



## 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 has interests in an oil development project in the Syrian Arab Republic (under force majeure as a result of EU sanctions), and oil and gas exploration projects in Morocco, Tunisia and Colombia.



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# Strategic Report

## Our 2015 Summary

- Group working interest 2C Contingent Resources of 87.3 mmboe.
- Involvement in Syrian operations remains suspended during continuation of EU sanctions.
- Initiated farm-out process for remaining Moroccan, Tunisian and Colombian assets.
- Exploration periods for Fes and Rharrb permits in Morocco expired during 2015.
- Cash available for use by the Group at 31 December 2015 of \$0.4 million.
- Restricted cash balances of \$3.7 million after provisions against recovery.
- Exploration write-offs and impairments of \$53.8 million in the year.
- Continued significant reduction in the ongoing expenses across the Group.

### Post period highlights

- Open offer completed, with 354,837,296 shares subscribed for and admitted to AIM on 14 January 2016, raising £14.2 million.
- The Convertible Loan Facility was repaid in full on 14 January 2016.
- Cash available post Open Offer and after the repayment of the loan was \$5.6 million.

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## Strategic Report

# Executive Chairman's Statement

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**The Group continues to face many challenges over the coming months, principally: completing the restructuring of our portfolio of interests and refocusing the strategy on preserving the value of our interest in Block 26 in Syria.**

### Dear Shareholder

2015 and early 2016 have continued to be a challenging time for Gulfsands. The Board has focused on realigning the strategy of the Group to be consistent with its financial capacity and risk tolerance and continues to pursue a strategy of farm-out and divestiture for the non-Syrian assets. The Syrian assets remain a core part of the Group's strategy and we monitor the situation closely and ensure our ongoing readiness to return to operation when the political situation allows.

During the year, the Board prepared an Open Offer to raise £14.2 million which allowed shareholders to participate in the re-financing of the Company while strengthening the Balance Sheet and dramatically reducing the debt burden. Further capital may be required during the next twelve months, as explained further in note 1.3a to the Consolidated Financial Statements.

During 2015 the Group's interests in Morocco were reduced from three licences, covering four permits to one licence covering one permit.

The Moulay Bouchta licence, awarded to Gulfsands during 2014, covers an area of some 2,800 km<sup>2</sup>, including three abandoned legacy oil fields which demonstrate that there is an active hydrocarbon system present, likely to be oil prone. The initial two year exploration period runs to June 2016 during which time the Group must acquire 500 km of new 2D seismic and reprocess some existing seismic data. Gulfsands is in discussions with Office National des Hydrocarbures et des Mines ("ONHYM") regarding the outstanding work commitments on Moulay Bouchta and is hopeful a forward plan can be agreed that allows Gulfsands to continue to participate in the exploration of our remaining interest in Morocco.

The exploration period of the Fes and Rharrb licences in Morocco expired on 25 September and 9 November 2015 respectively. The Company continues to work with ONHYM to resolve the outstanding issues of potential penalties for non-fulfilment of work obligations, outstanding balances of training budgets and the final abandonment of wells and site restoration, further details can be found in notes 6.5 and 6.6 to the Consolidated Financial Statements.

In Tunisia the Group was granted a two year extension on its Chorbane licence during which the work obligation of acquiring 200 km 2D seismic and drilling one exploration well must be completed; the current exploration phase will expire in July 2017. The Group is looking to farm-down its 100% interest in exchange for a carried work programme.

The Group also holds 100% interest in two Colombian exploration blocks. Under the contracts for Llanos Block 50 and Putumayo Block 14, the Group has a minimum work obligation of acquiring approximately 100 km of 2D seismic and drilling one exploration well on each block before the end of the current phase, which runs to November 2016 for Llanos Block 50 and November 2017 for Putumayo Block 14. The Group is actively seeking farm-in candidates to share the cost of the exploration programme on these blocks.





### Financial overview

The Group posted a loss for the year of \$69.2 million, including E&E write-offs and impairments of \$53.8 million. At year end the Group had total cash and cash equivalents of \$0.4 million. At the date of this Report, the Group had unaudited cash and cash equivalents of \$3.5 million.

In 2014, the Group entered into a \$20 million Facility Agreement with Arawak Energy Bermuda Ltd as a means of securing working capital. In June 2015 the Facility Agreement was acquired by Waterford Finance and Investment Ltd and Mr Richard Griffiths who together continued to provide working capital for the Group through to January 2016 when the outstanding loan with interest, totalling \$14.5 million, was repaid out of the proceeds of the Open Offer.

The Group has material work obligations that must be completed under its various exploration licences and if these obligations are not met the Group may be forced to forfeit its working interest in these contracts and any sums of restricted cash lodged with host governments as guarantees for our performance of the minimum work obligations. Furthermore, some of the agreements contain provisions for the payment of penalties if the minimum work obligations are not fulfilled.

The 2015 Financial Statements have been prepared on a going concern basis, and further details on this can be found in the Financial Review on pages 23 and 24.

### Board and Management changes

In February 2015 Ken Judge left the Board and was served notice to terminate his executive services as Gulfsands legal counsel.

On 13 April 2015 Mahdi Sajjad was removed from his role as the Company's Chief Executive and on 30 June 2015 he was not re-elected as a Director at the Company's Annual General Meeting. Mr Sajjad has brought a claim in the High Court against Gulfsands Petroleum Levant Limited ("Gulfsands Levant"), a subsidiary of the Group, which arises out of his removal by the Board as CEO and termination of his employment. Mr Sajjad has also brought a claim in the Employment Tribunal against Gulfsands Levant for constructive unfair dismissal based on the same factual circumstances as his High Court claim. In addition Mr Sajjad also brought a claim before the Lebanese Arbitration Board against Gulfsands Petroleum (MENA) Limited in relation to the branch office in Beirut. The Group is currently engaged in defending Mr Sajjad's claims and in pursuing its counter-claim against Mr Sajjad, please see note 6.5 to the Consolidated Financial Statements for more details.

In April 2015 Andrew West stood down as Non-Executive Chairman and remains on the Board as a Non-Executive Director. Simultaneously I was appointed to the Board as a Director and Executive Chairman.

## Strategic Report

# Executive Chairman's Statement continued

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The Group remains committed to maintaining its presence in Syria, and it considers its partnership with General Petroleum Corporation ("GPC") as a key element for the safe stewardship of Block 26 while the various sanctions prevent Gulfsands from undertaking an active role.

Also in April 2015 Andrew Morris was appointed to the Board as a Non-Executive Director. Andrew is Chairman of Madagascar Oil Limited and his career includes a period with the global accounting firm Ernst & Young. Mr Morris makes a valuable contribution to the Board on both technical and financial matters.

In April 2015 Alan Cutler gave notice of resignation from his executive role as Director – Finance and Administration. He stepped down from the Board in August 2015 and left the Company in October 2015.

At the Company's Annual General Meeting in June 2015, Ian Conway retired from the Board and did not stand for re-election. He continues his executive role as Technical Director.

### Outlook for 2016 and beyond

The Group remains committed to maintaining its presence in Syria, and it considers its partnership with General Petroleum Corporation ("GPC") as a key element for the safe stewardship of Block 26 while the various sanctions prevent Gulfsands from a more active role.

We shall continue to seek to farm-out the assets we hold in Morocco, Colombia and Tunisia ensuring we can benefit from any success but without being exposed to the full cost of exploration.

I would like to thank all our staff for their hard work over the last twelve months and look forward to working with them in the future to develop Gulfsands into an oil and gas company we can all be proud to be part of.

Yours sincerely,

**Alastair Beardsall**

Executive Chairman

17 March 2016

## Strategic Report

# Our Business Model

During 2016 we expect to continue to streamline our staffing model including our technical capability to match our reduced involvement in operations as we seek to farm-out or divest our active projects. However our longer-term mission remains the same, to create real accretive value for our stakeholders by building a strong, independent exploration and production company.

Our business model is based on the following building blocks:



### 1 Areas of expertise

- Experienced and entrepreneurial leadership team.
- Access to strong technical skills either from our in-house team or network of advisers.
- Cost-effective culture matched to a fit-for-purpose mindset.
- Emphasis on building strong local organisations and skill sets.
- Commitment to excellence in HSES.
- Rigorous approach to compliance and governance.
- Being a good corporate citizen wherever we operate.

### 2 Business development strategy

- Utilise regional knowledge and relationships with partners, to identify exploration and production ("E&P") opportunities capable of delivering hydrocarbon reserves that can be monetised.
- A disciplined approach to the evaluation and acquisition of E&P opportunities.
- Focus on growth in resources, reserves and sustainable production as key drivers of value creation.

### 3 Financial discipline

- Careful husbanding of cash resources.
- Strong emphasis on cost control and cost/benefit analysis.
- Seeking access to cash flow from production at the earliest opportunity.
- Creating and maintaining a strong Balance Sheet.

### 4 Business conduct

- Striving to be a partner of choice in the countries and regions in which we operate.
- Establishing relationships with partners with an ability to add material value to our joint ventures.
- Respecting the environment and the health and safety of our employees and the local communities.
- Respecting all relevant international and local legislation and regulations.

# Strategic Priorities and Monitoring Performance

Our strategic priorities are subject to our ability to finance projects through sourcing partners and/or raising finance.

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
Protection of Syrian interests and value	<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 conducting operations as soon as circumstances permit.</li> </ul>
Longer term, the creation of a diversified portfolio focused on the MENA region	<ul style="list-style-type: none"> <li>Limited progress during 2015 as Group focused on re-financing.</li> </ul>	<ul style="list-style-type: none"> <li>Discuss with ONHYM an extension to the Moroccan licence.</li> <li>Evaluate and rationalise interests in Morocco, Colombia and Tunisia.</li> </ul>
Evaluate existing assets comprehensively	<ul style="list-style-type: none"> <li>Evaluated all assets to assist in the determination of a future strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Morocco: progress farm-out and/or divestment of assets, and seek time extension for completion of work commitments with ONHYM.</li> <li>Tunisia: progress farm-out and/or divestment of asset.</li> <li>Colombia: progress farm-out and/or divestment of assets.</li> </ul>
Longer term, to generate production and revenues	<ul style="list-style-type: none"> <li>No progress made during 2015.</li> </ul>	<ul style="list-style-type: none"> <li>No planned activity for 2016.</li> </ul>
Maintain HSES and community relations	<ul style="list-style-type: none"> <li>Established good community relations.</li> <li>Minimum HSES incidents during operations.</li> <li>Continue community, security and environmental assessment processes and operations planning.</li> <li>Continued support of our current CSR projects where practicable.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain HSES standards at the forefront of operational objectives.</li> <li>Develop/maintain relationships with the communities with whom we work.</li> </ul>
Ensure Group is well financed	<ul style="list-style-type: none"> <li>Maintained control over costs.</li> <li>Open Offer planned and underwritten (closed post year end).</li> <li>Debt eliminated via Open Offer.</li> <li>Cost basis further reduced.</li> </ul>	<ul style="list-style-type: none"> <li>Pursue new sources of finance.</li> <li>Ensure tight management of financial resources with additional reductions in the cost base.</li> <li>Ensure financial commitments and available funding are brought into balance.</li> <li>Where appropriate, pursue farm-out and divestment.</li> </ul>



**Key Performance Indicators (“KPIs”) provide a means of measuring our progress in delivering our strategic objectives. The Group has identified five key performance indicators in respect of its 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 17 for further details).</li></ul>	<table><tr><td>2015</td><td>0</td></tr><tr><td>2014</td><td>73.5</td></tr><tr><td>2013</td><td>75.8</td></tr></table>	2015	0	2014	73.5	2013	75.8	<p>During 2015 the Reserves held for Block 26 in Syria were re-classified as Contingent Resources as there is no certainty that development of the assets will resume within five years of the evaluation.</p> <p>The Group remains ready to return to production and reclassify to Reserves as soon as circumstances allow.</p>						
2015	0													
2014	73.5													
2013	75.8													
<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 an unrisks working interest basis (pages 18 and 19 for further details).</li><li>Contingent and Prospective Resources reflect the hydrocarbon potential of Gulfsands contract areas.</li><li>Note Syrian resources are held under contracts currently in force majeure.</li></ul>	<p><b>Contingent</b></p> <table><tr><td>2015</td><td>87.3</td></tr><tr><td>2014</td><td>13.6</td></tr><tr><td>2013</td><td>12.3</td></tr></table> <p><b>Prospective</b></p> <table><tr><td>2015</td><td>55</td></tr><tr><td>2014</td><td>548</td></tr><tr><td>2013</td><td>526</td></tr></table>	2015	87.3	2014	13.6	2013	12.3	2015	55	2014	548	2013	526	<p>The primary movement in the year of Contingent Resources is a result of re-classification of Block 26 Reserves to Resources.</p> <p>The reduction during 2015 of Prospective Resource is the result of the expiry of the Fes licence.</p> <p>Management's longer-term objective is to capture further Contingent and Prospective Resources and efficient conversion of such resources into reserves.</p>
2015	87.3													
2014	13.6													
2013	12.3													
2015	55													
2014	548													
2013	526													
<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 48 and 49 for further details).</li></ul>	<table><tr><td>2015</td><td>6.8</td></tr><tr><td>2014</td><td>23.8</td></tr><tr><td>2013</td><td>48.5</td></tr></table>	2015	6.8	2014	23.8	2013	48.5	<p>Focused cost-effective 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>						
2015	6.8													
2014	23.8													
2013	48.5													
<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.</li></ul>	<table><tr><td>2015</td><td>1.0</td></tr><tr><td>2014</td><td>0</td></tr><tr><td>2013</td><td>1.0</td></tr></table>	2015	1.0	2014	0	2013	1.0	<p>The Group conducted drilling, well completion and well testing operations on its Moroccan Rharb Centre permit during 2015. Management's commitment to the Group's HSES performance remains absolute.</p>						
2015	1.0													
2014	0													
2013	1.0													
<b>Total cash and cash equivalents (\$ million)</b> <ul style="list-style-type: none"><li>Cash and cash equivalents are funds immediately available to the Group (page 52 for further details).</li></ul>	<table><tr><td>2015</td><td>0.4</td></tr><tr><td>2014</td><td>7.9</td></tr><tr><td>2013</td><td>33.8</td></tr></table>	2015	0.4	2014	7.9	2013	33.8	<p>Ensuring the Group has sufficient cash resources to fulfil its contractual obligations is key for the Group.</p>						
2015	0.4													
2014	7.9													
2013	33.8													

## Strategic Report

# Principal Risks and Uncertainties

The Group's approach to risk management aims to identify material risks as early as possible, to reduce or eliminate the probability of those risks occurring, and to mitigate to the greatest extent practicable the impact on the Group if the event does occur.

All staff within the Group take an active responsibility for identification of potential risks to the Group, to ensure these are communicated to the appropriate person and to participate in the mitigation processes.

Risk registers are initially prepared at the business unit and function level and then communicated to Executive Director level. The Executive Directors hold the day-to-day responsibility for the risk management process and can delegate responsibility for specific risks to the appropriate senior manager.

The Group reviews the potential risks to its business and each is assessed in terms of:

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

The Audit Committee of the Board reviews the risk registers periodically. The Group considers its principal risks and uncertainties to be as follows:

Financing			
Description	Impact	Mitigation	Change year on year
<p>The terms for the Group's exploration interests (licences) include minimum work obligations agreed with the relevant state regulator. Additional work programmes will ordinarily be required to fully evaluate the exploration potential. This work will require significant investment.</p> <p>As the Group rationalises its portfolio of assets, and thus reduces its requirement for capital investments, in the absence of revenue, the ongoing day-to-day G&amp;A costs will require financing.</p>	<p>The non-satisfaction of work obligations under each licence could put our working interests, and restricted cash balances at risk; furthermore some licences may require the payment of penalties if a minimum sum is not spent towards performing the work commitments. If the day-to-day G&amp;A costs are not financed the Board may be forced to place the Group into administration or insolvency. Further discussion of these matters is contained in the going concern note 1.3a to the Consolidated Financial Statements.</p>	<p>The Group strives to commit to work obligations that are appropriate for the assets and that are financeable.</p> <p>The minimum work obligations under a licence or contract may require restructuring as our understanding of the assets improves. The Group will always strive to avoid performance of commitments that are without technical and commercial justification.</p> <p>The funding requirements of the Group are regularly reviewed and appropriate actions taken.</p>	<p>It is Management's strategy to farm-out or divest its remaining assets in Morocco, Tunisia and Colombia.</p> <p>The Fes and Rharb licences expired during 2015. The Group is in discussions with ONHYM over the potential penalties for non-fulfilment of the minimum work obligations.</p> <p>During 2015 the Group has reduced the gross G&amp;A costs and will continue this initiative into 2016.</p>
Health, safety, environment and security			
Description	Impact	Mitigation	Change year on year
<p>The Group's reputation and its value is critically dependent on:</p> <ul style="list-style-type: none"> <li>• the protection of the health and safety of its staff, its contractors and members of the community in which it operates;</li> <li>• the protection of the environment in which it operates; and</li> <li>• the security of its interests and assets.</li> </ul>	<p>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.</p>	<p>The Group maintains best practice policies and procedures in these areas and manages its business and its contractors in accordance therewith.</p>	<p>The Group's good safety record in Morocco has been maintained over the duration of our operations. Management's commitment to the Group's HSES performance has remained absolute.</p>
Bribery and corruption			
Description	Impact	Mitigation	Change year on year
<p>Taking all reasonable measures to prevent bribery and corruption being perpetrated on, or within, the business is critical to the business model.</p>	<p>Possible reputation damage, legal liability and financial loss.</p>	<p>Embedding the Code of Business Conduct within the work of the Group.</p> <p>Diligence in reviewing business practices and results.</p>	<p>Continued employment of the Code of Business Conduct and business monitoring.</p>

## Exploration success/failure

Description	Impact	Mitigation	Change year on year
<p>Exploration for hydrocarbons is a high risk activity; historic industry drilling results indicate only one exploration well out of six drilled identifies hydrocarbons.</p> <p>The Group's portfolio outside of Syria is, to a significant extent, dependent upon achievement of exploration success.</p>	<p>Failure to discover hydrocarbons in commercial quantities and/or generate early revenues from production will impact the Group's financial performance and ability to finance the growth and development of the Group's assets.</p>	<p>Exploration risk can be mitigated by careful analysis of the available geological, geophysical and petrophysical data prior to drilling.</p> <p>Furthermore, economic modelling based on the chance of success and a range of possible outcomes, prior to an acquisition and before commencement of individual operations is used in evaluation of risks and identification of reduction measures.</p> <p>Risks will also be reduced where appropriate by bringing in partners either by farm-in or through partial sale.</p>	<p>Methodical and detailed evaluation of all oil and gas prospects in the Group's licence areas to assist in the determination of the Group's strategy.</p>

## Business strategy fails to deliver on shareholder objectives

Description	Impact	Mitigation	Change year on year
<p>The Group recognises the need to align its business strategy with the objectives of its shareholders and then to deliver on that strategy.</p>	<p>Non-alignment and non-delivery could both lead to discontented shareholders, a loss of confidence in Management and consequently a decline in share price and increased difficulty raising new capital.</p>	<p>Regular communication by the Group to the investment community of its strategy and the results achieved.</p> <p>Regular dialogue with shareholders to ensure communications are satisfactory.</p>	<p>During 2015 shareholders indicated their support for the Group's revised strategy with their approval for the Open Offer and subsequent underwritten capital raising.</p>

## Geopolitical instabilities in operational areas

Description	Impact	Mitigation	Change year on year
<p>The Group operates in areas in which it may be exposed to political instability and civil disturbances disrupting its operations. Currently the Group's interests in Syria are under force majeure as a consequence of EU sanctions being imposed.</p>	<p>Such instabilities can seriously impact upon the ability of the Group to carry out its operations leading to loss of time and value.</p> <p>In Syria the value of the Group's interests continue to be at risk from the continuing sanctions, the loss of ability to develop the portfolio of interests and the loss of physical control over its assets</p>	<p>The Group carries out a thorough risk assessment of any proposed new country entry.</p> <p>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.</p> <p>The Board accesses business intelligence and engages consultants to assist with risk management processes in this area.</p>	<p>The Group has continued to monitor the operational areas and, where it can, is working with local communities and stakeholders to ensure its position is protected and advanced.</p>

## Reliance on key staff

Description	Impact	Mitigation	Change year on year
<p>The Group has a small staff of experienced people and relies heavily on their knowledge and experience in developing and delivering the Group's strategic objectives.</p>	<p>Possibility of loss of management continuity and impairment of the business model.</p>	<p>Internal succession planning where possible together with maintaining contact with a network of experienced people in the industry, including consultants on whom we may call if required.</p>	<p>Significant downsizing during 2015 (and into 2016) will be managed to minimise the loss of skills and experience that may be difficult to replace when operational activity increases.</p>

## Shareholder concentration

Description	Impact	Mitigation	Change year on year
<p>At the date of this Report, a large proportion of the shares in the Company are held by two shareholders holding approximately 38.98% and 31.47%.</p>	<p>High levels of share ownership between only two shareholders can offer stability of ownership and protection against opportunistic or predator approaches.</p> <p>However, concentrated share ownership can also result in undue influence by shareholders on the Board and Management that may be to the detriment of the minority shareholders.</p>	<p>Commit to high levels of corporate governance and ensure the business is managed in a clear and transparent manner.</p> <p>Ensure the Board of Directors has sufficient independent directors and implement agreements with significant shareholders to allow the Board to manage the business without undue influence from any particular shareholder.</p>	<p>During 2015 a Relationship Agreement was entered into with Waterford, who, as at the date of this Report control 38.98% of the voting shares, that regulates how Waterford may influence the management of the Group.</p>

# 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 Group (also 50% working interest).

Gulfsands 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 in 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.



## Position during 2015

- Continued compliance with applicable sanctions.
- Block 26 facilities, wells and infrastructure remain secure and predominantly functional.
- Office presence maintained in Damascus.
- Retained technical capabilities through staff redeployment.

Block 26 covers an area of 5,414 km<sup>2</sup> in north east Syria and the PSC grants rights to the joint venture contractors 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. Rights to the benefits of production from discovered fields last for a minimum of 25 years from the date of development approval with an extension of a further ten years thereto at the partners' option. Gulfsands joint venture partner in Block 26 is Sinochem Group, a Chinese conglomerate primarily engaged in the production and trading of chemicals and fertilizer, and exploration and production of oil.

Under the Group's operatorship, two oil fields containing reservoirs of Cretaceous age have been discovered and appraised within the PSC area, Khurbet East (2008) and Yousefieh (2010). During 2011, combined production from these fields reached a level of just under 25,000 barrels of oil per day before the impact of EU sanctions resulted in the curtailing of production levels. Two additional oil and gas discoveries within reservoirs of Triassic age have been identified within the Kurrachine and Butmah Dolomite formations, beneath the Cretaceous aged oil producing reservoir in the Khurbet East field. Development approvals for these Triassic discoveries were granted in 2008 and 2011 respectively. A further oil discovery was made late in 2011 by Gulfsands in the Cretaceous aged reservoirs penetrated by the Al Khairat exploration well, a few kilometres east of the Yousefieh field. This discovery awaits further evaluation and development work, and is not currently incorporated into the Company's existing Production Licence areas.

