Gulfsands Petroleum plc
Half-Yearly Financial Report

Six months to 30 June 2013

Unaudited

Gulfsands Petroleum plc
Interim Report 2013

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 EU sanctions) and oil and gas exploration projects in Morocco and Tunisia. 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.

As a consequence of the sanctions imposed on Syria by the EU in December 2011, the Group declared force majeure on its Production Sharing Contract ("PSC") in Syria. The impact on the Group's Financial Statements is explained in detail in our 2012 Annual Report and Accounts and in note 8 herein.

2013 Half-Yearly Results Highlights

- Mahdi Sajjad appointed CEO in April 2013
- Total bank and cash resources totaled $72.5 million at 30 June 2013 inclusive of $57.2 million of cash and cash equivalents
- 75.9 million barrels of oil equivalent ("BOE"), of working interest 2P reserves as at 31 December 2012
- 158 BOE per day of net entitlement production in the first six months of 2013
- 27% reduction in general administrative expenses as a result of an on-going review programme
- Acquisition of Cabre Maroc Limited, with interests in Morocco, completed 16 January 2013 for $19.0 million including settled liabilities of $1.7 million
- 2D and 3D seismic surveys commenced in Morocco in June 2013 for completion before year end
- Preparations for drilling in Morocco with an initial programme of 5 wells to commence in October 2013
- Award of PUT 14 and LLA 50 licences in Colombia approved by the Colombian authorities in February 2013 with Gulfsands appointed Operator
- Continuation of force majeure status with respect to production and exploration activities in Syria

Chairman's Statement

Dear Shareholder,

The first six months of 2013 has seen a period of intense activity across all aspects of our organisation as the Board and management of the Company worked to re-position Gulfsands Petroleum's exploration and future production activities in Morocco, Tunisia and Colombia against the backdrop of the continuing suspension of our Syrian exploration and production activities.

I am pleased to welcome Mahdi Sajjad to the position of Chief Executive, following the departure of Ric Malcolm in March. Mahdi is one of the founders of the Company, was instrumental in acquiring and building from scratch our significant business and presence in Syria and is now bringing his considerable entrepreneurial energies and management abilities to bear as we set about exploiting new opportunities in Morocco and elsewhere.

More recently, the Board has been further strengthened by the appointments of Alan Cutler as Director: Finance and Administration and of Michel Faure as a Non-executive Director. Both gentlemen bring to the Company a wealth of experience and tremendous enthusiasm for the re-building task upon which we are embarked.

The previously announced acquisition of Caithness Energy's substantial portfolio of onshore oil and gas exploration and gas exploitation licences in Morocco closed early in the New Year and we are already well on the way to commencing drilling on the Rharb permit in the coming few weeks. Your Board considers the Company's entry to Morocco to represent a major opportunity to build substantial value on a relatively fast track.

As you will see from the reports which follow, we have made significant progress in reducing overheads and this continues to be a priority for the management and Board.

The tragedy playing out in Syria is currently the subject of intensive media coverage and commentary and there is really nothing of value for me to add. We continue to do everything in our power to protect our assets and our employees and to ensure that we are ready to return as and when circumstances permit.

Our focus is single-mindedly on the rebuilding and realisation of substantial value for our shareholders, many of whom have been with us since the Company was taken public in 2005. I hope that by year end, as we re-commence drilling activity with our first wells in Morocco, we will have some more tangible progress to report.

Yours sincerely

Andrew West
Chairman
16th September, 2013

Chief Executive's Report

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

In view of the continuing situation in Syria, the Board and management have undertaken a broad review and evaluation of new business opportunities such as would enable the Group to further diversify the Group's activities and countries of operation. This exercise concluded in late December 2012, with agreement to acquire a significant portfolio of exploration and exploitation permits in Morocco. We consider that this portfolio of permits provides the Group with attractive near-term exploration activity and potentially, production development opportunities. Following completion of the acquisition of Cabre Maroc Limited, the owner of this portfolio of permits, in mid-January, the Group has moved swiftly to commence exploration activities on the Rharb and Fes permits with substantial seismic programmes on both permits and preparations to commence drilling on the Rharb permits in October of this year. The Board is confident that these activities will move the Group into a revenue-generating position with the sale of gas that is anticipated to be discovered and produced after the initial five well drilling programme.

We are very pleased to report that our entry into Morocco has proceeded smoothly to date and this has been in no small measure due to our decision to redeploy to Morocco, a number of our talented staff previously working in our operations in Syria. We expect to be able to report on our exploration successes on the Rharb permit during the fourth quarter of this year.

Strategy review
As mentioned above, the prolonged suspension of our Syrian activities required a further review of the strategy and objectives of the Group and this has continued on from the comprehensive review of the Group's strategy which was undertaken during 2012 which identified the key objectives as:

- Protect the value of our Syrian assets
- Consolidate Gulfsands' current position in Tunisia;
- Build at least one additional sustainable leg to the business, commencing with Morocco
- Portfolio diversification generally
- Preserve the Group's current strong balance sheet position
- Ensure the Group's overhead and operating cost base remains appropriate to the Group's anticipated activities at all times
- Create value for our shareholders

Our principal business focus remains on the Middle East and North Africa ("MENA") region where we can utilise our significant human resource potential and experience accumulated during seven years of operations in Syria and this has been successfully deployed with our recent entry into Morocco. However where the opportunity is compelling, we will also look to further diversify our activities with compelling assets located outside the MENA region, as evidenced by our entry into Colombia.

New business review
The Group continues to regularly review many new business opportunities and over the last 18 months we have undertaken evaluations of over 50 different opportunities for investment in the MENA region and certain other targeted countries. These have included opportunities for organic growth through farm-ins and applications for new acreage, as well as corporate transactions.

Having made a successful entry to Morocco we have moved quickly to commence discussions with ONHYM, the regulator of Morocco's oil and gas sector, and the Ministry of Energy to secure additional exploration acreage in the country. It is clear to our management team that the country is fast attracting a great deal of attention from small and medium sized E&P companies as the fiscal and operating terms are attractive and there remain opportunities in Morocco for successful on-shore exploration.

