Gulfsands Petroleum plc
Annual report and accounts
For the year ended 31 December 2012

Registered number: **05302880 (England & Wales)**

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Gulfsands Petroleum plc
Annual Report and Accounts 2012

Producing and exploring in the Middle East

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 oil exploration and development projects in the Syrian Arab Republic (currently suspended owing to sanctions), and oil and gas exploration projects in Tunisia and Morocco. Gulfsands is also operator of two exploration licences in Colombia and produces oil & gas from a portfolio of properties in the USA, offshore Gulf of Mexico.

Annual General Meeting

The Annual General Meeting of shareholders will take place at 11am on Wednesday 5 June 2013 at the offices of Buchanan Communications, 3rd Floor, 107 Cheapside, London, EC2V 6DA. All shareholders are welcome to attend. If unable to attend, shareholders are encouraged to fill out the form of proxy and return it to our registrars, Capita IRG.

2012 Highlights

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 herein.

Operational and Financial

- Execution of agreement to acquire Cabre Maroc Limited in December 2012 providing good oil and gas exploration opportunities
- Award of two operated exploration licences in Colombia post year end in Putumayo and Llanos basins
- Increased participation in Chorbane and Kerkouane permits in Tunisia
- Operatorship of Chorbane Permit secured
- Tested Sidi Dhaher well, onshore Tunisia
- Free cash balances at year-end of $91.0 million (2011: $124.2 million)

2013 Objectives

- Drill five wells on the Rharb Centre Permit by year end
- Commence gas production in Morocco by Q4 2013
- Acquire 600 line km of 2D seismic over Fes Permit in Morocco
- Acquire 200 line km of 2D seismic over Chorbane Permit in Tunisia
- Undertake reconnaissance work in Colombia
- Maintain presence in Syria in compliance with sanctions
- Disposal of US business

Chairman's Statement

Dear Shareholder,

The past twelve months have been, without question, the most difficult period in the Company's history and among the most trying episodes I can recall in any business venture in which I have been involved.

The Company received no revenue whatsoever from our Syrian assets during 2012 and it is impossible to make any sensible prognostication as to when we may once again begin to do so.

The terrible tragedy that continues to unfold in Syria remains the subject of intensive media coverage and there is nothing that I can usefully add to that commentary.

I am relieved to report that, to the best of our knowledge, all of our Syrian personnel remain safe, albeit suffering severe dislocation to their personal lives. Nor have our assets in Block 26, at the date hereof, suffered any significant damage or depredations.

In line with our previously stated intent, we continue to employ a significant number of our Syrian personnel and are beginning wherever possible to redeploy suitably qualified staff to work on our newly acquired assets in Morocco.

We continue to take all available steps, in strict compliance with EU sanctions, to try to protect the value of our Syrian assets and to ensure that, as and when conditions permit, we are able to recommence operations in Block 26. We also continue selectively, despite the difficulty of the circumstances, to implement our established programme of Corporate Social Responsibility.

Difficult as the circumstances have been, your Board and management have made substantial progress during the year in applying the Company's technical and financial strengths to new business opportunities.

We have entered Morocco, where we have acquired operatorship of a large and highly prospective area of approximately 13,000 square kilometres, encompassing both a near term opportunity to generate meaningful cash flow through the exploitation of the biogenic gas reservoirs in the Rharb Permit areas and longer term, higher risk/reward exploration opportunities in the Fes and Taounate Permit areas.

We have increased our participation in the Chorbane Permit, onshore Tunisia, and have become operator of that acreage, thereby taking control of the direction and timing of the work programme.

Finally, we have diversified beyond the MENA region by securing the award of two licences in Colombia that will, we anticipate, provide the Company with leveraged exposure to the exploration potential of two prolific oil producing basins.

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

Following these initiatives, the Company remains well funded, with free cash balances (after paying for the Moroccan acquisition) of approximately $68 million and no debt as of the date of writing this report. As you will imagine, the husbanding and optimum deployment of this cash is your Board's single highest priority, pending the Company's return to positive cash flow. All reasonable efforts are being made and will continue to be made to contain expenditure.

I am not going to offer hostages to fortune by making any prognostication, at this juncture, as to the timing of a return to production in Block 26. All that I can usefully say in that regard is to echo the heartfelt wish of all reasonable people that the violence cease and some semblance of normality be restored to the lives of the people of Syria, who have suffered and continue to suffer so terribly.

As to the Company's new initiatives, I am unashamedly enthusiastic. We now have before us some fine opportunities. I believe we know how to make the best of them. As a Board and senior management we have done it before, building the Syrian operation from scratch in little more than three years, and I see no reason why we should not repeat the trick given hard work, sensible commercial judgement and some reasonable luck, which latter is always an essential ingredient of success in the exploration business. The coming twelve months will be of crucial importance in proving my confidence well-founded. I can but hope that I will be writing to you with better news this time next year.

It remains only for me to extend my personal gratitude and that of the Board to our long term shareholders, our loyal employees and our Block 26 joint venture partner, Sinochem, all of whom who have remained absolutely staunch in their support throughout these trying times.

Yours sincerely

Andrew West
Chairman
8 April 2013

Objectives and Outcomes
2012/2013

2012 Objectives

Syria

1. Maintain presence in Syria in full compliance with EU sanctions

   Achieved

Tunisia

1. Establish offshore potential for a commercial hydrocarbon development

   Requires modification of fiscal terms from Tunisian government which was not achieved
2. Subject to successful testing at Sidi Dhaher-1, conduct appraisal programme

   Appraisal programme undertaken but only formation water produced on testing
3. Acquire at least one new block

   A number of opportunities were evaluated but none met our investment criteria

Other

1. Build new leg to the business within the Group's financial capacity

   This was achieved with the acquisition of Cabre Maroc and award of two exploration permits in Colombia
2. Complete the divestment of the US assets

   This was not achieved as a result of the oversupply of gas in the US dampening demand for these assets.

2013 Objectives

Morocco

1. Drill five wells on the Rharb Centre Permit
2. Acquire approximately 600 line km of 2D seismic over Fes permit
3. Commence production of gas supplies to customers by end of Q4 2013

Tunisia

1. Acquire 200 line km (or equivalent 3D) seismic over Chorbane Permit
2. Complete strategic review of options for Kerkouane Permit

Syria

1. Maintain presence in Syria in full compliance with EU sanctions
2. Ensure safety and well-being of current employees

Other

1. Undertake reconnaissance work in Colombia
2. Divestment of the US assets

Chief Executive's Report

Gulfsands move into Morocco and Colombia is an exciting development for the Group as we re-establish ourselves as an active operator.

Introduction

Gulfsands has continued to focus its strategy on exploration and production efforts onshore in the Middle East-North African ("MENA") region where our strengths and expertise lie. During 2012 we evaluated a very large number of opportunities for investment, both within the MENA region and in certain other target countries that we considered complimentary to our skill set and that had the potential to generate real growth and significant shareholder value. We set ourselves the target of consolidating our position in Tunisia and building a new non-Syrian leg to the business. With the acquisition of Cabre Maroc in Morocco, the successful award of two permits in Colombia and operatorship onshore Tunisia, these objectives have now been achieved.

The situation in Syria has unfortunately not improved during 2012 with the Company being precluded from operating in country by virtue of the military activity and European Union sanctions. The safety of our Syrian staff is and has been a top priority and we continue to do whatever we can to provide security during this difficult period.

In seeking new business opportunities, our strategy has been based around a two-pronged approach of pursuing significant interests in high materiality exploration projects together with opportunities generating near term cash flow in order to sustain our ongoing general, administrative and some exploration costs. This search included possible farmins, applications for new acreage and corporate transactions.

Morocco

In December 2012 we announced that agreement had been reached with Caithness Petroleum Limited to acquire their wholly owned subsidiary, Cabre Maroc Limited. This transaction completed in early January 2013 and delivers to the Group, operatorship of a large contiguous and highly prospective onshore acreage position of 13,352 km^2, with two very distinct components. Firstly, potential for high impact oil discoveries in a thrust and folded tectonic environment within a proven petroleum system, and secondly, an established business of gas exploration with near term production potential. The total consideration for this transaction was $19.0 million in cash plus an agreement to fund up to $11.0 million of Caithness's remaining exploration commitments.

Our first goal in Morocco will be to bring forward, as soon as possible the discovery, production and commercialisation of gas, ideally within the second half of the year. The prospects are shallow biogenic gas accumulations identified on seismic data as "bright spots" in the Rharb Centre Permit that, although characteristically small, can be brought into production relatively inexpensively and commercialised relatively quickly. We anticipate generating our first revenue stream from this country entry as early as the last quarter of the year. A new 3D seismic survey is also planned to be acquired this year in order to mature additional drilling targets for 2014 and beyond.

An active exploration programme is also planned in the Fes Permit during 2013 and 2014 where a number of potentially large structures have been identified, based on the application of new technology (Full Tensor Gravity), lying adjacent to existing oil fields. We are in advanced discussions with contractors to commence 2D seismic acquisition of approximately 600 line km of data in 2013 and a further 400 line km in 2014. Once this data has been acquired and interpreted we anticipate that it should be possible to mature three or four drillable prospects, one of which is likely to be drilled in 2014 and two drilled in 2015. In the event of success, the Taounate Permit provides a very significant extension of the play fairway.

Colombia

In 2012, the Group participated in the Ronda 2012 bid round in Colombia and was successful in acquiring 100% interest in two frontier permits located in prospective areas on trend with existing oil discoveries. This move, beyond the core area of the MENA region, maintains our focus on attractive oil prospects with attractive fiscal terms, in addition to providing an element of country risk diversification to the exploration portfolio. We are currently in negotiations with a number of parties to join us in a consortium to explore these permits.

Tunisia

In November 2012 agreements were reached with ADX Energy Limited, Xstate Resources Limited and Verus Investments Limited to extend the Group's interests in the Chorbane, Kerkouane and Pantelleria permits. The total consideration for these transactions was approximately $1.15 million plus an agreement to fund ADX's remaining share of a seismic survey to be carried out in the onshore Chorbane Permit during 2013.

Subject to government approval in Tunisia, which is expected imminently, we hold a 70% operated interest in the Chorbane Permit and 40% interest in both the offshore Kerkouane and Pantelleria permits.

Additionally, the Company will continue to evaluate value adding opportunities in Tunisia and, to this end, announced a strategic alliance with Rift Basin Resources to jointly pursue new projects in Tunisia and more generally across the MENA region. Under the terms of this alliance, Gulfsands has the opportunity to participate in any such projects at up to 70% equity and to act as operator.

Syria

The Syrian government's General Petroleum Corporation ("GPC") has during the year, intermittently produced minor quantities of oil from our fields in Block 26, but otherwise the fields have been shut in and remain in good order. Although we have not conducted any operations during the year in full compliance with European Union sanctions, we have continued to maintain a presence in Syria and employ the majority of our Syrian staff throughout this difficult period as we believe the situation will be resolved in due course, at which time the Company will be able to resume operations. We are using the skill set available amongst our workforce in Syria to assist in the establishment of our new business in Morocco, with the secondment of selected staff members.

Financial Performance

The Group has endured a difficult period since the implementation of sanctions against the oil industry in Syria and this year recorded a loss of $27.0 million and a cash outflow from operations of $14.6 million. During 2012 we have focused on reducing the rate of cash burn and we will continue to keep a tight grip of overheads to ensure that the maximum benefit is derived from the Group's cash resources through exposure to exploration.

We anticipate that the Group's performance will improve during 2013 and with the cash on hand at 31 December 2012 our future exploration obligations for 2013 and beyond are fully funded. We do not preclude the option of raising further capital, either through equity or debt, in the near future should the need and opportunity arise.

Outlook 2013 and Beyond

The entry into Morocco and Colombia and operatorship onshore Tunisia will result in a busy year ahead, with emphasis on acquiring seismic and gravity data in addition to the drilling of at least five exploration wells in the Rharb Centre Permit. 2014 will also be an active year as we aim to drill up to seven exploration wells in our Moroccan and Tunisian permits.

The move into Morocco and Colombia is an exciting development for the Group as we re-establish ourselves as an active operator with exploration acreage we believe has the potential to mirror elements of the technical success that we achieved in Syria. The Group has no debt and is well funded with cash resources of $91 million at 31 December 2012. We are now well positioned to use our existing resources to deliver real growth and significant value for shareholders.

Ric Malcolm
Chief Executive Officer
8 April 2013

Morocco

Operations Review

Gulfsands is the operator of a portfolio of exploration licences covering 13,352 km2 of northern Morocco

Description

In December 2012 Gulfsands announced that it had reached agreement with the Caithness Petroleum Limited group to acquire its shareholding in Cabre Maroc Limited. Cabre Maroc is the operator of several exploration and exploitation permits in northern Morocco and has also reached agreement with l'Office National des Hydrocarbures at des Mines ("ONHYM") for the award of a Petroleum Agreement including exploration permits covering a further 9,037km^2 in respect of the Taounate region. The Taouante permits remain subject to formal approval from the relevant governmental authorities. The transaction completed on 16 January 2013.

Rharb Permits

The Rharb Centre Permit lies within a foreland basin (Rharb Basin). Contained within the basin are discrete turbidite channel and fan sands of Upper Miocene age that provide excellent reservoirs for biogenically sourced natural gas accumulations (99% methane). Thirteen exploration wells have been drilled by previous owners of Cabre Maroc Limited on the permit and nine of them were gas discoveries. Five wells have since been completed as producers and successfully run on Extended Production Tests.

A Competent Person's Report on the Rharb Permits prepared by Senergy Oil & Gas Limited for Cabre Maroc in July 2012 reported 2P reserves of 0.6 billion standard cubic feet ("bscf"), 2C contingent resources of 1.4 bscf and P50 prospective resources of 24.4 bscf.

Within the immediate vicinity of the Rharb Permits, there is existing demand for the sale of natural gas to local industry, made possible by access to an existing network of gas pipelines which transect the license area. It is therefore anticipated that revenues from the sale of gas discovered, developed and produced will begin to be received by the fourth quarter of 2013. Current development plans suggest that production by 2015 could average approximately 9 million standard cubic feet per day ("mmscf/d") and be expected to continue at that level for at least four years.

Further, these natural gas accumulations are typically identified through analysis of seismic amplitude data and particularly high geologic success rates have been achieved when drilling locations have been identified utilising 3D seismic data. A 3D seismic survey of approximately 300 km^2 has been recently acquired by Caithness over part of the Rharb Centre Permit and processing of these data is anticipated to be completed by April 2013. An extensive drilling programme, of up to nine exploration wells, is therefore planned for 2013 and 2014 on prospects delineated by the new 3D seismic data.

Individual gas prospects are relatively modest in terms of reserves but are generally located at quite shallow drilling depths (500 – 1,500 m) such that drilling and completion costs, particularly in a multi-well programme, are also relatively modest at approximately $3.0 million (gross) per well. As the natural gas produced is almost pure methane, minimal surface processing is required and cycle time from discovery to production can generally be measured in weeks rather than years.

Fes and Taounate Permits

These permits lie within a fold and thrust belt domain. To date, both permits have seen only very limited exploration with only one well having been drilled on the Fes Permit, which was drilled off-structure and had limited gas shows. Immediately west of the Fes Permit are several small and apparently depleted oil fields that had produced light oil at commercial rates. The primary reservoir for these fields is the Haricha Formation, a deltaic sandstone of late Jurassic age which exhibits good reservoir characteristics. Oil seeps have also been identified on or near both permit areas.

Gulfsands is preparing plans for an intensive exploration programme on the Fes Permit commencing in Q3 2013 with the acquisition of approximately 600 line km of 2D seismic data in order to identify potential drilling locations on some of the dozen or so leads previously identified by utilising existing Full Tensor Gravity data as well as legacy seismic data. Following evaluation of the 2D seismic data, the Company anticipates the drilling of at least three exploration wells within this permit area, commencing during 2014.

Exploration success on the Fes Permit is expected to have a significant and positive impact on projected levels of activity undertaken within the contiguous Taounate permits.

Plans for 2013

Following completion of the Cabre Maroc acquisition on 16 January 2013 the Company has moved to accelerate the work programme previously proposed for the Rharb Permit. 3D seismic data acquired in Q4 2012 is being interpreted to allow the Company to select several drilling locations for its biogenic gas exploration programme. Negotiations have commenced to enable the Company to mobilise a rig to Morocco during H1 2013. It is anticipated that at least five wells could be drilled in the initial 2013 drilling campaign with the belief that further prospects may be identified for subsequent campaigns. If success is achieved, the Company will move to complete and tie back the wells and commence production as quickly as possible, anticipated to be within a period of months of discovery.

On the Fes Permit the Company is in advanced negotiations to commence the acquisition of approximately 600 line km of 2D seismic data. This programme is expected to commence in the second half of 2013.

Negotiations continue with ONHYM to conclude the award of the Taounate Permit. Once this award is formalised, which is anticipated to be during H1 2013, the Company proposes a 10,000 line km Full Tensor Gravity survey.

Tunisia & Italy

Operations Review

Gulfsands has interests in two exploration permits in Tunisia and one in southern Italy

Description

Gulfsands has an operated interest in the Chorbane permit and non-operated working interests in an exploration permit in Tunisia (the Kerkouane Permit) and one exploration permit in Southern Italy (G.R15.PU) as a result of a farm-in in May 2010. During 2012 the Group increased its participation in the Chorbane Permit from 40% to 70% and in the Kerkouane and G.R15.PU permits from 30% to 40%, subject to certain regulatory approvals. The operator of the Kerkouane and G.R15.PU permits is ADX Energy Ltd, an Australia based independent E&P company.

Chorbane Permit – Onshore Tunisia (Gulfsands: 70%)

The Chorbane Permit is located in central Tunisia and covers an area of approximately 1,942 km². 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, and following the Company's increased participation and assumption of operatorship it is intended to commence a seismic acquisition programme during 2013. The minimum work obligation includes the drilling of one exploration well to a depth of at least 2,500m. The current exploration term is set to expire in July 2015.

Kerkouane Permit – Offshore Tunisia (Gulfsands: 40%)
G.R15.PU (Pantelleria) Permit – Offshore Italy (Gulfsands: 40%)

The Kerkouane Permit is located offshore north east of Tunisia and G.R15.PU is located off 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 km² of 3D seismic was acquired in 2010. The Lambouka-1 well was drilled in 2010. Although wireline logs indicated the presence of gas and possibly condensate, it was not possible to safely recover fluid samples or pressure data from the formation, and the well was suspended.

The minimum work obligation includes the drilling of one exploration well and the re-entry and testing of the Lambouka-1 discovery.

Operations

Chorbane

The Sidi Dhaher-1 well was drilled to a depth of 2,011 m Measured Depth ("MD") in 2011 and wire-line logs acquired over a 1,012 m interval. Formation pressure measurements indicated the presence of a possible oil column commencing at a depth of 1,156 m MD within a late Cretaceous aged reservoir, and wireline fluid samples recovered yielded a mix of drilling mud filtrate and movable oil. The well was then suspended pending testing. A test rig was mobilised during May 2012 and a full testing programme was conducted during June 2012. Following the drilling out of the safety plug within the previously suspended well, two separate intervals within the Bireno Formation were perforated and flow tested. A 5m section within the deeper Bireno Dolomite interval was perforated between 1,174-1,179m MD together with a 16m section in the shallower Bireno Limestone interval between 1,155 and 1,171m MD.

Approximately 90 barrels of fluid were recovered which were identified as most likely consisting of a mixture of drilling mud filtrate and possibly formation water. The efficient recovery of these fluids during the test suggests that they were sourced from the deeper Dolomite interval. Although a large volume of fluids had been lost to the formation whilst drilling and in preparation for the test, and the total volume had not yet been recovered during the flow test, the Joint Venture participants agreed to plug off the deeper Bireno Dolomite section and test only the shallower Bireno Limestone section in isolation.

After performing a cement squeeze to close the perforations over the deeper Bireno Dolomite interval, and the setting of a bridge plug within the well-bore and between the Bireno Dolomite and the Bireno Limestone intervals, a flow test of the Bireno Limestone interval commenced. Prior to acid stimulation of the reservoir, no liquid flow from the Bireno Limestone was observed and an acid stimulation was undertaken.

Following completion of the acid stimulation, the well was flow tested, with the benefit of nitrogen lift and approximately 680 barrels of fluid were recovered over a flow test period of 35 hours. The initial interpretation from the well site was that the recovered fluid was a mixture of spent acid, drilling mud filtrate and formation water.

The Sidi Dhaher-1 well has subsequently been plugged and abandoned.

On 23 November 2012 the Company announced that it had reached agreement to acquire additional participating interests in the Chorbane permit totalling an additional 30% from ADX Energy Limited, Verus Investments Limited and Xstate Resources Limited for a total consideration of $1.15 million plus an agreed carry of approximately $0.6 million for a seismic study to be conducted during 2013. Additionally ADX Energy Limited farmed down a further 15% to Rift Basin Resources Limited, subject to governmental approval. The Company assumed operatorship of the Chorbane permit in February 2013.

Kerkouane

During 2012, the Kerkouane Joint Venture continued to reprocess data from previously acquired 2D seismic survey and continued with various geological and geophysical studies, incorporating the results of the Lambouka-1 well into the regional geological framework in order to identify further leads. The most promising lead is the West Dougga structure. West Dougga is a fault-supported four way dip closure with both Tertiary and Cretaceous aged reservoir targets.

