



Gulf sands Petroleum plc
Half-Yearly Financial Report
SIX MONTHS TO 30 JUNE 2009
Unaudited

Half-Yearly Results for the Six Months Ended 30 June 2009

Highlights

Operational

- Average working interest production 6,165 boepd vs. 1,699 boepd in H1 08
- US production still not fully restored following 2008 hurricanes
- 850 km² of 3D seismic data acquired on Block 26, Syria
- Average sales price for Syrian production in H1 09 : \$44.0/bbl, a discount to average Brent of \$7.9/bbl

Financial

- Revenues up 47% to \$29.0 million (H1 08: \$19.7 million)
- Net profit \$3.7 million (H1 08: loss of \$10.3 million (restated))
- Net cash from operations, before working capital movements, \$12.4 million (H1 08: \$5.4 million)
- Capital expenditure \$14.7 million (H1 08: \$11.3 million)
- Cash balance at period end of \$31.9 million (31.12.08: \$36.8 million).

Post Period Events

- Capacity of Early Production Facility increased to 18,000 bopd gross
- Year-end target of 16,000 bopd from Khurbet East Field reached mid-September
- Average discount to Brent of Syrian oil sales in July and August fell to below \$3/bbl

Gulfsands' Chairman, Andrew West, said:

“The first half of 2009 has demonstrated the tangible financial benefits of Gulfsands’ Middle Eastern strategy. Despite a relatively weak oil price during the period, we have not only increased revenue and operating cash flow substantially as compared to the first half of 2008 but have delivered the first profit for shareholders for five years. We are also delighted to welcome Sinochem as our provisional new partner in Block 26 and look forward to working closely with them to exploit aggressively the significant development and exploration opportunities remaining within the Block.”

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These half-yearly results, together with a copy of the presentation to be given analysts at 9.30am today and a webcast thereof, can be viewed on

<http://mediaserve.buchanan.uk.com/2009/gulfsands220909/registration.asp> and a recording will be available on the Gulfsands' website: www.gulfsands.com thereafter.

CHAIRMAN'S STATEMENT

At the time of writing, Gulfsands' working interest production from Block 26 Syria has just reached 8,000 barrels of oil per day, the target we set ourselves for the end of 2009. This represents a crucial milestone in the Company's evolution and underlines definitively the shift in our geographical and strategic focus.

The cash flow from this production means that the full field development of our two discoveries at Khurbet East and Yousefieh, together with much of our planned exploration activity elsewhere in Block 26, will be self-funding. Ensuring that this development and exploration activity is put on the fastest possible track is and will remain our foremost priority.

We are delighted to welcome Sinochem as our provisional new partner in Block 26. Sinochem is a world-class oil and gas company strongly endowed with both financial resources and the determination to build the long term value of its strategic assets. We look forward to an active collaboration aimed in the first instance at the aggressive exploitation of the opportunities presented by Block 26 and, we hope, in due course beyond.

We are also exploring actively a number of other opportunities to partner with major oil companies in Syria, Iraq and possibly, in due course, elsewhere in the Middle East. Our success to date in operating Block 26, together with our established presence and credentials in the region, position us ideally to add significant value to such collaborations.

The Gulf of Mexico is clearly now of lesser strategic importance to the Company. In part due to continuing weak gas prices and in part as a result of the legacy of the 2008 hurricane damage, these assets made a negative financial contribution for the half year. Our intention remains to seek to dispose of these assets as and when circumstances become more favourable to such a disposal. In the interim, we will continue to invest the minimum amounts necessary to maintain the value of our holdings.

We look forward to continuing this positive trajectory in the second half of the year.

Andrew West
Chairman
22 September 2009

CHIEF EXECUTIVE'S STATEMENT

The year to date has seen a significant step forward in the exploitation of our core Syrian assets, with daily gross production from the Khurbet East field currently running over 60% higher than at the start of the year and already exceeding our original target of 16,000 bopd for the end of 2009. We have laid the ground for future growth, having launched the tender process for a permanent central production facility and acquired additional 3D seismic data over an 850 km² area around the Khurbet East field. We have also reinforced our local staff, including hiring an experienced operations manager, Khalid Mogharbel, who was previously general manager in charge of all of Schlumberger's oilfield services in the Middle East.

In April independent estimates of reserves on the Khurbet East and Yousefieh fields as at 31 December were published which showed combined 2P gross reserves, attributable to our 50% working interest, of 35 million barrels, an increase in 20% on the previous year-end figure, updating the figures contained in our 2008 Annual Report. The performance of the Khurbet East field since then indicates that there is significant scope for future reserves increases.

The loss recorded by our US operations in the first half was disappointing. Performance has been severely impacted by the continued absence of production from certain properties affected by last year's hurricanes, by the substantial fall in US gas prices, and by impairment charges. We will work towards restoring the profitability of this business as soon as possible. In Iraq progress on the Maysan gas capture project has proved to be very slow. We prepared, with the assistance of external consultants, a very detailed proposal covering all aspects of the project which has been submitted to the Iraqi authorities and a response is still awaited. With the current focus in the Oil Ministry being on the license rounds to take over operation of the supergiant oil fields, and the political focus increasingly being on the upcoming parliamentary elections next January, we do not expect to see much progress on our proposals until 2010.

