



Delivering on strategy

Annual Report and Accounts 2013



## About Us

Gulfsands Petroleum plc is an independent oil and gas exploration and production company, incorporated in the United Kingdom, whose shares are traded on the Alternative Investment Market (“AIM”) of the London Stock Exchange (symbol: GPX).

The Group’s major focus is on the Middle East and North Africa where it has oil exploration and development projects in the Syrian Arab Republic (under continuing suspension due to sanctions), and oil and gas exploration projects in Morocco and Tunisia. Gulfsands is also Operator of two exploration licences in Colombia and produces oil and gas from a portfolio of properties in the US, offshore Gulf of Mexico.



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## Our 2013 Highlights

→ Assumed operatorship in Morocco, Tunisia and Colombia.

→ Audited Group working interest 2P reserves of 75.8 mmboe and unrisked, best estimate working interest prospective resources increased to 526 mmboe as at 31 December 2013.

→ Conducted 2D and 3D seismic programmes and commenced drilling in Morocco.

→ Total bank and cash resources of \$53 million at year end inclusive of \$34 million of cash and cash equivalents and \$19 million in restricted cash.

→ Significant reduction in general and administrative expenses.

→ Syrian assets remain shut-in and secure during continuation of sanctions.

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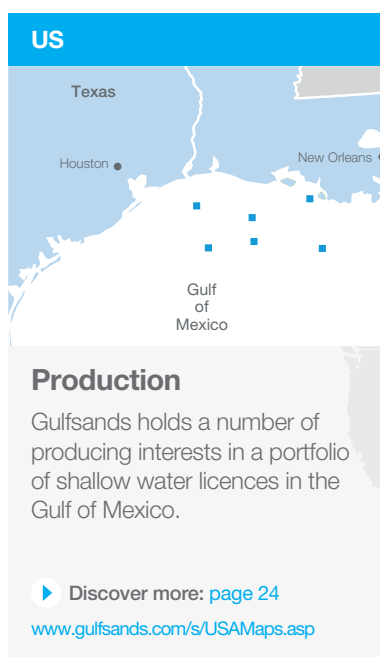
## At a Glance

Gulfsands has significant hydrocarbon projects in the Middle East and North Africa region and the Republic of Colombia.

### Project overview

These projects include the development of significant oil and gas discoveries in the Syrian Arab Republic (activities currently suspended in compliance with EU sanctions), and oil and gas exploration projects in Tunisia, Morocco and Colombia. Gulfsands also produces oil and gas from a portfolio of properties in the US, offshore Gulf of Mexico.

Gulfsands' ambition is to become an important, independent exploration and production company in the countries and regions in which we operate and preferred operator and partner of government and private sector oil and gas companies sharing our vision. Gulfsands' Management is presently focused on acquiring and developing significant interests in high-impact projects in the Middle East, North Africa and Colombia.



### Key statistics

5

Countries of operation

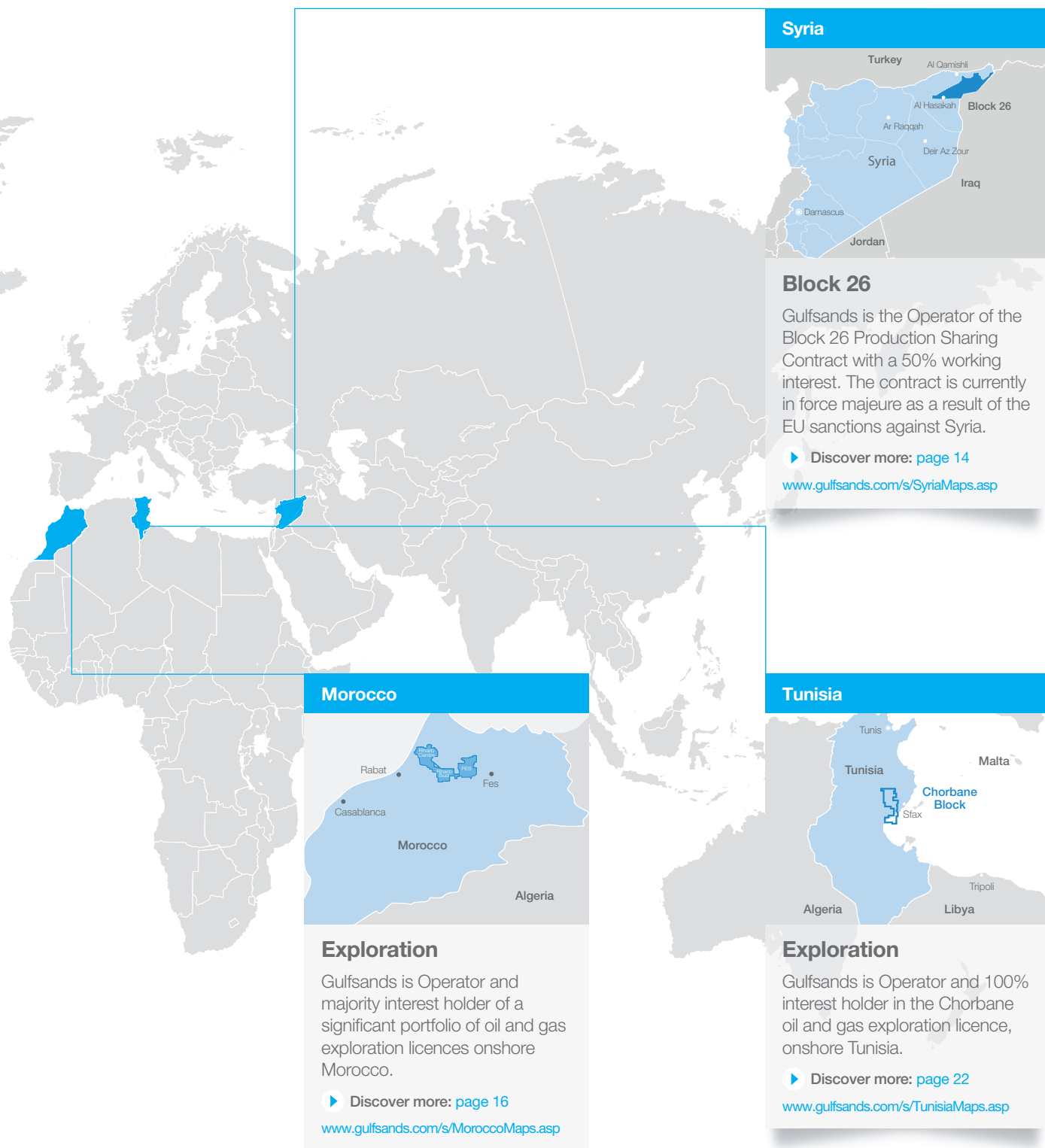
6

Exploration licences

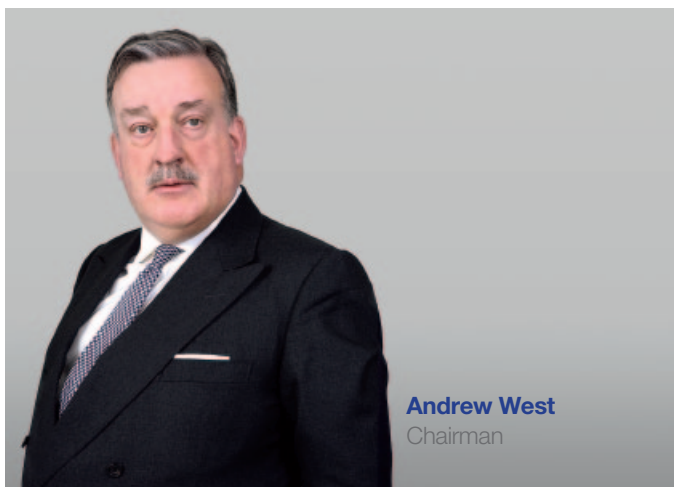
526

mmboe  
Prospective Resources





## Chairman's Statement



**Andrew West**  
Chairman

**Your Board remains confident in the opportunities before us and in the Company's ability to bring those opportunities to fruition.**

### Progress in 2013

- Achieved operatorship of all our exploration licences.
- Restructuring of senior management and staff now complete, resulting in a more effective organisation.
- Operations commenced in Morocco and Colombia.

Dear Shareholder,

The past year, insofar as the Company has been concerned, has been one of steady but considerable progress and consolidation rather than one of dramatic events. Notwithstanding the absence of early exploration success in Morocco, progress with re-building a viable business and a credible vehicle for long term value creation has been tangible and enhanced our reputation as efficient operators.

I would like to highlight several principal areas of achievement.

First, following the restructuring of our Tunisian interests, the Company now has operatorship of all its exploration licences. Control of our own destiny in this regard was the key to our success in Syria and will be equally crucial to repeating that success elsewhere.

Secondly, we have extensively restructured our senior management team and our staffing, resulting in both a more effective organisation to meet the challenges of capturing and developing new business opportunities and a significantly reduced cost base.

Thirdly, we have moved swiftly and effectively to commence operations in Morocco and Colombia and, in the latter case, to farm down our interest. The credibility and goodwill this has bought us with, in particular, the authorities in Morocco is incalculable and will be of great benefit as we move into a more serious exploration phase.

These themes are discussed in greater detail in the Chief Executive's Review and the Operations Review.



Although we continue to husband our cash we have not yet generated cash flow from these new business initiatives. Your Board is acutely aware of the imperative to do so and of the need to ensure the continuing availability of adequate financial resources until the point at which the Company is once again self-sustaining. This is an important reason for having structured our affairs and interests as we have. Although the institutional appetite for investment in E&P companies at the corporate level remains tepid at best, from ongoing discussions with potential investors, debt providers and industry partners, it is evident that we have a range of options open to us to fund our operations at the asset or field level. You may be assured that your Board is evaluating and pursuing those opportunities with vigour. Further assessment of the Company's going concern status is made in note 1.3a of the Financial Statements.

There is little of substance to be said about the situation in Syria beyond what you read daily in the media. A tragic situation shows, all too sadly, very little discernible sign of near-term improvement. The Company remains in strict compliance with all relevant sanctions while at the same time taking all possible steps to preserve the value of our Syrian assets, including retaining a modest level of staffing in country. We continue to believe that the Company will in due course return to active operations in Syria but we do not pretend to have any special insights into timing.

Your Board remains confident in the opportunities before us and in the Company's ability to bring those opportunities to fruition. The task of rebuilding is neither an easy nor a swift one but we never anticipated that it would be. The important thing is to build the foundations thoroughly, as we are doing, and to maintain our focus.

As ever, I would like to express my personal gratitude and that of the Board to all our shareholders, employees and commercial partners, the staunchness of whose support is the bedrock upon which we build.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Andrew West'.

**Andrew West**  
Chairman

3 April 2014



## Chief Executive's Review



**Mahdi Sajjad**  
Chief Executive Officer

**2013 represented the beginning of a new era in the Company's history as we became a recognised Operator in two more countries in the MENA region and established our credentials as a recognised Operator in Colombia, made significant changes to the shape of our business and meaningfully reduced our overheads and general costs of operating.**

Our objective over the past two years has been to secure new opportunities to grow our Company and create shareholder wealth in countries outside of Syria where the continuing unrest and economic sanctions mean that our oil and gas production capability remains idle and unavailable to generate revenues for the benefit of our stakeholders.

Overall, we are pleased with the progress we made during 2013 to establish a presence in each of these countries and to begin operations that we believe provide our Group with the potential to create projects of significant value and generate revenues with which to build substantial business units that provide necessary diversity in our portfolio. That we have managed to deliver significant progress while continuing to carefully husband our financial resources is of itself a considerable achievement and one for which everyone in our organisation can deservedly be proud.

### **Morocco**

Following the late January completion of the acquisition of the Cabre Maroc portfolio of onshore permits in northern Morocco, we moved swiftly to commence two seismic programmes, a 3D seismic programme on the Rharrb permits (100% interest pre-ONHYM participation) to assist in the planning and execution of a nine well, exploration programme and a 2D seismic programme to identify drillable prospects on a planned three well exploration programme on the Fes permit (66.7% interest pre-ONHYM participation).

These two seismic programmes began in late June 2013, with the 220 km<sup>2</sup> 3D seismic programme on the Rharrb permits, being completed in October while the approximately 650 km 2D seismic programme on the Fes permit was concluded in February of this year.

With the benefit of being able to deploy to Morocco a number of our experienced employees from the technical team who contributed to great success in Syria, we were able to quickly evaluate a range of options to permit the commencement of exploration drilling on the Rharrb Centre licence and this resulted in the importation to Morocco of a drill rig operated by COFOR, the drilling subsidiary of the Vinci group, one of France's biggest companies and a group already well established in Morocco.

Each of the first three exploration wells drilled on the Rharrb Centre permit, in the first part of what is planned to be a nine well programme, intersected gas bearing reservoirs but unfortunately 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. As we now have access to the higher quality 3D seismic data acquired in our contemporaneous data capture programme, we are hopeful that the subsequent wells to be drilled in this programme utilising this 3D data, will meet with greater success when drilling commences in the next month.

The initial 650 km portion of a 2D seismic programme that will eventually involve the capture of 1,000 km of data over the Fes licence area is now being processed by Spectrum and following interpretation later this year we expect to be in a position to start drilling the first well in a three exploration well programme on the Fes permit area.

### **Colombia**

Following award of the PUT 14 and LLA 50 blocks in the Ronda 2012 bid round, the Group has established itself in Bogota, Colombia with a team of experienced local professionals supplemented by assistance provided by our local partner Luna Energy.

Late in the fourth quarter of the year we finalised joint venture farm out arrangements with Luna Energy on both of our blocks resulting in our Group retaining a 55% working interest partially carried by Luna Energy (45%) in each of these joint ventures.

Work is now underway to complete the environmental, community and security assessments that are a necessary preliminary to the commencement of exploration activities on each of our blocks with the end of this year targeted for the commencement of a programme of approximately 100 km of 2D seismic on the PUT 14 block with a similarly sized programme anticipated to be undertaken on the LLA 50 block during the first half of 2015.





## Tunisia

During 2013 we concluded arrangements with our former partners, which remain subject to final regulatory approval, to withdraw from our non-operated 40% interest in the Kerkouane licence offshore Tunisia and the adjacent Pantellaria permit in Italian waters while at the same time we increased our interest in the Chorbane onshore licence to 100% and assumed operatorship.

Planning is currently underway for a 2D seismic programme of approximately 105 km to be carried out over two areas in the north east corner of this block nearby to existing producing oil fields on an adjacent licence. We plan to commence this programme once local licensing and other regulatory approvals are obtained with the intention of using the data obtained in the programme to locate at least one exploration well which is anticipated to be drilled next year.

## Syria

While the situation in Syria remains unresolved and sanctions prevent our returning to active operatorship of the Khurbet East and Yousefieh oil fields held by the Block 26 joint venture in north east Syria (Gulfsands 50% and Operator with Sinochem 50%), we are fortunate to be able to confirm that our facilities remain intact with the two oil fields having remained closed in for almost the entire year save for some very small, intermittent production to provide energy to the local community. Security for our fields and facilities is provided by a combination of central government military personnel and trained volunteers from the local community and together these groups have ensured that these valuable assets remain safe and secure and in a condition to allow us to return the fields to full operation as soon as sanctions permit us to do so.

With our partner Sinochem's unwavering support, we have been able to help our staff to remain safe and their families provided with financial support to help them through this difficult time. Our much reduced but fiercely loyal and dedicated staff in Damascus has enabled us to maintain a continuous local presence in Syria and for that I am and our Board and shareholders are enormously grateful.

## Reshaping our business

During the past twelve months our Management has continued to evaluate and capture, where sensible to do so, a number of new business opportunities that have enabled us to diversify our portfolio of projects and, we believe, provide the Group with a bright future.

The pursuit of these opportunities has required the reshaping of our organisation and that has brought with it a number of changes to our management team including my appointment to the role of CEO, Alan Cutler's appointment as Director – Finance and Administration and the addition of a number of highly motivated finance, administration and technical people who have either joined the organisation or been promoted from within. I am especially pleased to report that we have managed to effect all of these changes while at the same time making significant progress with our efforts to further reduce our overheads and general operating costs, a process that will continue during the remainder of this year.

We are acutely conscious of the need to manage carefully the financial resources we have available to help us in building upon these new business initiatives so we will continue to explore the approaches we regularly receive from energy sector participants and investors that might be utilised to finance our business development ambitions at the least possible cost to our existing stakeholders. Further assessment of the Company's going concern status is made in note 1.3a of the Financial Statements.

Finally, I would like to express my sincere appreciation for the tremendous effort made by our employees and members of the Board to position the Company to develop the new business units and projects that we now have underway in Morocco, Tunisia and Colombia.