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

Plans for 2013

On the Chorbane permit, geological and geophysical studies and seismic data reprocessing are being undertaken to evaluate the exploration potential of the block. A further 2D seismic acquisition programme is being designed and it is anticipated that this will commence during H1 2013.The estimated cost to the Company during 2013 will be $2 million.

In the Kerkouane permit, pending satisfactory resolution of the discussions regarding the fiscal terms, plans for the minimum work commitment exploration well will be put in place and drilling could possibly commence during 2013. The Joint Venture is also assessing options for the permanent abandonment of the Lambouka-1 well.

Syria

Operations Review

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 but it is anticipated that an extension to this date will be granted once sanctions are lifted.

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 has been granted.

The development and operation of these fields has been 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 had 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 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°. Until the declaration of *force majeure* the oil was transported, via pipeline, to the GPC-operated gathering facilities located some 30 km away at Tel Addas, before being blended with the Syrian Heavy crude oil, and transported 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 but no work has been done on the required infrastructure due to the imposition of sanctions. 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 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

The Company has not been involved with any production related activities since 1 December 2011. We do continue to monitor the performance of the fields and the condition of the surface infrastructure, where possible and safe to do so. Production since 1 December 2011, being the date of imposition of sanctions against GPC, has been estimated in order to produce the following information.

The Khurbet East Cretaceous Massive oil reservoir has produced at levels of up to 24,200 bopd (gross) during 2012 but has been shut in for substantial periods since the imposition of sanctions against the Syrian oil industry. The estimated gross average daily production from the reservoir has been 4,700 bopd during 2012. It is our understanding that the performance of the reservoir has continued to be excellent. Estimated gross production during 2012 was approximately 1.7 million barrels and as at the end of December 2012, it is believed that cumulative production from Khurbet East since inception was approximately 19.3 million barrels.

The gross production from the Yousefieh field during 2012 is estimated at 0.1 million barrels (220 bopd) with peak production of over 3,500 bopd but it is believed that the field has produced for only 46 days during 2012. It is believed that as at the end of December 2012, cumulative production from the Yousefieh field since inception was approximately 1.3 million barrels.

It is believed that production from the Block 26 fields is being constrained as the normal export routes for the oil are not currently available to GPC.

Development wells

No development drilling was undertaken during 2012.

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 the design stage, having been delayed already owing to the deteriorating situation in Syria.

Exploration Programme

In February 2012 the Company announced that it had decided to cease all further exploration in Syria in light of the effect of the EU sanctions and the impact these were having on the procurement of essential goods and services for exploration operations. The final exploration period of the Block 26 PSC expired in August 2012 but it is hoped that an extension to the exploration period can be negotiated with the Syrian authorities to replace that lost due to sanctions.

The only activities of the Company in Syria during 2012 was the completion of the Khurbet East-102 Butmah appraisal well which was spudded in October 2011 on the northern flank of the Khurbet East field. An open hole DST conducted in January 2012 over a 48m interval in the Butmah section flowed wet gas at a rate of 10.7mmcfd with a 32/64" choke, with associated 524 bopd of 58° API condensate and with no formation water. The results were interpreted as signifying an oil reservoir with an overlying gas cap which also contains small volumes of condensate. The Kurrachine Dolomite section failed to flow oil in an open hole DST.

In prior years the Company had drilled three wells that remain of interest to joint venture partners, Al Khairat, Wardieh and Twaiba. Additionally the Company is in possession of a substantial quantity of high quality 3D seismic data over the Block 26 area that, it is hoped, will enable the Company to target further prospects should an extension to the exploration period be granted. The cost of all drilling and seismic acquisition has been written off in full.

The Al Khairat exploration well, located 3.5km south-east of Yousefieh East, which completed drilling and testing in December 2011 found a 29m net oil column in the Cretaceous Massive Formation. When tested open hole over a 26m interval with a 2" choke and under nitrogen lift it flowed 1,826 bopd of 22° API oil. Al Khairat is located outside the Yousefieh field DLA, but no application for commercial development approval has been made because of EU sanctions.

The Wardieh exploration well, which completed drilling and testing in September 2011, targeted a combined structural and stratigraphic trap in formations of Cretaceous age. While drilling it encountered a zone of live asphaltic hydrocarbons overlying a porous reservoir zone, the combination of which caused the well to be plugged and abandoned for safety reasons within 271 m of its planned total depth. A comprehensive geological and operational review of the well will be completed once sanctions permit.

The Twaiba exploration well, located 7km north of the Khurbet East field, was drilled during December 2010 to target Cretaceous aged reservoirs. There were significant indications of oil-bearing reservoirs based on oil & gas shows while drilling, whole core recovery, wireline log evaluation and down-hole pressure measurements. Only very high-salinity water and minor amounts of oil were recovered to surface during production testing in January 2011. The well was suspended and Special Core Analysis ("SCAL") was conducted to further assess the well. The results of the SCAL will be interpreted once sanctions permit.

Plans for 2013

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. In February 2012 the Company announced 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.

A core staff remains in Syria engaged, for the time being at least, in conducting internal studies and analysing potential exploration prospects 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 time lost due to the sanctions.

Colombia

Operations Review

Gulfsands is operator of two exploration licences in Colombia awarded in the Ronda 2012 bid round

Description

In late 2012 the Company was preliminarily awarded concessions in Colombia following the heavily subscribed Ronda 2012 bid round. On 1 March 2013 the Company announced that it had finalised the award of two exploration and production agreements in Colombia covering licence areas referred to as Llanos Area 50 (“LLA50”) and Putumayo Area 14 (“PUT14”) in the Llanos and Caguan Putumayo Basins respectively. The licence areas are considered to be of a frontier nature and cover 513.7 km^2 and 463.6 km^2.

The Caguan Putumayo Basin is a portion of the larger geological province formed by the Marañon Basin in Peru and the Oriente Basin in Ecuador. Within the Putumayo basin reserves of 365 million barrels of oil and 305 bcf of gas have been reported in more than 35 fields. PUT14 does have analogous structures to those that have worked to the west of Block 12 and may have stratigraphic trap potential in addition.

LLA50 is located in the south eastern part of the province which includes the giant Caño Limon field (1,020 mmbo) approximately 100km to the north west. The block is interpreted to offer similar play types to the Putumayo area.

The contracts are of a tax and royalty nature. Colombia has relatively attractive commercial terms for exploration and provides for rapid development in the case of exploration success. Sliding scale royalties are in the range 8-25% for oil and the corporate tax rate is 33%. As part of the bid the Company will also pay Agencia Nacional de Hidrocarburos (“ANH”) a participation fee of 6% in LLA 50 and 5% in the PUT14 area.

Minimum work obligations for phase one of the licence term on the blocks are for 1line km of 2D seismic for every 5 km^2 of the area plus one exploration well on each block. The programme must be conducted within three years.

Plans for 2013

The Company is looking to finalise discussions with potential joint venture partners imminently and proposed work programmes for the two blocks will be established. It is not anticipated that there will be significant operational activity within Colombia during 2013.Negotiations are currently under way to form a consortium of companies to join Gulfsands in exploring these two concessions.

USA

Operations Review

Gulfsands continues to hold interests in a small number of non-operated assets in the Gulf of Mexico

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 13 leases containing five producing fields.

The assets are mature and deemed to be non-core to the business. Proved & Probable reserves at year-end 2012 amounted to 1.5 million boe on a working interest basis (1.3 million boe on a net revenue interest basis), comprised 68% of oil and 32% of gas.

Operations

Production on a working interest basis, including Natural Gas Liquids ("NGLs"), averaged 311 boepd in 2012, compared with 410 boepd in 2011. The composition of this production was 50% oil, 46% gas and 4% NGLs. After tax and royalties, net interest production in 2012 was 239 boepd (2011: 323 boepd). The Company is currently producing from five properties.

In September 2011 the Company had sold a package of properties with an effective date of 1 June 2011. When excluding these properties from the 2011 working interest production the underlying production for the retained properties in 2011 was 322 boepd.

At Eugene Island 32, Gulfsands continued to participate in the reprocessing of 3D data to optimise further field development and identify new drill opportunities.

Recompletions were undertaken of the Ship Shoal 249 D5, Vermilion 225 B5 and West Delta 64 C1 wells leading to incremental increases to Proved and Probable working interest reserves of approximately 175,000 boe. The cost of these operations to Gulfsands was less than $300,000.

Decommissioning projects continued on various properties, most significantly High Island A 561 where the operator had substantial difficulties with permanently abandoning several wells. These problems have now been resolved and platform abandonment is on-going. The decommissioning of the South Marsh Island 243 property was completed at a lower cost than anticipated. The Company retains liabilities for decommissioning 13 properties.

Plans for 2013

Gulfsands intends to continue efforts to divest the remaining Gulf of Mexico assets in 2013, provided that it is able to negotiate realistic prices. In the absence of a sale, the Company will continue to retain its interests and manage the properties in order to maximise any future potential cash flow.

Reserves Report

Reserves and Contingent Resources
The Group's reserves and contingent resources at 31 December 2012 are based on estimates made by management and reviewed by independent petroleum engineers. For the Syrian and Tunisian assets the review was performed by Senergy Oil and Gas Limited ("Senergy") (2011: Senergy), and for the USA by Netherland, Sewell & Associates, Inc ("NSAI") (2011: NSAI). The reserves and contingent resources below do not include Morocco as the transaction completed in January 2013.

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

Working interest reserves in Syria represent the proportion, attributable to the Group's 50% participating interest, of forecast future hydrocarbon production during the economic life of the Block 26 PSC, including the share of that production attributable to General Petroleum Corporation ("GPC"). In assessing the reserves it has been assumed that:
(a) the *force majeure* condition is lifted with effect from 1 January 2014 and Gulfsands resumes its role as operator;
(b) all Gulfsands' rights under the PSC are preserved and no change is made to the economic terms thereof; and
(c) the option is exercised to extend the development period of each field for a further 10 years after its initial 25 year development period has expired.

It should be noted that these assumptions are highly subjective and their outcome is impacted by events beyond the Group's control, including the timing and circumstances of the eventual lifting of the EU sanctions against Syria and the actions of any new government in Syria which may ultimately replace the one currently in power.

Summary of Reserves Working Interest Basis

	Syria		USA		Group Total		
	Oil[1] mmbbl	Gas bcf	Oil[1] mmbbl	Gas bcf	Oil[1] mmbbl	Gas bcf	Oil & Gas[2] mmboe
As at 31 December 2012							
Proved	38.5	12.3	0.8	1.7	39.3	14.0	41.6
Probable	30.4	20.8	0.2	0.9	30.6	21.7	34.2
Proved & Probable	**68.8**	**33.0**	**1.0**	**2.6**	**69.9**	**35.7**	**75.9**
Possible	43.2	35.5	0.1	0.3	43.3	35.8	49.2
Proved, Probable & Possible	112.0	68.6	1.1	2.9	113.2	71.5	125.1

Movements in Proved & Probable reserves during year

	Syria Oil	Syria Gas	USA Oil	USA Gas	Group Oil	Group Gas	Group Oil & Gas
At 31 December 2011	69.1	32.5	1.0	4.0	70.2	36.6	76.3
Discoveries and additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revisions	0.6	0.5	0.0	(1.1)	0.6	(0.6)	0.5
Less Production	(0.9)	0.0	(0.1)	(0.3)	(1.0)	(0.3)	(1.0)
At 31 December 2012	**68.8**	**33.0**	**1.0**	**2.6**	**69.9**	**35.7**	**75.9**

Entitlement Basis

	Syria		USA		Group Total		
	Oil[1] mmbbl	Gas bcf	Oil[1] mmbbl	Gas bcf	Oil[1] mmbbl	Gas bcf	Oil & Gas[2] mmboe
As at 31 December 2012							
Proved	17.1	6.6	0.7	1.3	17.8	8.0	19.1
Probable	13.0	10.9	0.2	0.7	13.2	11.6	14.8
Proved & Probable	**30.2**	**17.5**	**0.9**	**2.0**	**31.0**	**19.5**	**34.3**
Possible	14.3	16.4	0.1	0.2	14.4	16.6	17.1
Proved, Probable & Possible	44.5	33.9	0.9	2.2	45.4	36.1	51.4

Movements in Proved & Probable reserves during year

At 31 December 2011	30.2	17.3	0.9	3.1	31.1	20.4	34.5
Discoveries and additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revisions	0.0	0.2	0.1	(0.9)	0.1	(0.7)	(0.0)
Less Production	0.0	0.0	(0.1)	(0.2)	(0.1)	(0.2)	(0.1)
At 31 December 2012	**30.2**	**17.5**	**0.9**	**2.0**	**31.0**	**19.5**	**34.4**

1: "Oil" includes condensate and NGLs
2: Gas is converted to mmboe at the conversion factor 1 bcf = 0.1667 mmboe
NB: Certain figures may not add up due to roundings.

Working interest reserves in the USA represent the proportion, attributable to the Group's participating interests, of forecast future hydrocarbon production during the economic life of the properties in question, before deduction of state production taxes and overriding royalty interests. Working interest reserves have been derived from the net revenue interest reserves data contained in the NSAI report, by grossing up for the percentage production tax and royalty "burden" applicable to each property. The reserves-weighted average burden at 31 December 2012 was 19% (2011: 20%).

Entitlement reserves in Syria represent the Group's estimated share of working interest reserves after deducting the share of forecast future production attributable to GPC. This proportion is impacted by assumptions as to future development expenditure and future oil prices. For the calculation as at 31 December 2012 the average price of Brent crude was assumed to be $105/bbl in 2013, $100/bbl in 2014, $95/bbl in 2015 and constant $90/bbl thereafter. It has been assumed that the oil sold from the Syrian production is sold at a 12% discount to Brent. The gas prices are linked, through the PSC, to oil prices.

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

Contingent Resources

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by the application of development projects, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are further categorised by the SPE into 1C, 2C and 3C according to the level of uncertainty associated with the estimates: these categories correspond broadly to the Proved, Proved & Probable, and Proved, Probable & Possible categorisations for Reserves.

Summary of Contingent Resources

Unrisked Working Interest Basis

	Constituent	1C	2C	3C	**Risk Factor**
Syria Block 26					
Al Khairat Discovery					
(Working Interest 50%)	Oil, mmbbl	2.9	12.0	45.7	**50%**
Tunisia Kerkouane Permit					
Dougga Discovery					
(Working Interest 40%)*	Sales Gas, bcf	21.1	58.7	127.9	**21%**
	Condensate, mmbbl	2.8	7.7	16.7	
	LPG, mmbbl	0.9	2.4	5.3	
	Total, mmboe	7.0	19.5	42.3	

Risked Working Interest Basis

		1C	2C	3C
Syria Block 26	mmboe	1.5	6.0	22.8
Tunisia Kerkouane*	mmboe	1.5	4.1	8.9
Total	**mmboe**	**3.0**	**10.1**	**31.7**

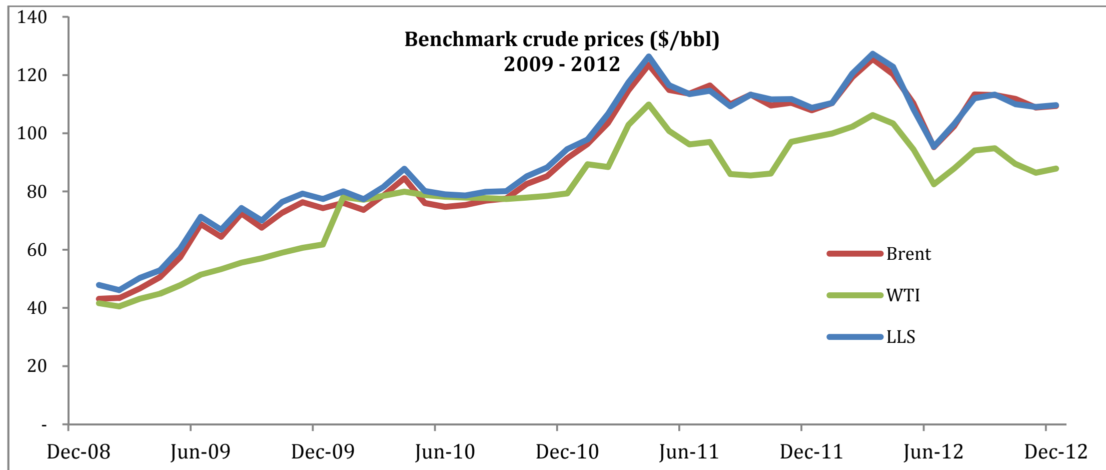
* Based on calculations by TRACS International Consultancy April 2011 but incorporating Gulfsands' own risk assessment.
Conversion factors: 1 bbl LPG = 0.674 boe, 1 bcf = 0.1724 mmboe
NB: Certain figures may not add up due to roundings.

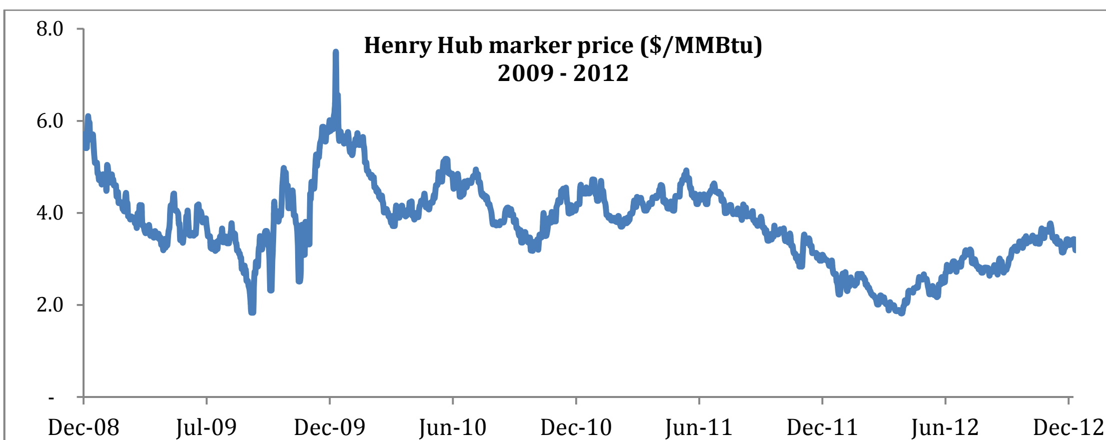
Financial Review
Selected operational and financial data

Market conditions

Brent crude prices started and finished the year at approximately $111/bbl with a peak of $125/bbl in March and a low of $89/bbl in May. The benchmark averaged approximately $112/bbl (2011: $111/bbl)

West Texas Intermediate ("WTI") has continued to trade at a substantial discount to Brent averaging $18/bbl with a peak discount of approximately $27/bbl in October 2012. The majority of the production from the Group's US assets is linked to the price of WTI with an adjustment to reflect the price of Light Louisiana Sweet ("LLS") which more closely tracks Brent crude prices. The Group's gas production in the US is linked most closely to Henry Hub prices which have traded in the range $1.8/mcf to $3.8/mcf with an average price of $2.7/mcf during 2012 (2011: $4.0/mcf).





Acquisition in Morocco

On 19 December 2012 the Group announced an agreement with Caithness Petroleum Limited group to acquire Cabre Maroc Limited, a wholly owned subsidiary and operator of an extensive portfolio of highly prospective oil & gas licences and gas exploitation concessions covering an area of 13,352 km^2 in northern Morocco. The acquisition was completed on 16 January 2013. The total cash consideration was $19.0 million plus an agreement to fund up to $11.0 million of Caithness's remaining exploration commitments. No data related to Cabre Maroc Limited is included in the Financial Statements of the Group for the year ended 31 December 2012 other than in note 6.6.

Morocco Market Conditions

Morocco is one of the most fiscally favourable countries worldwide to explore and is generally regarded as having a low risk political environment. It is Africa's 2nd largest importer of hydrocarbons importing 99% of oil and 91% of gas. The gas price is very favourable - in excess of $8/mcf. The country has infrastructure available for the delivery of hydrocarbons to market

Morocco fiscal terms summary

State participation	25% maximum, exercised after commercial discovery. Contractor carries ONHYM through exploration.
Oil royalty	10%
Royalty free production	300,000 tonnes of oil from each exploitation concession
Gas royalty	5%
Royalty free production	300 million m^3 of gas from each exploitation concession
Corporation tax	30%
Tax holiday	Ten years from the date of regular production of each exploitation concession

Accounting treatment of Syria

As disclosed in the Financial Statements of the Group for the year ended 31 December 2011 and described in note 5.9 to the Consolidated 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 & 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"). The Group's share of the net assets and liabilities of DPC were 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 suspended operations for 2011 are shown separately at the bottom of the Income Statement. In accordance with IAS 39 – "Financial Instruments: Recognition and Measurement" the Group has then 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.

The Directors have reviewed the carrying value of DPC at 31 December 2012 and consider that its fair value for inclusion in the financial statements at that date is not significantly different from the value recorded at 31 December 2011.

In 2011 the Group impaired its share of outstanding crude oil receivables from production in Block 26 and recorded an impairment loss on its remaining exploration & evaluation assets in Syria. This impairment of the exploration & evaluation assets is not related to geological conditions but is as a direct result of it becoming illegal for an EU entity to provide economic resources to GPC. It is presently unclear whether the Group will be able to pursue commercial development applications for successful discoveries, including Al Khairat, in the manner contemplated by the PSC.

