INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF GULFSANDS PETROLEUM PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Gulfsands Petroleum plc for the year ended 31 December 2007 which comprise the Group income statement, the Group and Company balance sheets, the Group and Company statements of changes in equity, the Group and Company cash flow statements and the related notes. These financial statements have been prepared in accordance with the basis and the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union are set out in the paragraph entitled "Statement of Responsibilities of Those Charged with Governance" in the Directors' Report.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, Review of Operations, Directors' Report and the Directors' Corporate Governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

Basis of opinion (continued)
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of the Group's profit for the year then ended;

- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' report is consistent with the financial statements.

UHY Hacker Young LLP

Chartered Accountants
Registered Auditors

Quadrant House
17 Thomas More Street
Thomas More Square
London E1W 1YW

18 April 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 $'000	2006 $'000
Revenue	6	**37,309**	33,934
Cost of sales			
Depreciation	13 & 14	**(5,034)**	(4,716)
Impairment	13	**(947)**	(1,334)
Other cost of sales		**(15,883)**	(14,465)
Total cost of sales		**(21,864)**	(20,515)
Gross profit		**15,445**	13,419
Administrative expenses before exceptional items		**(7,204)**	(4,455)
Share based payments	22	**(882)**	(851)
Total administrative expenses		**(8,086)**	(5,306)
Hurricane repairs	27	**(1,856)**	(2,573)
Operating profit		**5,503**	5,540
Unwinding of discount on decommissioning	20	**(1,475)**	(2,223)
Interest income	8	**1,190**	1,193
Profit before taxation		**5,218**	4,510
Taxation	9	**(2,557)**	(2,433)
PROFIT FOR THE YEAR - attributable to equity holders of the Company		**2,661**	2,077
Earnings per share (cents):			
Basic	10	**2.48**	2.17
Diluted	10	**2.37**	2.15

The results for 2007 and 2006 relate entirely to continuing operations.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	Notes	2007 $'000	2006 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	**46,925**	46,247
Intangible assets	14	**28,593**	15,097
Deferred tax asset	9	**-**	176
		75,518	61,520
Current assets			
Trade and other receivables	16	**11,154**	9,629
Cash and cash equivalents	17	**34,611**	26,724
		45,765	36,353
Total Assets		**121,283**	97,873
LIABILITIES			
Current liabilities			
Trade and other payables	18	**(6,672)**	(12,717)
Provision for decommissioning	20	**(2,512)**	(3,319)
Oil and gas price derivatives	29	**-**	(101)
		(9,184)	(16,137)
Non-current liabilities			
Deferred tax liabilities	19	**(1,932)**	-
Provision for decommissioning	20	**(9,475)**	(8,420)
		(11,407)	(8,420)
Total Liabilities		**(20,591)**	(24,557)
NET ASSETS		**100,692**	73,316
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	21	**11,997**	11,047
Share premium		**79,389**	56,506
Share-based payments reserve		**1,733**	851
Merger reserve		**11,709**	11,709
Retained losses		**(4,136)**	(6,797)
TOTAL EQUITY	23	**100,692**	73,316

These financial statements were approved by the Board of Directors on 18 April 2008 and signed on its behalf by:

John P Dorrier
Chief Executive Officer

David F DeCort
Chief Financial Officer

COMPANY BALANCE SHEET

AT 31 DECEMBER 2007

	Notes	2007 $'000	2006 $'000
ASSETS			
Non-current assets			
Office furniture and equipment		**13**	23
Investments in subsidiaries	15	**80,178**	57,846
		80,191	57,869
Current assets			
Receivables	16	**108**	3,477
Cash and cash equivalents	17	**14,831**	9,828
		14,939	13,305
Total Assets		**95,130**	71,174
LIABILITIES			
Current liabilities			
Trade and other payables	18	**(221)**	(885)
Total Liabilities		**(221)**	(885)
NET ASSETS		**94,909**	70,289
EQUITY			
Share capital	21	**11,997**	11,047
Share premium		**79,389**	56,506
Share-based payments reserve		**1,733**	851
Retained earnings		**1,790**	1,885
TOTAL EQUITY		**94,909**	70,289

These financial statements were approved by the Board of Directors on 18 April 2008 and signed on its behalf by:

John P Dorrier
Chief Executive Officer

David F DeCort
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital $'000	*Share premium $'000*	*Share based payments $'000*	*Merger reserve $'000*	*Retained losses $'000*	*Total equity $'000*
Year ended 31 December 2007						
At 1 January 2007	11,047	56,506	851	11,709	(6,797)	73,316
Options exercised	9	187	-	-	-	196
Shares issued	941	22,946	-	-	-	23,887
Share issue costs	-	(250)	-	-	-	(250)
Share-based payment charge	-	-	882	-	-	882
Profit for 2007	-	-	-	-	2,661	2,661
At 31 December 2007	11,997	79,389	1,733	11,709	(4,136)	100,692
Year ended 31 December 2006						
At 1 January 2006	9,971	53,651	-	11,709	(8,874)	66,457
Options exercised	1,076	2,855	-	-	-	3,931
Share-based payment charge	-	-	851	-	-	851
Profit for 2006	-	-	-	-	2,077	2,077
At 31 December 2006	11,047	56,506	851	11,709	(6,797)	73,316

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 ("AIM") of the London Stock Exchange.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital *$'000*	*Share premium* *$'000*	*Share based payments* *$'000*	*Retained earnings* *$'000*	*Total Equity* *$'000*
Year ended 31 December 2007					
At 1 January 2007	11,047	56,506	851	1,885	70,289
Options exercised	9	187	-	-	196
Shares issued	941	22,946	-	-	23,887
Share issue costs	-	(250)	-	-	(250)
Share-based payment charge	-	-	882	-	882
Loss for 2007	-	-	-	(95)	(95)
At 31 December 2007	11,997	79,389	1,733	1,790	94,909
Year ended 31 December 2006					
At 1 January 2006	9,971	53,651	-	775	64,397
Options exercised	1,076	2,855	-	-	3,931
Share based payment charge	-	-	851	-	851
Profit for 2006	-	-	-	1,110	1,110
At 31 December 2006	11,047	56,506	851	1,885	70,289

