Gulfsands Petroleum plc
Half-Yearly Financial Report

Six months to 30 June 2012

Unaudited

Gulfsands Petroleum plc
Interim Report 2012

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

The Group's major focus is on the Middle East and North Africa where it has an active business development programme and hydrocarbon exploration and development projects in the Syrian Arab Republic (currently suspended owing to sanctions) and in Tunisia. Gulfsands also produces oil & gas from a small portfolio of properties in the USA, offshore Gulf of Mexico.

As a consequence of the sanctions imposed on Syria by the EU, the Group declared *force majeure* in December 2011 on its PSC in Syria. This has had a significant impact on the Financial Statements as explained in detail in our 2011 Annual Report and Accounts and in note 2 herein.

Contents

Chief Executive's Report

The unfortunate events that have engulfed Syria over the past year and a half have brought unprecedented challenges for all our stakeholders, whether they are employees, contractors, shareholders, management, suppliers or the organisations that we have supported through our CSR activities. We have, at all times, tried to balance our obligations to protect and enhance shareholder value with our moral and ethical commitments to other parties in these very difficult circumstances.

Unsurprisingly, the situation in Syria has continued to dominate the activities of the Group during the last six months. Whilst we do not wish to speculate on what may happen in the country, our thoughts are very much with the welfare of our staff who are impacted by events on a daily basis. Details of our activities in Syria during the period and actions taken to both protect shareholder value and ensure compliance with the various sanctions in place upon the Syrian business community, in general, and the hydrocarbon industry, in particular, are included elsewhere in this report.

Strategy review

The prolonged and indefinite nature of the suspension of our Syrian activities has enforced an interim review of the strategy and objectives of the Group. We have undertaken a comprehensive review of the Group's various objectives during 2012 and for the next few years. Our objectives in this review were to:

- Protect the value of our Syrian assets
- Consolidate Gulfsands current position in Tunisia
- Build an additional sustainable leg to the business
- Portfolio diversification
- Preserve the Group's current strong balance sheet position
- Avoid dilution of shareholder value

Our focus is on the Middle East and North Africa ("MENA") region where we can utilise our significant human resource potential and experience accumulated during seven years of operations in Syria. We will look, however, to diversify outside the MENA region and believe that we already have in place the team and expertise to replicate the successful operations we have created in the region to date.

New business review

The Group has been actively involved in reviewing many different types of opportunities over the last six months. We have looked, in depth, at over fifty different opportunities for investment in the MENA region and certain other target countries. We have looked at organic growth through farm-ins and new acreage, as well as corporate transactions.

In the majority of cases, we have concluded that the opportunities being presented either offer too little chance for adding value, would utilise too much of the Group's available cash resources or would require an unacceptable dilution of the current shareholders' holdings. In certain cases we have progressed to making offers, in line with our revised strategy and target areas, but as at the date of writing, we have not progressed any of these opportunities to a position of certainty.

We continue to dedicate substantial resources to reviewing and progressing new opportunities with a view to being in a position to announce a new venture before the end of the year.

Operations Review
Syria

Gulfsands is the operator of the Block 26 Production Sharing Contract with a 50% working interest. The contract is currently in force majeure as a result of the EU sanctions against Syria.

Description

Gulfsands is the operator of the Block 26 Production Sharing Contract ("PSC") with a 50% working interest; the other 50% interest is held by Sinochem. Block 26 covers an area of 5,414 km². The PSC grants rights to explore, develop and produce from all depths outside the existing field areas and from the deeper stratigraphic levels only within the pre-existing discovered field areas. The final exploration period of the PSC expired in August 2012. It is anticipated that an extension in the exploration period will be negotiated with the Syrian authorities to replace that period of time lost due to the sanctions being implemented.

There are two producing oil fields of Cretaceous age within the PSC area, Khurbet East and Yousefieh. In addition, two further oil and gas discoveries of Triassic age lie beneath the Cretaceous oil producing reservoir in the Khurbet East field, within the Butmah and Kurrachine Dolomite formations, for which development approval was granted in 2011.

The development and operation of these fields is being undertaken by Dijla Petroleum Corporation ("DPC"), a joint operating company formed between Gulfsands, Sinochem and the General Petroleum Corporation ("GPC") for this purpose, to which staff of both Gulfsands and GPC have been seconded. Since the imposition of sanctions against GPC on 1 December 2011, which led to 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 to be run by its GPC secondees.

The Khurbet East field was discovered in June 2007, and commercial development approval was granted in February 2008 for the Cretaceous Massive Formation and Triassic Kurrachine Dolomite formations. Oil production from the Cretaceous Massive Formation commenced in July 2008. The Yousefieh field was discovered in November 2008, commercial development approval was granted in January 2010, and oil production commenced in April 2010, also from the Cretaceous Massive Formation.

The original discovery well at Yousefieh is located approximately 3 km away from the Early Production Facility ("EPF") at Khurbet East. The development and production period for the Khurbet East Cretaceous Massive and Triassic Kurrachine Dolomite formations expires in February 2033, and that for the Yousefieh field in January 2035, but each may be extended for a further 10 years at the Contractor's option.

The crude oil currently being produced from Khurbet East has an API gravity of approximately 25°, slightly lighter than that of the area benchmark "Syrian Heavy" crude oil. Oil produced from Yousefieh is similar to that from Khurbet East, with an API gravity of 23–24°. The oil is transported via pipeline to the GPC-operated gathering facilities located some 30 km away at Tel Addas. There it is blended with the Syrian Heavy crude oil, and transported by GPC to the Mediterranean port of Tartous using GPC's oil handling infrastructure.

Approval for the development of the Khurbet East Triassic Butmah oil and gas field was granted in December 2011. Oil from the Triassic Formations in Khurbet East has been sampled and has been found to be lighter than that produced from the Cretaceous Formation, with an API gravity of 34–35°, and it contains a higher gas content. In addition, small amounts of condensate have been recovered from the gas cap in the Butmah Formation. The construction of sour gas sweetening and export facilities at Khurbet East is planned, subject to the lifting of sanctions, to enable commercial production of hydrocarbons both from the Butmah and also from the Triassic Kurrachine Dolomite Formations. The development and production period for the Khurbet East Triassic Butmah Formation expires in December 2036, but may be extended for a further 10 years at the Contractor's option.

Operations

Production

Since 1 December 2011, being the date of imposition of sanctions against GPC, the field activities have been conducted by secondees of GPC only, and Gulfsands Petroleum has had no involvement in those activities. Within the constraints of the sanctions regime, our staff maintain a watching brief at the fields to protect the value of the Group's assets. They are not involved in production activities nor do they assist GPC secondees with oilfield related activities.

As at the end of November 2011, cumulative production from Khurbet East since inception stood at 17.6 million barrels. Our staff have estimated average production trends from the Khurbet East field at 0.5 million barrels in the period from 1 December 2011 to 30 June 2012. Production at the time of implementation of sanctions was approximately 5,000 bopd and since that time production levels have varied significantly as local circumstances dictate. In Q3 2012 the Group understands that production at the Khurbet East field was increased substantially. The current estimated production from the field is approximately 22,000 bopd. At present, GPC are not paying the Group for its share of the oil produced, nor can it currently be accepted by the Group and accordingly no revenue has been recorded from the Syrian operations in respect of the period since 1 December 2011. There is, however, a provision within the PSC that requires a settlement of this figure after the lifting of the current period of force majeure.

The Yousefieh field has been shut-in since September 2011 and we do not believe that the field has been brought on production since that date.

Facilities
Work on the central production facility at Khurbet East, contracted to Saipem, was suspended in December 2011 after Saipem declared force majeure under their contract as a result of EU sanctions. The project was still at design stage, having already been delayed owing to the deteriorating situation in Syria. Saipem has given notice that following an initial 90 day period of force majeure, it was seeking a meeting with the staff of DPC to agree a "project freezing process". This process would include negotiating supplier termination costs and release of previously committed items. Gulfsands Petroleum plc has notified HM Treasury that it intends to allow its personnel to attend these discussions, principally as observers but with a mandate to protect the Group's interests. It is anticipated that these meetings will occur early in Q4 of 2012.

Forward Plans
Following the declaration of force majeure on its PSC in December 2011, the Group no longer has any involvement in the operation of producing fields or the development of discoveries on Block 26, and no longer seconds staff or supplies technical assistance to DPC.