## Our Business Model

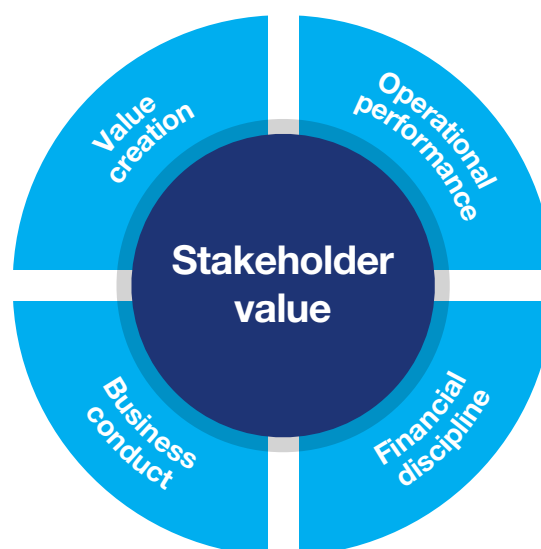
Our mission is to create superior value for our stakeholders by building a pre-eminent independent exploration and production company to become a preferred operator and partner in the countries and regions which offer the best opportunities to exploit our core areas of expertise and our competitive advantages, currently the MENA region and Colombia.

### Core areas of expertise and competitive advantages

- Highly experienced, proven and entrepreneurially-minded senior management and leadership.
- Strong technical skill sets among our operational team.
- Proven onshore operating ability – we seek to be an operator wherever possible so as to control our destiny and optimise value creation.
- Low cost culture and strong financial discipline.
- Structural, organisational and transactional agility.
- Emphasis on building strong local organisations and skill sets.
- Depth and breadth of political and commercial contacts and strong partnerships within our chosen markets.
- Absolute commitment to excellence in HSE, compliance and governance.
- Commitment to integrity in stakeholder relations and to good corporate citizenship wherever we operate.



## Building blocks for stakeholder value creation



### Value creation

- Deployment of regional knowledge, relationships with regulators and commercial partners to source exploration, appraisal and development opportunities capable of delivering sustainable and profitable production on a fast track basis.
- Disciplined approach to the evaluation and acquisition of exploration and development projects to be explored, utilising both our corporate and local technical expertise and the application of advanced technologies.
- Optimisation of transactional and financial experience and expertise to enhance both the acquisition and funding of suitable E&P opportunities and to recognise or release the value we create.
- Focus upon growth in reserves, resources and sustainable production as key drivers of value creation.

### Operational performance

- Strong technical competence in key operational disciplines.
- Excellence in our HSE metrics.
- Target operating costs in the lowest quartile of sector comparable costs without compromising safety or environmental responsibilities.
- Constructive engagement and close collaboration with commercial and governmental partners.
- Focus on high-quality training of our employees and contractors and the sharing of knowledge and experience across all our operations.

### Business conduct

- Strive to be recognised for the quality of our government and industry relationships and as a partner of choice in the countries and regions in which we operate.
- Establish relationships with partners who are themselves recognised for the quality of their business acumen and experience and ability to add material value to our joint ventures.
- Respect and protect the environment and the health and safety of our employees and of the members of the local communities in which we operate.
- Earn the respect of all parties we do business with and create long-term wealth and prosperity for the communities where we operate.
- Respect international and local legislation and regulations.

### Financial discipline

- Careful husbanding of our cash resources and emphasis on cost control.
- Target access to cash flow from production at earliest opportunity with the intention of minimising the financial leverage in the business and the requirement to have shareholders finance the Group's activities.
- Sophistication in securing the finance necessary to fund our activities at the lowest possible cost and best value for shareholders while maintaining the strongest possible balance sheet.



## Strategic Priorities and Monitoring Performance

The following tables set out our current strategic priorities and how we measure our progress towards their realisation.

Strategic imperatives	Progress in the year	Planned actions
<b>Protection of Syrian interests and value</b>	<ul style="list-style-type: none"> <li>Preserved all contractual rights and managed business relationships in a manner consistent with all relevant sanctions and force majeure status.</li> </ul>	<ul style="list-style-type: none"> <li>Continued adherence to licence terms within terms of sanctions.</li> <li>Maintain readiness to return to conduct of operations as soon as circumstances permit.</li> </ul>
<b>Creation of a diversified sustainable portfolio of quality assets</b>	<ul style="list-style-type: none"> <li>Completed acquisition in Morocco.</li> <li>Entered Colombia.</li> <li>Rationalised interests in Tunisia.</li> </ul>	<ul style="list-style-type: none"> <li>Build assets and presence in countries of operation.</li> <li>Evaluate current assets and new opportunities.</li> <li>Ensure commitments and funding are balanced.</li> </ul>
<b>Evaluate assets comprehensively but expeditiously</b>	<ul style="list-style-type: none"> <li>Morocco: conducted 3D seismic on Rharb Centre permit.</li> <li>Morocco: commenced 2D seismic on Fes permit.</li> <li>Morocco: drilled three initial wells on Rharb centre permit.</li> <li>Colombia: established joint ventures and prepared to commence exploration activities.</li> </ul>	<ul style="list-style-type: none"> <li>Morocco: complete evaluation of Rharb Centre gas prospects through drilling based on 3D seismic data.</li> <li>Morocco: interpret Fes 2D seismic for drilling potential.</li> <li>Tunisia: conduct 2D seismic programme to assist in evaluating drilling opportunity on Chorbane permit.</li> <li>Colombia: complete preliminary processes to commence exploration with 2D seismic programmes on both blocks.</li> </ul>
<b>Maintain safety, the environment and community relations as operational priority</b>	<ul style="list-style-type: none"> <li>Established good community relations in Morocco.</li> <li>HSE incidents were higher than expected due to use of new contractor personnel operating in new areas.</li> <li>Commenced community, security and environmental assessment processes and operations planning in Colombia.</li> <li>Continued support of our current CSR projects.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain HSE at the forefront of operational objectives and continue high standards of compliance with HSE systems, processes and training.</li> <li>Develop / maintain relationships with communities in which we work.</li> <li>Identify new CSR opportunities in Morocco, Colombia and Tunisia.</li> </ul>
<b>Maintain a strong balance sheet</b>	<ul style="list-style-type: none"> <li>Net expenditures in period as planned but no Rharb gas revenues.</li> </ul>	<ul style="list-style-type: none"> <li>Carefully manage available financial resources.</li> <li>Focus on additional reductions in cost base.</li> <li>Procure new financing and equity sharing arrangements on best available terms.</li> <li>Finance asset evaluation programmes appropriately.</li> <li>Generate Rharb gas revenue and / or other near term development opportunities.</li> </ul>

**Key Performance Indicators (“KPIs”) provide a means of measuring our progress in delivering our strategic objectives. In light of the continuation of sanctions with respect to Syria, the Group has re-assessed its previous KPIs and identified five key performance indicators in respect of the current corporate strategy.**

KPI	Performance	Commentary and target												
<b>Proved and probable working interest reserves (mmboe)</b> <ul style="list-style-type: none"><li>Audited, Proved and Probable reserves stated on a working interest basis (page 25 for further details).</li><li>Note Syrian reserves are exploitable under contracts currently in force majeure.</li></ul>	<table><tr><td>2013</td><td>75.8</td></tr><tr><td>2012</td><td>75.9</td></tr><tr><td>2011</td><td>76.3</td></tr></table>	2013	75.8	2012	75.9	2011	76.3	<p>Reserves represent the key asset of the Group.</p> <p>The goal of Management is to increase reserves on a year on year basis, converting Contingent Resources into reserves through successful exploration and appraisal.</p>						
2013	75.8													
2012	75.9													
2011	76.3													
<b>Contingent and Prospective Resources (mmboe)</b> <ul style="list-style-type: none"><li>Audited 2C, Contingent Resources and best estimate Prospective Resources both stated on a unrisked working interest basis (pages 26 and 27 for further details).</li></ul>	<div><b>Contingent Resources</b><table><tr><td>2013</td><td>12.3</td></tr><tr><td>2012</td><td>31.5</td></tr><tr><td>2011</td><td>29.0</td></tr></table></div> <div><b>Prospective Resources</b><table><tr><td>2013</td><td>526.0</td></tr><tr><td>2012</td><td>0</td></tr><tr><td>2011</td><td>0</td></tr></table></div>	2013	12.3	2012	31.5	2011	29.0	2013	526.0	2012	0	2011	0	<p>The primary movements in the year consisted of: the acquisition of the Cabre Maroc portfolio of assets and subsequent technical work which added 482 mmboe best estimates Prospective Resources in 2013; and the technical work performed on the Chorbane permit which added a further 44 mmboe in the year.</p> <p>Management are focused on capturing further Contingent and Prospective Resources and efficient conversion of such resources into reserves.</p>
2013	12.3													
2012	31.5													
2011	29.0													
2013	526.0													
2012	0													
2011	0													
<b>Capital expenditure (\$ million)</b> <ul style="list-style-type: none"><li>Accrued expenditure on exploration for and appraisal and development of oil and gas assets. Expenditures include fair values of acquired assets and capitalised internal costs on operated assets (pages 56 and 58 for further details).</li></ul>	<table><tr><td>2013</td><td>48.5</td></tr><tr><td>2012</td><td>6.5</td></tr><tr><td>2011</td><td>43.0</td></tr></table>	2013	48.5	2012	6.5	2011	43.0	<p>Focused, quality expenditure on exploration, appraisal and reserve development activity is key to the success of the Group but must remain within the financial capacity of the Group.</p>						
2013	48.5													
2012	6.5													
2011	43.0													
<b>Safety – lost time incidents</b> <ul style="list-style-type: none"><li>The number of incidents during the year which resulted in loss of working time (page 17 for further details).</li></ul>	<table><tr><td>2013</td><td>1</td></tr><tr><td>2012</td><td>0</td></tr><tr><td>2011</td><td>0</td></tr></table>	2013	1	2012	0	2011	0	<p>Commencement of simultaneous seismic survey and drilling operations in Morocco in 2013 with crews fresh to Gulfsands, proved a HSE risk management challenge however only one lost time incident resulted.</p>						
2013	1													
2012	0													
2011	0													
<b>Total cash and bank resources (\$ million)</b> <ul style="list-style-type: none"><li>Total cash and bank resources include cash and cash equivalents and restricted cash balances (page 61 for further details).</li></ul>	<table><tr><td>2013</td><td>53.0</td></tr><tr><td>2012</td><td>98.8</td></tr><tr><td>2011</td><td>128.2</td></tr></table>	2013	53.0	2012	98.8	2011	128.2	<p>Ensuring the Group has sufficient cash resources to fulfil its contractual obligations is key for the Group.</p>						
2013	53.0													
2012	98.8													
2011	128.2													

## Principal Risks and Uncertainties

The Group's comprehensive approach to risk management aims to identify key risks as early as possible and to reduce or eliminate those risks to the greatest extent practicable.

The Board assesses each significant risk in terms of:

- the likelihood of occurrence;
- the magnitude of the potential impact on our operations, employees, performance, assets and shareholder expectations; and
- the means and extent to which risks can be mitigated.

The last comprehensive annual risk review took place in September 2013. This review was updated at both of the subsequent Audit Committee meetings. The Board groups its risks into four categories: operational, strategic, financial and external risks. The principal risks and uncertainties as considered by the Board are set out below. These do not comprise all the risks and uncertainties faced by the Group.

Financing work commitments	
<b>Description</b> Execution of the Group exploration targets requires a significant investment in order to mature the exploration portfolio and meet minimum work obligations.	<b>Impact</b> Our business model could become constrained by financing and work commitments may require restructuring. Further discussion of this matter is contained in the going concern note 1.3a.
<b>Mitigation</b> Work programmes are being carefully controlled so as not to over commit the Group.  Asset management options and external sources of finance are evaluated.	<b>Change year on year</b> The Morocco exploration activities have commenced during 2013 with both drilling and seismic expenditure but without any commercial success to date. Management has applied cost control and continues to review the portfolio management and strategic financing options.

Exploration success and delivery of production in Morocco	
<b>Description</b> Failure to achieve exploration success and delivery of production in Morocco as part of the 2013/14 drilling campaign.	<b>Impact</b> Failure will impact investor confidence in the Group's ability to deliver on its strategy and will delay revenues and the self-sustainability of the Group.
<b>Mitigation</b> Exploration is an inherently risky business, where the risk of failure on any one well is usually greater than the chance of success. Risk is mitigated by careful geological and petrophysical analysis prior to drilling.  A full EMV analysis, modelling chance of success and possible range of outcomes, is conducted prior to acquisition of any exploration portfolio and prior to the commencement of individual operations.	<b>Change year on year</b> The Group drilled non-commercial wells on the Rharrb Centre permit in 2013 which were based on 2D swath seismic data. Data now available from a 3D seismic survey will increase the chance of success in drilling on the same permit in 2014.  Drilling on our Fes permit will follow thorough evaluation of all geological and geophysical data including that derived from the 2D seismic survey acquired in 2013/14.



### Geopolitical instabilities in operational areas

#### Description

The Group operates in areas in which it may suffer the effects of political instability and civil disturbances disrupting its operations. Currently the Group's interests in Syria are under force majeure consequent to EU sanctions being imposed.

#### Impact

Such instabilities can seriously impact upon the ability of the Group to carry out its operations leading to loss of time and value.

In Syria the value of the Group's interests are at risk due to: the continuing sanctions, the loss of ability to develop the portfolio of interests and the loss of physical control over its assets.

#### Mitigation

The Group carries out a thorough risk assessment of any proposed new country entry.

The Group is not affiliated to any government, political party, religion, ethnic grouping or similar organisation, but maintains good relationships with communities and important local stakeholders.

The Board accesses business intelligence and engages consultants to assist with risk management processes in this area.

#### Change year on year

The Group continued to monitor the operational areas and work with local communities and stakeholders to ensure its position is protected and advanced.

### Health, safety, environment and security

#### Description

The Group's reputation and its value is critically dependent on:

- the protection of the health and safety of its staff, its contractors and members of the community in which it operates; and
- the protection of the environment in which it operates.

#### Impact

Failure in respect of these matters could severely impact on the Group's ability to work and obtain further business in the area of operation as well as putting it at risk of legal and financial liabilities.

#### Mitigation

The Group maintains best practice policies and procedures in these areas and manages its business and its contractors in accordance therewith.

#### Change year on year

During the seismic and drilling operations in Morocco the Group suffered a small number of reportable incidents including one lost time incident as reported on page 17. The Group takes all incidents very seriously and has worked with the contractors concerned to improve work practices.

### Loss of key staff

#### Description

The Company relies heavily upon key executives and managers for continuity and advancement of its business.

#### Impact

Possibility of loss of management continuity and impairment of the business model.

#### Mitigation

Succession planning where possible and group communication networks to ensure knowledge is shared.

#### Change year on year

Progress on succession planning continues.

# Syria

**Gulfsands is the Operator of the Block 26 Production Sharing Contract (“PSC”) and holds a 50% working interest in the PSC along with Sinochem. The Group is not presently involved in any production or exploration activities on Block 26 as force majeure has been declared in respect of the contract following the introduction of EU sanctions against Syria.**

The Group 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.

Block 26 covers an area of 5,414 km<sup>2</sup> 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 final exploration period of the PSC was set to expire in August 2012 when force majeure was declared in December 2011. It is anticipated 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.

Under the Group’s operatorship, two oil fields of Cretaceous age have been discovered and developed within the PSC area, Khurbet East and Yousefieh. In addition, two further oil and gas discoveries of Triassic age have been identified beneath the Cretaceous oil producing reservoir in the Khurbet East field and within the Butmah and Kurrachine Dolomite formations. Development approvals for these discoveries were granted in 2011 and 2008 respectively.

Approval for the development of the Khurbet East Triassic age Butmah oil and gas field was granted in December 2011 but as a consequence of compliance with applicable sanctions, the Group is presently unable to progress any activity in respect of this development. However, oil from the Triassic Formations in Khurbet East has already been sampled and found to be lighter than that produced from the Cretaceous Formation, with an API gravity of 34–35°, and it contains a higher gas content. In addition, small amounts of condensate have been recovered from the gas cap in the Butmah Formation. The construction of sour gas sweetening and export facilities at Khurbet East is planned, subject to the lifting of sanctions, to enable commercial production of hydrocarbons both from the Butmah and also from the Triassic Kurrachine Dolomite Formations. Until force majeure was declared, it was expected that the development and production period for operations on the Khurbet East Triassic Butmah Formation would expire in December 2036 although production could, at the Contractor’s option, be extended for a further ten years.

Once applicable sanctions permit, it is expected that the force majeure will be withdrawn and these periods of entitlement to undertake development and production activities will be extended by a further period reflective of the period of force majeure.

The development and operation of these fields is being undertaken by Dijla Petroleum Corporation (“DPC”), a joint operating company formed between Gulfsands, Sinochem and the General Petroleum Corporation (“GPC”) for this purpose, to which staff of both Gulfsands and GPC have previously been seconded. Since the introduction of EU sanctions on 1 December 2011 that identified GPC as a designated entity and the subsequent declaration of force majeure under the PSC, Gulfsands has had no involvement with the operations of DPC, and Gulfsands staff seconded to DPC have been withdrawn, leaving DPC under the management of GPC secondees.



### Position in 2013

- Maintained an office presence in Damascus.
- Block 26 facilities remain safe and secure.
- Retained technical capabilities through staff redeployment.
- Continued compliance with applicable sanctions.



### Sanction compliance

Gulfsands has at all relevant times taken legal advice with respect to its obligations under the sanctions then in place and has liaised regularly with relevant regulators and generally acted cautiously to ensure it remains compliant with all relevant sanctions.

