“Arawak International”	Arawak Energy International Limited
“Articles”	the articles of association of the Company
“Best”	a classification of ‘best estimate’ prospective resources under the PRMS
“Blake”	Blake Holding Limited, a company owned and controlled by Mr. Richard Griffiths
“Brent”	Brent crude oil, the major trading classification of sweet light crude oil that serves as a major benchmark price for purchases of oil worldwide
“Broker” or “Cantor Fitzgerald”	Cantor Fitzgerald Europe
“Business Day”	any day on which the AIM market is open for business
“Capita Asset Services”	a trading name of Capita Registrars Limited
“Capital Raising”	the Open Offer
“COFOR”	Compagnie Forage Cofor
“Combined Code”	The Combined Code on Corporate Governance published by the Financial Reporting Council
“Company”, “GPX” or “Gulfsands”	Gulfsands Petroleum plc
“Concert Party”	Waterford, Mr. Griffiths, Mr. Beardsall and Mr. Ede-Golightly
“Convertible Loan Facility”	the convertible loan facility entered into between the Company and Arawak, as announced by the Company on 19 November 2014
“CREST”	the computerised settlement system (as defined in the CREST Regulations) operated by Euroclear which facilitates the transfer of title to shares in uncertificated form
“CREST Manual”	the CREST manual published by Euroclear

“CREST Proxy Instructions”	the proxy voting service for CREST for Qualifying CREST Shareholders
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755) including any variation thereof
“Dijila”	Dijila Petroleum Corporation
“Directors” or “Board”	the directors of the Company whose names are set out on page 41 of this document
“Enlarged Share Capital”	the Ordinary Shares in issue immediately following Admission
“EU Sanctions”	the sanctions in Syria imposed by the EU originally in May 2011 and extended in September and December 2011 as a result of various international governments taking action against the current regime (and the current civil conflict which is an in-country reaction to the current regime), which were adopted by the UK and promulgated by the Cayman Islands in July 2012, and other applicable sanctions extended or otherwise amended from time to time
“Euroclear”	Euroclear UK & Ireland Limited
“Eurozone”	the economic region formed by those member countries of the EU that have adopted the euro
“Existing Shares”	the 117,886,145 Ordinary Shares in the capital of the Company with a nominal value of 1.0 pence each, excluding the Treasury Shares
“Fes Petroleum Agreement”	the agreement, and any extensions thereto, between Gulfsands Morocco and ONHYM relating to the Fes permit area
“Force Majeure” or “Notice of Force Majeure”	the declaration of force majeure by the Company under the Company’s production sharing contract on Block 26 in Syria
“Group”	the Company and any or all of its subsidiary companies
“GPC”	General Petroleum Corporation of Syria
“Gulfsands Levant”	Gulfsands Petroleum Levant Ltd, a wholly owned subsidiary of Gulfsands
“Gulfsands Morocco”	Gulfsands Petroleum Morocco Ltd, a wholly owned subsidiary of Gulfsands
“Gulfsands (MENA)”	Gulfsands Petroleum (MENA) Ltd, a wholly owned subsidiary of Gulfsands
“High”	a classification of ‘high estimate’ prospective resources under the PRMS
“High Court”	Her Majesty’s High Court of Justice in England
“Lender”	Arawak or, subsequent to 29 June 2015, Weighbridge
“London Stock Exchange”	London Stock Exchange plc
“Low”	a classification of ‘low estimate’ prospective resources under the PRMS
“Luna Energy”	Luna Energy Inc.

“Member States”	the 28 member states of the EU, which are party to the founding treaties of the union and thereby subject to the privileges and obligations of membership
“Money Laundering Regulations”	The Money Laundering Regulations 2007 (UK)
“MPNR”	Ministry of Petroleum and Natural Resources of Syria
“Mr. Griffiths”	Mr. Richard Griffiths (and companies owned and controlled by him)
“New Individual Savings Account”	a class of retail investment arrangements available to residents of the UK which qualifies for a favourable tax status
“Nominated Person”	a person nominated by a Shareholder to enjoy information rights under section 146 of the Companies Act 2006
“Official List”	the Official List of the London Stock Exchange
“ONHYM”	Office National Des Hydrocarbures Et Des Mines in Morocco
“Open Offer”	the proposed pro-rata entitlement offering of the Open Offer Shares to Qualifying Shareholders on the basis of 3.01 Open Offer Shares per 1 Existing Share held as at the Record Date
“Open Offer Entitlements”	the individual entitlements of Qualifying Shareholders to subscribe for Open Offer Shares under the Open Offer
“Open Offer Shares”	350,733,941 new Ordinary Shares to be issued at the Open Offer Price and the existing 4,103,355 Ordinary Shares held in treasury to be sold at the Open Offer Price pursuant to the Open Offer
“Open Offer Closing Date”	11.00 a.m. on 5 January 2016
“Open Offer Long Stop Date”	31 January 2016
“Open Offer Price”	4.0 pence per Open Offer Share
“Ordinary Shares”	the ordinary shares of 1.0 pence each in the capital of the Company
“Overseas Shareholders”	Shareholders whose registered address on the Company’s share register is in a jurisdiction that is not the UK
“Panel”	the Panel on Takeovers and Mergers
“Possible”	a classification of possible reserves under the PRMS
“PRMS”	SPE Petroleum Resources Management System
“PRMS Guidelines”	the Guidelines for the Application of the Petroleum Resource Management System as adopted in 2011
“Prospectus”	this document
“Prospectus Rules”	the prospectus rules of the UK Listing Authority
“Probable”	a classification of probable reserves under the PRMS
“Proved”	a classification of proved reserves under the PRMS
“Qualifying CREST Shareholders”	Qualifying Shareholders whose holding of Existing Shares is held in CREST