Following the award of two licences in Colombia in February, preliminary demographic and environmental survey work has commenced on the permits ahead of commencement of the initial exploration phase of the permits in early 2014.

We will continue to dedicate substantial human resources to reviewing and evaluating new business opportunities.

Operations Review

Syria

Gulfsands is the Operator of the Block 26 Production Sharing Contract ("PSC") with a 50% working interest. The Company is not presently involved in any production or exploration activities on Block 26 as the contract is currently in force majeure as a result of the EU sanctions against Syria The Company intends to return to production and exploration activities as soon as permitted by the applicable sanctions, which currently restrict activities in Syria. The Company monitors all of its activities to ensure that at all times it remains compliant with all applicable sanctions in relation to Syria.

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

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

Approval for the development of the Khurbet East Triassic Butmah oil and gas field was granted in December 2011 but as a consequence of EU sanctions, the Company is presently unable to progress any activity in respect of this approval for development. However, oil from the Triassic Formations in Khurbet East has already been sampled and found to be lighter than that produced from the Cretaceous Formation, with an API gravity of 34–35°, and it contains a higher gas content. In addition, small amounts of condensate have been recovered from the gas cap in the Butmah Formation. The construction of sour gas sweetening and export facilities at Khurbet East is planned, subject to the lifting of EU sanctions, to enable commercial production of hydrocarbons both from the Butmah and also from the Triassic Kurrachine Dolomite Formations. The existing 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.

The development and operation of these fields is being undertaken by Dijla Petroleum Corporation ("DPC"), a joint operating Company formed between Gulfsands, Sinochem and the General Petroleum Corporation ("GPC") for this purpose, to which staff of both Gulfsands and GPC have previously been seconded. Since the imposition of EU 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 under the management of GPC secondees.

Sanction compliance

Gulfsands has from the outset taken extensive legal advice to understand its obligations under the sanctions, liaised closely with relevant supervisory regulators and generally acted cautiously to ensure full compliance with all relevant sanctions, including closely monitoring all of the Group's activities to ensure they remain compliant with all relevant sanctions at all times.

Following the EU Council Decision of 1 December 2011 and having taken further legal advice and obtained the agreement of Emerald Energy (a subsidiary of Sinochem and 50% working interest partner), on 11 December 2011 Gulfsands declared *force majeure* under the PSC for Block 26 on the grounds that it could no longer comply with its obligations while remaining compliant with UK law.

The listing of GPC as an entity subject to asset freezing regulations on 1 December 2011 triggered a review of the Group relationship with GPC and with DPC and following this review and with effect from 1 December 2011, Gulfsands has:

- ceased to provide assistance to DPC in the form of seconded staff or indeed have any involvement with the day to day operations of DPC;
- recused itself from decisions taken by the DPC board;
- not submitted invoices for the Joint Venture's entitlement share of oil production;
- exercised strict control over payment of outstanding invoices to ensure that (a) no payments were made to persons or entities who are included on the list of those subject to the asset freeze, (b) no payment is made for goods or services subject to restrictive measures without the required notification to the Competent Authority and (c) no payment was made which would constitute a transfer of economic resources to GPC or DPC;
- ceased (with effect from 18 January 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; and
- also ceased all exploration, as well as production, activity in Syria.

The Group has relocated its offices into modest offices in the centre of Damascus to allow it to retain a place of business in the country to meet its obligations under the PSC. Unfortunately, the protracted nature of the suspension of operations in Syria has also necessitated the review of staffing levels in the country and it is with great regret that the Group has had to release a proportion of its workforce. For the time being, the Group does not intend to make any further enforced redundancies.

The Board is determined to ensure that the Group's activities remain compliant with all relevant sanctions at all times and management will continue to liaise closely with the relevant regulatory authorities to ensure this objective is achieved and will

also continue to keep GPC fully informed of the breadth and scope of our obligations to comply with these sanctions as they may be modified from time to time.

Morocco

Following completion of the acquisition of Cabre Maroc Limited ("Cabre Maroc"), Gulfsands is the Operator of an extensive portfolio of highly prospective oil and gas exploration licences and gas exploitation concessions covering an area of approximately 4,300 Km^2 in northern Morocco. The licences include the Rharb Centre, Rharb Sud and Fes Exploration Permits.

Gulfsands assumed operatorship of these permits following the completion of the acquisition of Cabre Maroc, a wholly owned subsidiary of Caithness Petroleum Limited, on 16th January 2013. The total consideration for these transactions resulted in cash payments totalling approximately US$19 million by way of purchase consideration and the satisfaction of $1.7 million of existing liabilities of Cabre Maroc.

The purchase of Cabre Maroc delivered to Gulfsands a large, contiguous and highly prospective acreage in an area with proven petroleum systems and multiple drilling targets. The Company believes that there is meaningful near-term value potential contained within the proven conventional and shallow depth gas play in the Rharb Centre Permit, together with significant oil and gas exploration upside related to the fold and thrust belt structures identified in the adjacent Rharb Sud and Fes Permits.

Following completion of the acquisition, Gulfsands and ONHYM have become co-venturers in the Rharb Centre and Rharb Sud Permits (75% working interest), whilst Gulfsands and Caithness Petroleum (through their respective wholly owned subsidiaries) have become co-venturers with ONHYM in respect of the Fes Permit (50% working interest). Gulfsands is the Operator of all of these exploration joint ventures. The Rharb exploration licence expires in July 2014 but can be extended for an additional 2 years in the event of a discovery during the current drilling program. Commercial discoveries then become subject to long term exploitation concessions..

Operations
Gulfsands has agreed with ONHYM a commitment to drill five gas exploration wells in the Rharb Permits commencing in the second half of 2013. In addition Gulfsands has agreed to drill a further four gas exploration wells during 2014.

These two Rharb drilling programmes will be focussing on a series of shallow gas anomalies identified in Miocene fans and channel sands at depths of 1,000 to 1,650 metres in a similar geologic setting to discoveries on adjacent permit areas which are now in commercial production using the substantial gas capture and distribution infrastructure in the area.