Operations Review

Syria

The performance of the Khurbet East field has continued to exceed expectations: cumulative gross oil production passed the 4.5 million barrels mark in mid-September, with negligible associated water production and little reservoir depletion being observed. The current gross oil production from the field is 16,400 barrels of oil per day ("bopd"), having increased from an average of 10,730 bopd during the month of June with the tie-in in July of wells KHE-9 and 10 and the successful cementing operation conducted on the KHE-2 well to isolate small amounts of water production that had been experienced from the well.

During the first half four wells were completed on Khurbet East and one on the neighbouring Yousefieh discovery.

The first two wells on Khurbet East, KHE-7 and 8, were delineation wells drilled to the north and south of the field respectively with the aim of providing structural and stratigraphic information on the northern and southern limits of the field as well as identifying the field-wide oil-water contact. The KHE-7 well encountered good oil shows while drilling through the Cretaceous Massive interval but overall reservoir quality was found to be substantially lower than in the central portion of the field, and no flow test was undertaken at that time. The KHE-8 well

encountered a 15 metre net oil column within the Massive reservoir interval with average porosity of 23%, and flowed oil to surface on a drill-stem test at an average rate of 617 bopd using nitrogen artificial lift and after acid stimulation. Neither KHE-7 nor KHE-8 encountered a definitive oil water contact for the Field. Wells KHE-9 and 10 were development wells in the central portion of the field and are currently contributing over 4,400 bopd between them. Since 30 June two further wells, KHE-11 and 12, have been completed. KHE-11 produced oil under test at a stabilised rate of 1,660 bopd, with an associated water cut of approximately 30%. Whilst the oil flow rate from this well is commercially attractive, further analysis of well data will be undertaken to determine the source of the water and identify possible remedial operations prior to bringing the well online as an oil producer.

The results of the KHE-8 well indicated that the Khurbet East Field extends further south than had been previously interpreted, and KHE-12 was therefore drilled 3.2 km to the south of KHE-8 in order to try once again to determine the southern limits of the Field. This well encountered a 10 metre reservoir section with oil shows in cuttings and core. As in other wells at Khurbet East, a definitive oil-water contact could not be identified, however it is believed the reservoir section lies within an oil-water transition zone. Production testing will be undertaken within the next few weeks in order to determine the nature of the fluids that will be produced.

At Yousefieh the Yousefieh-2 appraisal well, completed in February, encountered a 16 metre net oil column with average porosity of 16%, but continuous flow to surface was not established under an initial drill-stem test. This well has subsequently been re-entered using a work-over rig, and, following acid treatment and with nitrogen lift, flowed 17°API oil to surface at a rate of 139 bopd with an associated water cut of 49%. A similar re-entry operation was also performed in August on the Yousefieh-1 discovery well, which flowed under test at 823 bopd with negligible water under similar stimulation to Yousefieh-2. A second appraisal well, Yousefieh-3, has just been spudded which, if successful, will enable Gulfsands to apply for commercial development of the Yousefieh field.

In July the expansion of the Khurbet East early production facility was completed, raising the nameplate production capacity of the field from 10,000 bopd to 18,000 bopd. We plan to drill two further development wells before the end of the year in order to substantially fill this additional capacity going into 2010. Formal invitations to tender will be issued shortly for the design, construction and installation of a central processing facility to serve the combined Khurbet East and Yousefieh fields, which is expected to be commissioned in mid-2011. Its design capacity will be 50,000 barrels of fluid per day ("bfpd").

In the rest of Block 26, the final processed data from the 3D seismic survey over an 850 km² area adjacent to the Khurbet East field is due to be received in early October, when interpretation will commence with a view to identifying prospects for exploration drilling in early 2010.

United States

Production from our non-operated Gulf of Mexico assets is currently at around 1,300 boepd and has not yet been fully restored following the damage caused by the 2008 hurricanes to certain properties and to third party infrastructure. Working interest production during the first half averaged 501 bopd of oil and NGLs plus 3,193 mcf of gas, equating on a conventional oil equivalent basis to 1,033 boepd, or 810 boepd on a net revenue interest basis after royalty. This compared with working interest production in H1 08 of 558 bopd and

6,845 mcf/d, equivalent to 1,699 boepd (or 1,333 boepd on a net revenue interest basis).

Production is likely to increase in coming weeks with the re-entry into service of a gas pipeline from one of our larger Eugene Island properties, which prior to the hurricanes had been producing gas at around 2,000 mcf/d (333 boepd) on a net revenue interest basis, as well as resumption of production from a gas field at West Cameron following installation of a compressor.

Activity in the first half has been dominated by expenditure relating to hurricane repairs and decommissioning operations. The low gas prices currently prevailing in the US mean that the emphasis in the near term must be on reducing operating costs associated with our gas producing properties, and we are in dialogue with certain operators on this subject. Going forward we intend to look at selective reinvestment opportunities, particularly on our oil producing properties where there is a clear potential to add value, but will otherwise endeavour to keep expenditure to a minimum.