Operation of the Khurbet East and Yousefieh fields during the production phase has been undertaken by Dijla Petroleum Corporation ("DPC"), a joint operating company formed between Gulfsands, Sinochem and Syrian General Petroleum Company ("GPC") for this purpose, to which staff of both Gulfsands and GPC had previously been seconded. As a consequence of the EU's imposition of further sanctions in Syria which came into effect in early December 2011, in accordance with the terms of the PSC for Block 26, a Notice of Force Majeure was served on GPC, the principal counterparty to the PSC. The imposition of EU Sanctions has prohibited Gulfsands' involvement in petroleum production operations in Syria and restricted its activities in relation to Block 26 generally and unless and until these sanctions are lifted or otherwise modified so as to permit the Company's return to its prior involvement in those activities, the Company will be obliged to maintain its current position with respect to Block 26 PSC matters. Since the introduction of EU sanctions on 1 December 2011 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.

The final exploration period of the PSC was set to expire in August 2012, eight months after Force Majeure was declared in December 2011. While the final exploration period legally expired in August 2012, it is understood that the Syrian authorities may be prepared to grant the Group an additional period to undertake exploration work on Block 26 to replace that period of time which was lost when Force Majeure was declared. The 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 and conditions allow.

During 2015 the Group's Syria Reserves were reclassified to Contingent Resources as a result of the continuing EU Sanctions in Syria. This process was subject to external audit and confirmation.

Since December 2011, Gulfsands has received from DPC updates on oil volumes produced from the Group's Syrian fields under DPC's operation. These updates have been received on an infrequent and irregular basis and it has not been possible for Gulfsands to verify the content of the information provided. The Group has been updating its remaining recoverable resource volumes for these fields on at least an annual basis based on the information that has been received from DPC.

In February 2016 the Group received information from DPC stating that a total volume of 266,934 bbls of oil had been produced from the Group's fields during 2015 and exported by pipeline to the regional oil gathering station at Tal Addas, 22 km north east of the Group's Production Concessions.

In addition, DPC reported for the first time, that oil also had been lifted from the Group's fields by an alternative oil export method, via production into tankers using gantry loading at the Khurbet East Production Facility. Furthermore DPC advised for the first time that this alternative export method had been in operation throughout 2014 and 2015, and that oil production during this period via this export method was an additional 3,138,739 bbls (2014: 1,984,390 bbls, and 2015: 1,154,349 bbls).

Based on this new production information, the Group has updated the previously reported total oil production for 2014 of 399,325 bbls of oil to 2,383,715 bbls of oil via both export methods. 2015 total oil production via both export methods is now updated to a total 1,421,283 bbls of oil. The Group has not recognised any revenue for this or indeed any production, post the imposition of EU sanctions, but has updated its remaining recoverable resource volumes for these fields based on this new production information.

The Group has evaluated that it holds within the Massive, Butmah and Kurrachine reservoirs of Khurbet East field, and the Yousefieh field, 2C Contingent Resources of 69.7 mmbbls of oil and condensate, and 33.4 bcf of gas (working interest basis).

The Group has also evaluated that the oil discovery at Al Khairat contains 2C Contingent Resources of 12.0 mmbbls of oil (working interest basis). These resources have been subject to external audit.

### Sanction compliance

Gulfsands has taken extensive legal advice with respect to its obligations under the sanctions in place at the time and has liaised regularly with relevant regulators and generally acted cautiously to be certain of remaining compliant with all relevant sanctions. The Board is determined to ensure that the Group's activities remain compliant 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 to comply with applicable sanctions.

### Plan to monitor assets during 2016

- Continued compliance with applicable sanctions.
- Maintain an office presence in Damascus whilst reducing the Group's technical capabilities in order to save costs.
- Continue efforts to assimilate and verify where possible information from the field regarding:
  - asset operations and facility/well integrity; and
  - overall status of security in the near field area.
- Re-confirm to the extent that it is possible Gulfsands' position on cost recovery.
- Update Gulfsands plans to maintain readiness to resume operational activities when sanctions are lifted.



# Morocco

Gulfsands is the operator of the onshore Moulay Bouchta exploration permit in northern Morocco which incorporates proven conventional oil and biogenic gas petroleum systems. Moroccan hydrocarbon exploration and exploitation permits are subject to a tax/royalty fiscal system which is considered favourable by international standards.



## Moulay Bouchta contract

**Contract expiry date:** Initial Exploration Phase, June 2016.

**Minimum work obligation:** Acquisition and processing of 500 km of 2D seismic data to be captured in a new survey; reprocessing and interpretation of selected legacy 2D seismic lines and the existing 3D seismic data; and a legacy oil field reactivation study.

Further details are provided in note 2.4 to the Consolidated Financial Statements.

The Group acquired operatorship of the Moulay Bouchta permit during 2014, taking a 75% participating interest while Morocco's Office National des Hydrocarbures et des Mines ("ONHYM") retained a 25% participating interest, the attributable cost of which will be carried by Gulfsands upon the usual terms for such participation through the exploration phase of the permit and until a commercial hydrocarbon discovery is made.

The Moulay Bouchta permit encompasses an elongated area running west to east covering approximately 2,820 km<sup>2</sup>, and is located to the north of the cities of Rabat, Meknes and Fes. It covers terrain where the existence of a working petroleum system has been confirmed with the discovery and development of three light oil fields, the most recent of which was the Haricha Field which had produced a total of 2.8 mmbbl of oil and 4.2 bcf of gas when production ceased in 1990. The prospectivity within Moulay Bouchta is considered to relate mainly to the potential for deeper and possibly larger hydrocarbon bearing structures within Jurassic and Cretaceous aged reservoirs to exist and be found within the permit area.

Work programmes are continuing with respect to the meeting of the minimum work obligation activities on the permit;

- prospectivity for exploration and near field appraisal drilling opportunities as evaluated from existing seismic data is ongoing;
- a tender process has been undertaken during 2015 for the acquisition of 500 km of 2D line seismic within the permit, and a contractor company has been selected for this work once sanctioned and fully funded;
- legacy 2D seismic data from the permit area have been selected for reprocessing;
- contractors with a good track record for performing reprocessing work within this type of geological terrain are under evaluation to reprocess the entire Haricha Field legacy oil field 3D survey data set; and
- a reservoir modelling study of the depleted Haricha Field is in progress with the aim to identify any potential for infield and/or area re-activation.

Following interpretation of existing 2D legacy seismic data, and prior to the acquisition of further 2D data, the Group has identified best estimate Prospective Resources of 11.4 mmbbl of oil and gas (75% working interest) within the Moulay Bouchta permit area. These resources have been subject to external audit.



Gulfsands is in discussions with ONHYM regarding the outstanding work commitments on Moulay Bouchta, and is hopeful a forward plan can be agreed that allows Gulfsands to continue to participate in the exploration of its remaining interest in Morocco.

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

### Other exploration contracts

#### Fes contract

The Fes contract expired on 24 September 2015.

During 2015 reprocessing by specialist consultants of 650 km of 2D seismic data acquired by Gulfsands across the Fes permit was undertaken, and subsequent in-house re-interpretation and remapping of lead concepts yielded promising results.

A request was made to ONHYM in March 2015 for the granting of a two year extension to the contract period in order for the Group to conduct a farm-out process and thereby secure funding for executing the remaining work programme on the permit.

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

- ONHYM advised that Gulfsands Morocco will forfeit its \$5.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Fes Petroleum Agreement and the restricted cash had been drawn by ONHYM; and

- ONHYM had requested details of the costs incurred during the six year extension period in order to determine if a penalty was payable, with such penalty being the estimated cost of the minimum exploration work programme of \$18.5 million, less the costs actually incurred in respect of exploration work required to be carried out during the extension period. At least \$18.5 million has been spent on exploration activity during the extension period.

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

On 25 January 2016 Gulfsands gave notice to ONHYM that if various matters: including that of any potential penalty for non-fulfilment of the minimum exploration work programme; and Gulfsands seeking the return of guarantee funds called; are not resolved at the end of a 60-day period then Gulfsands reserves the right to proceed with arbitration as set out under the Fes Petroleum Agreement.

Note, no parent company guarantee exists under the Fes Petroleum Agreement.

#### Rharb contract

A ten month extension to the Rharb exploration contract, which governs the Rharb Centre and Rharb Sud permits, was granted by ONHYM in January 2015. Subsequently on 9 November 2015 the Rharb contract expired.

During 2015, on the Rharb Centre permit area Gulfsands completed the drilling and testing of its fifth and sixth biogenic gas exploration wells, at the Dardara South East location ("DRC-1") and the Douar Ouled Balkhair location ("DOB-1") respectively. Both wells proved to be gas discoveries, with maximum well test gas flow rates for each well in excess of 10 million standard cubic feet per day, and both were completed and then suspended as future gas production wells.

On the Rharb Sud permit, work continued on the identification of viable exploration lead concepts from legacy seismic and well data.

## Morocco continued

**Following interpretation of existing 2D legacy seismic data, and prior to the acquisition of further 2D data, the Group has identified best estimate Prospective Resources of 11.4 mmboe of oil and gas (75% working interest) within the Moulay Bouchta permit area. These resources have been subject to external audit.**

### Rharb contract continued

On 9 November 2015, the Group submitted a request to further extend the Rharb Petroleum Agreement for a period of two years to allow the Group to appraise the three gas discoveries it had made during the 2014/15 period within the Rharb Centre permit area.

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

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

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

On 25 January 2016, Gulfsands gave notice to ONHYM that if various matters: including that of any potential penalty for non-fulfilment of the minimum exploration work programme; and Gulfsands seeking the return of guarantee funds called; are not resolved at the end of a 60-day period then Gulfsands reserves the right to proceed with arbitration as set out under the Rharb Petroleum Agreement.

Note, no parent company guarantee exists under the Rharb Petroleum Agreement.

The Group also holds interests in three exploitation concessions lying within the Rharb permit area as follows:

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

There are four wells on these three concessions that penetrate depleted, or near depleted gas reservoirs. The Group has no plans to re-enter or produce from these four legacy wells or gas fields as such activities have been evaluated to be economically unattractive for re-activation work.

# Tunisia

Gulfsands has a 100% interest in the operated Chorbane exploration permit onshore Tunisia covering approximately 1,942 km<sup>2</sup>. The permit is subject to a PSC signed in 2009. The fiscal terms of the PSC are considered reasonable when compared on an international basis.

## Chorbane contract

**Contract expiry date:** Second phase July 2017 following approval by the Ministry of a two year extension.

**Minimum work obligation:** Drilling one exploration well; and acquisition of 200 km of 2D seismic data.

Further details are provided in note 2.4 to the Consolidated Financial Statements.

The current exploration period under the contract originally ran to mid July 2015. In May 2015, Gulfsands submitted an application for a two year extension to this period during which the work obligation of acquiring 200 line km of 2D seismic and the drilling of one exploration well must be completed. The application was confirmed as being successful by the Tunisian Ministry of Industry, Energy and Mines during December 2015, and the contract thereby extended to July 2017. The Group will now proceed to divest the asset or alternatively farm-down its 100% interest in exchange for a carried work programme.

The exploration risk level associated with the drilling of identified prospects and leads is considered to be medium for light oil in Eocene and Cretaceous aged formations which exhibit moderate to good reservoir quality, but relatively high for wet gas in deeper Jurassic aged formations which are anticipated to be of low reservoir quality.

The Group has identified best estimate Prospective Resources of 44 mmbbl of oil and gas (100% working interest) within the Chorbane permit area. This resource estimate has been subject to external audit.



# Colombia

Gulfsands has Exploration and Production Contracts (“E&P contracts”) over two onshore contract areas, Llanos Block 50 (“LLA 50”) and Putumayo Block 14 (“PUT 14”), covering approximately 514 km<sup>2</sup> and 464 km<sup>2</sup> respectively. Gulfsands is operator of both Blocks with 100% working interest. Both contracts were awarded as part of the Ronda 2012 national licensing round, and are subject to tax/royalty systems incorporating a low bid level of additional “X” factors royalties and work programme contributions.



## Llanos Block 50

**Contract expiry date:** First exploration phase, November 2016.

**Minimum work obligation:** Acquisition of an additional 103 km of 2D seismic data to be captured in a new survey; and drilling one exploration well.

Further details are provided in note 2.4 to the Consolidated Financial Statements.

## Putumayo Block 14

**Contract expiry date:** First exploration phase, November 2017.

**Minimum work obligation:** Acquisition of an additional 93 km of 2D seismic data to be captured in a new survey; and drilling one exploration well.

Further details are provided in note 2.4 to the Consolidated Financial Statements.

The Group continues to undertake the studies required prior to the commencement of either 2D or possibly exploration-oriented 3D seismic acquisition programmes on the contract areas.

The Group requires funding to execute the work programme on the permit and, to this end, has initiated during 2015 a farm-out or divestment exercise for its interests in the contract areas prior to any significant financial commitment with respect to further exploration work. This process is ongoing.

During the first quarter of 2015, Gulfsands Sud America Limited informed its then joint venture partner in Colombia, Luna Energy, that it was obliged to serve notice of default on Luna, on account of non-payment of outstanding cash calls relating to the LLA 50 and PUT14 E&P contracts. Subsequently, as payment remained non-forthcoming, Luna defaulted on its interests and Gulfsands assumed 100% working interest in both Blocks.



## Strategic Report

# Reserves and Resources Report

### Reserves

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 estimates for Syria have, to date, represented 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"). Hydrocarbons discovered on the Block 26 PSC contract area in Syria have been evaluated as Reserves for several years leading up to, and after, the imposition of EU sanctions in Syria. The Group's Reserves over this period have been based on estimates made by Gulfsands' technical teams which are then reviewed by independent petroleum engineers from external parties. External reviews of the Group's Reserves have been performed by Senergy (GB) Limited ("Senergy") since 2009. Since this time, commercial oil production from the Block 26 area has exceeded 21 mmbbls.

The Company recognises that it cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. Furthermore, the SPE PRMS Guidelines suggest that if the (re)commencement of development is five or more years from the date of evaluation then the volumes of hydrocarbons should be classified as Contingent Resources. The Company has concluded as of December 2015 that the uncertainty in any timeline over which EU sanctions in Syria may be lifted require that the volumes of oil, gas and condensate previously reported as Syrian Reserves be reclassified by the Company as Contingent Resources. This is discussed further in the Resources section.

Whilst no definite timeline for the conflict can be substantiated, the Board believes that the EU sanctions ultimately will be lifted and will continue to monitor all activity focused on resolving the situation in Syria and reconsider the basis for reversing this reclassification in line with any future developments.

### Resources

The Group's Resources are based on estimates made by Gulfsands' technical teams which are then reviewed by independent petroleum engineers from external parties. External reviews of the Group's Resources have been performed for the Group by Senergy since 2009.

#### Summary of 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.

In accordance with the 2007 SPE PRMS, a guideline risk factor should be stated associated with the Contingent Resources quoted for each category; the risk factor indicates the likelihood that the Group will ultimately commercially develop the Resource. The risk factor considers all technical and non-technical factors that are impacting or are likely to impact on the likelihood of development, and is termed the "Chance of Development".

The estimation and reclassification of Syrian Reserves attributed to the Block 26 Khurbet East and Yousefieh Production Concessions to Contingent Resources conducted in December 2015 has been prepared by the Company and reviewed by Senergy. In estimating the Resources it has been assumed that the period of time elapsed during which the Group has declared Force Majeure on its Block 26 development and production activities will ultimately be added as an equivalent time period extension to the contractually specified time period following which the Block 26 Production Concessions were due to expire.

As a consequence of the EU's imposition of further sanctions in Syria which came into effect in early December 2011, GPC has assumed operational full control and responsibility for the management of DPC (the joint venture operating company set up for managing development and production operations within Block 26), and Gulfsands has withdrawn all of its staff previously seconded to DPC.

# Strategic Report

## Reserves and Resources Report continued

### Resources continued

#### Summary of Contingent Resources continued

Since December 2011 Gulfsands has received from DPC updates on oil volumes produced from the Group's Syrian fields under DPC's operation. These updates have been received on an infrequent and irregular basis and it has not been possible for Gulfsands to verify the content of the information provided. The Group has updated its remaining recoverable Resource volumes for these fields on at least an annual basis based on the information that has been received from DPC.

In February 2016 the Group received information from DPC stating that a total volume of 266,934 bbls of oil had been produced from the Group's fields during 2015 and exported by pipeline to the regional oil gathering station at Tal Addas, 22 km north east of the Group's Production Concessions.

In addition, at this time DPC reported, for the first time, that oil also had been lifted from the Group's fields by an alternative oil export method, via production into tankers using gantry loading at the Khurbet East Production Facility. Furthermore DPC advised for the first time that this alternative export method had been in operation throughout 2014 and 2015, and that oil production during this period via this export method was an additional 3,138,739 bbls (2014: 1,984,390 bbls, and 2015: 1,154,349 bbls).

Based on this new production information, the Group has updated the previously reported total oil production for 2014 of 399,325 bbls of oil to 2,383,715 bbls of oil via both export methods. 2015 total oil production via both export methods is now updated to a total 1,421,283 bbls of oil.

These revised reported produced oil volumes for 2014 and 2015 have been used by the Gulfsands technical team to update the Group's Contingent Resource bookings (Gulfsands working interest 50%), which are stated as of 1 January 2016. The Resource figures have not been reviewed by independent resource engineers.

In addition, Contingent Resources are estimated for the oil discovery at Al Khairat which is located a few kilometres outside of the Company's existing Block 26 Production Concession areas, and these estimates have been reviewed by Senergy.

#### Unrisked working interest basis

As at 1 January 2016	Constituent	1C	2C	3C	<b>Risk factor</b> (Chance of development)
<b>Syria Block 26</b>					
(Working interest 50%)					
Khurbet East & Yousefieh	Oil + Condensate, mmbbl	39.4	69.7	112.1	90%
Production Concessions	Gas, bscf	14.7	33.4	68.7	90%
Al Khairat discovery	Oil, mmbbl	2.9	12.0	45.7	30%
<b>Total</b>	<b>mmboe</b>	<b>44.7</b>	<b>87.3</b>	<b>169.3</b>	

#### Risked working interest basis

<b>Total</b>	<b>mmboe</b>	<b>38.5</b>	<b>71.4</b>	<b>124.9</b>
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Note certain figures may not add up due to roundings.

"Oil" includes condensate and NGLs.

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

## Summary of 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.

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.

The Group has estimated Prospective Resources for its Moroccan Moulay Bouchta and Tunisian Chorbane onshore permits, and these estimates have been reviewed by Senergy.

## Unrisked working interest basis

As at 1 January 2016	Constituent	Low	Best	High	Risk factor (Chance of discovery)
<b>Morocco Moulay Bouchta permit</b> (Working interest 75%)					
Jurassic leads	Oil and Sales Gas, mmboe	1	11	75	Medium-High
<b>Morocco total</b>	<b>mmboe</b>	<b>1</b>	<b>11</b>	<b>75</b>	

	Constituent	Low	Best	High	Risk factor (Chance of discovery)
<b>Tunisia Chorbane permit</b> (Working interest 100%)					
Sidi Agareb prospect Eocene/Upper Cretaceous	Oil, mmbbl	8	27	63	9%-25%
Lafaya Deep & Sidi Daher prospects Jurassic leads	Sales Gas, bcf	21	103	398	11%
<b>Tunisia total</b>	<b>mmboe</b>	<b>12</b>	<b>44</b>	<b>129</b>	

Note certain figures may not add up due to roundings.

"Oil" includes condensate and NGLs.

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

## Strategic Report

# Financial Review

Gulfsands has continued to reduce its office expenses which, excluding restructuring costs, have reduced by 36% in the year compared with 2014.

### Selected operational and financial data

	Year ended 31 December 2015 \$'000	Year ended 31 December 2014 \$'000
General administrative expenses	(6,965)	(5,469)
Exploration costs written-off/impaired	(53,799)	(6,040)
Loss from continuing operations	(69,200)	(12,113)
E&E cash expenditure	(10,085)	(26,987)
Cash and cash equivalents	420	7,907
Restricted cash balances	3,691	11,514

### Financial highlights for the year ended 31 December 2015

- The loss for the year from continuing operations was \$69.2 million (2014: \$12.1 million).
- Gulfsands has continued to reduce its office expenses which, excluding restructuring costs, have reduced by 36% in the year compared with 2014.
- \$51.0 million of E&E assets related to the Moroccan Fes and Rharrb Petroleum Agreements have been written-off in the year following the expiry of the contracts in September and November respectively; in addition the related restricted cash balances of \$6.0 million have also been provided against.
- \$2.8 million of E&E assets related to the Moroccan Moulay Bouchta Petroleum Agreement have been fully impaired at 31 December 2015; in addition the related restricted cash balances of \$1.75 million have also been provided against.
- The Group continues to value its investment in its Syrian interest at \$102.0 million.
- The Arawak Loan Facility was assigned to Weighbridge Trust Limited in June 2015. During the year, prior to the assignment \$5.0 million was drawn-down under the facility. A further \$3.2 million was drawn-down under the facility post assignment.
- Cash and cash equivalents reduced by \$7.5 million in the year to \$0.4 million at 31 December 2015 (31 December 2014: \$7.9 million).

### Operating performance

#### General administrative expenses

	Year ended 31 December 2015 \$'000	Year ended 31 December 2014 \$'000
Office expenses	8,727	13,640
Partner recoveries	(552)	(2,137)
Restructuring costs	1,044	—
Depreciation and amortisation	506	602
Office expenses capitalised	(2,760)	(6,636)
<b>General administrative expenses</b>	<b>6,965</b>	<b>5,469</b>

General administrative expenses for the year ended 31 December 2015 totalled \$7.0 million (2014: \$5.5 million). This increase reflects: one-off costs incurred in the year as part of the Management restructuring; a decreased level of partner recoveries resulting in part from the termination of the Colombian joint venture agreement at the start of 2015; and a reduction in costs capitalised against E&E assets as a result of the reduced operational activity in the year and the expiry of the Moroccan Rharrb and Fes Petroleum Agreements. Underlying office expenses have actually decreased significantly, by some 36%, resulting from the increasing efforts to manage costs to fit the current business model and strategy.

Exploration write-offs in the year totalled \$51.0 million (2014: \$6.0 million) and are a result of the expiry of both the Fes and Rharrb Petroleum Agreements in Morocco during the year. The Fes Petroleum Agreement expired on 24 September 2015 and all E&E expenditure related to the Fes permit has been fully written-off in the year, with write-offs totalling \$22.2 million, inclusive of \$12.0 million fair value recognised on acquisition. The Rharrb Petroleum Agreement expired on 9 November 2015, and the Group's request to further extend the agreement for a period of two years to allow the Group to appraise the gas discoveries made in 2014/15 was rejected. All E&E expenditure related to the Rharrb Centre and Rharrb Sud permits has been fully written-off in the year, with write-offs totalling \$28.8 million, inclusive of \$5.8 million fair value recognised on acquisition.

On the expiry of the contracts, ONHYM advised that Gulfsands Morocco would forfeit its restricted cash held as performance guarantees in relation to its minimum work obligations under the Fes Petroleum Agreement and the Rharrb Petroleum Agreement. ONHYM drew the \$5.0 million restricted cash held under the Fes contract during the year and this has been written-off in the year. \$1.5 million of the restricted cash balance was due back to a third party in the event of its release so the net charge to the Income Statement in the year is \$3.5 million. ONHYM did not draw the \$1.0 million restricted cash held under the Rharrb contract until January 2016 but the recovery of this has been fully provided against at 31 December 2015. \$0.5 million of the restricted cash balance was due back to a third party in the event of its release so the net charge to the Income Statement in the year is \$0.5 million.