Selected operational and financial data

	Syrian operations	All other business units	Pro forma total	Adjustment for suspended operations[2]	Total per financial statements
	2012				
	mmboe				
Production: working interest	0.9	0.1	1.0	(0.9)	0.1
Production: entitlement interest	-	0.1	0.1	-	0.1
	$MM				
Revenue	-	5.6	5.6	-	5.6
Total cost of sales	(0.3)	(6.6)	(6.9)	-	(6.9)
Gross loss	(0.3)	(1.0)	(1.3)	-	(1.3)
Total administrative expenses	(4.2)	(14.3)	(18.5)	-	(18.5)
Exploration costs written off	-	(7.1)	(7.1)	-	(7.1)
Operating loss	(4.5)	(22.4)	(26.9)	-	(26.9)
Discount expense and net interest	-	(0.1)	(0.1)	-	(0.1)
Loss before tax	(4.5)	(22.5)	(27.0)	-	(27.0)
Adjusted underlying loss[1]	(4.2)	(10.9)	(15.1)	-	(15.1)
Net cash used in operating activities[3]	(9.7)	(4.5)	(14.2)	-	(14.2)
Capital expenditure[3]	(5.6)	(4.6)	(10.2)	-	(10.2)
Decommissioning costs (net of escrow cash released)	-	(1.8)	(1.8)	-	(1.8)
Other cash placed on escrow	-	(4.0)	(4.0)	-	(4.0)
Group cash balance					91.0

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 are not adjusted for the Syrian suspended operations but the analysis is included here for completeness.

2011	Syrian operations	All other business units	Pro forma total	Adjustment for suspended operations[2]	Total per financial statements
			mmboe		
Production: working interest	**3.0**	**0.1**	**3.1**	**(3.0)**	**0.1**
Production: entitlement interest	**1.2**	**0.1**	**1.3**	**(1.2)**	**0.1**
			$MM		
Revenue	**117.0**	**7.9**	**124.9**	**(117.0)**	**7.9**
Total cost of sales	**(15.9)**	**(10.3)**	**(26.2)**	**15.9**	**(10.3)**
Gross profit/(loss)	**101.1**	**(2.4)**	**98.7**	**(101.1)**	**(2.4)**
Total administrative expenses	**(9.6)**	**(16.4)**	**(26.0)**	**2.3**	**(23.7)**
Exploration costs written off	**(8.8)**	**(13.7)**	**(22.5)**	**–**	**(22.5)**
Impairment on Syrian E&E assets	**(10.0)**	**–**	**(10.0)**	**–**	**(10.0)**
Profit on sale of O&G properties	**–**	**6.6**	**6.6**	**–**	**6.6**
Operating profit/(loss)	**72.7**	**(25.9)**	**46.8**	**(98.8)**	**(52.0)**
Discount expense and net interest	**–**	**(0.4)**	**(0.4)**	**–**	**(0.4)**
Profit/(loss) before tax	**72.7**	**(26.3)**	**46.4**	**(98.8)**	**(52.4)**
Profit from suspended operations				**98.8**	**98.8**
Profit on consolidation of DPC					**8.7**
Profit before tax per financial statements					**55.1**
Adjusted underlying profit/(loss)[1]	**102.2**	**(12.3)**	**89.9**	**(108.9)**	**(19.0)**
Net cash provided by operating activities[3]	104.2	(9.9)	94.3	(104.2)	(9.9)
Capital expenditure[3]	(39.4)	(6.1)	(45.5)	39.4	(6.1)
Decommissioning costs (net of escrow cash released)	–	7.1	7.1	–	7.1
Group cash balance					124.2

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 are not adjusted for the Syrian suspended operations but the analysis is included here for completeness.

Group financial statements

Income Statement

The Group reported a net loss after tax in 2012 of $27.0million (2011: profit $55.1 million). Excluding all Syrian operations, the loss for the period was $22.4 million (2011: $26.3 million). The decreased loss is due to 2011 including the write off of the Lambouka-1 well, offshore Tunisia ($13.8 million) partially offset by the 2012 write off of Sidi Dhaher well, onshore Tunisia ($7.1 million), $6.6 million gains on US asset disposals in 2011 and $2.1 million reduction in administration costs.

Revenues from sales of hydrocarbons reduced by 95% to $5.6 million (2011: $124.9 million). The Group's entitlement production, including NGLs, dropped by 93% from 3,494 boepd to 239 boepd primarily because no revenue has been recorded in Syria since 1 December 2011. In 2012 the average price achieved for the Group's crude oil sales was $102.1/bbl (2011: $101.2/bbl), an increase of 1%. Revenue was 84% from crude oil (2011: 95%) 13% from gas (2011: 4%) and approximately 3% (2011: 1%) from NGLs.

Depletion charges dropped to $1.4 million (2011: $13.8 million) in line with the fall in entitlement production. Impairment charges increased to $0.6 million (2011: $0.1 million). Other cost of sales fell 60% to $4.9 million (2011: $12.4 million).

Administrative expenses (including depreciation) decreased to $18.5 million (2011: $26.1 million) principally due to a $5.4 million reduction to expenditure in Syria.

Costs of unsuccessful exploration & evaluation efforts of $7.1 million (2011: $22.5 million) were written off principally in respect of the Sidi Dhaher (onshore Tunisia) well, (2011: Lambouka well $13.8 million, Syria Block 26 wells $8.8 million). In 2011an impairment charge of $10.0 million was incurred against the remaining exploration & evaluation assets in Syria given that it is unclear whether the Group will be able to pursue further applications for commercial development in the manner contemplated by the PSC. There was no significant corresponding charge in 2012.

Production and sales prices (excluding NGLs)

	Working interest production		Entitlement production		Average sales price			
	Oil bopd	Gas mcf/d	Oil bopd	Gas mcf/d	Oil $/bbl	Gas $/mcf	Discount to Brent $/bbl	Premium to Henry Hub $/mcf
Year ended 31 December 2012								
Syria	**–**	**–**	**–**	**–**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
USA	**155**	**853**	**127**	**610**	**102.1**	**3.2**	**(9.6)**	**0.4**
Total	**155**	**853**	**127**	**610**				
Year ended 31 December 2011								
Syria	**8,133**	**–**	**3,171**	**–**	**101.1**	**–**	**(10.1)**	**N/A**
USA	**208**	**1,066**	**168**	**824**	**103.0**	**4.0**	**(8.2)**	**0.0**
Total	**8,341**	**1,066**	**3,339**	**824**				

Cash Flow

Cash consumed by operations was $14.6 million (2011: $94.0 million cash generated). The Group had delayed payment of certain suppliers at year end 2011 whilst it reviewed the implications of the imposition of sanctions, a situation that resulted in payments during 2012 for operations of $1.8 million and for capital expenditure of $6.3 million. At 31 December 2012 $4.2 million of creditors are still unpaid as payment of these obligations would contravene EU sanctions. Excluding these items $0.6 million was consumed from an increase in working capital (2011: $3.0 million generated).

$7.8 million (2011: $22.9 million) was expended on exploration and evaluation activities in Tunisia and $0.3 million (2011: $20.5 million) on oil & gas development assets. $1.0 million was spent on other tangible assets and software (2011: $2.2 million). The Group paid $1.9 million to decommission assets in the Gulf of Mexico (2011: $5.1 million). $5.0 million was placed in escrow to guarantee bonds related to the acquisition of Cabre Maroc Limited which was offset by releases from restricted cash balances of $1.1 million (2011: $11.2 million). The 2011 release from restricted cash is related to the disposal of a package of assets in the Gulf of Mexico and the associated decommissioning provisions.

The exercise of options, less cash paid to buy back options issued, contributed $0.1 million (2011: $0.6 million) and $0.1 million was spent relating to a share buyback programme that terminated in December 2011 (2011: $13.0 million).

The resultant net decrease in cash during the period was $33.3 million (2011: $43.6 million increase).

As the Group has been unable to exploit its Syrian assets since the declaration of *force majeure* in December 2011 it is anticipated that the Group will consume cash at the operating level during 2013 but that by Q4 2013 the Morocco acquisition should begin to generate revenue. The cash balance held is sufficient to fund the Group's current operations under all reasonably foreseeable circumstances for substantially longer than the twelve months following the date of this report.

Unit revenues and costs (per boe of working interest production)

	SYRIA		USA	
	2012 $/boe	2011 $/boe	**2012 $/boe**	2011 $/boe
Gross revenue	**n.a.**	**101.1**	**64.4**	**67.1**
Less royalties and production share	**n.a.**	**(61.7)**	**(15.1)**	**(14.2)**
Net revenue	**n.a.**	**39.4**	**49.3**	**52.9**
Production and transport cost	**n.a.**	**(2.0)**	**(40.5)**	**(42.7)**
Operating cash flow	**n.a.**	**37.4**	**8.8**	**10.2**
Depletion	**n.a.**	**(3.3)**	**(12.5)**	**(26.0)**
Decommissioning accrual	**n.a.**	**–**	**(4.2)**	**(4.3)**
Operating profit / (loss) before G&A	**n.a.**	**34.1**	**(7.9)**	**(20.0)**

Financial position
Despite the challenges provided by the situation in Syria, the Group remains in a strong financial position. At 31 December 2012 the Group had cash balances of $91.0 million (2011: $124.2 million) of which $87.4 million ($111.8 million) was denominated in US Dollars and held in money market funds through UK regulated financial institutions.

Long-term financial assets have increased to $7.8 million (2011: $4.0 million) primarily related to a $5.0 million financial guarantee placed in Morocco on behalf of Cabre Maroc. The provision for decommissioning held by the Group has increased slightly to $17.6 million (2011: $16.8 million), $15.3 million long-term (2011: $14.7 million) and $2.3 million short-term (2011: $2.1 million).

Review of business units

Morocco

On 19 December 2012 the Group announced an agreement with Caithness Petroleum Limited to acquire Cabre Maroc Limited, a wholly owned subsidiary and operator of an extensive portfolio of highly prospective oil and gas licences and gas exploitation concessions covering an area of 13,352 km^2 in northern Morocco. The acquisition was completed on 16 January 2013.

Income statement
As completion occurred after the financial year end no income statement impact of the acquisition is shown in 2012.

Cash Flow
Whilst the completion payments to Caithness related to the acquisition were made in 2013, a $5 million bond was provided by the Group in 2012 to ONHYM, the regulator of Morocco's oil and gas sector. The bond relates to the future exploration commitments on the Rharb permits and should be cancelled immediately upon fulfilment of those commitments which is expected to occur in H2 2013. The Group provided collateral to a UK bank to guarantee this bond.

Tunisia
Income Statement
Tunisian operations made a loss of $7.5 million (2011: $13.8 million) which was principally due to the write off of the Sidi Dhaher exploration well. Administrative expenses of $0.4 million were incurred as the Group increased its participating interests in the country and started the process of assuming operatorship of the Chorbane Permit.

Cash Flow
During the year $3.9 million (2011: $4.4 million) was spent on exploration activities. $2.4 million was spent in the Chorbane block where the Sidi Dhaher-1 well discovered a potential hydrocarbon column but did not flow hydrocarbons during testing, and was plugged and abandoned. In addition the Group paid $0.8 million to increase its share in both the Chorbane Permit (from 40% to 70%) and the Kerkouane / Pantelleria areas (from 30% to 40%). A further $0.5 million will be paid upon final approval of the transactions and the Company will additionally provide a carried interest of approximately $0.6 million through a seismic acquisition programme on the Chorbane block to ADX Energy Limited.

Syria
Income Statement
The group has not recognised any working interest production from Block 26 (2011: 8,133 bopd). The reduction in volumes is directly attributable to the derecognition of volumes produced by DPC.

Administrative expenses including depreciation and amortisation were $4.2 million (2011: $9.6 million). The reduction in administrative expenses was principally attributable to reduction in staff and office costs in 2012 as the Group has endeavoured to save costs in recognition of the long term nature of the crisis.

The net loss from the Syrian operations before adjustments relating to impairment of exploration and evaluation of assets following the imposition of sanctions, interest and taxation amounted to $4.5 million (2011: $82.7 million profit).

In 2011 one-off costs associated with the imposition of EU sanctions against the Syrian oil industry amounted to $1.3 million comprising the impairment of exploration and evaluation assets of $10.0 million and a net accounting gain on the deconsolidation of the Group's production assets and reinstatement at a 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, of $8.7 million. The resultant net profit contribution to the Group from Syrian operations amounted to $81.4 million in 2011.

Cash Flow
Cash consumed by Syrian operations amounted to $9.7 million (2011: $104.2 million generated). No cash was received from oil sales in 2012 (2011: $114.1 million). The Group delayed payment of certain suppliers at year end 2011 whilst it reviewed the implications of the imposition of sanctions, resulting in 2012 cash payments for operations prior to the declaration of force majeure of $8.1 million.

Capital expenditure amounted to $5.6 million (2011: $39.4 million) including development and inventory expenditure of $1.1 million (2011: $20.2 million) and exploration expenditure of $3.9 million (2011: $18.5 million), all of which related to the Group's 2011 activities, including the drilling of the Khurbet East-102 and Al Khairat wells and had been committed in advance of the introduction of sanctions on 1 December 2011. Payment of all amounts has been made in full compliance with the EU sanctions in place.

Net cash outflows before financing activities amounted to $6.0 million (2011: $64.8 million inflow). No dividend was paid to the holding company (2011: $90.0 million). All funding of the Syrian operations is provided in proportionate shares by the Group and its joint venture partner, Emerald Energy plc, by way of non-interest bearing loans.

USA

Income Statement

Production for the year from offshore USA assets averaged 239 boepd on a net revenue interest ("NRI") basis (2011: 323 boepd), a total reduction of 84 boepd. There were no disposals in the year although the Group did finalise the termination of its obligations for certain leases.

The NRI production comprised 53% oil (127 bopd), 43% gas (610 mcf/d) and 4% NGLs (433 galls/d). The corresponding figures for 2011 were 52% oil (168 bopd), 43% gas (824 mcf/d) and 5% NGLs (728 galls/d).

Average sales prices were $102.1/bbl for oil (2011: $103.0/bbl), $3.2/mcf for gas (2011: $4.0/mcf) and $1.1/gall for NGLs (2011: $1.4/gall). The majority of the Group's production from offshore Gulf of Mexico is sold through contracts with prices linked to a combination of indices comprising WTI and a pricing differential based on LLS and then adjusted for transportation tariffs. During 2012 the average of the WTI and LLS differential averaged $18/bbl (2011: $17/bbl).

Depletion during the year was $1.4 million ($16.4/boe on an NRI basis) compared to $3.9 million ($32.9/boe) during 2011. The depletion charge is calculated asset by asset and is substantially affected by changes to the production mix and also any significant adjustments to decommissioning estimates. The average depletion rate of the Group's remaining assets at 31 December 2012 is approximately $19.5/boe on an NRI basis. Impairment charges of $0.6 million (2011: $0.1 million) were incurred, principally in respect of the East Cameron 160 lease where the operator has concluded no further economic production can be achieved following sanding up of the well bore.

Other costs of sales of $4.6 million (2011: $6.4 million) included repair and workover costs of $2.0 million (2011: $3.0 million) and decommissioning costs in excess of provisions of $1.1 million (2011: $1.1 million). Excluding maintenance & repair costs, and adjustments to decommissioning expenses, underlying lease operating expenses amounted to an average of approximately $21/boe on a working interest basis (2011: $15/boe).

Administrative costs were $1.9 million (2011: $2.8 million) and a recharge was made to reflect time spent on Group business development work in respect of 2011 and 2012 of $1.1 million (2011: nil). Interest payable to Group undertakings was $3.7 million (2011: $4.4 million) and amortisation of the decommissioning provision amounted to $0.5 million (2011: $0.6 million).

Cash Flow

The net cash inflow from US operations was $1.1 million (2011: $0.9 million). Included in the net cash inflow from operations was expenditure of $2.0 million (2011: $3.0 million) on repairs to assets.

Development expenditure was $0.3 million (2011: $0.2 million) and $1.9 million (2011: $5.1 million) was spent on decommissioning assets.

Key Performance Indicators

Key Performance Indicators ("KPIs") provide a means of measuring our progress in delivering our strategic objectives and creating shareholder value.

The KPIs mentioned below are inclusive of the Syrian production assets, which are currently suspended. The Board do not consider the KPIs below to be meaningful for the year ended 31 December 2012 due to the suspension of the Syrian producing assets and expect them to alter significantly during 2013 as the operations of the acquired business in Morocco commence during 2013.

The KPIs are not necessarily GAAP measures.

Working interest production

	2012	2011	2010
	-96%	-18%	+39%
mmboe	**0.1**	3.1	3.8

The key driver of cash generation. The working interest measure is preferred to entitlement production because the latter is impacted by the terms of production sharing agreements so is not representative of underlying operational performance.

Outlook

This measure is expected to increase as production from Morocco commences in H2 2013.

Lifting cost per barrel (working interest)

	2012	2011	2010
	+1,127%	-8%	-32%
$/boe	**53.1**	4.3	4.7

The key measure of operating efficiency. Calculated as cost of sales excluding depreciation, impairment charges, dry hole costs, decommissioning costs and hurricane repair costs, divided by working interest production.

Outlook

Expected to decrease in 2013 as the lower lifting cost anticipated in Morocco dilutes the impact of the more expensive barrels in the Gulf of Mexico.

Cash flow available for exploration

	2012	2011	2010
	-132%	+65%	+111%
$MM	**(25.4)**	78.9	47.7

Calculated as net cash provided by operating activities, less net cash used in investing activities but excluding exploration and evaluation expenditure. This gives a measure of the cash flow available to the Group for exploration after investment in the development of its existing reserves, purchase of other fixed assets and payment of decommissioning costs.

Outlook
Once more likely to be negative in 2013 as the Group will not benefit from a full year of Moroccan production but will be subject to a full year of overheads. Expected to be positive by the end of 2013.

Earnings per share

	2012	2011	2010
	-151%	+25%	+53%
US cents	**(22.94)**	44.8	35.9

The standard measure of profit attributable to shareholders calculated on a diluted basis assuming the exercise of outstanding options.

Outlook
The loss per share is likely to decrease in 2013 as new production commences in Morocco.

Underlying reserves growth
3 year average rate + 20%

Percentage change	**2012**	2011	2010
Annual rate	**-1%**	+40%	+20%
Three year average	**+20%**	+31%	+20%

The growth in proved and probable working interest reserves over the year after adding back production in that year.

Outlook
The Group targets to at least replace the year's production with new reserves.

Non-financial KPIs – Lost time incidents
The number of incidents during the year which resulted in a loss of working time.

There were no lost-time incidents in the years 2010 to 2012.

Financial risk management
The 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. The Group has sufficient resources to finance its current operations for the foreseeable future.

Andrew West
Chairman
8 April 2013

Principal Risks and Uncertainties

Our comprehensive approach to risk management aims to identify key risks as early as possible and to reduce or eliminate those risks to the greatest extent practicable. Through critical evaluation, the Board assesses each risk in terms of the likelihood of occurrence and the potential adverse impact on our operations, employees, performance, assets and shareholder expectations.

On 23 January 2012 by EU Regulation 55/2012 Dijla Petroleum Company (”DPC”) was added to the list of entities subject to the asset freezing regulations. The Group has continued to monitor sanctions applicable to its business in Syria but following the Group's declaration of force majeure over our production business in Block 26 on 11 December 2011, there have been no further EU sanctions imposed against activities in Syria that impact upon the Group. Gulfsands continues to maintain a business presence in country and has retained a core staff in readiness for re-entry to Syria as and when sanctions are lifted. Although the risk remains that Gulfsands may not be able to resume operatorship of the Block 26 PSC without any disruption or amendment to the terms of our PSC, there is a risk that the government may elect to re-negotiate the terms of PSCs of international oil companies with operations in Syria, or may attempt to put existing licensed blocks out for re-tender. Whilst in the case of Gulfsands at least, either such actions would amount to a breach of the terms of our PSC, the possibility of such an outcome cannot be discounted.

The last annual risk review took place in November 2012 in which the following principal risks and uncertainties were identified. The risks have been grouped into operational, strategic, financial and external risks and are not set out in any order of priority and they do not comprise all the risks and uncertainties we face.

Key risk	Description / impact	Mitigation
Operational risk		
Unfulfilled work / PSC obligations	Loss of exploration licence due to incomplete fulfilment of work or PSC obligations.	A full register of minimum work obligations is maintained. Funding options are designed to ensure that all minimum work obligations are fully funded by the Group.
Partner stability	The Group's partners being able to fulfil their financial obligations to a work programme.	The financial stability of new joint venture partners is assessed to ensure that they are able to fund their share of opportunities. Where this is not possible, the Group engages with those parties at the earliest possible stage to assess the likely impact on the business.
Equipment availability	Being unable to obtain the required equipment to carry out a work programme.	Early discussions are held with key governmental agencies to ensure that imported equipment is available as required.
Strategic risk		
Strategy fails to meet shareholder expectations	Ineffective or poorly-executed strategy fails to create shareholder value and to meet shareholder expectations, leading to a loss of investor confidence and no positive upturn in the share price. This will impact the Group's ability to access finance and will increase vulnerability.	Regular briefings are held with investors to present key operational information and to allow chance for dialogue.
Loss of key staff	Failure to retain key staff will cause short and mid-term disruption to the business through a loss of knowledge and skills to the Group.	The Group aims to pay competitively and undertakes regular benchmarking exercises to ensure that remuneration is in line with market rates. Remuneration includes significant performance-based components. We aim to provide a challenging and fulfilling working environment such that pay is not the sole determinant of job satisfaction.