Outlook

In Syria we are aiming to substantially complete the interpretation of our 3D seismic dataset by the year-end and have identified prospects for exploration drilling on Block 26 next year. After completing the drilling of the Yousefieh-3 appraisal well which is currently under way we intend to drill two further development wells on Khurbet East and then spud an exploration well before the end of the year.

We are also intending to build a 30km 8" pipeline from our early production facility to the processing facilities at Soudieh operated by Syrian Petroleum Company ("SPC"), to replace the current trucking operation which is seen as a potential bottleneck as production increases. This pipeline is anticipated to be completed in April 2010.

We envisage 2010 being another active year of drilling, with a combination of exploration and development wells the precise balance of which will depend on the outcome of the seismic interpretation.

Ric Malcolm
Chief Executive Officer
22 September 2009

Financial Review

Selected Financial Data

	H1 2009	H1 2008 (restated)	Change
	US\$ million	US\$ million	%
Revenue	29.0	19.7	47%
Gross Profit	13.4	6.5	107%
Operating Profit (Loss)	3.9	(9.9)	n/a
Profit (Loss) after tax	6.7	(11.2)	n/a
Net cash from Operations before working capital movements	12.4	5.4	131%
Net cash provided by Operating Activities	8.0	5.4	48%
Capital expenditure	(14.7)	(11.3)	30%
Decommissioning costs net of escrow cash released	0.4	1.9	-79%

Production and Sales Prices

	Working Interest Production		Entitlement Production		Average Sales Price		Discount to Brent Oil	Revenue US\$ MM
	Oil bopd	Gas mcf/d	Oil bopd	Gas mcf/d	Oil US\$/bbl	Gas US\$/mcf		
<u>H1 2009</u>								
Syria	5,087	-	2,998	-	44.0	n.a.	(7.9)	23.9
USA	501	3,193	393	2,504	46.4	4.0	n.a.	5.1
Total	5,588	3,193	3,391	2,504				29.0
Total (boepd)	6,120		3,808		41.8			
<u>H1 2008</u>								
Syria	-	-	-	-	-	n.a.		-
USA	558	6,845	438	5,370	113.9	10.1		19.7
Total	558	6,845	438	5,370				19.7
Total (boepd)	1,699		1,333		81.2			

The H1 2008 results have been restated to reflect prior year adjustments made in the financial statements for the year end 31 December 2008. Adjustments were made to include future forecast capital expenditure within the depletion calculation and also to adjust the decommissioning provision to reflect information contained in a report from a third party specialist surveyor. These adjustments are more fully described in note 12 to the Half-Yearly Financial Report.

Revenue and Profit

Revenues grew by 47% to \$29.0 million (H1 08: \$19.7 million), as the growth in production outweighed the fall in oil and gas prices. Average working interest production in H1 09 was 6,120 boepd (5,087 bopd from Syria, 1,033 boepd from the US) compared with 1,699 boepd in H1 08, all of which derived from the US as production from Syria did not commence until July that year. Group entitlement production was 3,808 boepd, nearly three times that in H1 2008 (1,333 boepd): all production was sold.

The average realised price during the period was \$44.1/bbl for oil sales and \$4.0/mcf for gas.

Syrian oil production realised an average price of \$44.0/bbl, representing a \$7.9/bbl discount to average Brent. In the last few months the discount to Brent has narrowed significantly and August 2009 production from Syria has been sold at a price of \$69.9/bbl, a \$2.6/bbl discount to Brent.

Excluding depletion and impairment charges, cost of sales fell by 16% to \$8.2 million (H1 08: \$9.8 million). Depletion charges increased by 38% to \$5.6 million (H1 08: \$4.0 million as restated): Syrian unit depletion charges are lower than those for the US so the increase in the depletion charge was less than the increase in Group entitlement production. An impairment charge of \$1.8 million was made against the US assets following a revision to the discount rate used for future abandonment liabilities. The resultant gross profit of \$13.4 million was approximately double that of H1 08 (\$6.5 million as restated).

Administrative expenses were \$7.6 million, a significant reduction on the \$16.7 million in H1 08 owing to much lower charges for share-based payments. In H1 08 a number of options awards were made, the bulk of which vested immediately and so the value of those awards had to be expensed in that period. Comparatively few awards have been made since then.

A further \$1.9 million was expensed for repairs to equipment following the 2008 hurricanes in the US Gulf of Mexico. Total estimated repair costs have increased to \$5.5 million, of which it is estimated that \$0.9 million is recoverable from insurance. Of the residual net cost to the Group of \$4.6 million, \$2.8 million was charged to the Income Statement in 2008.

The operating profit for the period was \$3.9 million compared with an operating loss of \$9.9 million (as restated) in H1 08. Syria made an operating profit of \$15.5 million, the US made a loss of \$8.2 million, and general Group expenses were \$3.3 million.