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 $'000	2006 $'000
Cash flows from operating activities:			
Operating profit		**5,503**	5,540
Depreciation		**5,034**	4,716
Impairment charge		**947**	1,334
Share-based payment charge		**882**	851
Non-cash bonus		**252**	-
Loss on disposal of assets		**2**	-
Increase in receivables		**(2,266)**	(3,888)
(Decrease)/increase in payables		**(5,399)**	7,441
Net cash from operations		**4,955**	15,994
Interest received	8	**1,190**	1,193
Taxation paid		**(356)**	(1,111)
Net cash from operating activities		**5,789**	82
Investing activities			
Exploration and evaluation expenditure	14	**(13,511)**	(9,375)
Oil and gas properties expenditure		**(5,175)**	(17,896)
Purchase of minority interest		**-**	(277)
Other capital expenditures		**(45)**	(234)
Plug and abandonment costs paid		**(2,752)**	(2,062)
Net cash used in investing activities		**(21,483)**	(29,844)
Financing activities			
Cash proceeds from issue of shares		**23,831**	3,931
Share issue costs		**(250)**	-
Net cash from financing activities		**23,581**	3,931
Increase/(decrease) in cash and cash equivalents		**7,887**	(9,837)
Cash and cash equivalents at beginning of year		**26,724**	36,561
Cash and cash equivalents at end of year	17	**34,611**	26,724

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 $'000	2006 $'000
Net cash from/(used) in operating activities	**803**	(4,440)
Interest received	**3,796**	3,822
Taxation paid	**(1,096)**	(370)
Net cash from operations	**3,503**	3,452
Investing activities		
Purchase of plant and equipment	**(1)**	(25)
Loans to subsidiaries	**(22,331)**	(11,463)
Net cash used in investing activities	**(22,332)**	(11,488)
Financing activities		
Cash proceeds from issue of shares	**24,082**	3,930
Share issue costs	**(250)**	0
Net cash from financing activities	**23,832**	3,930
Increase/(decrease) in cash and cash equivalents	**5,003**	(8,546)
Cash and cash equivalents at beginning of year	**9,828**	18,374
Cash and cash equivalents at end of year	**14,831**	9,828

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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 England. The principal activities of the Company and its subsidiaries (the Group) are production, exploration, and development of oil and gas.

The Group's financial statements for the year ended 31 December 2007 were authorised for issue by the Board of Directors on 18 April 2008 and the balance sheets were signed on the Board's behalf by John Dorrier and David DeCort.

The Company's and Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The principal accounting policies adopted are set out in note 3 below.

2. Adoption of International Financial Reporting Standards

The Company's and Group's financial statements for the year ended 31 December 2007 and for the comparative year ended 31 December 2006 have been prepared in accordance with International Financial Reporting Standards and IFRIC (International Financial Reporting Interpretations Committee) interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

This is the first year in which the Company and Group have prepared their financial statements under IFRS. The comparatives have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRS. At the interim results release the Group issued its interim IFRS financial statements for 2006 and the reconciliations to IFRS from previously published UK GAAP financial statements, which are summarized in note 33.

The Group also issued a press release in September 2007 which detailed in full its adjustments on adoption of IFRS. These details can be found on the 'Preliminary Restatement of 2006 Financial Information' which can be obtained on the Company's website.

3. Significant accounting policies

3.1 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 consolidated Financial Statements have been prepared in accordance with applicable International Financial Reporting Standards and under the historical cost convention.

These financial statements consolidate the accounts of Gulfsands Petroleum plc and all its subsidiary undertakings drawn up to 31 December each year.

In the Group 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.

3. Significant accounting policies (continued)

3.2 Basis of consolidation

Intra-group sales, profits and balances are eliminated fully on consolidation.

The results of other subsidiaries acquired or sold are consolidated for the years from or to the date 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.

No individual profit and loss account is presented in respect of the Company as permitted by section 230 of the Companies Act 1985. The Company's loss for the year was $95,000 (2006 – profit of $1,110,000).

3.3 Reporting currency

These Financial Statements are presented in U.S. dollars. The Company's operations and the majority of all costs associated with foreign operations are paid in U.S. dollars and not the local currency of the operations. Therefore, the presentational and functional currency is the U.S. 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 was £1:US $1.99.

3.4 Oil and gas assets

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 later two standards are excepted due to the application of IFRS 6. Set out below are our interpretation of the principles set out in IFRS 6 and other IFRSs. It should be noted that guidance on certain aspects of IFRS 6 has not yet been provided by the IASB or IFRIC. Accordingly, amendments may be required to the accounting policies set out below in future years.

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.

Oil and gas assets: exploration and evaluation assets

Recognition and measurement

Exploration and evaluation assets (E&E) consist of costs of license acquisition, exploration, evaluation, appraisal and development activities and evaluating oil and gas properties. Costs incurred prior to having obtained the legal rights to explore an area (pre-license costs) are expensed directly to the income statement as they are incurred and are not included in E&E assets. E&E costs are accumulated and capitalized into cost pools and added to Intangible Assets pending determination of commercial reserves.

3. Significant accounting policies (continued)

Recognition and measurement (continued)
The Group currently has two intangible E&E cost pools, being Block 26 in Syria and onshore USA. E&E assets relating to each exploration license/prospect are not depreciated 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.

Impairment
E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether commercial reserves exist.

Where the E&E assets concerned fall within the scope of a cash generating unit, the E&E assets are tested for impairment together with all Development and Production assets associated within the cash generating unit. The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. Where the E& E assets to be tested fall outside the scope of a cash generating unit, there will generally be no commercial reserves and the E&E assets concerned will generally be written off in full.

Any impairment loss is recognized in the income statement and is separately disclosed. On the balance sheet it is recorded against the carrying value of the related E&E asset.

Oil and gas assets: development and production
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 a well, field, area, block, region, or other defined area that is considered interrelated in producing revenue. Interrelationships can be measured by oil and gas production agreements, reserve reports, or other documentation showing such relationships. The only limitation in the size of a cash generating unit is that it cannot be larger than a reporting 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 recognizing provisions for future restoration and decommissioning.

Depreciation of producing assets
Net book values carried within each cash generating pool are depreciated 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. Changes in estimates of commercial reserves or future development costs are dealt with prospectively.

3. Significant accounting policies (continued)

Oil and gas assets: development and production (continued)

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.

3.5 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 recognized. The amount recognized 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 depreciated on a unit of production basis. Changes in estimates are recognized prospectively, with corresponding adjustments to the provision and the associated fixed asset.