Gulfsands has engaged COFOR SAS, an internationally recognised drilling contractor and subsidiary of France's Vinci group of companies, to provide an onshore drilling unit suitable for the drilling of a minimum of nine exploration wells in the Rharb basin area over the next 12 months. COFOR has mobilised a drilling rig to Morocco to commence drilling in October 2013 of the first well in the initial five well campaign. This initial drilling campaign is expected to take approximately four months to complete.

Drilling and completion of successful exploration wells on the Rharb permit areas is anticipated to take approximately 25 days per well with another seven days for rig movement between successive wells. The estimated cost of these wells is US$2.5 million in the case of a successful well and, in the case of dry hole, US$1.9 million.

In June, the Company contracted Prospectiuni SA of Romania, to undertake seismic programmes on each of the Rharb Centre and Fes Permit areas.

A high fold 3D seismic survey covering an area of approximately 220 Km^2 is being carried out over the highly prospective south-western part of the Rharb Centre Permit area to assist in the further delineation of drilling targets. It is anticipated that the wells to be drilled in the 2014 Rharb drilling campaign will be at drilling locations identified via this 2013 3D seismic survey.

In addition, a second seismic programme has commenced on the Fes Permit, with the ultimate objective of acquiring approximately 650 kilometres of 2D data. This programme is designed to assist in the identification of additional drilling targets on the Fes Permit and to more accurately define existing drill targets identified using the results of an earlier gravity survey programme and legacy 2D seismic data.

The combined estimated cost of acquiring and processing this seismic data on Rharb Centre and Fes Permits will be approximately US$15 million.

Forward Plans
Following completion of the initial phase of Rharb drilling, anticipated for early 2014, the second Rharb drilling campaign consisting of four gas exploration wells is scheduled to commence in the second quarter of 2014.

In addition, the Company is planning to drill the first of several potentially high impact wells on the Fes Permit area during 2014 using the data captured in this 2D seismic survey, which should be available for processing prior to the end of this year. The first Fes well is planned to commence drilling during the second quarter of next year. A further two wells are planned on the Permit, with the possibility of a second well being drilled as early as late 2014.

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

Tunisia and Italy

Gulfsands has an operated interest in the Chorbane exploration permit onshore Tunisia, and non-operated interests in the Kerkouane exploration permit offshore Tunisia and in the G.R15.PU exploration permit offshore Southern Italy.

Gulfsands increased its working interest in the Chorbane permit from 40% to 70% by acquiring additional participating interests of 10% from each of Verus Investments Limited, Xstate Resources Limited and ADX Energy Limited, with these transfers receiving regulatory approval in May 2013. Gulfsands became Operator of the Chorbane permit on 1 February 2013, reflecting its increased participation in the permit. This constitutes Gulfsands' first operatorship in Tunisia.

Gulfsands also increased its working interest in the Kerkouane and G.R15.PU exploration permits from 30% to 40% by acquiring additional participating interests of 10% in each permit from Xstate Resources Limited, with regulatory approval for these transfers being granted in May 2013. The Kerkouane and G.R15.PU exploration permits are operated by ADX Energy Ltd, an Australia-based independent E&P Company.

Chorbane Permit – Onshore Tunisia (Gulfsands: 70%)
The Chorbane Permit is located mainly onshore in central Tunisia and covers an area of approximately 1,942 km^2. The permit is in close proximity to a number of producing oil fields and associated oil and gas infrastructure. The current exploration period is due to expire in July 2015.

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 offshore the island of Pantelleria south west of Sicily in Italian waters. The two permits are contiguous and comprise a total area of approximately 3,700 km^2. The Kerkouane exploration permit expires in February 2014 while the G.R15.PU permit remains suspended. The Kerkouane block is governed by a Tunisian PSC, whilst the Pantelleria block is governed by an Italian tax/royalty structure.

Forward Plans
Since increasing its participation in the Chorbane permit, and assuming the role of Operator, Gulfsands has completed an integrated interpretation of the legacy geoscience database and has established the presence of a number of exploration plays, prospects and leads. Exploration targets include Late Cretaceous to Tertiary aged carbonate reservoirs that are proven productive for both oil and gas in the area, as well as a deeper and potentially extensive gas play in Jurassic aged carbonates. The exploration team is currently formulating seismic acquisition and drilling plans for the permit.

Gulfsands is close to finalising plans for the next stage in the Chorbane exploration programme which are likely to include acquisition of additional seismic data over one of more prospects and leads with a view to maturing a well location for drilling in 2014.

The decision has been taken by Gulfsands not to continue its interest in the Kerkouane and Pantelleria permits.
The Company continues to evaluate material exploration opportunities in Tunisia with a view to broadening its exposure to additional basins and plays.

Colombia

In February, 2013 Gulfsands acquired Exploration and Production Contracts ("E&P Contracts") over two blocks in Colombia as a result of successful bids made in the Ronda 2012 Exploration Licensing bid round, which concluded in late 2012.

Gulfsands holds an initial 100% interest in each contract and acts as operator of both licences but is in advanced discussions to formalise joint ventures on both blocks with a respected local oil field services, resources and transport logistics group under which arrangements Gulfsands expects to retain majority interests in both contracts and to be partially carried in respect of exploration activities through to the end of the first exploration periods.

The E&P Contract for each licence extends for up to seven years from the date of signature of the contract with an initial evaluation period of up to one year followed by two consecutive three year exploration periods. Gulfsands was successful in acquiring both blocks on fiscal terms that involved minimal "x-factor" royalties and additional exploration commitments over and above those specified as minimum terms in the Ronda 2012 Exploration Licensing bid round.

The Putumayo block 14 ("PUT 14") in the Caguan Putumayo Basin on Colombia's border with Ecuador is 463.6 Km^2 in size. Discoveries in the Oriente Basin in Ecuador are on trend towards Colombia's Putumayo Block and the producing Cohembi and Platanillo oil fields are in the immediate vicinity of PUT 14 and considered analogues to structures identified in PUT 14 block.

It is reported that at least 35 fields containing more than 365 million barrels of oil have been discovered in the Putumayo basin.