Gulfsands announced in early February 2012 that it had decided to cease all further exploration in Syria in light of the effect of the EU sanctions and the effect these were having on the procurement of essential goods and services for exploration operations. It is the intention that the majority of local staff will continue to be engaged, for the time being at least, in conducting internal studies with a view to being in a position to resume exploration activity as and when sanctions are lifted, on the assumption that an extension in the exploration period (which expired in August 2012) can be negotiated with the Syrian authorities to replace that lost due to the sanctions.

Tunisia & Italy

Gulfsands has non-operated interests in two exploration permits in Tunisia and one in Southern Italy

Description
Gulfsands has non-operated working interests in two exploration permits in Tunisia (the Chorbane and Kerkouane Permits) and one exploration permit in Southern Italy (G.R15.PU) as a result of a farm-in in May 2010. The operator of all three permits is ADX Energy Ltd, an Australia based independent E&P company.

Kerkouane Permit – Offshore Tunisia (Gulfsands: 30%)
G.R15.PU (Pantelleria) Permit – Offshore Italy (Gulfsands: 30%)
The Kerkouane Permit is located offshore north east of Tunisia and G.R15.PU is located offshore the island of Pantelleria south west of Sicily in Italian waters. The two permits are contiguous and comprise a total area of approximately 3,700 km^2. The Kerkouane exploration permit has been extended to February 2014 while the G.R15.PU permit remains suspended pending application to the Italian government for the permit to be reactivated. The Kerkouane block is governed by a Tunisian PSC, whilst the Pantelleria block is governed by an Italian tax/royalty structure.

The Kerkouane Permit contains the Dougga gas/condensate discovery made by Shell in 1981, which is estimated to comprise mean raw GIIP of 618 bcf. 640 km^2 of 3D seismic was acquired in 2010. The Lambouka-1 well was drilled in 2010, and is currently suspended. Preliminary petrophysical interpretations identified two hydrocarbon bearing intervals, but hole conditions did not allow for any pressure measurement, fluid sample recovery or drill-stem testing operations to be conducted.

Chorbane Permit – Onshore Tunisia (Gulfsands: 40%)
The Chorbane Permit is located in central Tunisia and, following the 20% mandatory relinquishment in July 2012, covers an area of approximately 1,938 km^2. The permit is surrounded by several producing oil fields and extensive oil & gas infrastructure. A number of prospects and leads have been identified within the permit. The exploration term is set to expire in July 2015.

Operations
Kerkouane
The Joint Venture is currently in discussions with the authorities in Tunisia regarding potential fiscal options for progressing the development of the existing Dougga gas/condensate discovery.

Chorbane
During the period testing operations were conducted on the Sidi Dhaher-1 which was drilled during 2011. Despite good flow rates from the two reservoir zones the fluids recovered did not contain hydrocarbons. The well has been plugged and abandoned and the drilling information and test data is being interpreted before determining any further operations on the Sidi Dhaher structure.

In July 2012, the Company announced the extension of the Chorbane permit until 12 July 2015. At the same time as the renewal, a relinquishment of 20% of the previous permit area is being made and a further minimum work obligation of one exploration well to a minimum depth of 2,500m was incurred.

Forward Plans
The Group has recently reached preliminary agreements to acquire the 10% participating interests of both Verus Investments Limited and Xstate Resources Limited, in the Chorbane permit, and Xstate's 10% participating interest in the Kerkouane and Pantelleria permits in Tunisia and Italy. The completion of each of these transactions is subject to a number of conditions including finalisation of formal Sale and Purchase Agreements and various regulatory and joint venture approvals and therefore the timing and certainty of completion of these transactions is at present difficult to predict and appropriate announcements as to the progress of each transaction will be made in due course.

USA

Gulfsands intends to divest the remaining producing Gulf of Mexico assets in 2012

Description

Gulfsands owns a small portfolio of non-operated oil & gas properties in the Gulf of Mexico, in the shallow "shelf" region offshore Texas and Louisiana. These comprise interests in several producing fields and certain assets that are no longer commercially producing. In addition the Group benefits from overriding royalty interests in certain other properties.

The assets are relatively mature, are deemed to be non-core and the Group is engaged in a process to dispose of its interests. Proved & Probable reserves at year-end 2011 amounted to 1.7 million boe on a working interest basis (1.4 million boe on a net revenue interest basis), comprised 60% of oil and 40% of gas.

Operations

Production on a working interest basis, including Natural Gas Liquids ("NGLs"), averaged 322 boepd in the first six months of 2012, compared with 568 boepd in the corresponding period of 2011. The composition of this production was 49% oil, 47% gas and 4% NGLs. After tax and royalties, net revenue interest production in H1 2012 was 245 boepd.

Working interest production from the properties retained by the Group at 30 June 2012 increased from 231 boepd in H1 2011 to 258 boepd in H1 2012 partially due to the recommencement of gas production at West Cameron 310 in H2 2011.

Decommissioning projects on several properties continued, including HI A-561 and West Cameron 533.

Sale of interests

Despite efforts to divest the remaining portfolio during the period under review, the Group has struggled to attract bids that sufficiently value the assets being sold. The Group will continue to actively market the portfolio and consider other alternate divestment strategies during the remainder of the year.

Financial Review

Accounting treatment of Syria

As described in note 2 to the Interim Financial Statements and in the section on Sanctions Compliance, the Group considers that it has temporarily lost the ability to manage, control or participate in the operations of Dijla Petroleum Company, the entity established in Syria, pursuant to the PSC, to administer the Syrian oil and gas production assets, and to benefit (in conjunction with the rights granted by the PSC itself) from the production from its fields in Block 26, Syria ("DPC"). In accordance with International Financial Reporting Standards ("IFRS") the Group is required to account for these suspended operations as though DPC was disposed of and the operations in Syria were discontinued. The Group's share of the net assets and liabilities of DPC, which had been proportionally consolidated, have therefore been derecognised as at 1 December 2011, the date on which the EU listed General Petroleum Corporation ("GPC") as an entity subject to an asset freeze and the results of the now suspended operations for both 2012 and 2011 have been shown separately at the bottom of the Income Statement. In accordance with IAS 39 – "Financial Instruments: Recognition and Measurement", from December 2011 the Group has recognised a fair value for its net investment in DPC. This value reflects a subjective assessment of the financial consequences of the EU's sanctions on the Group's interest in DPC and is not, nor is it intended to be, an estimate of the Directors' view of the long-term value of its Syrian operations once the present situation in Syria is resolved.

Selected operational and financial data

	Six months ended 30 June 2012				
	Syrian operations	All other business units	Pro forma total	Adjustment for suspended operations[2]	Total per financial statements
			mmboe		
Production: working interest	-	0.06	0.06	-	0.06
Production: entitlement interest	-	0.04	0.04	-	0.04
			$MM		
Revenue	-	2.9	2.9	-	2.9
Total cost of sales	-	(2.2)	(2.2)	-	(2.2)
Gross profit / (loss)	-	0.7	0.7	-	0.7
Total administrative expenses	(3.0)	(8.6)	(11.5)	-	(11.5)
Exploration costs written off	-	(7.1)	(7.1)	-	(7.1)
Impairment on Syrian E&E assets	(0.2)	-	(0.2)	-	(0.2)
Operating loss	(3.1)	(15.0)	(18.1)	-	(18.1)
Discount expense and net interest	-	(0.0)	(0.0)	-	(0.0)
Loss before tax per financial statements	(3.1)	(15.0)	(18.1)	-	(18.1)
Adjusted underlying loss[1]	**(2.8)**	**(5.8)**	**(8.6)**	**-**	**(8.6)**
Net cash used in operating activities[3]	(3.3)	(4.7)	(8.0)	-	(8.0)
Capital expenditure[3]	(4.2)	(2.9)	(7.1)	-	(7.1)
Decommissioning costs (net of escrow cash released)	-	(0.5)	(0.5)	-	(0.5)
Group cash balance					106.3