E&E asset impairments for the year were \$2.8 million (2014: nil) and relate to the Moroccan Moulay Bouchta permit only. The financial commitments of the Moulay Bouchta contract are inconsistent with the Group's revised strategy and Gulfsands has therefore initiated a farm-out process for this contract. However, given the licence expiry date for the initial exploration phase in June 2016, the outstanding work commitments on the permit which could not physically be fulfilled before this date and the uncertainty of securing an industry partner before licence expiry, the expenditure to date attributed to the Moulay Bouchta permit of \$2.8 million, inclusive of a potential \$1.75 million penalty for non-completion of the minimum work obligations, has been fully impaired at 31 December 2015. In addition, the recovery of restricted cash balances of \$1.75 million held as a performance guarantee in relation to the minimum work obligation under the Moulay Bouchta contract has been fully provided against at 31 December 2015.

The Group reported a loss before tax for continuing operations for the year ended 31 December 2015 of \$69.2 million (2014: loss from continuing operations \$12.1 million). The results of 2014 also included a loss from discontinued operations of \$4.0 million in respect of the US Gulf of Mexico operations which were disposed of in December 2014.

### Balance Sheet

The Group's intangible exploration and evaluation assets are held at a net book value of \$7.1 million at 31 December 2015 (31 December 2014: \$53.0 million) and relate to Tunisian and Colombian assets only. Capital expenditures for the year totalled \$8.5 million (2014: \$21.0 million) and predominantly relate to the drilling of the DRC-1 and DOB-1 Rharrb Centre wells in Morocco. The DRC-1 well commenced drilling in December 2014 and the DOB-1 well commenced drilling on 28 January 2015. Both the DRC-1 and DOB-1 wells were successfully drilled in the year to target depth, discoveries declared and the wells temporarily suspended as future gas producers. The Rharrb Petroleum Agreement expired in November 2015 so these costs have since been fully written-off. There have been write-offs totalling \$51.0 million in the year and E&E impairments of \$2.8 million all which relate to the Moroccan assets.

Management has reviewed the carrying value of all its remaining E&E assets at the date of this Report and notes that there are uncertainties caused by the upcoming expiry dates on certain contracts and the potential non-fulfilment of work obligations in the necessary timeframes which could result in termination of those contracts. Management's strategy is to protect the value of all of its exploration and evaluation assets, and it is seeking contract extensions and the restructuring of certain of its work obligations to allow the contracts to be appropriately farmed-down or divested. It should be noted that if Management is unsuccessful in its strategies for the E&E assets, the carrying value of the related assets and the restricted cash securing those work obligations could become impaired. The contract/licence expiry dates, capital commitments and restricted cash balances held are detailed further in note 2.4 to the Consolidated Financial Statements.

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. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and subject to material change and uncertainty. Management has reviewed their internal valuation methodology and believe that as a result of the further passage of time and the high degree of judgement required, it is no longer possible to reliably estimate the investment's fair value. Management will therefore carry forward the last valuation which could be reliably determined, being the \$102 million previously disclosed and will carry forward this value. This value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement.



## Strategic Report

# Financial Review continued

### Balance Sheet continued

At 31 December 2015 Management has carried out an impairment review, using an economic model of the estimated future cash flows that could be generated in respect of the Group's entitlement volumes in Block 26. The Management team has reviewed this economic model in detail and believe due to the high degree of subjectivity inherent in the valuation it is imperative that the valuation model and its key drivers and assumptions are as transparent as possible. Management assessed the key drivers to be: the oil price, and the delay to resumption of production. For the year ended 31 December 2015 Management has decided to use the Brent forward curve to 2022 for its oil price assumption, and then a 2% per annum escalation factor applied thereafter as the forecast for the 'base case' comparative. Given the other sources of oil price data reviewed, Management consider this to be a conservative approach. Gulfsands cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. Whilst no definite timeline can be substantiated, the Board continues to believe that the EU Sanctions will be lifted within five years and will continue to monitor all activity focused on resolving the situation in Syria. Management has decided to use commencement of production in five years as the 'base case' comparative.

The 'base case' comparative model calculates: a gross Contractor undiscounted NPV(0) of \$1.48 billion; Gulfsands 50% interest NPV(0) of \$0.74 billion and Gulfsands discounted NPV(15) of \$107.2 million. Therefore, Management believes no impairment is necessary and has maintained the \$102 million carrying value on the Balance Sheet at year end.

The Board's view is that there has been little significant change to the circumstances and status of the Group's Syrian interests. The Board is still unable to provide a firm view as to the eventual outcome and the timing of resolution of the situation in Syria that would lead to the EU lifting sanctions against Syria, allowing Gulfsands to return, however, they continue to consider that its position in respect of its interests remains strong and all indications are that the Syrian authorities expect Gulfsands and its partner to return to operational control of their interests in accordance with the terms of the PSC as soon as circumstances permit. The Directors have reviewed the carrying value of this available-for-sale financial asset at 31 December 2015 and are of the opinion that the carrying value, although subject to significant uncertainty, remains appropriate in the circumstances.

Inventory held at 31 December 2015 totalled \$1.1 million (2014: \$2.4 million). Due to Management's revised strategy to farm-out/divest its remaining Moroccan licence, it is anticipated that the inventory will not be utilised on future drilling and production activities in Morocco and instead value will be extracted via disposal. Therefore a provision of \$1.1 million has been made at 31 December 2015 to reduce the value of the inventory to its expected net realisable value of \$1.1 million.

At 31 December 2015, the Group has decommissioning and/or restoration obligations in respect of a number of wells and well sites in Morocco under the Moroccan Hydrocarbon Code totalling \$0.4 million (2014: \$1.0 million). The wells and well sites are located on the expired Rharrb and Fes permits and on the three exploitation concessions located within these permits. These include the three discoveries on the Rharrb Centre permit: LTU-1, DRC-1 and DOB-1, which have all been temporarily suspended. Included within the decommissioning and/or restoration obligations are obligations on all legacy wells drilled prior to the Group's acquisition of those interests. Following further examination during 2015 of the scope of work involved, it is anticipated that the fulfilment of these obligations can be completed via rigless operations, resulting in a reduction in the provision. As the Rharrb and Fes petroleum contracts expired during the year, at 31 December 2015 all decommissioning provisions are disclosed as current liabilities and no discount rate has been applied to the estimated cost of decommissioning works.

The outstanding balance on the Weighbridge Loan Facility at 31 December 2015 is \$14.4 million (31 December 2014: \$4.9 million) following the draw-down of a further \$8.2 million and interest and facility fees rolled up during the year. The Company announced on 30 June 2015 that Arawak had entered into an assignment agreement with Weighbridge Trust Limited ("Weighbridge"), acting as agent for Waterford Finance and Investment Limited ("Waterford") and Mr Griffiths, to acquire the Convertible Loan Facility from Arawak. On 22 June 2015, the Group and Weighbridge entered into an agreement pursuant to which Weighbridge, acting as trustee for Waterford and Mr Griffiths with respect to their interests in the Convertible Loan Facility, provided certain undertakings to the Company. Under the terms of the agreement, Weighbridge provided undertakings that it would not, at any time prior to 23 September 2015, exercise its rights to call for repayment of all outstanding amounts, whether immediately or within the notice period of 90 days, to exercise its conversion rights or to exercise its right to participate in any issue of new ordinary shares pursuant to the terms of the Convertible Loan Facility. Under the terms of the agreement, the Company agreed to grant its consent to the assignment of the Convertible Loan Facility from Arawak to Weighbridge. On 27 August 2015, Weighbridge agreed to extend each of its undertakings to 31 January 2016, being the Open Offer Long Stop Date. It also agreed to release the Company from its undertakings regarding necessary share authorities contained in the Convertible Loan Facility agreement. In providing the undertakings to subscribe for their existing entitlements under the Open Offer, and to Underwrite the remaining Open Offer Shares to be issued under the Open Offer, it was agreed that the principal amount and interest and all fees and penalties accrued and outstanding under the Convertible Loan Facility would be applied in paying up in full the Open Offer Shares to be subscribed pursuant to the Open Offer and the Underwriting. Post year end, the loan was discharged in full on 14 January 2016.

### Cash flow

The total decrease in cash and cash equivalents during the year was \$7.5 million (2014: \$25.9 million). Operating cash outflow from continuing operations increased in the year to \$5.5 million (2014: \$3.8 million) largely as a result of exceptional recoveries from partners in 2014 in relation to historic expenditure. Investing cash outflow from continuing operations during the period totalled \$10.1 million (2014: \$24.0 million). This predominantly consists of exploration expenditure inclusive of \$8.0 million spent on Moroccan operations and \$1.5 million paid in final settlement of the amount payable for the 2013 acquisition of the additional interest in the Chorbane contract. Cash received from financing activities totalled \$8.2 million, due to further draw-downs under the Weighbridge Loan Facility following its assignment.

### Financial position

At 31 December 2015 the Group had total unrestricted cash and cash equivalents of \$0.4 million (31 December 2014: \$7.9 million).

Restricted cash balances at the end of the year (which are presented as long-term financial assets in the Balance Sheet) totalled \$3.7 million (31 December 2014: \$11.5 million), and represent funds securitised as collateral in respect of future work obligations – with amounts not provided against principally in respect of the Group's Colombian interests. At 31 December 2015, a provision of \$2.75 million was made against the restricted cash balances securitised as collateral in respect of future work obligations on the Rharb and Moulay Bouchta permits. During 2015, \$5.0 million of restricted cash balances were written-off in relation to the Fes Petroleum Agreement as ONHYM called these funds. It should be noted that if Management is unsuccessful in their strategy of contract/licence extensions and farm-outs then the carrying value of the remaining restricted cash securing the work obligations may become impaired.

### Going concern

As at the date of this Report, the Group has cash balances immediately available to it totalling approximately \$3.5 million with net current trade and other payables of approximately \$1.2 million and ongoing costs expected to further decrease in the second half of 2016 approximating to \$0.2 million per month. Restricted cash balances and the work commitments to which they relate are described in note 2.4 of the Consolidated Financial Statements.

Significant focus has been given during the year to strengthening the Balance Sheet of the Group. On 27 August 2015, the Company announced a Capital Raising to raise gross proceeds of approximately \$22.0 million before costs by way of an Open Offer. The Open Offer was conditional upon, among other things, the passing of certain resolutions to permit the Open Offer to proceed. On 14 September 2015, the Company convened a general meeting of shareholders to vote on the resolutions, at which all the resolutions were duly passed by shareholders. As a result, on 16 December 2015 the Company dispatched its Prospectus to shareholders setting out the detailed terms and conditions of the Open Offer. The Open Offer was made to all Qualifying Shareholders (which excludes those shareholders resident in Australia and the US) to provide an opportunity to subscribe for an aggregate of 354,837,296 Open Offer Shares (representing a subscription of 350,733,941 new ordinary shares and a purchase of 4,103,355 treasury shares) on the basis of 3.01 Open Offer Shares for every 1 Existing Share held as at the Record Date, being 5:00pm on 14 December 2015, at an Open Offer Price of 4.0 pence per Open Offer Share. Waterford and Mr Griffiths, as existing shareholders in the Company, each irrevocably undertook to subscribe for their full entitlements under the Open Offer and undertook to underwrite the remaining Open Offer Shares whereby they would acquire any of the shares that were not subscribed for by Qualifying Shareholders under the Open Offer. In providing the undertakings to subscribe for their existing entitlements under the Open Offer, and to Underwrite the remaining Open Offer Shares to be issued under the Open Offer, it was agreed that the principal amount and interest and all fees and penalties accrued and outstanding under the Convertible Loan Facility would be applied in paying up in full the Open Offer Shares to be subscribed pursuant to the Open Offer and the Underwriting. The Open Offer closed for acceptances at 11am on 12 January 2016 and the Company announced that it had received valid acceptances in respect of 151,760,157 Open Offer Shares from Qualifying Shareholders, and that pursuant to the Underwriting, a further 203,077,139 Open Offer Shares had been subscribed for by Waterford and Blake, a company owned and controlled by Mr Griffiths, such that a total of 354,837,296 Open Offer Shares had been subscribed for under the Open Offer representing share proceeds of approximately £14.2 million (\$20.4 million). At the closing of the Open Offer and after satisfaction of the Convertible Loan Facility, the Group had cash and cash equivalents of \$5.6 million.

## Strategic Report

# Financial Review continued

### Going concern continued

The Group has continued a strategy of reducing costs and trying to reduce its net financial exposure to its oil and gas operations. The Group is running a farm-out process for its interests in projects in Colombia, Tunisia and Morocco and is optimistic to recover its performance bonds where appropriate and receive some consideration in recognition of the work already completed on the various projects. The Group is also seeking to recover the restricted cash, placed with banks as a guarantee for the completion of exploration activities on the Rharb and Fes permits, and recently drawn on by ONHYM. However, there is no certainty that these initiatives will be successful or that material cash in-flow will be achieved. If these initiatives are not successful the Group's cash forecast indicates that further funding would be required in approximately eight months time.

Based upon its experience and ongoing discussions with existing shareholders and potential partners, the Board is confident that the Group will be able to access appropriate resources to finance the revised strategy that it is moving forward with, however there are no binding agreements or commitments in place.

Following completion of a review of the going concern position of the Company and Group at the meeting of the Board of Directors on 16 March 2016, including the uncertainties described above, the Board has concluded that, with current consolidated cash and cash equivalents totalling \$3.5 million and taking into account both the Board's strategy of farming-down or divesting assets and the new financial resources that the Board might reasonably expect to become available, the Company and the Group will have sufficient resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of approval of this Financial Report. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these Financial Statements.

Notwithstanding the confidence that the Board has in its ability to finance the Group's re-shaped business, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that such finance can be procured and failure to do so might cast significant doubt upon the Company's and the Group's ability to continue as a going concern and that the Company and the Group may therefore be unable to realise their assets and discharge their liabilities in the normal course of business. These Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

This Strategic Report was approved by the Board of Directors on 17 March 2016.

### Alastair Beardsall

Executive Chairman

17 March 2016

### Cautionary statement

This Strategic Report has been prepared solely to provide additional information to shareholders to assess the Group'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.

## Governance

# Board of Directors

### Alastair John Beardsall, aged 62

#### Executive Chairman

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

### Joseph Darby, aged 68

#### Senior Independent Non-Executive Director

Mr 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 and later the chief executive of LASMO plc. He has held non-executive roles at Nordaq Energy plc, British Nuclear Fuels plc, Mowlem plc, Centurion Energy Inc and Alkane Energy plc. Mr Darby was previously chairman of Mowlem plc (2005-06) and Faroe Petroleum plc (2003-07). Mr Darby is currently a non-executive director of Premier Oil plc and was appointed a Non-Executive Director of Gulfsands in November 2012.

### Andrew Thomas West, aged 58

#### Non-Executive Director

Mr West has spent much of his career as an investment banker specialising in mergers and acquisitions. He worked for Smith Barney (1981-85), Lehman Brothers (1985-90), Guinness Mahon (1990-96) and from 1996-99 was managing director of Strand Partners, a privately-owned investment banking firm specialising in energy and natural resources among other sectors. For the past 16 years, he has run his own consultancy practice. Mr West is currently a non-executive director or adviser to numerous companies, both public and private, and has had considerable experience as both a financial adviser and a non-executive director in the oil and gas sector. Mr West was appointed to the Board in March 2006 and became Chairman in July 2006; he stepped down as Chairman in April 2015 and remains on the Board as a Non-Executive Director.

### Andrew James Morris, aged 47

#### Independent Non-Executive Director

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

### John Bell, aged 50

#### Independent Non-Executive Director

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

### James Lawrence Ede-Golightly, aged 36

#### Non-Executive Director

Mr Ede-Golightly is chairman of East Balkan Properties plc, Quoram plc and Cronin plc and has extensive experience as a non-executive director on the boards of AIM-quoted companies with international business interests. Mr Ede-Golightly was a founder of ORA Limited in 2006, having previously worked as an analyst at Merrill Lynch Investment Managers and Commerzbank AG. He is a CFA Charterholder and holds an MA in Economics from Cambridge University. In 2012 he was awarded New Chartered Director of the Year by the Institute of Directors. Mr Ede-Golightly was appointed a Non-Executive Director of Gulfsands in August 2014. Mr Ede-Golightly holds a 5.0% interest in, and is a Non-Executive Director of, ORA Limited, which is a company chaired and majority owned by Mr Griffiths. Mr Griffiths, through other associated entities, is a substantial shareholder in Gulfsands.

## Governance

# 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 2015.

The Corporate Governance Report, Audit Committee Report and Directors' Remuneration Report set out on pages 28 to 35 form part of this Directors' Report.

Any significant events since the Balance Sheet date are detailed in note 6.7 to the Consolidated Financial Statements, however an indication of possible future developments in the business of the Group are included in the Strategic Report on pages 2 to 24.

### Dividends

The Directors do not recommend payment of a dividend in respect of 2015 (2014: nil).

### Capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are set out in note 6.1 to the Consolidated Financial Statements. The Company completed a capital reorganisation on 14 September 2015 which resulted in the subdivision of the existing ordinary shares at the time into ordinary shares and deferred shares. The ordinary and deferred shares carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. The deferred shares have no voting rights.

On 14 January 2016 the Company completed an Open Offer of ordinary shares to shareholders on the record date resulting in the issue of 350,733,941 new ordinary shares and the sale of 4,103,355 treasury shares.

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 Association 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. As at 31 December 2015 all issued shares were fully paid.

### Directors and their interests

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

	At 31 December 2015		At 31 December 2014	
	Number of ordinary shares	Number of share options	Number of ordinary shares	Number of share options
Alastair Beardsall <sup>(1)</sup>	—	—	—	—
Andrew West <sup>(7)</sup>	140,144	—	140,144	—
Andrew Morris <sup>(2,7)</sup>	80,000	—	—	—
Joseph Darby <sup>(7)</sup>	25,000	—	—	—
John Bell	—	—	—	—
James Ede-Golightly <sup>(7)</sup>	20,000	—	20,000	—
Alan Cutler <sup>(3)</sup>	—	—	—	—
Mahdi Sajjad <sup>(4)</sup>	8,685,268	250,000	8,685,268	750,000
Ken Judge <sup>(5)</sup>	2,666,750	150,000	2,616,750	450,000
Ian Conway <sup>(6)</sup>	—	112,490	—	167,490

(1) Appointed 14 April 2015.

(2) Appointed 22 April 2015.

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

(4) Removed as CEO on 14 April 2015 and removed as a Director on 30 June 2015. The interest for Mr Sajjad includes shares held by Nordman Continental S.A., a company owned by a trust of which Mr Sajjad's children are potential beneficiaries.

(5) Removed as a Director on 3 February 2015. The interest for Mr Judge includes shares held by Hamilton Capital Partners Limited, an associated company of Mr Judge.

(6) Appointed 30 June 2014 and retired as a Director on 30 June 2015. Note, 47,490 share options are restricted share options (2014: 47,490). See note 6.1 to the Consolidated Financial Statements for further details.

(7) Following the Open Offer on 14 January 2016, Mr West, Mr Morris, Mr Darby and Mr Ede-Golightly all took up their entitlement of 3.01 shares per existing share and increased their shareholdings to the following: Mr West 561,977; Mr Morris 320,800; Mr Darby 100,250 and Mr Ede-Golightly 80,200.

### Directors' interests in transactions

Details of transactions with Directors for the year ended 31 December 2015 are set out in note 6.3 to the Consolidated Financial Statements.



### Substantial shareholders

Except for the holdings of ordinary shares listed below, the Company has not been notified by, or become aware of, any persons holding 3% or more of the issued ordinary shares of the Company at 17 March 2016:

Name	Number of shares	% of shares in issue
Waterford Finance and Investment Limited	284,271,626	38.98%
Blake Holdings Limited <sup>(1)</sup>	136,998,528	28.98%
ME Investments Limited	50,000,000	10.57%
Seren Capital Management Limited <sup>(1)</sup>	9,730,717	2.06%
Cream Capital Limited <sup>(1)</sup>	2,000,000	0.42%
Richard Griffiths	50,000	0.01%

(1) Companies associated with Richard Griffiths.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable laws and International Financial Reporting Standards ("IFRS") as adopted by the EU.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group and Company financial statements in accordance with IFRS as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the

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

### Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### 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 BDO 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,

### Alastair Beardsall

Executive Chairman

17 March 2016

## Governance

## Directors' Corporate Governance Report

Gulfsands Petroleum plc is committed to maintaining high standards of corporate governance, business conduct and ethics throughout the Group. Gulfsands is not required to comply with the UK Corporate Governance Code ("the Code"); but it is the objective of the Board to apply the Code as is appropriate given the size of the Group. Where the Company does not, at the date of this Report, apply relevant provisions of the Code these are disclosed and explained in the following table:

Code provisions	Principle with which Company is non-compliant	Explanation
<b>A.2.1</b>	The roles of CEO and Chairman are currently combined.	The role of CEO was vacated in April 2015, the Group may commence the search for a new CEO during 2016. The role of interim CEO is being undertaken by the Executive Chairman.
<b>A.3.1</b>	The current Chairman, appointed April 2015 is not independent.	The Chairman was appointed in an executive capacity and holds positions as an officer and director of several other companies related to a substantial shareholder, and consequently is not considered independent. See page 25 for further details.
<b>B.2.1</b> <b>B.2.2</b> <b>B.2.4</b>	The Company has no Nominations Committee.	The matters normally delegated to the Nomination Committee are managed by the whole Board. The Board considers this appropriate for a company of our size.
<b>B.4.1</b> <b>B.4.2</b>	Formal induction, training and development processes are not in place for Non-Executive Directors.	The Non-Executive Directors arrange their own personal development and training; formal induction procedures have not been deemed necessary given the experience of the individuals concerned.

In order to communicate its corporate governance standards to employees, contract staff and contractor personnel across the Group, the Board has established a Code of Business Conduct and Ethics which is available on the Company's website and supported by detailed internal policies and procedures. Compliance with the Code of Business Conduct and Ethics is a contractual requirement for all personnel.

### The Gulfsands Board

#### The role of the Board

The Board sets the Group's strategic objectives taking into account the financial and human resources available within the Group to meet these objectives. The Board determines the Company's key policies values and standards, effectively communicating these throughout the Group. Periodically the Board reviews the potential risks to the Group and the Board ensures the probability of these risks affecting the business are minimised via management and mitigation.

The Board's role is to provide entrepreneurial leadership of the Group within a framework of effective controls and periodic reporting; this enables operational and financial performance to be actively monitored and managed.

### The composition of the Board

Gulfsands' business carries political, commercial and technical risks. Accordingly, particular attention is paid to the composition and balance of the Board to ensure that it has experience of the oil and gas industry, the regulatory environments in which the Group operates and has appropriate financial and risk management skills to lead the Group.

The Board considers that objectivity and integrity are prerequisites for all appointments, as are the skills, experience, ability and diversity that will assist the Board in its key functions and decision-making. The Board sees the role of the Non-Executive Directors is to independently and constructively challenge the performance of the Executive Management and to offer assistance and mentor where their skills and experience can assist the performance of the Management team in the delivery of agreed objectives.