“Qualifying Non-CREST Shareholders”	Qualifying Shareholders whose holding of Existing Shares is in certificated form
“Qualifying Shareholders”	any Shareholder as recorded on the register of the Company’s Existing Shares as at the Record Date, other than those resident in a Restricted Jurisdiction
“Record Date”	5.00 p.m. on 14 December 2015
“Registrars” or “Receiving Agents”	Capita Asset Services
“Regulatory Information Service”	a regulatory information service provider authorised by the FCA
“Restricted Jurisdiction”	Australia and the United States of America
“Rharb Petroleum Agreement”	the agreement, and any extensions thereto, between Gulfsands Morocco and ONHYM relating to the Rharb Centre and Rharb Sud permits
“Securities Act”	the US Securities Act of 1933, as amended
“Senenergy”	LR Senenergy Limited
“Self-Invested Personal Pension”	a UK government-approved personal pension scheme, which allows individuals to make their own investment decisions from the full range of investments approved by HMRC
“Shareholders”	holders of Existing Shares and new Ordinary Shares as appropriate
“Takeover Code”	the City Code on Takeovers and Mergers as published by the Panel
“Treasury Shares”	the 4,103,355 ordinary shares in the capital of the Company with a nominal value of 1.0 pence each, held in treasury as at the date of this document
“Underwrite” or “Underwriting”	the undertaking by the Underwriters to underwrite the Open Offer up to a total of 219,744,794 Open Offer Shares, as described in paragraph 7 of Part VIII of this document
“Underwriters”	Waterford and Mr. Griffiths
“US Dollar”	United States dollars
“Waterford”	Waterford Finance & Investment Limited
“Waterford Relationship Deed”	the relationship deed between the Company, Waterford and Mr. Beardsall as described in paragraph 16.6 of Part X of this document
“Weighbridge”	Weighbridge Trust Limited

PART XVI

GLOSSARY

1C	a classification of 'low estimate' contingent resources under the PRMS
1P	proved reserves under the PRMS
2C	a classification of 'best estimate' contingent resources under the PRMS
2D	two dimensional
2P	proved plus probable reserves under the PRMS
3C	a classification of 'high estimate' contingent resources under the PRMS
3D	three dimensional
3P	proved plus probable plus possible reserves under the PRMS
BACS	Bankers' Automated Clearing Services
bbl	barrel of crude oil
boepd	barrels of crude oil equivalent per day, assuming 6,000 cubic feet of gas is equivalent to 1 barrel of oil
bopd	barrels of crude oil per day
Bcf	billion cubic feet of natural gas
CCSS	CREST Courier and Sorting Service
CEO	Chief Executive Officer
CFA	Chartered Financial Analyst
CHAPS	Clearing House Automated Payment System
COP	Colombian Peso
CREST	Certificateless Registry for Electronic Share Transfer
EEA	European Economic Area
EU	European Union
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000, as amended
GBP	pounds sterling
H1	6 months ended 30 June
HMRC	Her Majesty's Revenue and Customs

HSE	Health, safety and environment
IFRS	International Financial Reporting Standards
ISIN	International Securities Identification Numbering
km	Kilometres
km ²	Square kilometres
MAD	Moroccan Dirham
Mcf	thousand cubic feet of natural gas
MENA	Middle East and North Africa
MMbbls	million barrels of oil
MMboe	million barrels of oil equivalent, assuming 6,000 cubic feet of gas is equivalent to 1 barrel of oil
MMscfpd	million standard cubic feet of natural gas per day
NGLs	non gas liquids
p or GBp	British pence
PSC	production sharing contract
SDRT	stamp duty reserve tax
SEDOL	stock exchange daily official list
SPE	Society of Petroleum Engineers
TND	Tunisian Dinar
TSX	Toronto Stock Exchange
UK	United Kingdom
UKLA	the UK Listing Authority department of the FCA
US	United States of America
USE	Unmatched Stock Event