3.6 Definition of reserves
The Group's definition of commercial reserves is proven and probable reserves. Proven and probable oil and gas reserves are estimated quantities of commercially producible petroleum which the existing geological, geophysical and engineering data show to be recoverable in future years. The proven reserves included herein conform to the definition approved by the Society of Petroleum Engineers (SPE) and the World Petroleum Congress (WPC). The probable reserves included herein conform to definition of probable reserves approved by the SPE/WPC using the deterministic methodology.

3.7 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.

3.8 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.

3.9 Revenue recognition
Oil sales revenue represents amounts invoiced exclusive of sales related taxes for the Group's share of oil and gas sales in the year, in addition to the unrealised gains and losses from hedging activities.

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

3.10 Operating leases
Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term.

3. Significant accounting policies (continued)

3.11 Taxation
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 substantially enacted by the balance sheet date.

The liability method is used in accounting for deferred income taxes. Under this method, 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 tax rates and laws that will be in effect when the differences are expected to reverse. The recoverability of deferred tax assets are 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 Group's tax returns.

3.12 Derivative financial instruments
The Group used forward crude oil and gas sales contracts and swaps to reduce exposure to fluctuations in the price of crude oil and natural gas in order to reduce the volatility of the cash flows of the Group. Contracts were only entered into to hedge physical positions related to the Group's crude oil and natural gas production and are accordingly accounted for as hedge transactions. At year ends, unrealised gains or losses which were based on the market values of oil and gas prices compared to the value of the contracts at that date based on the designated prices on those contracts, are included in turnover. The Group does not hold or issue derivative financial instruments for speculative purposes. The Group's forward contracts expired in May 2007 and it does not intend to use these instruments in the future.

3.13 Share based payments
The Company made share-based payments to certain employees and directors by way of issues of share options. The fair value of these payments is calculated by the Company using the Black Scholes option pricing model. 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 shares that will eventually vest.

3.14 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. Bank overdrafts are included within borrowings in current liabilities in the balance sheet. For the purposes of the cash flow statement, cash and equivalents, also include bank overdrafts.

3.15 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 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.

3.16 Investments
The Parent Company's investments in subsidiary companies are included in the Company balance sheet at cost, less provision for any impairment.

3. Significant accounting policies (continued)

3.17 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 debtor.

3.18 Trade payables
Trade payables are not interest-bearing and are stated at their nominal values.

3.19 Equity interests
Equity interests issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. New IFRS standards and interpretations

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

		Effective from:
IFRS 8	Operating Segments	1 January 2009
IAS 23	Borrowings Costs (Amendment)	1 January 2009
IFRIC 11	IFRS 2 - Group and Treasure Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on Operating Segments when IFRS 8 comes into effect for the year commencing on 1 January 2009.

5. Critical accounting estimates and assumptions
In the process of applying the Group's accounting policies, which are set out in note 3, the Directors have made the following judgments and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Intangible oil and gas exploration and evaluation costs
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.

b) Decommissioning
The Group has decommissioning obligations in respect of its producing interests. 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.

5. Critical accounting estimates and assumptions (continued)

c) Oil and gas development and production assets and reserves
Oil and gas development and production assets held in property plant and equipment are mainly depreciated on a unit of production basis calculated by reference to proven and probable reserves. The Group's estimated commercial reserves incorporate the estimated future cost of developing and extracting those reserves. Commercial reserves are also determined using estimates of oil and gas in place, recovery factors and future oil and gas prices. The carrying amount of oil and gas assets therefore depends upon a number of estimates at year end.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's oil and gas assets have been impaired.

6. Segmental information

The primary segmental reporting format is determined to be the geographical segment according to the location of the assets. The Directors consider the Group to have a single line of business, being the exploration, development and production of oil and gas reserves. Accordingly no secondary segmental information is presented.

There are three geographical segments. The USA is involved with production and exploration; Syria and Iraq are involved in exploration.

All revenue in 2007 and 2006 relates to income from the Group's oil and gas assets, and arose entirely in USA.

The Group profit before interest for the year is analysed by geographical area as follows:

	2007	*2006*
	$'000	*$'000*
USA	**10,541**	8,526
Syria	**(932)**	(643)
Iraq	**(758)**	(497)
Central costs	**(3,348)**	(1,846)
Group's profit before interest	**5,503**	5,540
Net interest and unwinding of discount	**(285)**	(1,030)
Tax	**(2,557)**	(2,433)
Profit for the year	**2,661**	2,077

Central costs have not been apportioned to geographical areas.

6. Segmental information (continued)

The segment assets and liabilities as at 31 December were as follows:

	2007	*2006*
	$'000	*$'000*
Assets:		
USA	**70,370**	68,009
Syria	**35,769**	19,764
Iraq	**151**	145
Unallocated	**14,993**	9,955
Total Assets	**121,283**	97,873
Liabilities:		
USA	**(18,590)**	(21,358)
Syria	**(1,769)**	(2,306)
Iraq	**(10)**	(6)
Unallocated	**(222)**	(887)
Total Liabilities	**(20,591)**	(24,557)
Capital Expenditures:		
USA	**6,646**	19,755
Syria	**13,510**	9,485
Central costs	**1**	25
	20,157	29,265
Depreciation, depletion and impairment:		
USA	**5,925**	6,022
Syria	**44**	21
Central costs	**12**	7
	5,981	6,050
Staff Costs:		
USA	**2,151**	1,335
Syria	**742**	401
Central costs	**1,124**	1,045
	4,017	2,781

There were no inter-segment sales or transfers.

7. Operating profit

The Group's operating profit is stated after charging:

	2007	*2006*
	$'000	*$'000*
Foreign exchange gain	**227**	(139)
Auditors' remuneration:		
– Audit services	**176**	208
– Non-audit services	**73**	88
Share-based payment charges (note 22)	**882**	851
Hurricane repairs (note 28)	**1,856**	2,573
Depreciation of oil and gas properties (note 13)	**4,926**	4,201
Depreciation of other fixed assets (note 13)	**108**	59
Impairment of development and production assets	**947**	1,334
Staff costs excluding share-based payments (note 12)	**3,135**	1,994
Operating lease rentals:		
– buildings	**250**	378
– vehicles and equipment	**4**	40

Fees payable to the Company's auditors for non-audit services consist of $47,000 for tax services, $9,000 for general advisory services and $17,000 for reviewing the interim results.

