Gulfsands Petroleum plc

Half-Yearly Financial Report

SIX MONTHS TO 30 JUNE 2011

Unaudited

HIGHLIGHTS

Operations

- Average Group working interest production 10,923 boepd vs. 9,689 boepd in H1 2010
- Syrian working interest production in August averaged 12,050 bopd vs. 10,300 bopd in January
- 4 exploration wells drilled in Syria with 2 discoveries
- 2 development wells successfully drilled : KHE-19H produced a record 5,516 bopd on test

Financial

- Revenue up by 53% to $78.6 million (H1 2010: $51.4 million)
- Profit after tax up by 87% to $31.2 million (H1 2010: $16.7 million)
- Net Cash from Operating Activities up by 103% to $56.6 million (H1 2010: $27.9 million)
- Third tranche of US assets sold post 30 June realising $10.7 million
- Net free cash at 30 June of $123.1 million (31 Dec 2010 : $80.6 million)

Outlook

- 3 more exploration wells to be drilled before year-end : 2 in Syria and 1 in Tunisia (underway)
- Gulfsands pre-qualified to participate in upcoming bid round for 12 exploration blocks in Iraq
- Uncertainty exists as to the production outlook for the remainder of the year as the Syrian government adapts to the sanctions imposed by the US and EU

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These half-year results, together with a copy of the presentation to be given to analysts at 10am today, will be available on the Gulfsands' website: www.gulfsands.com thereafter.

CHAIRMAN'S STATEMENT

Dear Shareholder,

The first six months of 2011 was a period of considerable operational and financial achievement for Gulfsands Petroleum. As described in the Chief Executive's report, we raised our working interest production, made a commercial discovery in the Khurbet East Butmah reservoir, and we increased both our profitability and our free cash flow substantially. Nor has the momentum abated since 30 June with a further discovery of oil at Yousefieh East.

Our strong financial position is a matter of particular significance at this critical juncture in the Company's affairs. As approved by shareholders at the 15 September Extraordinary General Meeting, some of our free cash will now be put to good use buying-in shares at the substantial discount to net asset value represented by the current market price. We will, nonetheless, be sure to retain cash reserves adequate to weather the continuing period of political uncertainty in Syria and to continue to pursue attractive exploration and production opportunities elsewhere.

Clearly, the continuing political uncertainty in Syria has been the dominant feature of the past few months, at least insofar as media and investor perception of the Company is concerned, and it is appropriate that I offer a few comments on the situation.

First, I wish to emphasise that your Board attaches the highest possible importance to compliance with all applicable sanctions, both those imposed by the European Union and those imposed by the United States. Appropriate legal advice has been taken and is refreshed regularly. For the reasons set out in the Financial Review your Board is satisfied that the Group complies and will continue to comply with all sanctions in force as of the date of writing. It is not appropriate to speculate about further sanctions that may from time to time be imposed on Syria but you may be assured that, in such eventuality, the Board will take whatever steps may be necessary to continue to ensure compliance.

Secondly, as I have said before, we are an exploration and production company pure and simple. We have no political agenda and we owe no political allegiance. Like any company operating in foreign jurisdictions, we do of necessity interact with the governments, bureaucracies and state oil companies of the countries in which we do business. We do so in full compliance with all relevant laws and regulations, including those of the host countries and the United Kingdom and, as applicable, those of the European Union and the United States. We seek to honour both the letter and spirit of our contractual obligations and to be good corporate citizens of all those countries in which we have a presence. We maintain this approach through good times and bad. We know of no other way to discharge our responsibilities, as Directors and management, to our shareholders and our other key constituencies.

Thirdly, the Board is acutely conscious of its obligations and duties of care to its employees, irrespective of their nationality or place of employment. We monitor the safety and security of our employees on a real-time basis and take all reasonable precautions to ensure their safety and well-being. As of the date of writing, we are not aware that any of our employees located in Syria has been subjected to any harassment or other physical danger as a result of the prevailing political situation.

It is not for me to make predictions about the future. The Middle East is an area of notorious volatility and uncertainty. Events will take their course and the laws of unexpected consequences will no doubt prevail. This is a simple fact of life of being in the oil and gas business in the region and shareholders must make their own assessment. However, that assessment may be facilitated by a few contextual facts.

Syria produces approximately 380,000 barrels of oil per day ("bopd"), of which the Khurbet East and Yousefieh Fields account for approximately 24,000 bopd (or approximately 6%) at full production. Syria exports approximately 150,000 bopd. In the context of overall worldwide oil and gas production and demand, these are modest quantities. While Syria has hitherto exported predominantly to EU markets – and is therefore inevitably suffering some short term disruption to its export patterns by virtue of the EU sanctions – the ability of non-EU markets to absorb the export volume so displaced cannot be in any serious doubt.

Accordingly, while we have realistically to expect and are indeed at the time of writing experiencing some short term fluctuation in the level of daily production from the Khurbet East and Yousefieh Fields, as the Syrian oil transportation and storage infrastructure adapts itself to the disruption of its traditional export profile, on the basis of circumstances prevailing and known to us at the time of writing we do not believe the impact on the Group will be other than relatively modest and short term.

In conclusion, I would like to thank my Board and management colleagues and all the Company's staff for a sterling effort throughout such a difficult period. It is my hope that when I next write to you, at the time of our 31 December 2011 full year results if not sooner, some of the present uncertainties may have resolved themselves.

Yours sincerely,

Andrew West
Chairman
16 September 2011

CHIEF EXECUTIVE'S STATEMENT

The Group has delivered a strong performance in the first half of 2011 with Group working interest production averaging 10,923 barrels of oil equivalent per day (boepd). This performance together with a strong commodity price environment is reflected in a pleasing financial result with revenues up by 53% to $78.6 million and profit after tax increasing to $31.2 million, an 87% increase compared to the first half of 2010.

In Syria, combined production from the Khurbet East and Yousefieh oil fields reached working interest net production of 8.2 million barrels of oil (mmbo) at the end of June and working interest production rate of approximately 12,000 barrels of oil a day (bopd) was reached in early August, achieving the Company's year-end production target some four months ahead of schedule. To date all oil sales invoices have been paid in full. Both fields continue to perform extremely well with minimal pressure decline and water production of less than 1%. Development drilling of two wells, one at Khurbet East (KHE-19H) and one at Yousefieh (Yous-7) were successfully completed, the former being the most productive well yet drilled in Block 26, producing on test at a rate of 5,516 bopd.