After adjusting for the accrual of the decommissioning provision and a small amount of interest income, the resultant net profit for the period was \$3.7 million, compared with a loss for H1 2008 of \$11.2 million (as restated). No tax charge was made in the period compared with a \$0.9 million charge in H1 08.

Cash Flow

Net cash from operations was \$7.7 million compared with \$5.3 million in H1 08. However this is after an increase in working capital of \$4.7 million: before working capital movements the cash from operations was \$12.4 million vs. an equivalent figure of \$5.4 million in H1 08. The large increase in working capital arose primarily from the deferral of \$4.8 million of sales proceeds, representing 20% of sales during the period, in accordance with the terms of the oil sales agreement in Syria (see below). After interest and tax, the net cash from operating activities amounted to \$8.0 million (H1 08: \$5.4 million)

Capital expenditure was \$14.7 million (H1 08: \$11.3 million) of which \$11.2 million was in Syria and \$3.0 million was in the US. Decommissioning payments of \$0.6 million (H1 08: \$0.4 million) were made in the US but this was more than funded by the release of \$1.0 million from escrow accounts held against future decommissioning liabilities.

The exercise of options during the period yielded proceeds of \$1.5 million. The resultant net decrease in cash over the period was \$4.9 million, leaving cash balances at 30 June 2009 of

\$31.9 million (excluding cash held in escrow to meet decommissioning liabilities in the US). The Group has no outstanding debt.

The terms of the current oil sales arrangements in Syria provide that 20% of invoiced sales be withheld until September 2009 pending the completion of certain assay tests to determine the quality of the crude oil delivered from the Khurbet East field. As at 30 June 2009 the cumulative amount of such withheld sales proceeds attributable to the Group amounted to \$9.9 million. It is expected that this amount will be paid in full before the end of September. If this withheld amount were to have been received on or before 30 June the pro-forma cash balance at that date would have been \$41.8 million.

Going Concern

The group had cash and bank balances available for immediate use of over \$31 million at 30 June 2009 and no debt. Having reviewed the Group's forecasts for the period to 31 December 2010 and after making enquiries, the Directors expect the Group to remain cash positive throughout the period and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Consequently the Directors believe that the Group is able to manage its financial and operational risks and, accordingly, they continue to adopt the going concern basis in preparing the Half-Yearly Financial Report.

Andrew Rose
Chief Financial Officer
22 September 2009

INDEPENDENT REVIEW REPORT TO GULFSANDS PETROLEUM PLC

We have been engaged by the Company to review the condensed set of financial statements in the half year financial report for the six months ended 30 June 2009 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 12. We have read the other information contained in the half year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half year financial report is the responsibility of, and approved by, the directors. The directors are responsible for preparing the half year financial report in accordance with the AIM rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half year financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half year financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all

significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM rules of the London Stock Exchange.

Deloitte LLP

Chartered Accountants
London, United Kingdom
21 September 2009

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Notes	6 months ended		Year ended
		30 June 2009 (Unaudited) \$' 000	30 June 2008 (Unaudited and restated*) \$' 000	31 December 2008 (Audited) \$' 000
Revenue	2	28,981	19,699	53,600
Cost of sales				
Depletion		(5,552)	(4,034)	(8,767)
Impairment		(1,783)	653	(6,327)
Other cost of sales		(8,242)	(9,838)	(16,588)
Total cost of sales		(15,577)	(13,219)	(31,682)
Gross profit		13,404	6,480	21,918
Administrative expenses before exceptional items		(7,534)	(5,233)	(13,033)
Foreign exchange gains / (losses)		720	414	(4,729)
Share based payments		(743)	(11,878)	(12,572)
Total administrative expenses		(7,557)	(16,697)	(30,334)
Hurricane repairs		(1,934)	335	(2,750)
Operating profit / (loss)		3,913	(9,882)	(11,166)
Discount expense on decommissioning provision	9	(525)	(821)	(1,667)
Net interest income		341	403	1,229
Profit / (loss) before taxation		3,729	(10,300)	(11,604)
Taxation		-	(870)	1,932
PROFIT / (LOSS) FOR THE PERIOD - attributable to equity holders of the the Company	2	3,729	(11,170)	(9,672)
Profit / (loss) per share (cents):				
Basic	3	3.14	(9.89)	(8.37)
Diluted	3	3.12	(9.89)	(8.37)

* See note 12.

The results shown above relate entirely to continuing operations. Comprehensive income for all periods shown relates solely to the profit or loss shown above.