8. Interest receivable

	2007	*2006*
	$'000	*$'000*
Short-term bank deposit interest	**1,190**	1,193

9. Taxation

	2007	*2006*
	$'000	*$'000*
Current corporation tax:		
UK Corporation tax	**393**	885
US Corporation tax	**56**	-
Deferred tax:		
Net operating loss and capital loss carry forwards	**996**	11,300
Basis differences in oil and gas properties and other fixed assets	**1,112**	(9,752)
	2,557	2,433
The Group's effective tax rate differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:		
Profit before tax	**5,218**	4,510
Tax calculated at domestic rates	**1,885**	1,353
Effects of:		
Expenses not deductible for tax purposes	**305**	260
Depreciation in excess of allowances	**-**	(989)
Tax losses for which no deferred tax asset was recognised	**369**	1,809
Other tax adjustments	**(2)**	-
	2,557	2,433

The weighted average applicable tax rate was 36% (2006 – 30%).

10. Earnings per share

The basic and diluted earnings per share have been calculated using the profit for the year ended 31 December 2007 of $2,661,000 (2006 - $2,077,000). The basic earnings per share were calculated using a weighted average number of shares in issue of 107,223,298 (2006 – 95,565,086).

The diluted earnings per share have been calculated using a weighted average number of shares in issue and to be issued of 112,408,157 (2006: 96,495,686).

	2007 $'000 except per share amounts	*2006 $'000 except per share amounts*
Profit for the year	**2,661**	2,077
Basic earnings (cents per share)	**2.48**	2.17
Diluted earnings (cents per share)	**2.37**	2.15

Weighted average number of shares:	***2007 Number***	*2006 Number*
For basic earnings per share	**107,223,298**	95,565,086
Options outstanding	**5,184,859**	930,600
For diluted earnings per share	**112,408,157**	96,495,686

11. Directors' remuneration and share options

The Directors' remuneration in respect of the Group was as follows:

	Salaries/Fees $'000	***Bonuses $'000***	***Benefits in kind $'000***	***2007 Total $'000***	*2006 Total $'000*
Executive Directors					
John Dorrier	282	228	111	621	553
David DeCort	242	195	119	556	474
Mahdi Sajjad	359	502	331	1,192	259
Non-executive Directors					
Malcolm Butler	-	-	-	-	6
Charles Stonehill	-	-	-	-	4
John Bolsover	-	-	-	-	29
Andrew West	100	-	-	100	302
Kenneth Judge	160	-	102	262	292
David Cowan	45	-	-	45	196
	1,188	925	663	2,776	2,115

Of the bonuses paid to John Dorrier and David DeCort there were cash bonuses of $127,717 and $129,088, respectively to cover federal income taxes associated with the conversion of a company life insurance policy to individual policies and the annual contribution to those policies.

11. Directors' remuneration and share options (continued)

Mahdi Sajjad's total salary was $407,852 but only $359,444 was paid by the Group with the remaining salary of $48,408 paid by the Company's joint venture partner in Syria. Included in Mr. Sajjad's benefits in kind is $300,000 in contributions to a pension fund which was retroactive back to 2005.

Directors' remuneration comprises fees, salaries, and emoluments paid to Directors. Benefits in kind represent share based payments in respect of share options granted to Directors and other benefits earned.

Share options
The market price of the Company's shares on 31 December 2007 was £1.63 and the share price range during the year was £0.63 to £1.78.

The share options held by Directors are exercisable from 18 February 2005 to the following dates (excluding item (d)):

(a) 1 January 2008
(b) 17 October 2008
(c) between 5 April 2005 and 5 April 2010
(d) 13 February 2011
(e) 25 July 2011
(f) 18 October 2011

	Exercise price	*Outstanding at 1 January 2007 and 31 December 2007*
John Dorrier	(c) GB £1.30	500,000
David DeCort	(c) GB £1.30	450,000
David Cowan	(b) US $0.57	175,000
	(d) GB £1.445	125,000
		300,000
Andrew West	(d) GB £1.445	125,000
	(e) GB £1.04	75,000
		200,000
Kenneth Judge	(f) GB £0.96	400,000
Nordman Continental S.A.*	(a) US $0.43	568,750
	(b) US $0.57	875,000
	(c) GB £1.30	450,000
		1,893,750
	Total	3,743,750

*Nordman is owned by the IT – 5483 Trust, Grand Cayman, which is a discretionary trust, the trustees of which are Shelter Trust Anstalt Liechtenstein. Mr. Mahdi Sajjad's children are potential beneficiaries under the Trust.

No share options were granted to Directors or exercised by Directors during 2007.

12. Staff costs

The aggregate payroll costs of staff and Directors were as follows:

	2007	*2006*
	$'000	*$'000*
Wages and salaries	**2764**	1,683
Payroll taxes	**371**	311
Share-based payments	**882**	787
	4,017	2,781

The average monthly number of persons employed by the Group, including Directors was as follows:

	2007	*2006*
	number	*number*
Finance, technical and administration	**26**	23

No employees other than Directors are determined to be Key Management personnel.

13. Property, plant and equipment

Group

	Development and production assets - USA	***Other fixed assets***	***Total***
	$'000	***$'000***	***$'000***
Cost:			
At 1 January 2006	41,372	50	41,422
Additions	19,656	223	19,879
At 31 December 2006	61,028	273	61,301
Additions	6,600	45	6,645
Disposals	-	(8)	(8)
At 31 December 2007	67,628	310	67,938
Accumulated depreciation and impairment:			
At 1 January 2006	(8,998)	(21)	(9,019)
Depreciation charge for 2006	(4,642)	(59)	(4,701)
Impairment charge for 2006	(1,334)	-	(1,334)
At 31 December 2006	(14,974)	(80)	(15,054)
Depreciation charge for 2007	(4,926)	(93)	(5,019)
Impairment charge for 2007	(947)	-	(947)
Disposals	-	7	7
At 31 December 2007	(20,847)	(166)	(21,013)
Net book value at 31 December 2007	**46,781**	**144**	**46,925**
Net book value at 31 December 2006	46,054	193	46,247

13. Property, plant and equipment (continued)

Depreciation and amortization of oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the year to the estimated quantities of proved and probable reserves at the end of the year plus production in the year (i.e. estimated reserves at the beginning of the year), on a cost generating unit basis. Proved and probable reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Management uses established industry techniques to generate its estimates and regularly references its estimates against those of external consultants. However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

Included in development and production assets are capitalized decommissioning costs with a net book value of $9,420,000 as at 31 December 2007 (2006 – $9,327,000).

The impairment charges for 2006 and 2007 relate to provisions against the Group's carrying values of its USA producing assets, following year end reserves review. In 2007 a field in the Gulf of Mexico had a decrease in reserves and it was determined that the carrying value was $947,000 higher than its recoverable value as determined by the present value of the future net cash flows expected to be derived from production of the commercial reserves.