The Board of Directors currently comprises the Executive Chairman and five Non-Executive Directors including a Senior Independent Director and two other independent Non-Executive Directors. A brief description of each of the Directors' backgrounds and experience can be found on page 25. The Board continues to review its composition.

Terms and conditions of appointment of Non-Executive Directors are set out in appointment letters.

### How the Board operates

A detailed schedule of matters reserved for the Board has been established and is periodically reviewed. The key matters reserved are the consideration and approval of:

- the Group's overall strategy and objectives;
- material acquisitions and disposals and major expenditure commitments;
- borrowing and hedging of oil and gas sales;
- the issuance of equity and options;
- annual work programme and budget;
- the Group's annual and half-yearly Financial Statements;
- board appointments, remuneration and roles; and
- corporate policies and corporate governance arrangements.

Through the publication of regular announcements, corporate presentations posted to the Company website, and face to face meetings, the Board has sought to communicate its strategy, objectives and performance to all shareholders on a timely basis. When shareholders raise concerns with the Board over the Group's strategy, objectives or performance, the Board endeavours to actively engage with the shareholders in dialogue.

The Board of Directors expects to hold Board Meetings approximately six times per year. On occasions additional meetings are convened to resolve urgent business matters.

### Committees of the Board

The Company has established two sub-committees of the Board, an Audit Committee and a Remuneration Committee; the purpose of which are to review areas of the business mandated by the Board and to present findings and recommendations to the Board for its decision. Each of the Committees has its own written terms of reference; a copy of which is available on the Company's website.

#### 1. Audit Committee

The Audit Committee Report on pages 33 to 35 includes a discussion of the role, structure and composition of the Audit Committee.

#### 2. Remuneration Committee

The Directors' Remuneration Report on pages 30 to 32 includes a discussion of the role, structure and composition of the Remuneration Committee.

The number of meetings of the Board and its Committees during 2015, and individual attendance by Directors, is shown below:

	Board	Audit	Remuneration
<b>Number of meetings 2015</b>	<b>11</b>	<b>3</b>	<b>1</b>
Attendance:			
Alastair Beardsall <sup>(1)</sup>	8	n/a	n/a
Andrew West	10	1	n/a
Andrew Morris <sup>(2)</sup>	8	2	n/a
Joe Darby	11	2	1
John Bell	10	1	1
James Ede-Golightly	9	3	1
Alan Cutler <sup>(3)</sup>	6	n/a	n/a
Mahdi Sajjad <sup>(4)</sup>	6	n/a	n/a
Ken Judge <sup>(5)</sup>	n/a	n/a	n/a
Ian Conway <sup>(6)</sup>	7	n/a	n/a

(1) Appointed 14 April 2015.

(2) Appointed 22 April 2015.

(3) Resigned as a Director on 26 August 2015.

(4) Removed as CEO on 14 April 2015 and removed as a Director on 30 June 2015.

(5) Removed as a Director on 3 February 2015.

(6) Retired as a Director on 30 June 2015.

## Governance

# Directors' Remuneration Report

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 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. It 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 2016 and are available on the Company's website.

The Remuneration Committee derives its authorities from the Delegation of Board Authorities, which was last reviewed in January 2016, and is the Committee responsible for ensuring that the Company's overall reward philosophy is consistent with achievement of the Company's strategic objectives in line with the Company's values.

It is responsible for considering and making recommendations to the Board in respect of remuneration for the Chairman (Executive or Non-Executive), 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 and/or the Executive Chairman.

The remuneration of Non-Executive Directors is a matter for the Chairman in consultation with the CEO and/or the Chairman of the Remuneration Committee with fees being determined by the Board excluding the Non-Executive Directors.

#### Composition of the Remuneration Committee

Andrew West assumed the responsibilities of Chairman of the Remuneration Committee until 6 May 2015, when Joe Darby was appointed Chairman of the Committee with James Ede-Golightly and John Bell as members. A brief description of their background and experience can be found on page 25. 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 normally meets at least twice a year but during 2015 met only once in view of the Company restructuring taking place. The meeting was to review the proposed remuneration for the Executive Chairman. It was conducted by telephone with all members taking part.

#### Remuneration policy

The overall policy of the Group is to attract, motivate and retain high-quality employees capable of pursuing the Company's long-term strategic objectives and delivering its short to medium-term goals.

Directors and employees are remunerated by a combination of salary, annual bonuses and share-based awards which in future will reflect the size of the Company and the scope of its activities. Salary levels will reflect the seniority of the individuals and responsibilities of their roles. Variable elements of remuneration, annual bonus and share incentive awards, will be dependent upon the Company and individual performance. Generally, variable remuneration will comprise a significant part of overall remuneration.

The policy was reviewed in 2011 by Hewitt New Bridge Street, independent remuneration consultants, who undertook a benchmarking exercise in 2013 comparing remuneration of Directors and other staff with their equivalent peers in other independent oil and gas companies.

#### Annual bonus

The annual bonus scheme provides bonuses up to 100% of base salary for Executive Directors for achievement of performance in excess of normal expectation. In the past, bonuses were entirely discretionary based upon performance during the year; in the future, challenging targets will be set annually, performance measured against those targets and bonuses awarded accordingly. No bonuses were paid to Executive Directors in respect of 2015 in view of the financial position of the Company.

All staff are eligible to be considered for the award of performance bonuses which are entirely at the discretion of the Company.

#### Share incentive schemes

Up until 2015, there were two share-based plans in operation: the Gulfsands Share Option Plan and the Gulfsands Restricted Share Plan. The Share Option Plan, which expired early in 2015, was reserved for Directors and senior management while other employees received rewards under the Restricted Share Plan. No share awards have been made to Directors or employees since 2011. As a result of the fall in share price since the imposition of sanctions against Syria towards the end of 2011, options held by Directors at that time have either lapsed or, if still outstanding, are exercisable at share prices significantly in excess of the current share price. In view of the expiry of the Gulfsands Share Option Plan, it is proposed to put in place new share incentive arrangements which will be performance based and in alignment with shareholder interests. Details will be discussed with shareholders.

### Other benefits

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.

### Audited information

#### Remuneration of Directors

The remuneration of the Directors for the year ended 31 December 2015 was as follows:

	Annual remuneration (\$'000)							
	Salary and fees		Bonuses		Benefits in kind		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Alastair Beardsall <sup>(2)</sup>	304	—	—	—	—	—	304	—
Andrew West <sup>(1)</sup>	72	228	—	—	—	—	72	228
Andrew Morris <sup>(1,3)</sup>	40	—	—	—	—	—	40	—
Joe Darby <sup>(1)</sup>	69	99	—	—	—	—	69	99
John Bell <sup>(1,4)</sup>	59	31	—	—	—	—	59	31
James Ede-Golightly <sup>(1,4)</sup>	59	31	—	—	—	—	59	31
Alan Cutler <sup>(5)</sup>	204	330	—	—	4	6	208	336
Mahdi Sajjad <sup>(6)</sup>	229	680	—	—	14	27	243	707
Ken Judge <sup>(7)</sup>	45	579	—	—	1	6	46	585
Ian Conway <sup>(8)</sup>	133	142	—	—	2	2	135	144
David Cowan <sup>(1,9)</sup>	—	42	—	—	—	—	—	42
Michel Faure <sup>(1,10)</sup>	—	41	—	—	—	—	—	41
	1,214	2,203	—	—	21	41	1,235	2,244

(1) Non-Executive Director.

(2) Appointed as Executive Chairman on 14 April 2015 when Mr West stepped down.

(3) Appointed 22 April 2015.

(4) Appointed 13 August 2014.

(5) Appointed 13 September 2013, resigned as a Director on 26 August 2015. Mr Cutler received remuneration of \$36,338 under his Executive contract after resigning as a Director until he left the Company on 13 October 2015.

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

(7) Removed as a Director on 3 February 2015. Fees paid to Hamilton Capital Partners Limited, a company with which Mr Judge is associated. Mr Judge received fees of \$491,651 after he was served notice on 6 March 2015 under his Executive contract until the end of the year. These fees were paid to Hamilton Capital Partners Limited.

(8) Appointed 30 June 2014 and retired as a Director on 30 June 2015. Mr Conway received remuneration of \$132,922 under his Executive contract after retiring as a Director until the end of the year.

(9) Resigned 30 June 2014.

(10) Resigned 13 August 2014.

In addition to the remuneration shown, the Group incurred share-based payment charges of nil (2014:\$6,659) in respect of the above named Directors relating to options granted in prior years.

During 2015 the Company entered into an agreement with HMRC to settle historic UK income tax and national insurance contributions with respect to non-resident Directors through to 4 April 2014. The total amount agreed in this settlement of £195,561 included £144,654 for income tax and employees' national insurance. £100,000 of the agreed settlement amount was paid during 2014 and £95,561 was paid during 2015. This settlement was accrued in 2014.



## Governance

**Directors' Remuneration Report** continued**Share options**

The interests of the Directors, who held office during the 2015, in options over the Company's shares are set out in the table below:

	Number of options			Exercise price (£)	Date from which exercisable	Expiry date
	At 1 January 2015	Exercised	Lapsed/ relinquished			
Mahdi Sajjad <sup>(1)</sup>	125,000	—	—	2.35	03/06/2012	02/06/2016
	125,000	—	—	2.35	03/06/2013	02/06/2016
Ken Judge <sup>(2)</sup>	75,000	—	—	2.35	03/06/2012	02/06/2016
	75,000	—	—	2.35	03/06/2013	02/06/2016
Ian Conway <sup>(3)</sup>	32,500	—	—	2.35	03/06/2012	02/06/2016
	32,500	—	—	2.35	03/06/2013	02/06/2016

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

(2) Removed as a Director on 3 February 2015.

(3) Retired as a Director on 30 June 2015.

**Restricted share options**

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

	Number of options			Exercise price (£)	Date from which exercisable	Expiry date
	At 1 January 2015	Exercised	Lapsed/ relinquished			
Ian Conway <sup>(1)</sup>	23,745	—	—	0.06	04/04/2013	03/04/2017
	23,745	—	—	0.06	04/04/2014	03/04/2017

(1) Retired as a Director on 30 June 2015.

All other Directors held no share options or restricted share options at 31 December 2014 or 2015.

This Report was approved by the Board of Directors on 17 March 2016 and signed on its behalf by:

**Joe Darby**

Chairman of the Remuneration Committee

17 March 2016

## Governance

# Audit Committee Report

The Audit Committee, which reports to and advises the Board, comprises 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 2015, three meetings were held which were also attended by Executive 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 Group's assets in Syria, the carrying values for tangible and intangible assets, disclosure of contingent liabilities and the 'going concern' basis for reporting. In addition, the Committee reviewed the key risks to which the Group is exposed.

The relationship with, and performance of, the external auditor was evaluated. The Audit Committee is satisfied that non-audit fees payable to the external auditor are not material enough to impact auditor objectivity or independence.

After consultation with the external auditor following the full year 2015 audit, the Committee advised the Board that in its view the Annual Report and Financial Statements for 2015 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 as a whole.

### Composition of the Audit Committee

Joe Darby assumed the responsibilities of Chairman of the Audit Committee until 6 May 2015, when Andrew Morris was appointed Chairman of the Committee with James Ede-Golightly and John Bell as members. A brief description of the background and experience of the current members of the Committee can be found on page 25. 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 2016 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 January 2016. 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 assist the Board in ensuring that it receives appropriate financial and risk reporting to enable it to make its business decisions;
- 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.

## Governance

# Audit Committee Report continued

### Activities of the Audit Committee during the year

The work of the Audit Committee in the financial year 2015 principally fell under three main areas and is summarised below:

Accounting and financial reporting	Internal controls and risk	External auditor
<ul style="list-style-type: none"> <li>Reviewed the Interim and Annual Financial Statements and the significant financial reporting judgements.</li> <li>Considered the solvency and liquidity risks 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 auditor on its assessment of the 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 Directors and Officers insurances.</li> <li>Reviewed the Group's risk management process and reports generated from it and considered the key risks facing the Group and strategies for mitigation.</li> <li>Reviewed Code of Corporate Governance practice and reporting requirements.</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

#### Carrying value of the Group's producing operations in Syria

(see note 4.2 to the Consolidated Financial Statements)

Following loss of joint control over DPC in 2011, the Group has valued its investment in that entity at fair value. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and subject to material change and uncertainty. Management has reviewed its internal valuation methodology and believe that as a result of the further passage of time and the high degree of judgement required, it is no longer possible to reliably estimate the investment's fair value. Management will therefore carry forward the last valuation which could be reliably determined, being the \$102 million previously disclosed. This carrying value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement. Management has undertaken an impairment review at 31 December 2015 and believes no impairment necessary. In order to carry out an impairment review, Management uses an economic model of the estimated future cash flows that could be generated in respect of the Group's entitlement reserves in Block 26. The Committee reviewed the economic model, the assumptions underpinning the model being most significantly the oil price and the delay until resumption of production. The Committee concluded that it remained appropriate to retain a carrying value 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.

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

(see notes 2.3 to the Consolidated Financial Statements)

At 31 December 2015, the Group has intangible exploration assets with a carrying value of \$7.1 million on the Balance Sheet (2014: \$53.0 million). This figure is significant in the context of the Group's net assets. The Committee reviewed an impairment paper prepared by Management, which summarised the costs capitalised to cash generating units as at 31 December 2015, those costs written-off during the year due to licence expiries and Management's impairment assessment. The paper concluded that for Moulay Bouchta, given the licence expiry date for the initial exploration phase in June 2016; the outstanding work commitments on the permit which could not physically be fulfilled before this date; and the uncertainty securing an industry partner before licence expiry, the expenditure to date attributed to the Moulay Bouchta permit of \$2.8 million, inclusive of \$1.75 million potential penalty for non completion of the minimum work obligation, should be fully impaired. For all other E&E assets there were no indicators of impairment events as further set out in note 2.3 to the Consolidated Financial Statements. The Committee has therefore concluded that the carrying value of its intangible oil and gas assets, which are stated at cost less any amounts written-off and impairment, is fair and reasonable.

The Committee further notes that the realisation of value from the assets will depend upon a number of factors including securing farm-in partners or divesting assets and in some cases extensions of licences which the Group is currently seeking to negotiate. More details are included in the Operations Review on pages 10 to 16. Should the Group be unsuccessful in completing a farm-in or divestment transaction the realisable value of the assets could fall below their carrying value.

### The going concern basis of reporting

(see note 1.3a to the Consolidated Financial Statements)

The Committee has regularly reviewed financial forecasts for the Group throughout the year and closely monitored the Group's capital raising activities, not least the Open Offer. At 31 December 2015, the Group was holding \$4.1 million of cash resources which consists of \$0.4 million cash and cash equivalents and \$3.7 million restricted cash balances, and an outstanding balance of \$14.4 million under a Convertible Loan Facility. On 14 January 2016 the Company completed an Open Offer of new shares, and the sale of treasury shares, to existing shareholders raising approximately \$20.4 million. Consequently, on the closing of the Open Offer the Group discharged the outstanding loan, with accrued interest and fees, totalling approximately \$14.5 million. This loan is described in note 3.6 to the Consolidated Financial Statements. As at the date of this Report the Group has cash balances immediately available to it of \$3.5 million with net current liabilities of approximately \$1.2 million and ongoing costs for the second half of 2016 onwards approximating to \$0.2 million per month.

The Committee reviewed the level of these resources in the context of the Group's work and expenditure plans over the foreseeable future. The Board and Management have actively reviewed the Group's strategy and adjusted it to one that it is confident can be financed and can bring stability to the Group. Notwithstanding the confidence that the Committee has in this review, it has concluded, as required by FRC guidance, that there is material uncertainty as to the Group's access to the financial and commercial resources necessary to fund the activities going forward. However, based upon feedback from current strategy discussions and ongoing discussions with existing shareholders and potential partners, the Committee concluded that the going concern basis is appropriate in reporting and in the preparation of the Financial Statements.

Further details are available in the Financial Review on pages 23 and 24.

### 2015 Annual Report and Accounts

The Audit Committee reviewed the 2015 Annual Report and Accounts 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.

On behalf of the Audit Committee:

### Andrew Morris

Chairman of the Audit Committee

17 March 2016

# Financial Statements

## 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.

p37	Independent Auditor's Report	p39	Consolidated Balance Sheet
p38	Consolidated Income Statement	p40	Consolidated Statement of Changes in Equity
		P41	Consolidated Cash Flow Statement

### Section 1 Basis of Preparation

This section contains the Group's significant accounting policies that relate to the Financial Statements as a whole. Significant accounting policies specific to one note have been included in that note. Accounting policies determined non-significant are not included in these Financial Statements. There have been no changes to the Group's accounting policies that are not disclosed in the Financial Statements.

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

### 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	Work obligation commitments
2.2	Property, plant and equipment other than oil and gas assets	2.5	Intangible assets other than oil and gas assets – computer software
2.3	Intangible assets	2.6	Decommissioning

### Section 3 Working Capital

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

3.1	Trade and other receivables	3.4	Trade and other payables
3.2	Cash and cash equivalents	3.5	Inventory
3.3	Long-term financial assets	3.6	Loans and borrowings

### Section 4 Other Assets and Liabilities

This section details the Group's investments.

4.1	Investments
4.2	Available-for-sale financial assets

### 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	Segmental analysis of continuing operations	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	Discontinued operations
		5.10	Loss per share

### Section 6 Capital Structure and Other Disclosures

The disclosures in this section focus on the issued share capital, the share schemes in operation and other mandatory disclosures.

6.1	Share capital	6.4	Obligations under operating leases
6.2	Financial instruments, derivatives and capital management	6.5	Contingent liabilities
6.3	Related party transactions and key management	6.6	Contingent assets
		6.7	Post balance sheet events



## Financial Statements

# 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 2015 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheet, the Consolidated and Company Cash Flow Statement, the Consolidated and Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and, as regards the parent company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's ("FRC's") Ethical Standards for Auditors.

### Scope of the audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and parent company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Without modifying our opinion on the Financial Statements for the year ended 31 December 2015, we draw attention to the disclosures made in note 4.2 to the Consolidated Financial Statements concerning the valuation of the

Group's suspended producing operations in Syria, which is recorded at \$102 million following the loss of joint control in December 2011. There is significant uncertainty as to the duration of the EU sanctions imposed in December 2011 and the eventual outcome of events in Syria. The potential impact any outcome will have on the carrying value from the producing operations in Syria is not known.

### Emphasis of matter – going concern

In forming our opinion on the Financial Statements, which is not modified, we have considered the adequacy of the disclosures made by the Directors in note 1.3a to the Consolidated Financial Statements and within the Financial Review of the Strategic Report concerning the Group and the Company's ability to continue as a going concern. The Group will require additional funding in order to meet both capital and administrative obligations and liabilities as they fall due. The Directors believe, based upon discussions with existing shareholders, that the Group will be able to secure the necessary funds within the required timescale, but there are currently no binding agreements in place.

These conditions, along with the other matters explained in note 1.3a to the Consolidated Financial Statements and within the Financial Review of the Strategic Report, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

### 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.

### Scott Knight (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor  
London United Kingdom

17 March 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Financial Statements

## Consolidated Income Statement

for the year ended 31 December 2015

	Notes	2015 \$'000	2014 \$'000
<b>Continuing operations</b>			
General administrative expenses		(6,965)	(5,469)
Share-based payments	5.3	—	(56)
Exploration costs written-off/impaired	2.3	(53,799)	(6,040)
Restricted cash balances forfeited/provided against	3.3	(5,750)	—
Inventory impairment	3.5	(1,117)	—
Other Syrian adjustments		—	(202)
<b>Operating loss</b>	5.2	(67,631)	(11,767)
Foreign exchange losses		(43)	(218)
Loan facility finance cost	3.6	(1,351)	(70)
Other finance expenses		(188)	(76)
Other finance income	5.7	13	18
<b>Loss before taxation from continuing activities</b>		(69,200)	(12,113)
Taxation from continuing activities	5.8	—	—
<b>Loss for the year from continuing operations</b>		(69,200)	(12,113)
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	5.9	—	(3,978)
<b>Loss for the year attributable to owners of the parent company</b>		(69,200)	(16,091)
<b>Loss per share from continuing operations (cents)</b>			
Basic and diluted	5.10	(58.70)	(10.28)
<b>Loss per share attributable to the owners of the parent company (cents)</b>			
Basic and diluted	5.10	(58.70)	(13.65)

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

# Consolidated Balance Sheet

as at 31 December 2015

	Notes	2015 \$'000	2014 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2.1	159	285
Intangible assets	2.3	7,168	53,352
Long-term financial assets	3.3	3,691	11,514
Investments	4.2	102,000	102,000
		<b>113,018</b>	167,151
<b>Current assets</b>			
Inventory	3.5	1,096	2,361
Trade and other receivables	3.1	790	1,028
Cash and cash equivalents	3.2	420	7,907
		<b>2,306</b>	11,296
<b>Total assets</b>		<b>115,323</b>	178,447
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	3.4	5,719	5,882
Loan facility	3.6	14,406	—
Provision for decommissioning	2.6	448	580
		<b>20,573</b>	6,462
<b>Non-current liabilities</b>			
Trade and other payables	3.4	3,427	6,178
Provision for decommissioning	2.6	—	397
Loan facility	3.6	—	4,855
		<b>3,427</b>	11,430
<b>Total liabilities</b>		<b>24,000</b>	17,892
<b>Net assets</b>		<b>91,324</b>	160,555
<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		(11,502)	(11,502)
Retained (loss)/profit		(27,940)	41,291
<b>Total equity</b>		<b>91,324</b>	160,555

These Consolidated Financial Statements were approved by the Board of Directors on 17 March 2016 and signed on its behalf by:

**Alastair Beardsall**

Executive Chairman

## Financial Statements

**Consolidated Statement of Changes in Equity**

for the year ended 31 December 2015

	Share capital \$'000	Share premium \$'000	Merger reserve \$'000	Treasury shares \$'000	Retained (loss)/profit \$'000	Total equity \$'000
At 1 January 2014	13,131	105,926	11,709	(11,502)	57,387	176,651
Loss for 2014	—	—	—	—	(16,091)	(16,091)
Transactions with owners:						
Options settled or exercised	—	—	—	—	(61)	(61)
Share-based payment charge	—	—	—	—	56	56
Total transactions with owners	—	—	—	—	(5)	(5)
At 31 December 2014	13,131	105,926	11,709	(11,502)	41,291	160,555
Loss for 2015	—	—	—	—	(69,200)	(69,200)
Transactions with owners:						
Options settled or exercised	—	—	—	—	(31)	(31)
Total transactions with owners	—	—	—	—	(31)	(31)
<b>At 31 December 2015</b>	<b>13,131</b>	<b>105,926</b>	<b>11,709</b>	<b>(11,502)</b>	<b>(27,940)</b>	<b>91,324</b>

The merger reserve arose on the acquisition of Gulfsands Petroleum Ltd. and its subsidiaries by the Company by way of a share-for-share exchange in April 2005, in conjunction with the flotation of the Company on the Alternative Investment Market of the London Stock Exchange.