Four of six exploration wells planned in Syria for 2011 have now been drilled, two of which have discovered potentially commercial volumes of hydrocarbons. The well KHE-101 discovered a gross oil column of 69 metres, interpreted to be an oil-leg to a gas column previously discovered in KHE-1 in the Triassic Butmah Formation. The well flowed 447 bopd of 34 degree API oil on test, but is interpreted to be capable of production rates over 1,000 bopd. Based on information available to date, in-house estimated P50 working interest reserves are approximately 9.6 million boe, which is above and beyond the Group's existing reserves of 56.9 mmboe as at 31 December 2010. A plan to develop the oil and gas discovered in the Butmah Formation at Khurbet East has been submitted to the Syrian authorities for approval. A net oil column of approximately 13 metres was discovered at Yousefieh East, with interpretation of pressure data indicating the oil to be an extension of the existing field. The well will be tied back as a future producer to the Yousefieh Early Production Facility.

Preliminary work on the Central Production Facility is in progress with Saipem, but civil unrest and recent events in Syria have resulted in delays to the original schedule for construction, commissioning of the project is now expected to be in the second quarter of 2013. As a consequence of this delay and as a result of modifications to the original scope of the project, costs are estimated at around €130 million compared to the original contract price of €94 million.

Exploration activities have finally resumed in Tunisia with the drilling of Sidi Dhaher, an onshore prospect with multi-targets with both gas and oil objectives. The area has several producing oil fields nearby and extensive oil and gas infrastructure. In the event of a commercial discovery, Gulfsands has an option to assume operatorship. In the offshore Kerkouane block studies continue with a view to assessing the commerciality of a potential gas development at Dougga and Lambouka. Work is also progressing on maturing leads at the Birsa formation and around the Kerkouane-1 well, which discovered gas in 1981, to drillable status.

Divestment of assets held in the US has continued with an agreement in August to sell a package of assets for $6 million, removing a significant forward abandonment liability and releasing cash held in escrow of $4.7 million. The intention is to divest the remaining assets by year end.

In Iraq, Gulfsands has successfully pre-qualified to participate in an upcoming bid round for twelve exploration blocks, currently scheduled to take place in January 2012.

Syrian Risk

Some considerable uncertainty now exists in Syria as to how events will unfold over the coming weeks and months with respect to the current civil unrest and the impact of US and EU sanctions on the oil industry. The associated risks confronting Gulfsands are discussed in some detail in the Financial Review section of this report. Gulfsands will continue to comply fully with all applicable regulations and continue to ensure the safety and well being of its employees in Syria, the vast majority of whom are Syrian nationals.

Outlook

Uncertainty now exists as to the production outlook for the remainder of the year as a result of sanctions imposed by the US and the EU. Our Syrian operating company, Dijla Petroleum Company ("DPC"), was directed on 8 September 2011 by the Syrian authorities to reduce gross production from 24,000 bopd and is currently producing at approximately 14,500 bopd. It was emphasised that this was expected to be a temporary arrangement necessary until arrangements are in place for alternative export markets.

We remain focused on our target to pursue new venture opportunities in the region and to discovering 30 million barrels of net reserves in the near term, part of which has been achieved with the two discoveries made so far this year. Subject to events in Syria, we remain on track to drill seven exploration wells, one appraisal well and four development wells this year and plan next year to drill a further four exploration wells and seven development wells.

We also intend to pursue further growth by commercialising our discovered in-place oil and gas volumes of 61.9 million boe. This includes gas resources in the Butmah and Kurrachine Dolomite within the Khurbet East field area, and in offshore Tunisia, where studies are in progress to determine the commerciality of gas accumulations encountered in the Dougga and Lambouka structures.

The Group remains in a very robust position with cash resources in excess of $130 million that are predominantly held outside of Syria, giving us the capability to withstand a prolonged period of economic disruption in Syria, should such a circumstance arise.

Richard Malcolm
Chief Executive Officer
16 September 2011

Operations Review

Production and sales prices (excluding NGLs)

	Working interest production		Entitlement production		Average sales price		Premium / (discount) to Brent	Premium / (discount) to Henry Hub
	Oil	Gas	Oil	Gas	Oil	Gas		
	bopd	mcf/d	bopd	mcf/d	US$/bbl	US$/mcf	US$/bbl	US$/mcf
Six months ended 30 June 2011								
Syria	**10,355**	**-**	**4,038**	**-**	**100.0**	**-**	**(11.2)**	**N/A**
USA	**296**	**1,364**	**237**	**1,073**	**100.7**	**4.4**	**(10.5)**	**0.2**
Total	**10,651**	**1,364**	**4,272**	**1,073**				
Six months ended 30 June 2010								
Syria	8,412	-	3,264	-	71.5	-	(5.8)	N/A
USA	514	4,231	397	3,267	75.1	5.9	(2.3)	1.1
Total	5,588	3,193	3,391	2,504				
Year ended 31 December 2010								
Syria	9,165	-	3,636	-	74.6	-	(4.9)	N/A
USA	479	3,613	379	2,727	76.5	5.1	(2.9)	0.8
Total	9,644	3,613	4,015	2,727				

Syria

Operations at Block 26 have continued uninterrupted throughout the year to date, and no disturbances have been experienced at the site despite the unrest in many other parts of the country. The protection and safety of our employees in Syria remains as our highest priority and we will do our utmost to ensure that this remains, no matter how political events unfold in the country.

Development

Gross production from Block 26 increased from approximately 20,600 bopd in January 2011 to 24,100 bopd in August (approximately 21,500 bopd from Khurbet East and 2,600 bopd from Yousefieh), as a result of the tie-in of the KHE-19 production well on Khurbet East and the commissioning of additional capacity at the early production facility, both in August. Gulfsands' share of Block 26 production (50% working interest) averaged 10,355 bopd in H1 2011 compared with 8,412 bopd in H1 2010, an increase of 23%. Water production from both fields continues to be negligible, and Khurbet East continues to demonstrate the presence of a strong aquifer, providing the energy required to maintain production levels.