Key risk	Description / impact	Mitigation
Bribery and corruption	Following the introduction of the Bribery Act 2010, the Group as an oil and gas operator working in overseas territories is potentially exposed to accusations of poor practice.	The Group has a detailed Code of Business Conduct and Ethics which establishes clear guidelines for working practices. A full induction programme covering the Group's policies is undertaken for new employees and refresher briefings are given to existing employees on a regular basis.
Exploration failure	Failure to achieve exploration success in our 2013 campaign which impacts investor confidence in the Group's strategic delivery.	Exploration is an inherently risky business, where the risk of failure on any one well is usually greater than the chance of success. Risk is mitigated by careful geological and petrophysical analysis prior to drilling. A full EMV analysis, modelling chance of success and possible range of outcomes, is conducted prior to acquisition of any exploration portfolio.
Financial risk		
Insufficient liquidity or inappropriate financial strategy	The risk of insufficient short-term funds being available to meet commitments or long-term funds to finance capital projects.	As a Group that does not currently have a significant producing portfolio, funding options are limited. The Group maintains significant cash balances in short-term money market funds however, and monitors its short and medium-term cash forecasts carefully. We place great importance on our relationships with the investor community and research analysts in order to ensure that the stock market is receptive to our story should the need to raise further equity arise.

Key risk	Description / impact	Mitigation
External risk		
Geopolitical	Political instability and civil disturbances disrupting the Group's operations.	The Group is not affiliated to any government, political party, religion, ethnic grouping or similar organisation. The Board places great importance on business intelligence, howsoever obtained, and uses a network of contacts to ensure that it is in an appropriate position to respond to any nascent threats. The Group engages risk management consultants to assist this process. Close relationships at a high level across the MENA region ensure that the Group is adequately represented before important local stakeholders. The Group engages with the local community in every country in which we operate through an active Corporate and Social Responsibility Programme.
Natural disaster	Northern Morocco is in an earthquake zone and the rainy season can give rise to flooding and landslides.	Before commencement of any operations a full Environmental Impact Assessment is conducted which identifies such risks and potential mitigants. The Group carries insurance against such risks in the normal course of its business.

Sanctions Compliance

Gulfsands is in full compliance with all sanctions imposed on Syria and takes no part in exploration or production activities, nor does it receive revenue from its assets in the country. Further, all interests with designated persons and entities have been frozen and relationships suspended

The European Union ("EU") sanctions imposed against Syria have continued to affect the Company. The following outlines 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 has 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 several further Regulations have added additional persons and entities 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"). Throughout September 2011 and continuing through the remainder of the year, the EU Council adopted further Regulations culminating on 1 December 2011 in an EU Council Decision to significantly increase sanctions against the oil industry in Syria. Furthermore the 1 December 2011 EU Council Decision added General Petroleum Corporation ("GPC") to the asset freeze list.

EU Council adoption of Regulation 55/2012 on 23 January 2012 added Dijla Petroleum Company ("DPC") to the list of those subject to the asset freeze.

On 10 July 2012 the United Kingdom enacted The Syria (Restrictive Measures) (Overseas Territories) Order 2012 (SI 2012 No. 1755) which, for the first time, directly brought Gulfsands Petroleum Levant Limited, a company incorporated in the Cayman Islands, under the European sanctions net. This legislation has had no 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 are involved was made in August 2011, and a copy of the press release may be found on Gulfsands' website www.gulfsands.com.

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 2011 EU regulation, all payments to the Makhlouf Interests under 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 2011, 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 2011 declared *force majeure* under the PSC on the grounds that it could no longer comply with its obligations while remaining compliant with UK law. This notice of *force majeure* has continued since that date and remains in force.

With effect from 1 December 2011 Gulfsands has:

- ceased to provide assistance to DPC in the form of seconded staff or indeed have any involvement with the day to day operations of DPC
- recused itself from decisions taken by the DPC board
- not submitted invoices for the Joint Venture's entitlement share of oil production
- exercised strict control over 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 and (b) no payment was made which would constitute a transfer of economic resources to GPC or DPC
- ceased (with effect from 18 January 2012, being the date of adoption of EU Regulation 36/2012) to enter into new contracts for the procurement of oil & gas related goods or services into Syria, or for associated technical assistance.

The Group has not conducted any exploration or production activities in Syria since that date, other than the completion of the drilling of wells to TD that had been spudded before 1 December 2011, but retains a place of business in the country, and maintains a core staff as neither of these actions are precluded by the EU sanctions. The protracted nature of the suspension in operations has necessitated a review of staffing levels within Syria where the Group has had to release a proportion of its workforce.

Corporate Social Responsibility

Our support for these programmes reflects our commitment to achieving high standards of corporate social responsibility and corporate governance.

Notwithstanding Syria's well publicised security issues and the challenges created by the broad and indiscriminate impact of the European Union's ("EU") sanctions on Syria, during 2012 the Company's Corporate and Social Responsibility ("CSR") initiatives in Syria remained focused on assisting various organisations and community groups addressing education and health issues affecting women and children and the disadvantaged members of society.

With the support of our Block 26 partner Sinochem and the tremendous voluntary assistance provided by our highly committed staff at our offices in Syria and Lebanon, we have continued our work with the local communities near our facilities in Block 26 and our CSR partner organisations working in and from Damascus and Qamishli.

During the year we also undertook support for a number of new initiatives in and related to Iraq and following the Company's recently announced entry into Morocco and acquisition of operatorship of the Chorbane Permit in Tunisia we have initiated an examination of CSR opportunities in those countries in cooperation with the energy sector regulators, ONHYM in Morocco and ETAP in Tunisia.

Supporting Local Communities and Charitable Causes

The EU's sanctions on Syria necessitated a reduction in the level and scope of our financial and logistical support for the local communities and social and charitable organisations with which we have historically been engaged although the programmes and activities undertaken in the past year have remained generally consistent with our activities in prior years.

Gulfsands continues to direct these efforts towards supporting programmes that aim to improve the health, welfare and prospects of children, women and the disadvantaged members of society and especially for people living within the north east region of Syria where our Khurbet East and Yousefieh projects are located.

During 2012 we extended our support for the three elementary schools in villages local to our facilities at the Khurbet East and Yousefieh oil fields, with small renovation and building programmes and the replacement of a failed, critical water supply system. We also assisted the local communities to complete a substantial restoration and refurbishment project at the mosque in the village of Ali Agha which is a central feature in the lives of people of these communities.

We are proud that we have been able to continue our CSR programmes to support education at these schools and to supply equipment for teaching programmes. Our support for the local community and these villages in particular is widely recognised across the region.

We recognise and appreciate that the local communities with which we interact are actively engaged in providing security for themselves and the areas surrounding our facilities in Block 26. With this local support, security for our facilities and the area in general has remained remarkably stable.

We are especially pleased to report that during the past year we have assisted the Al Buruni University Hospital's paediatric oncology unit in Damascus to secure critical supplies of oncology pharmaceutical supplies to enable the continued treatment of young cancer patients receiving a range of critical treatments at the oncology unit. This BASMA sponsored facility remains Syria's first and only dedicated paediatric oncology unit and has been able to continue to operate during the recent unrest in Syria with financial and logistical support provided by Gulfsands and Sinochem and the wonderful efforts of the large number of dedicated volunteers assembled by BASMA.

While the recent unrest in Syria has made field work difficult during 2012, Gulfsands continued to support technical, academic and scientific scholarships related to the archaeological excavation of the ancient **Urkesh Palace** at the **Tell Mozan** near Qamishli, the largest city within Block 26. This important work is coordinated by the **International Institute for Mesopotamian Area Studies ("IIAMS")**. The Urkesh Palace is believed to have been the original home of the Hurrian Kings of Syria and built circa 2250 BC.

Further details about this important work and the **Gulfsands Urkesh Exploration Fund** can be viewed at www.urkesh.org.

In a similar vein to the Urkesh project in north east Syria, Gulfsands has also provided financial and administrative support to the Ur Region archaeology project in southern Iraq. This project, coordinated by Dr Jane Moon and a team of archaeologists from Manchester University, is focused on Tell Khaiber, near to the ancient city of Ur, near Nasiriyah, in Thi Qar province, southern Iraq.

This project is just now getting underway as a result of Gulfsands' support and from the pottery already collected on the surface it is evident that Tell Khaiber was occupied for over two thousand years, from about 4,000 to 2,000BC. The town appears to have enjoyed a long period of prosperity and satellite images show the presence of large public buildings confirming the importance of Tell Khaiber in antiquity. We look forward to following this excavation as it unearths more of Iraq's important history.

Gulfsands is widely recognised for its commitment to supporting the communities in which we operate. During 2013 we intend to expand our CSR activities to Morocco and Tunisia through working with volunteers and organisations pursuing worthy social objectives. We believe this work provides an important point of reference for our organisation when interacting with governments and pursuing new business opportunities and with the continued support of our shareholders and partners we expect to further build on our present record during the coming year.

Board of Directors

Andrew West
Non-Executive Chairman

Andrew West (55) has been Chairman of Gulfsands since July 2006. An investment banker specialising in mergers and acquisitions by career, he has worked for Smith Barney (1981–85), Lehman Brothers (1985–90), Guinness Mahon (1990–97) and from 1997 to 1999 was Managing Director of Strand Partners, a privately owned investment banking firm specialising, inter alia, in energy and natural resources. Since 1999 he has run his own consultancy practice. He is currently a non-executive director of, or adviser to, numerous companies, both public and private, and has had considerable experience as both a financial adviser and a non-executive director in the oil and gas sector.

Ric Malcolm
Chief Executive

Ric Malcolm (60) joined Gulfsands as Chief Executive in October 2008. A professional geoscientist with over 30 years of oil and gas experience, he began his career as a Petroleum Geologist with Woodside in Australia. He then spent 10 years with Ampolex, an Australian independent E&P company, latterly as Exploration Manager, followed by three years with Mobil as Manager for Papua New Guinea. In 1999 he joined OMV as Exploration Manager for Australia and New Zealand, going on to become Exploration Manager in Libya, General Manager in Norway and finally in 2006 Managing Director for OMV UK.

Mahdi Sajjad
Executive Director and President

Mahdi Sajjad (54) is an Iraqi national who was educated in the UK, and was one of the founders of Gulfsands in 1998. Having worked from 1981–88 with a consortium of British engineering companies in the Middle East and Africa, in 1988 he joined International Development Corporation in Dubai where he became Managing Director. From 1988–95 he was also a director of Oil & Minerals Development Corporation in Dubai. He has also established a number of companies with interests in the Middle East in different industry sectors but with particular emphasis on the energy and mining sectors.

Ken Judge
Director of Corporate Development & Communications

Ken Judge (57) joined the Board in 2006 as a Non-Executive Director, becoming an executive Director in 2008. A former corporate lawyer in Australia, he has held numerous public company directorships and has been engaged in the establishment or corporate development of oil and gas, mining and technology companies in the United Kingdom, Middle East, USA, Australia, Europe, Canada, Latin America and South East Asia.

Joe Darby
Senior Non-Executive Director

Joe Darby (65) became a director of Gulfsands in 2012 and is the Group's senior independent non-executive director and a member of the Audit and Remuneration Committees. He has over 40 years of experience in the energy sector, including eight years with Shell Petroleum before becoming Managing Director of Thomson North Sea Ltd. He has held a number of senior roles, including Chief Executive with LASMO plc. He is a non-executive director of Alkane Energy plc and Premier Oil, and has held non-executive roles at Nordaq Energy plc, British Nuclear Fuels plc, Mowlem plc and Centurion Energy Inc. He was Chairman of Mowlem plc (2005 - 06) and Faroe Petroleum plc (2003 - 07).

David Cowan
Non-Executive Director

David Cowan (56) has been a Director of Gulfsands since 2006. A practising solicitor, he is a partner with McMillan LLP based in Vancouver, Canada, and practises primarily in the area of corporate and securities law. He represents numerous publicly traded companies and has been involved in the drafting of British Columbia's securities legislation. He is a past Chairman of both the Securities and Natural Resources subsections of the British Columbia branch of the Canadian Bar Association, and the National Natural Resources subsection of the Canadian Bar Association. His specific Middle East experience includes ventures in Syria, Iraq and Algeria.

Directors' Report
for the year ended 31 December 2012

The Directors present their report together with the audited financial statements of Gulfsands Petroleum plc and its subsidiary undertakings ("the Group" or "the Company" or "Gulfsands") for the year ended 31 December 2012.

Principal activity
The Group was established in October 1997. The Company was incorporated in England on 2 December 2004 as a public company limited by shares, and became the parent company of the Group in March 2005 as a result of a corporate reorganisation. In April 2005 the Company was listed on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The Group's principal activity is that of oil and gas production, exploration and development. The Group has exploration projects in Morocco and both onshore and offshore Tunisia. The Group also has an interest in development and exploration projects in the Syrian Arab Republic which are currently suspended, two operated interests in exploration licences in Colombia and a non-operated portfolio of producing oil and gas properties in the USA (offshore Gulf of Mexico).

Review of the business and future prospects
The Group is required by the Companies Act 2006 to set out in this report a review of the business for the year ended 31 December 2012. A full review of the Group's operations, performance and prospects is set out in the following sections of this report:

	Pages
The Chairman's Statement	4
The Chief Executive's Report	6 -7
The Operations Review	8 - 15
The Financial Review	18 - 25
The Corporate Social Responsibility Review	31
The Directors' Remuneration Report	38 - 39

Key performance indicators
The Directors have adopted certain financial and non-financial Key Performance Indicators ("KPIs") with which to measure performance of the Group during the current and future financial years. Definitions of these KPIs plus the outcome for the year are contained in the Financial Review on pages24 and 25.

Results and dividends
The Group made a loss after taxation for the year ended 31 December 2012 of $27.0 million (2011: $55.1 million profit). The Directors do not recommend payment of a dividend in respect of 2012 or 2011.

Group structure and changes in share capital
In December 2012 the Company entered into an agreement with Caithness Petroleum Limited to acquire the entire issued share capital of Cabre Maroc Limited for a total cash consideration of $19.0 million. The transaction completed in January 2013 and the reported results and statement for the year end 31 December 2012 do not reflect the transaction. Further details are included in note 6.6 to the financial statements.

In December 2011 the Company lost joint control of Dijla Petroleum Company and has deconsolidated its related Syrian production assets in its financial statements. Details are included in note 5.9 to the financial statements.

Other than these events there were no changes in the Group structure during the years ended 31 December 2012 and 2011.

Details of movements in the Company's share capital during the year are set out in note 6.1 to the Consolidated Financial Statements.

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

	At 31 December 2012		At 31 December 2011	
	Number of ordinary shares	**Number of share options**	Number of ordinary shares	Number of share options
A T West	122,664	1,000,000	122,664	1,000,000
M Sajjad[1]	8,655,268	1,750,000	8,655,268	1,750,000
R Malcolm	150,000	2,100,000	150,000	2,100,000
A Rose[2]	n.a.	n.a.	600,000	1,275,000
K Judge[3]	2,616,750	1,050,000	2,616,750	1,050,000
J Darby[4]	-	-	n.a.	n.a.
D Cowan	491,750	400,000	491,750	400,000

(1) The interest for Mr Sajjad disclosed above includes shares held by Nordman Continental S.A., a company owned by a trust of which Mr Sajjad's children are potential beneficiaries.
(2) Resigned 30 April 2012
(3) The interest for Mr Judge disclosed above includes shares held by Hamilton Capital Partners Limited, an associated company of Mr Judge.
(4) Appointed 26 November 2012

Share options, restricted shares and Treasury Shares
Details of share options and restricted shares issued, exercised and cash settled together with details of Treasury Shares held during the year ended 31 December 2012 are set out in note 6.1 to the Consolidated Financial Statements.

Directors' interests in transactions
Details of transactions with Directors for the year ended 31 December 2012 are set out in note 6.3 to the Consolidated Financial Statements.

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

Internal controls
The Board is responsible for identifying and evaluating the major business risks faced by the Group and for determining and monitoring the appropriate course of action to manage these risks. Further information relating to the Group's corporate governance policies is shown on pages 36 and 37.

Substantial shareholders
The Company has been notified, in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, of the following voting interests in its ordinary shares as at 1 April 2013 of 3% shareholders and above:

Name	Number of shares	% of shares in issue
Waterford Finance & Investment Limited	23,184,739	19.0%
Schroder Investment Management	19,932,672	16.3%
Abdul Rahman Mohdabdullah Kayed	11,500,000	9.4%
Nordman Continental S.A.(1)	8,655,268	7.1%
Soyuzneftegas Capital Limited	7,923,298	6.5%
Al-Mashrek Global Invest Ltd (2)	7,000,000	5.7%
Hugh Sloan	5,005,800	4.1%
Codelouf Ltd	3,548,116	2.9%
Shares held in Treasury by the Company (3)	4,114,820	3.4%

(1) Nordman Continental S.A. is owned by discretionary trusts of which Mr Sajjad's children are potential beneficiaries.
(2) Voting rights currently suspended.
(3) Not eligible for voting rights.

Principal risks and uncertainties facing the Group
The business of oil and gas exploration involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not be able to prevent. The Board has established a process for identifying and evaluating the principal risks and uncertainties facing the Group and a summary of these risks and uncertainties, together with measures taken to mitigate them, is contained on pages 26 to 28.

There are also significant risks arising due to the sanctions imposed on the Syrian oil and gas sector by the EU which are extensively described in the Chairman's letter, the Chief Executive's Report and the Financial Review.

Suppliers' payments policy
It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. The Company's average creditors' payment period at 31 December 2012 was 17 days (2011: 11 days).

Financial risk management objectives and policies
Gulfsands' approach to financial risk management is described in the Financial Review on page 25 and in the Principal Risks and Uncertainties section on pages 26 to 28. Further disclosure is made in note 6.2 to the Consolidated Financial Statements and note 6.2 to the Company Financial Statements including the Group and Company's exposure to price, credit, liquidity and currency risk.

Political and charitable donations
There were no political contributions made by the Group during the years ended 31 December 2012 and 2011. The Group has a policy of making social contributions in its areas of operations where it will impact directly in the local communities. Further details are included in the Corporate Social Responsibility Report on page 31. Approximately $125,000 was provided to community programmes undertaken in Syria during 2012 (2010: $347,000) and a further $32,000 (2011: $15,000) was donated to other charitable causes outside Syria.

Annual General Meeting
The Company's Annual General Meeting will be held on Wednesday 5 June 2013 at 11 am. The Notice of the Meeting, which sets out the resolutions to be proposed, accompanies this Annual Report and Financial Statements.

Going concern
The Group's business activities, financial performance, financial position and risks are set out in the Operations Review and the Financial Review. The financial position of the Group, its cash flows, liquidity position and resources are detailed in these reviews and further details are included in the Consolidated Financial Statements. The Group has significant cash resources, no debt and, based on current predictions of expenditure, anticipates that it will have sufficient resources available to meet all committed expenditure for substantially longer than twelve months from the date of this report. After making appropriate enquiries and examining those areas which could give rise to financial exposure the Directors are satisfied that the Group and Company has adequate resources to continue its operations for the foreseeable future, despite the current uncertain economic environment. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Information to shareholders
The Group has its own website (www.gulfsands.com) for the purposes of improving information flow to shareholders and potential investors.

Statement of Directors' Responsibilities
The Directors are responsible for preparing the financial statements in accordance with applicable laws and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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

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

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

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement of disclosure to the auditor
So far as the Directors, at the time of approval of their report, are aware:

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

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

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

By order of the Board

Ric Malcolm	**Andrew West**
Chief Executive Officer	Chairman

8 April 2013

Directors' Corporate Governance Report
for the year ended 31 December 2012

Gulfsands Petroleum plc is committed to meeting high standards of corporate governance. The Directors are committed to maintaining throughout the Group the highest standards of business conduct and ethics, as well as full compliance with all applicable government laws, rules and regulations. The Group is also committed to prompt and comprehensive corporate reporting and disclosure.

The Board of Directors holds scheduled Board Meetings approximately six times per year plus such other ad hoc meetings as are deemed necessary to deal with urgent business matters.

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

The Company has a Code of Business Conduct and Ethics and an Employee Handbook containing all Group policies and procedures. These include, inter alia, a Whistleblower Policy.

Audit Committee
The Audit Committee meets at least three times each year to discuss the review of the Interim Financial Statements, to agree the plan for the audit of the year-end Financial Statements and to review the outcome of that audit. For the annual results the independent auditors are invited to discuss the conclusions arising from their audit and their assessment of the Group's internal controls. The Audit Committee also reviews annually, in detail, the risks and uncertainties facing the Group prior to the submission of the annual risk report to the Board. The Chairman of the Audit Committee is Joe Darby and the other participating members of the committee are Andrew West and David Cowan.

The activities of the Audit Committee are governed by terms of reference which cover its mandate, its composition, the independence and expertise of the members, frequency of meetings, and its responsibilities which include oversight of the external audit function, risk management, internal controls, financial reporting, and the provision by the auditors of non-audit services. The Audit Committee has the power to engage such external advisers as it deems necessary to discharge its responsibilities.

Remuneration Committee
The Remuneration Committee meets at least once per year and is responsible for setting the remuneration of the Board of Directors, including share incentive plan awards, and for establishing guidelines for the remuneration of staff in general, with closer scrutiny of the remuneration of senior management. The Chairman of the Remuneration Committee is David Cowan and the other participating members are Andrew West and Joe Darby.