# Consolidated Cash Flow Statement

for the year ended 31 December 2015

	Notes	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>			
Operating loss from continuing operations		(67,631)	(11,767)
Depreciation and amortisation	2.1 & 2.3	507	602
Loss on disposal of tangible fixed assets	2.1	10	—
Exploration costs written-off/impaired	2.3	53,799	6,040
Restricted cash balances forfeited/provided against	3.3	5,750	—
Inventory impairment	3.5	1,117	—
Other Syrian adjustments		—	202
Share-based payment charge	5.3	—	56
Decrease in receivables		516	1,598
Increase/(decrease) in payables		522	(254)
Foreign exchange losses		(43)	(218)
Finance expenses paid		(101)	(76)
Interest received		13	18
<b>Net cash used in operating activities by continuing operations</b>		<b>(5,541)</b>	<b>(3,799)</b>
Net cash generated by operating activities of discontinued operations	5.9	—	2,347
<b>Total net cash used in operating activities</b>		<b>(5,541)</b>	<b>(1,452)</b>
<b>Investing activities</b>			
Exploration and evaluation expenditure		(10,085)	(26,987)
Inventory purchased		—	(1,420)
Other capital expenditures		(30)	(340)
Restricted cash balances released	3.3	—	6,500
Amounts placed during the year as restricted cash balances	3.3	—	(1,750)
<b>Net cash used in investing activities by continuing operations</b>		<b>(10,115)</b>	<b>(23,997)</b>
Net cash used in investing activities by discontinued operations	5.9	—	(5,011)
<b>Total net cash used in investing activities</b>		<b>(10,115)</b>	<b>(29,008)</b>
<b>Financing activities</b>			
Loan draw-down		8,200	5,000
Transactions costs paid on loan facility		—	(215)
Other payments in connection with options settled or exercised		(31)	(61)
<b>Net cash provided by financing activities of continuing operations</b>		<b>8,169</b>	<b>4,724</b>
Net cash used in financing activities of discontinued operations	5.9	—	—
<b>Total net cash provided by financing activities</b>		<b>8,169</b>	<b>4,724</b>
<b>Cash disposed as part of disposal of discontinued operations</b>	5.9	<b>—</b>	<b>(181)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(7,487)</b>	<b>(25,917)</b>
Cash and cash equivalents at beginning of year		7,907	33,824
<b>Cash and cash equivalents at end of year</b>	3.2	<b>420</b>	<b>7,907</b>



# Financial Statements

## Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

### Section 1 – Basis of Preparation

#### 1.1 Authorisation of Financial Statements and statement of compliance with IFRS

Gulfsands Petroleum plc is a public limited company quoted on AIM and incorporated in the United Kingdom. The principal activities of the Company and its subsidiaries (the “Group”) are that of oil and gas production, exploration and development.

The Consolidated Financial Statements for the year ended 31 December 2015 were authorised for issue by the Board of Directors on 17 March 2016 and the Balance Sheets were signed on the Board’s behalf by Alastair Beardsall, Executive Chairman.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU. The principal accounting policies adopted are set out in note 1.3.

#### 1.2 Adoption of International Financial Reporting Standards

The Consolidated Financial Statements for the year ended 31 December 2015 and for the comparative year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and IFRIC (IFRS Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

#### 1.3 Significant accounting policies

##### a) Basis of preparation and accounting standards

The Consolidated Financial Statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU and, except for share-based payments and the valuation of available-for-sale investments, under the historical cost convention.

##### Going concern

As at the date of this Report, the Group has cash balances immediately available to it totalling approximately \$3.5 million with net current trade and other payables of approximately \$1.2 million and ongoing costs expected to further decrease in the second half of 2016 approximating to \$0.2 million per month. Restricted cash balances and the work commitments to which they relate are described in note 2.4 of the Consolidated Financial Statements.

Significant focus has been given during the year to strengthening the Balance Sheet of the Group. On 27 August 2015, the Company announced a Capital Raising to raise gross proceeds of approximately \$22.0 million before costs by way of an Open Offer. The Open Offer was conditional upon, among other things, the passing of certain resolutions to permit the Open Offer to proceed. On 14 September 2015, the Company convened a general meeting of shareholders to vote on the resolutions, at which all the resolutions were duly passed by shareholders. As a result, on 16 December 2015 the Company dispatched its Prospectus to shareholders setting out the detailed terms and conditions of the Open Offer. The Open Offer was made to all Qualifying Shareholders (which excludes those shareholders resident in Australia and the US) to provide an opportunity to subscribe for an aggregate of 354,837,296 Open Offer Shares (representing a subscription of 350,733,941 new ordinary shares and a purchase of 4,103,355 treasury shares) on the basis of 3.01 Open Offer Shares for every 1 Existing Share held as at the Record Date, being 5:00pm on 14 December 2015, at an Open Offer Price of 4.0 pence per Open Offer Share. Waterford and Mr Griffiths, as existing shareholders in the Company, each irrevocably undertook to subscribe for their full entitlements under the Open Offer and undertook to underwrite the remaining Open Offer Shares whereby they would acquire any of the shares that were not subscribed for by Qualifying Shareholders under the Open Offer. In providing the undertakings to subscribe for their existing entitlements under the Open Offer, and to Underwrite the remaining Open Offer Shares to be issued under the Open Offer, it was agreed that the principal amount and interest and all fees and penalties accrued and outstanding under the Convertible Loan Facility would be applied in paying up in full the Open Offer Shares to be subscribed pursuant to the Open Offer and the Underwriting. The Open Offer closed for acceptances at 11am on 12 January 2016 and the Company announced that it had received valid acceptances in respect of 151,760,157 Open Offer Shares from Qualifying Shareholders, and that pursuant to the Underwriting, a further 203,077,139 Open Offer Shares had been subscribed for by Waterford and Blake, a company owned and controlled by Mr Griffiths, such that a total of 354,837,296 Open Offer Shares had been subscribed for under the Open Offer representing share proceeds of approximately £14.2 million (\$20.4 million). At the closing of the Open Offer and after satisfaction of the Convertible Loan Facility, the Group had cash and cash equivalents of \$5.6 million.

The Group has continued a strategy of reducing costs and trying to reduce its net financial exposure to its oil and gas operations. The Group is running a farm-out process for its interests in projects in Colombia, Tunisia and Morocco and is optimistic to recover its performance bonds where appropriate and receive some consideration in recognition of the work already completed on the various projects. The Group is also seeking to recover the restricted cash, placed with banks as a guarantee for the completion of exploration activities on the Rhab and Fes permits, and recently drawn on by ONHYM. However, there is no certainty that these initiatives will be successful or that material cash in-flow will be achieved. If these initiatives are not successful the Group’s cash forecast indicate that further funding would be required in approximately eight months time.

Based upon its experience and ongoing discussions with existing shareholders and potential partners, the Board is confident that the Group will be able to access appropriate resources to finance the revised strategy that it is moving forward with, however there are no binding agreements or commitments in place.

Following completion of a review of the going concern position of the Company and Group at the meeting of the Board of Directors on 16 March 2016, including the uncertainties described above, the Board has concluded that, with current consolidated cash and cash equivalents totalling \$3.5 million and taking into account both the Board's strategy of farming-down or divesting assets and the new financial resources that the Board might reasonably expect to become available, the Company and the Group will have sufficient resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of approval of this Financial Report. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these Financial Statements.

Notwithstanding the confidence that the Board has in its ability to finance the Group's re-shaped business, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that such finance can be procured and failure to do so might cast significant doubt upon the Company's and the Group's ability to continue as a going concern and that the Company and the Group may therefore be unable to realise their assets and discharge their liabilities in the normal course of business. These Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

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

#### b) New and amended IFRS

The following relevant new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2015, but had no significant impact on the Group or Company:

Standard	Effective date as adopted by the EU
Amendment to IAS 19 'Employee Benefits'	1 January 2015
IFRIC Interpretation 21 'Levies'	1 January 2015

#### 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 2015, as adopted by the EU, and have not been early adopted:

Standard	Effective date as adopted by the EU
Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016
Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciations and Amortisation'	1 January 2016
Amendments to IAS 16 and IAS 41 'Update on Agriculture: Bearer Plants'	1 January 2016
Amendments to IAS 27 'Separate Financial Statements Permitting Investments in Subsidiaries, Joint Ventures and Associates to be Optionally Accounted for Using Equity Method'.	1 January 2016
Amendment to IAS 1 'Disclosure Amendments'	1 February 2016

The Directors do not anticipate that the adoption of these standards and interpretations will have a material effect on the reported income or net assets of the Group or Company.

#### d) Basis of consolidation

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

The results of subsidiaries acquired or sold are consolidated for the periods from, or to, the date when control passed. Acquisitions are accounted for under the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for the control of the acquiree. Acquisition related costs are recognised in the Income Statement as incurred. At the acquisition date the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

The Consolidated Financial Statements include the accounts of subsidiary undertakings when the Company has the control over the undertaking. The Company controls an investee if all three of the following elements are present: power over the investee; exposure to variable returns from the investee; and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The Group is engaged in oil and gas exploration, development and production through joint operations. A joint operation is whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. As a joint operator the Group recognises its assets, including its share of any assets incurred jointly; its liabilities, including its share of any liabilities incurred jointly; its revenues, including its share of revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses jointly incurred.

## Financial Statements

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2015

### Section 1 – Basis of Preparation continued

#### 1.3 Significant accounting policies continued

##### d) Basis of consolidation continued

When the Group loses control or joint control of a subsidiary or joint operation, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary or joint operation and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary or joint operation are accounted for in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary or joint operation at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: 'Recognition and Measurement' or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

##### e) Foreign and reporting currency

These Consolidated Financial Statements are presented in US Dollars. The majority of all costs associated with foreign operations are denominated in US Dollars and not the local currency of the operations. Therefore the presentational and functional currency of the Company, and the functional currency of all subsidiaries, is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2015 was £1: \$1.47 (2014: £1: \$1.56).

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;
- recoverability of intangible oil and gas exploration and evaluations assets – for further details see note 2.3;
- decommissioning provisions – for further details see note 2.6;
- carrying value of the Group's investment in DPC – for further details see note 4.2; and
- recoverability of restricted cash balances – for further details see notes 2.4 and 3.3.

## Section 2 – Oil and Gas Assets

### 2.1 Property, plant and equipment

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 IFRS.

#### Recognition and measurement

Development and production assets are accumulated on a cash generating unit basis and represent the cost of developing the Proved plus Probable Reserves discovered and bringing them into production, together with the exploration and evaluation ("E&E") asset expenditures incurred in finding Proved plus Probable Reserves, transferred from intangible E&E assets.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, and the cost of recognising provisions for future restoration and decommissioning. See note 2.6 for further details.

#### Depletion of producing assets

Expenditure within each cash generating unit is depleted by a unit of production method using the ratio of oil and gas production in the year compared to the estimated quantity of Proved and Probable Reserves at the beginning of the year. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs for Proved and Probable Reserves. Changes in estimates of commercial reserves or future development costs are dealt with prospectively.

#### Impairment

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount. The aggregate carrying value is compared against the recoverable amount of the cash generating unit, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves.

## Financial Statements

Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2015

Section 2 – Oil and Gas Assets *continued*  
2.1 Property, plant and equipment *continued*

	Oil and gas properties \$'000	Other fixed assets \$'000	Total \$'000
<b>Cost:</b>			
At 1 January 2014	35,407	2,614	38,021
Additions	2,787	401	3,188
Changes to decommissioning estimates	(92)	—	(92)
Disposals	(38,102)	(180)	(38,282)
At 31 December 2014	—	2,835	2,835
Additions	—	31	31
Disposals	—	(69)	(69)
<b>At 31 December 2015</b>	<b>—</b>	<b>2,797</b>	<b>2,797</b>
<b>Accumulated depreciation and depletion:</b>			
At 1 January 2014	(18,618)	(2,170)	(20,788)
Charge for 2014	(1,686)	(556)	(2,242)
Disposals	20,304	176	20,480
At 31 December 2014	—	(2,550)	(2,550)
Charge for 2015	—	(147)	(147)
Disposals	—	59	59
<b>At 31 December 2015</b>	<b>—</b>	<b>(2,638)</b>	<b>(2,638)</b>
<b>Accumulated impairment:</b>			
At 1 January 2014	(4,340)	—	(4,340)
Impairment charge for 2014	4,340	—	4,340
<b>At 31 December 2014 and 2015</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net book value at 31 December 2015</b>	<b>—</b>	<b>159</b>	<b>159</b>
Net book value at 31 December 2014	—	285	285

In December 2014 the Group completed the disposal of all of its US Gulf of Mexico interests, including its producing oil and gas assets, through the disposal of its wholly-owned subsidiary, GPUSA. See note 5.9 for further details of this disposal.

## 2.2 Property, plant and equipment other than oil and gas assets

Property, plant and equipment other than oil and gas assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write-off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Freehold land is not depreciated. See note 2.1 for movements in property, plant and equipment other than oil and gas assets in the year.



## 2.3 Intangible assets

### Key accounting judgements, estimates and assumptions:

#### Recoverability of intangible oil and gas exploration and evaluation assets

If there are indicators of impairment, the carrying values of E&E assets are assessed for impairment which involves judgement as to the (i) likely commerciality of the assets, (ii) future revenues and costs pertaining and (iii) the discount rate to be applied for the purpose of deriving a recoverable value. Additional judgements apply to the Group's E&E assets affected by sanctions in Syria. See note 4.2 for further details.

The Group applies the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources', set out below is our interpretation of the principles set out in IFRS 6.

#### Recognition and measurement

The Group follows the successful efforts method of accounting whereby costs for unsuccessful exploration activities are expensed. All licence acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets in cost centres by licence or contract, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalised insofar as they relate to specific exploration activities. Pre-licence costs and general exploration costs not directly attributable to any particular licence or prospect are expensed as incurred.

E&E assets relating to each exploration licence/prospect are not amortised but are carried forward until the existence or otherwise of commercial reserves has been determined. If commercial reserves have been discovered, the related E&E assets are assessed for impairment on a cash generating unit basis as set out below and any impairment loss is recognised in the Income Statement. The carrying value of the E&E assets, after any impairment loss, is then reclassified as development and production assets in property, plant and equipment. Costs of unsuccessful exploration efforts are expensed at the time that a determination is made that the exploration has failed to locate commercially recoverable hydrocarbons.

#### Impairment

As the Group does not hold any intangibles with an indefinite useful life, non-current assets are assessed for impairment on a cash generating unit basis when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such triggering events in respect of E&E assets include: the point at which final determination is made as to whether commercial reserves exist; actual or imminent expiry of exploration licence/contract without expectation of renewal; and/or no further plans to explore the licence/contract area.

Where there has been an indication of a possible impairment, Management assesses the recoverability of the carrying value of the cash generating unit by comparison with the estimated discounted future net cash flows based on Management's expectation of the future production, hydrocarbon prices and costs. Any identified impairment is charged to the Income Statement.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the Income Statement, net of any amortisation that would have been charged since the impairment.

## Financial Statements

Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2015

Section 2 – Oil and Gas Assets *continued*2.3 Intangible assets *continued*

	Exploration and evaluation assets				Computer software	Total
	Syria \$'000	Morocco \$'000	Tunisia \$'000	Colombia \$'000	\$'000	\$'000
<b>Cost:</b>						
At 1 January 2014	10,505	31,636	5,195	243	2,483	50,062
Additions	—	19,188	794	982	10	20,974
Change in decommissioning estimates	—	977	—	—	—	977
Disposals	—	—	—	—	(123)	(123)
Exploration expenditure written-off	—	(5,246)	(794)	—	—	(6,040)
At 31 December 2014	10,505	46,555	5,195	1,225	2,370	65,850
Additions	—	7,773	75	654	2	8,504
Change in decommissioning estimates	—	(529)	—	—	—	(529)
Exploration expenditure written-off	—	(51,007)	—	—	—	(51,007)
<b>At 31 December 2015</b>	<b>10,505</b>	<b>2,792</b>	<b>5,270</b>	<b>1,879</b>	<b>2,372</b>	<b>22,818</b>
<b>Accumulated amortisation:</b>						
At 1 January 2014	—	—	—	—	(1,524)	(1,524)
Charge for 2014	—	—	—	—	(46)	(46)
Disposals	—	—	—	—	52	52
At 31 December 2014	—	—	—	—	(1,518)	(1,518)
Charge for 2015	—	—	—	—	(360)	(360)
<b>At 31 December 2015</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1,878)</b>	<b>(1,878)</b>
<b>Accumulated impairment:</b>						
At 1 January and 31 December 2014	(10,505)	—	—	—	(475)	(10,980)
Impairment provision for 2015	—	(2,792)	—	—	—	(2,792)
<b>At 31 December 2015</b>	<b>(10,505)</b>	<b>(2,792)</b>	<b>—</b>	<b>—</b>	<b>(475)</b>	<b>(13,772)</b>
<b>Net book value at 31 December 2015</b>	<b>—</b>	<b>—</b>	<b>5,270</b>	<b>1,879</b>	<b>19</b>	<b>7,168</b>
Net book value at 31 December 2014	—	46,555	5,195	1,225	377	53,352

**Syria**

The accumulated costs of E&E assets in Syria represent the Group's share of the drilling costs of the Al Khairat, Twaiba and Wardieh wells and certain 3D seismic surveys. The Al Khairat well was successfully tested but commercial development approval is yet to be granted by the government of the Syrian Arab Republic. The Twaiba and Wardieh wells are still under evaluation.

Following the imposition of EU sanctions against the oil industry in Syria, an impairment test was conducted and the carrying value of all E&E assets in Syria was impaired to nil as it was unclear whether the Group would be able to apply for commercial development approval in the manner contemplated by the Production Sharing Contract. That position remains at the date of this Report.

**Morocco**

Moroccan E&E assets at 31 December 2015 represent exploration expenditure on the Moulay Bouchta permit. The financial commitments of the Moulay Bouchta contract are inconsistent with the Group's revised strategy and therefore Gulfsands have initiated a farm-out process for the Moulay Bouchta contract. However given the licence expiry date for the initial exploration phase in June 2016, the outstanding work commitments on the permit which could not physically be fulfilled before this date and the uncertainty of securing an industry partner before licence expiry, the expenditure to date attributed to the Moulay Bouchta permit of \$2.8 million, inclusive of \$1.75 million potential penalty for non-completion of the minimum work obligations, has been fully impaired at 31 December 2015.

On 24 September 2015 the Fes Petroleum Agreement expired. All E&E expenditure related to the Fes permit has been fully written-off in the year, with write-offs totalling \$22.2 million, inclusive of \$12.0 million fair value recognised on acquisition.

On 9 November 2015, the extension period of the Rharb Petroleum Agreement expired and the Company's request to further extend the Rharb Petroleum Agreement for a period of two years to allow the Company to appraise the gas discoveries made in 2014/15 was rejected. All E&E expenditure related to the Rharb Centre and Rharb Sud permits has been fully written-off in the year, with write-offs totalling \$28.8 million, inclusive of \$5.8 million fair value recognised on acquisition.

### Tunisia

At 31 December 2015 the Tunisian E&E assets represent expenditures under the Chorbane contract including amounts paid during 2013 and 2015 to increase participation in the contract. A two year extension to the PSC was granted on 22 December 2015, extending the contract date to 12 July 2017. Management's strategy is to farm-down or divest the Group's interests in the PSC and has initiated a farm-out process. Management has reviewed its intentions for the Chorbane asset, and believes it is too early to make a prediction on the likelihood of a successful farm-out or to determine what price could be achieved. Therefore they have concluded that there are no indicators of impairment and no impairment of the carrying value is required. The asset carrying value could become impaired should the Group fail to satisfy the work obligations or to realise sufficient value from any divestment or farm-out.

### Colombia

The Group has interests in E&P contracts over two blocks in Colombia: Llanos 50 and Putumayo 14, which expire in November 2016 and November 2017 respectively. At 31 December 2015 the E&E assets of \$1.9 million represent costs incurred in respect of these blocks which are in the early stages of exploration. Management's strategy is to farm-down or divest the Group's interests in these contracts and a broker has been engaged to run the farm-out process in-country. Management has reviewed its intentions for these assets, and believes it is too early to make a prediction on the likelihood of a successful farm-out or to determine what price could be achieved. Management intend to apply for extensions to both contracts. Therefore they have concluded that there are no indicators of impairment and no impairment of the carrying value is required. Both the asset carrying values and the restricted cash amounts could become impaired should the Group fail to satisfy the work obligations or to realise sufficient value from any divestment or farm-out.

## 2.4 Work obligation commitments

At 31 December 2015 the Group had the following capital commitments in respect of its exploration activities:

### Morocco

#### Moulay Bouchta permit – initial exploration phase expiry date and deadline for fulfilment of capital commitments; June 2016

- Acquisition and processing of 500 km of 2D seismic.
- Reprocessing and interpretation of selected legacy 2D seismic lines and the existing 3D seismic data.
- Legacy oil field reactivation survey.
- Total cost of commitments estimated at \$3.9 million.

\$1.75 million (31 December 2014: \$1.75 million) of deposits have been lodged to support guarantees given to ONHYM in respect of completion of these minimum work commitments. These have been fully provided against at 31 December 2015 as, given the licence expiry date for the initial exploration phase in June 2016, the outstanding work commitments on the permit could not physically be fulfilled before this date and therefore it is likely the deposit would not be recoverable. After the potential forfeiture of restricted cash balances, a further \$1.75 million potential penalty for non-completion of the minimum work obligations could be enforced on the Group. This has been provided for as a liability within these accounts.

### Tunisia

#### Chorbane permit – second phase of contract expiry date and deadline for fulfilment of capital commitments; July 2017

- Drilling of one exploration well.
- Acquisition of 200 km of 2D seismic data.
- Total commitments outstanding estimated at \$10.7 million.

### Colombia

#### Putumayo 14 – licence expiry date and deadline for fulfilment of capital commitments; November 2017

- Drilling of one exploration well.
- 2D seismic minimum 93 km.
- The Company has also undertaken to spend \$100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5 km of 2D seismic.
- Total commitments outstanding estimated at \$16.1 million.

# Financial Statements

## Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2015

### Section 2 – Oil and Gas Assets continued

#### 2.4 Work obligation commitments continued

##### Colombia continued

##### Llanos 50 – first exploration phase expiry date and deadline for fulfilment of capital commitments; November 2016

- Drilling of one exploration well.
- 2D seismic minimum 103 km.
- The Company has also undertaken to spend \$100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5 km of 2D seismic.
- Total commitments outstanding estimated at \$13.9 million.

\$3.2 million (31 December 2014: \$3.2 million) of deposits have been lodged to support guarantees given to the Agencia Nacional de Hidrocarburos in respect of completion of these minimum work commitments on Putumayo 14 and Llanos 50.

The deposits referenced in this note are shown as restricted cash amounts in note 3.3.

There were no other material obligations or contracts outstanding in relation to ongoing projects not provided or disclosed in these Consolidated Financial Statements.

#### 2.5 Intangible assets other than oil and gas assets – computer software

Intangible assets other than oil and gas assets are stated at cost less accumulated amortisation and any provision for impairment. Amortisation is charged so as to write-off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Amortisation is included with depreciation and classified as cost of sales or administrative expenses as appropriate. No intangible assets have indefinite lives. See note 2.3 for movements in intangible assets – computer software in the year.