Two development wells have been drilled since the start of the year: KHE-19 on Khurbet East and Yous-7 on Yousefieh. KHE-19 was first drilled as a vertical well but only encountered a small oil column and was subsequently side-tracked horizontally to the KHE-19H location where it subsequently flowed oil on test at 5,516 bopd, which is the highest daily rate yet encountered within the Khurbet East field area. Yous-7, the northernmost well on the field, tested at 528 bopd, but will require artificial lift facilities to produce at this rate on a continuous basis. Two further development wells are planned for the remainder of the year, one on each field.

The project to construct a Central Production Facility (CPF) has been adversely affected by recent events in Syria, causing delays to the original schedule and cost escalations. Extensive negotiations have taken place with the lead contractor Saipem, and whilst these have not been finally concluded Gulfsands' current estimate is that the final cost of the project will be around €130 million ($185 million) and that the plant will not be operational until Q2 2013. This revised cost estimate includes power generation facilities which are additional to the original project scope. When completed the CPF will be capable of processing 50,000 barrels of fluid per day.

Exploration and Appraisal

A total of four exploration wells have been drilled in 2011 to date, and three more are planned before year-end, one of which is currently being drilled.

The Abu Ghazal exploration well, spudded in January and targeting multiple Cretaceous and Triassic objectives, encountered hydrocarbon columns in the Triassic aged Butmah and Kurrachine formations but only recovered small sub- commercial quantities of viscous heavy oil.

Conversely, the KHE-101 appraisal well, drilled at the same time as Abu Ghazal and targeting the Triassic aged Butmah and Kurrachine formations beneath the Khurbet East field that had been encountered in the original KHE-1 discovery well, did find commercial hydrocarbons. A drill stem test achieved a stabilized flow rate of 447 bopd of 34° API oil plus associated gas from the Butmah reservoir. After extensive in-house analysis, the Khurbet East Butmah reservoir has now been determined to contain potentially commercial oil and gas working interest P50 reserves of 9.6 mmboe (working interest). An application for commercial development has been submitted to the Syrian authorities and it is anticipated that approval will be granted within the next few months. Subject to approval being received in sufficient time an appraisal well (KHE-102) will be drilled on the northern flank before the end of the year.

The Safa exploration well, spudded in July to target a Cretaceous age prospect on trend with the Khurbet East field, encountered non-commercial heavy oil and has been plugged and abandoned.

The Yousefieh East exploration well which was spudded on 20 July 2011, on the other hand, did encounter a commercial oil column of 12.8 metres net, which produced approximately 250 bopd of 20° API oil on test with no associated water, and is interpreted to represent an eastern flank extension of the Yousefieh field. It is likely to require acid stimulation and the installation of artificial lift facilities in order to be placed on production.

Encouraged by the success of Yousefieh East, the Al Khair prospect is planned to be drilled before year-end targeting the same reservoir as at Yousefieh East but in an up-dip stratigraphic trap approximately 3 km to the south-east.

The Wardieh exploration well, targeting a new Cretaceous age exploration play to the south of the SPC-operated Soudieh field, was spudded at the end of August and results are likely to be available in October.

The 3D seismic data acquired last year over a 1060 km² area has been processed and is undergoing interpretation. A further 250 km² of 3D data is to be acquired around the Maghlouja prospect: acquisition is due to commence imminently and should be completed by year-end.

Tunisia

The Sidi Dhaher well on the onshore Chorbane block (Gulfsands interest 40%) was finally spudded at the end of August, having been delayed by more than six months by logistical and supply issues that arose in the aftermath of the Tunisian revolution. The well is expected to take around 33 days to drill. Gulfsands will pay 80% of the well costs up to a cap of $5 million. For well costs in excess of the cap, Gulfsands will pay its 40% working interest share.

On the offshore Kerkouane Block (Gulfsands interest 30%), preliminary economic studies as well as discussions with the local authorities are ongoing regarding the potential commercial development of the Dougga Gas Field. In addition, two exploration leads within the block are being matured to drillable prospectus status. The first is the North Dougga Lead, which is a four way dip closure covered by recent vintage 3D seismic data. The second involves the Kerkouane structure, where we recently acquired additional 2D seismic data by taking advantage of a vessel that was acquiring data in an adjacent block.

USA: Gulf of Mexico

Working interest production in H1 2011 was 568 boepd, of which 341 boepd was oil and natural gas liquids ("NGLs") and the rest gas. Working interest production in the corresponding period of 2010 was 1,277 boepd. The sale of a package of assets announced in December 2010 reduced production by approximately 195 boepd. Adjusting for these asset disposals the net working interest production declined by approximately 48% due to operational outages and natural decline.

The sale of a further package of assets for US$6.0 million was agreed at the end of August and is expected to close at the end of September. An additional $4.7 million of cash collateral backing abandonment bonds is expected to be released as a result of the sale. Negotiations are under way with the aim of selling all the remaining assets by the end of the year.

Financial Review

Key performance indicators

		Six months ended 30 June 2011	Six months ended 30 June 2010 (restated)	Increase / (decrease) from H1 2010 to H1 2011	Year ended 31 December 2010
Financial KPIs					
Working interest production	mmboe	2.0	1.8	10%	3.8
Production cost per barrel (working interest)	$/bbl	3.4	4.5	(25)%	4.7
Cash flow available for exploration	$mm	55.7	21.3	160%	47.7
Diluted earnings per share	US cents	25.0	13.5	85%	35.9
Underlying reserves growth	%	n/a	n/a	n/a	20%
Non-financial KPIs					
Lost time incidents	Number	None	None	n/a	None