Risk Committee
The mandate of the Risk Committee is to review on an ongoing basis the risks facing the Group, their potential impact, the strategies available to mitigate those risks and the costs of such mitigation. The remit of the committee also includes oversight of the Group's system of internal controls and its policies and procedures, including those pertaining to conduct of business, health and safety, and environment. The Risk Committee is comprised of senior members of Executive Management, including the Chief Executive and tthe Group Vice President, Engineering and Projects. It reports to the Audit Committee pursuant to the latter's responsibility for oversight of risk management and internal controls in the Group.

Code of Business Conduct and Ethics
The Code of Business Conduct and Ethics sets out the Group's policy in relation to the payment of bribes (including facilitation payments), conflicts of interest, gifts and hospitality, charitable and political donations, and business relationships generally (including the promotion of fair competition).

The Code states clearly that the direct or indirect offer or payment of bribes in any form is unacceptable, as is the solicitation or receipt of bribes from others, and that the payment of money or the provision of gifts or services to public officials in order to influence them in any decision concerning the Group is strictly prohibited. Further details of the Group's policy on bribery and corruption are included below.

Employee Handbook
The Employee Handbook contains the Group's policies and procedures governing such matters as the workplace environment (including non-discrimination, harassment, substance abuse, and employment of family members), grievance and disciplinary procedures, maternity and paternity leave, corporate disclosure, share dealing, health & safety and information technology. It also includes the Whistleblower Policy.

Whistleblower Policy
The Whistleblower Policy provides a confidential and anonymous means whereby persons can report any matter relating to the Group which, in the view of the complainant, is illegal, unethical, contrary to the policies of the Group or in some other manner not right or proper.

Health, Safety & Environment Policy
A primary goal of the Group is the protection of Health, Safety and Environment ("HSE"). This policy, whose implementation is overseen by the Chief Executive Officer, governs the Group's operations and is specifically designed to:

- comply with relevant HSE legislation, regulations and other requirements;
- maintain and develop systems to identify, assess, monitor, review and control HSE issues;
- set HSE objectives and targets;

- implement mechanisms to communicate with and to obtain input from employees, contractors, partners and associates;
- coordinate HSE policy, including the HSE management systems of contractors, to provide a unified system to guide operations; and
- institute a site-specific Emergency Response Procedure ("ERP") so that immediate actions are taken, without delay, to minimise danger to personnel, the environment and property. ERPs will be rehearsed prior to commencing operations to ensure that personnel make the appropriate responses in the event of emergency.

Anti-Bribery and Corruption Policy

One of Gulfsands' core values is to uphold responsible and fair business practices. It is committed to promoting and maintaining the highest level of ethical standards in relation to all our business activities and in all our dealings with our stakeholders. The Group therefore has a zero tolerance policy towards bribery and corruption, which is strictly prohibited. There are no circumstances under which the Group will make any provision, set money aside or create accounts for the purposes of facilitating the payment or receipts of a bribe.

All directors, officers, employees of Gulfsands and its subsidiaries and associated persons are required to comply with the Bribery Act 2010 and with any other anti-bribery and anti-corruption legislation that applies in any jurisdiction in any part of the world in which they might be expected to conduct business.

On the introduction of the Bribery Act 2010 in July 2011, a detailed Group policy was produced and circulated appropriately and all existing staff underwent comprehensive guidance as to the content of the Bribery Act and how to recognise and deal with bribery and corruption issues. For new employees joining Gulfsands, we ensure they receive this guidance as part of their induction process. Regular refreshers are mandatory for all staff as part of our ongoing responsibility to act in accordance with the spirit of free and fair competition.

Directors' Remuneration Report
for the year ended 31 December 2012

This report has been prepared having regard to Schedule 8 to the Accounting Regulations of the Companies Act 2006 under which the auditor reports to a company's shareholders on the auditable part of the Directors' Remuneration Report and states whether in their opinion that part of the report has been properly prepared. The report has therefore been divided into separate sections for audited and unaudited information.

The report has been prepared by the Remuneration Committee and has been approved by the Board for submission to shareholders. The Chairman of the Remuneration Committee is David Cowan and the other participating members are Andrew West and Joe Darby.

Unaudited Information
Remuneration Policy
The policy of the Group is to remunerate Directors and employees by a combination of salary, discretionary bonus and share-based awards. Bands are established for Directors and the various different seniority levels of employee which define the range of potential bonus and share-based awards relative to the Director's or employee's salary, and awards are generally made annually. The level of award within the applicable band is determined by a combination of the Group's performance and the assessment of the individual's performance during the previous year, together with an assessment of the relative importance of that employee to the Group. Formal assessments are made annually of each employee's performance and goals set for the coming year. Bonuses are entirely discretionary (not subject to performance conditions) and are paid in cash.

There are two share-based plans in operation, a Share Option Plan and a Restricted Share Plan. The Share Option Plan is reserved for the Executive Directors and certain members of senior management. The majority of employees receive awards under the Restricted Share Plan. Substantially all awards made since 2009 have had a vesting period of two years: the majority of awards made prior to 2009 had no vesting period. Neither plan contains performance conditions.

The Group's current remuneration policy was established in 2009 and was reviewed in early 2011 by Hewitt New Bridge Street, external specialist remuneration consultants. The policy as regards Directors' remuneration is that variable remuneration including on-target bonuses and the value of share-based awards, shall comprise in the region of 50% of Directors' aggregate remuneration. A detailed benchmarking exercise was undertaken by the same consultants in early 2011 to compare the remuneration of each Director with that of their equivalent peers among London-listed independent oil & gas companies and other companies of similar size. A less detailed benchmarking exercise was undertaken at the same time for other staff using external databases for remuneration in the oil & gas industry. An update to this exercise was undertaken by the same consultants in January 2013.

The Group provides life assurance cover for all staff outside Syria and medical insurance cover for substantially all staff. Stakeholder pension arrangements were put in place in early 2011 for the Company's staff but there is no Company pension scheme and the Company does not make any contribution to individual employee pension schemes.

Directors' incentive compensation
As reported last year, in recognition of the extraordinary impact that the Syrian sanctions have had on the Company's share price the Board deferred any cash bonus payments related to 2011 performance and contribution until such time as the Company receives payments for production from its Syrian interests. These bonus payments continue to be deferred and no awards were made to directors under the Company's Executive Share Option Plan during 2012.

Audited Information
Remuneration of Directors
The remuneration of the Directors for the year ended 31 December 2012 was as follows:

Annual remuneration ($'000)

	Salary and fees		Bonuses		Benefits in kind		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
A West	**238**	241	**–**	–	**–**	–	**238**	241
M Sajjad	**622**	629	**–**	641	**21**	–	**643**	1,270
R Malcolm	**555**	562	**–**	508	**2**	7	**557**	1,077
A Rose[1]	**254**	441	**–**	400	**1**	13	**255**	854
K Judge[2]	**350**	382	**–**	260	**–**	–	**350**	651
D Cowan[3]	**80**	80	**–**	–	**–**	–	**80**	80
J Darby [3,4]	**10**	–	–	–	–	–	**10**	–
	2,109	2,335	**–**	1,818	**24**	20	**2,133**	4,173

(1) Resigned 30 April 2012. Salaries and fees includes $109,000 compensation for loss of office.
(2) Paid to Hamilton Capital Partners Limited, a company with which Mr Judge is associated.
(3) Non-executive director.
(4) Appointed 26 November 2012.

In addition to the remuneration shown above the Group incurred share-based payment charges of $975,000 (2011: $1,632,000) in respect of the above named Directors relating to options granted in prior years.

Share options

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

	Number of options								
	At 1 January 2012	**Exercised**	**Lapsed**	**At 31 December 2012**	Exercise price (£)	Market price at date of exercise (£)	Gain on exercise of options ($'000)	Date from which exercisable	Expiry date
A West	1,000,000			**1,000,000**	1.88			13/05/2008	12/05/2013
M Sajjad[1]	1,000,000			**1,000,000**	1.88			13/05/2008	12/05/2013
	250,000			**250,000**	3.20			04/05/2011	03/05/2015
	250,000			**250,000**	3.20			04/05/2012	03/05/2015
	250,000			**250,000**	2.35			03/06/2012	02/06/2016
R Malcolm	600,000			**600,000**	1.86			15/10/2008	14/10/2013
	375,000			**375,000**	1.86			15/10/2009	14/10/2013
	375,000			**375,000**	1.86			15/10/2010	14/10/2013
	250,000			**250,000**	3.20			04/05/2011	03/05/2015
	250,000			**250,000**	3.20			04/05/2012	03/05/2015
	250,000			**250,000**	2.35			03/06/2012	02/06/2016
A Rose	300,000		**(300,000)**	**-**	1.80			08/05/2008	07/05/2013
	250,000		**(250,000)**	**-**	1.80			08/05/2009	07/05/2013
	250,000		**(250,000)**	**-**	1.80			08/05/2010	07/05/2013
	150,000		**(150,000)**	**-**	3.20			04/05/2011	03/05/2015
	150,000		**(150,000)**	**-**	3.20			04/05/2012	03/05/2015
	175,000		**(175,000)**	**-**	2.35			03/06/2012	02/06/2016
K Judge	600,000			**600,000**	1.88			13/05/2008	12/05/2013
	150,000			**150,000**	3.20			04/05/2011	03/05/2015
	150,000			**150,000**	3.20			04/05/2012	03/05/2015
	150,000			**150,000**	2.35			03/06/2012	02/06/2016
J Darby	–			**–**					
D Cowan	400,000			**400,000**	1.88			13/05/2008	12/05/2013

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

This report was approved by the Board of Directors on 8 April 2013.

David Cowan
Chairman of the Remuneration Committee

8 April 2013

Independent Auditor's Report
to the members of Gulfsands Petroleum plc

We have audited the financial statements of Gulfsands Petroleum plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements, and the related notes 1 to 6 of the Consolidated Financial Statements and notes 1 to 6 of the Company Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

In forming our opinion on the Consolidated Financial Statements for the year ended 31 December 2012, which is not qualified, we have considered the adequacy of the disclosures made in note 5.9 and 6.2 to the Financial Statements concerning the valuation of the Group's suspended producing operations in Syria, which are recorded at the Directors' best estimate of their fair value following the loss of joint control in December 2011. As highlighted in note 5.9, there is significant uncertainty as to the duration of the EU sanctions imposed in December 2011 and the eventual outcome of events in Syria and hence whether the carrying value of $102 million is an appropriate estimate of the fair value of its suspended producing operations in the country.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Company a quoted company.

Graham Hollis ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
8 April 2013

Consolidated Income Statement
for the year ended 31 December 2012

	Notes	**2012 $'000**	2011 $'000
Continuing operations			
Revenue	5.1	**5,622**	7,907
Cost of sales			
Depletion	2.3	**(1,430)**	(3,883)
Impairment	2.3	**(568)**	(64)
Other cost of sales		**(4,944)**	(6,382)
Total cost of sales		**(6,942)**	(10,329)
Gross loss		**(1,320)**	(2,422)
General administrative expenses		**(16,716)**	(19,745)
Foreign exchange losses		**(26)**	(1,458)
Share-based payments	5.3	**(1,751)**	(2,522)
Total administrative expenses		**(18,493)**	(23,725)
Exploration costs written off	2.1	**(7,082)**	(22,547)
Impairment provision on Syrian exploration activities	2.1	**(34)**	(9,997)
Profit on disposal of oil and gas properties	2.3	**–**	6,628
Operating loss	5.2	**(26,929)**	(52,063)
Discount expense on decommissioning provision	4.2	**(476)**	(638)
Net interest income	5.7	**375**	270
Loss before taxation from continuing activities		**(27,030)**	(52,431)
Taxation credit	5.8	**–**	31
Profit for the year from suspended Syrian activities	5.9	**–**	107,476
(Loss) / profit for the year – attributable to owners of the Parent Company		**(27,030)**	55,076
Loss per share from continuing operations (cents):			
Basic	5.10	**(22.94)**	(43.30)
Diluted	5.10	**(22.94)**	(43.30)
(Loss) / earnings per share from continuing operations and suspended Syrian activities (cents):			
Basic	5.10	**(22.94)**	45.51
Diluted	5.10	**(22.94)**	44.80

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

Consolidated Balance Sheet
as at 31 December 2012

	Notes	**2012 $'000**	2011 $'000
Assets			
Non-current assets			
Property, plant and equipment	2.3	**13,872**	14,229
Intangible assets	2.1	**6,207**	8,457
Long-term financial assets	3.2	**7,837**	3,965
Investments	5.9	**102,000**	102,000
		129,916	128,651
Current assets			
Inventory – materials	3.4	**2,905**	2,870
Trade and other receivables	3.1	**8,560**	5,347
Cash and cash equivalents	3.2	**90,982**	124,240
		102,447	132,457
Total assets		**232,363**	261,108
Liabilities			
Current liabilities			
Trade and other payables	3.3	**11,779**	16,038
Provision for decommissioning	4.2	**2,352**	2,135
		14,131	18,173
Non-current liabilities			
Provision for decommissioning	4.2	**15,309**	14,748
Total liabilities		**29,440**	32,921
Net assets		**202,923**	228,187
Equity			
Capital and reserves attributable to equity holders			
Share capital	6.1	**13,131**	13,131
Share premium		**105,926**	105,926
Share-based payments reserve		**20,246**	18,506
Merger reserve		**11,709**	11,709
Retained profit		**51,911**	78,915
Total equity		**202,923**	228,187

These Financial Statements were approved by the Board of Directors on 8 April 2013 and signed on its behalf by:

Ric Malcolm
Chief Executive Officer

Andrew West
Chairman

Consolidated Statement of Changes in Equity
for the year ended 31 December 2012

	Share capital $'000	Share premium $'000	Share-based payments reserve $'000	Merger reserve $'000	Retained profit/(loss) $'000	Total equity $'000
Year ended 31 December 2012						
At 1 January 2012	**13,131**	**105,926**	**18,506**	**11,709**	**78,915**	**228,187**
Options exercised	**–**	**–**	**(11)**	**–**	**145**	**134**
Purchase of own shares	**–**	**–**	**–**	**–**	**(119)**	**(119)**
Share-based payment charge	**–**	**–**	**1,751**	**–**	**–**	**1,751**
Loss for 2012	**–**	**–**	**–**	**–**	**(27,030)**	**(27,030)**
At 31 December 2012	**13,131**	**105,926**	**20,246**	**11,709**	**51,911**	**202,923**
Year ended 31 December 2011						
At 1 January 2011	13,093	105,025	16,318	11,709	36,862	183,007
Options exercised	38	901	–	–	–	939
Purchase of own shares	–	–	–	–	(13,023)	(13,023)
Share-based payment charge	–	–	2,523	–	–	2,523
Payments made in lieu of option exercise	–	–	(335)	–	–	(335)
Profit for 2011	–	–	–	–	55,076	55,076
At 31 December 2011	13,131	105,926	18,506	11,709	78,915	228,187

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

Consolidated Cash Flow Statement
for the year ended 31 December 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Operating loss from continuing operations		**(26,929)**	(52,063)
Operating profit from suspended Syrian activities	5.9	**–**	98,774
Total operating (loss) / profit		**(26,929)**	46,711
Depreciation, depletion and amortisation	2.1 & 2.3	**2,430**	14,665
Impairment charge	2.3	**568**	64
Exploration costs written off	2.1	**7,082**	22,547
Impairment loss on Syrian exploration activities	2.1	**34**	9,997
Decommissioning costs in excess of provision	4.2	**1,104**	1,100
Share-based payment charge	5.3	**1,751**	2,522
Profit on disposal of assets	2.3	**–**	(6,628)
(Increase) / decrease in receivables		**(152)**	2,655
(Decrease) / increase in payables		**(441)**	359
Net cash (used in) / provided by operations		**(14,553)**	93,992
Interest received		**375**	270
Taxation recovered		**–**	55
Net cash (used in) / provided by operating activities		**(14,178)**	94,317
Investing activities			
Exploration and evaluation expenditure		**(7,830)**	(22,887)
Oil and gas properties expenditure		**(312)**	(20,521)
(Decrease) /increase in inventory		**(1,086)**	159
Disposal of oil and gas assets		**–**	10,403
Other capital expenditures		**(1,019)**	(2,228)
Change in restricted cash balances	3.2	**(3,872)**	11,212
Decommissioning costs paid		**(1,919)**	(5,082)
Movements in balance due to or from oil and gas partnerships		**(3,057)**	(1,092)
Net working capital adjustment in respect of Syrian production activities		**–**	(7,610)
Cash derecognised in respect of Syrian production activities	5.9	**–**	(637)
Net cash used in investing activities		**(19,095)**	(38,283)
Financing activities			
Cash proceeds from issue of shares		**145**	939
Purchase of own shares		**(119)**	(13,023)
Payments made in lieu of options exercised		**–**	(335)
Other payments in connection with options issued		**(11)**	–
Net cash provided by / (used in) financing activities		**15**	(12,419)
(Decrease) / increase in cash and cash equivalents		**(33,258)**	43,615
Cash and cash equivalents at beginning of period		**124,240**	80,625
Cash and cash equivalents at end of period	3.2	**90,982**	124,240

Notes to the Consolidated Financial Statements
for the year ended 31 December 2012

Section 1 – Basis of Preparation

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

This section also includes new EU endorsed accounting standards, amendments and interpretations and their expected impact, if any, on the performance of the Group.

1.1 Authorisation of financial statements and statement of compliance with IFRSs

Gulfsands Petroleum plc is a public limited company listed on the Alternative Investment Market ("AIM") of the London Stock Exchange and incorporated in the United Kingdom. The principal activities of the Company and its subsidiaries ("the Group") are that of oil and gas production, exploration and development.

The Consolidated Financial Statements for the year ended 31 December 2012 were authorised for issue by the Board of Directors on 8 April 2013 and the balance sheets were signed on the Board's behalf by Ric Malcolm.

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

1.2 Adoption of International Financial Reporting Standards

The Consolidated Financial Statements for the year ended 31 December 2012 and for the comparative year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and IFRIC (International Financial Reporting Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

1.3 Significant accounting policies

a) Basis of preparation and accounting standards

The Group's significant accounting policies used in the preparation of the financial statements are set out below.

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the European Union and, except for share-based payments and the valuation of available-for-sale investments, under the historical cost convention. They have also been prepared on the going concern basis of accounting, for the reasons set out in the "Going concern" section of the Directors' Report.

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

In the Consolidated Financial Statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such subsidiaries are included for the whole year in the year they join the Group.

b) New IFRS standards and interpretations

The Financial Statements have been prepared after adopting a number of new and revised pronouncements from the IASB, including amendments to IAS 12 (Income Taxes) and IFRS 7 (Financial Instruments: Disclosures). However, these have had no effect on either the reported results and financial position or the presentation or disclosure within these financial statements.

The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the Group.

IFRS 9 – Financial Instruments: Classification and Measurement

The standard introduces a new classification and measurement regime for financial assets including "available-for-sale" assets and is effective for annual periods beginning on or after 1 January 2015.

IFRS 10 – Consolidated Financial Statements

The standard supersedes IAS 27 – Consolidated and Separate Financial Statements and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It is effective for annual periods beginning on or after 1 January 2014.

IFRS 11 – Joint Ventures/Joint arrangements

The standard supersedes IAS 31 – Interest in Joint Ventures and establishes the principles for financial reporting by parties to a joint arrangement and is effective for annual periods beginning on or after 1 January 2014.

b) New IFRS standards and interpretations continued

IFRS 12 – Disclosures of Interests in Other Entities

The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity and is effective for annual periods beginning on or after 1 January 2014.

IFRS 13 – Fair value measurement

The standard sets out in a single IFRS a framework for measuring fair value and required disclosures about fair value measurement and is effective for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition guidance

The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. The amendments also provide additional transition relief in IFRS 10, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments are effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income

The amendments aim is to improve consistency and clarity of the presentation of items of other comprehensive income statement properties and are effective for annual periods beginning on or after 1 January 2013.

IAS 19 – Employee Benefits

The revised standard prescribes the accounting and disclosure for employee benefits allowing users to make better assessment on the characteristics of a company's defined benefit plans and is effective for annual periods beginning on or after 1 January 2013.

IAS 27 – Separate Financial Statements

The revised standard outlines the accounting and disclosure requirements for 'separate financial statements' which are financial statements prepared by a parent, or an investor in a joint venture or associate, where those investments are accounted for either at cost or in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*. The standard also outlines the accounting requirements for dividends and contains numerous disclosure requirements. It is effective for annual periods beginning on or after 1 January 2013.

IAS 28 – Investment in Associated and Joint Ventures

The reissued standard outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those polices). It is effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 – Offsetting Financial assets and Financial Liabilities

The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation and are effective for annual periods beginning on or after 1 January 2014.

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

c) Basis of consolidation

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

The results of subsidiaries acquired or sold are consolidated for the periods from, or to, the date when control passed. Acquisitions are accounted for under the purchase method, under which purchase consideration is allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

The Consolidated Financial Statements include the accounts of subsidiary undertakings when the Company has the power to exercise, or actually exercises, dominant influence or control over the undertaking.

The Group is engaged in oil and gas exploration, development and production through incorporated and unincorporated joint ventures (together "Jointly Controlled Entities"). The Group accounts for its share of the results and net assets of these Jointly Controlled Entities using the proportional consolidation method.