Six months ended 30 June 2011	Syrian operations	All other business units	Pro forma total	Adjustment for sus-pended operations[2]	Total per financial statements
mmboe					
Production: working interest	1.87	0.10	1.98	(1.87)	0.10
Production: entitlement interest	0.73	0.82	1.55	(0.73)	0.82
$MM					
Revenue	73.1	5.5	78.6	(73.1)	5.5
Total cost of sales	(9.2)	(6.2)	(15.5)	9.2	(6.2)
Gross profit/(loss)	63.9	(0.7)	63.1	(63.9)	(0.7)
Total administrative expenses	(4.8)	(8.0)	(12.8)	1.8	(11.0)
Exploration costs written off	(5.2)	(13.8)	(19.0)	-	(19.0)
Profit on sale of O&G properties	-	0.2	0.2	-	0.2
Operating profit/(loss)	53.9	(22.3)	31.6	(62.1)	(30.5)
Discount expense and net interest	-	(0.4)	(0.4)	–	(0.4)
Profit/(loss) before tax	53.9	(22.7)	31.2	(62.1)	(30.9)
Profit from suspended operations				62.1	62.1
Profit before tax per financial statements					31.2
Adjusted underlying profit/(loss)[1]	65.6	(5.2)	60.4	(68.5)	(8.1)
Net cash provided by operating activities[3]	61.3	(4.7)	56.6	(63.8)	(7.2)
Capital expenditure[3]	(21.5)	(5.2)	(26.7)	8.8	(17.9)
Decommissioning costs (net of escrow cash released)	-	4.7	4.7	-	4.7
Group cash balance					123.1

1 Defined as profit before depletion, depreciation, impairment, exploration write offs, profit on asset disposals, share based payment charges, interest and tax.
2 Production activities in Syria.
3 The cash figures in the financial statements do not separately disclose the element relating to the Syrian suspended operations but the analysis is included here for completeness.
Note: Certain figures in the above tables may not add up due to roundings.

Group

Income Statement

The Group reported a net loss before tax from continuing operations for the period of $18.1 million (H1 2011 - $30.9 million loss). Profit from discontinued operations in H1 2011 contributed $62.1 million profit resulting in an overall reported profit before tax in H1 2011 of $31.2 million.

The largest component of the reduction in overall losses from continuing operations was the reduction on unsuccessful exploration costs written off which were $7.1million in H1 2012 compared to $19.0 million in H1 2011. Net general and administrative expenses from continuing activities excluding foreign exchange gains or losses and share based payment charges were $9.8 million (H1 2011 – $10.0 million)

Details of the income statements of each of the Group's business units are included in the commentary below.

Cash Flow

The lack of revenue from Syria has caused a reduction in cash provided by operating activities from $56.6 million in H1 2011 to a net utilisation of cash for operations of $8.0 million in H1 2012.

A reduction in capital expenditure to $7.3 million in H1 2012 from $24.1 million in H1 2011 is principally due to reduced development expenditure in Syria and reduced exploration expenditure in Syria and Tunisia. Decommissioning costs net of escrow cash released consumed $0.5 million in H1 2012 and generated $4.8 million in H1 2011. $2.3 million (H1 2011 - nil) was advanced to oil and gas partnerships. In H1 2011 the Group benefited from cash received from assets sales of $4.5 million (H1 2012 nil).

Net proceeds from issues of shares less the purchase of the Company's own shares and cancellation of options was negligible in H1 2012 (H1 2011 - $0.8 million receipt).

Financial position

The Group had $106.3 million of cash balances available at 30 June 2012 (31 December 2011 - $124.2 million). At 30 June 2012 approximately $100.3 million of cash was held in Money Market Funds with UK financial institutions, and a further $5.3 million was held in accounts with banks in the UK and USA.

The Group has no debt and a strong foundation to pursue its organic growth objectives and withstand the current period of sanctions that are impacting its Syrian operations.

The fair value of the Group's net investment in DPC remains unchanged at $102.0 million as it has been concluded that there have been no significant changes to the key judgements and estimates that underpin the estimated value during the period.

Syria

The Group's activities in Syria have been suspended since 1 December 2011. The disclosure of the results required by IFRS includes the separation of the suspended DPC operations from our exploration activities and continuing administrative costs.

Income Statement

No production has been attributed to the Group since 1 December 2011, although the Production Sharing Contract does provide for the Group to receive its proportionate share of any hydrocarbons produced from the fields. It is anticipated that the Group will engage in negotiations with the relevant authorities once European legislation enables it to conduct those negotiations and receive funds. Suspended production activities in H1 2011 contributed a net profit before tax of $62.1 million with no contribution since 1 December 2011.

Costs incurred in maintaining offices in Syria and employing staff in the country amounted to $3.1 million during the first six months of 2012 (H1 2011 - $3.0 million). The slight increase has arisen principally as a result of the Group no longer being able to recharge office costs, salaries and ancillary services to DPC since that entity was added to the list of entities subject to asset freezing regulations in the European Union but offset by a reduction in the level of activity in the country.

In H1 2011 the Group incurred unsuccessful exploration costs of $5.2 million. Comparative costs incurred in H1 2012 amounted to $0.2 million relating entirely to adjustments to costs incurred in drilling the final two wells in Syria before the Group suspended all its exploration activities in the country.

The total reported loss before tax from the continuing operations in Syria during H1 2012 was $3.1 million (H1 2011 - $8.2 million).

Cash Flow

Operating cash flow in Syria consumed $3.3 million in H1 2012 compared to cash generated in H1 2011 of $ 61.3 million (cash from suspended operations generated $63.8 million, continuing operations consumed $2.5 million).

Payments on investing activities amounted to $4.2 million (H1 2011 $21.5 million) principally as a result of payment of outstanding obligations relating to wells that were drilled in the H2 2011. The significant reduction has arisen as the Group has now significantly curtailed its activities in Syria.

It is anticipated that the company will make significant cash payments during H2 2012 of approximately $1.5 million in respect of creditors due for capital items and $1.8 million in respect of operating expenditures outstanding at 30 June 2012 as permission is received from the appropriate regulatory authorities. Once these amounts are paid the Group expects the on-going cash expenditure to average less than $350,000 per month, net to Gulfsands.

Tunisia

Income Statement

The Group has non-operated interests in one onshore and one offshore block and recorded a net loss before tax of $7.1 million (H1 2011 - $13.8 million). In 2012 the Group wrote off the costs of unsuccessful exploration efforts associated with the Sidi Dhaher exploration well of $7.1 million and in H1 2011 had written off the costs of the Lambouka exploration well and associated seismic expenses of $13.8 million.

Cash Flow

Exploration expenditure of $1.8 million in H1 2012 compared to expenditure of $1.5 million in H1 2011. These funds were provided by loans from other group undertakings.

USA
Income Statement

Revenue from the Group's remaining interests in the Gulf of Mexico amounted to $2.9 million (H1 2011 - $5.5 million) as summarised below:

Gulf of Mexico		**H1 2012**				H1 2011			
Selected production data		Oil	Gas	NGLs	Total	Oil	Gas	NGLs	Total
		bopd	mcf/d	gall/d	boepd	bopd	mcf/d	gall/d	boepd
Daily average production:									
	Working interest	**159**	**902**	**513**	**322**	296	1,364	1,875	568
	Net revenue interest	**130**	**640**	**359**	**245**	237	1,073	1,451	450
Revenue (USD 000s)		**2,458**	**336**	**84**	**2,878**	4,317	863	343	5,523
Average revenue per NRI bbl / mcf / gall / boe		**103.9**	**2.9**	**1.3**	**64.5**	100.6	4.4	1.3	67.8
Brent / Henry Hub average price per bbl / mcf		**113.5**	**2.4**			111.2	4.3		
Premium / (discount) per bbl / mcf		**(9.6)**	**0.5**			(10.6)	0.1		

Average daily production has decreased when compared to H1 2011 after the sale of a package of assets with an effective date of 1 June 2011. Additionally, following the settlement of a dispute with an operator in H1 2012, the Group received approximately $0.3 million of revenues from the period 2007 to 2011 when the average oil price was lower and gas prices higher than the benchmark prices for Brent and Henry Hub quoted above.

The greater percentage of gas production (44% in 2012 compared with 40% in 2011) which attracts a comparatively lower price has led to a slightly lower average selling price per net barrel of $64.5 / boe (H1 2011 - $67.8 / boe).