The Llanos block 50 ("LLA 50") is in the mature North Llanos basis, where 100 km to the North-west, Occidental discovered the giant Canon Limon field with reported reserves of more than 1 billion barrels. At 513.7 Km^2 in size, the block is larger than most blocks in the basin.

Initial exploration work on both blocks is expected to commence in the first quarter of 2014 with approximately 100kms of 2D seismic data to be acquired and one exploration well to be drilled on each block during the first exploration period of each licence.

USA

Gulfsands owns a small portfolio of non-operated oil & gas assets in the Gulf of Mexico, in the shallow "shelf" region offshore Texas and Louisiana. These comprise working interests in 6 producing fields and certain other leases that are no longer commercially producing as well as overriding royalties in other properties. Gulfsands holds this portfolio under review for future divestiture but it not expected that divestment will occur during 2013

The assets are relatively mature, are deemed to be non-core and the Group has the assets under review for future divestiture. Proved and 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 of 68% oil and 32% gas.

Operations

Production on a working interest basis, including Natural Gas Liquids ("NGLs"), averaged 198 boepd in the first six months of 2013, compared with 322 boepd in the corresponding period of 2012. The composition of this production was 64% oil, 33% gas and 3% NGLs. After tax and royalties, net revenue interest production in H1 2013 averaged 158 boepd (2012: 245 boepd) generating revenues of $2.2 million (2012: $2.9 million).

The decrease in average daily production rates during H1 2013 compared to the comparable period in 2012 was due to:

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

As of 30 June 2013, daily production attributable to Gulfsands' working interest rebounded to 287 boepd as a result of the resolution of the temporary production interruptions noted above, and the incremental production gained from the successful work-over of the D-5 Well in the SS 271 Field.

Decommissioning on several properties continued, including WC 533 and HI A-561, and well abandonments required under the United States federal "idle iron" regulations were completed at EI 32 and SS 271. Plans for the remainder of 2013 include the abandonment and reefing of the WC 593 "A" Platform and the temporary abandonment of 14 inactive wells in the VR 218 Field.

Sale of interests

Despite efforts to divest the remaining portfolio during the period under review, the Group has not attracted bids that sufficiently value the assets being sold. The Group continues to consider its options with respect to the US interests but does not consider these interests part of its core business.

Financial Review

Half Year 2013 results overview

Gulfsands made significant progress during the first half of 2013 in reducing its operating cost base resulting in a substantially lower loss for the period of $11.8 million (H1 2012: $18.1 million) and substantially lower operating cash outflow of $5.4 million (H1 2012: $8 million). This reduction in loss for the period reflects lower exploration write-offs at $3.0 million (H1 2012: $7.1 million) but also a concerted and continuing campaign to reduce general administrative expenses whilst maintaining the Group's operational capacity and, where appropriate, taking operatorship of the Group's interests. This operating strategy has been continued with Gulfsands' interests in Colombia.

During the period, Gulfsands completed its acquisition of Cabre Maroc Limited. The results of Cabre Maroc Limited have been included from 16 January 2013.

The Group continues to value its investment in its Syrian interest at $102 million.

Total cash and bank resources totalled $72.5 million at 30 June 2013 (31December 2012: $98.8 million) inclusive of $57.2 million (31 December 2012: $91.0 million) of cash and cash equivalents.

Selected operational and financial data

	30 June 2013	30 June 2012	Year ended 31 December 2012
	(Unaudited)	(Unaudited)	(Audited)
Production: NRI (boepd)	**158**	245	229
	$' 000	$' 000	$' 000
Revenue	**2,212**	2,878	5,622
Total administrative expenses	**(7,633)**	(11,024)	(18,467)
Exploration costs written off	**(3,004)**	(7,099)	(7,082)
Operating loss	**(11,482)**	(17,600)	(26,903)
Net cash used in operating activities	**(5,426)**	(7,978)	(14,178)
E&E cash expenditure including acquisition	**(21,764)**	(5,073)	(7,830)
Decommissioning cash expenditure	**(1,098)**	(586)	(1,919)
Total cash and bank resources *	**72,512**	110,104	98,819

*comprises cash and cash equivalents and restricted cash

Operating performance

Average daily NRI production from Gulfsands' interests in the US Gulf of Mexico was 158 boepd (H1 2012: 245 boepd). Average prices realised in the period for oil were $103.00 per barrel (H1 2012:$103.90) and $3.80 per mcf of gas (H1 2012: $2.90). Revenues were lower at $2.2 million (H1 2012: $2.9 million)

Additional impairment charges of $443,000 were booked to costs of sales in H1 2013 reflecting higher than estimated abandonment charges on depleted US fields. The gross loss from the US operations for 2013 was $374,000 (H1 2012: gross profit of $690,000).

Total administrative expenses decreased significantly to $7.6 million (H1 2012 $11.0 million). This decrease results from a combination of a sustained focus on cost reduction across the Group and the Group's strategy of taking operatorship of its oil and gas interests increasing the overhead attributed to capital projects.

Exploration write-offs at $3.0 million were lower (H1 2012: $7.1 million) and reflect the write off of expenditures attributed to the Kerkouane contract in Tunisia, the decision having been taken by Gulfsands not to continue its interest in the Kerkouane permit when it expires in February 2014.

The Group reported a reduced loss for the period of $11.8 million (H1 2012: $18.1 million).

Operating cash flow

Operating cash outflow substantially reduced in the period to $5.4 million (H12012: $8.0 million) largely as a consequence of cost reductions.

Capital Expenditure

Capital expenditures on exploration and evaluation assets totalled $23.2 million (H1 2012: $3.5 million) on an accrued basis including $18.9 million of fair value attributed to the Group's Moroccan interests at acquisition. The balance of additions in 2013 mainly comprise expenditures with respect to planning and implementing the Moroccan drilling programme due to commence October 2013.

Decommissioning expenditures on US properties were $1.1 million in the period (H1 2012: $0.6 million), part of an increasing programme of decommissioning activities on the US properties over the next 12 to 18 months.

Investing cash flow

Net cash used in investing activities increased to $28.4 million (H1 2012: $10.0 million) mainly reflecting the $17.0 million paid in respect of the Cabre Maroc acquisition in 2013, $5.0 million of additional letters of credit posted with the Moroccan authorities in respect of interests acquired and $4.8 million of exploration and evaluation expenditure.