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2009**

		30 June	31 December
		2009	2008
		(Unaudited)	(Audited)
	<i>Notes</i>	\$' 000	\$' 000
ASSETS			
Non-current assets			
Property, plant and equipment	4	86,207	79,661
Intangible assets	5	5,421	343
Long term financial assets	7	12,120	13,167
		103,748	93,171
Current assets			
Inventory		4,227	2,401
Trade and other receivables	6	21,781	15,536
Cash and cash equivalents	7	31,892	36,812
		57,900	54,749
Total Assets		161,648	147,920
LIABILITIES			
Current liabilities			
Trade and other payables	8	14,514	11,245
Provision for decommissioning	9	7,428	5,877
		21,942	17,122
Non-current liabilities			
Provision for decommissioning	9	23,399	20,430
		23,399	20,430
Total Liabilities		45,341	37,552
NET ASSETS		116,307	110,368
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	10	12,877	12,814
Share premium		99,934	98,530
Share-based payments reserve		15,048	14,305
Merger reserve		11,709	11,709
Retained losses		(23,261)	(26,990)
TOTAL EQUITY		116,307	110,368

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE
SIX MONTHS ENDED 30 JUNE 2009**

	Notes	6 months ended		Year ended
		30 June 2009	30 June 2008	31 December 2008
		(Unaudited) \$' 000	(Unaudited and restated) \$' 000	(Audited) \$' 000
Cash flows from operating activities				
Operating profit / (loss)		3,913	(9,882)	(11,166)
Depreciation, depletion and amortisation	4&5	5,779	4,034	8,953
Impairment charge / (credit)		1,783	(653)	6,327
Decommissioning costs paid in excess of provision		200	-	2,987
Share-based payment charge		743	11,878	12,572
Loss on disposal of assets		-	5	9
Increase in receivables		(6,153)	(2,342)	(4,066)
Increase in payables		3,268	2,226	4,781
Increase in inventory		(1,826)	-	(2,401)
Net cash provided by operations		7,707	5,266	17,996
Interest received		341	403	1,229
Taxation paid		(92)	(284)	(524)
Net cash provided by operating activities		7,956	5,385	18,701
Investing activities				
Exploration and evaluation expenditure	5	(4,923)	(7,605)	(645)
Oil and gas properties expenditure	4	(9,196)	(3,444)	(16,157)
Other capital expenditures		(624)	(295)	(923)
Change in long term financial assets		1,047	2,257	2,911
Decommissioning costs paid	9	(647)	(398)	(5,566)
Net cash used in investing activities		(14,343)	(9,485)	(20,380)
Financing activities				
Cash proceeds from issue of shares		1,467	19,359	19,958
Net cash provided by financing activities		1,467	19,359	19,958
(Decrease) / Increase in cash and cash equivalents		(4,920)	15,259	18,279
Cash and cash equivalents at beginning of period		36,812	18,533	18,533
Cash and cash equivalents at end of period		31,892	33,792	36,812

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN
EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2009**

	Share capital \$'000	Share premium \$'000	Share payments reserve \$'000	Merger reserve \$'000	Retained losses \$'000	Total equity \$'000
Six months ended 30 June 2009						
At 1 January 2009	12,814	98,530	14,305	11,709	(26,990)	110,368
Options exercised	63	1,404	-	-	-	1,467
Share -based payment charge	-	-	743	-	-	743
Profit for the period	-	-	-	-	3,729	3,729
At 30 June 2009	12,877	99,934	15,048	11,709	(23,261)	116,307
Six months ended 30 June 2008						
At 1 January 2008 (restated)	11,997	79,389	1,733	11,709	(17,318)	87,510
Options exercised	89	730	-	-	-	819
Shares issued	623	17,917	-	-	-	18,540
Share -based payment charge	-	-	11,878	-	-	11,878
Loss for the period (restated)	-	-	-	-	(11,170)	(11,170)
At 30 June 2008 (restated)	12,709	98,036	13,611	11,709	(28,488)	107,577

NOTES TO THE HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. Basis of preparation

This half-yearly financial report, which includes a condensed set of financial statements of the Company and its subsidiary undertakings ("the Group") has been prepared using the historical cost convention and in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") including IAS 34 'Interim Financial Reporting' and IFRS 6 'Exploration for and Evaluation of Mineral Reserves', as adopted by the European Union ("EU").

This condensed set of financial statements for the six months ended 30 June 2009 is unaudited and does not constitute statutory accounts as defined by the Companies Act. They have been prepared using accounting bases and policies consistent with those used in the preparation of the audited financial statements of the Company and the Group for the year ended 31 December 2008 and those to be used in the year ending 31 December 2009. The information for the year ended 31 December 2008 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

The financial statements for the year ended 31 December 2008 have been delivered to the Registrar of Companies and the auditors' report on those financial statements was unqualified, did not draw attention by way of emphasis of matter and did not contain a statement made under Section 237(2) or Section 237(3) of the Companies Act 1985.

During the period ended 30 June 2009 the Group adopted IFRS 8 Operating Segments and International Accounting Standard 1 (revised 2007) Presentation of Financial Statements. The adoption of IFRS 8 did result in any changes to the segments required to be disclosed. The adoption of IAS 1 (revised) did not have any impact. The condensed set of financial statements included in this half-yearly financial report has been prepared on a going concern basis of accounting for the reasons set out in the Financial Review section of this report.

This half-yearly financial report was approved by the Board of Directors on 21 September 2009.

**NOTES TO THE HALF-YEARLY FINANCIAL
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2. Segmental information

The Group operates a single class of business being oil and gas exploration and production.