Gulf of Mexico **Analysis of gross profit / (loss)**	**H1 2012**		H1 2011	
	USD 000s	**USD / WI boe**	USD 000s	USD / WI boe
Revenue	**2,878**	**49.2**	5,523	53.7
Production costs	**(1,595)**	**(27.3)**	(4,010)	(39.0)
Depletion expenses	**(593)**	**(10.1)**	(2,231)	(21.7)
Gross profit / (loss) before impairment	**690**	**11.8**	(718)	(7.0)

Production costs include transportation and marketing expenses, lease operating expenses charged by operators, repair and maintenance costs and insurance premiums. The most significant reductions in production costs included a reduction in lease operating expenses and insurance premiums following the disposal of properties in 2011 and a reduction in repair and maintenance costs from $0.6 million in H1 2011 to $0.1 million in H1 2012.

Depletion expenses are calculated on an asset by asset level and the charge is dependent on the production from each asset. The average rate of depletion in the remaining portfolio is approximately $10 / bbl on a working interest basis.

General and administrative expenses including depreciation amounted to $1.3 million (H1 2011 - $1.3 million). After interest charges of $2.3 million (H1 - 2011 $2.3 million) and the unwinding of the discount on the decommissioning provision of $0.2 million (H1 2011 - $0.5 million), the GOM operations recorded a loss after taxation of $3.1 million (H1 2011 - $4.6 million).

Cash Flow

Cash generated from operations in H1 2012 was $0.8 million (H1 2011 - $0.5 million). The cash generated during the period included approximately $0.3 million in respect of previously disputed revenues from properties now disposed of and $0.3 million from settlement of a gas underlift position recognised in May 2004 when certain oil and gas properties in the Gulf of Mexico were acquired.

$0.2 million (H1 2011 - $0.1 million) was spent on development activities in the Gulf of Mexico and $0.6 million (H1 2011 - $1.3 million) was spent on decommissioning activities. In H1 2011 the GOM business unit also received $4.5 million from asset sales and $6.1 million from reductions in escrow cash balances held to support decommissioning bond liabilities.

Corporate

Income statement

General administrative expenses net of recharges and excluding foreign exchange losses and share based payment charges were $5.6 million (H1 2011 - $5.7 million). Foreign exchanges losses of $0.5 million compared to gains of $0.2 million in H1 2011.

After share based payment charges of $1.2 million (H1 2011 - $1.2 million) and interest income of $2.5 million (H1 2011 - $2.4 million), general corporate activities reported a loss after taxation of $4.8 million (H1 2011 - $4.3 million).

Cash Flow

Cash consumed in operations in H1 2012 was $5.7 million (H1 2011 - $5.2 million). The Group received interest of $0.2 million (H1 2011 - $0.1 million) and net proceeds from issues of shares less the purchase of the Company's own shares and cancellation of options was negligible in H1 2012 (H1 2011 - $0.8 million receipt).

Financial risk management

The principal financial risks concerning the Group comprise pricing risk, currency risk, liquidity risk and access to capital.

Pricing risk arises because all of the Group's oil and gas production is sold under short term pricing arrangements and so the Group is exposed to movements in oil and gas prices. To date this exposure has not been hedged since the Board has taken the view that the Group's cash flow has been sufficient to bear any reasonably foreseeable downturn in prices without affecting our core business. However this policy is kept under frequent review.

Currency risk arises because the Group's sales are denominated in US Dollars but a proportion of its expenses are in Euro and Sterling (head office costs). The risk is mitigated by retaining a proportion of our cash resources in these currencies.

Liquidity risk concerns the Group's ability to access funds to meet its obligations as they fall due. Our policy is to maintain sufficient cash balances and readily realisable investments for this purpose, given that the Group has no bank lines of credit available to it. Sums in excess of what is needed to meet near-term obligations are invested in a money market fund which holds a diverse portfolio of short-term financial instruments rated A1 or better, resulting in a greater spread of risk and an improved return compared with what we would otherwise be able to achieve.

Access to capital depends on conditions prevailing in the equity market for independent E&P companies generally and the sentiment among the Group's shareholders in particular but the Group has sufficient resources to finance its current operations for the foreseeable future.

Risks and uncertainties

A full review of the principal risks and uncertainties facing the Group as at 2 April 2012, and the steps taken to mitigate those risks and uncertainties, was included in the 2011 Annual Report and Accounts.

The principal risks and uncertainties noted therein comprised the following:

Supply chain risk
Further sanctions
Civil war
Change in government
Attracting and retaining staff
Viable growth opportunities

Since that time the situation in Syria has continued to deteriorate with widespread civil unrest and ongoing military action by both the Syrian armed forces and numerous external parties. This creates significant risks for our staff when moving around Syria and even within the city of Damascus. Ultimately the recoverability of value from the Group's share of assets in Block 26 may be compromised were the current government to change and be replaced by one less favourably disposed to foreign oil companies and unwilling to continue to honour its contractual obligations. The Group has engaged the services of external consultants specialised in planning to consider its options under all reasonably foreseeable scenarios.

The imposition of sanctions by the USA and the European Union ("EU") against certain Syrian individuals and entities, including DPC and GPC, coupled with specific sanctions against the Syrian hydrocarbon industry, also gives rise to potentially material risks. These sanctions have caused all International Oil Companies working in Syria to call force majeure under their production contracts and cease working in the country. Close liaison with regulatory bodies in the UK and the Cayman Islands continues to ensure that the Group does not compromise the value of its assets in Syria whilst ensuring full compliance with the legislation. There is a risk that additional, more punitive, sanctions are imposed in the future. A review of our compliance with sanctions is included elsewhere within this report.

The Group has encountered severe reluctance among some banks in the EU to process payments emanating from, or going to, Syria for internal policy reasons. In certain instances this has extended to processing any transactions relating to the Group. The Group has been liaising with bankers to ensure that such unwarranted action does not compromise the Group's ability to work elsewhere in the world.

Going concern

The Group's liquidity in the long term is dependent on the extent to which it is able to realise value for its investment in Syria or to organically grow the business outside of Syria. However, the Group had cash and bank balances available for immediate use of over $106 million at 30 June 2012 (of which over $100 million was held in the UK) and no debt. Having reviewed the Group's forecasts for the period to 31 December 2013 and after making enquiries, the Directors expect the Group to retain significant cash resources for at least 12 months from the date of approval of this Half-Yearly Financial Report even if the Group receives no further revenue from Syria in that period. Accordingly, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and consequently the Directors believe that the Group is able to manage its financial and operational risks and they therefore continue to adopt the going concern basis in preparing the Half-Yearly Financial Report.

Richard Malcolm
Chief Executive Officer
19 September 2012

Sanctions Compliance

During 2011 and 2012 the European Union ("EU") has imposed progressively tighter sanctions on Syria, which targeted, inter alia, the country's oil industry. The following describes the impact of those sanctions, and the measures taken by the Group to comply therewith.

Summary of Legislation

USA

The USA has since the 2003 Syria Accountability and Lebanese Sovereignty Restoration Act had measures in place against Syria, to prohibit the export of certain goods and to block the property of certain persons. Whilst these measures did not impact Gulfsands directly, Mr Rami Makhlouf, with whom Gulfsands had had a relationship since the time of its entry into Syria in 2000, was in 2008 designated by the US Treasury Department's Office of Foreign Asset Control ("OFAC") as a Specially Designated National pursuant to this legislation.

EU

On 9 May 2011, the EU Council adopted Regulation 442/2011 which, inter alia, froze the assets held or controlled by certain individuals and entities. Among the individuals in question was Mr Rami Makhlouf. The provision of funds or economic resources, directly or indirectly, to those on this list was prohibited.

Subsequently by virtue of several further Regulations between May and December 2011 additional persons and entities were added to the list of those subject to the asset freeze. These included President Bashar Al-Assad, other members of his family, and certain relatives of Mr Rami Makhlouf and entities controlled or beneficially owned by him and his family (the "Makhlouf Interests").

On 2 September 2011 the EU Council adopted Regulation 878/2011 which prohibited the import into the EU of crude oil or petroleum products originating in Syria, the transportation of such crude oil or petroleum products, or the provision of financing or insurance for such activities.

On 23 September 2011 the EU Council adopted Regulation 950/2011 which prohibited the granting of any loan or credit to a Syrian person or entity engaged in the exploration, production or refining of crude oil, the acquisition or extension of a participation in any such entity, or the creation of a joint venture with such person or entity. These prohibitions were however without prejudice to the fulfilment of obligations arising under contracts concluded prior to the date of the Regulation.