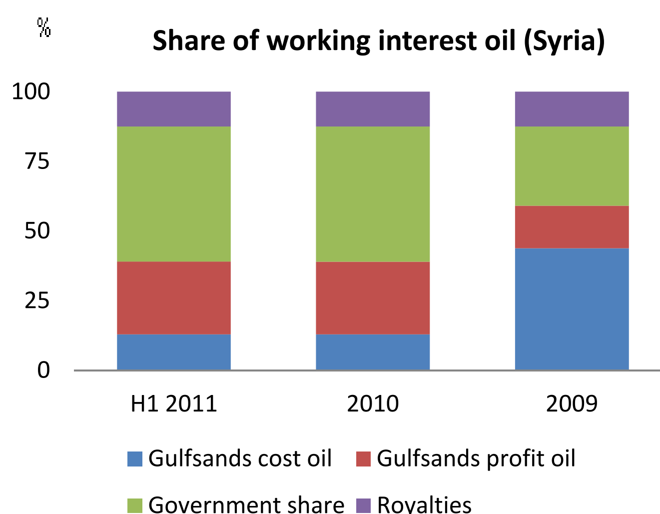
Selected Financial Data

	Six months ended 30 June 2011	Six months ended 30 June 2010	Year ended 31 December 2010
	Mmboe	mmboe	Mmboe
Production: working interest	**2.0**	1.8	3.8
Production: entitlement interest	**0.8**	0.8	1.7
	US$MM	US$MM	US$MM
Revenue	**78.6**	51.4	115.6
Gross profit	**63.1**	31.9	76.8
Operating profit	**31.6**	17.3	45.5
Net profit after tax	**31.2**	16.7	44.7
Net cash provided by operating activities	**56.6**	27.9	70.2
Capital expenditure	**(24.1)**	(17.9)	(43.4)
Decommissioning costs (net of escrow cash released)	**4.8**	(1.1)	(4.7)
Cash balance	**123.1**	68.6	80.6

The H1 10 results have been restated to reflect the change of accounting policy to the successful efforts method made in the financial statements for the year end 31 December 2010. These adjustments are more fully described in note 11 to the Half-Yearly Financial Report.

Revenue and Profit

Revenues grew by 53% to $78.6 million (H1 10: $51.4 million), primarily as a result of increases in underlying oil and gas prices. Average working interest production in H1 11 was 10,923 boepd (10,355 bopd from Syria, 568 boepd from the US, including NGLs) compared with 9,632 boepd in H1 10 (8,412 bopd from Syria and 1,277 boepd from the US). Group entitlement production was 4,489 boepd, an increase of 6% over that in H1 10 (4,250 boepd). The entitlement production as a percentage of working interest production in Syria remained constant at 39% as the Group has now recovered all historic costs associated with the initial exploration phase of the Block 26 Production Sharing Agreement. All production was sold in the period.



The average realised price during the period was $100.0/bbl for oil sales and $4.4/mcf for gas. Syrian oil production realised an average price of $100.0/bbl, representing an $11.2/bbl discount to average Brent. US oil sales yielded an average price of $100.7/bbl, a $2.7/bbl premium to the average WTI price of $98.0/bbl. US gas sales realised a small premium of $0.1/mcf to the average Henry Hub price of $4.3/mcf.

Excluding depletion and impairment charges, cost of sales decreased from $8.3 million in H1 10 to $7.0 million. The total production cost, excluding decommissioning costs, fell to $3.4/boe from $4.5/boe in H1 10 on a working interest basis, largely owing to the lower proportion of US production. The production cost in Syria on the same basis was $1.6/bbl (H1 10: $1.7/bbl). Depletion charges increased to $8.5 million (H1 10: $7.6 million): the unit depletion charge per boe on an entitlement interest basis increased slightly to $10.4/boe (H1 2010 $9.6/boe). Gross profit amounted to $63.1 million, almost double the gross profit of $33.0 million in H1 10.

General administrative expenses were down marginally at $11.8 million compared to $11.9 million in H1 10.

Exploration costs of $19.0 million were written off during the period in respect of the Lambouka well, offshore Tunisia ($13.8 million) and Abu Ghazal in Syria ($5.2 million), in accordance with the Group's successful efforts accounting policy. Although gas has been discovered at Lambouka-1, uncertainty remains as to the nature of this gas and the viability of its commercialisation, in addition to which the

majority of the bore-hole is deemed to be unusable for future operations. The Group continues to carry the costs of the Khurbet East-101 well in exploration and evaluation assets pending the confirmation of commerciality by the Syrian government. The Twaiba-1 well is also included in exploration and evaluation assets pending further work which is expected to be completed during H2 2011.

The operating profit for the period was $31.6 million compared with $17.3 million in H1 10. Syria made an operating profit of $53.9 million (H1 10: $26.5 million), Tunisia lost $13.8 million (H1 10: loss of $0.2 million), the US made a loss of $1.8 million (H1 10: loss of $2.4 million), and general Group expenses were unchanged at $6.7 million.

Financial Position and Cash Flow

Net cash generated by operations was $56.4 million compared with $27.4 million in H1 10. The increase in cash generated was driven principally by higher oil prices. Working capital balances increased by approximately $5.0 million due primarily to the timing of the invoicing and payments on the contract for the construction of the Block 26 central production facility. After interest and tax, the net cash from operating activities amounted to $56.6 million (H1 10: $27.9 million).

Capital expenditure was $24.1 million (H1 10: $17.9 million) of which $21.8 million was in Syria, $1.5 million was in Tunisia and other capital expenditure was $0.8 million. $14.0 million out of the total capital expenditure was on exploration. In the US sales proceeds of $4.5 million were received following the sale of properties and decommissioning payments of $1.3 million (H1 10: $1.1 million) were made. Restricted cash balances were reduced by approximately $6.1 million following the release of certain bonds for decommissioning liabilities on the properties sold in the US.

The Group received $0.9 million as a result of the exercise of options during the period (H1 10: $2.0 million) and paid $0.2 million to cash-settle certain restricted share awards. Overall the Group increased its cash balances over the period by $42.5 million (H1 10: $10.9 million), leaving cash balances at 30 June 2011 of $123.1 million (excluding $9.1 million of cash held in escrow accounts). The cash held at 31 December 2010 was $80.6 million (excluding $15.2 million of cash held in escrow accounts). The Group has no outstanding debt.

Risks and uncertainties

A full review of the principal risks and uncertainties facing the Group as at 1 April 2011, and the steps taken to mitigate those risks and uncertainties, was included in the 2010 Annual Report and Accounts.