The listing of GPC as a designated entity on 1 December 2011 triggered a review of the Group's relationship with GPC and with DPC and following this review and with effect from 1 December 2011, Gulfsands has:

- ceased to provide assistance to DPC in the form of seconded staff or indeed have any involvement with the day to day operations of DPC;
- recused itself from decisions taken by the DPC board;
- not submitted invoices for the Joint Venture's entitlement share of oil production;
- exercised strict control over the payment of outstanding supplier invoices to ensure that (a) no payments were made to persons or entities who are included on the list of those subject to the asset freeze, (b) no payment is made for goods or services subject to restrictive measures except after the giving of required notification to the Competent Authority and (c) no payment was made which would constitute a transfer of economic resources to GPC or DPC;
- ceased (with effect from 18 January 2012, being the date of adoption of EU Regulation 36 / 2012) to enter into new contracts for the procurement of oil and gas related goods or services into Syria, or for associated technical assistance; and
- also ceased all exploration, as well as production, activity in Syria.

The Group has relocated its offices into modest offices in the centre of Damascus to allow it to retain a place of business in the country to meet its obligations under the PSC. Unfortunately, the protracted nature of the suspension of operations in Syria has also necessitated the review of staffing levels in the country and it is with great regret that the Group has had to release a proportion of its workforce.

The Board is determined to ensure that the Group's activities remain compliant with all relevant sanctions and Management will continue to liaise closely with the relevant regulatory authorities to ensure this objective is achieved while continuing to keep GPC fully informed of the breadth and scope of restrictions on our activities as a result of continuing compliance with applicable sanctions.





# Morocco

**Gulfsands is the Operator of a highly prospective portfolio of oil and gas exploration permits covering an area of approximately 4,315 km<sup>2</sup> in northern Morocco.**

Gulfsands acquired its interests in the Rharb Centre, Rharb Sud and Fes permits through the acquisition of Cabre Maroc Limited ("Cabre Maroc"), a wholly owned subsidiary of Caithness Petroleum Limited, on 16 January 2013. The total consideration for this transaction involved cash payments totalling approximately \$17.3 million by way of adjusted purchase consideration and in addition, the satisfaction of \$1.7 million of existing liabilities of Cabre Maroc. In August 2013, Cabre Maroc's name was changed to Gulfsands Petroleum Morocco Limited.

The acquisition delivered to Gulfsands a large, contiguous and highly prospective acreage with proven petroleum systems and multiple exploration leads already identified. The acreage is located in an area where legacy light oil fields have been discovered and produced since the first half of the twentieth century and where light oil seeps appear to be prevalent adjacent to the Fes permit. Modern exploration techniques have been previously used in the area but only to a limited extent. The Group believes that there is significant oil and gas exploration potential related to the fold and thrust belt structures identified in the Rharb Sud and Fes permits. Production of light oil from legacy fields has been predominantly from Jurassic horizons in shallow structures at depths of approximately 800-1,200 metres, and the Group believes that the essentially untested deeper fold and thrust belt structures in these permits have greater potential than the shallow developed structures. There also exist further potential target horizons in the shallower Miocene and Tertiary.

In addition to a focus on light oil exploration, there is considered to be a meaningful near-term value creation opportunity contained within the proven conventional and shallow depth gas play in the Miocene horizons within the Rharb Centre permit.

Gulfsands and ONHYM (the Moroccan oil and gas regulator) are co-venturers in respect of the Rharb Centre and Rharb Sud permits (Gulfsands has a 75% working interest post ONHYM participation); whilst Gulfsands and Caithness Petroleum Limited are co-venturers with ONHYM in respect of the Fes permit (Gulfsands has a 50% working interest post ONHYM participation). ONHYM are carried through the exploration phase of each of the Rharb and Fes Petroleum Agreements. Under the terms of the acquisition of Cabre Maroc, Gulfsands agreed to carry Caithness in respect of its share of the first \$27 million of expenditure on the Fes permit. Gulfsands is the Operator of all these exploration joint ventures.



### Progress in 2013

- Drilled three exploration wells on Rharb Centre permit.
- Completed 220 km<sup>2</sup> 3D seismic acquisition for Rharb Centre permit.
- Commenced 650 km 2D seismic programme for Fes permit.



### Operations

During 2013 the Group established a small office in Rabat with operational staff, transferred from our Syrian operations, who rapidly established the Group's standards of HSE performance in Morocco, suffering a single lost time incident during the course of 313,000 man-hours of activity.

### Fes permits

The exploration phase of the Fes Petroleum Contract expires in September 2015 but can be extended for an additional two years in the event of a discovery. The Contract terms include a work commitment of 1,000 km of 2D seismic, 100 km<sup>2</sup> of 3D seismic and the drilling of three exploration wells. In respect of this work commitment the Group has provided financial guarantees as set out in note 3.2 to the Financial Statements.

An initial 650 km 2D seismic programme on the Fes permit was completed on budget in February 2014 by Prospektiuni SA of Romania, although completion of the programme was delayed due to adverse weather and ground conditions. The programme was designed to assist in the identification of additional exploration leads on the Fes permit and to more accurately define existing leads identified using the results of an earlier gravity survey programme and legacy 2D seismic data.

As the Fes area is known to be structurally complex, prior to the Group's receipt of this seismic data, it will undergo a number of additional and more sophisticated processing techniques than would usually be the case, including depth migration processing. Notwithstanding the additional time and cost involved in applying these sophisticated processing techniques, it is anticipated that the resulting data set thereby will be significantly enhanced and assist with the interpretation of the data captured during this programme in order to develop the leads into drillable prospects.

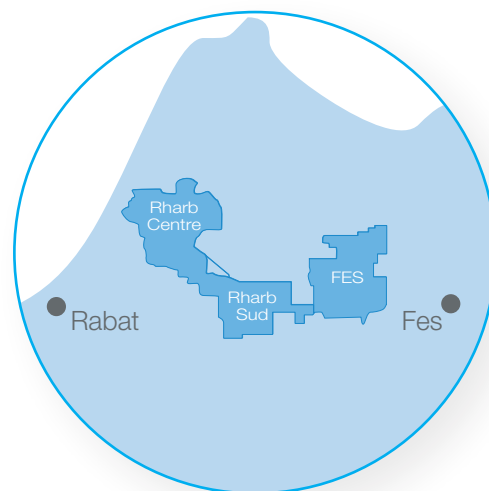
It is anticipated that the first exploration drilling target for light oil will be identified during the third quarter of 2014 with drilling of the first exploration well planned to commence as early as the end of the year. Two further light oil exploration wells are planned to follow in 2015. Accordingly the Group has commenced a process to identify and select a suitable rig for drilling on the Fes licence later this year.

Prospective Resources of 478 million barrels of oil equivalent (net unrisked, best estimate) have been booked by the Group at year end 2013 for the Fes permit. These estimates were based on previously identified prospectivity within Jurassic horizons that are known to produce oil in the area. These bookings have been subject to a competent person third party audit by Senergy (GB) Limited ("Senergy").



# Morocco continued

The Group continues to evaluate further opportunities to invest in Morocco's expanding onshore oil and gas sector.



## Rharb permits

The exploration phase of the Rharb Petroleum Agreement, covering the Rharb Centre and Rharb Sud permits, containing a minimum work obligation of nine shallow exploration wells expires in July 2014 but can be extended for an additional two years in the event of a discovery during the current drilling programme. In respect of this work commitment the Group has provided financial guarantees as set out in note 3.2 to the Financial Statements. Commercial discoveries each become subject to long term exploitation concession agreements.

Whilst a relatively large volume of legacy 2D and swath seismic data were available on the Rharb Centre permit, the Group believes that 3D seismic data is a critical tool for maximising the chances of drilling commercially attractive prospects in the Rharb Centre permit area. A 3D seismic survey covering an area of approximately 220 km<sup>2</sup> was therefore carried out by Prospektiuni SA over the south-western portion of the Rharb Centre permit area to assist in the further delineation of potential drilling targets for the second phase of the drilling campaign. The seismic acquisition programme was completed under budget after only a slight delay caused by local weather conditions. Processing and interpretation of the acquired data was completed in March 2014 identifying a number of quality prospects for drilling in the second phase of the campaign commencing in the second quarter of 2014.







The Rharb drilling programme is currently focusing on a series of shallow gas anomalies identified in the Rharb Centre permit as Miocene-aged fans and channel sands at depths of 1,000-1,650 metres, in a similar geologic setting to discoveries on adjacent permit areas which are now in commercial production using the substantial gas capture and distribution infrastructure in the area. Gulfsands has contracted with COFOR SAS, an international drilling contractor and subsidiary of France's Vinci group of companies, to provide an onshore drilling unit suitable for the drilling of exploration wells in the Rharb Centre permit area.

During the year three wells were drilled, commencing in October 2013. Each of these wells intersected gas-bearing horizons as identified from pre-drilling seismic interpretation, but they contained less than the required thickness of net gas pay considered necessary to support a declaration of commerciality and so were plugged and abandoned. The location for the drilling of each of these wells was based upon legacy 2D and swath seismic data. It is anticipated that the acquisition and processing of 3D seismic data on the Rharb permit should result in the discovery of commercial gas accumulations during 2014.

Drilling operations for the three first phase wells took, on average, 20 days and cost, on average \$2.1 million to drill, fully plug and abandon each well and restore the drill-site to its original condition.

The combined cost to date of acquiring and processing seismic data on the Rharb Centre and Fes permits is \$14.2 million.

Prospective Resources of 21.2 billion cubic feet (net unrisked, best estimate) have been booked by the Group at year end 2013 for the Rharb Centre permit based on identified prospectivity within Upper Miocene horizons that are known to produce gas in the area. In addition Contingent Resources of 2.0 billion cubic feet (net unrisked, "2C" or "P50") have been booked based on separate and unrelated discovered gas accumulations at Beni Fdal and Douar Nouaoura that have previously both produced gas to surface. These bookings have been subject to a competent person third party audit by Senergy.

#### Forward plans

The second phase of the Rharb drilling campaign is due to commence in the second quarter 2014 following full interpretation of the 3D seismic data acquired in 2013. The Group continues to evaluate further opportunities to invest in Morocco's expanding onshore oil and gas sector.



# Colombia

**In 2013, Gulfsands was awarded Exploration and Production Contracts (“E&P Contracts”) over two blocks covering approximately 977km<sup>2</sup> in Colombia as a result of successful bids made in the Ronda 2012 Exploration Licensing bid round, which concluded in late 2012.**

The E&P Contract for each block extends for up to seven years from the date of signature of the contract with an initial evaluation period of up to one year followed by two consecutive three year exploration periods the second of which is optional. Gulfsands was successful in acquiring both blocks on fiscal terms that involved minimal “X-factor” royalties and low work obligations of approximately 100 km of 2D seismic survey data and one well on each block over the first of the three-year periods. In respect of these work commitments the Group has provided financial guarantees as set out in note 3.2 to the Financial Statements.

The Putumayo block 14 (“PUT 14”) in the Caguan Putumayo Basin covers an area of 463.6 km<sup>2</sup> and lies on Colombia's border with Ecuador. It is reported that at least 35 fields containing more than 365 million barrels of oil now have been discovered in this basin, whilst additional world class discoveries and producing fields located in the Oriente Basin in Ecuador lie directly to the south and are on trend towards Colombia's Putumayo permitted acreage.

Exploration prospectivity within the Caguan Putumayo Basin is considerable, with discoveries of light, medium and heavy crudes being located in several different target horizons within the Cretaceous. Deeper potential also exists that is largely untested. A significant number of oil fields are now under production in the Colombian part of this basin in the vicinity of PUT 14 block. The strongly productive Cohembi and Platanillo oil fields are located to the west of the block, and are producing from geological structures considered analogues to structures that can be identified within the PUT 14 block from existing legacy 2D seismic data.

The Llanos block 50 (“LLA 50”) is in the mature north Llanos basin, where 100 km to the north-west, Occidental discovered the giant Canon Limon field with reported reserves of more than one billion barrels. At 513.7 km<sup>2</sup> in size, the block is larger than most blocks in the basin.

Following the block awards, Gulfsands entered into farm-out agreements with Luna Energy Inc (“Luna”), a respected local oil field services, resources and transport logistics group, under which the Group retains a 55% working interest in each contract and acts as Operator of both joint ventures. Luna holds a 45% working interest but is carrying Gulfsands in respect of 10% of expenditures on the minimum exploration programme for each contract area up to a maximum value net to Gulfsands of \$3 million.

## Operations

The Group has established a fully operational office in Bogota which is managed by highly experienced local personnel and together with personnel made available by our local partner, Luna, the joint venture has commenced the process of consultation with the local and indigenous communities both in the regions and in the block areas, and also with environmental agencies and government security agencies preliminary to the submission of detailed plans for exploration on both blocks.





### Progress in 2013

- Awarded block PUT 14 in the Caguan Putumayo basin.
- Awarded block LLA50 in the north Llanos basin.
- Established fully operational office in Bogotá.
- Entered into farm out agreement with Luna.



Initial exploration work on both blocks commenced in the fourth quarter of 2013, at which time the initial evaluation period concluded and the Group entered into the first exploration period under both Contracts.

The joint venture partners have moved quickly to undertake the significant number of formalities and preliminary activities required to be completed prior to the commencement of 2D seismic acquisition programmes to be undertaken on both blocks. Discussions with operators in the Putumayo and Llanos areas and seismic contractors active in these areas have commenced with a view to coordinating and sharing logistics for the 2D seismic programmes being planned on both blocks.

### Forward plans

It is anticipated that the Group should be ready to commence a programme of 2D seismic data acquisition on the PUT 14 block later this year with a similar programme on the LLA 50 block in early 2015. Following processing, interpretation and analysis of the new seismic data, it is anticipated that an exploration well will be drilled on both blocks, in late 2015 and early 2016 respectively. The Group continues to evaluate further opportunities to invest in Colombia's very active onshore oil and gas sector.



# Tunisia

**At the end of 2013, Gulfsands withdrew from its interests in the Kerkouane exploration permit offshore Tunisia and the Pantellaria exploration permit offshore Southern Italy and increased its interest to 100% in the operated Chorbane exploration permit onshore Tunisia of approximately 1,942 km<sup>2</sup>.**

Following completion of a geological and prospectivity review in 2013, Gulfsands decided not to continue its interest in the Kerkouane and Pantellaria permits. In parallel with extensive consultation with the Tunisian authorities, Gulfsands negotiated with ADX Energy Limited, an Australia-based independent E&P company ("ADX") both a withdrawal from its interests in the Kerkouane and Pantellaria permits and the acquisition of ADX's 30% interest in the onshore Chorbane permit to take the Group's working interest in the Chorbane permit to 100%.

Under the agreement with ADX (the "Agreement"), Gulfsands has been either released from or indemnified by ADX with respect to all historic and future obligations associated with its former interests in the Kerkouane and Pantellaria permits and related joint ventures. No consideration is payable with respect to the withdrawal from these interests.

The Agreement requires Gulfsands to similarly release from or indemnify ADX with respect to all historic and future obligations associated with its former interests in the Chorbane permit and, additionally, requires Gulfsands to pay \$1.75 million to ADX for the 30% interest acquired. \$0.25 million of this amount was paid shortly after the year end with the balance payable following satisfaction by ADX of certain conditions. Whilst the transactions have been reached in conjunction with the Tunisian authorities, and are binding as between the two parties, they remain subject to receipt of the final regulatory approvals.

As a result of these transactions, and once the final regulatory approvals are received, the Group no longer has any acreage holdings in Italy and has withdrawn operationally from that country.

## Operations

The Chorbane permit is 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 current exploration period is due to expire in July 2015, with the minimum work programme carrying a commitment to drill one exploration well.

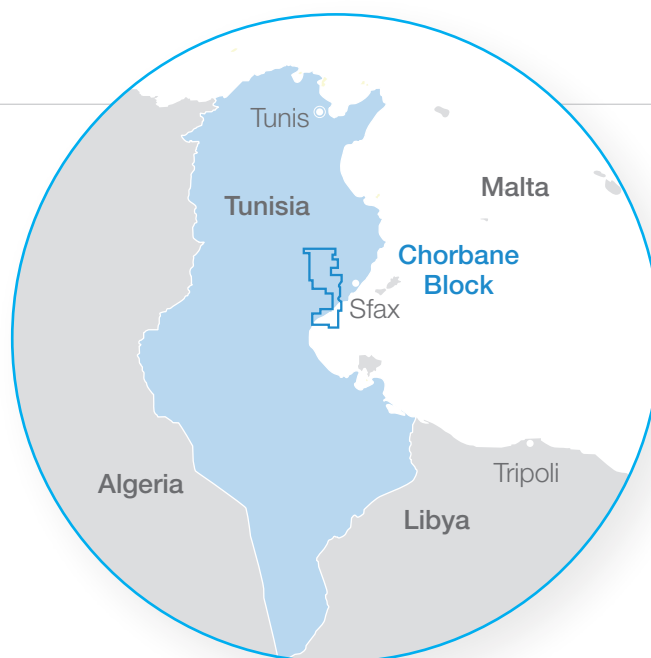
Following the Group having assumed operatorship it has moved quickly to review existing seismic and well log data on the permit. Evaluation work has identified the potential presence of a number of exploration plays, prospects and leads.