On 1 December 2011 an EU Council Decision significantly increased the sanctions against the oil industry in Syria: although the associated EU regulation (Regulation 36/2012) was not adopted until 18 January 2012 certain aspects of the decision became effective immediately. The additional measures prohibited, inter alia, the supply to any Syrian person or entity of key equipment or technology used in exploration or production of crude oil and natural gas, or technical assistance related to such equipment or technology. These prohibitions were however without prejudice to the fulfilment of obligations arising under contracts concluded prior to the date of the Regulation.

Furthermore the 1 December 2011 EU Council Decision added General Petroleum Corporation ("GPC") to the asset freeze list: GPC is the party to the Block 26 PSC and a 50% shareholder in Dijla Petroleum Company ("DPC"). On 23 January 2012 by EU Regulation 55/2012 further persons and entities were added to the list of those subject to the asset freeze. These included DPC, the Group's joint operating company formed for the purpose of exploiting the discovered oil & gas in Block 26.

On 10 July 2012 the United Kingdom enacted The Syria (Restrictive Measures) (Overseas Territories) Order 2012 (SI 21012 No. 1755) which, for the first time, directly brought Gulfsands Petroleum Levant Limited under the European Sanctions net. This legislation has had no additional substantive impact, however, because Gulfsands Petroleum plc has, at all times, applied the relevant United Kingdom legislation as though it applied directly to its subsidiaries and affiliated undertakings.

Relationship with Makhlouf Interests

A full disclosure of the extent of the Group's relationship with Mr Makhlouf and certain corporate entities in which Mr Makhlouf and other members of his family (collectively the "Makhlouf Interests") are involved was made in August 2011, and a copy of the press release may be found on Gulfsands' website www.gulfsands.com.

The following summarises the contents of that disclosure.

Since the time of its first entry into Syria the Group has had constructive arm's length commercial relationships with certain Makhlouf Interests, all of which have been properly documented and disclosed. These comprise:

- the rental of office premises in Damascus from a company beneficially owned by Makhlouf Interests; and
- a services agreement with Ramak, a company beneficially owned by Makhlouf Interests, which was engaged to provide assistance to the original joint venture partners in identifying and evaluating E&P opportunities in Syria and since 2000 has provided various support and administrative services to the Block 26 joint venture. Under this agreement Ramak was entitled to an annual fee of less than $250,000 plus a 2.5% net profit interest in the entitlement production attributable to the joint venture.

In addition Al Mashrek Global Invest, a company beneficially owned by Makhlouf Interests, currently owns 7.0 million shares in the Company representing 5.9% of the total issued share capital of the Company (excluding shares held in Treasury).

Compliance Measures Taken
Gulfsands has from the outset taken extensive legal advice to ensure full compliance with the relevant sanctions.

Immediately after the 9 May EU regulation all payments to the Makhlouf Interests under the existing commercial agreements were suspended, and additionally all voting, dividend and transfer rights pertaining to the shares in Gulfsands held by Al Mashrek Global Invest were suspended.

Following the EU Council Decision of 1 December, after taking legal advice and obtaining the agreement of Emerald Energy (a subsidiary of Sinochem and its 50% working interest partner), Gulfsands on 11 December declared *force majeure* under the PSC on the grounds that it could no longer comply with its obligations while remaining compliant with UK law.

The listing of GPC as an entity subject to asset freezing regulations on 1 December 2011 triggered a review of the Group relationship with GPC and with DPC.

With effect from 1 December Gulfsands has:

- ceased to provide assistance to DPC in the form of seconded staff or indeed have any involvement with the day to day operations of DPC
- recused itself from decisions taken by the DPC board
- not submitted invoices for the Joint Venture's entitlement share of oil production
- exercised strict control over payment of outstanding invoices to ensure that (a) no payments were made to persons or entities who are included on the list of those subject to the asset freeze, (b) no payment is made for goods or services subject to restrictive measures without the required notification to the Competent Authority and (c) no payment was made which would constitute a transfer of economic resources to GPC or DPC
- ceased (with effect from 18 January being the date of adoption of EU Regulation 36/2012) to enter into new contracts for the procurement of oil & gas related goods or services into Syria, or for associated technical assistance.

The Group has now ceased all exploration, as well as production, activity in Syria.

The Group has relocated its offices from those beneficially owned by Makhlouf Interests into temporary offices whilst it locates suitable alternative accommodation to allow it to retain a place of business in the country. Unfortunately, the protracted nature of the suspension of operations in Syria has also necessitated the review of staffing levels in the country and, it is with great regret that the Group has had to release a proportion of its workforce. For the time being, the Group does not intend to make any further enforced redundancies.

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 2012 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 10. 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 2012 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.

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

In forming our conclusion on the Condensed Financial Statements for the six month period ended 30 June 2012, which is not qualified, we have considered the adequacy of the disclosures made in note 2 concerning the carrying value of the Group's suspended producing operations in Syria, which are recorded at the Directors' best estimate of their fair value following the loss of control in December 2011. As highlighted in note 2, there is significant uncertainty as to the duration of sanctions and the eventual outcome of events in Syria and hence of the carrying value of $102.0 million of the suspended producing operations in that country.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
19 September 2012

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Notes	**30 June 2012**	30 June 2011	Year ended 31 December 2011
		(Unaudited)	(Unaudited)	(Audited)
		$' 000	$' 000	$' 000
Continuing operations				
Revenue	3	**2,878**	5,523	7,907
Cost of sales				
Depletion	5	**(593)**	(2,231)	(3,883)
Impairment	5	**-**	-	(64)
Other cost of sales		**(1,595)**	(4,010)	(6,382)
Total cost of sales		**(2,188)**	(6,241)	(10,329)
Gross profit / (loss)		**690**	(718)	(2,422)
General administrative expenses		**(9,822)**	(10,007)	(19,745)
Foreign exchange gains / (losses)		**(504)**	233	(1,458)
Share based payments		**(1,202)**	(1,239)	(2,522)
Total administrative expenses		**(11,528)**	(11,013)	(23,725)
Exploration costs written off	6	**(7,099)**	(18,960)	(22,547)
Impairment provision on Syrian exploration activities	6	**(167)**	-	(9,997)
Profit on disposal of oil and gas properties		**-**	219	6,628
Operating loss		**(18,104)**	(30,472)	(52,063)
Discount expense on decommissioning provision	9	**(238)**	(543)	(638)
Net interest income		**224**	127	270
Loss before taxation from continuing activities		**(18,118)**	(30,888)	(52,431)
Taxation credit		**-**	-	31
Profit for the period from suspended Syrian activities	3	**-**	62,075	107,476
Profit / (loss) for the period - attributable to owners of the Parent Company	3	**(18,118)**	31,187	55,076
Loss per share from continuing operations (cents):				
Basic	4	**(15.38)**	(25.32)	(43.30)
Diluted	4	**(15.38)**	(25.32)	(43.30)
Earnings / (Loss) per share from continuing operations and Syrian activities (cents):				
Basic	4	**(15.38)**	25.57	45.51
Diluted	4	**(15.38)**	24.99	44.80

There are no items of comprehensive income not included in the Income Statement.

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2012

	Notes	30 June 2012 (Unaudited) $' 000	31 December 2011 (Audited) $' 000
Assets			
Non-current assets			
Property, plant and equipment	5	**14,169**	14,229
Intangible assets	6	**4,933**	8,457
Long-term financial assets	7	**3,836**	3,965
Investments	8	**102,000**	102,000
		124,938	128,651
Current assets			
Inventory - materials		**2,956**	2,870
Trade and other receivables		**6,903**	5,347
Cash and cash equivalents	7	**106,268**	124,240
		116,127	132,457
Total assets		**241,065**	261,108
Liabilities			
Current liabilities			
Trade and other payables		**13,233**	16,038
Provision for decommissioning	9	**3,603**	2,135
		16,836	18,173
Non-current liabilities			
Provision for decommissioning	9	**12,932**	14,748
Total liabilities		**29,768**	32,921
Net assets		**211,297**	228,187
Equity			
Capital and reserves attributable to equity holders			
Share capital	10	**13,131**	13,131
Share premium		**105,926**	105,926
Share-based payments reserve		**19,708**	18,506
Merger reserve		**11,709**	11,709
Retained profit		**60,823**	78,915
Total equity		**211,297**	228,187