The Directors have assessed the carrying value of the oil and gas properties and in their opinion, no additional impairments are considered necessary for the year ending 2007.

14. Intangible assets

Group

	Exploration and evaluation assets	*Computer Software*	*Total*
	$'000	*$'000*	*$'000*
Cost:			
At 1 January 2006	5,691	38	5,729
Additions	9,375	11	9,386
At 31 December 2006	15,066	49	15,115
Additions	13,510	1	13,511
At 31 December 2007	28,576	50	28,626
Accumulated depreciation:			
At 1 January 2006	-	(3)	(3)
Charge for 2006	-	(15)	(15)
At 31 December 2006	-	(18)	(18)
Charge for 2007	-	(15)	(15)
At 31 December 2007	-	(33)	(33)
Net book value at 31 December 2007	**28,576**	**17**	**28,593**
Net book value at 31 December 2006	15,066	31	15,097

14. Intangible assets (continued)

The amounts for intangible exploration and evaluation ("E&E") assets represent active exploration projects, all in Syria. These amounts are written off to the profit and loss account as exploration expense unless commercial reserves are established or the determination process is not completed and there are no indications of impairment. The outcome of ongoing exploration, and therefore whether the carrying value of E&E assets will ultimately be recovered, is inherently uncertain. The Directors, however, have reviewed the oil and gas E&E costs for possible impairment. No provision for impairment, however, is considered necessary against E&E costs incurred in the oil and gas field under exploration as at 31 December 2007.

15. Investments

Company	***2007***	*2006*
	$'000	*$'000*
Cost of shares in Gulfsands Petroleum Ltd.	**7,306**	7,306
Loans to Subsidiaries	**72,872**	50,540
At 31 December	**80,178**	57,846

The Company's fixed asset investment of $7,306,000 represents the Company's acquisition of the entire share capital of Gulfsands Petroleum Ltd. by means of a share for share exchange in 2005.

Loans to subsidiary undertakings include a revolving loan from the Company to Gulfsands Petroleum USA, Inc. for $39,588,000. The loan agreement stipulates that accrued interest at 8.5% will be paid at 31 December annually. The principal balance may be paid in part or in full at anytime with no penalty. On 1 January 2011, the loan converts to a term loan and the payments will be made in 4 instalments over the next 4 years.

The Company's investments in subsidiary undertakings are shown below. All investments are in ordinary shares and are indirectly owned by the Company unless otherwise stated:

Name of Company	***Proportion of voting shares at 31 December 2007***	***Nature of business***	***Country of Incorporation***
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 Colombia Ltd.	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Syria Ltd.	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd.	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum USA, Inc.	100%	Oil & gas exploration	US
Darcy Energy LLC	100%	Oil & gas exploration	US

16. Trade and other receivables

	Group		Company	
	2007	*2006*	**2007**	*2006*
	$'000	*$'000*	**$'000**	*$'000*
Trade receivables	**4,491**	4,673	**-**	-
Other receivables	**-**	243	**-**	-
Insurance receivable	**3,701**	667	**-**	-
Underlift	**919**	919	**-**	-
Corporation tax recoverable	**-**	740	**-**	-
Prepayments and accrued income	**2,043**	2,387	**108**	68
Amounts due from subsidiaries	**-**	-	**-**	3,409
	11,154	9,629	**108**	3,477

Underlift at 31 December 2007 represents underlift acquired as a result of the acquisition of oil and gas properties in May 2004. Underlift represents a right to future economic benefits (through entitlement to receive equivalent future production), which constitutes an asset. This amount is due after more than one year.

Insurance receivable represents estimates of amounts recoverable from hurricane repairs carried out by the Group following Hurricane Rita in 2005 (see note 27).

17. Cash and cash equivalents

	Group		Company	
	2007	*2006*	**2007**	*2006*
	$'000	*$'000*	**$'000**	*$'000*
Short term cash deposits	**11,115**	8,669	**11,115**	8,669
Cash at bank	**23,489**	18,047	**3,716**	1,159
Cash on hand	**7**	8	**-**	-
at 31 December	**34,611**	26,724	**14,831**	9,828

Short term cash deposits comprise amounts which are held on deposit, but are readily convertible to cash. Cash at bank includes $12.8 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. Also included in the cash at bank is $3.25 million bank guarantee that is required by the contract with the Syrian Petroleum Company and is reduced quarterly as the obligations under the current work programme are completed.

18. Trade and other payables

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Trade payables	**6,194**	10,987	**60**	13
Other payables	**270**	875	**10**	17
US Corporation tax payable	**56**	-	**-**	-
UK Corporation tax payable	**152**	855	**151**	855
	6,672	12,717	**221**	885

19. Deferred tax assets/(liabilities)

Group

	2007	2006
	$'000	$'000
Deferred tax liability - accelerated oil and gas depreciation allowance	**(5,908)**	(5,058)
Deferred tax asset - net operating losses	**3,976**	5,234
At 31 December	**(1,932)**	176

20. Provision for decommissioning

The provision for decommissioning relates to the expected present value of costs of plugging and abandoning the oil and gas properties held by Gulfsands Petroleum USA, Inc and Darcy Energy LLC. The provision for decommissioning is estimated after taking account of inflation, years to abandonment, and borrowing rates. At 31 December 2007, the oil and gas properties have estimated plugging and abandonment dates between 2008 and 2036.

The portion of the provision for decommissioning expected to be settled in 2008 totalling approximately $2.5 million is included in current liabilities and the remainder totalling approximately $9.5 million is included in non-current liabilities in the consolidated balance sheet at 31 December 2007.

Actual decommissioning costs will ultimately depend upon future market prices for the necessary 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.