### Progress in 2013

- Increased interest in Chorbane permit to 100% and assumed operatorship.
- Withdrew from interests in the Kerkouane and Pantellaria permits.



In the Sidi Agareb area on the eastern side of the Chorbane permit, exploration targets include late Cretaceous to Tertiary aged carbonate reservoirs that are proven productive for both oil and gas in this part of the Pelagian basin; the Sidi Agareb prospect lies approximately 10 km to the south west of the Sidi El Itayem oil field, which is on course to ultimately produce approximately 50 million barrels of oil from these horizons, with oil recovery boosted by an active natural water drive mechanism. On the western side of the permit, prospectivity is identified in the deeper Jurassic Nara intervals from which wet gas has been recovered in exploration wells on the contiguous Chaal permit to the west. In the south east part of the permit, there may exist an extension of a trend of off-permit oil fields producing from Cretaceous Bireno formation.

Prospective Resources of 27 million barrels (net unrisks, best estimate) have been booked on a consolidated basis by the Group at year end 2013 for the Sidi Agareb area prospect. The booking has been subject to a competent person third party audit by Senergy.

Prospective Resources of 103 billion cubic feet (net unrisks, best estimate) have been booked by the Group at year end 2013 for the Jurassic Nara horizon based on identified prospectivity within horizons that are known to produce gas in the neighbouring Chaal permit. The booking has been subject to a competent person third party audit by Senergy.

### Forward plans

The Group is preparing for a tender of a 106 km 2D seismic programme over two separate areas of the permit identified as prospective for the location of the next exploration well. The Group is currently in discussion with the Tunisian authorities concerning the final acquisition parameters for this seismic survey prior to undertaking the tender process of contractor selection and completing local permitting approvals. It is anticipated that this tender process should be completed during the second quarter of 2014 with seismic acquisition to commence following completion of the permitting process. The data captured in this survey will be used to finalise a drilling location within the Chorbane permit for an exploration well to be drilled in early 2015.



# US

**Gulfsands owns a small portfolio of non-operated oil and gas assets in the Gulf of Mexico, in the shallow “shelf” region offshore Louisiana. These comprise working interests in six producing fields and certain other leases that are no longer commercially producing as well as overriding royalties in other properties.**

The assets are relatively mature however, development of booked reserves continues where appropriate to preserve the remaining value of the assets to the Group. Proved and Probable reserves at year end 2013 amounted to 1.4 mmboe on a working interest basis (1.1 mmboe on a net revenue interest basis), comprised of 77% oil and 23% gas.

### Operations

Production on a working interest basis, including Natural Gas Liquids (“NGLs”), averaged 226 boepd in 2013, compared with 311 boepd in 2012. The composition of this production was 53% oil, 43% gas and 4% NGLs. After tax and royalties, net revenue interest production in 2013 averaged 175 boepd (2012: 239 boepd) generating revenues of \$4.4 million (2012: \$5.6 million).

The decrease in the average daily rates of the baseline production during 2013 compared to 2012 was due to:

- the temporary shut-in of production at EI 32 while repairs to a third-party owned pipeline were undertaken;
- repairs at the SS 248 “D” platform, which also required production to be temporarily shut-in;
- intermittent equipment failures at the WC 310 platform; and
- natural field production decline.

During the year, the Group participated in development operations on four wells to access booked reserves. Mid-year 2013, operations were undertaken to recompleting the SS 249 D-5 and the SS 247 F-18 wells resulting in an incremental increase to PDP reserves of 40.2 mboe. Initially, daily production rates increased up to 140 boepd however, at year-end the contribution was significantly reduced as the SS 249 D-5 well experienced pressure decline, possibly due to limited reservoir volume. Compression is required to optimise production rates and, as a result, the well is currently shut-in awaiting compressor repairs on the SS 248 D platform, anticipated in April 2014.

As of 31 December 2013, operations had also been undertaken for the recompleting of the EI 32 #33 well and the sidetrack of the EI 32 #30 well which should lead to incremental increases to PDP reserves of 75.3 mboe and reserve additions to PDNP of 37.7 mboe. Daily average production rates to the Group are expected to increase by 130 boepd as a result of this field development.

Substantial decommissioning activities were undertaken in 2013 on the WC 533 “A” platform and wells in the EI 32, SS 271 and VR 225 / 226 fields.

### Sale of interests

Despite efforts to divest the remaining portfolio early in the year, the Group did not attract bids that sufficiently value the assets to be sold. The Group continues to consider its options with respect to the US interests but does not consider these interests part of its core business.



# Reserves Report

## Reserves and Resources

The Group's reserves, Contingent Resources and Prospective Resources, at 31 December 2013, are based on estimates made by Management and reviewed by independent petroleum engineers. In both 2013 and 2012 for the Syrian, Tunisian and Moroccan assets the review was performed by Senergy (GB) Limited ("Senergy"), and for the US by Netherland, Sewell & Associates, Inc ("NSAI").

## Reserves

The reserves are categorised into Proved, Probable and Possible reserves in accordance with the 2007 Petroleum Resources Management classification system ("PRMS") of the Society of Petroleum Engineers ("SPE"). Definitions for Proved, Probable and Possible reserves are contained in the Glossary.

Working interest reserves in Syria represent the proportion, attributable to the Group's 50% participating interest, of forecast

future hydrocarbon production during the economic life of the Block 26 PSC, including the share of that production attributable to General Petroleum Corporation ("GPC"). In assessing the reserves it has been assumed that:

- (a) the force majeure condition is lifted with effect from 1 January 2015 and Gulfsands resumes its role as Operator;
- (b) all Gulfsands' rights under the PSC are preserved and no change is made to the economic terms thereof; and
- (c) the option is exercised to extend the development period of each field for a further ten years after its initial 25 year development period has expired.

It should be noted that there remain significant uncertainties with respect to the timing of the Group's re-entry into Syria and the conditions encountered upon its return.

## Summary of Reserves

### Working interest basis

	Syria		US		Group total		
	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil & Gas <sup>(2)</sup> mmboe
<b>As at 31 December 2013</b>							
Proved	38.3	12.2	0.8	1.3	39.1	13.5	41.4
Probable	30.6	20.8	0.2	0.7	30.8	21.5	34.4
<b>Proved and Probable</b>	<b>68.9</b>	<b>33.0</b>	<b>1.0</b>	<b>2.0</b>	<b>69.9</b>	<b>35.0</b>	<b>75.8</b>
Possible	42.9	35.6	0.1	0.2	43.0	35.8	48.9
<b>Proved, Probable and Possible</b>	<b>111.8</b>	<b>68.6</b>	<b>1.1</b>	<b>2.2</b>	<b>112.9</b>	<b>70.8</b>	<b>124.7</b>

### Movements in Proved and Probable reserves during year

	Syria		US		Group total		
	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil & Gas <sup>(2)</sup> mmboe
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)
<b>At 31 December 2013</b>	<b>68.9</b>	<b>33.0</b>	<b>1.0</b>	<b>2.0</b>	<b>69.9</b>	<b>35.0</b>	<b>75.8</b>

(1) "Oil" includes condensate and NGLs.

(2) Gas is converted to mmboe at the conversion factor 1 bcf = 0.1667 mmboe.

NB Certain figures may not add up due to roundings.

### Entitlement basis

	Syria		US		Group total		
	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil & Gas <sup>(2)</sup> mmboe
<b>As at 31 December 2013</b>							
Proved	16.7	6.6	0.7	1.0	17.4	7.7	18.7
Probable	13.0	10.8	0.2	0.5	13.2	11.4	14.8
<b>Proved and Probable</b>	<b>29.7</b>	<b>17.5</b>	<b>0.9</b>	<b>1.6</b>	<b>30.6</b>	<b>19.0</b>	<b>33.8</b>
Possible	14.3	16.4	0.0	0.1	14.3	16.5	17.1
<b>Proved, Probable and Possible</b>	<b>44.0</b>	<b>33.9</b>	<b>0.9</b>	<b>1.7</b>	<b>45.0</b>	<b>35.6</b>	<b>50.9</b>

### Movements in Proved and Probable reserves during year

	Syria		US		Group total		
	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil <sup>(1)</sup> mmbbl	Gas bcf	Oil & Gas <sup>(2)</sup> mmboe
At 31 December 2012	30.2	17.5	0.9	2.0	31.0	19.5	34.3
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	(0.5)	0.0	0.0	(0.3)	(0.5)	(0.3)	(0.5)
Less estimated production	0.0	0.0	(0.0)	(0.2)	(0.0)	(0.2)	(0.1)
<b>At 31 December 2013</b>	<b>29.7</b>	<b>17.5</b>	<b>0.9</b>	<b>1.6</b>	<b>30.6</b>	<b>19.0</b>	<b>33.8</b>

(1) "Oil" includes condensate and NGLs.

(2) Gas is converted to mmboe at the conversion factor 1 bcf = 0.1667 mmboe.

NB Certain figures may not add up due to roundings.

## Reserves Report continued

Working interest reserves in the US represent the proportion, attributable to the Group's participating interests, of forecast future hydrocarbon production during the economic life of the properties in question, before deduction of state production taxes and overriding royalty interests. Working interest reserves have been derived from the net revenue interest reserves data contained in the NSAI report, by grossing up for the percentage production tax and royalty "burden" applicable to each property. The reserves-weighted average burden at 31 December 2013 was 18% (2012: 19%).

Entitlement reserves in Syria represent the Group's estimated share of working interest reserves after deducting the share of forecast future production attributable to GPC. This proportion is impacted by assumptions as to future development expenditure and future oil prices. For the calculation as at 31 December 2013 the average price of Brent crude was assumed to be \$105 / bbl in 2014, \$100 / bbl in 2015, \$95 / bbl in 2016 and constant \$90 / bbl thereafter. It has been assumed that the oil sold from the Syrian production is sold at a 12% discount to Brent. The gas prices are linked, through the PSC, to oil prices.

Entitlement reserves in the US represent the Group's estimated net revenue interest reserves after deduction of the equivalent share of hydrocarbon production attributable to state production taxes and overriding royalty interests.

### 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: these categories correspond broadly to the Proved, Proved and Probable, and Proved, Probable and Possible categorisations for reserves.

### Summary of Contingent Resources

#### Unrisked working interest basis

As at 31 December 2013

	Constituent	1C	2C	3C	Risk factor (Chance of development)
<b>Syria Block 26</b>					
(Working interest 50%)					
Al Khairat discovery	Oil, mmbbl	2.9	12.0	45.7	<b>30%</b>
<b>Morocco Rharb Centre permit</b>					
(Working interest 75%)					
Beni Fdal discovery	Sales Gas, bcf	0.3	0.7	1.9	<b>20%</b>
Douar Nouaoura discovery	Sales Gas, bcf	0.4	1.3	4.3	<b>10%</b>
	Total, mmboe <sup>(2)</sup>	0.1	0.3	1.0	

#### Risked working interest basis

<b>Syria Block 26</b>	mmboe	0.9	3.6	13.7
<b>Morocco Rharb Centre</b>	mmboe <sup>(2)</sup>	0.0	0.0	0.1
<b>Total</b>	<b>mmboe <sup>(2)</sup></b>	<b>0.9</b>	<b>3.6</b>	<b>13.8</b>

(2) Gas is converted to mmboe at the conversion factor 1 bcf = 0.1667 mmboe.

NB Certain figures may not add up due to roundings.

In accordance with the 2007 SPE PRMS, a guideline risk factor should be stated associated with the 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".

The Al Khairat oil discovery in Syria Block 26 is assessed to have a Chance of Development of 30% or 60% (2012: 50%). A future development of this oil discovery is now considered to be a certainty, based on the highly-positive results obtained during the drilling, logging and testing of the discovery well, favourable estimations of field size based on 3D seismic data and offset well data, and strongly favourable current and forward commercial conditions for development.

However, owing to EU sanctions, Commercial Approval to develop has yet to be sought from the authorities. The contractual status of the Al Khairat discovery post sanctions therefore is subject to uncertainty. The authorities have stated in writing their expectation that the Group will ultimately develop the field, hence the Chance of Development is now set at 60% (2012: 50%).

Development of Moroccan Contingent gas resources is dependent on further successful drilling in the area of these discoveries to enhance the commercial viability of these fields.

The Chance of Development for the Beni Fdal gas discovery is assessed at 20%. The discovery is proximal to an existing gas export pipeline, and 3D seismic data exists across the area that would aid identification of further drilling locations.

The Chance of Development for the Douar Nouaoura gas discovery is assessed to be lower, at 10%. This discovery requires the installation of a ~20 km tie-in line for gas production to connect to the nearest existing gas pipeline network. Also, further drilling in this area would most likely need to be supported by the acquisition of 3D seismic data, which is not currently planned.



## 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% probability ("P90"), 50% probability ("P50") and 10% probability ("P10") values respectively derived from probabilistic estimates generated using a "Monte Carlo" statistical approach; SPE PRMS recommends these values for use in corporate reporting.

Resources from separate prospects / leads located in a given permit area or play type are commonly arithmetically summed together; this summation approach is recommended under PRMS guidelines. The approach does not take account of prospect / lead dependencies, hence it typically results in conservative low case and optimistic high case totals.

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.

A large number of leads and prospects have been identified on the Group's Moroccan acreage. Seismic data has been acquired in 2013 on Rharb Centre and Fes permits and interpretation work is currently in progress to define a number of drillable targets for drilling during 2014-15.

In the Rharb Centre permit the play consists of gas in thin Miocene sandstones, and resources have been estimated for 18 separate leads and prospects based on either legacy 2D seismic data or 3D seismic data acquired during 2013. The Chance of Discovery is assessed to be in a medium to high range across these leads and prospect, typically between 30% and 50%.

In the Fes permit the primary play consists of oil or gas in Jurassic carbonates, and resources have been estimated for nine separate leads based on a combination of legacy 2D swath seismic data and full tensor gravity data acquired from an airborne survey. Exploration work in this permit is of a more frontier nature than in the Rharb Centre permit; the Chance of Discovery is assessed to be in a low to medium range across these leads, and will require further analysis to quantify it.

Prospective resources have been evaluated for prospects identified on the Group's Tunisia onshore Chorbane permit. The Sidi Agareb (SAG) prospect is considered prospective for oil in several horizons contained with the Eocene to Upper Cretaceous carbonates, whilst the Lafaya Deep and Sidi Daher prospects are considered prospective for gas in Jurassic muddy carbonates. The Chance of Discovery has been assessed for these prospects to lie in a range between 9% and 25%.

## Summary of Prospective Resources

### Unrisked working interest basis

As at 31 December 2013

	Constituent	Low	Best	High	Risk factor (Chance of discovery)
<b>Morocco Rharb Centre permit</b>					
(Working interest 75%)					
Upper Miocene leads / prospects	Sales Gas, bcf	7	21	46	<b>Medium-High</b>
<b>Morocco Fes permit</b>					
(Working interest 50%)					
Jurassic leads	Oil and Sales Gas, mmboe <sup>(2)</sup>	21	478	2,250	<b>Low-Medium</b>
<b>Morocco total</b>	<b>mmboe<sup>(2)</sup></b>	<b>22</b>	<b>482</b>	<b>2,258</b>	
<b>Tunisia Chorbane permit</b>					
(Working interest 100%)					
Sidi Agareb prospect	Oil, mmbbl	8	27	63	<b>9%-25%</b>
Eocene / Upper Cretaceous					
Lafaya Deep & Sidi Daher prospects	Sales Gas, bcf	21	103	398	<b>11%</b>
Jurassic leads					
<b>Tunisia total</b>	<b>mmboe<sup>(2)</sup></b>	<b>12</b>	<b>44</b>	<b>129</b>	

(2) Gas is converted to mmboe at the conversion factor 1 bcf = 0.1667 mmboe.

NB Certain figures may not add up due to roundings.

## Corporate Social Responsibility

With the Group having taken on the operatorship of projects in Morocco, Colombia and Tunisia during 2013, our experience with the successful development and implementation of Corporate and Social Responsibility (“CSR”) initiatives in Syria has provided us with a useful blueprint for the development of similar programmes for the communities in these countries.

Accordingly, while we are still in the planning stage of our CSR strategy for each of these countries, we are focusing our efforts on assisting various national and local organisations to develop and implement education, health and employment programmes that address issues affecting women and children and the disadvantaged members of society.

While our planning of these CSR activities might have only commenced during 2013, despite the well publicised security difficulties in Syria, we nevertheless managed to continue our work with a number of the local Syrian organisations with which we have worked in the past.

We have again been supported in these efforts by our Block 26 partners, Sinochem and together with the tireless assistance of our loyal staff located in Damascus and Beirut, and the many Damascus based volunteers who continue to support these important organisations, we have found sometimes innovative ways to continue most of the important programmes that we have supported in prior years.

Notwithstanding the obvious constraints on our ability to fund deserving CSR activities, we nevertheless managed to provide modest support for a number of worthy projects in Damascus and the north east region of Syria where our Khurbet East and Yousefieh projects remain suspended and under the watchful care of our staff and members of the local Kurdish community.