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Share capital	Share premium	Share based payments reserve	Merger reserve	Retained profit	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000
Six months ended 30 June 2012						
At 1 January 2012	13,131	105,926	18,506	11,709	78,915	228,187
Options exercised	-	-	-	-	145	145
Purchase of own shares	-	-	-	-	(119)	(119)
Share-based payment charge	-	-	1,202	-	-	1,202
Loss for the period	-	-	-	-	(18,118)	(18,118)
At 30 June 2012	13,131	105,926	19,708	11,709	60,823	211,297
Six months ended 30 June 2011						
At 1 January 2011	13,093	105,025	16,318	11,709	36,862	183,007
Options exercised	38	901	-	-	-	939
Share-based payment charge	-	-	1,239	-	-	1,239
Payments made in lieu of option exercise	-	-	(169)	-	-	(169)
Profit for the period	-	-	-	-	31,187	31,187
At 30 June 2011	13,131	105,926	17,388	11,709	68,049	216,203

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Notes	**30 June 2012**	30 June 2011	Year ended 31 December 2011
		(Unaudited)	(Unaudited)	(Audited)
		$' 000	$' 000	$' 000
Cash flows from operating activities				
Operating loss from continuing operations		**(18,104)**	(30,472)	(52,063)
Operating profit from suspended Syrian activities		**-**	62,075	98,774
Total operating profit / (loss)		**(18,104)**	31,603	46,711
Depreciation, depletion and amortisation	5 & 6	**1,073**	8,821	14,665
Impairment charge		**-**	**-**	64
Exploration costs written off	6	**7,099**	18,960	22,547
Impairment provision on Syrian exploration activities	6	**167**	-	9,997
Decommissioning costs in excess of provision		**-**	779	1,100
Share-based payment charge		**1,202**	1,239	2,522
Profit on disposal of assets		**-**	(219)	(6,628)
Decrease in receivables		**452**	504	2,655
Increase / (decrease) in payables		**(91)**	(5,263)	359
Net cash provided by / (used in) operations		**(8,202)**	56,423	93,992
Interest received		**224**	127	270
Taxation recovered		**-**	-	55
Net cash provided by / (used in) operating activities		**(7,978)**	56,550	94,317
Investing activities				
Exploration and evaluation expenditure		**(5,073)**	(14,017)	(22,887)
Oil and gas properties expenditure		**(179)**	(8,835)	(20,521)
Decrease / (increase) in inventory		**(952)**	(233)	159
Disposal of oil and gas assets		**-**	4,503	10,403
Other capital expenditures		**(1,058)**	(1,032)	(2,228)
Change in restricted cash balances		**129**	6,081	11,212
Decommissioning costs paid		**(586)**	(1,300)	(5,082)
Movements in balances due to or from oil and gas partnerships		**(2,301)**	-	(1,092)
Net working capital adjustment in respect of Syrian production activities		**-**	-	(7,610)
Cash derecognised in respect of Syrian production activities		**-**	-	(637)
Net cash used in investing activities		**(10,020)**	(14,833)	(38,283)
Financing activities				
Cash proceeds from issue of shares		**145**	939	939
Purchase of own shares		**(119)**	-	(13,023)
Payments made in lieu of options exercised		**-**	(169)	(335)
Net cash provided by / (used in) financing activities		**26**	770	(12,419)
Increase / (decrease) in cash and cash equivalents		**(17,972)**	42,487	43,615
Cash and cash equivalents at beginning of period		**124,240**	80,625	80,625
Cash and cash equivalents at end of period		**106,268**	123,112	124,240

NOTES TO THE HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2012

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 in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") including IAS 34 'Interim Financial Reporting' as adopted by the European Union ("EU") and, except for share based payments and the valuation of available for sale investments, under the historical costs convention.

This condensed set of financial statements for the six months ended 30 June 2012 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 Group for the year ended 31 December 2011 and those to be used in the year ending 31 December 2012. The information for the year ended 31 December 2011 does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The financial statements for the year ended 31 December 2011 have been delivered to the Registrar of Companies and the auditors' report on those financial statements was unqualified, and did not contain a statement made under Section 498 of the Companies Act 2006. The auditors’ report included an emphasis of matter in respect of the fair value of the Group’s suspended operations in the Syrian Arab Republic (see note 2).

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 and authorised for issue on 19 September 2012.

2. Effect of sanctions applied to the Group's operations in the Syrian Arab Republic

The Group is party to a Production Sharing Contract ("PSC") for the exploitation of hydrocarbon production in Block 26 in Syria. Pursuant to the PSC the Group operates its Syrian oil and gas production assets through a joint venture administered by Dijla Petroleum Company ("DPC") in which the Group has a 25% equity interest. The Group lost control of DPC on 1 December 2011 following the publication of European Union Council Decision 2011/782/CFSP which significantly increased sanctions against the oil industry in Syria. For the purposes of EU sanctions, DPC is considered to be controlled by General Petroleum Corporation.

The Group has followed the guidance in International Accounting Standard 31 "Interests in Joint Ventures" and has derecognised its share of the assets and liabilities of DPC from 1 December 2011. Until 1 December 2011 DPC had been proportionally consolidated. Subsequent to this date the Group's interest in DPC has been recognised as an available-for-sale investment, at an estimate of fair value as, given the current exceptional circumstances in Syria, the Group has neither joint control nor significant influence over the financial and operating policy decisions of the entity.

The results of these suspended activities have been treated as "discontinued operations" in the Income Statement. Further details of the overall contribution of Syria to the Group's results for the period, the comparative period from 2011 and the full financial year ending 31 December 2011, including the exploration activities that were not directly caught by the EU sanctions, is provided in note 3.

The fair value of the investment in DPC has been calculated based upon estimated future cash flows that could be generated from the management's estimate of the entitlement reserves at 30 June 2012 discounted at a rate of 15% per annum and then the net present value is reduced further by 80% to reflect a market view of other risks of investments in the Syrian oil and gas sector at the current time. It has also been referenced, as a practical matter, to the Group's June 2012 market capitalisation (as adjusted for its substantial net cash balance).

The fair value included within the Group's investments reflects an estimate of fair value taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future activities in the country as a consequence of the impact of the EU's sanctions and is not necessarily reflective of the value of the Group's investments in its Syrian operations over the long-term.

In deriving the figure of 80% the Directors have assumed, inter alia, a delay to resumption of oil production in Syria, deferred revenue receipts for a period after resumption of production, potential further costs associated with restarting operations and the possibility of a change to the terms of the PSC or even expropriation. There is a high degree of subjectivity inherent in the valuation due to the unknown duration of the sanctions and the eventual outcome of events in Syria. Accordingly it may change materially in future periods depending on a wide range of factors.

3. Segmental information

The Group operates in three geographical areas, Syria, Tunisia and the USA. All segments are involved with production and exploration of oil and gas. Other represents management fee recharges and corporate and head office costs.

The Group's revenue and results for the period is analysed by reportable segment as follows:

	Period ended 30 June 2012					
	Syria exploration activities	Syria production activities	Tunisia	USA	Other	Total
	$' 000	$' 000	$' 000	$' 000	$' 000	$' 000
Revenues from external parties	-	-	-	2,878	-	2,878
Inter-segment and other income	-	-	-	-	1,000	1,000
Total segment revenue	-	-	-	2,878	1,000	3,878
Depletion charges	-	-	-	(593)	-	(593)
Other cost of sales	-	-	-	(1,595)	-	(1,595)
General administrative expenses before depreciation	(1,890)	-	-	(1,270)	(6,182)	(9,342)
Inter-segment expenses	(822)	-	(29)	-	(149)	(1,000)
Depreciation and amortisation	(188)	-	-	(7)	(285)	(480)
Foreign exchange gains / (losses)	(50)	-	1	-	(455)	(504)
Share-based payments	-	-	-	-	(1,202)	(1,202)
Exploration costs written off	-	-	(7,099)	-	-	(7,099)
Impairment provision on Syrian exploration activities	(167)	-	-	-	-	(167)
Loss before interest and taxation	(3,117)	-	(7,127)	(587)	(7,273)	(18,104)
Interest expense and unwinding of discount	-	-	-	(238)	-	(238)
Interest income from external parties	-	-	-	1	223	224
Inter-segment interest	-	-	-	(2,282)	2,282	-
Loss for the period from continuing operations being loss attributable to owners of the Company	(3,117)	-	(7,127)	(3,106)	(4,768)	(18,118)

Central costs have not been apportioned to the reportable segments and are included within "Other" above.