Financial position

The Group had total cash and bank resources of $72.5 million (31 December 2012: $98.8 million) inclusive of cash and cash equivalents at 30 June 2013 of $57.2 million (31 December 2012: $91.0 million) of which approximately $52.5 million was held in Money Market Funds with UK financial institutions, and a further $4.3 million was held in accounts with banks in the UK and USA.

Restricted cash balances at 30 June 2013 totalled $15.3 million (31 December 2012: $7.8 million) representing funds securitised as collateral in respect of future work obligations – principally in respect of the Group's Moroccan interests. These funds will be released to the Group as work programmes are completed with $2.5 million to be repaid to Caithness Petroleum, the former parent of Cabre Maroc. Current forecasts of activity would see the majority of these bonds released in 2014 and 2015.

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

Financial strategy and outlook

The Group will continue to focus its deployment of resources on value-adding activity and reducing its overhead burden. In the short term the Group's investment focus will be on the Rharb drilling campaign in Morocco and firming up the prospectivity of its Fes (Morocco) and Chorbane (Tunisia) licence areas. The Group also anticipates further investment in its US properties to reduce its outstanding inventory of decommissioning projects and to increase the productivity of its US fields. First gas from the Rharb drilling programme, forecast for early 2014, will provide additional cash flow for the Group.

Financial risk management

Processes are in place whereby the Board monitors and challenges the risks facing the Group and the continuing effectiveness of risk mitigation strategies.

A review of the principal risks and uncertainties facing the Group as at 8 April 2013, and the steps taken to mitigate those risks and uncertainties, was included in the 2012 Annual Report and Accounts.

The Group's updated review of the principal risks facing the Group at the date of this report highlights the following areas:

- Health, safety, environment and security
- Exploration success and delivery of production in Morocco
- Prolonged delay in lifting of EU sanctions in respect of Syria
- Geopolitical instabilities in operational areas
- Availability of staff for extended areas of operation

Going concern

The Group maintains cash flow forecasts for the forward three year period which are reviewed regularly by the Board of Directors. With total cash and bank resources at the date of this report of approximately $67 million inclusive of $52 million of cash and cash equivalents, and based upon current cash flow forecasts inclusive of their best estimates of any remaining expenditure required in ceding the Group's interest in the Kerkouane permit, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period not less than12 months from the date of approval of this Half-Yearly Financial Report. Accordingly, the Directors continue to adopt the going concern basis in preparing the condensed financial statements.

Responsibility statement

The Directors confirm that to the best of their knowledge:

(a) The condensed set of financial statements has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting';
(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

The Directors of Gulfsands Petroleum plc are listed in the Group's 2012 Annual Report and Accounts. A list of the current Directors is maintained on the Gulfsands Petroleum plc website: www.gulfsands.com.

By order of the Board,

Mahdi Sajjad
Chief Executive Officer
16 September 2013

Disclaimer

This statement contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil and gas exploration and production business. Whilst the Group believes the expectations reflected herein to be reasonable in light of the information available to them at this time, the actual outcome may be materially different owing to factors beyond the Group's control or within the Group's control where, for example, the Group decides on a change of plan or strategy. Accordingly no reliance may be placed on the figures contained in such forward-looking statements.

INDEPENDENT REVIEW REPORT TO GULFSANDS PETROLEUM PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-year financial report for the six months ended 30 June 2013 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 12. We have read the other information contained in the half-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

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

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half year financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM rules of the London Stock Exchange.

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

In forming our conclusion on the condensed set of financial statements for the six month period ended 30 June 2013, which is not modified, we have considered the adequacy of the disclosures made in note 8 to the half yearly financial report concerning the carrying value of the Group’s suspended producing operations in Syria, which are recorded at the Directors’ best estimate of their fair value following the loss of joint control in December 2011. As highlighted in note 8, there is significant uncertainty as to the duration of the sanctions and the eventual outcome of events in Syria and hence whether the carrying value of $102.0 million is an appropriate estimate of the fair value of its suspended producing operations in that country.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
16 September 2013

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Notes	30 June 2013	30 June 2012	Year ended 31 December 2012
		(Unaudited)	(Unaudited)	(Audited)
		$' 000	$' 000	$' 000
Continuing operations				
Revenue	3	**2,212**	2,878	5,622
Cost of sales				
Depletion	5	**(624)**	(593)	(1,430)
Impairment	5	**(443)**	-	(568)
Other cost of sales		**(1,519)**	(1,595)	(4,944)
Total cost of sales		**(2,586)**	(2,188)	(6,942)
Gross (loss) / profit		**(374)**	690	(1,320)
General administrative expenses		**(7,212)**	(9,822)	(16,716)
Share based payments		**(421)**	(1,202)	(1,751)
Total administrative expenses		**(7,633)**	(11,024)	(18,467)
Exploration costs written off	6	**(3,004)**	(7,099)	(7,082)
Exploration costs impairment provision	6	**(471)**	(167)	(34)
Operating loss		**(11,482)**	(17,600)	(26,903)
Discount expense on decommissioning provision	10	**(250)**	(238)	(476)
Net interest income		**66**	224	375
Foreign exchange losses		**(90)**	(504)	(26)
Loss before taxation from continuing activities		**(11,756)**	(18,118)	(27,030)
Taxation		**-**	-	-
Loss for the period - attributable to owners of the Parent Company	3	**(11,756)**	(18,118)	(27,030)
Loss per share from continuing operations (cents):				
Basic	4	**(9.98)**	(15.38)	(22.94)
Diluted	4	**(9.98)**	(15.38)	(22.94)