#### 2.6 Decommissioning

##### Key accounting judgements, estimates and assumptions:

At 31 December 2015 the Group has decommissioning and/or restoration obligations in respect of a number of wells and well sites in Morocco under the Moroccan Hydrocarbon Code. The wells and well sites are located on the expired Rharb and Fes permits and on the three exploitation concessions located within these permits. These include the three discoveries on the Rharb Centre permit: LTU-1, DRC-1 and DOB-1, which have all been temporarily suspended. Included within the decommissioning and/or restoration obligations are obligations on all legacy wells drilled prior to the Group's acquisition of those interests.

As the Rharb and Fes petroleum contracts expired during the year, at 31 December 2015 all decommissioning provisions are disclosed as current liabilities and no discount rate has been applied to the estimated cost of decommissioning works.

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. A fixed asset of an amount equivalent to the provision is also created (included in exploration or evaluation assets or development and production assets) and depleted on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset. Where the asset to which the decommissioning provision relates has been fully impaired or written-off the decommissioning asset recognised has also been fully impaired or written-off.

The movement in the provision for decommissioning was as follows:

	\$'000
At 1 January 2014	13,151
Changes in estimates	885
Decommissioning expenses	(2,382)
Discount expense	354
Disposal	(11,031)
At 31 December 2014	977
Current portion	580
Non-current portion	397
<b>At 1 January 2015</b>	<b>977</b>
Changes in estimates	(529)
<b>At 31 December 2015</b>	<b>448</b>
<b>Current portion</b>	<b>448</b>
<b>Non-current portion</b>	<b>—</b>

The decommissioning provision of \$0.4 million at 31 December 2015 (2014: \$1.0 million) relates to decommissioning obligations in respect of the Moroccan Rharb and Fes permits and the exploitation concessions located within these permits. This includes provisions for both Gulfsands drilled wells and legacy wells drilled prior to the Group's acquisition of the interests. Following further examination during 2015 of the scope of work involved, it is anticipated that the fulfilment of these obligations can be completed via rigless operations, resulting in a reduction in the provision.

In December 2014 the Group completed the disposal of all of its US Gulf of Mexico interests, including its producing oil and gas assets and related decommissioning liabilities, through the disposal of its wholly-owned subsidiary, GPUSA. See note 5.9 for further details of this disposal.

# Financial Statements

## Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2015

### 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.

	2015 \$'000	2014 \$'000
Trade receivables	—	—
Other receivables	96	467
Prepayments and accrued income	694	499
Amounts due from oil and gas partnerships	—	62
	<b>790</b>	1,028

At 31 December 2015 and 2014 the Group was owed \$25.3 million by the government of the Syrian Arab Republic relating to oil delivered during the period of August to November 2011. The total amount invoiced was \$31.2 million and to November 2011 an amount of \$5.9 million had been paid. The government of the Syrian Arab Republic has acknowledged the debt. This asset was fully provided against in 2011 due to the uncertainties of recovery. The recovery of this amount is included within the impairment calculations modelled when reviewing the Syrian investment for any impairment, see note 4.2 for further details.

#### 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.

	2015 \$'000	2014 \$'000
Cash at bank and in hand	420	7,907
Restricted cash balances	3,691	11,514
Total cash and bank resources	4,111	19,421
Included in long-term financial assets (note 3.3)	(3,691)	(11,514)
Total cash and cash equivalents	<b>420</b>	7,907

#### 3.3 Long-term financial assets

Long-term financial assets comprise balances held in bank accounts subject to escrow agreements as collateral for performance bonds issued.

#### Key accounting judgements, estimates and assumptions:

Restricted cash balances at 31 December 2015 include \$2.75 million (31 December 2014: \$7.8 million) of deposits collateralising guarantees given to state regulators to secure minimum exploration work commitments in Morocco under the Rharb and Moulay Bouchta Petroleum Agreements, which have been fully provided against at 31 December 2015. Further details of the minimum work obligations to which these guarantees relate are set out in note 2.4.

	2015 \$'000	2014 \$'000
Restricted cash balances	6,441	11,514
Provision against recovery of restricted cash balances	(2,750)	—
Total cash and cash equivalents	<b>3,691</b>	11,514

During the year \$5.0 million of deposits collateralising guarantees in Morocco were written-off as they were forfeited and called by ONHYM on expiry of the Fes Petroleum Agreement.

Note, of the amounts written-off and provided against during the year, \$2.0 million was due back to a third party in the event of its release, as a result the charge to the Income Statement has been reduced on the derecognition of these payables.



### 3.4 Trade and other payables

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

	2015 \$'000	2014 \$'000
<b>Current liabilities</b>		
Trade payables	1,534	816
Accruals and other payables	3,836	5,066
Amounts due to oil and gas partnerships	349	—
	<b>5,719</b>	<b>5,882</b>
<b>Non-current liabilities</b>		
Trade payables	1,893	1,974
Accruals and other payables	1,534	4,204
	<b>3,427</b>	<b>6,178</b>

Included within non-current liabilities is \$3.4 million (2014: \$3.7 million) owed to parties subject to asset freezing regulations under the EU sanctions regime. These amounts relate to goods and services acquired before those entities were designated as sanctioned parties. The Group is not in a position to make payments for these goods or services until such time as sanctions are lifted against the named parties. These liabilities are therefore classified as non-current liabilities as payment of these balances is not expected to be permissible within the next year.

### 3.5 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.

	2015 \$'000	2014 \$'000
Drilling and production inventory	4,417	4,565
Provisions	(3,321)	(2,204)
	<b>1,096</b>	<b>2,361</b>

Drilling and production inventory relates to Moroccan \$2.2 million (2014: \$2.4 million) and Syrian \$2.2 million (2014: \$2.2 million) operations.

Due to Management's revised strategy to farm-out/divest its remaining Moroccan licence, it is anticipated that the inventory will not be utilised on future drilling and production activities in Morocco and instead value will be extracted via disposal. Therefore a provision of \$1.1 million (2014: nil) has been made at 31 December 2015 to reduce the value of the inventory to its expected net realisable value.

During 2013, \$0.7 million of inventory held for Syrian operations was written-off due to a theft at the warehouse. An insurance claim for the full value was submitted during 2013 however, due to complications with the insurance claim it has not been appropriate, as yet, to recognise the claim as an asset as it is not virtually certain that the claim will be paid. There has been no change in this position during 2015.

At 31 December 2015 a provision of \$2.2 million (2014: \$2.2 million) has been carried forward against the value of the remaining Syrian stock. Management believe this is appropriate in light of the theft in 2013 and the lack of Management's control over, and access to, the warehouse at this present time due to the security situation in Syria.

# Financial Statements

## Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2015

### Section 3 – Working Capital continued

#### 3.6 Loans and borrowings

##### Recognition and measurement

Equity and debt instruments are classified as either equity or as financial liabilities in accordance with the substance of the contractual arrangement. Debt instruments include convertible loans.

##### Convertible loan – hybrid financial instrument

Where, at inception, the conversion option is denominated in foreign currency terms such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, the convertible loan (the host contract) is accounted for as a hybrid financial instrument and the option to convert is an embedded derivative.

The embedded derivative is separated from the host contract as its risks and characteristics are not closely related to those of the host contract. At each reporting date, the embedded derivative is measured at fair value with changes in fair value recognised in the Income Statement as they arise. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivative and is subsequently carried at each reporting date at amortised cost. The embedded derivative and host contract are presented under separate headings in the Balance Sheet.

Finance costs of debt are amortised over the term of the related debt using the effective interest rate method. Transaction costs are deducted from debt proceeds on initial recognition of the liability and are amortised and charged to the Income Statement as finance costs over the term of the debt.

##### Convertible loan facility

On 18 November 2014, the Group and Arawak Energy Bermuda Ltd (the “Lender”) entered into an agreement pursuant to which the Lender agreed to provide a three year loan facility of up to \$20.0 million. The Convertible Loan Facility (including amounts drawn, accrued but unpaid interest and fees) was convertible at any time prior to maturity into ordinary shares, initially at a price of £0.80, a premium of approximately 100% to the share price at the close of trading on the date of the agreement.

In the event that the Company issued new ordinary shares prior to conversion, repayment or maturity of the Convertible Loan Facility, the Lender had the right but not the obligation to subscribe for new ordinary shares, up to the amount of the loan facility outstanding at that time, at the same subscription price per share as paid by the other subscribers. If the Lender elected not to participate in such issue of new ordinary shares, the mechanics of conversion of the Convertible Loan Facility provided that an adjustment be made in order that the Lender’s conversion rights continued to represent an entitlement to the same proportion of the Company’s issued share capital after the new issue of ordinary shares as they represented prior to such new issue of ordinary shares.

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

The Company may require conversion of the outstanding balance of the Convertible Loan Facility into ordinary shares in the event that the quoted price for the Company’s ordinary shares on AIM, on an unadjusted basis, exceeds £1.04 for a period of more than 20 consecutive trading days at any time prior to the expiry of the term of the Convertible Loan Facility.

Interest at the rate of 10% per annum was capitalised quarterly and was to be repaid at the end of the term. A commitment fee was also capitalised quarterly and was to be repaid at the end of the term, equivalent to 3% of available undrawn amounts during the twelve month availability period.

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

The Convertible Loan Facility was secured by a floating charge over all of the assets of Gulfsands Petroleum Holdings Ltd, the holding company for the Group’s interest in Block 26, and a share mortgage over the shares in Gulfsands Petroleum Morocco Ltd (the holding company for the Group’s interests in Morocco) with further credit support provided by a guarantee from the Company. The Convertible Loan Facility contained representations, warranties and indemnities in favour of the Lender and provides for events of default and a negative pledge.

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

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

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

On 23 January 2015, Arawak terminated its strategic cooperation agreement with the Company. On 3 February 2015, Ken Judge was removed as an Executive Director of the Company and on 30 June 2015, Mahdi Sajjad was removed as a Non-Executive Director of the Company (having been removed as CEO on 22 April 2015). Under the terms of the Convertible Loan Agreement, these events constituted circumstances under which the holder of the facility may demand repayment of the Convertible Loan Facility in full. In all circumstances of repayment, a repayment fee of \$1.0 million would be payable, less any interest or fees already capitalised or paid on the amount repaid.

The Company announced on 30 June 2015 that Arawak had entered into an assignment agreement with Weighbridge Trust Limited ("Weighbridge"), acting as agent for Waterford Finance and Investment Limited ("Waterford") and Mr Griffiths, to acquire the Convertible Loan Facility from Arawak. Subsequent to the assignment of the Convertible Loan Facility, a further \$3.2 million was advanced under the facility during the latter half of 2015.

In anticipation of acquiring the debt, on 22 June 2015, the Group and Weighbridge entered into an agreement pursuant to which Weighbridge, acting as trustee for Waterford and Mr Griffiths with respect to their interests in the Convertible Loan Facility, provided certain undertakings to the Company. Under the terms of the agreement, Weighbridge provided undertakings that it would not, at any time prior to 23 September 2015, exercise its rights to call for repayment of all outstanding amounts, whether immediately or within the notice period of 90 days, to exercise its conversion rights or to exercise its right to participate in any issue of new ordinary shares pursuant to the terms of the Convertible Loan Facility. Under the terms of the agreement, the Company agreed to grant its consent to the assignment of the Convertible Loan Facility from Arawak to Weighbridge. On 27 August 2015, Weighbridge agreed to extend each of its undertakings to 31 January 2016, being the Open Offer Long Stop Date. It also agreed to release the Company from its undertakings regarding necessary share authorities contained in the Convertible Loan Facility agreement. In providing the undertakings to subscribe for their existing entitlements under the Open Offer, and to Underwrite the remaining Open Offer Shares to be issued under the Open Offer, it was agreed that the principal amount and interest and all fees and penalties accrued and outstanding under the Convertible Loan Facility will be applied in paying up in full the Open Offer Shares to be subscribed pursuant to the Open Offer and the Underwriting.

The movement on the loan balance in the year is represented as follows:

	\$'000
At 1 January 2015	4,855
Loan draw-down	8,200
Interest expense	1,142
Amortisation of transaction costs	209
<b>At 31 December 2015</b>	<b>14,406</b>

On 14 January 2016 the Convertible Loan Facility was discharged in full.

## Financial Statements

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2015

## 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 2015	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 Ltd	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd	100%	Oil and gas exploration	Cyprus
Gulfsands Petroleum (MENA) Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Sud America Ltd	100%	Oil and gas exploration	Cayman Islands

### 4.2 Available-for-sale financial assets

#### Key accounting judgements, estimates and assumptions:

#### Fair value of the Group's investment in Dijla 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. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and subject to material change and uncertainty. Management have reviewed their internal valuation methodology and believe that as a result of the further passage of time and the high degree of judgement required, it is no longer possible to reliably estimate the investment's fair value. Management will therefore carry forward the last valuation which could be reliably determined, being the \$102 million previously disclosed. This value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement.

Where they can be reliably measured, 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 to the Income Statement. 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. Where the fair value cannot be reliably measured the available-for-sale investments are held at the deemed cost, being the last valuation at which they could be reliably measured. Available-for-sale investments held at cost are reviewed for impairment when there has been an indication of a possible impairment. Management assess the recoverability of the carrying value of the available-for-sale investment by comparison with the estimated discounted future net cash flows based on Management's expectation of the future production, hydrocarbon prices, estimated time to resumption of production and costs. Any identified impairment is charged to the Income Statement.

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 carrying value of the available-for-sale investment at 31 December 2015 is \$102 million (2014: \$102 million).

#### Impairment review of the Group's investment in DPC

In order to carry out an impairment review, Management use an economic model of the estimated future cash flows that could be generated in respect of the Group's entitlement volumes in Block 26. The Management team have reviewed this in detail and believe due to the high degree of subjectivity inherent in the valuation it is imperative that the valuation model and its key drivers and assumptions are as transparent as possible. Management assessed the key drivers to be:

- the oil price, and
- the delay to resumption of production.

## 1. Oil price

There has been a significant downward movement in the oil price in the latter part of 2014, throughout 2015 and to date in 2016. It is difficult to assess at this early stage whether this will be a medium term price shock or a rebasing of the oil price. For the year ended 31 December 2015 Management has used the Brent forward curve to 2022 and then a 2% per annum escalation factor applied thereafter as the forecast for the 'base case' comparative valuation for the impairment review. Given the other sources of oil price data reviewed, Management considers this to be a conservative approach.

## 2. Delay to resumption of production

Gulfsands cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. Whilst no definite timeline can be substantiated, the Board continues to believe that the EU Sanctions will be lifted within five years and will continue to monitor all activity focused on resolving the situation in Syria. Management have decided to use commencement of production in five years as the estimate 'base case' comparative valuation for the impairment review.

## Other model assumptions

The model uses the production profiles based upon 2C contingent resources at Khurbet East (Massive, Butmah and Kurrachine Dolomite) and Yousefieh. Receivables are included in relation to oil produced and invoiced but not yet received, and oil produced and not yet invoiced, on the expectation that these amounts will be recovered once EU sanctions are lifted. A 15% discount rate is then applied to give a net present value ("NPV").

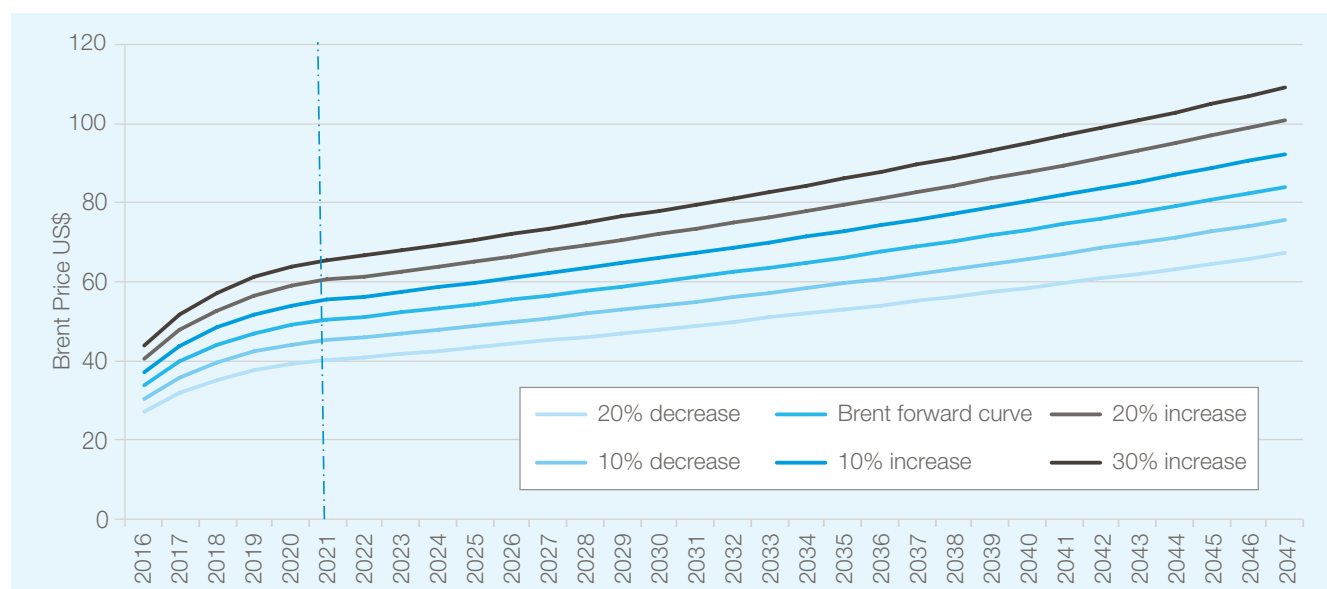
The valuation model calculates:

- a Gross Contractor undiscounted NPV(0) of \$1.48 billion;
- Gulfsands 50% interest NPV(0) of \$0.74 billion; and
- Gulfsands discounted NPV(15) of \$107.2 million.

The Group has used the NPV(15) of \$107.2 million to conclude that no impairment is necessary but the following table sets out the NPV(15) calculated when adjusting the two key drivers: oil price and time delay to resumption of production. All figures are presented in \$'000:

Oil price	Delay to first production		
	Three year delay	Five year delay	Seven year delay
20% decrease	90,797	69,409	52,687
10% decrease	114,959	88,352	67,582
Brent forward curve	138,955	<b>107,234</b>	82,393
10% increase	162,941	126,099	97,239
20% increase	186,809	144,872	112,012
30% increase	210,603	163,587	126,740

## Comparison of Brent price decks used in sensitivity calculations US\$/bbl



## Financial Statements

Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2015

Section 4 – Other Assets and Liabilities *continued*4.2 Available-for-sale financial assets *continued*

The following table sets out the impact that changes in the key variables would have on the comparative valuation of the asset, \$107.2 million, for the impairment review.

Change in comparative valuation  
of investment from \$107.2 million  
\$'000

**Delay until first production**

7 years	(24,841)
3 years	31,722

**Oil price**

20% decrease	(37,825)
10% decrease	(18,882)
10% increase	18,866
20% increase	37,639
30% increase	56,354

**Change in discount rate to**

20%	(45,079)
10%	84,692

**Change in forecast capex**

5% increase	(3,916)
5% decrease	3,916

**Change in forecast opex**

5% increase	(2,836)
5% decrease	2,823

The Directors have reviewed the carrying value of this available-for-sale financial asset at 31 December 2015 and are of the opinion that no impairment is required to the carrying value. Although the carrying value is subject to significant uncertainty, Management believes it remains appropriate in the circumstances, although not necessarily reflective of the value of the Group's investments in its Syrian operations over the long-term. Management reiterate that there is a high degree of subjectivity inherent in the valuation calculated for impairment purposes, 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 and an impairment may then be required.



## Section 5 – Results for the Year

### 5.1 Segmental analysis of continuing operations

For management purposes, at 31 December 2015 the Group operated in three geographical areas: Morocco, Tunisia and Colombia with suspended operations in Syria as discussed in note 4.2. All segments are involved with the production of, and exploration for, oil and gas. The “Other” segment represents corporate and head office costs.

The Group's result and certain asset and liability information for the year are analysed by reportable segment as follows.

#### Year ended 31 December 2015

	Syria \$'000	Morocco \$'000	Tunisia \$'000	Colombia \$'000	Other \$'000	Total \$'000
Total administrative expenditure	(180)	(950)	(418)	(112)	(5,305)	(6,965)
Exploration costs written-off/impaired	—	(53,799)	—	—	—	(53,799)
Restricted cash balances forfeited/ provided against	—	(5,750)	—	—	—	(5,750)
Inventory impairment	—	(1,117)	—	—	—	(1,117)
Operating loss	(180)	(61,616)	(418)	(112)	(5,305)	(67,631)
Financing cost						(1,569)
Net loss from continuing operations						(69,200)
Total assets	102,574	1,385	5,294	1,913	4,157	115,323
Total liabilities	(3,929)	(3,211)	(74)	(49)	(16,737)	(24,000)
E&E capital expenditure	—	7,773	75	654	—	8,502

#### Year ended 31 December 2014

	Syria \$'000	Morocco \$'000	Tunisia \$'000	Colombia \$'000	Other \$'000	Total \$'000
Total administrative expenditure	(482)	(149)	10	(168)	(4,736)	(5,525)
Exploration costs written-off	—	(5,246)	(794)	—	—	(6,040)
Other Syrian adjustments	(202)	—	—	—	—	(202)
Operating loss	(684)	(5,395)	(784)	(168)	(4,736)	(11,767)
Net financing cost credit						(346)
Net loss from continuing operations						(12,113)
Total assets	102,325	51,845	5,256	1,324	17,697	178,447
Total liabilities	(3,827)	(6,486)	(1,587)	(69)	(5,923)	(17,892)
E&E capital expenditure	—	19,188	794	982	—	20,964

### 5.2 Operating loss

The Group's operating loss for continuing operations is stated after charging:

	2015 \$'000	2014 \$'000
Share-based payment charges (note 5.3)	—	56
Depreciation and amortisation of other assets (notes 2.1 and 2.3)	507	602
Exploration expenditure written-off/impaired (note 2.3)	53,799	6,040
Restricted cash balances forfeited/provided against (note 3.3)	5,750	—
Inventory impairment (note 3.5)	1,117	—
Staff costs excluding share-based payments (note 5.5)	5,217	6,168
Operating lease rentals:		
Buildings	887	1,146
Vehicles and equipment	90	100

# Financial Statements

## Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2015

### Section 5 – Results for the Year continued

#### 5.2 Operating loss continued

##### Operating leases

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

#### 5.3 Share-based payments

The Company has made equity-settled share-based payments to certain employees and Directors by way of issues of share options. The fair value of these payments is calculated at grant date by the Company using the Black-Scholes option pricing model excluding the effect of non market-based vesting conditions. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of the number of options that will eventually vest. At each Balance Sheet date, the Company revises its estimates of the number of options expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained profit.

The Group operates two share-based remuneration plans issuing options and restricted shares. Options are issued to Directors and certain senior management personnel. Restricted share options are available to other staff.

Options are issued with an exercise price equivalent to the underlying share price averaged over a period immediately prior to the date of grant, or such other higher exercise price as the Remuneration Committee may determine. Restricted share options are issued with an exercise price equivalent to the par value of the shares. Both options and restricted share options will usually have a deferred vesting period and a maximum validity period of five years.

The share-based payment charge for the period is based upon the requirements of IFRS 2 'Share-based Payment'. For this purpose, the weighted average estimated fair value of the share options and restricted share options granted was calculated using a Black-Scholes option pricing model. The expected average life of options and restricted share options was assumed to be four years.

No dividends were factored into the model. Volatility has been estimated based on the historical volatility of the underlying shares.