3. Segmental information (continued)

	Period ended 30 June 2011					
	Syria exploration activities	Syria production activities	Tunisia	USA	Other	Total
	$' 000	$' 000	$' 000	$' 000	$' 000	$' 000
Revenues from external parties	-	73,066	-	5,523	-	78,589
Inter-segment and other income	-	-	-	3	1,832	1,835
Total segment revenue	-	73,066	-	5,526	1,832	80,424
Depletion charges	-	(6,250)	-	(2,231)	-	(8,481)
Other cost of sales	-	(2,969)		(4,010)	-	(6,979)
General administrative expenses before depreciation	(1,560)	(1,305)	-	(1,269)	(7,314)	(11,448)
Inter-segment administrative expense	(1,328)	(307)	(13)	(30)	(148)	(1,826)
Depreciation and amortisation	(91)	(160)	-	(9)	(80)	(340)
Foreign exchange gains / (losses)	(5)	-	-	-	238	233
Share-based payments	-	-	-	-	(1,239)	(1,239)
Exploration costs written off	(5,201)	-	(13,759)	-	-	(18,960)
Profit on disposal of oil and gas properties	-	-	-	219	-	219
Profit / (loss) before interest and taxation	(8,185)	62,075	(13,772)	(1,804)	(6,711)	31,603
Interest expense and unwinding of discount	-	-	-	(543)	-	(543)
Interest income from external parties	8	-	-	2	117	127
Inter-segment interest	-	-	-	(2,269)	2,269	-
Attributable to suspended operations	-	(62,075)	-	-	-	(62,075)
Loss for the period from continuing operations	(8,177)	-	(13,772)	(4,614)	(4,325)	(30,888)
Profit for the period from suspended operations	-	62,075	-	-	-	62,075
Profit / (loss) for the period attributable to owners of the Company	(8,177)	62,075	(13,772)	(4,614)	(4,325)	31,187

3. Segmental information (continued)

	Year ended 31 December 2011					
	Syria exploration activities	Syria production activities	Tunisia	USA	Other	Total
	$' 000	$' 000	$' 000	$' 000	$' 000	$' 000
Revenues from external parties	-	117,041	-	7,907	-	124,948
Inter-segment and other income	-	-	-	-	2,809	2,809
Total segment revenue	-	117,041	-	7,907	2,809	127,757
Depletion charges	-	(9,875)	-	(3,883)	-	(13,758)
Impairment	-	-	-	(64)	-	(64)
Other cost of sales	-	(6,001)	-	(6,382)	-	(12,383)
General administrative expenses before depreciation	(4,387)	(1,759)	-	(2,354)	(12,729)	(21,229)
Inter-segment administrative expense	(1,825)	(367)	(26)	(389)	(202)	(2,809)
Depreciation and amortisation	(462)	(265)	-	(17)	(163)	(907)
Foreign exchange gains / (losses)	(513)	-	1	-	(946)	(1,458)
Share-based payments	-	-	-	-	(2,522)	(2,522)
Exploration costs written off	(8,788)	-	(13,759)	-	-	(22,547)
Impairment provision on Syrian exploration activities	(9,997)	-	-	-	-	(9,997)
Profit on disposal of oil and gas properties	-	-	-	6,628	-	6,628
Profit / (loss) before interest and taxation	(25,972)	98,774	(13,784)	1,446	(13,753)	46,711
Interest expense and unwinding of discount	-	-	-	(638)	-	(638)
Interest income from external parties	9	-	-	4	257	270
Inter-segment interest	-	-	-	(4,365)	4,365	-
Taxation	-	-	-	-	31	31
Attributable to suspended operations	-	(98,774)	-	-	-	(98,774)
Loss for the year from continuing operations	(25,963)	-	(13,784)	(3,553)	(9,100)	(52,400)
Profit for the year from suspended operations	-	98,774	-	-	-	98,774
Profit on derecognition of Syrian producing interests	-	8,702	-	-	-	8,702
Profit / (loss) for the period attributable to owners of the Company	(25,963)	107,476	(13,784)	(3,553)	(9,100)	55,076

3. Segmental information (continued)

The segment assets and liabilities as at 30 June 2012 and the segment capital expenditure during the period were as follows:

			At 30 June 2012			
	Syria exploration activities	**Syria production activities**	**Tunisia**	**USA**	**Other**	**Total**
	$' 000	**$' 000**	**$' 000**	**$' 000**	**$' 000**	**$' 000**
Assets (see note 2)	**5,649**	**102,000**	**3,098**	**18,403**	**111,915**	**241,065**
Liabilities	**(9,093)**	**-**	**(2,250)**	**(16,429)**	**(1,996)**	**(29,768)**
Inter-segment balances	**(11,083)**	**-**	**(22,040)**	**(7,635)**	**40,758**	**-**
Exploration and evaluation expenditure	**167**	**-**	**3,328**	**-**	**-**	**3,495**
All other additions to non-current assets	**-**	**-**	**-**	**174**	**1,086**	**1,260**
Total capital expenditure during period	**167**	**-**	**3,328**	**174**	**1,086**	**4,755**

			At 30 June 2011			
Assets	35,143	71,648	4,712	34,666	113,742	259,911
Liabilities	(7,301)	(5,967)	(1,349)	(28,311)	(780)	(43,708)
Inter-segment balances	18,589	(55,850)	(17,416)	(49,956)	104,633	-
Exploration and evaluation expenditure	10,518	-	1,010	-	-	11,528
All other additions to non-current assets	826	5,908	-	381	314	7,429
Total capital expenditure during period	11,344	5,908	1,010	381	314	18,957

			At 31 December 2011			
Assets (see note 2)	11,990	102,000	6,869	19,527	120,722	261,108
Liabilities	(14,468)	-	(1,000)	(16,832)	(621)	(32,921)
Inter-segment balances	(8,934)	-	(19,934)	(7,532)	36,400	-
Exploration and evaluation expenditure	17,592	-	4,657	-	-	22,249
All other additions to non-current assets	494	18,835	-	2,117	1,116	22,562
Total capital expenditure during period	18,086	18,835	4,657	2,117	1,116	44,811

4. Earnings per share

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

	6 months ended 30 June 2012	30 June 2011	Year ended 31 December 2011
Weighted average number of ordinary shares	117,817,500	121,883,268	121,028,071
Options	368,956	2,920,248	1,915,229
Weighted average number of diluted shares	118,186,456	124,803,516	122,943,300

The calculation of basic earnings per share is based on the profit or loss attributable to equity shareholders of $18.1 million loss (H1 2011 $30.9 million loss from continuing activities or $31.2 million profit including Syrian activities) and the weighted average number of ordinary shares in issue during the period. The diluted earnings 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. Where earnings are negative the impact of share options is anti-dilutive and hence, basic and diluted loss per share from continuing operations are the same.

5. Property, plant and equipment

	Oil and gas properties			
	Syria	USA	Other fixed assets	Total
	$' 000	$' 000	$' 000	$' 000
Cost:				
At 1 January 2012	-	41,267	1,796	43,063
Additions		174	540	714
At 30 June 2012	-	41,441	2,336	43,777
Accumulated depreciation and depletion:				
At 1 January 2012	-	(21,743)	(1,270)	(23,013)
Charge for the period		(593)	(181)	(774)
At 30 June 2012	-	(22,336)	(1,451)	(23,787)
Accumulated impairment:				
At 1 January 2012	-	(5,821)	-	(5,821)
At 30 June 2012	-	(5,821)	-	(5,821)
Net book value at 30 June 2012	**-**	**13,284**	**885**	**14,169**
Net book value at 31 December 2011	-	13,703	526	14,229

All of the Group's interests in its Syrian oil and gas properties were derecognised following the loss of control of the Syrian producing operations in December 2011.

6. Intangible assets

	Exploration and evaluation assets		Computer software	Total
	Syria	Tunisia		
	$' 000	$' 000	$' 000	$' 000
Cost:				
At 1 January 2012	9,997	6,869	2,135	19,001
Additions	167	3,328	546	4,041
Exploration expenditure written off	-	(7,099)	-	(7,099)
At 30 June 2012	10,164	3,098	2,681	15,943
Accumulated amortisation:				
At 1 January 2012	-	-	(547)	(547)
Charge for the period	-	-	(299)	(299)
At 30 June 2012	-	-	(846)	(846)
Accumulated impairment:				
At 1 January 2012	(9,997)	-	-	(9,997)
Impairment provision for the period	(167)	-	-	(167)
At 30 June 2012	(10,164)	-	-	(10,164)
Net book value at 30 June 2012	**-**	**3,098**	**1,835**	**4,933**
Net book value at 31 December 2011	-	6,869	1,588	8,457

All Syrian exploration and evaluation assets are impaired in full following the imposition of European Union sanctions against the Syrian hydrocarbon industry.