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

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2013

	Notes	30 June 2013 (Unaudited) $' 000	31 December 2012 (Audited) $' 000
Assets			
Non-current assets			
Property, plant and equipment	5	**12,855**	13,872
Intangible assets	6	**25,323**	6,207
Long-term financial assets	7	**15,336**	7,837
Investments	8	**102,000**	102,000
		155,514	129,916
Current assets			
Inventory - materials		**3,446**	2,905
Trade and other receivables		**8,781**	8,560
Cash and cash equivalents	7	**57,176**	90,982
		69,403	102,447
Total assets		**224,917**	232,363
Liabilities			
Current liabilities			
Trade and other payables		**15,536**	11,779
Provision for decommissioning	10	**3,537**	2,352
		19,073	14,131
Non-current liabilities			
Provision for decommissioning	10	**14,256**	15,309
Total liabilities		**33,329**	29,440
Net assets		**191,588**	202,923
Equity			
Capital and reserves attributable to equity holders			
Share capital	11	**13,131**	13,131
Share premium		**105,926**	105,926
Merger reserve		**11,709**	11,709
Treasury shares		**(11,619)**	(11,619)
Retained profit		**72,441**	83,776
Total equity		**191,588**	202,923

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Share capital	Share premium	Merger reserve	Treasury shares	Retained profit	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2012	**13,131**	**105,926**	**11,709**	**(11,902)**	**109,323**	**228,187**
Options exercised	-	-	-	252	(107)	145
Purchase of own shares	-	-	-	-	(119)	(119)
Share-based payment charge	-	-	-	-	1,202	1,202
Loss for the period	-	-	-	-	(18,118)	(18,118)
At 30 June 2012	**13,131**	**105,926**	**11,709**	**(11,650)**	**92,181**	**211,297**
Options exercised	-	-	-	31	(42)	(11)
Share-based payment charge	-	-	-	-	549	549
Loss for the period	-	-	-	-	(8,912)	(8,912)
At 31 December 2012	**13,131**	**105,926**	**11,709**	**(11,619)**	**83,776**	**202,923**
Share-based payment charge	-	-	-	-	421	421
Loss for the period	-	-	-	-	(11,756)	(11,756)
At 30 June 2013	**13,131**	**105,926**	**11,709**	**(11,619)**	**72,441**	**191,588**

The Group has re-presented its Statement of Changes in Equity to include it share-based payments reserve as part of retained profits and to separate Treasury Shares from retained profit, both as permitted by IFRS.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Notes	**30 June 2013** **(Unaudited)** **$' 000**	30 June 2012 (Unaudited) $' 000	Year ended 31 December 2012 (Audited) $' 000
Cash flows from operating activities				
Operating loss		**(11,482)**	(17,600)	(26,903)
Depreciation, depletion and amortisation	5 & 6	**1,217**	1,073	2,430
Impairment charge	5	**443**	-	568
Exploration costs written off	6	**3,004**	7,099	7,082
Impairment provision on Syrian exploration activities	6	**471**	167	34
Decommissioning costs in excess of provision		**-**	-	1,104
Share-based payment charge		**421**	1,202	1,751
(Increase)/ decrease in receivables		**(219)**	452	(152)
Increase / (decrease) in payables		**743**	(91)	(441)
Net cash used in operations		**(5,402)**	(7,698)	(14,527)
Interest received		**66**	224	375
Foreign exchange losses		**(90)**	(504)	(26)
Net cash used in operating activities		**(5,426)**	(7,978)	(14,178)
Investing activities				
Acquisition of subsidiary	9	**(16,963)**	-	-
Exploration and evaluation expenditure		**(4,801)**	(5,073)	(7,830)
Oil and gas properties expenditure		**(31)**	(179)	(312)
Increase in inventory		**(541)**	(952)	(1,086)
Other capital expenditures		**(22)**	(1,058)	(1,019)
Change in restricted cash balances		**(4,999)**	129	(3,872)
Decommissioning costs paid		**(1,098)**	(586)	(1,919)
Movements in balances due to or from oil and gas partnerships		**75**	(2,301)	(3,057)
Net cash used in investing activities		**(28,380)**	(10,020)	(19,095)
Financing activities				
Cash proceeds from issue of shares		**-**	145	145
Purchase of own shares		**-**	(119)	(119)
Payments made in lieu of options exercised		**-**	-	(11)
Net cash provided by financing activities		**-**	26	15
Decrease in cash and cash equivalents		**(33,806)**	(17,972)	(33,258)
Cash and cash equivalents at beginning of period		**90,982**	124,240	124,240
Cash and cash equivalents at end of period		**57,176**	106,268	90,982

NOTES TO THE HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2013

1. General Information

This half-yearly financial report was approved by the Board of Directors and authorised for issue on 16 September 2013.

This condensed set of financial statements for the six months ended 30 June 2013 is unaudited and does not constitute statutory accounts as defined by the Companies Act.

The information for the year ended 31 December 2012 contained within the condensed financial statements does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The financial statements for the year ended 31 December 2012 have been delivered to the Registrar of Companies and the auditor's report on those financial statements was unqualified, and did not contain a statement made under Section 498 of the Companies Act 2006. The auditor's report included an emphasis of matter in respect of the fair value of the Group's suspended operations in the Syrian Arab Republic (see note 8).

2. Accounting policies

This half-yearly financial report, which includes a condensed set of financial statements of the Company and its subsidiary undertakings ("the Group") has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") including IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules of the Financial Conduct Authority in the United Kingdom as applicable to interim financial reporting except as to the required time-frame for publication of this report.

Basis of preparation

The condensed set of financial statements included in this half-yearly financial report has been prepared on a going concern basis of accounting as the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future as set out in the Financial Review section of this report.

The condensed set of financial statements have been prepared using accounting bases and policies consistent with those used in the preparation of the audited financial statements of the Group for the year ended 31 December 2012 and those to be used in the year ending 31 December 2013

Since the 2012 Annual report and accounts was published, no significant new standards and interpretations have been issued. The following new and revised standards became effective during 2013:

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IAS 19 (revised) Employee Benefits
- IFRS 7 (amended) Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 13 Fair Value Measurement

The adoption of these standards has not had a material impact on the financial statements of the Group.
In addition, the following standards, which are endorsed by the EU but are not effective until 1 January 2014 will be adopted for the period beginning 1 January 2014:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 28 (revised) Investment in Associates and Joint Ventures

The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods.