No options or restricted share options were issued in 2015 or 2014.

The estimated fair value of options and restricted share options with a deferred vesting period is charged to the Income Statement over the vesting period of the options concerned. The estimated fair value of options and restricted shares exercisable immediately is expensed at the time of issuance of the award. Further details are provided in note 6.1.

#### 5.4 Auditor's remuneration

Details of the auditor's remuneration is set out in the table below:

	2015 \$'000	2014 \$'000
<b>Fees payable to the Company's principal auditor for the audit of:</b>		
Company's accounts	90	141
Company's subsidiaries	20	—
Total audit fees	110	141
Audit related assurance services	13	26
Taxation compliance services	1	6
Other taxation advisory services	—	—
Other services	60	—
Total non-audit fees	74	32
<b>Fees payable to other auditors for the audit of:</b>		
Company's subsidiaries	26	77
Total audit fees	26	77
Audit related assurance services	—	42
Taxation compliance services	8	8
Other taxation advisory services	12	—
Total non-audit fees	20	50

## 5.5 Staff costs

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

	2015 \$'000	2014 \$'000
Wages and salaries	4,769	5,224
Social security costs	334	528
Share-based payment charges	—	56
Other benefits in kind	114	109
HMRC settlement <sup>(1)</sup>	—	307
	5,217	6,224

(1) In 2015 the Company entered into an agreement with HMRC to settle historic UK income tax and national insurance contributions with respect to non-resident Directors through to 4 April 2014. The total amount agreed in this settlement of £195,561 included £144,654 for income tax and employees' national insurance. £100,000 of the agreed settlement amount was paid during 2014 and £95,561 was accrued in 2014 and paid during 2015.

Included in wages and salaries above is an amount of \$0.1 million in respect of termination payments to staff accrued or paid during 2015 (2014: \$0.1 million).

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

	2015	2014
Operational and technical	13	19
Administrative	30	33
	43	52

## 5.6 Directors' emoluments

Details of the remuneration of Directors are included in the Directors' Remuneration Report on page 31. 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.

	2015 \$'000	2014 \$'000
Short-term bank deposit interest	13	18

## 5.8 Taxation

### Current tax

Current tax, including UK Corporation Tax and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Where current or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

	2015 \$'000	2014 \$'000
<b>Current Corporation Tax:</b>		
UK Corporation Tax	—	—
Overseas Corporation Tax	—	—
Total credit	—	—

# Financial Statements

## Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2015

### Section 5 – Results for the Year continued

#### 5.8 Taxation continued

##### Current tax continued

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:

	2015 \$'000	2014 \$'000
<b>Total loss before tax from continuing operations</b>	<b>(69,200)</b>	(12,113)
Tax calculated at domestic rate of 20.25% (2014: 21.5%)	<b>(14,013)</b>	(2,604)
Effects of:		
Expenses not deductible for tax purposes	<b>11,615</b>	2,354
PSC expenses not subject to corporation tax <sup>(1)</sup>	<b>103</b>	346
Tax losses utilised	<b>—</b>	(126)
Tax losses for which no deferred tax asset was recognised	<b>957</b>	30
Impact of local tax rates	<b>1,338</b>	—
	<b>—</b>	—

(1) The Group's tax liabilities in Tunisia and Syria are settled on its behalf by the national oil companies out of the latter's share of royalties and profit oil and, as such, are not reflected in the Group's tax charge for the year.

In Morocco under section 42 of law no. 21-90 related to the Hydrocarbon Code, the Group benefits from a ten-year exemption from Moroccan corporate income tax in respect of each exploitation concession, commencing on the date on which regular production begins from that exploitation concession.

##### Deferred tax

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted, or substantively enacted, tax rates and laws that will be in effect when the differences are expected to reverse. The recoverability of deferred tax assets is evaluated annually and an impairment provision is made if it is more likely than not that the deferred tax asset will not give rise to future benefits in the Group's tax returns.

Deferred tax assets are not provided where the Group does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets. In performing this calculation the Group considers deferred tax balances relating to each tax authority separately. No deferred tax assets have been provided in respect of losses carried forward 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.

The tax effect of amounts for which no deferred tax asset has been recognised is as follows:

	2015 \$'000	2014 \$'000
DD&A and impairment in excess of tax allowances	<b>5,874</b>	957
Other short-term temporary differences	<b>—</b>	—
Tax losses carried forward	<b>8,797</b>	8,209
Unprovided deferred tax asset	<b>(14,671)</b>	(9,166)
Deferred tax asset/(liability) at 31 December	<b>—</b>	—

\$0.2 million of the Group's unutilised tax losses expire within one to five years of the Balance Sheet date.

### 5.9 Discontinued operations

In November 2014 the Group entered into a sale agreement with Hillcrest Resources Ltd to dispose of its wholly-owned US subsidiary GPUSA. The disposal was completed on the 18 December 2014.

The results of the discontinued operations, which have been included in the Consolidated Income Statement, were as follows:

	2014 \$'000
Revenue	5,366
Expenses	(6,870)
Loss before tax	(1,504)
Attributable tax expense	—
	(1,504)
Loss on disposal of discontinued operations	(2,474)
	(3,978)
Attributable tax expense	—
Net loss attributable to discontinued operations (attributable to owners of the parent company)	(3,978)

During 2014, GPUSA contributed \$2.4 million to the Group's net operating cash flows and paid \$5.0 million in respect of investing activities. Cash and cash equivalents of \$0.2 million were disposed of as part of the disposal of discontinued operations.

In 2014 a loss of \$2.5 million arose on the disposal of GPUSA, being the proceeds of disposal and the carrying amount of the subsidiary's net assets, as follows:

	\$'000
Property, plant and equipment	13,458
Long-term financial assets	2,865
Trade and other receivables	609
Cash and cash equivalents	181
Trade and other payables	(3,601)
Provision for decommissioning	(11,031)
Net assets of discontinued operations at disposal	2,481
Consideration	50
Costs to sell	(57)
Loss on disposal of discontinued operations	(2,474)

### 5.10 Loss per share

The basic and diluted loss per share has been calculated using the loss for the year ended 31 December 2015 of \$69.2 million (2014: \$12.1 million) for continuing operations and \$69.2 million (2014: \$16.1 million) for the loss attributable to the owners of the parent company. The basic loss per share was calculated using a weighted average number of ordinary shares in issue less treasury shares held of 117,886,145 (2014: 117,886,145). 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 117,965,804 (2014: 118,210,676).

Where there is a loss, the impact of share options is anti-dilutive and hence, basic and diluted loss per share are the same.

# Financial Statements

## Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2015

### 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

	2015 \$'000	2014 \$'000
Allotted, called up and fully paid:		
121,989,500 (2014: 121,989,500)	13,131	13,131

On 17 September 2015, each of the Company's existing ordinary shares were subdivided into one ordinary share of 1 pence and one deferred share of 4.7142865 pence. Consequently, other than the ordinary share referenced in the above table, there are in issue 121,989,500 deferred shares. The rights of both the ordinary and the deferred shares are as set out in the Articles of Association as amended 15 September 2015. Deferred shares on issue do not have voting rights and are not entitled to dividends.

On 14 January 2016 the Company completed an Open Offer of ordinary shares to shareholders on the record date resulting in the issue of 350,733,941 new ordinary shares and the sale of 4,103,355 treasury shares. See note 6.7 for further details.

The movements in share capital and share options were:

	Number of ordinary shares	Number of deferred shares	Number of share options	Number of restricted share options	Weighted average price of options (£)
At 31 December 2014	121,989,500	—	1,386,000	233,736	2.87
Share split	—	121,989,500	—	—	—
Restricted share options cash-settled	—	—	—	(90,043)	—
Restricted share options lapsing unexercised	—	—	—	(7,000)	—
Share options lapsing unexercised	—	—	(921,000)	—	3.14
<b>At 31 December 2015</b>	<b>121,989,500</b>	<b>121,989,500</b>	<b>465,000</b>	<b>136,693</b>	<b>2.35</b>

All restricted share options have an exercise price of 5.714 pence per restricted share option.

Pursuant to a share buyback programme in 2011 the Company holds 4,103,355 shares in Treasury at 31 December 2015 (2014: 4,103,355). During 2014 and 2015, no shares were issued from Treasury as all restricted share options settled were cash-settled.

The detail of the share options and restricted share options outstanding at 31 December 2015 are as follows:

Exercise period	Year options or restricted share options vest	Weighted average exercise price of options (£)	Number of options	Number of restricted share options
3 June 2012 – 2 June 2016	2012	2.35	265,500	—
3 June 2013 – 2 June 2016	2013	2.35	200,000	—
3 June 2012 – 2 June 2016	2012	—	—	9,533
3 June 2013 – 2 June 2016	2013	—	—	9,532
4 April 2012 – 3 April 2017	2013	—	—	58,814
4 April 2012 – 3 April 2017	2014	—	—	58,814
		<b>2.35</b>	<b>465,000</b>	<b>136,693</b>

Options are exercisable at £2.35 per share and had a weighted estimated remaining contractual life of 0.4 years at 31 December 2015. The weighted remaining contractual life of the restricted share options is approximately 1.1 years.



Of the total outstanding options at 31 December 2015, no options were granted to Directors in office at that time (31 December 2014: 1,320,000), no options were granted to employees of the discontinued US operations (31 December 2014: 66,000), 65,000 options were granted to current staff (31 December 2014: nil) and 400,000 were granted to Directors removed from office during the year (31 December 2014: nil). Of the restricted share options outstanding at 31 December 2015, 136,693 (31 December 2014: 98,943) had been granted to current staff, no restricted share options were granted to Directors in office at that time (31 December 2014: 47,490), and no restricted share options were granted to employees of the discontinued US operations (31 December 2014: 87,303).

The average share price during 2015 was £0.13 (2014: £0.46). The highest share price during the year was £0.38 and the lowest price was £0.03 (2014: £0.70 and £0.23).

## 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 \$0.4 million, and further bank balances of \$3.7 million held in escrow to guarantee minimum work obligations.

Cash forecasts identifying the liquidity requirements of the Group are produced frequently. These are reviewed regularly by Management and the Board.

The following table details the Group's remaining contractual maturity for its non-derivative financial assets and liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of the financial assets and liabilities based upon the earliest date on which the Group can be required to pay or receipt. The table includes both interest and principal cash flows.

	Less than three months \$'000	Three months to one year \$'000	One to three years \$'000	More than three years \$'000	Total \$'000
<b>31 December 2015</b>					
Current trade and other payables	(3,620)	(1,750)	—	—	(5,370)
Non-current trade and other payables	—	—	—	(3,427)	(3,427)
Loan facility	(14,406)	—	—	—	(14,406)
	(18,026)	(1,750)	—	(3,427)	(23,203)
<b>31 December 2014</b>					
Current trade and other payables	(4,898)	(539)	—	—	(5,437)
Non-current trade and other payables	—	(1,000)	(1,500)	(3,678)	(6,178)
Loan facility	—	—	(6,916)	—	(6,916)
	(4,898)	(1,539)	(8,416)	(3,678)	(18,531)

The loan facility bears a weighted average effective interest rate of 10%. No other balances in the table above are interest bearing.

#### Currency risk

The Group has currency exposure arising from transactions denominated in currencies other than the functional currency of the Company and all its subsidiaries, US Dollars. These transactions relate to certain costs of its oil and gas exploration and production operations which are denominated in local currencies or in Euro, and its head office costs which are denominated in Pounds Sterling.

In Syria and Tunisia where the operations are covered by PSCs, costs incurred in currencies other than US Dollars are recoverable under the terms of the PSC at the rate of exchange between US Dollars and that currency at the date of payment of the expense.

The Group maintains part of its cash balances in Pounds Sterling to defray head office costs but limits exposure to other currencies as far as practicable.

## Financial Statements

### Notes to the Consolidated Financial Statements *continued*

for the year ended 31 December 2015

#### Section 6 – Capital Structure and Other Disclosures *continued*

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

###### Currency risk *continued*

The following table demonstrates the sensitivity to changes in the US Dollar exchange rate, with all other variables held constant, on the Group's net assets:

	Change in US Dollar rate	Effect on net assets \$'000
<b>2015</b>	<b>(+ or –) 5%</b>	<b>+/- 145</b>
2014	(+ or –) 5%	+/- 27

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:

	Change in US Dollar rate	Effect on profit before tax \$'000
<b>2015</b>	<b>(+ or –) 5%</b>	<b>+/- 431</b>
2014	(+ or –) 5%	+/- 645

###### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's operations are typically structured via contractual joint venture arrangements. As such, the Group is reliant on joint venture partners to fund their capital or other funding obligations in relation to assets and operations which are not yet cash generative. The Group closely monitors the risks and maintains a close dialogue with those counterparties considered to be highest risk in this regard.

The Directors do not consider that any further provision is necessary against any financial assets.

###### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and, to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of net debt (borrowings as disclosed in note 3.6 after deducting cash and cash equivalents and restricted cash balances as disclosed in note 3.2) and equity of the Group (comprising issued capital, reserves and retained earnings).

### Financial assets

The Group's financial assets consist of long-term financial assets, its available-for-sale investment in DPC, cash at bank and receivables. The interest rate profile at 31 December for these assets at US Dollar equivalents was as follows:

	Financial assets on which interest is earned \$'000	Financial assets on which no interest is earned \$'000	Total \$'000
<b>2015</b>			
US Dollar	<b>3,290</b>	<b>102,637</b>	<b>105,927</b>
Pound Sterling	<b>34</b>	<b>4</b>	<b>38</b>
Euro	<b>122</b>	<b>94</b>	<b>216</b>
Syrian Pound	<b>15</b>	<b>—</b>	<b>15</b>
Moroccan Dirham	<b>2</b>	<b>—</b>	<b>2</b>
Other currencies	<b>11</b>	<b>11</b>	<b>22</b>
	<b>3,474</b>	<b>102,746</b>	<b>106,220</b>
<b>2014</b>			
US Dollar	5,111	114,556	119,667
Pound Sterling	241	57	298
Euro	105	240	345
Syrian Pound	3	—	3
Moroccan Dirham	1,189	83	1,272
Other currencies	95	100	195
	6,744	115,036	121,780

The Pound Sterling, Euro, Moroccan Dirham and Syrian Pound assets principally comprise cash in hand, cash in instant access accounts and short-term money market deposits. The US Dollar assets represent an available-for-sale financial asset, cash on call accounts, money market accounts, and short-term receivables. The Group earned interest on its interest bearing financial assets at rates between 0.01% and 0.35%.

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 2015 and 2014 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 recovery of this amount is included within the impairment calculations modelled when reviewing the Syrian investment for any impairment, see note 4.2 for further details.

The remaining trade receivables consist of amounts receivable from various counterparties where the Group considers the credit risk to be low. This risk is monitored by the Group.

# Financial Statements

## Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2015

### Section 6 – Capital Structure and Other Disclosures continued

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

##### Financial liabilities

The Group's financial liabilities consist of both short-term and long-term payables in addition to the loan facility. None of the short and long-term payables bear interest to external parties. However, the loan facility bears interest at 10% per annum. Note 3.6 sets out details of the loan facility. The Group's short-term liabilities are considered to be payable on demand. At 31 December financial liabilities are classified as shown below:

	Financial liabilities on which interest is charged \$'000	Financial liabilities on which no interest is charged \$'000	Total \$'000
<b>2015</b>			
US Dollar	<b>14,406</b>	<b>5,548</b>	<b>19,954</b>
Pound Sterling	—	<b>1,905</b>	<b>1,905</b>
Euro	—	<b>579</b>	<b>579</b>
Syrian Pound	—	<b>153</b>	<b>153</b>
Moroccan Dirham	—	<b>230</b>	<b>230</b>
Other currencies	—	<b>87</b>	<b>87</b>
	<b>14,406</b>	<b>8,502</b>	<b>22,908</b>
<b>2014</b>			
US Dollar	5,065	9,268	14,333
Pound Sterling	—	821	821
Euro	—	666	666
Syrian Pound	—	357	357
Moroccan Dirham	—	447	447
Other currencies	—	59	59
	5,065	11,618	16,683

##### Commodity price risk

The realisation of the carrying values of oil and gas assets within these Consolidated Financial Statements, and the value of the Group's available-for-sale financial assets, being the Syrian interests, are in part dependent upon future oil and gas prices achieved. Note 4.2 gives details of the impact of a change in the oil price on the valuation of available-for-sale financial assets.

In 2015 and 2014 the Group did not enter into any derivative contracts in respect of its exposure to fluctuations in the price of oil and gas.

##### Fair values

The Group'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. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and subject to material change and uncertainty. Management believes that as a result of the further passage of time and the high degree of judgement required, it is no longer possible to reliably estimate the investment's fair value. Management will therefore carry forward the last valuation which could be reliably determined, being the \$102 million previously disclosed. This value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement, this is described further in note 4.2.

The Group has a Convertible Loan Facility where the conversion option is denominated in foreign currency terms such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, and therefore it is recognised as a hybrid financial instrument with the option to convert being an embedded derivative. The embedded derivative is recognised at fair value and re-measured at each subsequent reporting date. At the initial loan draw-down and at 31 December 2014, Management have valued the embedded derivative at fair value using the Black-Scholes model and the value is immaterial to separate from the host debt contract. At 31 December 2015 the lender, Weighbridge, has made an undertaking not to convert the loan before the Open Offer long stop date and therefore at 31 December 2015 there is no embedded derivative element to fair value. This is described further in note 3.6.

At 31 December 2015 and 2014, the Directors considered the fair values and book values of the Group's financial assets and liabilities to be level 3 valuations.

### 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 31 to 32.

The remuneration of Directors is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2015 \$'000	2014 \$'000
Short-term employee benefits	1,235	2,219
Share-based payments	—	7
	<b>1,235</b>	<b>2,226</b>

In 2014 the Group received management consultancy services from Cresand Holdings Ltd, a company associated with Mr Bell, totalling \$82,590. These services were not received during 2015. At 31 December 2015 and 2014 no amounts were due to Cresand Holding Ltd in respect of these services.

The Company announced on 30 June 2015 that Arawak had entered into an assignment agreement with Weighbridge, acting as agent for Waterford and Mr Griffiths, to acquire the Convertible Loan Facility from Arawak. Subsequent to the assignment of the Convertible Loan Facility, a further US\$3.2 million was advanced under the facility during the latter half of 2015. At 31 December 2015 \$14.4 million is outstanding under the loan facility, see note 3.6 for further details. On 14 January 2016 the Convertible Loan Facility was discharged in full.

All of the above related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Balances and transactions between the Company and its subsidiaries, which are related, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its subsidiaries are disclosed in note 6.5 of the Company Financial Statements.

There were no other related party transactions of the Group during the years ended 31 December 2015 or 2014.

### 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:

	2015		2014	
	Land and buildings \$'000	Other \$'000	Land and buildings \$'000	Other \$'000
Amounts payable on leases:				
Within one year	647	—	817	—
In two to five years	95	—	789	—
	<b>742</b>	<b>—</b>	<b>1,606</b>	<b>—</b>

There are no future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period (31 December 2014: \$0.8 million expected to be received).

# Financial Statements

## Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2015

### Section 6 – Capital Structure and Other Disclosures continued

#### 6.5 Contingent liabilities

##### Legal claim – Mahdi Sajjad

On 13 April 2015 Mahdi Sajjad was removed from his role as the Company's Chief Executive Officer. The Company has been advised by Mayer Brown International LLP, acting on behalf of Mr Sajjad, the action taken on 13 April 2015 constituted a material adverse change to Mr Sajjad's employment which he had not consented to; furthermore, Mr Sajjad has elected to treat his employment contract terminated on 8 May 2015 and claims certain payments are now due under his employment contract. Mr Sajjad has brought a claim in the High Court against Gulfsands Petroleum Levant Limited ("Gulfsands Levant"), a subsidiary of the Group, which arises out of his removal by the Board as CEO and termination of his employment. Mr Sajjad claims that the Board's action entitled him to terminate an employment contract with Gulfsands Levant on 8 May 2015 and subsequently to receive a payment of £412,000 comprising of annual salary and hardship allowance plus interest at £90.30 per day running from 8 May 2015. In the alternative, Mr Sajjad claims damages for fundamental breach of his contract with Gulfsands Levant and claims that he is entitled to damages arising out of Gulfsands Levant's failure to pay notice up to 31 March 2017. Gulfsands Levant strongly refutes these claims. Gulfsands Levant has brought a counterclaim for £75,160 against Mr Sajjad in relation to a payment to HM Revenue & Customs in respect of his unpaid tax and National Insurance contributions during the period 2008-2014. Mr Sajjad has also brought a claim in the Employment Tribunal against Gulfsands Levant for constructive unfair dismissal based on the same factual circumstances as his High Court claim. He is currently claiming £89,922 by way of compensation. Gulfsands Levant strongly refutes the claim.

In October 2015 Mr Sajjad also brought a claim before the Lebanese Arbitration Board against Gulfsands Petroleum (MENA) Limited ("Gulfsands (MENA)") in relation to the branch office in Beirut. He claims that he was employed by Gulfsands (MENA) as a manager of the branch from August 2011 until 1 October 2015 when he was allegedly dismissed. He claims \$400,000 for four years non-payment of salary plus interest, \$100,000 as compensation for 'abusive/summary' dismissal and \$16,666 for two months' notice plus interest. Gulfsands (MENA) strongly refutes the claims. To date, no hearing has been set. The Company continued to pay Mr Sajjad as an Executive Director for the period from 14 April 2015 to 8 May 2015, when Mr Sajjad terminated his employment contract (as required during his notice period), and as a Non-Executive Director for the period 9 May 2015 to 30 June 2015 when he was not re-elected as a Director at the Company's Annual General Meeting. The Group is currently engaged in defending Mr Sajjad's claims and in pursuing its counterclaim against Mr Sajjad.

##### Penalties sought by ONHYM under the Rharb Petroleum Agreement

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

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

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

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

In these Financial Statements the \$1.0 million restricted cash balance has been fully provided against and decommissioning and restoration provisions of \$0.5 million covering all Gulfsands drilled wells and legacy wells have been provided for. However no provisions have been made for training obligations or the penalty.



## 6.6 Contingent assets

### Recovery of guarantee amounts under the Rharb Petroleum Agreement

As detailed above on 30 November 2015 the Company received a response from ONHYM stating Gulfsands Morocco will forfeit its \$1.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Rharb Petroleum Agreement. ONHYM drew this amount in January 2016.

Gulfsands have provided ONHYM with details of the costs actually incurred in respect of the exploration work required to be carried out during the extension period and these costs significantly exceed the \$15 million estimated costs of the minimum exploration work programme. Therefore Gulfsands believe that in accordance with the Rharb Petroleum Agreement no penalty payment is due. As a result the \$1.0 million drawn by ONHYM was not drawn under the provisions of the Rharb Petroleum Agreement as no penalty was due and therefore should be refunded back to Gulfsands. Of the \$1.0 million, \$0.5 million is due back to a third party if released by ONHYM.

No asset has been recognised in these Financial Statements for this contingent asset.

### Recovery of guarantee amounts under the Fes Petroleum Agreement

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

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

Gulfsands provided ONHYM with details of the costs actually incurred in respect of the exploration work required to be carried out during the extension period and these costs significantly exceed the \$18.5 million estimated costs of the minimum exploration work programme. Therefore, Gulfsands believes that in accordance with the Fes Petroleum Agreement no penalty payment is due. As a result the \$5.0 million drawn by ONHYM was not drawn under the provisions of the Fes Petroleum Agreement as no penalty was due and therefore should be refunded back to Gulfsands. Of the \$5.0 million, \$1.5 million is due back to a third party if released by ONHYM.