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

d) Reporting currency

These financial statements are presented in US Dollars. The majority of all costs associated with foreign operations are denominated in US Dollars and not the local currency of the operations. Therefore the presentational and functional currency of the Group, and the functional currency of all subsidiaries, is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2012 was £1: US $1.61 (2011 – £1: US $1.57).

Assets and Investments

Section 2 – Oil and Gas Assets

This section focuses on the oil and gas assets which form the core of our business, including details of exploration costs incurred in the year, those written off or impaired and capital commitments existing at the year end.

Significant Accounting Judgments in this Section:

Definition of reserves

The Group's definition of reserves is in accordance and consistent with the 2007 Petroleum Resources Management System, as prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers ("SPE") and reviewed and jointly sponsored by the World Petroleum Council ("WPC"), the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers. The estimation of Proved ("1P"), Proved plus Probable ("2P") and Proved plus Probable plus Possible ("3P") commercially recoverable reserves are performed utilising relevant geological, geophysical and engineering data and with reference to the use of the probabilistic methodology as approved by SPE/WPC. The reserves are verified by a certified independent expert.

Proved plus Probable entitlement reserves are utilised as the basis for the Group's calculations of depletion and impairment as these represent the Group's estimate of the most likely commercially recoverable reserves as per the approved probabilistic methodology.

Key Estimates and Assumptions in this Section:

Intangible oil and gas exploration and evaluation assets

Costs capitalised as intangible assets are assessed for impairment when circumstances suggest that the carrying value may exceed its recoverable value. This assessment involves judgement as to the (i) likely commerciality of the assets, and (ii) future revenues and costs pertaining and the discount rate to be applied for the purpose of deriving a recoverable value. Additional judgements apply to the Group's exploration and evaluation assets affected by sanctions in Syria.

Oil and gas development and production assets and reserves

Oil and gas development and production assets held in property, plant and equipment are depleted on a unit of production basis calculated by reference to Proved and Probable ("2P") reserves. The Group's 2P reserves take the estimated future cost of developing and extracting those reserves into account.

Future forecast capital expenditure associated with developing Proved and Probable reserves is included in the cost base for the purposes of calculating depletion charges. 2P reserves are determined using estimates of oil and gas in place, recovery factors and future oil and gas prices. A long-term oil price of $90/bbl (2011: $90/bbl) and a long-term gas price in the Gulf of Mexico of $4.00/mcf (2011: $4.50/mcf) have been used in determining the commercial reserves. The gas price in Syria is linked to the price of oil through the Production Sharing Contract. The carrying amount of oil and gas assets therefore depends upon a number of estimates at year-end.

The level of 2P reserves is also a key determinant in assessing whether the carrying value of any of the Group's oil and gas assets has been impaired.

The carrying amount of oil and gas development and production assets is shown in note 2.3.

An increase in the forecast long-term oil price of $10/bbl would reduce the 2P entitlement reserves in Syria by approximately 0.4 mmboe. A $10/bbl reduction in the forecast long-term oil price would not materially change the entitlement reserves. The entitlement reserves in Syria are not sensitive to gas price changes of 10%. There would be no significant impact on the reserves, depletion charge or impairment attributable to the USA from a $10/bbl or $1/mcf change in the oil and gas prices.

An increase in the forecast future capital expenditure for Syria of $50 million (gross) would increase the Group's entitlement reserves by 0.2 mmboe and would increase the depletion charge by approximately 5% per entitlement barrel. An increase of 50% in the forecast future expenditure in the USA would increase the depletion charge for 2012 by $0.3 million but have no material impact on entitlement reserves.

The Group applies the requirements of IFRS 6 “Exploration for and Evaluation of Mineral Resources” and where additional guidance is needed IAS 16 “Property, Plant and Equipment” and IAS 36 “Impairment of Assets” noting that several items in the latter two standards are exempted for assets at the exploration and evaluation stage due to the application of IFRS 6. Set out below is our interpretation of the principles set out in IFRS 6 and other IFRSs.

There are two categories of oil and gas assets, exploration and evaluation assets which are included in Intangible assets, and development and production assets which are included in Property, plant and equipment.

2.1 Intangible assets

Recognition and measurement

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

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

Impairment

Non-current assets are assessed for impairment on a cash generating unit basis when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such triggering events in respect of E&E assets include the point at which determination is made as to whether commercial reserves exist.

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

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

2.1 Intangible assets continued

Group	Exploration and evaluation assets Syria $'000	Tunisia $'000	Computer software $'000	Total $'000
Cost:				
At 1 January 2011	14,270	15,971	1,236	31,477
Additions	17,592	4,657	1,427	23,676
Exploration expenditure written off	(8,788)	(13,759)	–	(22,547)
Transfer to property, plant & equipment	(13,077)	–	–	(13,077)
Loss of control of DPC (note 5.9)	–	–	(528)	(528)
At 31 December 2011	9,997	6,869	2,135	19,001
Additions	17	5,026	402	5,445
Exploration expenditure (written off) / written back	17	(7,099)	–	(7,082)
At 31 December 2012	10,031	4,796	2,537	17,364
Accumulated amortisation:				
At 1 January 2011	–	–	(519)	(519)
Charge for 2011	–	–	(330)	(330)
Loss of control of DPC (note 5.9)	–	–	302	302
At 31 December 2011	–	–	(547)	(547)
Charge for 2012	–	–	(579)	(579)
At 31 December 2012	–	–	(1,126)	(1,126)
Accumulated impairment:				
At 1 January 2011	–	–	–	–
Impairment provision for 2011	(9,997)	–	–	(9,997)
At 31 December 2011	(9,997)	–	–	(9,997)
Impairment provision for 2012	(34)	–	–	(34)
At 31 December 2012	(10,031)	–	–	(10,031)
Net book value at 31 December 2012	–	**4,796**	**1,411**	**6,207**
Net book value at 31 December 2011	–	6,869	1,588	8,457

2.1 Intangible assets continued

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

Following the imposition of EU sanctions against the oil industry in Syria, an impairment test was conducted and the carrying value of all E&E assets in Syria has been impaired to nil as it is presently unclear whether the Group will be able to apply for commercial development approval in the manner contemplated by the Production Sharing Contract. In 2011 the Group announced a discovery in the Khurbet East 101 well and the costs of this well plus the appraisal well drilled at Khurbet East 102 were transferred to property, plant & equipment following the granting of a commercial development licence.

In 2012 the Group wrote off $7,099,000 in respect of the Sidi Dhaher well and associated seismic costs following the unsuccessful testing of the well. At 31 December 2012 the Tunisian E&E assets represent seismic acquisition and related costs invoiced to date by the operator for both the onshore and offshore Tunisian assets plus amounts paid during 2012 to increase participation in these licences.

2.2 Intangible assets other than oil and gas assets

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

2.3 Property, plant and equipment

Tangible oil and gas assets are grouped into a cash generating unit or groups of units for purposes of impairment testing and for depreciating the development and production assets. A cash generating unit is the smallest unit that does not have inter-related revenues and may be a well, field, area, block, region or other defined area as appropriate. Inter-relationships can be measured by oil and gas production agreements, geological analysis, or other documentation showing such relationships. The only limitation in the size of a cash generating unit is that it cannot be larger than an operating segment of the Group.

Recognition and measurement

Development and production assets are accumulated on a cash generating unit basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets.

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

Depletion of producing assets

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

Impairment

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

	Oil and gas properties			
	Syria $'000	USA $'000	Other fixed assets $'000	Total $'000
Cost:				
At 1 January 2011	60,919	62,829	2,173	125,921
Additions	18,604	2,117	414	21,135
Disposals	–	(23,679)	–	(23,679)
Transfer from intangible assets	13,077	–	–	13,077
Loss of control of DPC	(92,600)	–	(791)	(93,391)
At 31 December 2011	–	41,267	1,796	43,063
Additions	–	1,461	601	2,062
Disposals	–	(7,929)	–	(7,929)
At 31 December 2012	–	34,799	2,397	37,196
Accumulated depreciation and depletion:				
At 1 January 2011	(23,411)	(28,563)	(1,018)	(52,992)
Charge for 2011	(9,875)	(3,883)	(577)	(14,335)
Disposals	–	10,703	–	10,703
Loss of control of DPC	33,286	–	325	33,611
At 31 December 2011	–	(21,743)	(1,270)	(23,013)
Charge for 2012	–	(1,430)	(421)	(1,851)
Disposals	–	5,822	–	5,822
At 31 December 2012	–	(17,351)	(1,691)	(19,042)
Accumulated impairment:				
At 1 January 2011	–	(9,051)	–	(9,051)
Impairment charge for 2011	–	(64)	–	(64)
Disposals	–	3,294	–	3,294
At 31 December 2011	–	(5,821)	–	(5,821)
Impairment charge for 2012	–	(568)	–	(568)
Disposals	–	2,107	–	2,107
At 31 December 2012	–	(4,282)	–	(4,282)
Net book value at 31 December 2012	**–**	**13,166**	**706**	**13,872**
Net book value at 31 December 2011	–	13,703	526	14,229

Disposals during 2012 represent the write off of several leases in the Gulf of Mexico that have been terminated where all associated decommissioning obligations have been fulfilled. Disposals during 2011 were related to the sale of a package of assets in the Gulf of Mexico.

Included in the 2012 depletion charge for the US oil and gas properties is a charge of $44,000 (2011: $1,147,000) related to properties substantially depleted in prior years. These depletion adjustments occur where revisions to decommissioning estimates have been made to properties with very short useful lives.

The impairment charge for 2012 includes $493,000 in respect of the East Cameron 160 lease where the operator believes that economic production has ceased following the sanding up of the well. Other impairment charges related to provisions against the Group's carrying values of its USA producing assets, following a review of reserves at the year end.

Impairment for the assets in the Gulf of Mexico has been assessed, based on a value in use calculation, and using a pre-tax discount rate of 6% (2011: 6%), a long-term Brent crude oil price of $90/bbl (2011: $90/bbl) and a long-term gas price of $4.0/mcf (2011: $4.5/mcf). In determining the appropriate discount rate to be used consideration is given to the risk directly incorporated in the underlying cash flow forecasts.

2.4 Property, plant and equipment other than oil and gas assets

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

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2012
Assets and Investments
Section 3 – Working Capital

This section focuses on the funding available to the Group to pursue new business opportunities and the working capital position of the Group and Company at the year end.

3.1 Trade receivables

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

	2012 $'000	2011 $'000
Trade receivables	**58**	-
Underlift	**125**	520
Prepayments and accrued income	**3,212**	2,023
Amounts due from oil and gas partnerships	**5,165**	2,804
	8,560	5,347

At 31 December 2012 and 2011 the Group was owed $25,332,000 by the government of the Syrian Arab Republic relating to oil delivered during the period August to November 2011. The total amount invoiced was $31,232,000 and to date an amount of $5,900,000 has been paid. The government of the Syrian Arab Republic has acknowledged the debt.

This asset has been effectively impaired as part of the deconsolidation of the Group's Syrian producing operations, described in note 5.9.

Underlift at 31 December 2012 and 2011 represents the rights to gas revenue receivable as a result of the acquisition of oil and gas properties in the Gulf of Mexico in May 2004. Underlift represents a right to future economic benefits (through entitlement to receive equivalent future production), which constitutes an asset of which the timing of recovery is uncertain. During the year ended 31 December 2012 certain underlift balances were settled and cash received.

Amounts due from oil and gas partnerships represents amounts owed from its joint venture partners.

3.2 Cash and cash equivalents

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

	2012 $'000	2011 $'000
Cash at bank and in hand	**90,982**	124,240
Restricted cash balances	**7,837**	3,965
	98,819	128,205
Included in long-term financial assets	**7,837**	3,965
Total cash and cash equivalents	**90,982**	124,240

The restricted cash balances at 31 December 2012 includes 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 an amount of $5.0 million held in escrow to guarantee minimum work obligations on the Rharb permit related to the acquisition of Cabre Maroc Limited (see note 6.6). At 31 December 2011 a further $1.0 million was held in escrow to secure a line of credit for forward foreign currency trading.

3.3 Trade payables

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

	2012 $'000	2011 $'000
Trade payables	**1,026**	494
Accruals and other payables	**10,753**	15,544
	11,779	16,038

Included within accruals and other payables are amounts of approximately $4.2 million that are owed to parties subject to asset freezing regulations under the EU sanctions regime. These amounts relate to goods and services acquired before those entities were designated as sanctioned parties. The Group is not in a position to make payments for these goods or services until such time as sanctions are lifted against the named parties.

3.4 Inventories

Inventories comprise materials and equipment, which are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing the materials and equipment to its present condition and location.

Assets and Investments
Section 4 – Other Assets and Liabilities

This section details the Company's investments in subsidiaries and provision for decommissioning.

Key Estimates and Assumptions in this Section:

Fair value of the Group's investment in Dijla Petroleum Company ("DPC")

The Group's investment in DPC, the entity established in Syria, pursuant to the PSC, to administer the Group's Syrian oil and gas production assets (and which is considered to also include the related rights to production under the PSC), is recorded as an available-for-sale investment at an estimate of fair value taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future activities in Syria. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, the calculation of fair value is highly subjective and subject to material change in future periods, as described further in note 5.9.

Decommissioning

The Group has decommissioning obligations in respect of its producing interests in the Gulf of Mexico and its exploration well offshore Tunisia. The full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs. The Group received a report from external specialist decommissioning experts regarding the cost of future works in the Gulf of Mexico during 2011, which has been reviewed and updated by management, and has prepared an internal estimate of the work required offshore Tunisia. The timing of the decommissioning works is inherently uncertain and depends upon the determination of the end of commercial production. The Group has utilised the expected useful lives in the year-end reserves report for the Gulf of Mexico to estimate the timing of associated decommissioning liabilities.

A risk free interest rate of 3% (2011: 3%) has been used to discount the expected costs of decommissioning. A decrease in the discount rate utilised to 2% per annum would increase the total value of the decommissioning provision by $1.1 million. An increase in the discount rate to 4% would decrease the decommissioning provision by $1.0 million. The impact on the income statement for 2013 is immaterial. A future cost inflation rate of 2.5% per annum has been used. An increase in this estimate to 4% per annum would increase the decommissioning provision by $1.7 million.

4.1 Investments

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

Name of Company	Proportion of voting shares at 31 December 2012	Nature of business	Country of Incorporation
Directly held by the Company:			
Gulfsands Petroleum Ltd	100%	Holding company	Cayman Islands
Indirectly held by the Company:			
Gulfsands Petroleum Holdings	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum USA, Inc.	100%	Oil & gas exploration	US
Darcy Energy LLC	100%	Oil & gas exploration	US

Gulfsands Petroleum Levant Limited owns a 50% interest in a contractor group that has been exploring for hydrocarbons in Block 26 in Syria prior to the imposition of EU sanctions against the Syrian oil industry. The results and net assets of the contractor group are proportionally consolidated within the Group accounts.

Gulfsands Petroleum Levant Limited owns 25% of the voting shares in Dijla Petroleum Company ("DPC"), a company incorporated in Syria. DPC is a joint venture undertaking between the General Petroleum Corporation and the other parties participating in the production of hydrocarbons from Block 26 in Syria. DPC is responsible for administering these production operations and, as such, all its costs are ultimately borne equally between the Group and its joint venture partner, Emerald Energy plc. Further information on the status of the Syrian producing operations is provided in note 5.9.

On 18 January 2013 Gulfsands Petroleum Morocco Ltd was incorporated in the Cayman Islands to hold the Group's investments in Cabre Maroc Limited (see note 6.6). On 5 March 2013 Gulfsands Petroleum Sud America Ltd was incorporated in the Cayman Islands.

4.2 Decommissioning

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

The provision for decommissioning relates to the expected present value of costs of plugging and abandoning the exploration and development assets held by Gulfsands Petroleum Tunisia Limited, Gulfsands Petroleum USA, Inc and Darcy Energy LLC. The provision for decommissioning is estimated after taking account of inflation, years to abandonment and an appropriate discount rate. At 31 December 2012, the oil and gas properties had estimated abandonment dates between 2013 and 2027.

Actual decommissioning costs will ultimately depend upon future market prices for the decommissioning work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

The actual amounts paid for decommissioning may ultimately vary significantly from the provision at 31 December 2012 requiring potentially material adjustments to the carrying value of the obligations.

The movement in the provision for decommissioning was as follows:

	$'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
Changes in estimates	1,117
Costs in excess of provision	1,104
Decommissioning expenses	(1,919)
Discount expense	476
At 31 December 2012	**17,661**
Current portion	2,352
Non-current portion	15,309

4.3 Available-for-sale financial assets

Available-for-sale ("AFS") financial assets are stated at fair value. Fair value is determined in the manner described in notes 5.9 and 6.2. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

4.4 Obligations under operating leases

At the end of the year the Group had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	2012		2011	
	Land & Buildings $'000	**Other $'000**	Land & Buildings $'000	Other $'000
Amounts payable on leases:				
Within one year	**651**	**7**	1,060	12
In two to five years	**1,950**	**13**	156	–
	2,601	**20**	1,216	12

Section 5 – Results for the year

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operating loss, results from discontinued operations, taxation and earnings per share.

Significant Accounting Judgements in this Section:
Details of the impairment of intangible exploration/appraisal assets and depletion can be found in sections 2.1 and 2.3.

There are no other significant accounting judgements in this section.

Key Estimates and Assumptions in this Section:

Revenue recognition
Sales revenue represents amounts invoiced exclusive of sales-related taxes and royalties for the Group's share of hydrocarbon sales in the year. Hydrocarbon sales are recognised when goods are delivered and title has passed. No allowance is made for the Group's share of future revenues from costs incurred to date that have yet to be allowed for cost recovery purposes.

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

Details of share-based payments can be found in note 5.3.

5.1 Segmental Analysis

Total revenue and segmental information
The total revenue of the Group, as defined by IAS 18, for 2012 was $5,997,000 (2011: $125,219,000) comprising sales of hydrocarbons and incidental income of $5,622,000 (2011: $124,948,000) and interest income of $375,000 (2011: $271,000).

For management purposes, at 31 December 2012 the Group operated in three geographical areas, Syria, Tunisia and the US. All segments are involved with production and exploration of oil and gas. As discussed in note 5.9, the Group has lost control of its production activities in Syria and these are separately disclosed in the analysis below.

5.1 Segmental Analysis continued

The Group revenue and results for the year are analysed by reportable segment as follows:

Segmental income statement

	Year ended 31 December 2012					
	Syria exploration activities $'000	Syria production activities $'000	Tunisia $'000	USA $'000	Other $'000	Total $'000
Revenues from external parties	–	–	–	5,622	–	5,622
Inter-segment and other income	–	–	–	1,133	2,444	3,577
Total segment revenue	–	–	–	6,755	2,444	9,199
Depletion charges	–	–	–	(1,430)	–	(1,430)
Impairment	–	–	–	(568)	–	(568)
Other cost of sales	(354)	–	–	(4,590)	–	(4,944)
General administrative expenses before depreciation	(2,707)	–	–	(1,712)	(11,297)	(15,716)
Inter-segment administrative expense	(1,363)	–	(372)	(208)	(1,634)	(3,577)
Depreciation and amortisation	(371)	–	–	(5)	(624)	(1,000)
Foreign exchange gains/(losses)	264	–	–	–	(290)	(26)
Share-based payments	–	–	–	–	(1,751)	(1,751)
Exploration costs (written off)/written back	17	–	(7,099)	–	–	(7,082)
Impairment provision on Syrian exploration activities	(34)	–	–	–	–	(34)
Loss before interest and taxation	(4,548)	–	(7,471)	(1,758)	(13,152)	(26,929)
Interest expense and unwinding of discount	–	–	–	(476)	–	(476)
Interest income from external parties	1	–	–	1	373	375
Inter-segment interest	–	–	–	(3,685)	3,685	–
Taxation	–	–	–	–	–	–
Loss for the year attributable to owners of the Company	(4,547)	–	(7,471)	(5,918)	(9,094)	(27,030)

5.1 Segmental Analysis continued

	Year ended 31 December 2011					
	Syria exploration activities $'000	Syria production activities $'000	Tunisia $'000	USA $'000	Other $'000	Total $'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)	(1,760)	–	(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 Dijla Petroleum Company	–	8,702	–	–	–	8,702
Profit/(loss) for the year attributable to owners of the Company	(25,963)	107,476	(13,784)	(3,553)	(9,100)	55,076

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

All external revenues are derived from production in, and sales to, the segments above. See the credit risk section of note 6.2 for details on major customers.

The segment assets and liabilities as at 31 December and the segment capital expenditure during the year ended 31 December were as follows:

Segmental balance sheet

	At 31 December 2012					
	Syria exploration activities $'000	**Syria production activities $'000**	**Tunisia $'000**	**USA $'000**	**Other $'000**	**Total $'000**
Assets	**6,005**	**102,000**	**5,497**	**17,406**	**101,455**	**232,363**
Liabilities	**(8,753)**	**–**	**(2,095)**	**(17,259)**	**(1,333)**	**(29,440)**
Inter-segment balances	**(12,241)**	**–**	**(24,938)**	**(40,055)**	**77,234**	**–**
Exploration and evaluation expenditure	**17**	**–**	**5,026**	**–**	**–**	**5,043**
All other additions to non-current assets	**636**	**–**	**–**	**1,481**	**347**	**2,464**
Total capital expenditure during period	**653**	**–**	**5,026**	**1,481**	**347**	**7,507**

5.1 Segmental Analysis continued

	At 31 December 2011					
	Syria exploration activities $'000	Syria production activities $'000	Tunisia $'000	USA $'000	Other $'000	Total $'000
Assets	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

Transactions between segments include management fees and are charged at estimated prevailing market prices.