The principal risks and uncertainties noted therein comprised the following:

External risks
Political interference
Civil unrest
Act of war or terrorism
Price and currency movements
Natural disaster

Operational risks
Oilfield accident
Central Production Facility
Exploration failure
Partner approval
Equipment availability

Financial risks
Cost control
Liquidity and funding

Other risks
Retention of key staff
Fraud and corruption

Since that time the situation in Syria has deteriorated significantly with continuing widespread civil unrest and ongoing action by the military. This creates potential material risks for Gulfsands personnel (and the personnel of our contractors), for the continuity of operations and ultimately for the value of the business as a whole were the current government to change and be replaced by one less favourably disposed to foreign oil companies and unwilling to continue to honour its contractual obligations.

The imposition of sanctions by the USA and the European Union ("EU") against certain Syrian individuals and entities, coupled with the recent US and EU embargos on purchasing, transporting or trading in Syrian crude oil or petroleum products, also gives rise to potentially material risks. As these sanctions have only been imposed recently there is still significant uncertainty as to their potential impact on the legal and commercial arrangements of the Group, from both an international (i.e. EU/US) and local Syrian perspective. There is also a risk that additional, more punitive, sanctions are imposed in the future. We continue to monitor the situation and liaise closely with our legal advisors and, while we have summarised below our understanding of the impact of the current sanctions regime, the range of potential outcomes is quite wide and could have a significant effect on the Group.

The Group disclosed publicly in August 2011 the extent of its relationships with Mr. Rami Makhlouf, one of the individuals named in both the US and the EU sanctions, and corporate entities connected with him and his family, and confirmed that it was fully compliant with all sanctions having suspended all payments under the relevant commercial agreements. This remains the case at the date of this report and we will continue to take steps to remain compliant in future periods.

The Group's crude oil production is sold within Syria to the General Petroleum Corporation (GPC): we play no part in the export of crude from the country and have no knowledge as to whether any of our production is ultimately exported. The Directors have taken legal advice on the effect of the sanctions upon the Group's activities and while some aspects of the legislation are not clearly worded the Directors are satisfied the Company continues to be compliant with applicable sanctions. The Directors will continue to monitor and take advice on any additional sanctions that may be promulgated.

In any event, GPC's ability to continue to pay foreign oil companies for their share of production under production sharing contracts will depend on Syria's ability to find alternative purchasers for its crude exports, which have hitherto been predominantly purchased by EU buyers. Gulfsands, along with other producers in Syria, has had to reduce production in September owing to the lack of sufficient crude storage capacity in the country as a result of the cessation of exports to the EU. Previous production levels are unlikely to be restored unless and until Syria secures alternative export routes for its crude.

The Group has recently encountered reluctance among some banks in the EU to process Euro payments emanating from, or going to, Syria for internal policy reasons, resulting in a ten day delay in the receipt of payment from GPC for its most recent oil sales invoice. The Group has historically been paid for its oil in Euros, which it generally sells for US dollars upon receipt. Discussions are in process with GPC with a view to establishing more reliable alternative payment routes. Clearly if this were proved not to be possible the Group's ability to pay its international suppliers and contractors after a certain period would be compromised.

Going Concern

The Group's liquidity in the medium to long term is clearly dependent on the extent to which it is able to secure payment for its share of production in Syria, as noted above. However, the Group had cash and bank balances available for immediate use of over $120 million at 30 June 2011 (of which $109 million was held in the UK) and no debt. Having reviewed the Group's forecasts for the period to 31 December 2012 and after making enquiries, the Directors expect the Group to remain cash positive for at least 12 months from the date of approval of this Half-Yearly Financial Report even if recent sanctions prevent the Group from being paid for its Syrian production with immediate effect. Accordingly, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Consequently the Directors believe that the Group is able to manage its financial and operational risks and they therefore continue to adopt the going concern basis in preparing the Half-Yearly Financial Report.

Andrew Rose
Chief Financial Officer
16 September 2011

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 2011 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 12. We have read the other information contained in the half year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year financial report for the six months ended 30 June 2011 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 – possible impact of Syria sanctions

In forming our conclusion on the condensed set of financial statements for the six months ended 30 June 2011, which is not qualified, we have considered the adequacy of the disclosures made in note 12 to the half-yearly financial report concerning the potential impact of the sanctions imposed by the USA and the European Union during 2011. As highlighted in these disclosures, as some aspects of the sanctions are not clearly worded, there is significant uncertainty as to the potential impact of these sanctions on the Group's financial position and future financial prospects.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
16 September 2011

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	**30 June 2011** (Unaudited) $'000	30 June 2010 (Unaudited and restated*) $'000	31 December 2010 (Audited) $'000
Revenue	2	**78,598**	51,355	115,578
Cost of Sales				
Depletion	4	**(8,481)**	(7,575)	(17,042)
Impairment	4	**-**	(3,646)	(3,820)
Other cost of sales		**(6,979)**	(8,256)	(17,954)
Total cost of sales		**(15,460)**	(19,477)	(38,816)
Gross Profit		**63,138**	31,878	76,762
General administrative expenses		**(11,788)**	(11,902)	(24,179)
Foreign exchange gains / (losses)		**233**	(882)	(968)
Share based payments		**(1,239)**	(1,156)	(2,533)
Total administrative expenses		**(12,794)**	(13,940)	(27,680)
Exploration costs written off	5	**(18,960)**	(2,000)	(5,498)
Other operating income - hurricane repairs		**-**	191	816
Profit on disposal of oil and gas properties		**219**	1,137	1,137
Operating profit		**31,603**	17,266	45,537
Discount expense on decommissioning provision	9	**(543)**	(625)	(1,113)
Net interest income		**127**	73	228
Profit before taxation		**31,187**	16,714	44,652
Taxation		-	18	18
Profit for the period - attributable to owners of the Parent Company	2	**31,187**	16,732	44,670
Earnings per share (cents):				
Basic	3	**25.59**	13.84	36.88
Diluted	3	**24.99**	13.48	35.88