No asset has been recognised in these Financial Statements for this contingent asset.

## Financial Statements

# Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2015

## Section 6 – Capital Structure and Other Disclosures continued

### 6.7 Post Balance Sheet events

#### Open Offer

The Company made an Open Offer to all Qualifying Shareholders (which excluded those shareholders resident in Australia and the US) to provide an opportunity to subscribe for an aggregate of 354,837,296 Open Offer Shares (representing a subscription of 350,733,941 new ordinary shares and a purchase of 4,103,355 treasury shares) on the basis of 3.01 Open Offer Shares for every 1 existing share held as at the Record Date, at an Open Offer Price of 4.0 pence per Open Offer Share.

The Open Offer closed for acceptances at 11am on 12 January 2016 and the Company announced that it had received valid acceptances in respect of 151,760,157 Open Offer Shares from Qualifying Shareholders. Pursuant to the Underwriting, a further 203,077,139 Open Offer Shares were subscribed for by Waterford and Blake, a company owned and controlled by Mr Griffiths, such that a total of 354,837,296 Open Offer Shares were subscribed for under the Open Offer. The Company therefore raised aggregate gross proceeds of £14,193,491.84 through the Open Offer.

The 350,733,941 new ordinary shares were admitted to trading on AIM on 14 January 2016. The Company also sold its 4,103,355 treasury shares to Qualifying Shareholders under the terms of the Open Offer.

Following the issue of the new ordinary shares and the sale of the treasury shares, Gulfsands have 472,723,441 ordinary shares of 1.0 pence each in issue, which represent the total number of voting rights in the Company.

#### Repayment of Weighbridge Loan Facility

On 22 June 2015, the Group and Weighbridge entered into an agreement pursuant to which Weighbridge, acting as trustee for Waterford and Mr Griffiths with respect to their interests in the Convertible Loan Facility, provided certain undertakings to the Company. Under the terms of the agreement, Weighbridge provided undertakings that it would not, at any time prior to 23 September 2015, exercise its rights to call for repayment of all outstanding amounts, whether immediately or within the notice period of 90 days, to exercise its conversion rights or to exercise its right to participate in any issue of new ordinary shares pursuant to the terms of the Convertible Loan Facility. Under the terms of the agreement, the Company agreed to grant its consent to the assignment of the Convertible Loan Facility from Arawak to Weighbridge. On 27 August 2015, Weighbridge agreed to extend each of its undertakings to 31 January 2016, being the Open Offer Long Stop Date. It also agreed to release the Company from its undertakings regarding necessary share authorities contained in the Convertible Loan Facility agreement. In providing the undertakings to subscribe for their existing entitlements under the Open Offer, and to Underwrite the remaining Open Offer Shares to be issued under the Open Offer, it has been agreed that the principal amount and interest and all fees and penalties accrued and outstanding under the Convertible Loan Facility will be applied in paying up in full the Open Offer Shares to be subscribed pursuant to the Open Offer and the Underwriting.

On 14 January 2016 the Convertible Loan Facility was discharged in full.

# Parent Company Financial Statements and Notes to the Company Financial Statements

## Parent Company Primary Statements

This section contains the Company's primary Financial Statements.

- p74 Company Balance Sheet
- p75 Company Statement of Changes in Equity
- p76 Company Cash Flow Statement

## Section 1 Basis of Preparation

This section contains the Group's significant accounting policies that relate to the financial statements as a whole. Significant accounting policies specific to one note have been included in that note. Accounting policies determined non-significant are not included in these financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

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

## Section 2 Property, Plant and Equipment and Intangible Assets

This section focuses on the property, plant, equipment and computer software utilised by the Company.

- 2.1 Property, plant and equipment
- 2.2 Intangible assets

## Section 3 Investments in and Loans to Subsidiaries

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

- 3.1 Investments

## Section 4 Working Capital

This section focuses on the working capital position of the Company supporting its business.

- 4.1 Trade and other receivables
- 4.2 Cash and cash equivalents
- 4.3 Long-term financial assets
- 4.4 Trade and other payables

## Section 5 Results for the Year

This section focuses on the results and performance of the Company.

- 5.1 Revenue recognition
- 5.2 Operating leases
- 5.3 Share-based payments
- 5.4 Taxation
- 5.5 Earnings per share

## Section 6 Capital Structure and Other Disclosures

The disclosures in this section focus on the issued share capital, the share schemes in operation and other mandatory disclosures.

- 6.1 Share capital
- 6.2 Financial instruments, derivatives and capital management
- 6.3 Assets held for sale
- 6.4 Foreign currency
- 6.5 Related party transactions and key management

# Financial Statements

## Company Balance Sheet

as at 31 December 2015

	Notes	2015 \$'000	2014 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2.1	15	14
Intangible assets	2.2	—	298
Long-term financial assets	4.3	3,191	9,931
Investments in and loans to subsidiaries	3.1	7,307	7,307
Amounts due from subsidiaries	4.1	25,401	71,394
		<b>35,914</b>	88,944
<b>Current assets</b>			
Trade and other receivables	4.1	680	579
Cash and cash equivalents	4.2	85	729
Asset held for sale	6.3	1,810	1,225
		<b>2,575</b>	2,533
<b>Total assets</b>		<b>38,489</b>	91,477
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	4.4	1,707	1,077
<b>Total liabilities</b>		<b>1,707</b>	1,077
<b>Net assets</b>		<b>36,782</b>	90,400
<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)	(11,502)
Retained loss		(70,773)	(17,155)
<b>Total equity</b>		<b>36,782</b>	90,400

The Financial Statements of Gulfsands Petroleum plc (registered number: 05302880) were approved by the Board of Directors on 17 March 2016 and signed on its behalf by:

**Alastair Beardsall**

Executive Chairman

## Company Statement of Changes in Equity

for the year ended 31 December 2015

	Share capital \$'000	Share premium \$'000	Treasury shares \$'000	Retained (loss)/profit \$'000	Total equity \$'000
At 1 January 2014	13,131	105,926	(11,502)	4,509	112,064
Loss for 2014	—	—	—	(21,659)	(21,659)
Transactions with owners:					
Options exercised or cash settled	—	—	—	(61)	(61)
Share-based payment charge	—	—	—	56	56
Total transactions with owners	—	—	—	(5)	(5)
At 31 December 2014	13,131	105,926	(11,502)	(17,155)	90,400
Loss for 2015	—	—	—	(53,587)	(53,587)
Transactions with owners:					
Options exercised or cash settled	—	—	—	(31)	(31)
Total transactions with owners	—	—	—	(31)	(31)
<b>At 31 December 2015</b>	<b>13,131</b>	<b>105,926</b>	<b>(11,502)</b>	<b>(70,773)</b>	<b>36,782</b>

# Financial Statements

## Company Cash Flow Statement

for the year ended 31 December 2015

	Notes	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>			
Operating loss		(3,766)	(3,597)
Depreciation and amortisation	2.1 & 2.2	307	244
Share-based payment charge		—	56
(Increase)/decrease in receivables		(207)	493
Increase in payables		614	167
<b>Net cash used in operations</b>		<b>(3,052)</b>	<b>(2,637)</b>
Interest received		10	9
Bank fees		(13)	(18)
Foreign exchange losses		(18)	(136)
<b>Net cash used in operating activities</b>		<b>(3,073)</b>	<b>(2,782)</b>
<b>Investing activities</b>			
Investment in assets held for sale		(479)	(889)
Capital expenditure		(9)	(42)
Change in restricted cash balances	4.3	—	3,250
Funds transferred to subsidiaries		2,948	(27,915)
<b>Net cash used in investing activities</b>		<b>2,460</b>	<b>(25,596)</b>
<b>Financing activities</b>			
Other payments in connection with options issued		(31)	(61)
<b>Net cash used in financing activities</b>		<b>(31)</b>	<b>(61)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(644)</b>	<b>(28,439)</b>
Cash and cash equivalents at beginning of year		729	29,168
Cash and cash equivalents at end of year	4.2	85	729



# Financial Statements

## Notes to the Parent Company Financial Statements

for the year ended 31 December 2015

### Section 1 – Basis of Preparation

#### 1.1 Authorisation of Financial Statements and statement of compliance with IFRS

Gulfsands Petroleum plc is a public limited company listed on AIM and incorporated in the United Kingdom. The principal activity of the Company is that of provision of services to its subsidiaries which are engaged in oil and gas production, exploration and development activities.

The Company Financial Statements for the year ended 31 December 2015 were authorised for issue by the Board of Directors on 17 March 2016 and the Balance Sheet was signed on the Board's behalf by Alastair Beardsall, Chairman.

The Company Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The principal accounting policies adopted are set out in note 1.3.

#### 1.2 Adoption of International Financial Reporting Standards

The Company's Financial Statements for the year ended 31 December 2015 and for the comparative year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and IFRIC (IFRS Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

See note 1.3b to the Consolidated Financial Statements for details of new IFRS and interpretations.

#### 1.3 Significant accounting policies

##### a) Basis of preparation and accounting standards

The Company's significant accounting policies used in the preparation of the Company Financial Statements are set out in the notes below.

The Company Financial Statements have been prepared in accordance with applicable IFRS as adopted by the EU and, except for share-based payments, under the historical cost convention. They have also been prepared on the going concern basis of accounting, for the reasons set out in note 1.3a to the Consolidated Financial Statements.

##### b) Reporting currency

These Company Financial Statements are presented in US Dollars. The Company's operations and the majority of all costs associated with foreign operations are paid in US Dollars and all loan balances with subsidiary undertakings are denominated in US Dollars. Therefore the presentational and functional currency of the Company is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2015 was £1: \$1.47 (2014: £1: \$1.56).

#### 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.

## Financial Statements

## Notes to the Parent Company Financial Statements continued

for the year ended 31 December 2015

## 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 2014	914
Additions	25
At 1 January 2015	939
Additions	9
<b>At 31 December 2015</b>	<b>948</b>
<b>Accumulated depreciation:</b>	
At 1 January 2014	(682)
Charge for 2014	(243)
At 1 January 2015	(925)
Charge for 2015	(8)
<b>At 31 December 2015</b>	<b>(933)</b>
<b>Net book value at 31 December 2015</b>	<b>15</b>
Net book value at 31 December 2014	14

## 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 2014	1,232
Additions	2
<b>At 1 January 2015 and 31 December 2015</b>	<b>1,234</b>
<b>Accumulated amortisation:</b>	
At 1 January 2014	(949)
Asset corrections	14
Amortisation charge for 2014	(1)
At 1 January 2015	(936)
Amortisation charge for 2015	(298)
<b>At 31 December 2015</b>	<b>(1,234)</b>
<b>Net book value at 31 December 2015</b>	<b>—</b>
Net book value at 31 December 2014	298

## 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.

The Company's investments in subsidiary undertakings are shown in note 4.1 to the Consolidated Financial Statements.

## Section 4 – Working Capital

### 4.1 Trade and other receivables

Trade receivables are carried at original invoice amounts less any provision made for impairment of receivables. A provision for impairment of trade receivables is made when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debt.

	2015 \$'000	2014 \$'000
<b>Current</b>		
Other receivables	85	278
Prepayments and accrued income	595	301
	680	579
<b>Non-current</b>		
Amounts due from subsidiaries	25,401	71,394

Further details on the amounts due from subsidiaries are included in note 6.5.

### 4.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand by banks and other short-term investments with original maturities of three months or less. Balances held in bank accounts subject to escrow agreements as collateral for performance bonds issued are excluded from cash and cash equivalents and are shown as long-term financial assets.

	2015 \$'000	2014 \$'000
Cash at bank and in hand	85	729
Restricted cash balances	3,191	9,931
Total cash and bank resources	3,276	10,660
Included in long-term financial assets	(3,191)	9,931
Total cash and cash equivalents	85	729

### 4.3 Long-term financial assets

Long-term financial assets comprise balances held in bank accounts subject to escrow agreements as collateral for performance bonds issued.

	2015 \$'000	2014 \$'000
Restricted cash balances	4,941	9,931
Provision against recovery of restricted cash balances	(1,750)	—
Total cash and cash equivalents	3,191	9,931

Restricted cash balances at 31 December 2015 include \$1.75 million of deposits collateralising guarantees given to state regulators to secure minimum exploration work commitments in Morocco, which have been fully provided against at 31 December 2015.

The remaining \$3.2 million at 31 December 2015 relates to amounts held in escrow to guarantee minimum work obligations on PUT 14 and LLA 50 in Colombia.

For each of the licences above, the licence period and remaining minimum work commitments are detailed in note 2.4 to the Consolidated Financial Statements.

# Financial Statements

## Notes to the Parent Company Financial Statements continued

for the year ended 31 December 2015

### Section 4 – Working Capital continued

#### 4.4 Trade and other payables

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

#### Trade and other payables

	2015 \$'000	2014 \$'000
<b>Current</b>		
Trade payables	881	350
Accruals and other payables	826	727
	<b>1,707</b>	1,077

### 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 \$53.6 million (2014: \$21.2 million). There was no revenue during 2015, as defined by IAS 18 'Revenue' (2014: \$3.9 million comprising of interest income).

The Company operates in one segment, that of the provision of services to Group undertakings, and in one geographical area, the United Kingdom.

#### 5.2 Operating leases

Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the lease term.

#### Obligations under operating leases

At the end of the year the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings of \$0.6 million (31 December 2014: \$0.6 million) within one year and \$0.1 million (31 December 2014: \$0.7 million) between two and five years.

#### 5.3 Share-based payments

The Company has made equity settled share-based payments to certain employees and Directors by way of issues of share options. The fair value of these payments is calculated at grant date by the Company using the Black-Scholes option pricing model excluding the effect of non market-based vesting conditions. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of the number of options that will eventually vest. At each Balance Sheet date, the Company revises its estimates of the number of options expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained profit.

See note 5.3 to the Consolidated Financial Statements.

#### 5.4 Taxation

##### Current tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

##### Deferred tax

No deferred tax assets have been provided in respect of losses carried forward in the UK and other temporary timing differences as the Board does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets.

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted, or substantively enacted, tax rates and laws that will be in effect when the differences are expected to reverse. The recoverability of deferred tax assets is evaluated annually and an impairment provision is provided if it is more likely than not that the deferred tax asset will not give rise to future benefits in the Company's tax returns.

**Deferred tax assets/(liabilities)**

	<b>2015</b> <b>\$'000</b>	2014 \$'000
Tax losses carried forward	<b>7,948</b>	7,550
Depreciation in advance of capital allowances	<b>120</b>	124
Unprovided deferred tax asset	<b>(8,068)</b>	(7,674)
Deferred tax asset/(liability) at 31 December	<b>—</b>	—

The tax losses of the Company have no expiry date.

**5.5 Earnings per share**

No earnings per share information is shown as the Company is not required to present an Income Statement.

**Section 6 – Capital Structure and Other Disclosures****Equity instruments**

Equity instruments issued by the Company, being any instruments with a residual interest in the assets of the Company after deducting all its liabilities, are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

**6.1 Share capital**

See note 6.1 to the Consolidated Financial Statements.

**6.2 Financial instruments, derivatives and capital management**

The financial risks of the Company are principally in respect of balances held in bank accounts and on deposit, and balances owed to, or owed by, subsidiary undertakings. Balances owed to, or owed by, subsidiary undertakings are all denominated in US Dollars. Other risks are managed on a unified basis with the Group and a full disclosure of these risks is made in note 6.2 to the Consolidated Financial Statements.

The exposure of the Company to interest rate and currency movements is not significant.

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

	Financial assets on which interest is earned \$'000	Financial assets on which no interest is earned \$'000	Total \$'000
<b>2015</b>			
US Dollar	<b>3,185</b>	<b>32,753</b>	<b>35,938</b>
Pound Sterling	<b>34</b>	<b>5</b>	<b>39</b>
Euro	<b>—</b>	<b>7</b>	<b>7</b>
Other currencies	<b>—</b>	<b>—</b>	<b>—</b>
	<b>3,219</b>	<b>32,765</b>	<b>35,984</b>
<b>2014</b>			
US Dollar	4,997	76,7878	81,784
Pound Sterling	237	30	267
Euro	90	38	128
Other currencies	1	97	98
	5,325	76,952	82,277

# Financial Statements

## Notes to the Parent Company Financial Statements continued

for the year ended 31 December 2015

### Section 6 – Capital Structure and Other Disclosures continued

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

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

	Financial liabilities on which no interest is charged \$'000
<b>2015</b>	
US Dollar	48
Pound Sterling	1,358
Other currencies	12
	<b>1,418</b>
<b>2014</b>	
US Dollar	88
Pound Sterling	888
Other currencies	23
	<b>999</b>

During the year ended 31 December 2015, the Company impaired balances owed from subsidiary undertakings totalling \$49.8 million (2014: \$22.0 million, inclusive of \$21.4 million in respect of activities in the Gulf of Mexico which were disposed of in December 2014).

#### 6.3 Assets held for sale

Assets held for sale of \$1.8 million (2014: \$1.2 million) represent exploration expenditures relating to the Colombian Putumayo 14 and Llanos 50 E&P contracts. These contracts were granted to the Colombian branch of the Company, however it is Management's intention to transfer these contracts to the Colombian branch of a subsidiary company, Gulfsands Petroleum Sud America Limited. This is anticipated to happen within the next twelve months.

The Company's capital commitments under these contracts are as follows:

##### Colombia

##### Putumayo 14 – licence expiry date and deadline for fulfilment of capital commitments; November 2017

- Drilling of one exploration well.
- 2D seismic minimum 93 km.
- The Company has also undertaken to spend \$100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5 km of 2D seismic.
- Total commitments outstanding estimated at \$16.1 million.

##### Llanos 50 – first exploration phase expiry date and deadline for fulfilment of capital commitments; November 2016

- Drilling of one exploration well.
- 2D seismic minimum 103 km.
- The Company has also undertaken to spend \$100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5 km of 2D seismic.
- Total commitments outstanding estimated at \$13.9 million.

\$3.2 million (31 December 2014: \$3.2 million) of deposits have been lodged to support guarantees given to the Agencia Nacional de Hidrocarburos in respect of completion of these minimum work commitments on Putumayo 14 and Llanos 50.

#### 6.4 Foreign currency

Foreign currency transactions are translated to the functional and reporting currency of US Dollars at the rates prevailing when the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the Balance Sheet date. All differences are taken to the Income Statement.



### 6.5 Related party transactions and key management

Key management of the Company are considered to be the Directors of the Company. Any transactions with Directors are disclosed in note 6.3 to the Consolidated Financial Statements. Interests in shares and their remuneration and share options are disclosed in the Directors' Remuneration Report on pages 31 to 32.

The Company traded with various undertakings within the same Group during the years ended 31 December 2015 and 2014. 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	2015 \$'000	2014 \$'000
Gulfsands Petroleum Tunisia Ltd	Subsidiary	Non-interest bearing Provision	30,391 (25,277)	28,511 (19,856)
Gulfsands Petroleum Levant Ltd	Subsidiary	Non-interest bearing Provision	18,383 (16,038)	18,201 (16,038)
Gulfsands Petroleum Ltd.	Subsidiary	Non-interest bearing	2,630	2,622
Gulfsands Petroleum Sud America Ltd	Subsidiary	Non-interest bearing Provision	247 (214)	175 (135)
Gulfsands Petroleum (MENA) Ltd	Subsidiary	Non-interest bearing Provision	1,254 (599)	1,340 (405)
Gulfsands Petroleum Morocco Ltd	Subsidiary	Non-interest bearing Provision	44,062 (44,062)	38,256 —
Gulfsands Petroleum Holdings Ltd	Subsidiary	Non-interest bearing	14,512	18,621
Gulfsands Petroleum Iraq Ltd	Subsidiary	Non-interest bearing Provision	5,916 (5,804)	5,867 (5,765)

#### Services recharged to related parties

Name of related party	2015		2014	
	Time writing \$'000	Indirect overhead \$'000	Time writing \$'000	Indirect overhead \$'000
Gulfsands Petroleum Levant Ltd	101	5	57	118
Gulfsands Petroleum Morocco Ltd	1,126	179	2,758	382
Gulfsands Petroleum Sud America Ltd	77	51	—	—
Gulfsands Petroleum Tunisia Ltd	76	20	312	47

## Financial statements

### Glossary of Terms

<b>1C</b>	Low estimate (P90) 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>2C</b>	Best estimate (P50) Contingent Resources	<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>3C</b>	High estimate (P10) 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>AIM</b>	Alternative Investment Market of the London Stock Exchange	<b>Possible Reserves</b>	Possible Reserves are those additional reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible ("3P") reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be more than a 10% probability that the quantities actually recovered will equal or exceed the 3P estimate.
<b>Arawak</b>	Arawak Energy Bermuda Ltd	<b>Probable Reserves</b>	Probable Reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be more than a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable Reserves.
<b>bbls</b>	Barrels of oil	<b>Proved Reserves</b>	Proved Reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty (normally over 90% if measured on a probabilistic basis) to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.
<b>bcf</b>	Billion cubic feet of gas	<b>PRMS</b>	The 2007 Petroleum Resources Management classification system of the SPE
<b>Blake</b>	Blake Holdings Limited	<b>PSC</b>	Production Sharing Contract
<b>CEO</b>	Chief Executive Officer	<b>PUT 14</b>	Putumayo Block 14
<b>Code</b>	UK Corporate Governance Code	<b>Senenergy</b>	Senenergy (GB) Limited
<b>CSR</b>	Corporate social responsibility	<b>SPE</b>	Society of Petroleum Engineers
<b>DD&amp;A</b>	Depletion, depreciation and amortisation	<b>Waterford</b>	Waterford Finance and Investment Limited
<b>DOB-1</b>	Douar Ouled Balkhair location	<b>Weighbridge</b>	Weighbridge Trust Limited
<b>DPC</b>	Dijla Petroleum Company		
<b>DRC-1</b>	Dardara South East location		
<b>E&amp;E</b>	Exploration and evaluation		
<b>E&amp;P</b>	Exploration and production		
<b>FRIC</b>	Financial Reporting Council		
<b>G&amp;A</b>	General and administrative expenses		
<b>GPC</b>	General Petroleum Corporation		
<b>GPUSA</b>	Gulfsands Petroleum USA, Inc.		
<b>Gulfsands Levant</b>	Gulfsands Petroleum Levant Limited		
<b>Gulfsands (MENA)</b>	Gulfsands Petroleum (MENA) Limited		
<b>Gulfsands Morocco</b>	Gulfsands Morocco Limited		
<b>HSES</b>	Health, safety, environment and security		
<b>IFRS</b>	International Financial Reporting Standards		
<b>km</b>	Kilometres		
<b>km<sup>2</sup></b>	Square kilometres		
<b>KPI</b>	Key performance indicator		
<b>Lender</b>	Arawak Energy Bermuda Ltd		
<b>LLA 50</b>	Llanos Block 50		
<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>NPV</b>	Net present value		
<b>ONHYM</b>	Office National des Hydrocarbures et des Mines (Morocco)		

## Corporate Information

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### Stock exchange listing

AIM market of London Stock Exchange  
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