20. Provision for decommissioning (continued)

The movement in the provision for decommissioning was as follows:

	2007
	$'000
At 1 January 2007	**11,739**
Changes in estimates	**1,403**
Additions	**24**
Excess costs over unwindings	**98**
Liabilities settled during the period	**(2,752)**
Unwindings of discount on decommissioning provision	**1,475**
At 31 December 2007 (secured - see note - 29)	**11,987**
Less: current portion	**(2,512)**
Non-current portion	**9,475**

21. Share capital

	2007	*2006*
	Number	*Number*
Authorised:		
Ordinary Shares (par value 5.714 pence per share)	**175,000,000**	175,000,000
	175,000,000	175,000,000

	2007	*2006*
	$'000	*$'000*
Allotted, called up and fully paid:		
111,178,750 (2006 - 103,018,750) ordinary shares of 5.714 pence each	**11,997**	11,047

The movements in share capital and options are summarised below:

	Number of ordinary shares	***Number of share options***
At 1 January 2007	103,018,750	4,733,750
Private placement	8,000,000	-
Issued to a director to settle agreed bonus	85,000	-
Share options exercised for cash	75,000	(75,000)
Share options issued	-	820,000
Share options lapsed	-	(65,000)
At 31 December 2007	111,178,750	5,413,750

21. Share capital (continued)

The detail of the share options outstanding at 31 December 2007 are as follows:

Number of options	*Option Price*	*Exercisable between*
568,750	$0.43	1 January 2003 - 1 January 2008
1,050,000	$0.57	17 October 2003 - 17 October 2008
2,115,000	£1.30	5 April 2005 - 5 April 2010
20,000	£1.33	30 January 2005 - 30 January 2011
380,000	£1.45	13 February 2006 - 13 February 2011
75,000	£1.04	25 July 2006 - 25 July 2011
400,000	£0.96	18 October 2006 - 18 October 2011
380,000	£1.02	19 February 2007 - 19 February 2012
425,000	£1.30	4 June 2007 - 4 June 2012
5,413,750		

Of this number of options, the options granted to the Directors were 3,743,750 and those granted to other staff were 1,270,000. The remaining 400,000 were granted to contractors or consultants who are currently involved with or have performed work for the Group.

The average share price during 2007 was £1.19.

22. Share based payments

	2007	*2006*
	$'000	*$'000*
Charge in respect of share options granted	**882**	851

The Group recognised a charge of $882,000 in the income statement in respect of its share based payment plans. This charge was based on the requirements of IFRS 2 on share based payments. For this purpose, the weighted average estimated fair value of the share options granted was calculated using a Black-Scholes option pricing model in respect of options. The volatility measured at the standard deviation of expected share price return is 75.83%.

A risk free rate of 5.25% has been used. The details of the options issued during the year which have been processed into the model are as follows:

Number of options	***Grant Date***	***Option Price***	***Fair value calculated by the model***	***Expected exercise date***
380,000	19/2/2007	£1.02	$0.61	2/19/2012
425,000	4/6/2007	£1.30	$1.28	6/4/2012

23. Reconciliation of movements in shareholders' funds

Group

	2007	*2006*
	$'000	*$'000*
Profit for the year	**2,661**	2,077
Share options exercised	**196**	3,931
Cost of share based payments	**882**	851
Shares issued on placement	**23,887**	-
Share issue costs	**(250)**	-
Net additions to shareholders' funds	**27,376**	6,859
Opening shareholders' funds	**73,316**	66,457
Closing shareholders' funds	**100,692**	73,316

24. Obligations under operating leases

At the end of the year the Group had outstanding commitments for future minimum lease payments under non-cancelled operating leases which all are due as follows:

	2007		*2006*	
	Land & Buildings	***Other***	*Land & Buildings*	*Other*
Amounts payable due:	***$'000***	***$'000***	*$'000*	*$'000*
Within one year	**362**	**10**	478	34
Two to five years	**293**	**5**	422	13
	655	**15**	900	47

25. Exploration and expenditure commitments

In order to maintain an interest in the oil and gas exploration area only within Block 26 in Syria, the Group is committed to meet the conditions under which the permits were granted. The timing and amount of exploration expenditure commitments and obligations of the Group are subject to the work programme required as per the permit commitments and may vary significantly from the forecast based upon the results of the work performed. Exploration results in any of the projects may also result in variation of the forecast programmes and resultant expenditure.

The commitment for Block 26 as of 31 December 2007 is for 2 exploration wells and 250 kilometres of 3D seismic with at minimum spent to be at least $3.25 million net to the Group. These commitments are to be completed by August 2010. As of 18 April 2008 the Group has fulfilled the 3D seismic commitment and one exploration well. Therefore, only one more exploration well needs to be drilled by the Group by August of 2010 to hold the exploration acreage within Block 26.

26. Capital commitments

There are no obligations or contracts outstanding in relation to ongoing projects not provided for at 31 December 2007.

27. Exceptional items

In 2005, Hurricanes Katrina and Rita hit the Gulf Coast and several of the Group's offshore oil and gas properties were damaged. Most of the repairs were not performed until 2006 and 2007. The charge to the income statement for these hurricane repairs was $1,856,000 for 2007 and $2,573,000 for 2006. These charges are net of insurance claims of which $3,701,000 is receivable at 31 December 2007 (see note 16). The insurance claim amount is the Directors' best estimate of the refund due from insurance.

28. Contingent liabilities

Due to the nature of the Group's business, some contamination of the real estate 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. Management of the Group does 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 20), no further provision for potential remediation costs is required.

29. Financial instruments and derivatives

Risk assessment
The Group's oil and gas activities are subject to a range of financial and operational risks, as described below which can significantly impact its performance.

Liquidity rate risk
The overriding financial risk to the Group during 2007 was not that of liquidity. During 2007, the Group had considerable funds to progress its expanding exploration portfolio. At the end of the year the Group had cash in hand of $35 million, of which $12.8 million was held in escrow.

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. With the Group's Syria drilling programme scheduled and the Gulf of Mexico activities, the Board is also keen to ensure that sufficient cash reserves for expansion exist.

The current strategy of no debt will continually be reviewed in the light of developments with existing projects and new project opportunities as they arise.

Currency risk
The Group has minimal currency exposure arising from transactions, as most of its transactions were in its functional currency, US dollars.

Operational risk
Operational risks include equipment failure, well blowouts, pollution, fire and the consequences of bad weather. Where the Group is a project operator of either a producing field or an exploration drilling programme, it takes increased responsibility for ensuring that all relevant legislation is met, and that all partners have appropriate insurance cover in place. The Group's insurance policies contain overall limits and deductibles, which are reviewed each year prior to policy renewal.

29. Financial instruments and derivatives (continued)

Credit risk
The Group and Company trade only with recognised creditworthy third parties. The Group manages the exposures to credit risk by performing credit evaluations on all of their major customers requiring credit.

As the Group trades only with recognised creditworthy third parties, there are no requirements for collateral.