With the co-operation of several pharmaceutical suppliers in Europe and Lebanon, we were again able to secure critical supplies of oncology pharmaceutical supplies to enable the continued treatment of the young cancer patients at the Al Buruni Hospital in Damascus, the BASMA sponsored paediatric oncology unit, which remains Syria's only facility providing critical oncology care to young patients.







As local security issues disrupted active field work at the Tell Mozan project near Qamishli, the largest city within Block 26, our financial support for this project of national and international historical significance was utilised to enable a number of Syrian academics and students working on the project but now temporarily based in Europe and the US, to continue their important work on developing the authoritative academic record of the discoveries made at this project in recent years.

While many important archaeology projects and antiquity collections at museums across Syria are reported to have suffered terrible ransacking and structural damage, remarkably, the Tell Mozan project and in particular the Urkesh Palace within this archaeology site which is believed to have been the original home of the Hurrian Kings of Syria and built in circa 2250BC, has been protected from damage by weather and remains safe and secure due to the dedicated efforts of a large group of local volunteers coordinated by Professor Giorgio Buccellati of the International Institute for Mesopotamian Area Studies (IIAMS).

Further details about this important work and the Gulfsands Urkesh Exploration Fund can be viewed at [www.urkesh.org](http://www.urkesh.org).

Initial results following the commencement of work by Dr Jane Moon and her colleagues from Manchester University working on the Tell Khaiber archaeology project near to the ancient city of Ur, near Nasiriyah, in Thi Qar province, southern Iraq have been quite astonishing with a large number of discoveries of historic significance. Further details on Gulfsands' support for this project of archaeological significance can be viewed at [www.urarchaeology.org](http://www.urarchaeology.org).

The Board of Directors considers these deserving projects provide an important point of reference for our organisation and reflect our respect for the communities and governments of the countries in which we operate. Accordingly, we expect to further build on our present record during the coming year.



## Financial Review

Gulfsands made significant progress during 2013 in reducing its operating cost base resulting in a substantially lower operating cash outflow of \$7.9 million (2012: \$14.2 million). Costs and management of cash resources continue to be a primary focus.

### Selected operational and financial data

	Year ended 31 December 2013	Year ended 31 December 2012
Production: net revenue interest ("NRI") (boepd)	175	239
	\$' 000	\$' 000
Revenue	4,367	5,622
Gross profit / (loss)	182	(1,320)
Total administrative expenses	(10,924)	(18,375)
Exploration costs written off	(12,301)	(7,082)
Operating loss	(26,331)	(26,811)
Net cash used in operating activities	(7,887)	(14,178)
E&E cash expenditure including acquisition <sup>(1)</sup>	(34,405)	(7,830)
Decommissioning cash expenditure	(2,151)	(1,919)
Total cash and bank resources <sup>(2)</sup>	52,962	98,819

(1) Comprises cash expenditure on E&E assets and cash expenditure on the acquisition of business combinations.

(2) Comprises cash and cash equivalents and restricted cash balances.

### Progress in 2013

- Substantially lower operating cash flow of \$7.9 million.
- Total bank and cash resources of \$52.9 million at 31 December 2013.
- Accrued capital expenditure in 2013 of \$49.2 million.

Gulfsands made significant progress during 2013 in reducing its operating cost base resulting in a substantially lower operating cash outflow of \$7.9 million (2012: \$14.2 million). This reduction reflects a concerted and continuing campaign to reduce general administrative expenses whilst maintaining the Group's operational capacity. The Group is now Operator in Morocco, Tunisia and Colombia, as well as in respect of its Syrian interests, allowing recovery of, and capitalisation of, elements of its operational overhead.

During the year, Gulfsands completed its acquisition of Cabre Maroc Limited. The results of Cabre Maroc Limited have been included from 16 January 2013, being the date on which the Group gained control of the entity.

The Group continues to value its investment in its Syrian interest at \$102 million. See note 4.2 of the Financial Statements.

Total cash and bank resources <sup>(2)</sup> totalled \$52.9 million at 31 December 2013 (31 December 2012: \$98.8 million) inclusive of \$33.8 million (31 December 2012: \$91.0 million) of cash and cash equivalents and \$19.1 million of restricted cash balances (31 December 2012: \$7.8 million).



## Operating performance

Average daily NRI production from Gulfsands' interests in the US Gulf of Mexico decreased in 2013 to 175 boepd (2012: 239 boepd). This was a result of: a temporary shut in at EI 32 while repairs to third party owned pipelines were undertaken, repairs at SS 248 "D" platform, intermittent equipment failures at the WC 310 platform and natural field production decline. Average prices realised in the period for oil were \$102.18 per barrel (2012: \$102.10 per barrel) and \$3.79 per mcf of gas (2012: \$3.20 per mcf of gas). This increase in both gas and oil price helped offset the decline in production resulting in a \$1.2 million decrease in revenues for the year to \$4.4 million (2012: \$5.6 million). Daily average NRI production potential could reach 220 boepd in 2014 with all wells back up and running.

US operations provided a gross profit for the year of \$0.2 million (2012: gross loss \$1.3 million). This improvement on 2012 was largely due to the fact that \$1.1 million costs in excess of provisions were incurred in 2012 on decommissioned assets. There have been no similar costs incurred this year.

Total administrative expenses decreased significantly to \$10.9 million (2012 \$18.4 million). This decrease results in part from the sustained focus on cost reduction across the Group which has meant that even though the Group has acquired new local operational offices in the year in Morocco, Tunisia, Lebanon and Colombia total costs have still decreased significantly. The cost reduction programme has 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 has been able to both recover overhead from partners and capitalise costs relating to operational offices.

Exploration write offs in the year totalled \$12.3 million (2012: \$7.1 million). These consisted of write offs of Tunisian and Moroccan expenditures. \$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 in December 2013. This was offset by a release of the decommissioning provision previously held for the Kerkouane assets of \$1.0 million as all historic and future obligations associated with the Kerkouane interest have been assumed by ADX. \$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 non-commercial and so were plugged and abandoned.

Due to a theft at the Qamishli warehouse in Syria in the year a loss of \$0.7 million of inventory has been recognised. Management have not provided for the potential insurance recovery as the claims process has not yet been concluded and Management are not virtually certain of its recovery. Management have decided to fully provide against the remaining Syrian inventory balance of \$2.2 million as at 31 December 2013 (2012: \$nil) as Gulfsands currently do not have full control over and access to the warehouse in which the inventory is held due to the imposition of EU sanctions.

The Group reported a loss before tax for the year of \$26.8 million (2012: \$27.0 million).

## Balance sheet

Gulfsands has 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 E&P contracts in Colombia. Capital expenditures on exploration and evaluation assets have, therefore, increased substantially in the year and totalled \$46.1 million (2012: \$5.0 million) on an accrued basis. This included \$19.3 million of fair value attributed to the Group's Moroccan interests at acquisition and \$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 Rharb Centre and Fes permits in Morocco. Drilling related costs of \$5.9 million were incurred in respect of the three well drilling programme in Rharb Centre which commenced in the fourth quarter of 2013. The 3D seismic acquisition for Rharb was completed in 2013 with processing continuing into 2014. Seismic related costs for Rharb in 2013 totalled \$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 \$5.5 million. As noted above, as a result of a change in the Group's business with the acquisition of new operatorships in Morocco, Tunisia and Colombia, \$5.3 million of costs associated with offices which are operational in nature have been capitalised and attributed to related exploration assets.

The Group's producing oil and gas assets were held at a net book value of \$12.4 million (2012: \$13.2 million). Movements consisted of \$2.5 million of capital expenditure, offset by \$1.3 million depletion charge and \$1.9 million reduction in decommissioning cost estimates, as discussed in more detail below. 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 have decreased to \$13.2 million (2012: \$17.7 million) principally as a result of decommissioning expenditures of \$2.2 million on US properties in 2013, a change in decommissioning estimates of \$1.9 million on the US properties still to be decommissioned and a release of the \$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 DPC remains unchanged at \$102.0 million: the Board having concluded that there have been no significant changes in the period to the key judgements and estimates that underpin that valuation, as further explained in note 4.2 of the Financial Statements.

Whilst trade and other receivables and trade and other payables have both reduced consequent to the review of Syrian balances, payables still increased due to the increased activity in Morocco with Moroccan payable balances of \$12.6 million as at 31 December 2013.

### Gulfsands has 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 E&P contracts in Colombia.

#### Cash flow

Operating cash outflow was substantially reduced in the year to \$7.9 million (2012: \$14.2 million) largely as a consequence of cost reductions.

Net cash used in investing activities increased to \$49.2 million (2012: \$19.1 million) mainly reflecting the \$17.1 million paid in respect of the Cabre Maroc acquisition in 2013, \$5.0 million of additional letters of credit posted with the Moroccan authorities in respect of interests acquired, \$3.2 million of letters of credit posted with the Colombian authorities in respect of interests awarded and \$17.3 million of exploration and evaluation expenditure.

The total decrease in cash and cash equivalents during the year was \$57.2 million (2012: \$33.3 million).

#### Business combination

On 16 January 2013 the Group acquired 100% of the share capital of Cabre Maroc Limited and its results have been included from this date. Provisional amounts for the identifiable assets acquired and liabilities assumed were recognised at the date of acquisition and published in the 2013 Interim report. In line with IFRS 3 Business Combinations, adjustments to these provisional amounts have been made within the twelve month 'measurement period' as new information was obtained about facts and circumstances that were in existence at the acquisition date. Further information on the fair values reported are provided in note 4.3 of the Financial Statements.

#### Financial position

The Group had total cash and bank resources of \$52.9 million (31 December 2012: \$98.8 million) inclusive of cash and cash equivalents at 31 December 2013 of \$33.8 million (31 December 2012: \$91.0 million) of which approximately \$27.3 million was held in Money Market Funds with EU financial institutions, and a further \$2.7 million was held in accounts with banks in the UK and US.

Restricted cash balances at 31 December 2013 totalled \$19.1 million (31 December 2012: \$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 will be released to the Group as work programmes are completed with \$2.5 million funded by, and to be repaid to, Caithness Petroleum, the former parent of Cabre Maroc Limited.

#### 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.

This Strategic Report was approved by the Board of Directors on 3 April 2014.



**Mahdi Sajjad**

Chief Executive Officer

3 April 2014

## Cautionary statement

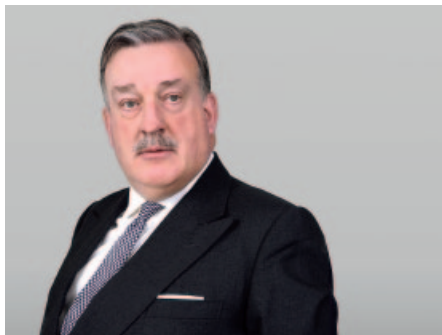
This Strategic Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The Directors, in preparing this Strategic Report, have been guided by the requirements of section 414c of the Companies Act 2006. The report has been prepared for the Group as a whole and therefore gives emphasis to those matters which are significant to the Group as a whole.

## Board of Directors

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**Andrew West**  
**Non-Executive Chairman**

Andrew West a British subject and resident, became Chairman of Gulfsands in July 2006. An investment banker specialising in mergers and acquisitions by career, Andrew has worked for Smith Barney (1981-85), Lehman Brothers (1985-90), Guinness Mahon (1990-97) and from 1997-99 was Managing Director of Strand Partners, a privately-owned investment banking firm specialising inter alia in energy and natural resources. For the past twelve years he has run his own consultancy practice. Andrew 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.



**Mahdi Sajjad**  
**Chief Executive Officer and President**

Educated in the UK, Mahdi Sajjad worked from 1981-88 with a consortium of British companies marketing products and engineering services in the Middle East and Africa. In 1988, he joined International Development Corporation in Dubai as a Senior Executive and later as Managing Director whilst also serving during the same period through to 1995 as a Director of Oil & Minerals Development Corporation. Mahdi has also established, as a founder shareholder and financier, a number of companies with interests in the Middle East in different industry sectors but with particular emphasis on the energy and mining sectors. Mahdi joined Gulfsands in 1998 and became President of Gulfsands in April 2005 and Chief Executive Officer in April 2013.



**Ken Judge**  
**Commercial Director**

Ken Judge is a corporate lawyer with extensive business management and corporate development experience having held numerous public company directorships in a number of sectors including technology, mining and oil and gas with companies established in Australia, the UK, US, Brazil, Argentina, Canada and the Philippines. Ken has also been engaged in the establishment or corporate development of oil and gas, mining and technology companies in the UK, Middle East, US, Australia, Europe, Canada, Latin America and South East Asia. Ken has undergraduate and post-graduate degrees in Commerce, Jurisprudence and Laws from the University of Western Australia and was awarded an Order of Australia Medal in 1984. Ken became a Director of Gulfsands in October 2006.



**Alan Cutler**  
**Director – Finance and Administration**

Alan Cutler is British citizen and a Chartered Accountant. He holds a Business Studies degree and was admitted to the ICAEW in 1985. He has subsequently gained over 28 years of experience in the upstream oil and gas business, including senior finance positions at LASMO plc in London, Pakistan and Libya, and also at Intrepid Energy, Sterling Energy and most recently as Finance Director at Setanta Energy, a West Africa-focused subsidiary of Aker ASA. Alan joined Gulfsands in June 2013 and became a Director in September 2013.



**Joe Darby****Senior Independent Non-Executive Director**

Joe Darby 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. Joe has held a number of senior roles, including Chief Executive with LASMO plc. Joe is a Non-Executive Director of Alkane Energy plc and Premier Oil, and has held non-executive roles at Nordaq Energy plc, British Nuclear Fuels plc, Mowlem plc and Centurion Energy Inc. Joe was Chairman of Mowlem plc (2005-06) and Faroe Petroleum plc (2003-07). Joe became a Non-Executive Director of Gulfsands in November 2012 and is the Group's senior independent Non-Executive Director.

**David Cowan****Non-Executive Director**

A partner with McMillan LLP David Cowan practices primarily in the area of corporate and securities law. He represents numerous publicly traded companies and has worked with the British Columbia provincial government. David is a past Chairman of both the Securities and Natural Resources subsections of the British Columbia branch of the Canadian Bar Association, and the National Natural Resources subsection of the Canadian Bar Association. David has served as a member of the Securities Policy Advisory Committee to the British Columbia Securities Commission and is a frequent lecturer for the Continuing Legal Education Society of British Columbia. David's Middle East region experience includes ventures in Syria, Iraq and Algeria. David holds an LLB from the University of British Columbia (1979). David became a Director of Gulfsands in February 2006.

**Michel Faure****Non-Executive Director**

Michel Faure joined the Royal Dutch Shell Group in 1977, an engagement continuing for over 30 years until his recent retirement. While with Shell, Michel held numerous senior positions in Europe, Africa and the Middle East, including engagements such as Country Chairman and Chief Executive of Shell's affiliates in Tunisia, Morocco and until 2011, Saudi Arabia. These responsibilities give him a broad perspective and depth of experience in managing petroleum operations and government relationships in diverse cultural environments. Michel has been a board member of a wide range of National Industry Associations and International Chambers of Businesses / Commerce. Michel has Masters degrees in Chemical Engineering (France) and Business Administration (US) and is now a consultant to industry on energy strategy and business development. Michel became a Director of Gulfsands in May 2013.

# Directors' Report

The Directors present their Annual Report together with the audited Financial Statements of Gulfsands Petroleum plc and its subsidiary undertakings (the "Group" or the "Company" or "Gulfsands") for the year ended 31 December 2013. The Corporate Governance Statement, Audit Committee Report and Directors' Remuneration Report set out on pages 38 to 44 also form part of this report.

At the date of this report there have been no significant events since the balance sheet date, however an indication of likely future developments in the business of the Group are included in the Strategic Report on pages 6 to 33.

## Dividends

The Directors do not recommend payment of a dividend in respect of 2013 (2012: nil).

## Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital

## Substantial shareholders

The Company has been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following voting interests in its ordinary shares as at 3 April 2014 of 3% shareholders and above:

Name	Number of shares	% of shares in issue
Waterford Finance & Investment Limited	23,184,739	19.01%
Abdul Rahman Mohdabdullah Kayed	11,500,000	9.43%
Schroder Investment Management	10,633,269	8.72%
Nordman Continental S.A. <sup>(1)</sup>	8,685,268	7.12%
Soyuzneftegas Capital Limited	8,369,298	6.86%
Al-Mashrek Global Invest Ltd <sup>(2)</sup>	7,000,000	5.74%
Seren Capital Management Limited <sup>(4)</sup>	6,692,619	5.49%
Hugh Sloan	5,000,000	4.10%
Codelouf Ltd	4,731,689	3.88%
Norges Bank Investment Management	4,190,115	3.43%
Cream Capital Limited <sup>(4)</sup>	2,000,000	1.64%
Shares held in Treasury by the Company <sup>(3)</sup>	4,103,355	3.36%

(1) Nordman Continental S.A. is owned by discretionary trusts of which Mr Sajjad's children are potential beneficiaries.

(2) Voting rights currently suspended.

(3) Not eligible for voting rights.