*See note 11

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

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2011

	Notes	**30 June 2011 (Unaudited) $'000**	31 December 2010 (Audited) $'000
Assets			
Non-current assets			
Property, plant and equipment	4	**62,060**	63,878
Intangible assets	5	**23,957**	30,958
Long-term financial assets	7	**9,098**	9,603
		95,115	104,439
Current assets			
Inventory - material		**3,813**	4,002
Trade and other receivables	6	**37,871**	35,559
Cash and cash equivalents	7	**123,112**	80,625
Short term financial assets	7	**-**	5,576
Assets classified as held for sale	4	**-**	12,711
		164,796	138,473
Total Assets		**259,911**	242,912
Liabilities			
Current liabilities			
Trade and other payables	8	**15,278**	23,126
Provision for decommissioning	9	**6,173**	7,473
Liabilities associated with assets held for sale	4	**-**	8,623
		21,451	39,222
Non-current liabilities			
Provision for decommissioning	9	**22,257**	20,683
Total liabilities		**43,708**	59,905
Net assets		**216,203**	183,007
Equity			
Capital and reserves attributable to equity holders			
Share capital	10	**13,131**	13,093
Share premium		**105,926**	105,025
Share-based payments reserve		**17,388**	16,318
Merger reserve		**11,709**	11,709
Retained profit		**68,049**	36,862
Total equity		**216,203**	183,007

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	**30 June 2011 (Unaudited) $'000**	30 June 2010 (unaudited & restated*) $'000	31 December 2010 (Audited) $'000
Cash flows from operating activities				
Operating profit		**31,603**	17,266	45,537
Depreciation, depletion and amortisation	4&5	**8,821**	7,886	17,725
Impairment charge		**-**	3,646	3,820
Exploration costs written off	5	**18,960**	2,000	5,498
Decommissioning costs in excess of provision		**779**	358	2,048
Share-based payment charge		**1,239**	982	2,533
Profit on disposal of assets		**(219)**	(1,144)	(1,137)
Decrease / (increase) in receivables		**504**	(1,382)	(12,049)
(Decrease) / increase in payables		**(5,263)**	(2,184)	5,587
Net cash provided by operations		**56,423**	27,428	69,562
Interest received		**127**	73	228
Taxation recovered		**-**	403	402
Net cash provided by operating activities		**56,550**	27,904	70,192
Investing activities				
Exploration and evaluation expenditure		**(14,017)**	(12,335)	(25,502)
Oil and gas properties expenditure		**(8,835)**	(4,770)	(16,305)
Increase in inventory		**(233)**	(172)	(488)
Disposal of oil and gas assets		**4,503**	1,100	1,100
Other capital expenditures		**(1,032)**	(606)	(1,096)
Change in other financial assets	7	**6,081**	(1,001)	(3,189)
Decommissioning costs paid	9	**(1,300)**	(1,138)	(2,544)
Net cash used in investing activities		**(14,833)**	(18,922)	(48,024)
Financing activities				
Cash proceeds from issue of shares		**939**	1,957	3,218
Payments made in lieu of options exercised		**(169)**	-	(1,470)
Other payments in connection with options issued		**-**	-	(914)
Net cash provided by financing activities		**770**	1,957	834
Increase in cash and cash equivalents		**42,487**	10,939	23,002
Cash and cash equivalents at the beginning of the period		**80,625**	57,623	57,623
Cash and cash equivalents at the end of the period	7	**123,112**	68,562	80,625

*See note 11

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Share Capital $'000	Share Premium $'000	Share based payment reserved $'000	Merger reserve $'000	Retained profit/ (loss) $'000	Total equity $'000
Six months ended 30 June 2011						
At 1 January 2011	13,093	105,025	16,318	11,709	36,862	183,007
Options exercised	38	901	-	-	-	939
Share-based payment charge	-	-	1,239	-	-	1,239
Payments made in lieu of option exercise	-	-	(169)	-	-	(169)
Profit for the period	-	-	-	-	31,187	31,187
At 30 June 2011	13,131	105,926	17,388	11,709	68,049	216,203

	Share Capital $'000	Share Premium $'000	Share based payment reserved $'000	Merger reserve $'000	Retained profit/ (loss) $'000	Total equity $'000
Six months ended 30 June 2010						
At 1 January 2010 (restated*)	12,971	101,929	15,429	11,709	(7,808)	134,230
Options exercised	74	1,883	-	-	-	1,957
Share-based payment charge	-	-	982	-	-	982
Profit for the period (restated*)	-	-	-	-	16,732	16,732
At 30 June 2010 (restated)	13,045	103,812	16,411	11,709	8,924	153,901

*See note 11

NOTES TO THE HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2011

1. Basis of preparation

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

This condensed set of financial statements for the six months ended 30 June 2011 is unaudited and does not constitute statutory accounts as defined by the Companies Act. They have been prepared using accounting bases and policies consistent with those used in the preparation of the audited financial statements of the Group for the year ended 31 December 2010 and those to be used in the year ending 31 December 2011. The information for the year ended 31 December 2010 does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The financial statements for the year ended 31 December 2010 have been delivered to the Registrar of Companies and the auditors' report on those financial statements was unqualified, did not draw attention to any matters by way of emphasis of matter and did not contain a statement made under Section 498 of the Companies Act 2006.

The condensed set of financial statements included in this half-yearly financial report has been prepared on a going concern basis of accounting for the reasons set out in the Financial Review section of this report.

This half-yearly financial report was approved by the Board of Directors and authorised for issue on 16 September 2011.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2011

2. Segmental information

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

The total revenue of the Group, as defined by IAS 18, was $78,725,000 (2010: $51,522,000) comprising sales of hydrocarbons and incidental income of $78,598,000 (2010: $51,430,000) and interest income of $127,000 (2010: $92,000).

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

	Period ended 30 June 2011				
	Syria	**Tunisia**	**USA**	**Other**	**Total**
	$' 000	**$' 000**	**$' 000**	**$' 000**	**$' 000**
Revenues from external parties	**73,066**	**-**	**5,523**	**-**	**78,589**
Inter-segment and other income	**-**	**-**	**3**	**1,832**	**1,835**
Total segment revenue	**73,066**	**-**	**5,526**	**1,832**	**80,424**
Depletion charges	**(6,250)**	**-**	**(2,231)**	**-**	**(8,481)**
Exploration costs written off	**(5,201)**	**(13,759)**	**-**	**-**	**(18,960)**
Profit on disposal of oil and gas properties	**-**	**-**	**219**	**-**	**219**
Other cost of sales	**(2,969)**	**-**	**(4,010)**	**-**	**(6,979)**
General administrative expenses before depreciation	**(2,865)**	**-**	**(1,269)**	**(7,314)**	**(11,448)**
Inter-segment administrative expense	**(1,635)**	**(13)**	**(30)**	**(148)**	**(1,826)**
Depreciation and amortisation	**(251)**	**-**	**(9)**	**(80)**	**(340)**
Foreign exchange (losses) / gains	**(5)**	**-**	**-**	**238**	**233**
Share-based payments	**-**	**-**	**-**	**(1,239)**	**(1,239)**
Profit / (loss) before interest and taxation	**53,890**	**(13,772)**	**(1,805)**	**(6,710)**	**31,603**
Interest expense and unwinding of discount	**-**	**-**	**(543)**	**-**	**(543)**
Interest income from external parties	**8**	**-**	**2**	**117**	**127**
Inter-segment interest	**-**	**-**	**(2,269)**	**2,269**	**-**
Profit / (loss) for the period	**53,898**	**(13,772)**	**(4,615)**	**(4,324)**	**31,187**