3. Segmental information

The Group currently operates in three principal geographical areas, Morocco, Tunisia and the USA with suspended operations in Syria. All segments are involved with production and exploration of oil and gas. Other represents corporate and head office costs. The Group's revenue, results and certain asset and liability information for the period are analysed by reportable segment as follows:

	Syria	Morocco	Tunisia	USA	Other	Total
	$' 000	$' 000	$' 000	$' 000	$' 000	$' 000
			Period ended 30 June 2013			
Revenues	**-**	**-**	**-**	**2,212**	**-**	**2,212**
Operating loss	**(1,357)**	**(70)**	**(3,267)**	**(1,154)**	**(5,634)**	**(11,482)**
Finance items						**(274)**
Net loss for the period						**(11,756)**
G&A expenditure	**(1,007)**	**(70)**	**(263)**	**(662)**	**(5,210)**	**(7,212)**
Total assets	**107,784**	**25,662**	**2,811**	**16,548**	**72,112**	**224,917**
Total liabilities	**(9,363)**	**(4,333)**	**(1,081)**	**(16,995)**	**(1,557)**	**(33,329)**
Capital expenditure:						
Exploration and evaluation	**471**	**21,780**	**901**	**-**	**-**	**23,152**
Oil and gas properties	**-**	**-**	**-**	**232**	**-**	**232**
Exploration costs written off	**-**	**-**	**(3,004)**	**-**	**-**	**(3,004)**
			Period ended 30 June 2012			
Revenues	-	-	-	2,878	-	2,878
Operating loss	(3,067)	-	(7,128)	(587)	(6,818)	(17,600)
Finance items						(518)
Net loss for the period						(18,118)
G&A expenditure	(2,078)	-	-	(1,277)	(6,467)	(9,822)
Total assets	107,649	-	3,098	18,403	111,915	241,065
Total liabilities	(9,093)	-	(2,250)	(16,429)	(1,996)	(29,768)
Capital expenditure:						
Exploration and evaluation	167	-	3,328	-	-	3,495
Oil and gas properties	-	-	-	174	-	174
Exploration costs written off	-	-	(7,099)	-	-	(7,099)
			Year ended 31 December 2012			
Revenues	-	-	-	5,622	-	5,622
Operating loss	(4,812)	-	(7,471)	(1,758)	(12,862)	(26,903)
Finance items						(127)
Net loss for the period						(27,030)
G&A expenditure	(3,078)	-	-	(1,717)	(11,921)	(16,716)
Total assets	108,005	-	5,497	17,406	101,455	232,363
Total liabilities	(8,753)	-	(2,095)	(17,259)	(1,333)	(29,440)
Capital expenditure:						
Exploration and evaluation	17	-	5,026	-	-	5,043
Oil and gas properties	-	-	-	1,461	-	1,461
Exploration costs written off	17	-	(7,099)	-	-	(7,082)

4. Loss per share

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

	6 months ended 30 June 2013	6 months ended 30 June 2012	Year ended 31 December 2012
Weighted average number of ordinary shares	117,844,680	117,817,500	117,827,099
Options	417,196	368,956	375,505
Weighted average number of diluted shares	118,261,876	118,186,456	118,202,604

The calculation of basic loss per share is based on the loss attributable to equity shareholders of $11.8 million (H1 2012: $18.1 million loss) and the weighted average number of ordinary shares in issue during the period. The diluted earnings per share is calculated using the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares. Where earnings are negative the impact of share options is anti-dilutive and hence, basic and diluted loss per share from continuing operations are the same.

5. Property, plant and equipment

	Oil and gas properties	Other fixed assets	Total
	$' 000	$' 000	$' 000
Cost:			
At 1 January 2013	34,799	2,397	37,196
Additions	232	26	258
At 30 June 2013	35,031	2,423	37,454
Accumulated depreciation and depletion:			
At 1 January 2013	(17,351)	(1,691)	(19,042)
Charge for the period	(624)	(208)	(832)
At 30 June 2013	(17,975)	(1,899)	(19,874)
Accumulated impairment:			
At 1 January 2013	(4,282)	-	(4,282)
Impairment charge for the period	(443)	-	(443)
At 30 June 2013	(4,725)	-	(4,725)
Net book value at 30 June 2013	**12,331**	**524**	**12,855**
Net book value at 31 December 2012	13,166	706	13,872

The impairment charge for the period relates to provisions against the Group's carrying values of its Gulf of Mexico properties following a review of decommissioning expenses at 30 June 2013.

6. Intangible assets

	Exploration and evaluation assets	Computer software	Total
	$' 000	$' 000	$' 000
Cost:			
At 1 January 2013	14,827	2,537	17,364
Additions	23,152	(176)	22,976
Exploration expenditure written off	(3,004)	-	(3,004)
At 30 June 2013	34,975	2,361	37,336
Accumulated amortisation:			
At 1 January 2013	-	(1,126)	(1,126)
Charge for the period	-	(385)	(385)
At 30 June 2013	-	(1,511)	(1,511)
Accumulated impairment:			
At 1 January 2013	(10,031)	-	(10,031)
Impairment provision for the period	(471)	-	(471)
At 30 June 2013	(10,502)	-	(10,502)
Net book value at 30 June 2013	**24,473**	**850**	**25,323**
Net book value at 31 December 2012	4,796	1,411	6,207

The exploration expenditure written off in the period is in respect of the Group's interest in the Kerkouane permit the Group having decided not to continue its interest in the permit when it expires in February 2014.

The impairment provision for the period relates to adjustments to costs attributed to the Group's E&E assets in Syria which were fully impaired in 2011 following the imposition of EU sanctions.

7. Cash and cash equivalents

	30 June 2013	31 December 2012
	$' 000	$' 000
Cash at bank and in hand	**57,176**	90,982
Restricted cash balances	**15,336**	7,837
Total cash and bank resources	**72,512**	98,819
Less: included in long-term financial assets	**(15,336)**	(7,837)
Total cash and cash equivalents	**57,176**	90,982

$52.5 million of cash held at 30 June 2013 was held in Money Market Funds holding a diverse portfolio of short-term financial instruments rated A1 or better. $0.6 million was held in banks in the USA and $3.7 million was held in banks in the United Kingdom. $2.6 million of the restricted cash was held in escrow accounts in the USA and $10 million of the restricted cash balances were held by banks in the United Kingdom.