The Group's operations are located in the Middle East, primarily Syria, and offshore USA and form the basis on which the Group reports its segment information. There are no inter-segmental revenues. Segmental results analysed by geographical area are presented below:

	Six months ended 30 June 2009			Total \$' 000
	USA \$' 000	Syria \$' 000	Other \$' 000	
Revenues	5,134	23,847	-	28,981
Depreciation, depletion and amortisation	(1,923)	(3,807)	(48)	(5,778)
Impairment	(1,783)	-	-	(1,783)
Hurricane repairs	(1,934)	-	-	(1,934)
Other cost of sales	(6,362)	(1,880)	-	(8,242)
Administrative expenses before exceptional items and depreciation	(1,343)	(2,689)	(3,276)	(7,308)
Foreign exchange gains / (losses)	-	-	720	720
Share based payments	-	-	(743)	(743)
(Loss) / profit before interest and taxation	(8,211)	15,471	(3,347)	3,913
Net interest and unwinding of discount	(467)	169	114	(184)
Inter-segment interest	(1,844)	-	1,844	-
Profit / (loss) for the period	(10,522)	15,640	(1,389)	3,729

	Six months ended 30 June 2008 (Restated)			Total \$' 000
	USA \$' 000	Syria \$' 000	Other \$' 000	
Revenues	19,699	-	-	19,699
Depreciation, depletion and amortisation	(3,983)	(50)	(1)	(4,034)
Impairment	653	-	-	653
Hurricane repairs	335	-	-	335
Other cost of sales	(9,838)	-	-	(9,838)
Administrative expenses before exceptional items and depreciation	(2,346)	(438)	(2,449)	(5,233)
Foreign exchange gains / (losses)	-	-	414	414
Share based payments	-	-	(11,878)	(11,878)
(Loss) / profit before interest and taxation	4,520	(488)	(13,914)	(9,882)
Net interest and unwinding of discount	(924)	-	506	(418)
Inter-segment interest	(1,818)	-	1,818	-
Taxation	(829)	-	(41)	(870)
Loss / (profit) for the period	949	(488)	(11,631)	(11,170)

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2. Segmental information (continued)

	Year ended 31 December 2008			Total \$' 000
	USA \$' 000	Syria \$' 000	Other \$' 000	
Revenues	28,121	25,479	-	53,600
Depreciation, depletion and amortisation	(6,010)	(2,930)	(23)	(8,963)
Impairment	(6,327)	-	-	(6,327)
Hurricane repairs	(2,750)	-	-	(2,750)
Other cost of sales	(15,270)	(1,318)	-	(16,588)
Administrative expenses before exceptional items and depreciation	(3,208)	(3,026)	(6,603)	(12,837)
Foreign exchange gains / (losses)	-	74	(4,803)	(4,729)
Share based payments	-	-	(12,572)	(12,572)
Profit / (loss) before interest and taxation	(5,444)	18,279	(24,001)	(11,166)
Net interest and unwinding of discount	(1,204)	133	633	(438)
Inter-segment interest	(3,618)	-	3,618	-
Taxation	1,932	-	-	1,932
(Loss) / profit for the year	(8,334)	18,412	(19,750)	(9,672)

Segmental assets and liabilities analysed by geographical area are presented below:

	At 30 June 2009 (Unaudited)			Total \$' 000
	USA \$' 000	Syria \$' 000	Other \$' 000	
Assets	66,462	70,701	24,485	161,648
Liabilities	(37,240)	(7,423)	(678)	(45,341)
Inter-segment balances	(44,740)	(31,675)	76,415	-
Capital expenditure	7,424	11,233	529	19,186

	At 31 December 2008			Total \$' 000
	USA \$' 000	Syria \$' 000	Other \$' 000	
Assets	68,866	52,475	26,579	147,920
Liabilities	(33,397)	(3,757)	(398)	(37,552)
Inter-segment balances	(40,466)	(32,466)	72,932	-
Capital expenditure	5,887	11,125	156	17,168

**NOTES TO THE HALF-YEARLY FINANCIAL
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3. Earnings / (Loss) per share

The calculation of the basic and diluted earnings / (loss) per share is based on the following shares in issue:

	6 months ended (Unaudited)		Year ended
	30 June 2009	30 June 2008 (restated)	31 December 2008
Weighted average number of ordinary shares	118,762,500	112,976,368	115,520,651
Options	730,579	3,118,533	1,976,391
Weighted average number of diluted shares	119,493,079	116,094,901	117,497,042

The calculation of basic earnings / (loss) per share is based on the profit / (loss) attributable to equity shareholders and the weighted average number of ordinary shares in issue during the period. The diluted earnings / (loss) per share is calculated using the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares.