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

NOTES TO THE HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2011

2. Segmental information (continued)

	Period ended 30 June 2010				
	Syria	Tunisia	USA	Other	Total
	$' 000	$' 000	$' 000	$' 000	$' 000
Revenues from external parties	42,197	-	9,233	-	51,430
Inter-segment and other income	-	-	271	2,115	2,386
Total segment revenue	42,197	-	9,504	2,115	53,816
Depletion charges	(5,281)	-	(2,294)	-	(7,575)
Impairment	-	-	(3,646)	-	(3,646)
Exploration costs written off	(2,000)	-	-	-	(2,000)
Hurricane repairs	-	-	191	-	191
Profit on disposal of oil and gas properties	-	-	1,137	-	1,137
Other cost of sales	(2,634)	-	(5,621)	(1)	(8,256)
General administrative expenses before depreciation	(3,295)	(148)	(1,669)	(6,479)	(11,591)
Inter-segment administrative expense	(2,099)	(6)	(10)	(346)	(2,461)
Depreciation and amortisation	(219)	-	(8)	(84)	(311)
Foreign exchange losses	(128)	-	-	(754)	(882)
Share-based payments	-	-	-	(1,156)	(1,156)
Profit / (loss) before interest and taxation	26,541	(154)	(2,416)	(6,705)	17,266
Interest expense and unwinding of discount	-	-	(628)	(16)	(644)
Interest income from external parties	6	-	(19)	105	92
Inter-segment interest	-	-	(2,241)	2,241	-
Taxation	-	-	19	(1)	18
Profit / (loss) for the period	26,547	(154)	(5,285)	(4,376)	16,732

	Year ended 31 December 2010				
	Syria	Tunisia	USA	Other	Total
	$' 000	$' 000	$' 000	$' 000	$' 000
Revenues from external parties	98,983	-	16,595	-	115,578
Inter-segment other income	-	-	201	2,739	2,940
Total segment revenue	98,983	-	16,796	2,739	118,518
Depletion charges	(11,353)	-	(5,689)	-	(17,042)
Impairment	-	-	(3,820)	-	(3,820)
Exploration costs written off	(5,498)	-	-	-	(5,498)
Hurricane repairs	-	-	816	-	816
Profit on disposal of oil and gas properties	-	-	1,137	-	1,137
Other cost of sales	(6,395)	-	(11,561)	2	(17,954)
General administrative expenses before depreciation	(8,611)	(264)	(3,106)	(11,515)	(23,496)
Inter-segment administrative expense	(2,693)	(16)	(30)	(201)	(2,940)
Depreciation and amortisation	(501)	-	(17)	(165)	(683)
Foreign exchange losses	(7)	-	-	(961)	(968)
Share-based payments	-	-	-	(2,533)	(2,533)
Profit / (loss) before interest and taxation	63,925	(280)	(5,474)	(12,634)	45,537
Interest expense and unwinding of discount	-	-	(1,116)	(16)	(1,132)
Interest income from external parties	9	-	(14)	252	247
Inter-segment interest	-	-	(4,267)	4,267	-
Taxation	-	-	19	(1)	18
Profit / (loss) for the year	63,934	(280)	(10,852)	(8,132)	44,670

NOTES TO THE HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2011

2. Segmental information (continued)

The segment assets and liabilities as at 30 June 2011 and the segment capital expenditure during the period were as follows:

At 30 June 2011	Syria $' 000	Tunisia $' 000	USA $' 000	Other $' 000	Total $' 000
Assets	106,791	4,712	34,666	113,742	259,911
Liabilities	(13,268)	(1,349)	(28,311)	(780)	(43,708)
Inter-segment balances	(37,261)	(17,416)	(49,956)	104,633	-
Exploration and evaluation expenditure	10,518	1,010	-	-	11,528
All other capital expenditure	6,734	-	381	314	7,429
Total capital expenditure during period	17,252	1,010	381	314	18,957

At 30 June 2010	Syria $' 000	Tunisia $' 000	USA $' 000	Other $' 000	Total $' 000
Assets	79,977	8,859	53,670	55,540	198,046
Liabilities	(8,902)	-	(34,919)	(324)	(44,145)
Inter-segment balances	(22,346)	(9,014)	(52,179)	83,539	-
Exploration and evaluation expenditure	3,648	6,687	-	-	12,335
All other capital expenditure	4,478	-	606	42	5,126
Total capital expenditure during period	8,126	6,687	606	42	17,461

At 31 December 2010	Syria $' 000	Tunisia $' 000	USA $' 000	Other $' 000	Total $' 000
Assets	112,682	15,971	41,780	72,479	242,912
Liabilities	(20,119)	(1,932)	(28,607)	(9,247)	(59,905)
Inter-segment balances	(15,186)	(16,208)	(56,249)	87,643	-
Exploration and evaluation expenditure	13,044	15,971	-	-	29,015
All other capital expenditure	14,243	-	5,876	356	20,475
Total capital expenditure during period	27,287	15,971	5,876	356	49,490

3. Earnings per share

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

	6 months ended 30 June 2011	6 months ended 30 June 2010	Year ended 31 December 2010
Weighted average number of ordinary shares	121,883,268	120,913,771	121,116,459
Options	2,920,248	3,205,767	3,396,924
Weighted average number of diluted shares	124,803,516	124,119,538	124,513,383

The calculation of basic earnings per share is based on the profit attributable to equity shareholders 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.