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 KPI's to ensure its exploration 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 cash at bank and receivables. The interest rate profile at 31 December for these assets at US dollar equivalents was as follows:

	Financial assets on which floating rate interest is earned	*Financial assets on which no interest is earned*	*Total*
	$'000	*$'000*	*$'000*
2007			
US Dollar	27,287	15,108	42,395
UK Sterling	3,324	22	3,346
Syrian Pound	-	24	24
	30,611	15,154	45,765
2006			
US Dollar	23,042	12,164	35,206
UK Sterling	1,111	35	1,146
Syrian Pound	-	1	1
	24,153	12,200	36,353

The UK sterling assets comprise cash on call accounts. The US dollar assets represent cash on call accounts, money market accounts, and short term receivables. The Group earned interest on its interest bearing financial assets at rates between 1.5% and 4.99%. All financial assets on which no interest is earned are considered immediately available to turn into cash on demand.

29. Financial instruments and derivatives (continued)

The Group has classified as cash and cash equivalents certain deposits that are not available for use in its operations. At 31 December 2007 the Group had a commitment as part of an escrow agreement to escrow funds for its future decommissioning provision associated with its oil and gas properties at an estimated undiscounted cost of $12.5 million. At 31 December 2007, the Company had escrowed approximately $12.8 million of cash for use in the settlement of its decommissioning provision (see note 20).

Financial liabilities
The Group's financial liabilities consist of short term payables and decommissioning liabilities. That interest rate profile at 31 December of these liabilities is shown below:

	Financial liabilities on which no interest paid $'000
2007	
US Dollar	(20,354)
UK Sterling	(179)
Syrian Pound	(57)
	(20,591)
2006	
US Dollar	(23,472)
UK Sterling	(885)
Syrian Pound	(200)
	(24,557)

The Group's short term creditors are considered to be payable on demand. The Group's decommissioning liabilities that are due within one year amounted to $2.5 million and the balance of $9.5 million is due after more than one year. Further details of the decommissioning liabilities are set out in note 20.

Derivatives
The Group has exposure to changes in oil and gas prices. In the past the Group utilised derivative financial instruments to reduce exposure to market risks resulting from fluctuations in oil and gas prices in order to reduce the volatility of the cash flows of the Group. The derivative contracts expired in May 2007 and the Directors do not intend to renew these contracts. The Group incurred a loss of $92,000 from its oil and gas price derivatives in the year ended 31 December 2007 (2006: profit of $316,000).

Fair values
At 31 December 2007 and 2006, the Directors considered the fair values and book values of the Group's financial assets and liabilities to be materially the same.

30. 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 set out in note 11.

The remuneration of Directors is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is shown in note 11.

	2007	*2006*
	$'000	*$'000*
Short-term employee benefits	**2,674**	1,465
Share-based payments	**102**	650
At 31 December	**2,776**	2,115

No long-term benefits or termination benefits were paid to key management during the year.

There were no other related party transactions during the year ended 31 December 2007.

31. Ultimate controlling party

Ultimate control is exercised by the shareholders of Gulfsands Petroleum plc.

32. Events after the balance sheet date

The Company has decided that in light of the decisive shift of the Company's focus to the Middle East and in particular the increasing importance of its operations in Syria following the commercial discovery at Khurbet East in Block 26, the Company's principal office and centre of operations will relocate to London from Houston, Texas, with immediate effect.

In connection with the move, John Dorrier and David DeCort will resign as Chief Executive Officer and Chief Financial Officer respectively and as Directors with effect from 30 April 2008.

Pending the appointment of a new Chief Executive Officer, Andrew West, has undertaken to function as the Executive Chairman.

Also in April 2008, the Company placed 5.5 million new shares of 5.714p nominal value at a placing price of 170p per share with affiliated investment funds of Och Ziff Capital Management Group to raise $18.55 million (£9.35 million). The proceeds of the placing will be available for general corporate purposes.

33. Restatement under IFRS

The Group issued a press release in September 2007 which detailed in full its adjustments on adoption of IFRS. The main financial statements are presented here in note 33. Further details on the adjustments are contained in the "Preliminary Restatement of 2006 Financial Information" which can be obtained on the Company's website.

33. Restatement under IFRS (continued)

The Group is presenting its audited results under IFRS for the first time in these financial statements, with a date of transition of 1 January 2006. Summary of the key impacts of IFRS transition on the Group Income Statement and Balance Sheet are as follows:

IFRS 6 'Exploration for and Evaluation of Mineral Resources'
Impairment of development or production assets
Under IFRS 6, 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. As a result of this, impairment testing was preformed on the USA oil and gas assets and impairments were charged at 1 January 2006 of $1.1 million and at 31 December 2006 of $1.3 million. The adjustments are primarily as a result of the change in the cost pools as under UK GAAP the cost pools were by geographic region and under IFRS are reduced down to a single cash generating unit.

IAS 16 'Property, Plant and Equipment'
Depreciation
Under IAS 16 and IFRS 6, net book values carried within each cash generating pool are depreciated 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.

IAS 32 'Financial Instruments and Disclosures' and IAS 39 'Financial Instruments: Recognition and Measurement'
Fair Value Derivatives
Under IAS 39, oil and gas price derivative contracts outstanding at balance sheet dates have been recorded at their fair values in the balance sheet and unrealised gains or losses arising have been taken to the income statement within revenue. The resulting unrealised gain for the year ended 31 December 2006 was $4.8 million. The effect being that the loss recognised in 2006 under UK GAAP has been recognised in 2005 on adoption of IFRS.

IAS 12 'Income Taxes'
As a result of the changes in impairment, depreciation, and fair value derivatives, these are the net changes in deferred taxes and tax expenses was a tax charge of $896,000 for the year ended 31 December 2006.

Presentation
The form and presentation of the financial statements has been changed in accordance with IAS 1 "Presentation of Financial Statements". The main change being that Equity minority interest has been moved from liabilities to equity in the balance sheet.