(4) Companies associated with Richard Griffith.

during the year are set out in note 6.1 to the Consolidated Financial Statements. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company except for those held as treasury shares by the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Associate and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 6.1 to the Consolidated Financial Statements.

No person has any special rights of control over the Company's share capital and all issued shares except treasury shares are fully paid.

## Directors and their interests

The Directors who served during the year and their interests in the Company's shares were as follows:

	At 31 December 2013		At 31 December 2012	
	Number of ordinary shares	Number of share options	Number of ordinary shares	Number of share options
A West	140,144	—	122,664	1,000,000
M Sajjad <sup>(1)</sup>	8,732,268	750,000	8,732,268	1,750,000
K Judge <sup>(2)</sup>	2,616,750	450,000	2,616,750	1,050,000
A Cutler <sup>(3)</sup>	—	—	—	—
R Malcolm <sup>(4)</sup>	—	—	150,000	2,100,000
D Cowan	491,750	—	491,750	—
J Darby <sup>(5)</sup>	—	—	—	—
M Faure <sup>(6)</sup>	—	—	—	—

(1) The interest for Mr Sajjad disclosed above includes shares held by Nordman Continental S.A., a company owned by a trust of which Mr Sajjad's children are potential beneficiaries.

(2) The interest for Mr Judge disclosed above includes shares held by Hamilton Capital Partners Limited, an associated company of Mr Judge.

(3) Appointed 13 September 2013.

(4) Resigned 10 April 2013.

(5) Appointed 26 November 2012.

(6) Appointed 15 May 2013.

## Directors' interests in transactions

Details of transactions with Directors for the year ended 31 December 2013 are set out in note 6.3 to the Consolidated Financial Statements.

The Company maintains directors' and officers' liability insurance cover, the level of which is reviewed on a regular basis.

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Financial Statements in accordance with applicable laws and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Company law requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- make an assessment of the Company's and the Group's ability to continue as a going concern.

The Directors confirm that the Financial Statements comply with the above requirements.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Financial Statements comply with the

Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and the dissemination of financial statements may differ from legislation in other jurisdictions.

## Statement of disclosure to the auditor

So far as the Directors, at the time of approval of their report, are aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with section 418 of the Companies Act 2006.

## Auditor

A resolution to reappoint Deloitte LLP as auditor and that the Directors be authorised to fix their remuneration will be put to shareholders at the Annual General Meeting.

By order of the Board



**Mahdi Sajjad**

Chief Executive Officer

3 April 2014

# Directors' Corporate Governance Report

for the year ended 31 December 2013

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Gulfsands Petroleum plc is committed to meeting high standards of corporate governance. The Directors are committed to maintaining throughout the Group the highest standards of business conduct and ethics and is committed to prompt and comprehensive corporate reporting and disclosure. Although Gulfsands is not required to comply with the UK Corporate Governance Code ("the Code"), it is the policy of the Board to manage the Company's affairs in accordance with the underlying principles in so far as it is appropriate given the circumstances of the Group. The Board has chosen to provide selected disclosures in this report that it believes are necessary and valuable to the readers.

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.

The Company has established subcommittees of the Board, comprising an Audit Committee and a Remuneration Committee, each of which has its own written terms of reference. A copy of these terms of reference is available on the Company's website. A detailed schedule of matters reserved for the Board is in place.

## The Gulfsands' Board

Gulfsands' business is international in scope and carries political, commercial and technical risks. Accordingly, particular attention is paid to the composition and balance of the Board to ensure that it has wide experience of the sector and regulatory environments in which the Group operates and has appropriate financial and risk management skills to lead the Group. In each Board appointment, the Board considers that objectivity and integrity are prerequisites for appointment, as are the skills, experience, ability and diversity that will assist the Board in its key functions and decision-making.

## The composition of the Board

The Board of Directors currently comprises the Non-Executive Chairman and Chief Executive Officer, two further Executive Directors and three Non-Executive Directors. The Company's Executive and Non-Executive Directors come from a variety of backgrounds and bring different ideas and perspectives to the table that ensure that the Board has the right experience to meet business needs. The Company places high importance on having an appropriate Board composition with the four Independent Non-Executive Directors ensuring that the strategies proposed by the Executive Directors are fully considered and appropriately challenged. A brief description of each of the Directors' background and experience can be found on pages 34 and 35.

## The role of the Board

The Board's role is to provide leadership of the Group within a framework of prudent and effective controls which enables risk to be actively monitored and managed. The Board sets the Group's strategic aims and objectives, ensures necessary financial and human resources are in place for the Group to meet these objectives, reviews management performance and sets the Company's values and standards. The Board's primary focus is the interest of our shareholders and it endeavours to focus on strategic issues which will create shareholder value both now and in the future. The Board ensures that its obligations to its shareholders and others are fully understood and met. All Directors act in what they consider to be the best interests of the Group, consistent with their statutory duties and obligations to shareholders.

In order to communicate corporate governance to employees across the Group the Board has established a Code of Business Conduct and Ethics available on the Company's website which is supported by detailed internal policies and procedures.

## Audit Committee

The Audit Committee Report on pages 42 to 44 includes a discussion of the role, structure and composition of the Audit Committee, which acts on behalf of the full Board.

## Remuneration Committee

The Directors' Remuneration Report on pages 39 to 41 includes a discussion of the role, structure and composition of the Remuneration Committee, which acts on behalf of the full Board.



# Directors' Remuneration Report

for the year ended 31 December 2013

As noted in the Corporate Governance Report, the Board delegates certain of its duties, responsibilities and powers to the Remuneration Committee, so that these can receive suitably focused attention. However, it acts on behalf of the full Board, and the matters reviewed and managed by the Committee remain the responsibility of the Board of Directors taken as a whole.

This report has been prepared having regard to sections 473(3) and 1290 of the Companies Act 2006. The report has been divided into separate sections for audited and unaudited information.

The report has been prepared by the Remuneration Committee and has been approved by the Board for submission to shareholders.

## Unaudited information

### Role of the Remuneration Committee

The activities of the Remuneration Committee are governed by terms of reference which cover its mandate, its composition, the independence and expertise of the members, frequency of meetings, and its responsibilities which include: determining and developing the remuneration policy and determining the remuneration packages of the Executive Board. The terms of reference were reviewed in March 2014 and are available on the Company's website.

The authority of the Remuneration Committee derives from the Delegation of Board Authority which was last reviewed in December 2013. The Remuneration Committee is the Committee of the Board responsible for ensuring that the Company's overall reward philosophy is consistent with achievement of the Company's strategic objectives and with the Company's values.

It is responsible for considering and making recommendations to the Board in respect of the remuneration policy for the Chairman, Chief Executive Officer ("CEO") and Executive Directors. The Committee also has oversight of the remuneration arrangements for the direct reports to the Executive Directors, the remuneration policy for which is set by the CEO.

Note the remuneration of Non-Executive Directors shall be a matter for the Chairman in consultation with the CEO (such fees to be determined by the Board itself (Non-Executives not participating in the decision)).

### Composition of the Remuneration Committee

The Chairman of the Remuneration Committee is David Cowan and the other participating members of the Committee are Andrew West, Michel Faure and Joe Darby. A brief description of their background and experience can be found on pages 34 and 35. The varied backgrounds of the Committee's members, and their collective skills, experience and knowledge of the Company, allows them to fulfil the Committee's remit and to oversee the Company's remuneration policy. The Remuneration Committee has the power to engage such external advisers as it deems necessary to discharge its responsibilities.

### Number of Remuneration Committee meetings and attendance

The Remuneration Committee meets at least twice a year and during 2013 all members of the Committee attended all meetings.

## Remuneration policy

The policy of the Group is to remunerate Directors and employees by a combination of salary, annual bonus and share-based awards. Bands are established for Directors and the various different seniority levels of employee which define the range of potential bonus and share-based awards relative to the Director's or employee's salary. The level of award within the applicable band is determined by a combination of the Group's performance and an assessment of the individual's performance during the previous year, together with an assessment of the relative importance of the employee to the Group. Formal assessments are made annually of each employee's performance and goals are set for the coming year.

The policy, which was reviewed in 2011 by Hewitt New Bridge Street, the Company's remuneration consultants, is aimed at providing Company Directors with variable remuneration, including on-target bonuses and share-based awards, of approximately 50% of their aggregate remuneration. A detailed benchmarking exercise was undertaken by the same consultants in 2013 to compare remuneration of both Directors and other staff with their equivalent peers in other independent oil and gas companies.

The annual bonus scheme provides bonuses up to 100% of base salary for Directors. In the past, awards were entirely discretionary based upon performance during the year. Bonus payments were made in 2013 in respect of performance in 2012 to two Directors as shown in the table on page 40. No bonus payments are to be made to Directors in respect of 2013 in view of the disappointing share price performance.

There are two share-based plans in operation, a Share Option Plan and a Restricted Share Plan. In the past, the Share Option Plan was reserved for Directors and senior management while other employees received awards under the Restricted Share Plan. However, there is no reason why both schemes cannot be used for all members of staff. All awards since 2009 had vesting periods of two years; the majority of awards prior to 2009 had no specified vesting period. In general, past awards have not specified performance conditions. No share awards were made to Directors in either 2012 or 2013 in view of the imposition of sanctions on Syria which has led to a sharp fall in the Company's share price. As a result of the latter, a considerable number of options which were awarded to Directors in prior years lapsed in 2013.

For 2014, it is proposed to offer annual bonuses to Directors up to 100% of base salary subject to achieving challenging operational and financial performance criteria. It is also intended to make share based awards to Directors which will provide an incentive to develop the business on a broader front to complement our business in Syria which we hope to return to in the future. With respect to both bonuses and share-based awards the remuneration policy allows the flexibility to make exceptional awards for exceptional performance at the discretion of the Remuneration Committee.

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.

# Directors' Remuneration Report continued

for the year ended 31 December 2013

## Audited information

### Remuneration of Directors

The remuneration of the Directors for the year ended 31 December 2013 was as follows:

	Annual remuneration (\$'000)							
	Salary and fees		Bonuses		Benefits in kind		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
A West <sup>(1)</sup>	<b>235</b>	238	—	—	—	—	<b>235</b>	238
M Sajjad	<b>636</b>	622	<b>152</b>	—	<b>24</b>	21	<b>812</b>	643
K Judge <sup>(2)</sup>	<b>504</b>	350	<b>320</b>	—	—	—	<b>824</b>	350
A Cutler <sup>(3)</sup>	<b>97</b>	—	—	—	<b>5</b>	—	<b>102</b>	—
R Malcolm <sup>(4)</sup>	<b>992</b>	555	—	—	<b>4</b>	2	<b>996</b>	557
A Rose <sup>(5)</sup>	—	254	—	—	—	1	—	255
D Cowan <sup>(1)</sup>	<b>78</b>	80	—	—	—	—	<b>78</b>	80
J Darby <sup>(1,6)</sup>	<b>94</b>	10	—	—	—	—	<b>94</b>	10
M Faure <sup>(1,7)</sup>	<b>37</b>	—	—	—	—	—	<b>37</b>	—
	<b>2,673</b>	2,109	<b>472</b>	—	<b>33</b>	24	<b>3,178</b>	2,133

(1) Non-Executive Director.

(2) Paid to Hamilton Capital Partners Limited, a company with which Mr Judge is associated. Consulting fees payable were increased in 2013 to reflect the increased time committed to the Company's international activities and the scope and complexity of those activities.

(3) Appointed 13 September 2013.

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

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

(6) Appointed 26 November 2012.

(7) Appointed 15 May 2013.

In addition to the remuneration shown the Group incurred share-based payment charges of \$180,950 (2012: \$975,000) in respect of the above named Directors relating to options granted in prior years.

## Share options

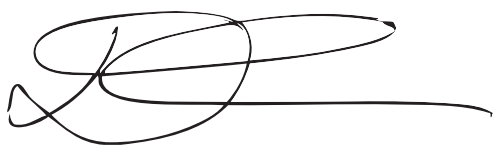
The interests of the Directors in options over the Company's shares are set out in the table below:

	Number of options			At 31 December 2013	Exercise price (£)	Date from which exercisable	Expiry date
	At 1 January 2013	Exercised	Lapsed / relinquished				
A West	1,000,000	—	(1,000,000)	—	1.88	13/05/2008	12/05/2013
M Sajjad <sup>(1)</sup>	1,000,000	—	(1,000,000)	—	1.88	13/05/2008	12/05/2013
	250,000	—	—	<b>250,000</b>	3.20	04/05/2011	03/05/2015
	250,000	—	—	<b>250,000</b>	3.20	04/05/2012	03/05/2015
	125,000	—	—	<b>125,000</b>	2.35	03/06/2012	02/06/2016
	125,000	—	—	<b>125,000</b>	2.35	03/06/2013	02/06/2016
K Judge	600,000	—	(600,000)	—	1.88	13/05/2008	12/05/2013
	150,000	—	—	<b>150,000</b>	3.20	04/05/2011	03/05/2015
	150,000	—	—	<b>150,000</b>	3.20	04/05/2012	03/05/2015
	75,000	—	—	<b>75,000</b>	2.35	03/06/2012	02/06/2016
	75,000	—	—	<b>75,000</b>	2.35	03/06/2013	02/06/2016
R Malcolm	600,000	—	(600,000)	—	1.86	15/10/2008	14/10/2013
	375,000	—	(375,000)	—	1.86	15/10/2009	14/10/2013
	375,000	—	(375,000)	—	1.86	15/10/2010	14/10/2013
	250,000	—	(250,000)	—	3.20	04/05/2011	03/05/2015
	250,000	—	(250,000)	—	3.20	04/05/2012	03/05/2015
	125,000	—	(125,000)	—	2.35	03/06/2012	02/06/2016
	125,000	—	(125,000)	—	2.35	03/06/2013	02/06/2016
D Cowan	400,000	—	(400,000)	—	1.88	13/05/2008	12/05/2013

(1) Share option details shown above include options granted to Nordman Continental S.A., a company owned by discretionary trusts of which Mr Sajjad's children are potential beneficiaries.

All other Directors held no share options at 31 December 2012 or 2013.

This report was approved by the Board of Directors on 3 April 2014.



**David Cowan**

Chairman of the Remuneration Committee

3 April 2014

# Audit Committee Report

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The Committee, which reports to and advises the Board, comprises all of the Non-Executive Directors of the Company. It is the Board's view that the membership meets the requirement for recent and relevant financial experience.

During 2013, three meetings were held which were also attended by the Director – Finance and Administration and by other Directors and members of staff who had input relevant to the meeting agendas.

As far as reporting was concerned, attention focused mainly upon the value of the Company's assets in Syria, the accounting treatment for the acquisition of Cabre Maroc, the carrying values for tangible and intangible assets, and the 'going concern' basis for reporting. In addition, the Committee reviewed the Company's internal control and risk management processes, and the key risks to which the Company is exposed. The terms of reference of the Committee were reviewed and updated, and the relationship with, and performance of, the external auditor was evaluated.

After consultation with the external auditor following the full year audit, the Committee advised the Board that in its view the Annual Report and Financial Statements for 2013 are a true and fair reflection of the Company's and the Group's performance and position at year end, and provide the information necessary for shareholders to understand the Company and make their own assessments.

As noted in the Corporate Governance Report, the Board delegates certain of its duties, responsibilities and powers to the Audit Committee, so that these can receive suitably focused attention. However, it acts on behalf of the full Board, and the matters reviewed and managed by the Committee remain the responsibility of the Board of Directors taken as a whole.

## Composition of the Audit Committee

The Chairman of the Audit Committee is Joe Darby and the other participating members of the Committee are Andrew West, Michel Faure and David Cowan. A brief description of their background and experience can be found on pages 34 and 35. The varied backgrounds of the Committee's members, and their collective skills, experience and knowledge of the Company, allows them to fulfil the Committee's remit and to oversee the Company's auditor.

The Audit Committee invites Executive Directors, and other relevant staff as it wishes, to attend Audit Committee meetings although none attend as of right. For the annual results the independent external auditor is invited to attend the meeting and discuss the conclusions arising from their audit and their assessment of the Group's internal controls.

The Audit Committee has the power to engage such external advisers as it deems necessary to discharge its responsibilities.

## Role of the Audit Committee

The activities of the Audit Committee are governed by terms of reference which cover its mandate, its composition, the independence and expertise of the members, frequency of meetings, and its responsibilities which include oversight of the external audit function, risk management, internal controls, financial reporting, and the provision by the auditor of non-audit services. The terms of reference were last updated in March 2014 and can be found on the Company's website.

The authority of the Audit Committee derives from the Delegation of Board Authority which was last reviewed in December 2013. As further set out in the terms of reference, the primary duties of the Audit Committee are:

- to review and consider the integrity of the Company's Financial Statements and regulatory announcements;
- to keep under review the effectiveness of the Company's internal controls;
- to provide the Board with an independent assessment of the Group's accounting affairs and financial position;
- to regularly review the Company's risk management processes and the risks to which the Company is exposed;
- to oversee the relationship with the external auditor;
- to review the Company's whistle-blowing processes; and
- to report to the Board on how the Audit Committee has discharged its responsibilities.