4. Property, plant and equipment

	Oil and gas properties			Total \$' 000
	USA \$' 000	Syria \$' 000	Other fixed assets \$' 000	
<i>Cost:</i>				
At 1 January 2009	87,591	39,221	873	127,685
Additions	7,639	6,000	390	14,029
At 30 June 2009	95,230	45,221	1,263	141,714
<i>Accumulated depreciation and depletion:</i>				
At 1 January 2009	(31,869)	(2,806)	(327)	(35,002)
Charge for the period	(1,905)	(3,648)	(147)	(5,700)
At 30 June 2009	(33,774)	(6,454)	(474)	(40,702)
<i>Accumulated impairment:</i>				
At 1 January 2009	(13,022)	-	-	(13,022)
Charge for the period	(1,783)	-	-	(1,783)
At 30 June 2009	(14,805)	-	-	(14,805)
Net book value at 30 June 2009	46,651	38,767	789	86,207
Net book value at 31 December 2008	42,700	36,415	546	79,661

Included in additions to oil and gas properties in the USA is an amount of \$4,443,000 relating to a change in estimated decommissioning costs (see note 9).

NOTES TO THE HALF-YEARLY FINANCIAL

REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2009

5. Intangible assets

	Exploration and evaluation assets Syria \$' 000	Computer software \$' 000	Total \$' 000
<i>Cost:</i>			
At 1 January 2009	-	377	377
Additions	4,923	234	5,157
At 30 June 2009	4,923	611	5,534
<i>Accumulated amortisation:</i>			
At 1 January 2009	-	(34)	(34)
Charge for 2009	-	(79)	(79)
At 30 June 2009	-	(113)	(113)
Net book value at 30 June 2009	4,923	498	5,421
Net book value at 31 December 2008	-	343	343

6. Trade and other receivables

	30 June 2009 \$' 000	31 December 2008 \$' 000
Trade receivables	16,531	8,266
Other receivables	344	28
Underlift	919	919
Corporation tax recoverable	408	316
Prepayments and accrued income	1,934	1,378
Amounts due from oil and gas partnerships	1,645	4,629
	21,781	15,536

Included in trade receivables is an amount of \$9.9 million (2008 – \$5.1 million) representing a 20% retention on the Group's oil sales in Syria. This retention is due for collection in full during September 2009.

Underlift represents a cumulative net gas underlift position on certain of the Group's properties. An amount of \$ 0.3 million is expected to be received during September 2009 upon the disposal of one of the Group's properties. The remaining amount is due after more than one year.

**NOTES TO THE HALF-YEARLY FINANCIAL
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7. Cash and cash equivalents

	30 June 2009	31 December 2008
	\$' 000	\$' 000
Short term cash deposits	16,642	-
Cash at bank and in hand	15,250	36,812
Restricted cash balances	12,120	13,167
	44,012	49,979
Included in long term financial assets	12,120	13,167
Total cash and cash equivalents	31,892	36,812

The restricted cash balances include (i) amounts held in escrow to cover decommissioning expenditures under the requirements of the regulatory authorities that manage the oil and gas and other mineral resources in the Gulf of Mexico and (ii) a bank guarantee that is required under the terms of the Production Sharing Contract with the Syrian Petroleum Company and which is reduced quarterly as the obligations under the required work programmes are completed.

8. Trade and other payables

	30 June 2009	31 December 2008
	\$' 000	\$' 000
Trade payables	12,780	9,266
Other payables	1,734	1,979
	14,514	11,245

**NOTES TO THE HALF-YEARLY FINANCIAL
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9. Provision for decommissioning

The provision for decommissioning relates to the expected future costs of plugging and abandoning the oil and gas properties held by Gulfsands Petroleum USA, Inc and Darcy Energy LLC. At 30 June 2009 the oil and gas properties have estimated plugging and abandonment dates between 2009 and 2036. The Group has no material decommissioning obligations relating to its operations in Syria. The portion of the provision for decommissioning expected to be settled within a year totalling approximately \$7.4 million is included in current liabilities and the remainder totalling approximately \$23.4 million is included in non-current liabilities in the consolidated balance sheet at 30 June 2009.

The provision for decommissioning was as follows:

	\$' 000
At 1 January 2009	26,307
Changes in estimates	4,443
Costs in excess of provision	200
Decommissioning costs paid	(648)
Discount expense	525
<u>At 30 June 2009</u>	<u>30,827</u>
Less: current portion	7,428
<u>Non-current portion</u>	<u>23,399</u>

NOTES TO THE HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2009

10. Share capital

	30 June 2009	31 December 2008
	Number	Number
<i>Authorised:</i>		
Ordinary shares of 5.714 pence each	175,000,000	175,000,000
<i>Allotted, called up and fully paid:</i>		
	30 June 2009	31 December 2008
	\$' 000	\$' 000
119,272,500 (2008 - 118,522,500) ordinary shares of 5.714 pence each	12,877	12,814

The movements in share capital and share options were:

	Weighted average exercise price of options	Number of share options	Number of ordinary shares
At 1 January 2009	£1.64	10,165,000	118,522,500
Share options exercised for cash	£1.32	(750,000)	750,000
Share options lapsed	£1.86	(20,000)	-
Share options issued	£1.87	385,000	-
At 30 June 2009	£1.67	9,780,000	119,272,500

NOTES TO THE HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2009

11. Post balance sheet events

During September 2009 the Group negotiated the sale of a property in the Gulf of Mexico for a net selling price of \$660,000. This represents a premium of approximately \$342,000 to the net book value of the asset as shown in the financial statements at 30 June 2009. It is anticipated that this agreement will be completed on 28 September 2009.