5.2 Operating loss

The Group's operating loss including its suspended Syrian activities is stated after charging/(crediting):

	2012 $' 000	2011 $' 000
Foreign exchange loss	**26**	1,458
Share based payment charges (note 5.3)	**1,751**	2,522
Depletion of oil and gas properties (note 2.3)	**1,430**	13,758
Depreciation and amortisation of other assets (notes 2.1 & 2.3)	**1,000**	907
Impairment of development and production assets (note 2.3)	**568**	64
Exploration expenditure written off (note 2.1)	**7,082**	22,547
Impairment provision on exploration assets (note 2.1)	**34**	9,997
Staff costs excluding share-based payments (note 5.5)	**8,548**	11,128
Operating lease rentals:		
Buildings	**1,473**	1,102
Vehicles and equipment	**219**	5,487
Profit on sale of assets	**–**	(6,628)

The operating lease rentals shown for 2012 include $212,000 (2011: $5,465,000) in respect of the hire of drilling rigs and operating staff.

Operating leases

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

5.3 Share-based payments

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

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

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

The share-based payment charge for the period is based upon the requirements of IFRS 2 regarding share-based payments. For this purpose, the weighted average estimated fair value of the share options and restricted shares granted was calculated using a Black-Scholes option pricing model. The expected average life of options and restricted shares was assumed to be four years. No dividends were factored into the model. Volatility has been estimated based on the historical volatility of the underlying shares.

5.3 Share-based payments continued

The fair value of options and restricted shares issued in 2012 was $772,000 (2011: $2,252,000). Details of grants made during the year and assumptions included in the calculation of the charge to the Income Statement are as follows:

Grant date	Years options or restricted shares vest	Stock price at date of grant (£)	Exercise price (£)	Number of options or restricted shares issued	Risk free interest rate	Volatility
04/04/2012	2013 & 2014	1.46	0.06	324,012	0.8%	78.0%
07/11/2012	2013 - 2015	0.90	0.06	33,000	0.5%	88.4%

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

5.4 Auditor's remuneration

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

	2012 $'000	2011 $'000
Fees payable to the Company's auditor for the audit of:		
Company's accounts	**240**	234
Company's subsidiaries	**29**	61
Company's joint ventures	**–**	–
Total audit fees	**269**	295
Audit related assurance services	**56**	83
Taxation compliance services	**44**	71
Other taxation advisory services	**21**	143
Other services	**61**	42
Total non-audit fees	**182**	339

5.5 Staff cost

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

	2012 $'000	2011 $'000
Wages and salaries	**7,729**	9,434
Social security costs	**613**	1,143
Share-based payment charges	**1,751**	2,522
Other benefits in kind	**206**	551
	10,299	13,650

Included in wages and salaries above is an amount of $691,000 in respect of termination and hardship payments to staff in Syria paid during 2012 (2011: nil).

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

	2012	2011
Operational and technical	**16**	19
Administrative	**25**	29
	41	48

Staff numbers and costs recorded above include the Group's proportionate share of staff employed by jointly controlled entities.

5.6 Directors' Emoluments

Details of the remuneration of Directors are included in the Directors' Remuneration Report on pages 38 and 39. No employees other than Directors are determined to be key management personnel.

5.7 Net interest receivable

	2012 $'000	2011 $'000
Short-term bank deposit interest	**375**	271
Overdraft and similar interest charges	**–**	(1)
	375	270

5.8 Taxation

Accounting Policies

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

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

Taxation credit

	2012 $'000	2011 $'000
Current Corporation Tax:		
UK Corporation Tax	**–**	31
Overseas Corporation Tax	**–**	–
Total credit	**–**	31

The Group's effective tax rate differs from the theoretical amount that would arise using the UK domestic corporation tax rate applicable to profits of the consolidated companies as follows:

	2012 $'000	2011 $'000
Loss before tax from continuing operations	**(27,030)**	(52,431)
Profit before tax from suspended Syrian operations	**–**	107,476
Total (loss) / profit before tax	**(27,030)**	55,045
Tax calculated at domestic rate of 24.5% (2011: 26.5%)	**(6,622)**	14,587
Effects of:		
Expenses not deductible for taxation purposes	**2**	23
Share-based payments	**398**	261
Tax losses for which no deferred taxation asset was recognised	**2,366**	6,870
Effect of prior period adjustment	**1,510**	(262)
Impact of local tax rates	**2,332**	(21,260)
Other tax adjustments	**14**	110
	–	(31)

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

Deferred Tax

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

	2012 $'000	2011 $'000
DD&A and impairment in excess of tax allowances	**3,329**	248
Other short-term temporary differences	**14,185**	4,148
Tax losses carried forward	**19,566**	15,036
Unprovided deferred tax asset	**(37,080)**	(18,935)
Deferred tax asset/(liability) at 31 December	**–**	–

$2 million (2011: nil) of the Group's unutilised tax losses expire between 2014 and 2017, $31 million (2011: $22 million) have expiry dates between 2024 and 2032. The remaining tax losses of the Group have no expiry date.

Deferred tax assets are not provided where the Group does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets. In performing this calculation the Group considers deferred tax balances relating to each tax authority separately.

5.9 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 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, as explained in note 4.1 to the Financial Statements. 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 fair value of the investment in DPC has been calculated based upon estimated future cash flows that could be generated from the entitlement reserves at 31 December 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 year-end market capitalisation (as adjusted for its substantial net cash balance). The fair value attributed to DPC at 31 December 2012 was $102.0 million (2011: $102.0 million) as the Directors do not consider that there has been any significant change in the underlying situation.

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.

The Group's share of the results of DPC up to 1 December 2011, which were included in the Consolidated Income Statement for the year ended 31 December 2011, together with the accounting gain recognised at the date of derecognition, were as follows:

	Period ended 30 November 2011 $'000
Revenue	117,041
Expenses	(18,268)
Profit before taxation and net profit attributable to suspended activities	98,774
Profit on derecognition of DPC (see below)	8,702
Profit for the year from suspended activities	107,476

The result of these suspended activities has been treated as "discontinued operations" in the Income Statement as required by IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". There was no corresponding amount in 2012.

On 1 December 2011 the Group's ability to exercise joint control over its Syrian interests ceased. In the period ended 30 November 2011, the revenues arising from this production amounted to $117.0 million. The cash inflows associated with these revenues amounted to $114.1 million. There were no corresponding amounts in 2012.

During the year, suspended Syrian operations consumed $1.1 million (2011: $12.8 million) of cash in operating activities and paid $1.1 million (2011: $21.0 million) for investing activities. This cash was provided by entities within the Group. The amounts incurred in 2012 were used to settle obligations incurred prior to the suspension of activities on 1 December 2011 and in full compliance with all applicable sanctions.

As noted above, during the year ended 31 December 2011 a gain of $8.7 million arose on the loss of joint control of DPC, being an estimate of the fair value of the remaining investment, taking into consideration the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future activities in the country, less the carrying amount of the Group's share of the net assets of DPC at the date of loss of joint control. This is summarised below.

5.9 Effect of sanctions applied to the Group's operations in the Syrian Arab Republic continued

	As at 30 November 2011 $'000
Property, plant & equipment	59,959
Intangible assets	226
Restricted cash	2
Inventories	1,699
Trade and other receivables	34,851
Bank and cash balances	637
Trade and other payables	(4,076)
Net assets derecognised	93,298
Fair value of investment in DPC	102,000
Accounting gain on loss of control	8,702

Further details of the overall contribution of Syria to the Group's results for the year, including the exploration activities that were not directly caught by the EU sanctions, is provided in note 5.1.

5.10 (Loss) / Earnings per share

The basic and diluted (loss) / earnings per share have been calculated using the loss for the year ended 31 December 2012 of $27,030,000 (2011: profit of $55,076,000). The basic (loss) / earnings per share was calculated using a weighted average number of shares in issue less treasury shares held, of 117,844,680 (2011: 121,028,071). The weighted average number of ordinary shares, allowing for the exercise of share options, for the purposes of calculating the diluted (loss) / earnings per share was 118,202,604 (2011: 122,943,300).

The loss per share from continuing operations is calculated before profits attributable to suspended Syrian activities. In 2011 this loss from continuing activities amounted to $52,400,000. In 2012 the loss from continuing activities is the same as the total loss for the period.

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

Section 6 – Capital Structure and Other Disclosures

The disclosures in this section focus on the issued share capital, the share schemes in operation and the associated share-based payment charge to profit. Other mandatory disclosures, such as details of related party transactions, can also be found here.

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

6.1 Share capital

Group and Company

	2012 Number	2011 Number
Authorised:		
Ordinary shares of 5.714 pence each	**175,000,000**	175,000,000

	2012 $'000	2011 $'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 and share options were:

	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 and restricted shares exercised for cash	–	(90,000)	(20,000)	1.02
Share options and restricted shares cash settled	–	–	–	–
Share options and restricted shares lapsing unexercised	–	(1,280,000)	(116,028)	2.17
Share options and restricted shares issued	–	–	357,012	–
At 31 December 2012	**121,989,500**	**7,436,000**	**446,139**	**2.18**

All restricted shares have an exercise price of £0.06 per restricted 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 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 shares 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	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	412,000	(400,000)	(12,000)
Share options and restricted shares exercised for cash settled from Treasury shares	–	(400,000)	–
Share options and restricted shares 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**

6.1 Share capital continued

Pursuant to a share buyback programme in 2011 the Company holds 4,144,820 shares in Treasury at 31 December 2012 (2011: 4,245,681). During 2012, 100,681 shares were issued from Treasury to satisfy the exercise of options and restricted shares.

In 2010 a Restricted Share Plan ("RSP") was established to complement the existing Share Option Plan. Under the RSP restricted (deferred) shares are awarded at par value to employees. Other than the lower exercise price the restricted shares operate in the same manner as the ordinary share options.

The detail of the share options and restricted shares outstanding at 31 December 2012 are as follows:

Exercise period	Year options or restricted shares vest	Weighted average exercise price of options (£)	Number of options	Number of restricted shares
8 May 2008 – 8 December 2013	2008	£1.88	4,065,000	
8 May 2009 – 27 November 2013	2009	£1.86	425,000	
9 February 2009 – 10 June 2014	2009	£1.87	135,000	
8 May 2010 – 27 November 2013	2010	£1.86	425,000	
16 February 2010 – 10 June 2014	2010	£1.88	72,500	
16 February 2011 – 15 February 2014	2011	£1.86	62,500	
4 May 2011 – 3 May 2015	2011	£3.20	702,500	
4 May 2012 – 3 May 2015	2012	£3.20	702,500	
3 June 2012 – 2 June 2016	2012	£2.35	423,000	
3 June 2013 – 2 June 2016	2013	£2.35	423,000	
4 May 2011 – 3 November 2015	2011			51,918
4 May 2012 – 3 November 2015	2012			51,917
3 June 2012 – 2 June 2016	2012			15,661
3 June 2013 – 2 June 2016	2013			15,659
4 April 2012 – 3 April 2017	2012			16,250
4 April 2012 – 29 October 2017	2013			149,992
4 April 2012 – 29 October 2017	2014			133,742
4 April 2012 – 29 October 2017	2015			11,000
		£2.18	7,436,000	446,139

All restricted shares have an exercise price of £0.06 per restricted share.

Options are exercisable at prices from £1.02 to £3.20 per share and had a weighted estimated remaining contractual life of 1.2 years at 31 December 2012. The weighted remaining contractual life of the restricted shares is approximately 3.8 years.

Of the total outstanding options at 31 December 2012, the options granted to the Directors numbered 6,300,000 (2011: 7,575,000) and those granted to other staff numbered 1,061,000 (2011: 1,156,000). The remaining 75,000 (2011: 75,000) were granted to ex-employees and ex-Directors or consultants who are currently involved with or have performed work for the Group. All restricted shares outstanding were granted to non-Directors employed by the Group.

The average share price during 2012 was £1.21 (2011: £2.43). The highest share price during the year was £1.87 and the lowest price was £0.78 (2011: £4.03 and £1.41).

6.2 Financial instruments, derivatives and capital management

Risk assessment

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

Liquidity risk

At the end of the year the Group had cash in hand of $91.0 million, and further bank balances of $7.8 million held in escrow to cover expected decommissioning liabilities and other obligations.

6.2 Financial instruments, derivatives and capital management continued

Cash forecasts identifying the liquidity requirements of the Group are produced frequently. These are reviewed regularly by management and the Board to ensure that sufficient financial headroom exists for at least 12 months. At present the Group has no loan facilities in place and has no obvious need for such facilities based upon its current projects in hand and its available cash resources. However this position will continually be reviewed in the light of developments with existing projects and new project opportunities as they arise.

Currency risk

Foreign currency

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

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

Although sales of crude oil by the Group's Syrian operations have been invoiced in US Dollars payment has previously been made in Euro or Syrian Pounds according to the exchange rates pertaining between US Dollars and these currencies shortly before the payment is made. The Group manages any further risk through the use of short-term foreign currency forward contracts of not more than two weeks duration. Each contract is entered into with the aim of exactly covering any foreign currency risk on Euro receivables. There was no significant exposure to forward exchange contracts in place as at 31 December 2012 or 2011.

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

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

The following table demonstrates the sensitivity to changes in the US Dollar exchange rate, with all other variables held constant, on the Group's profit before tax and the Group's equity:

	Change in US Dollar rate	Effect on profit before tax $'000
2012	**(+ or –) 5%**	**125**
2011	(+ or –) 5%	423

Credit risk

During the year ended 31 December 2012 79% of the Groups' revenues, which were all derived from the US segment, were received from Sunoco Inc and 11% from Southwest Energy LP. During the year end 31 December 2011 94% of the Group's revenues were derived from sales to the Oil Marketing Bureau of the Government of the Syrian Arab Republic ("OMB").

In the USA the Group trades only with a small number of recognised, creditworthy third parties. The Group manages the exposures to credit risk by performing credit evaluations on such of their major customers as require credit.

In Syria, the Group's share of crude oil has previously been sold to OMB. The Group has yet to receive payment for oil sales for the period August 2011 to December 2011 amounting to $26.2 million. Although the resultant debt has been acknowledged by the government of the Syrian Arab Republic the ultimate recoverability of this amount is subject to a high degree of uncertainty and the Group has impaired the outstanding amount in full. No revenue has been recorded in Syria for the period since 1 December 2011.

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

Capital risk management

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

The Group considers capital to be its equity reserves. At the current stage of the Group's life cycle, the Group's objective in managing its capital is to ensure funds raised meet the exploration expenditure commitments.

The Group ensures it is meeting its objectives by reviewing its KPIs and other management information to ensure its activities are progressing in line with expectations, controlling costs and placing unused funds on deposit to conserve resources and increase returns on surplus cash held.

6.2 Financial instruments, derivatives and capital management continued

Financial assets

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

	Financial assets on which interest is earned $'000	Financial assets on which no interest is earned $'000	Total $'000
2012			
US Dollar	**95,231**	**112,709**	**207,940**
UK Sterling	**-**	**466**	**466**
Euro	**84**	**793**	**877**
Syrian Pounds	**-**	**55**	**55**
	95,315	**114,023**	**209,338**
2011			
US Dollar	118,122	107,384	225,506
UK Sterling	2	890	892
Euro	5,544	1,044	6,588
Syrian Pounds	750	1,891	2,641
	124,418	111,209	235,627

The UK Sterling, Euro and Syrian Pound assets principally comprise cash on hand, cash in instant access accounts and short-term money market deposits. The US Dollar assets represent an available-for-sale financial asset, cash on call accounts, money market accounts, and short-term receivables. The Group earned interest on its interest bearing financial assets at rates between 0.01% and 1.0%. All financial assets, except the investment in DPC, are considered to be immediately available to turn into cash on demand.

In the current economic climate with exceptionally low interest rates, the Group is not sensitive to fluctuations in the interest rate received on bank and money market deposits and accordingly no sensitivity analysis is published.

Included in financial assets on which no interest is earned at 31 December 2012 and 2011 was a gross amount of $26.2 million of trade receivables that has been impaired down to a recoverable amount of nil. This amount is due from the Government of the Syrian Arab Republic in respect of oil sales in Syria. The receivable is acknowledged by General Petroleum Corporation of the Syrian Arab Republic but due to the ongoing sanctions against the country's oil industry the payment of this amount has been delayed and, taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future payment, has been fully impaired. The remaining trade receivables consist of amounts receivable from various counter-parties where the Group considers the credit risk to be low. This risk is monitored by the Group.

Financial liabilities

The Group's financial liabilities consist of short-term payables. None of these liabilities bear interest to external parties.
At 31 December financial liabilities are classified as shown below:

	Financial liabilities on which no interest is charged $'000
2012	
US Dollar	**10,298**
UK Sterling	**629**
Euro	**230**
Syrian Pounds	**550**
Other currencies	**72**
	11,779
2011	
US Dollar	16,469
UK Sterling	109
Euro	412
Syrian Pounds	1,146
	18,136

The Group's short-term liabilities are considered to be payable on demand.

6.2 Financial instruments, derivatives and capital management continued

Derivative financial instruments

The Group has in previous periods entered into regular forward-dated foreign exchange transactions as a means of reducing the exposure of the Group to exchange rate differences. These transactions were normally of a duration of less than two weeks and the amounts sold forward approximated to the monthly hydrocarbon invoicing for the Group's Syrian operations. No forward or derivative financial instruments have been entered into since September 2011.

The Group does not enter into derivative contracts in respect of its exposure to fluctuations in the price of oil and gas.

The Group sells its hydrocarbon production on the spot market and has exposure to changes in oil and gas prices. The Directors consider the Group has the financial strength to withstand such changes under all reasonable prognoses and, accordingly, no commodity derivative contracts are currently outstanding. The potential future use of derivatives will be kept under review should the Group feel that the exposure to commodity price risk significantly impacts the liquidity risk of the Group. The Group incurred no expense in respect of oil and gas price derivatives in 2012 or 2011.

Available-for-sale financial assets

The Group has recognised a fair value of $102.0 million for the investment as described in more detail in note 5.9, this valuation is substantially different from the potential long-term value of the asset. It is based upon the entitlement reserves at 31 December 2012 discounted at a rate of 15% per annum and then the net present value is reduced further by 80% to reflect current market view of other risks of investments in the Syrian oil and gas sector. In deriving the figure of 80% we have assumed, inter alia, a long-term Brent oil price assumption of $90/bbl, 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. The valuation represents a level 3 measurement basis as defined by IFRS 7.

The following table sets out the impact that changes in the key variables would have on the carrying value of the asset:

	Change	Change in carrying value of investment $'000	Changes in equity $'000
Increase in forecast capital expenditure	5%	(1,535)	(1,535)
Decrease in long-term commodity prices	5%	(5,863)	(5,863)
Increase in forecast operating expenditure	5%	(810)	(810)
Change in discount rate to 10%	5%	30,167	30,167
Change in discount rate to 20%	5%	(20,456)	(20,456)
Change in the Syrian oil and gas sector risk to 50%	30%	153,000	153,000
Change in the Syrian oil and gas sector risk to 90%	10%	(51,000)	(51,000)
Expropriation of the asset	n.a.	(102,000)	(107,000)

Fair values

The Group has an available-for-sale financial asset valued by the Directors at $102 million as described further below. At 31 December 2012 and 2011, the Directors considered the fair values and book values of the Group's financial assets and liabilities to be materially the same.

6.3 Related party transactions and key management

Key management of the Group are considered to be the Directors of the Company. There were no transactions with Directors, other than interests in shares and their remuneration and share options as disclosed in the Directors' Remuneration Report on pages 38 and 39.

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

	2012 $'000	2011 $'000
Short-term employee benefits	**2,133**	4,173
Share-based payments	**975**	1,632
	3,108	5,805

In 2012 the Group paid $32,000 (2011: $31,000) to Hamilton Capital Partners Limited, a company associated with Mr Judge, for London office representative costs.

There were no other related party transactions of the Group during the years ended 31 December 2012 or 2011.

6.4 Commitments

At 31 December 2012 the Group had minimum work commitments in respect of Chorbane Permit, onshore Tunisia. This obligation is to drill one exploration well. In addition to this, the Group has entered into an undertaking with ADX Energy Limited to provide funding for their share of a seismic programme to be undertaken on the permit area. The total estimated cost to the Group for these items is $4.8 million.

The Group has a minimum work commitment for the Kerkouane Permit, offshore Tunisia to re-enter and test the Lambouka well and to drill one further exploration well. The total estimated cost to the Group for these items is $25.0 million.

On 18 December 2012 the Company entered into an agreement with Caithness Petroleum Limited ("Caithness") for the acquisition of its subsidiary undertaking, Cabre Maroc Limited. Upon completion of this agreement the Group became liable for several work programmes relating to the assets of Cabre Maroc Limited and the provision of funding for Caithness's residual interests as set out in the table below. The agreement completed on 16 January 2013.