7. Cash and cash equivalents

	30 June 2012	31 December 2011
	$' 000	$' 000
Cash at bank and in hand	**106,268**	124,240
Restricted cash balances	**3,836**	3,965
	110,104	128,205
Less: included in long-term financial assets	**3,836**	3,965
Total cash and cash equivalents	**106,268**	124,240

$100.3 million of cash held at 30 June 2012 was held in Money Market Funds holding a diverse portfolio of short-term financial instruments rated A1 or better. $2.7 million was held in banks in the USA and $2.6 million was held in banks the United Kingdom. $2.6 million of the restricted cash was held in escrow accounts in the USA and $1.0 million of the restricted cash balances were held by banks in the United Kingdom.

8. Investments

The Group carries its investment in Dijla Petroleum Company and the associated rights under the Block 26 Production Sharing Contract as an available-for-sale financial asset as disclosed in note 2 and, more fully, in the Annual Report and Accounts of the Group for the year ended 31 December 2011. Details of the valuation of this financial asset at 31 December 2011 are included in note 27 to that report. The Directors have reviewed the carrying value of this available-for-sale financial asset at 30 June 2012 and are of the opinion that, although it is not reflective of the long-term value of the asset, the current valuation of $102.0 million is appropriate taking into consideration the current exceptional circumstances in Syria.

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 Tunisia Limited, Gulfsands Petroleum USA, Inc and Darcy Energy LLC. At 30 June 2012 the oil and gas properties have estimated plugging and abandonment dates up to 2027. 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 $3.6 million is included in current liabilities and the remainder totalling approximately $12.9 million is included in non-current liabilities in the consolidated balance sheet at 30 June 2012.

	$' 000
At 1 January 2011	28,156
Changes in estimates	1,917
Disposals	(9,999)
Costs in excess of provision	1,100
Decommissioning expenses	(4,929)
Discount expense	638
At 31 December 2011	16,883
Current portion	2,135
Non-current portion	14,748
At 1 January 2012	16,883
Decommissioning expenses	(586)
Discount expense	238
At 30 June 2012	16,535
Current portion	3,603
Non-current portion	12,932

10. Share Capital

	30 June 2012	31 December 2011
	Number	Number
Authorised:		
Ordinary shares of 5.714 pence each	**175,000,000**	175,000,000

	30 June 2012	31 December 2011
	$' 000	$' 000
Allotted, called up and fully paid:		
121,989,500 (2011: 121,989,500) ordinary shares of 5.714 pence each	**13,131**	13,131

The movements in share capital, share options and restricted shares were as follows:

	Number of ordinary shares	Number of share options	Number of restricted shares	Weighted average price of options £
At 31 December 2011 *	121,989,500	8,806,000	225,155	2.17
Share options exercised for cash settled from Treasury shares	-	(90,000)	-	1.02
Share options expired	-	(5,000)	-	1.02
Share options lapsed	-	(325,000)	-	2.74
Share options and restricted shares issued	-	-	324,012	-
At 30 June 2012	121,989,500	8,386,000	549,167	2.16

The restricted shares have an exercise price of 5.714 pence per share.

* The Directors have reviewed the disclosure of share capital at 31 December 2011 and have concluded that there was an error in the disclosure of the number of ordinary shares in issue. The original and revised table of movements in share capital, share options and restricted shares is as set out below:

As originally reported	Number of ordinary shares	Number of share options	Number of restricted shares
At 31 December 2010	121,577,500	8,585,000	230,835
Share options and restricted shares exercised for cash	812,000	(800,000)	(12,000)
Share options and restricted cash settled	-	-	(25,000)
Share options and restricted shares issued	-	1,021,000	31,320
At 31 December 2011	122,389,500	8,806,000	225,155

As restated			
At 31 December 2010	121,577,500	8,585,000	230,835
Share options and restricted shares exercised for cash	412,000	(400,000)	(12,000)
Share options exercised for cash settled from Treasury shares	-	(400,000)	-
Share options and restricted cash settled	-	-	(25,000)
Share options and restricted shares issued	-	1,021,000	31,320
At 31 December 2011	121,989,500	8,806,000	225,155

Glossary of Terms

2D seismic	Seismic data, obtained using a sound source and receivers placed in a straight line on the surface of the earth, that is processed to provide a graphic representation of a vertical cross-section through the subsurface rock layers ("seismic line"). In a 2D seismic survey, several seismic lines are recorded and the cross-sections are interpolated to yield subsurface maps on which exploration prospects can be delineated
2P	Proved and Probable reserves
3D seismic	In a 3D seismic survey, multiple closely spaced seismic lines are recorded and the high density of cross sections are interpolated to yield detailed subsurface maps on which exploration prospects can be delineated
Bbl	Barrel of oil
Bcf	Billion cubic feet of gas
Bfpd	Barrels of fluid per day
Boe	Barrels of oil equivalent where the gas component is converted into an equivalent amount of oil using a conversion rate of 6mcf to one barrel of oil
Boepd	Barrels of oil equivalent per day
Bopd	Barrels of oil per day
CPF	Central production facility
CSR	Corporate Social Responsibility
DPC	Dijla Petroleum Company, a corporate entity established in Syria, pursuant to the Block 26 PSC. DPC is considered to represent both the Group's legal interest in Dijla Petroleum Company and the associated rights to oil and gas production assets in Syria granted by the PSC.
E&P	Exploration and production
EPF	Early production facility
Force majeure	Force majeure is defined in the PSC as a circumstance beyond the Group's reasonable control which may result in the Group being unable to fulfil its obligations under the PSC. Examples of force majeure include Government law, order or regulation.
HSE	Health, Safety and Environment
GPC	General Petroleum Corporation
Km^2	Square kilometres
KPI	Key Performance Indicators
mcf	Thousand cubic feet of gas
mcf/d	Thousand cubic feet of gas per day
MENA	Middle East and North Africa
mmbbl	Millions of barrels of oil
mmboe	Millions of barrels of oil equivalent
mmcf/d	Millions of cubic feet of gas per day
mmstb	Millions of stock tank barrels
NGLs	Natural Gas Liquids
NRI	Net revenue interest
OMB	The Oil Marketing Bureau of the Government of the Syrian Arab Republic
P+P	Proved and Probable reserves
PSC	Production Sharing Contract
psi	Pounds per square inch (pressure)
SPC	Syrian Petroleum Company
SPE	Society of Petroleum Engineers
Stock tank barrel	A barrel of oil measured at standard temperature (60°F) and pressure (14.7 psi)
STOIIP	Stock Tank Oil Initially-in-place
WI	Working interest
WPC	World Petroleum Congress
WTI	West Texas Intermediate (crude)

Corporate Information

CORPORATE HEADQUARTERS
6 Duke Street, St James's
London, SW1Y 6BN
www.gulfsands.com
info@gulfsands.com
T: +44 (0)20 7434 6060

SECRETARY & REGISTERED OFFICE
John Bottomley
SGH Martineau Company Secretarial LLP
1 America Square
Crosswall
London EC3N 2SG

REGIONAL OFFICES – SYRIA
Dama Rose Hotel, 5th Floor
Shukre Alkuatle Street
Damascus
Syria

REGIONAL OFFICES – USA
3050 Post Oak Boulevard
Suite 1700
Houston
Texas 77056 USA

COMPANY NUMBER
5302880

NOMINATED ADVISOR & BROKER
RBC Europe Limited
Riverbank House
2 Swan Lane
London EC4R 3BF

AUDITORS
Deloitte LLP
2 New Street Square
London EC4A 3BZ

SOLICITORS
Field Fisher Waterhouse LLP
35 Vine Street
London EC3N 2AA

REGISTRARS
Capita IRG
Beaufort House
34 Beckenham Road
Kent BR3 4TU

STOCK EXCHANGE LISTING
AIM market of London Stock Exchange
Symbol : GPX