8. Investments

The Group is party to a PSC for the exploitation of hydrocarbon production in Block 26 in Syria. Pursuant to the PSC the Group operates its Syrian oil and gas production assets through a joint venture administered by Dijla Petroleum Company ("DPC") in which the Group has a 25% equity interest. The Group lost control of DPC on 1 December 2011 following the publication of European Union Council Decision 2011/782/CFSP. For the purposes of EU sanctions, DPC is considered to be controlled by General Petroleum Corporation.Since the Group has neither joint control nor significant influence over the financial and operating policy decisions of the entity, it carries its investment in DPC and the associated rights under the Block 26 PSC as an available-for-sale financial asset The fair value attributed to DPC at 30 June 2013 is $102 million (31 December 2012: $102 million).

The basis of calculation of the fair value of the investment in DPC continues to be the estimated future cash flows that could be generated in respect of the Group's entitlement reserves in Block 26, using a long-term Brent oil price assumption of $90/bbl, discounted at a rate of 15% per annum. The resulting net present value is further reduced to reflect the Board's view of the specific risks associated with investments in the Syrian oil and gas sector at the current time. Such risks include potential delay in resumption of oil production and in receipt of revenues from Block 26, potential additional costs associated with re-commencement of operations and the potential inability to resume operations in Block 26. The impact of this risking methodology has been to reduce the valuation of the asset by 80%. The valuation represents a level 3 measurement basis as defined by IFRS 7.

There is a high degree of subjectivity inherent in the valuation due to the unknown duration of the sanctions and the eventual outcome of events in Syria. Accordingly it may change materially in future periods depending on a wide range of factors. The following table sets out the impact that changes in the key variables would have on the carrying value of the asset:

	Change	Change in carrying value of investment $'000
Increase in forecast capital expenditure	5%	(1,677)
Decrease in long-term commodity prices	5%	(4,627)
Increase in forecast operating expenditure	5%	(785)
Change in discount rate to 10%	5%	33,117
Change in discount rate to 20%	5%	(22,499)
Change in the Syrian oil and gas sector risk	10%	(51,000)

The Directors have reviewed the carrying value of this available-for-sale financial asset at 30 June 2013 and are of the opinion that the valuation, although subject to significant uncertainty, is appropriate. The valuation methodology reflects the difficulty of predicting the timing of future activities in Syria, taking into consideration the current exceptional circumstances in the country and is not necessarily reflective of the value of the Group's investments in its Syrian operations over the long term.

The Directors considered the fair values of the Group's financial assets and liabilities at 30 June 2013 to be materially the same as their book values.

9. Business combination

The acquisition of 100% of the issued share capital of Cabre Maroc Limited ("Cabre Maroc") was completed on 16 January 2013 and the results from operations of that Company included in the Group results from that date.

Cabre Maroc 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 in this Report. The purchase of Cabre Maroc delivers to Gulfsands a large, contiguous and highly prospective acreage in an area with proven petroleum systems, revenues from near term production and multiple drilling targets.

The provisional fair values attributed to the Cabre Maroc interest acquired and which are recognised in the Group financial statements are:

	30 June 2013 (Unaudited)
	$'000
Financial assets	2,845
Inventory	541
Intangible exploration & evaluation assets	18,920
Financial liabilities	(4,254)
Decommissioning provisions	(779)
Total identifiable assets	17,273
Goodwill	-
Total consideration	17,273
Satisfied by:	
Cash	17,273
Total consideration transferred	17,273
Net cash outflow arising on acquisition	
Cash consideration	17,273
Less: cash consideration paid in 2012	(100)
Less: cash and cash equivalents acquired	(210)
	16,963

Final assessment of the fair values acquired will be made in the Group's 2013 Annual Report and Accounts.

The contribution of Cabre Maroc to Loss for the period since the date of acquisition was $0.1 million and capital expenditures in that period totalled $2.9 million.

10. Provision for decommissioning

The provision for decommissioning relates to the expected future costs of plugging and abandoning the oil and gas properties held by Gulfsands Petroleum Tunisia Limited, Gulfsands Petroleum USA, Inc and Cabre Maroc Limited. At 30 June 2013 the oil and gas properties have estimated plugging and abandonment dates up to 2027. The portion of the provision for decommissioning expected to be settled within a year totalling approximately $3.5 million is included in current liabilities and the remainder totalling approximately $14.3 million is included in non-current liabilities in the condensed consolidated balance sheet at 30 June 2013.

	30 June 2013 (Unaudited)
	$' 000
At 1 January 2012	16,883
Changes in estimates	1,117
Costs in excess of provision	1,104
Decommissioning expenses	(1,919)
Discount expense	476
At 31 December 2012	17,661
Current portion	2,352
Non-current portion	15,309
At 1 January 2013	17,661
Changes in estimates	201
Provision assumed in business combination	779
Decommissioning expenses	(1,098)
Discount expense	250
At 30 June 2013	17,793
Current portion	3,537
Non-current portion	14,256

11. Share Capital

	30 June 2013	31 December 2012
	Number	Number
Authorised:		
Ordinary shares of 5.714 pence each	**175,000,000**	175,000,000

	30 June 2013	31 December 2012
	$' 000	$' 000
Allotted, called up and fully paid:		
121,989,500 (2012: 121,989,500) ordinary shares of 5.714 pence each	**13,131**	13,131

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

	Number of ordinary shares	Number of share options	Number of restricted shares	Weighted average price of options £
At 31 December 2012	121,989,500	7,436,000	446,139	2.18
Restricted shares cash settled	-	-	(2,500)	
Share options lapsed	-	(5,330,000)	-	2.02
At 30 June 2013	121,989,500	2,106,000	443,639	2.58

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

12. Post Balance Sheet event

On 4 July 2013 a contract was signed with COFOR SAS in respect of drilling rig services for 5 wells in the initial phase of the drilling programme on the Rharb permit in Morocco and 4 wells in the second phase. The estimated value of the contract is $7.8 million.