Permit	Minimum work commitment	Maximum carry provided to Caithness $ million	Total estimated commitment $ million
Rharb	5 exploration wells	-	7.5
Fes	1,000 line km of 2D seismic plus one exploration well	10.0	17.1
Tauonate	10,000 line km of gravity survey and 350 line km of 2D seismic	1.0	4.5

In December 2010 Dijla Petroleum Company ("DPC") signed a contract with Saipem S.p.A for the construction of a central processing facility to be installed at the Khurbet East Field on Block 26, Syria. The total contract cost is denominated in Euro and the Group's share of the current approved value is approximately $65 million. The Group has not recognised a commitment in respect of this amount as the operations of DPC are no longer included within the consolidated results of the Group. On 19 December 2011 Saipem,S.p.A issued notice of force majeure and the contract is currently suspended.

There were no other material obligations or contracts outstanding in relation to ongoing projects not provided for at 31 December 2012 or 2011.

6.5 Contingent liabilities

Due to the nature of the Group's business, some contamination of the property owned or leased by the Group is possible. Environmental site assessments of the property would be necessary to adequately determine remediation costs, if any. The Directors do not consider the amounts that would result from any environmental site assessments to be significant to the financial position or results of operations of the Group. Accordingly, except for the provision made against decommissioning costs (note 4.2), no further provision for potential remediation costs is required.

The Group has entered into a Production Sharing Contract with the government of the Syrian Arab Republic under which it is responsible for bearing 50% of the costs and expenses of all operations in the Block 26 area, Syria. As discussed in note 5.9, a notice of force majeure was issued to the General Petroleum Corporation ("GPC") in December 2011 after which the GPC has continued to operate the fields through Dijla Petroleum Company ("DPC"). It is anticipated that once sanctions are lifted and the Group is able to legally resume operations DPC will seek to reclaim costs incurred during the pendency of the force majeure period. At 31 December 2012 the Group could not reliably estimate these costs but does not believe them to be significant.

6.6 Post balance sheet events

Acquisition of Cabre Maroc Limited

On 17 January 2013 the Company announced that, following the satisfaction or waiver of all conditions precedent to the transaction, it had completed the acquisition of Cabre Maroc Limited ("Cabre") from Caithness Petroleum Limited. Cabre is a Cyprus registered company with oil and gas exploration and production operations in the Kingdom of Morocco. Further details of its activities are included in the Operations Review on pages 8 – 15. The purchase of Cabre delivers to Gulfsands a large, contiguous and highly prospective acreage position in an area with proven petroleum systems, revenues from near term production and multiple drilling targets.

Following completion of the transaction the Group owns the entire issued share capital of Cabre.

The provisional fair value of the Cabre assets acquired and liabilities assumed by the Group to be recognised in the financial statements of the Group for the year ended 31 December 2013 include:

	$ million
Property, plant & equipment	5.0
Intangible exploration & evaluation assets	15.9
Cash	0.0
Inventory	0.5
Receivables	0.1
Liabilities assumed	(1.7)
Decommissioning provisions	(0.8)
Fair value of total identified assets less liabilities	19.0

The total consideration for the transaction included approximately $17.3 million which was paid in cash to the vendor upon completion and $1.7 million paid to settle creditors of Cabre Maroc Limited at the transaction date. In addition the Group has committed to the provision to Caithness Petroleum Limited of funding for their portion of certain work programmes to be conducted on the Fes and Taounate blocks, totalling approximately $11.0 million.

No amounts are relating to Cabre are included in the Income Statement for the period ending 31 December 2012.

Acquisition of Colombia licences

On 1 March 2013 the Company announced the acquisition of two licences covering the Llanos 50 and Putumayo 14 areas in Colombia.

Parent Company Financial Statements

Company Balance Sheet
as at 31 December 2012

	Notes	**2012 $'000**	2011 $'000
Assets			
Non-current assets			
Property, plant and equipment	2.1	**473**	30
Intangible assets	2.2	**1,720**	1,437
Long-term financial assets	4.2	**5,000**	1,000
Investments in and loans to subsidiaries	3	**20,596**	12,238
		27,789	14,705
Current assets			
Trade and other receivables	4.1	**6,340**	29,808
Cash and cash equivalents	4.2	**89,440**	114,819
		95,780	144,627
Total assets		**123,569**	159,332
Liabilities			
Current liabilities			
Trade and other payables	4.3	**3,561**	2,722
Total liabilities		**3,561**	2,722
Net assets		**120,008**	156,610
Equity			
Capital and reserves attributable to equity holders			
Share capital	6.1	**13,131**	13,131
Share premium		**105,926**	105,926
Share-based payments reserve		**20,246**	18,506
Retained profit/(loss)		**(19,295)**	19,047
Total equity		**120,008**	156,610

The Financial Statements of Gulfsands Petroleum Plc (registered number: 05302880) were approved by the Board of Directors on 8 April 2013 and signed on its behalf by:

Ric Malcolm
Chief Executive Officer

Company Statement of Changes in Equity
for the year ended 31 December 2012

	Share capital $'000	Share premium $'000	Share-based payments reserve $'000	Retained profit/(loss) $'000	Total equity $'000
Year ended 31 December 2012					
At 1 January 2012	**13,131**	**105,926**	**18,506**	**19,047**	**156,610**
Options exercised	**–**	**–**	**(11)**	**145**	**134**
Purchase of own shares	**–**	**–**	**–**	**(119)**	**(119)**
Share-based payment charge	**–**	**–**	**1,751**	**–**	**1,751**
Loss for 2012	**–**	**–**	**–**	**(38,368)**	**(38,368)**
At 31 December 2012	**13,131**	**105,926**	**20,246**	**(19,295)**	**120,008**
Year ended 31 December 2011					
At 1 January 2011	13,093	105,025	16,318	(30,083)	104,353
Options exercised	38	901	–	–	939
Purchase of own shares	–	–	–	(13,023)	(13,023)
Share-based payment charge	–	–	2,523	–	2,523
Payments made in lieu of option exercise	–	–	(335)	–	(335)
Profit for 2011	–	–	–	62,153	62,153
At 31 December 2011	13,131	105,926	18,506	19,047	156,610

Company Cash Flow Statement
for the year ended 31 December 2012

	Notes	**2012 $'000**	2011 $'000
Cash flows from operating activities			
Operating loss		**(11,770)**	(13,514)
Depreciation and amortisation	2.1 & 2.2	**608**	148
Share-based payment charge		**1,751**	2,522
(Increase)/decrease in receivables		**(339)**	62
Increase/(decrease) in payables		**839**	(250)
Net cash used in operations		**(8,911)**	(11,032)
Interest received		**4,060**	4,622
Net cash used in operating activities		**(4,851)**	(6,410)
Investing activities			
Capital expenditure		**(1,334)**	(1,446)
Change in long-term financial assets	4.2	**(4,000)**	–
Loans to subsidiaries		**(15,209)**	(23,807)
Net cash used in investing activities		**(20,543)**	(25,253)
Financing activities			
Cash proceeds from issue of shares		**145**	939
Purchase of own shares		**(119)**	(13,023)
Payments made in lieu of options exercised		**–**	(335)
Other payments in connection with options issued		**(11)**	–
Dividend received		**–**	90,000
Net cash provided by financing activities		**15**	77,581
(Decrease) / increase in cash and cash equivalents		**(25,379)**	45,918
Cash and cash equivalents at beginning of period		**114,819**	68,901
Cash and cash equivalents at end of period	4.2	**89,440**	114,819

Notes to the Company Financial Statements
for the year ended 31 December 2012

Section 1 – Basis of Preparation

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

This section also includes new EU endorsed accounting standards, amendments and interpretations and their expected impact, if any, on the performance of the Group.

1.1 Authorisation of financial statements and statement of compliance with IFRSs

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

The Company's Financial Statements for the year ended 31 December 2012 were authorised for issue by the Board of Directors on 8 April 2013 and the balance sheet was signed on the Board's behalf by Richard Malcolm.

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

The risks faced by the Company include those related to EU sanctions, described in note 5.9 to the Consolidated Financial Statements.

1.2 Adoption of International Financial Reporting Standards

The Company's Financial Statements for the year ended 31 December 2012 and for the comparative year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and IFRIC (International Financial Reporting Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

1.3. Significant accounting policies

a) Basis of preparation and accounting standards

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

The Financial Statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the European Union and, except for share-based payments, under the historical cost convention. They have also been prepared on the going concern basis of accounting, for the reasons set out in the "Going concern" section of the Directors' Report.

b) Reporting currency

These Financial Statements are presented in US Dollars. The Company's operations and the majority of all costs associated with foreign operations are paid in US Dollars and all loan balances with subsidiary undertakings are denominated in US Dollars. Therefore the presentational and functional currency of the Company is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2012 was £1: US $1.61 (2011 – £1: US $1.57).

Assets and Investments

Section 2 – Property, plant and equipment and Intangible assets

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

2.1 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years.

	Office equipment, fixtures and fittings $'000
Cost:	
At 1 January 2011	310
Additions	22
At 1 January 2012	332
Additions	566
At 31 December 2012	898
Accumulated depreciation:	
At 1 January 2011	(203)
Charge for 2011	(99)
At 1 January 2012	(302)
Charge for 2012	(123)
At 31 December 2012	(425)
Net book value at 31 December 2012	**473**
Net book value at 31 December 2011	30

2.2 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any provision for impairment. Amortisation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Amortisation is included with depreciation and classified as administrative expenses. No intangible assets have indefinite lives.

	Computer software $'000
Cost:	
At 1 January 2011	503
Additions	1,093
At 1 January 2012	1,596
Additions	768
At 31 December 2012	2,364
Accumulated amortisation:	
At 1 January 2011	(110)
Amortisation charge for 2011	(49)
At 1 January 2012	(159)
Amortisation charge for 2012	(485)
At 31 December 2012	(644)
Net book value at 31 December 2012	**1,720**
Net book value at 31 December 2011	1,437

Assets and Investments

Section 3 – Investments in and loans to subsidiaries

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

3. Investments

The Company's investments in subsidiary companies are included in the Company Balance Sheet at cost, less provision for any impairment.

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

Loans to subsidiary undertakings comprise a revolving loan from the Company to Gulfsands Petroleum USA, Inc. for $49,737,000 (2011: $46,039,000) including accrued interest of $8,426,000. Interest is charged at 8.5% per annum on the outstanding principal and is payable in full on 31 December annually. The principal balance may be paid in part or in full at anytime with no penalty. On 1 January 2015 the loan converts to a term loan and the payments will be made in four instalments over the next three years.

A total impairment provision of $36,447,000 (2011: $32,760,000) has been recognised against the carrying value of this loan in the Company's Financial Statements. This provision writes down the value of the loan to Gulfsands Petroleum USA, Inc. to the amount expected to be realisable after the anticipated disposal of the Company's assets in the Gulf of Mexico. The fair value less costs to sell has been estimated following discussions with external specialist transaction advisors retained by the Group.

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

Name of Company	Proportion of voting shares at 31 December 2012	Nature of business	Country of Incorporation
Directly held by the Company:			
Gulfsands Petroleum Ltd	100%	Holding company	Cayman Islands
Indirectly held by the Company:			
Gulfsands Petroleum Holdings	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum USA, Inc.	100%	Oil & gas exploration	US
Darcy Energy LLC	100%	Oil & gas exploration	US

Gulfsands Petroleum Levant Limited owns a 50% interest in a contractor group that has been exploring for hydrocarbons in Block 26 in Syria prior to the imposition of EU sanctions against the Syrian oil industry.

Assets and Investments

Section 4 – Working Capital

This section focuses on the funding available and the working capital position of the Company at the year end.

4.1 Trade receivables

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

Trade and other receivables

	Note	**2012 $'000**	2011 $'000
Prepayments and accrued income		**585**	246
Amounts due from subsidiaries	6.4	**5,755**	29,562
		6,340	29,808

The amounts due from subsidiaries shown above includes $0.2 million (2011: $0.5 million) due from Dijla Petroleum Company, a previously proportionally consolidated subsidiary undertaking.

Assets and Investments

Section 4 – Working Capital

4.2 Cash and cash equivalents

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

	2012 $'000	2011 $'000
Cash at bank and in hand	**89,440**	114,819
Restricted cash balances	**5,000**	1,000
	94,440	115,819
Included in long-term financial assets	**5,000**	1,000
Total cash and cash equivalents	**89,440**	114,819

The restricted cash balance at 31 December 2012 represents an amount held in escrow to secure a bond issued in connection with the acquisition of Cabre Maroc Limited (see note 6.5). At 31 December 2011 this cash was held in escrow to secure a line of credit for forward foreign currency trading.

4.3 Trade payables

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

Trade and other payables

	2012 $'000	2011 $'000
Trade payables	**327**	218
Accruals and other payables	**856**	126
Amounts due to subsidiaries	**2,378**	2,378
	3,561	2,722

Section 5 – Results for the year

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

5.1 Revenue recognition

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

Income statement and total revenue

No individual Income Statement is presented in respect of the Company as permitted by section 408 of the Companies Act 2006. The Company's loss for the year was $38,368,000 (2011: profit of $62,153,000). The total revenue of the Company, as defined by IAS 18, for 2012 was $6,425,000 (2011: $7,431,000) comprising management fees of $2,365,000 (2011: $2,809,000) and interest income of $4,060,000 (2011: $4,622,000).

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

5.2 Operating leases

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

Obligations under operating leases

At the end of the year the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings of $600,000 (2011: $390,000) within one year and $1,950,000 (2011: $62,000) between two and five years.

Section 5 – Results for the year

5.3 Share-based payments

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

See note 5.3 within the financial statements of the Group

5.4 Taxation

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

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

Deferred tax assets/(liabilities)

	2011 $'000	2010 $'000
Tax losses carried forward	**8,145**	5,489
Depreciation in advance of capital allowances	**201**	–
Other short-term temporary differences	**19,132**	–
Unprovided deferred tax asset	**(27,478)**	(5,489)
Deferred tax asset/(liability) at 31 December	**–**	–

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

	2012 $'000	2011 $'000
Unutilised tax losses	**8,145**	7,247
Other short-term temporary differences	**19,333**	–
	27,478	7,247

The tax losses of the Company have no expiry date.

Deferred tax assets are not provided where the Company does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets.

5.5 Earnings per share

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

Section 6 – Capital Structure and Other Disclosures

The disclosures in this section focus on the issued share capital, the share schemes in operation and the associated share-based payment charge. Other mandatory disclosures, such as details of related party transactions, can also be found here.

Equity instruments

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

6.1 Share capital

See note 6.1 within the Financial Statements of the Group.

Notes to the Company Financial Statements continued
for the year ended 31 December 2012

Section 6 – Capital Structure and Other Disclosures

6.2 Financial instruments, derivatives and capital management

The Company has previously entered into forward dated foreign exchange transactions as a means of reducing its exposure to exchange rate differences. There have been no such forward dated contracts entered into since August 2011.

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

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

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

	Financial assets on which interest is earned $'000	Financial assets on which no interest is earned $'000	Total $'000
2012			
US Dollar	**92,394**	**7,586**	**99,980**
UK Sterling	**–**	**465**	**465**
Euro	**–**	**335**	**335**
	92,394	**8,386**	**100,780**
2011			
US Dollar	116,731	38,307	155,038
UK Sterling	1	707	708
Euro	–	2,119	2,119
	116,732	41,133	157,865

	Financial liabilities on which no interest is charged $'000
2012	
US Dollar	**2,683**
UK Sterling	**834**
Other currencies	**44**
	3,561
2011	
US Dollar	2,658
UK Sterling	64
	2,722

During the period ended 31 December 2012 the Company impaired balances owed from subsidiary undertaking's totalling $30.8 million (2011: $47.4 million) in respect of activities in Tunisia ($20.0 million), the Gulf of Mexico ($3.7 million), Syria ($6.4 million) and Iraq ($0.8 million). In 2011 this provision related to its activities in the Gulf of Mexico ($32.8 million), Syria ($9.7 million) and Iraq ($4.9 million).

6.3 Foreign currency

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

Notes to the Company Financial Statements
for the year ended 31 December 2012
Section 6 – Capital Structure and Other Disclosures

6.4. Related party transactions and key management

Key management of the Company are considered to be the Directors of the Company. There were no transactions with Directors, other than interests in shares and their remuneration and share options as disclosed in the Directors' Remuneration Report on pages 38 and 39.

The remuneration of Directors is set out in note 6.3 to the Financial Statements of the Group.

The Company traded with various undertakings within the same Group during the years ended 31 December 2012 and 2011. A summary of the transactions and outstanding balances at the year end is set out below.

Balances owed by/(owed to) related parties

Name of related party	Nature of relationship	Commercial terms	**2012 $'000**	2011 $'000
Gulfsands Petroleum USA, Inc.	Subsidiary	Interest rate 8% per annum	**49,737**	46,040
		Asset impairment	**(36,447)**	(32,760)
Gulfsands Petroleum Tunisia Limited	Subsidiary	Non-interest bearing	**24,652**	20,655
		Impairment	**(19,967)**	–
Gulfsands Petroleum Levant Limited	Subsidiary	Non-interest bearing	**16,038**	9,683
		Impairment	**(16,038)**	(9,683)
All other subsidiary undertakings	Subsidiary	Non-interest bearing	**3,360**	2,609
		Impairment	**(5,698)**	(4,939)
Dijla Petroleum Company	Previously proportionately consolidated	Non-interest bearing	**267**	511

Services recharged to related parties

Name of related party	Nature of relationship	Commercial terms	**2012 $'000**	2011 $'000
Gulfsands Petroleum USA, Inc.	Subsidiary	All materials and services recharged at cost. Labour recharged at marked up amounts	**208**	389
Gulfsands Petroleum Tunisia Limited	Subsidiary		**112**	26
Gulfsands Petroleum Levant Limited	Subsidiary		**1,499**	1,099
Gulfsands Petroleum Iraq Limited	Subsidiary		**761**	202
Dijla Petroleum Company	Previously proportionately consolidated		**(216)**	367
Gulfsands Petroleum Levant Limited	Subsidiary	Management fee	**(354)**	726

6.5 Post balance sheet events

Acquisition of Cabre Maroc Limited

On 17 January 2013 the Company announced that, following the satisfaction or waiver of all conditions precedent to the transaction, it had completed the acquisition of Cabre Maroc Limited ("Cabre") from Caithness Petroleum Limited. Cabre is a Cyprus registered company with oil and gas exploration and production operations in the Kingdom of Morocco. Further details of its activities are included in the Operations Review on pages 8 – 15. The purchase of Cabre delivers to Gulfsands a large, contiguous and highly prospective acreage position in an area with proven petroleum systems, revenues from near term production and multiple drilling targets.

Following completion of the transaction the Company, indirectly, owns the entire issued share capital of Cabre.

The total consideration for the transaction included approximately $17.3 million which was paid in cash to the vendor upon completion and $1.7 million paid to settle creditors of Cabre Maroc Limited at the transaction date. In addition the Group has committed to the provision to Caithness Petroleum Limited of funding for their portion of certain work programmes to be conducted on the Fes and Taounate blocks, totalling approximately $11.0 million.

Five Year Summary

		2012	2011	2010	2009	2008
Production						
Production – Working Interest	mmboe	**0.1**	3.1	3.8	2.7	1.2
Production – Entitlement	mmboe	**0.1**	1.3	1.7	1.6	0.8
Summary income statement						
Revenue	$MM	**5.6**	124.9	115.6	84.4	53.6
Operating profit / (loss)	$MM	**(26.9)**	56.7	45.5	29.0	(6.6)
Net profit / (loss) to shareholders	$MM	**(27.0)**	55.1	44.7	28.3	(5.1)
Basic earnings / (loss) per share	US cents	**(22.94)**	45.51	36.88	23.68	(4.45)
Summary cash flow statement						
Net cash (used in) / from operating activities	$MM	**(14.2)**	94.3	70.2	43.5	20.0
Net cash used in investing activities	$MM	**(19.1)**	(38.3)	(48.0)	(26.3)	(21.7)
Net cash from financing activities	$MM	**0.0**	(12.4)	0.8	3.6	20.0
Net (decrease) / increase in cash and cash equivalents	$MM	**(33.3)**	43.6	23.0	20.8	18.3
Summary balance sheet						
Total assets	$MM	**232.4**	261.1	242.9	179.3	138.8
Shareholders' equity	$MM	**202.9**	228.2	183.0	134.2	101.3
Cash and cash equivalents less debt	$MM	**91.0**	124.2	80.6	57.6	36.8

All amounts shown above include the results of the Group's Syrian operations which are required to be treated as discontinued by IFRS and are therefore non-GAAP measures.

The figures for 2008 and 2009 shown above have been restated since publication of original financial statements.

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
Appraisal well	An appraisal well is drilled to assess the characteristics (e.g. flow rate) of a proved oil and gas accumulation
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
Development well	A development well is drilled within the proved area of an oil or gas reservoir to the depth of the stratigraphic horizon known to be productive.
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
Exploration well	An exploration well is drilled to find and produce oil or gas in an unproved area, to find a reservoir in a field previously found to be productive of oil or gas in another reservoir, or to extend a known reservoir.
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
GIIP	Gas Initially-in-place
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
NGO	Non-governmental organisation
NRI	Net revenue interest
OMB	The Oil Marketing Bureau of the Government of the Syrian Arab Republic
ONHYM	l'Office national des Hydrocarbures et des Mines
P+P	Proved and Probable reserves

Possible reserves	Possible reserves are those additional reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (“3P”) reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be more than a 10% probability that the quantities actually recovered will equal or exceed the 3P estimate.
Probable reserves	Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be more than a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable reserves.
Proved reserves	Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty (normally over 90% if measured on a probabilistic basis) to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.
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)

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STOCK EXCHANGE LISTING
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