### Activities of the Audit Committee during the year

The work of the Audit Committee in the financial year 2013 principally fell under three main areas and is summarised below:

Accounting and financial reporting	Internal controls and risk	External auditors
<ul style="list-style-type: none"> <li>Reviewed the interim year and annual Financial Statements and the significant financial reporting judgements.</li> <li>Considered the liquidity risk and basis for preparing the Company and the Group interim and annual accounts on a going concern basis and reviewed the related disclosures in the Annual Report and Accounts.</li> <li>Reviewed an accounting matters update, including consideration of relevant accounting standards and underlying assumptions.</li> <li>Reviewed disclosures in the Annual Report and Accounts in relation to internal controls, risk management, principal risks and uncertainties and the work of the Audit Committee.</li> <li>Approved the Group accounting policies.</li> </ul>	<ul style="list-style-type: none"> <li>Considered reports from the external auditors on their assessment of the control environment.</li> <li>Considered reports addressing the effectiveness of the Group's internal control environment.</li> <li>Reviewed periodic management accounts and cash and going concern forecasts prepared by Management.</li> <li>Considered and approved the structure, scope of cover and renewal terms of the Group's insurance programme.</li> <li>Reviewed reports generated from the Group's risk management process and considered the key risks facing the Group and strategies for mitigation.</li> <li>Reviewed the Board Delegation of Authorities document.</li> </ul>	<ul style="list-style-type: none"> <li>Considered and approved the audit approach and scope of the audit work to be undertaken by the external auditor and the fees for the same.</li> <li>Reviewed the auditor's reports on audit findings.</li> <li>Considered and approved letters of representation issued to the external auditor.</li> <li>Considered the independence of the auditor and their effectiveness taking into account: <ul style="list-style-type: none"> <li>non-audit work undertaken by the external auditor and compliance with the policy; and</li> <li>the Committee's own assessment.</li> </ul> </li> </ul>

### Significant issues considered by the Audit Committee

#### Fair value of investment in Dijla Petroleum company

(see note 4.2 to the Financial Statements)

Following loss of joint control over DPC in 2011, the Company has valued its investment in that entity at fair value. This value represents a significant element of the Group's net assets and is subject to significant uncertainty. The Committee reviewed the valuation model, the assumptions underpinning the model including the risk assumptions and the resulting valuation in the context of previous valuations and current circumstances. The Committee concluded that, in all the circumstances, it remained appropriate to retain a valuation of \$102 million for the investment whilst EU Sanctions are ongoing. The Committee has also concluded that disclosures within this Report are fair and appropriate.

#### Accounting for and disclosure of the acquisition of Cabre Maroc Limited

(see note 4.3 to the Financial Statements)

On 16 January 2013, the Group completed the acquisition of Cabre Maroc Limited which, with cash consideration of \$17.3 million, is a material acquisition for the Group. Under IFRS rules the accounting for the acquisition is required to be finalised in the 2013 Annual Report. Key areas of consideration were the fair values of current assets and liabilities acquired, the requirement for well decommissioning provisions, deferred taxation rules and the attribution of the fair values of oil and gas interests between exploration permits and prospects. Reviewing the conclusions of Management, the Committee has concluded that the acquisition accounting process has been performed thoroughly and the conclusions drawn regarding the key valuation areas are appropriate based upon available information and the reasonable application of that information. The Committee has also concluded that disclosures within this Report are fair and appropriate.

## Audit Committee Report continued

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### Significant issues considered by the Audit Committee

#### The carrying value of tangible and intangible oil and gas assets

(see notes 2.1 and 2.3 to the Financial Statements)

At 31 December 2013, the Group is carrying its tangible oil and gas assets in the Balance Sheet at \$12.4 million and its intangible exploration assets at \$37.1 million. Both figures are significant in the context of the Group's net assets. The Committee reviewed the reserves audit reports prepared by NSAI on the Gulf of Mexico assets and the Senergy audit report on the remainder of the Group's oil and gas interests, and Management's summaries and analysis of its interests and concluded that the carrying value of its oil and gas interests are covered by the potential value of the resources in the permits. The Committee has therefore concluded that the carrying value of its oil and gas assets, which are stated at cost less depletion and impairment, is fair and reasonable.

#### The going concern basis of reporting

(see note 1.3a to the Financial Statements)

The Committee has regularly reviewed financial forecasts for the Group for the forward three-year period. At 31 December 2013, the Group was holding \$33.8 million of cash and cash equivalents and \$19.1 million of restricted cash. The Committee reviewed the level of these resources in the context of its work and expenditure plans over the foreseeable future. Whilst the Committee, as required by FRC guidance, concluded that there is material uncertainty as to the Group's access to the financial and commercial resources necessary to fund its additional work programmes, the Committee concluded that the going concern basis is appropriate in reporting and in the preparation of the Financial Statements.

### 2013 Annual Report and Financial Statements

The Audit Committee reviewed the 2013 Annual Report and Financial Statements with Management and the external auditor to enable it to conclude that the Financial Statements as presented are true and fair and include all disclosures required by IFRS and applicable legislation.

#### Internal audit

The Audit Committee have reviewed whether the Group has a requirement for an internal audit function and has concluded at this time that it is not appropriate. Ad hoc internal audit reviews may be commissioned from third parties from time to time and the requirement for a dedicated internal audit function will be kept under consideration.

# Consolidated Financial Statements and Notes to the Consolidated Financial Statements

## Consolidated Primary Statements

This section contains the Group's primary Financial Statements and the independent auditor's report.

p46	Independent Auditor's Report	p49	Consolidated Balance Sheet
p48	Consolidated Income Statement	p50	Consolidated Statement of Changes in Equity
		P51	Consolidated Cash Flow Statement

Primary Statements

## 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.

1.1	Authorisation of Financial Statements and statement of compliance with IFRSs	1.3	Significant accounting policies
1.2	Adoption of International Financial Reporting Standards	1.4	Critical accounting judgements and key sources of estimation uncertainty

Basis of Preparation

## 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.

2.1	Property, plant and equipment	2.4	Intangible assets other than oil and gas assets – computer software
2.2	Property, plant and equipment other than oil and gas assets	2.5	Decommissioning
2.3	Intangible assets		

Oil and Gas Assets

## Section 3 Working Capital

This section focuses on the working capital position of the Group supporting our business.

3.1	Trade and other receivables
3.2	Cash and cash equivalents
3.3	Trade and other payables
3.4	Inventory

Working Capital

## Section 4 Other Assets and Liabilities

This section details the Group's investments.

4.1	Investments
4.2	Available-for-sale financial assets
4.3	Business combinations

Other Assets / Liabilities

## 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, taxation and earnings per share.

5.1	Total revenue and segmental analysis	5.5	Staff costs
5.2	Operating loss	5.6	Directors' emoluments
5.3	Share-based payments	5.7	Net interest receivable
5.4	Auditor's remuneration	5.8	Taxation
		5.9	Loss per share

Results for the Year

## 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	6.4	Obligations under operating leases
6.2	Financial instruments, derivatives and capital management	6.5	Commitments
6.3	Related party transactions and key management		

Capital Structure

# 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
<b>Revenue</b>	5.1	<b>4,367</b>	5,622
<b>Cost of sales</b>			
Depletion	2.1	<b>(1,267)</b>	(1,430)
Impairment	2.1	<b>(58)</b>	(568)
Other cost of sales		<b>(2,860)</b>	(4,944)
Total cost of sales		<b>(4,185)</b>	(6,942)
<b>Gross profit / (loss)</b>		<b>182</b>	(1,320)
General administrative expenses		<b>(10,408)</b>	(16,624)
Share-based payments	5.3	<b>(516)</b>	(1,751)
Total administrative expenses		<b>(10,924)</b>	(18,375)
Exploration costs written off	2.3	<b>(12,301)</b>	(7,082)
Syrian inventory provision / write off	3.4	<b>(2,905)</b>	—
Other Syrian adjustments		<b>(383)</b>	(34)
<b>Operating loss</b>	5.2	<b>(26,331)</b>	(26,811)
Foreign exchange gains / (losses)		<b>89</b>	(26)
Bank fees and charges		<b>(104)</b>	(92)
Discount expense on decommissioning provision	2.5	<b>(500)</b>	(476)
Net interest income	5.7	<b>89</b>	375
<b>Loss before taxation from continuing activities</b>		<b>(26,757)</b>	(27,030)
Taxation	5.8	<b>—</b>	—
<b>Loss for the year – attributable to owners of the Parent Company</b>		<b>(26,757)</b>	(27,030)
<b>Loss per share from continuing operations (cents):</b>			
Basic	5.9	<b>(22.70)</b>	(22.94)
Diluted	5.9	<b>(22.70)</b>	(22.94)

There are no items of comprehensive income outside of the Income Statement.

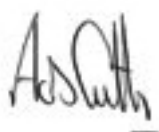
The results relate entirely to continuing operations.

# Consolidated Balance Sheet

as at 31 December 2013

	Notes	2013 \$'000	2012 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
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
		<b>171,589</b>	129,916
<b>Current assets</b>			
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
		<b>39,613</b>	102,447
<b>Total assets</b>		<b>211,202</b>	232,363
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	3.3	15,245	11,779
Provision for decommissioning	2.5	2,573	2,352
		<b>17,818</b>	14,131
<b>Non-current liabilities</b>			
Trade and other payables	3.3	6,155	—
Provision for decommissioning	2.5	10,578	15,309
		<b>16,733</b>	15,309
<b>Total liabilities</b>		<b>34,551</b>	29,440
<b>Net assets</b>		<b>176,651</b>	202,923
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders</b>			
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
<b>Total equity</b>		<b>176,651</b>	202,923

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

	Share capital \$'000	Share premium \$'000	Merger reserve \$'000	Treasury shares \$'000	Retained profit \$'000	Total equity \$'000
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)
<b>At 31 December 2013</b>	<b>13,131</b>	<b>105,926</b>	<b>11,709</b>	<b>(11,502)</b>	<b>57,387</b>	<b>176,651</b>

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
<b>Cash flows from operating activities</b>			
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)
<b>Net cash used in operating activities</b>		<b>(7,887)</b>	<b>(14,178)</b>
<b>Investing activities</b>			
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)
<b>Net cash used in investing activities</b>		<b>(49,240)</b>	<b>(19,095)</b>
<b>Financing activities</b>			
Cash proceeds from issue of shares		—	145
Purchase of own shares		—	(119)
Other payments in connection with options exercised		(31)	(11)
<b>Net cash (used in) / provided by financing activities</b>		<b>(31)</b>	<b>15</b>
<b>Decrease in cash and cash equivalents</b>		<b>(57,158)</b>	<b>(33,258)</b>
Cash and cash equivalents at beginning of year		90,982	124,240
Cash and cash equivalents at end of year	3.2	33,824	90,982

# 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:

Standard	Key requirements	Effective date as adopted by the EU
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:

Standard	Key requirements	Effective date as adopted by the EU
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.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2013

## Section 1 – Basis of Preparation continued

### 1.3 Significant accounting policies continued

#### 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.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2013

## Section 2 – Oil and Gas Assets continued

### 2.1 Property, plant and equipment 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.

	Oil and gas properties \$'000	Other fixed assets \$'000	Total \$'000
<b>Cost:</b>			
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)
<b>At 31 December 2013</b>	<b>35,407</b>	<b>2,614</b>	<b>38,021</b>
<b>Accumulated depreciation and depletion:</b>			
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)
<b>At 31 December 2013</b>	<b>(18,618)</b>	<b>(2,170)</b>	<b>(20,788)</b>
<b>Accumulated impairment:</b>			
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)
<b>At 31 December 2013</b>	<b>(4,340)</b>	<b>—</b>	<b>(4,340)</b>
<b>Net book value at 31 December 2013</b>	<b>12,449</b>	<b>444</b>	<b>12,893</b>
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% (2012: 6%), 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.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2013

## Section 2 – Oil and Gas Assets continued

### 2.3 Intangible assets continued

	Exploration and evaluation assets				Computer software \$'000	Total \$'000
	Morocco \$'000	Colombia \$'000	Syria \$'000	Tunisia \$'000		
<b>Cost:</b>						
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)
<b>At 31 December 2013</b>	<b>31,636</b>	<b>243</b>	<b>10,505</b>	<b>5,195</b>	<b>2,483</b>	<b>50,062</b>
<b>Accumulated amortisation:</b>						
At 1 January 2012	—	—	—	—	(547)	(547)
Charge for 2012	—	—	—	—	(579)	(579)
At 31 December 2012	—	—	—	—	(1,126)	(1,126)
Charge for 2013	—	—	—	—	(398)	(398)
<b>At 31 December 2013</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1,524)</b>	<b>(1,524)</b>
<b>Accumulated impairment:</b>						
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)
<b>At 31 December 2013</b>	<b>—</b>	<b>—</b>	<b>(10,505)</b>	<b>—</b>	<b>(475)</b>	<b>(10,980)</b>
<b>Net book value at 31 December 2013</b>	<b>31,636</b>	<b>243</b>	<b>—</b>	<b>5,195</b>	<b>484</b>	<b>37,558</b>
Net book value at 31 December 2012	—	—	—	4,796	1,411	6,207

#### Morocco

In 2013 the Group acquired interests in the Rharb Centre, Rharb 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% (2012: 3%) 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 annum would increase the total value of the decommissioning provision by \$0.9 million. An increase in the discount rate to 4% 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 annum has been used, based on an historical average. An increase in this estimate to 4% 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.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2013

## Section 2 – Oil and Gas Assets continued

### 2.5 Decommissioning continued

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
<b>At 1 January 2013</b>	<b>17,661</b>
Changes in estimates	(1,859)
Decommissioning expenses	(2,151)
Discount expense	500
Disposal	(1,000)
<b>At 31 December 2013</b>	<b>13,151</b>
<b>Current portion</b>	<b>2,573</b>
<b>Non-current portion</b>	<b>10,578</b>

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
	<b>3,542</b>	<b>8,560</b>

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	33,824	90,982

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 Rharb and Fes permits in Morocco.
- An additional \$2.5 million (2012: \$nil) held in escrow to guarantee minimum work obligations on the Rharb 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
<b>Current liabilities</b>		
Trade payables	3,059	1,026
Accruals and other payables	12,186	10,753
	15,245	11,779
<b>Non-current liabilities</b>		
Trade payables	1,887	—
Accruals and other payables	4,268	—
	6,155	—

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)	—
	2,247	2,905

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.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2013

## 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:

Name of Company	Proportion of voting shares at 31 December 2013	Nature of business	Country of incorporation
<b>Directly held by the Company:</b>			
Gulfsands Petroleum Ltd	100%	Holding company	Cayman Islands
<b>Indirectly held by the Company:</b>			
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 Dija 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% 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 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%. 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% 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.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2013

## Section 4 – Other Assets and Liabilities continued

### 4.3 Business combinations continued

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:

	\$'000
Financial assets	2,654
Intangible exploration and evaluation assets	19,280
Financial liabilities	(4,661)
<b>Total identifiable assets</b>	<b>17,273</b>
<b>Total consideration</b>	<b>17,273</b>
Satisfied by:	
Cash	17,273
<b>Total consideration transferred</b>	<b>17,273</b>
<b>Net cash outflow arising on acquisition:</b>	
Cash consideration	17,273
Less: cash consideration paid in 2012	(100)
Less: cash and cash equivalents acquired	(70)
	<b>17,103</b>

The fair value of intangibles exploration and evaluation assets acquired consists of the fair value attributed to the Rharrb Centre, Rharrb 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

	Syria \$'000	Morocco \$'000	Tunisia \$'000	US \$'000	Colombia \$'000	Other \$'000	Total \$'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

	Syria \$'000	Morocco \$'000	Tunisia \$'000	US \$'000	Colombia \$'000	Other \$'000	Total \$'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	—	—	—	—	—	—	—

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2013

## Section 5 – Results for the Year continued

### 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:

	2013 \$'000	2012 \$'000
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:

	2013 \$'000	2012 \$'000
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:

	2013	2012
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.

	2013 \$'000	2012 \$'000
Short-term bank deposit interest	89	375

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2013

## Section 5 – Results for the Year continued

### 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	—	—

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
<b>Total loss before tax</b>	<b>(26,757)</b>	(27,030)
Tax calculated at domestic rate of 23.25% (2012: 24.5%)	<b>(6,221)</b>	(6,622)
Effects of:		
Expenses not deductible for taxation purposes	<b>1</b>	2
Share-based payments	<b>120</b>	398
Tax losses for which no deferred taxation asset was recognised	<b>1,228</b>	799
Expiry of tax losses	<b>1,286</b>	1,497
Effect of prior period adjustment	<b>415</b>	1,581
Impact of local tax rates	<b>3,591</b>	2,332
Other tax adjustments	<b>(420)</b>	13
	<b>—</b>	—

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:

	2013 \$'000	2012 \$'000
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	—	—

\$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

	2013 Number	2012 Number
Authorised:		
Ordinary shares of 5.714 pence each	175,000,000	175,000,000
	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
<b>At 31 December 2013</b>	<b>121,989,500</b>	<b>1,636,000</b>	<b>363,649</b>	<b>2.72</b>

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.