33. Restatement under IFRS (continued)

Reconciliation of Group IFRS Balance Sheet at Transition Date of 1 January 2006

	UK GAAP	IFRS 6 Impairment	IAS 32/39 Fair Value Hedges	IAS 12 Taxation	Presentation	Total IFRS Adjustments	IFRS
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS							
Non-current assets							
Property plant & equipment	**33,545**	(1,142)	-	-	-	(1,142)	**32,403**
Intangible assets	**5,726**	-	-	-	-	-	**5,726**
Deferred tax asset	**-**	-	-	1,724	-	1,724	**1,724**
	39,271	(1,142)	-	1,724	-	582	**39,853**
Current assets							
Trade and other receivables	**4,983**	-	-	-	-	-	**4,983**
Cash and cash equivalents	**36,561**	-	-	-	-	-	**36,561**
	41,544	-	-	-	-	-	**41,544**
Total Assets	**80,815**	(1,142)	-	1,724	-	582	**81,397**
LIABILITIES							
Current liabilities							
Trade and other payables	**(3,436)**	-	-	-	-	-	**(3,436)**
Oil and gas price derivatives	**-**	-	(3,770)	-	-	(3,770)	**(3,770)**
	(3,436)	-	(3,770)	-	-	(3,770)	**(7,206)**
Non-current liabilities							
Oil and gas price derivatives	**-**	-	(515)	-	-	(515)	**(515)**
Deferred tax liability	**(173)**	-	-	173	-	173	**-**
Provision for decommissioning	**(6,958)**	-	-	-	-	-	**(6,958)**
Equity minority interests	**(260)**	-	-	-	260	260	**-**
	(7,391)	-	(515)	173	260	(82)	**(7,473)**
Total Liabilities	**(10,827)**	-	(4,285)	173	260	(3,852)	**(14,679)**
NET ASSETS	**69,988**	(1,142)	(4,285)	1,897	260	(3,270)	**66,718**
EQUITY							
Capital and reserves attributable to equity holders							
Share capital	**9,971**	-	-	-	-	-	**9,971**
Share premium	**53,651**	-	-	-	-	-	**53,651**
Other reserve	**11,709**	-	-	-	-	-	**11,709**
Retained losses	**(5,343)**	(1,142)	(4,285)	1,897	-	(3,530)	**(8,873)**
	69,988	(1,142)	(4,285)	1,897	-	(3,530)	**66,458**
Equity minority interests	**-**	-	-	-	260	260	**260**
TOTAL EQUITY and RESERVES	**69,988**	(1,142)	(4,285)	1,897	260	(3,270)	**66,718**

33. Restatement under IFRS (continued)

Reconciliation of Group IFRS Balance Sheet at Comparative Date of 31 December 2006

	UK GAAP	IFRS 6 Impairment	IAS 16 Depletion	IAS 32/39 Fair Value Hedges	IAS 12 Taxation	Total IFRS Adjustments	IFRS
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS							
Non-current assets							
Property, plant & equipment	**49,164**	(2,476)	(441)	-	-	(2,917)	**46,247**
Intangible assets	**15,097**	-	-	-	-	-	**15,097**
Deferred tax asset	**-**	-	-	-	176	176	**176**
	64,261	(2,476)	(441)	-	176	(2,741)	**61,520**
Current assets							
Trade and other receivables	**9,629**	-	-	-	-	-	**9,629**
Cash and cash equivalents	**26,724**	-	-	-	-	-	**26,724**
	36,353	-	-	-	-	-	**36,353**
Total Assets	**100,614**	(2,476)	(441)	-	176	(2,741)	**97,873**
LIABILITIES							
Current liabilities							
Trade and other payables	**(16,036)**	-	-	-	-	-	**(16,036)**
Oil and gas price derivatives	**-**	-	-	(101)	-	(101)	**(101)**
	(16,036)	-	-	(101)	-	(101)	**(16,137)**
Non-current liabilities							
Deferred tax liability	**(824)**	-	-	-	824	824	**-**
Provision for decommissioning	**(8,420)**	-	-	-	-	-	**(8,420)**
	(9,244)	-	-	-	824	824	**(8,420)**
Total Liabilities	**(25,280)**	-	-	(101)	824	723	**(24,557)**
NET ASSETS	**75,334**	(2,476)	(441)	(101)	1,000	(2,018)	**73,316**
EQUITY							
Capital and reserves attributable to equity holders							
Share capital	**11,047**	-	-	-	-	-	**11,047**
Share premium	**56,506**	-	-	-	-	-	**56,506**
Other reserve	**12,560**	-	-	-	-	-	**12,560**
Retained earnings	**(4,779)**	(2,476)	(441)	(101)	1,000	(2,018)	**(6,797)**
TOTAL EQUITY	**75,334**	(2,476)	(441)	(101)	1,000	(2,018)	**73,316**

33. Restatement under IFRS (continued)

Reconciliation of Group Income Statement for Comparative Year Ended 31 December 2006

	UK GAAP	IFRS 6 Impairment	IAS 16 Depletion	IAS 32/39 Fair Value Hedges	IAS 12 Taxation	Total IFRS Adjustments	IFRS
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue	**29,750**	-	-	4,184	-	4,184	**33,934**
Cost of sales							
- Depreciation	**(4,275)**	-	(441)	-	-	(441)	**(4,716)**
- Impairment	**-**	(1,334)	-	-	-	(1,334)	**(1,334)**
- Other cost of sales	**(14,465)**	-	-	-	-	-	**(14,465)**
Gross profit	**11,010**	(1,334)	(441)	4,184	-	2,409	**13,419**
Administrative expenses before exceptional items	**(4,455)**	-	-	-	-	-	**(4,455)**
Share based payments	**(851)**	-	-	-	-	-	**(851)**
Total administrative expenses	**(5,306)**	**-**	**-**	**-**	**-**	**-**	**(5,306)**
Hurricane repairs	**(2,573)**	-	-	-	-	-	**(2,573)**
Operating profit	**3,131**	**(1,334)**	**(441)**	**4,184**	**-**	**2,409**	**5,540**
Unwinding of discount on decommissioning	**(2,223)**	-	-	-	-	-	**(2,223)**
Interest receivable	**1,193**	-	-	-	-	-	**1,193**
Profit before taxation	**2,101**	(1,334)	(441)	4,184	-	2,409	**4,510**
Taxation	**(1,537)**	-	-	-	(896)	(896)	**(2,433)**
PROFIT FOR THE YEAR	**564**	(1,334)	(441)	4,184	(896)	1,513	**2,077**

Parent Company Financial Statements

There were no changes to the Parent Company's financial statements resulting from the transition from UK GAAP to IFRS at the transition date of 1 January 2006 and the year ended 31 December 2006 apart from presentational changes. Therefore, no reconciliations from UK GAAP to IFRS are shown above for the Company.

Cash Flow Statements

The IFRS Cash Flow Statement, prepared under IAS 7 'Cash flow statements', presents cash flows in three categories; cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. This is fewer than the previous seven categories under UK GAAP. Other than the reclassification of cash flow items in the new disclosure categories, there are no significant differences between the Group's cash flow statement under UK GAAP and IFRS.