12. Restatement of Half-Yearly Financial Report for the six months ended 30 June 2008

During the process of preparing the Annual Report and Accounts for the year ended 31 December 2008 the Group identified corrections required to certain balances and also in the classification of certain other balances in the financial statements of prior periods. The 2008 Annual Report included corresponding restatements of the Balance Sheets, Income Statements and Statements of Cash Flows as at, and for the periods ended 31 December 2007 and 31 December 2006 and the Half-Yearly Financial Report incorporates equivalent restatements for the six months ended 30 June 2008. A summary of the restatements is provided below, with full details in the 2008 Annual Report:

- (i) In prior years the Group had calculated depletion charges on its oil and gas assets over the estimated proved and probable reserves. No allowance had been made for forecast future capital expenditure associated with producing those reserves.
- (ii) In prior years the Group had provided for decommissioning liabilities using an outdated estimate of the cost of decommissioning work required. Prior to the completion of the financial statements for those years the Group had received a report from third party specialist surveyors in connection with insurance related matters which also included an update of the estimated cost of decommissioning and which, if adopted for use in the preparation of the financial statements, would more accurately reflect the current cost of decommissioning work. The decommissioning liabilities for prior periods have been restated to reflect the higher figure in this report.
- (iii) In prior years bank balances held in escrow accounts were treated as cash and cash equivalents. These balances were, however, not available to the Group to fund short term requirements and the Group now considers that these should more accurately be classified as other financial assets. Retrospective adjustments have been made to the Balance Sheets and Statement of Cash Flows for the Group to reclassify such balances.

**NOTES TO THE HALF-YEARLY FINANCIAL
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**12. Restatement of Half-Yearly Financial Report for the six months ended 30 June 2008
(continued)**

The effect of these restatements to the income statement, balance sheet and statement of cash flows for the six months ended 30 June 2008 is set out below:

**Impact of prior period restatements on Condensed Consolidated Income Statement
for the six months ended 30 June 2008**

	6 months ended 30 June 2008 (Unaudited)			
	As originally stated \$' 000	Effect of (i) and (ii) \$' 000	Effect of (iii) \$' 000	As restated \$' 000
Depletion	(2,098)	(1,936)	-	(4,034)
Impairment	-	653	-	653
Discount expense on decommissioning provision	(1,128)	307	-	(821)
Loss for the period	(10,194)	(976)	-	(11,170)

**Impact of prior period restatements on Loss per Share (cents)
for the six months ended 30 June 2008**

	6 months ended 30 June 2008 (Unaudited)			
	As originally stated	Effect of (i) and (ii)	Effect of (iii)	As restated
Loss per share (basic and diluted)	(9.02)	(0.87)	-	(9.89)

**NOTES TO THE HALF-YEARLY FINANCIAL REPORT FOR THE
SIX MONTHS ENDED 30 JUNE 2009**

**12. Restatement of Half-Yearly Financial Report for the six months ended 30 June 2008
(continued)**

**Impact of prior period restatements on Condensed Consolidated Balance sheet
for the six months ended 30 June 2008**

	6 months ended 30 June 2008 (Unaudited)			
	As originally stated \$' 000	Effect of (i) and (ii) \$' 000	Effect of (iii) \$' 000	As restated \$' 000
Property, plant and equipment	48,492	3,454	-	51,946
Long term financial assets	-	-	13,821	13,821
Cash and cash equivalents	47,613	-	(13,821)	33,792
All other assets	49,758	-	-	49,758
Total Assets	145,863	3,454	-	149,317
Provision for decommissioning - short term	2,520	9,006	-	11,526
Provision for decommissioning - long term	10,197	8,606	-	18,803
All other liabilities	11,411	-	-	11,411
Total Liabilities	24,128	17,612	-	41,740
Net Assets	121,735	(14,158)	-	107,577
Retained losses	(14,330)	(14,158)	-	(28,488)
All other capital and reserves	136,065	-	-	136,065
Total Equity	121,735	(14,158)	-	107,577

**Impact of prior period restatements on Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2008**

	6 months ended 30 June 2008 (Unaudited)			
	As originally stated \$' 000	Effect of (i) and (ii) \$' 000	Effect of (iii) \$' 000	As restated \$' 000
Cash flows from operating activities				
Operating loss	(8,599)	(1,283)	-	(9,882)
Depreciation, depletion and amortisation	2,098	1,936	-	4,034
Impairment charge reversed	-	(653)	-	(653)
Net cash provided by operations	5,266	-	-	5,266
Investing activities				
Change in long term financial assets	-	-	2,257	2,257
Net cash provided by operations	(11,742)	-	2,257	(9,485)
Increase in cash and cash equivalents	13,002	-	2,257	15,259
Cash and cash equivalents at beginning of period	34,611	-	(16,078)	18,533
Cash and cash equivalents at end of period	47,613	-	(13,821)	33,792

Note that the adjustments required to restate the depletion, impairment charges and decommissioning liabilities in (i) and (ii) above are not practicable to separate and are aggregated in the presentation above.