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2013

## Section 6 – Capital Structure and Other Disclosures continued

### 6.1 Share capital continued

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:

	Change in US Dollar rate	Effect on profit before tax \$'000
<b>2013</b>	<b>(+ or –) 5%</b>	<b>130</b>
2012	(+ or –) 5%	125

### Credit risk

During the year ended 31 December 2013, 82% of the Group's oil and gas revenues, which were all derived from the US segment, were received from Sunoco Inc and 16% from Southwest Energy LP. During the year end 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.

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:

	Financial assets on which interest is earned \$'000	Financial assets on which no interest is earned \$'000	Total \$'000
<b>2013</b>			
US Dollar	<b>50,310</b>	<b>102,573</b>	<b>152,883</b>
Pound Sterling	<b>75</b>	<b>223</b>	<b>298</b>
Euro	<b>730</b>	<b>14</b>	<b>744</b>
Syrian Pounds	<b>148</b>	<b>7</b>	<b>155</b>
Moroccan Dirham	<b>1,621</b>	<b>147</b>	<b>1,768</b>
Other currencies	<b>79</b>	<b>101</b>	<b>180</b>
	<b>52,963</b>	<b>103,065</b>	<b>156,028</b>
<b>2012</b>			
US Dollar	95,231	112,709	207,940
Pound Sterling	—	466	466
Euro	84	793	877
Syrian Pounds	—	55	55
Moroccan Dirham	—	—	—
Other currencies	—	—	—
	95,315	114,023	209,338

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2013

## Section 6 – Capital Structure and Other Disclosures continued

### 6.2 Financial instruments, derivatives and capital management continued

#### Financial assets continued

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% and 0.5%.

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:

	Financial liabilities on which no interest is charged \$'000
<b>2013</b>	
US Dollar	<b>15,923</b>
Pound Sterling	<b>928</b>
Euro	<b>446</b>
Syrian Pounds	<b>292</b>
Moroccan Dirham	<b>3,138</b>
Other currencies	<b>719</b>
	<b>21,446</b>
<b>2012</b>	
US Dollar	10,298
Pound Sterling	629
Euro	230
Syrian Pounds	550
Moroccan Dirham	—
Other currencies	72
	11,779

### 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
	<b>3,359</b>	<b>3,108</b>

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	
	Land and buildings \$'000	Other \$'000	Land and buildings \$'000	Other \$'000
Amounts payable on leases:				
Within one year	712	8	651	7
In two to five years	1,266	10	1,950	13
	<b>1,978</b>	<b>18</b>	<b>2,601</b>	<b>20</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2013

## Section 6 – Capital Structure and Other Disclosures continued

### 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 km<sup>2</sup> 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 Financial Statements and Notes to the Company Financial Statements

## Parent Company Primary Statements

This section contains the Company's primary Financial Statements.

- p76 Company Balance Sheet
- p77 Company Statement of Changes in Equity
- p78 Company Cash Flow Statement

Primary Statements

## 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

Basis of Preparation

## 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

PPE / Intangible Assets

## Section 3 Investments in and Loans to Subsidiaries

This section focuses on the Company's investments and loans.

- 3.1 Investments

Investments and Loans

## 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

Working Capital

## 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

Results for the Year

## 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

Capital Structure

# Company Balance Sheet

as at 31 December 2013

	Notes	2013 \$'000	2012 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
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
		<b>85,101</b>	33,544
<b>Current assets</b>			
Trade and other receivables	4.1	1,398	585
Cash and cash equivalents	4.2	29,168	89,440
		<b>30,566</b>	90,025
<b>Total assets</b>		<b>115,667</b>	123,569
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	4.3	913	1,183
<b>Non-current liabilities</b>			
Amounts due to subsidiaries	4.3	2,690	2,378
<b>Total liabilities</b>		<b>3,603</b>	3,561
<b>Net assets</b>		<b>112,064</b>	120,008
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders</b>			
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
<b>Total equity</b>		<b>112,064</b>	120,008

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

	Share capital \$'000	Share premium \$'000	Treasury shares \$'000	Retained profit / (loss) \$'000	Total equity \$'000
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)
<b>At 31 December 2013</b>	<b>13,131</b>	<b>105,926</b>	<b>(11,502)</b>	<b>4,509</b>	<b>112,064</b>

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
<b>Cash flows from operating activities</b>			
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
<b>Net cash used in operations</b>		<b>(8,406)</b>	<b>(5,496)</b>
Interest received		78	373
Bank fees		(26)	(9)
Foreign exchange (losses) / gains		(81)	280
<b>Net cash used in operating activities</b>		<b>(8,435)</b>	<b>(4,851)</b>
<b>Investing activities</b>			
Capital expenditure		(62)	(1,334)
Change in restricted cash balances	4.2	(8,181)	(4,000)
Funds transferred to subsidiaries		(43,563)	(15,209)
<b>Net cash used in investing activities</b>		<b>(51,806)</b>	<b>(20,543)</b>
<b>Financing activities</b>			
Cash proceeds from issue of shares		—	145
Purchase of own shares		—	(119)
Other payments in connection with options issued		(31)	(11)
<b>Net cash (used in) / provided by financing activities</b>		<b>(31)</b>	<b>15</b>
<b>Decrease in cash and cash equivalents</b>		<b>(60,272)</b>	<b>(25,379)</b>
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.



# Notes to the Company Financial Statements continued

for the year ended 31 December 2013

## 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.

	Office equipment, fixtures and fittings \$'000
<b>Cost:</b>	
At 1 January 2012	332
Additions	566
At 1 January 2013	898
Additions	16
<b>At 31 December 2013</b>	<b>914</b>
<b>Accumulated depreciation:</b>	
At 1 January 2012	(302)
Charge for 2012	(123)
At 1 January 2013	(425)
Charge for 2013	(257)
<b>At 31 December 2013</b>	<b>(682)</b>
<b>Net book value at 31 December 2013</b>	<b>232</b>
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.

	Computer software \$'000
<b>Cost:</b>	
At 1 January 2012	1,596
Additions	768
At 1 January 2013	2,364
Additions	45
Transfer to Group companies	(1,177)
<b>At 31 December 2013</b>	<b>1,232</b>
<b>Accumulated amortisation:</b>	
At 1 January 2012	(159)
Amortisation charge for 2012	(485)
At 1 January 2013	(644)
Amortisation charge for 2013	(305)
<b>At 31 December 2013</b>	<b>(949)</b>
<b>Net book value at 31 December 2013</b>	<b>283</b>
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 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% 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
<b>Current</b>		
Trade receivables	223	—
Other receivables	650	100
Prepayments and accrued income	525	485
	<b>1,398</b>	585
<b>Non-current</b>		
Amounts due from subsidiaries	<b>49,158</b>	5,755

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	<b>29,168</b>	89,440
Restricted cash balances	<b>13,181</b>	5,000
Total cash and bank resources	<b>42,349</b>	94,440
Included in long-term financial assets	<b>13,181</b>	5,000
Total cash and cash equivalents	<b>29,168</b>	89,440

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 Rharb 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.

# Notes to the Company Financial Statements continued

for the year ended 31 December 2013

## Section 4 – Working Capital continued

### 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
<b>Current</b>		
Trade payables	52	327
Accruals and other payables	861	856
	913	1,183
<b>Non-current</b>		
Amounts due to subsidiaries	2,690	2,378

## 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.

# Notes to the Company Financial Statements continued

for the year ended 31 December 2013

## Section 6 – Capital Structure and Other Disclosures continued

### 6.2 Financial instruments, derivatives and capital management continued

A summary of the financial assets and financial liabilities of the Company is set out below:

	Financial assets on which interest is earned \$'000	Financial assets on which no interest is earned \$'000	Total \$'000
<b>2013</b>			
US Dollar	42,045	49,247	91,292
Pound Sterling	214	271	485
Euro	84	—	84
Other currencies	7	53	60
	<b>42,350</b>	<b>49,571</b>	<b>91,921</b>
<b>2012</b>			
US Dollar	92,394	7,586	99,980
Pound Sterling	—	465	465
Euro	—	335	335
Other currencies	—	—	—
	<b>92,394</b>	<b>8,386</b>	<b>100,780</b>
		Financial liabilities on which no interest is charged \$'000	
<b>2013</b>			
US Dollar			2,927
Pound Sterling			529
Other currencies			22
			<b>3,478</b>
<b>2012</b>			
US Dollar			2,683
Pound Sterling			834
Other currencies			44
			<b>3,561</b>

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

Name of related party	Nature of relationship	Commercial terms	2013 \$'000	2012 \$'000
Gulfsands Petroleum USA, Inc.	Subsidiary	Interest rate 8.5% per annum	<b>55,632</b>	49,737
		Provision	<b>(40,692)</b>	(36,447)
		Non-interest bearing	<b>(47)</b>	(11)
Gulfsands Petroleum Tunisia Ltd	Subsidiary	Non-interest bearing	<b>27,882</b>	24,652
		Provision	<b>(19,856)</b>	(19,967)
Gulfsands Petroleum Levant Ltd	Subsidiary	Non-interest bearing	<b>19,268</b>	16,305
		Provision	<b>(16,038)</b>	(16,038)
Gulfsands Petroleum Ltd	Subsidiary	Non-interest bearing	<b>(2,378)</b>	(2,378)
Gulfsands Petroleum Sud America Ltd	Subsidiary	Non-interest bearing	<b>(265)</b>	—
Gulfsands Petroleum (MENA) Ltd	Subsidiary	Non interest-bearing	<b>362</b>	—
Gulfsands Petroleum Morocco Ltd	Subsidiary	Non-interest bearing	<b>18,505</b>	—
Gulfsands Petroleum Holdings Ltd	Subsidiary	Non-interest bearing	<b>18,952</b>	51
Gulfsands Petroleum Iraq Ltd	Subsidiary	Non-interest bearing	<b>5,781</b>	5,698
		Provision	<b>(5,698)</b>	(5,698)

##### Services recharged to related parties

Name of related party	2013		2012	
	Timewriting \$'000	Indirect overhead \$'000	Timewriting \$'000	Indirect overhead \$'000
Gulfsands Petroleum USA, Inc.	<b>16</b>	—	—	—
Gulfsands Petroleum Levant Ltd	<b>354</b>	—	—	—
Gulfsands Petroleum Morocco Ltd	<b>1,668</b>	<b>367</b>	—	—
Gulfsands Petroleum Sud America Ltd	<b>46</b>	<b>13</b>	—	—
Gulfsands Petroleum Tunisia Ltd	<b>1,074</b>	<b>56</b>	—	—

##### Services recharged from related parties

Name of related party	2013		2012	
	Timewriting \$'000	Management fee \$'000	Timewriting \$'000	Management fee \$'000
Gulfsands Petroleum USA, Inc.	<b>90</b>	<b>9</b>	471	47

## Five Year Summary

	unit	2013	2012	2011	2010	2009
<b>Consolidated production</b>						
Production – working interest	mmboe	<b>0.1</b>	0.1	3.1	3.8	2.7
Production – entitlement	mmboe	<b>0.1</b>	0.1	1.3	1.7	1.6

### Summary Consolidated Income Statement

Revenue	\$MM	<b>4.4</b>	5.6	124.9	115.6	84.4
Operating (loss) / profit	\$MM	<b>(26.3)</b>	(26.9)	56.7	45.5	29.0
Net (loss) / profit to shareholders	\$MM	<b>(26.8)</b>	(27.0)	55.1	44.7	28.3
Basic (loss) / earnings per share	US cents	<b>(22.70)</b>	(22.94)	45.51	36.88	23.68

### Summary Consolidated Cash Flow Statement

Net cash (used in) / from operating activities	\$MM	<b>(7.9)</b>	(14.2)	94.3	70.2	43.5
Net cash used in investing activities	\$MM	<b>(49.2)</b>	(19.1)	(38.3)	(48.0)	(26.3)
Net cash from financing activities	\$MM	<b>0.0</b>	0.0	(12.4)	0.8	3.6
Net (decrease) / increase in cash and cash equivalents	\$MM	<b>(57.2)</b>	(33.3)	43.6	23.0	20.8

### Summary Consolidated Balance Sheet

Total assets	\$MM	<b>211.2</b>	232.4	261.1	242.9	179.3
Shareholders' equity	\$MM	<b>176.7</b>	202.9	228.2	183.0	134.2
Cash and cash equivalents less debt	\$MM	<b>33.8</b>	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

<b>1C</b>	Low estimate Contingent Resources	<b>P10</b>	There exists a 10% probability that the true quantity or value is greater than or equal to the stated P10 quantity or value
<b>1P</b>	Proved reserves, denotes low estimate scenario of Reserves	<b>P50</b>	There exists a 50% probability that the true quantity or value is greater than or equal to the stated P50 quantity or value
<b>2C</b>	Best estimate Contingent Resources	<b>P90</b>	There exists a 90% probability that the true quantity or value is greater than or equal to the stated P90 quantity or value
<b>2P</b>	Proved plus Probable Reserves, denotes best estimate scenario of Reserves	<b>PDP reserves</b>	Proved Developed Producing Reserves
<b>3C</b>	High estimate Contingent Resources	<b>PDNP</b>	Proved Developed Non-Producing Reserves
<b>3P</b>	Proved plus Probable plus Possible Reserves, denotes high estimate scenario of Reserves	<b>PRMS</b>	The 2007 Petroleum Resources Management classification system of the SPE
<b>bbl</b>	Barrel of oil	<b>PSC</b>	Production Sharing Contract
<b>bcf</b>	Billion cubic feet of gas	<b>Senergy</b>	Senergy (GB) Limited
<b>boe</b>	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	<b>SPE</b>	Society of Petroleum Engineers
<b>boepd</b>	Barrels of oil equivalent per day	<b>WPC</b>	World Petroleum Congress
<b>CSR</b>	Corporate Social Responsibility		
<b>DD&amp;A</b>	Depletion, depreciation and amortisation		
<b>DGE</b>	Direction Générale de l'Energie (Tunisia)		
<b>DPC</b>	Dijla Petroleum Company		
<b>E&amp;E</b>	Exploration and evaluation		
<b>E&amp;P</b>	Exploration and production		
<b>EMV</b>	Expected monetary value		
<b>FRC</b>	Financial Reporting Council		
<b>G&amp;A</b>	General and administrative expenses		
<b>GPC</b>	General Petroleum Corporation		
<b>HSE</b>	Health, Safety and Environment		
<b>IFRS</b>	International Financial Reporting Standards		
<b>km</b>	Kilometres		
<b>km<sup>2</sup></b>	Square kilometres		
<b>KPI</b>	Key Performance Indicators		
<b>mboe</b>	Thousand barrels of oil equivalent		
<b>mcf</b>	Thousand cubic feet of gas		
<b>MENA</b>	Middle East and North Africa		
<b>mmbbl</b>	Millions of barrels of oil		
<b>mmboe</b>	Millions of barrels of oil equivalent		
<b>NGLs</b>	Natural Gas Liquids		
<b>NRI</b>	Net revenue interest		
<b>NSAI</b>	Netherland, Sewell & Associates, Inc.		
<b>ONHYM</b>	Office National des Hydrocarbures et des Mines (Morocco)		

# Corporate Information

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## Corporate headquarters

6 Duke Street  
St James's  
London SW1Y 6BN  
United Kingdom  
www.gulfsands.com  
info@gulfsands.com  
T: +44 (0)20 7024 2130

## Secretary and registered office

Ben Harber  
SGH Martineau Company Secretarial LLP  
1 America Square  
Crosswall  
London EC3N 2SG  
United Kingdom

## Regional offices

### Colombia

World Trade Centre  
Calle 100 No 8A-55  
Torre C Piso 10  
Bogotá Colombia

### Morocco

Bldg N°8 – 1st Floor  
Corner Ben Barka Av. and Eugenia st  
Hay Ryad  
Rabat  
Morocco

### Syria

Dama Rose Hotel, 5th Floor  
Shukre Alkulatle Street  
Damascus  
Syria

### Tunisia

Emeraude Palace A3.1 – 3rd Floor  
Rue du Lac Windermere  
Les Berges du Lac  
1053 Tunis  
Tunisia

### US

3050 Post Oak Boulevard  
Suite 1700  
Houston  
Texas 77056  
USA

## Company number

05302880

## Nominated adviser and broker

### RBC Capital Markets

71 Queen Victoria Street  
London EC4V 4DE  
United Kingdom

### First Energy Capital LLP

85 London Wall  
London EC2M 7AD  
United Kingdom

## Auditor

### Deloitte LLP

2 New Street Square  
London EC4A 3BZ  
United Kingdom

## Solicitors

### Field Fisher Waterhouse LLP

35 Vine Street  
London EC3N 2AA  
United Kingdom

### CMS Cameron McKenna LLP

Mitre House  
160 Aldersgate Street  
London EC1A 4DD  
United Kingdom

### McMillan LLP

1500-1055 West Georgia  
Vancouver, BC V6E 4N7  
Canada

## Registrars

### Capita

Beaufort House  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
United Kingdom

## Stock Exchange listing

AIM market of London Stock Exchange  
Symbol: GPX



6 Duke Street  
St James's  
London SW1Y 6BN  
info@gulfsands.com  
T: +44 (0)20 7024 2130

[www.gulfsands.com](http://www.gulfsands.com)



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