4. Property, plant and equipment

	Oil and gas properties			
	USA $' 000	Syria $' 000	Other fixed assets $' 000	Total $' 000
Cost:				
At 1 January 2011	62,829	60,919	2,173	125,921
Additions	381	6,210	271	6,862
At 30 June 2011	63,210	67,129	2,444	132,783
Accumulated depreciation and depletion:				
At 1 January 2011	(28,563)	(23,411)	(1,018)	(52,992)
Charge for the period	(2,232)	(6,250)	(198)	(8,680)
At 30 June 2011	(30,795)	(29,661)	(1,216)	(61,672)
Accumulated impairment:				
At 1 January 2011 and 30 June 2011	(9,051)	-	-	(9,051)
Net book value at 30 June 2011	**23,364**	**37,468**	**1,228**	**62,060**
Net book value at 31 December 2010	25,215	37,508	1,155	63,878

On 20 December 2010 the Group signed an agreement to sell its interests in the Eugene Island 57/58, South Pelto 13 and Vermilion 379 fields for a price of $4.2 million with an effective date of 1 May 2010. The completion date for the transaction was 31 January 2011. These assets were classified as held for sale as at 31 December 2010. The profit on disposal of the assets in the period was $0.2 million.

5. Intangible assets

	Exploration and evaluation assets		Computer	
	Tunisia	Syria	Software	Total
	$' 000	$' 000	$' 000	$' 000
Cost:				
At 1 January 2011	15,971	14,270	1,236	31,477
Additions	1,010	10,518	567	12,095
Exploration costs written off	(13,759)	(5,201)	-	(18,960)
At 30 June 2011	3,222	19,587	1,803	24,612
Accumulated amortisation:				
At 1 January 2011	-	-	(519)	(519)
Charge for the period	-	-	(136)	(136)
At 30 June 2011	-	-	(655)	(655)
Net book value at 30 June 2011	3,222	19,587	1,148	23,957
Net book value at 31 December 2010	15,971	14,270	717	30,958

6. Trade and other receivables

	30 June 2011	31 December 2010
	$' 000	$' 000
Trade receivables	**26,330**	23,119
Underlift	**500**	452
Corporation tax recoverable	**55**	55
Prepayments and accrued income	**4,102**	3,405
Advances on contracts	**6,474**	6,252
Amounts due from oil and gas partnerships	**410**	2,276
	37,871	35,559

Underlift represents a right to future economic benefits (through entitlement to receive equivalent future production), which constitutes an asset and of which the timing of recovery is uncertain.

Advances on contracts represent the total amount invoiced by contractors on long-term projects in excess of the value of work completed at the balance sheet date. At 30 June 2011 and 31 December 2010 this balance related entirely to the contract for the construction of the CPF.

Amounts due from oil and gas partners represents the excess of the Group’s loans and advances to jointly controlled entities over its share of the assets less liabilities of those entities.

7. Cash and cash equivalents

	30 June 2011	31 December 2010
	$' 000	$' 000
Cash at bank and in hand	**123,112**	80,625
Restricted cash balances	**9,098**	15,179
	132,210	95,804
Included in long-term financial assets	**9,098**	9,603
Included in short-term financial assets	**-**	5,576
Total cash and cash equivalents	**123,112**	80,625

7. Cash and cash equivalents (continued)

Restricted cash balances represents (i) amounts held in escrow to cover decommissioning expenditures under the requirements of the regulatory authorities that manage the oil and gas and other mineral resources in the Gulf of Mexico, (ii) a bank guarantee that is required under the terms of the Production Sharing Contract with the Syrian Petroleum Company and which is reduced quarterly as the obligation under the required work programmes are completed, and (iii) amounts held in escrow to secure a line of credit for forward foreign currency trading.

8. Trade and other payables

	30 June 2011	31 December 2010
	$' 000	$' 000
Trade payables	**5,839**	10,799
Accruals and other payables	**9,408**	12,296
UK Corporation tax payable	**31**	31
	15,278	23,126

9. Provision for decommissioning

The provision for decommissioning relates to the expected future costs of plugging and abandoning the oil and gas properties held by Gulfsands Petroleum Tunisia Limited, Gulfsands Petroleum USA, Inc and Darcy Energy LLC. At 30 June 2011 the oil and gas properties have estimated plugging and abandonment dates up to 2026. The Group has no material decommissioning obligations relating to its operations in Syria. The portion of the provision for decommissioning expected to be settled within a year totalling approximately $6.2 million is included in current liabilities and the remainder totalling approximately $22.3 million is included in non-current liabilities in the consolidated balance sheet at 30 June 2011.

	$' 000
At 1 January 2011	28,156
Current portion	7,473
Non-current portion	20,683
Changes in estimates	252
Costs in excess of provision	779
Decommissioning costs paid	(1,300)
Discount expense	543
At 30 June 2011	**28,430**
Current portion	**6,173**
Non-current portion	**22,257**

NOTES TO THE HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2011

10. Share capital

	30 June 2011	31 December 2010
	$' 000	$' 000
Authorised:		
Ordinary shares of 5.714 pence each	**175,000,000**	175,000,000

	30 June 2011	31 December 2010
	$' 000	$' 000
Allotted, called up and fully paid:		
122,629,820 (2010 - 121,577,500) ordinary shares of 5.714 pence each	**13,131**	13,093

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 exercise price of share options £
At 1 January 2011	121,577,500	8,585,000	230,835	2.05
Share options and restricted shares exercised for cash	412,000	(400,000)	(12,000)	1.45
Share options and restricted shares cash settled	-	-	(25,000)	-
Share options and restricted shares issued	-	1,021,000	31,320	2.35
At 30 June 2011	121,989,500	9,206,000	225,155	2.11

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

11. Restatement of Half-Yearly Financial Report for the six months ended 30 June 2010

During the second half of 2010 the Directors undertook a review of the Group's accounting policies and determined that the successful efforts method of accounting provides a more relevant and reliable guide to the underlying performance of the Group than the modified full cost method that was previously used. Under the successful efforts method of accounting exploration and evaluation costs are capitalised on a licence / prospect basis and the 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. Under the modified full cost method such costs are capitalised using wider geographic cost pools and the cost associated with unsuccessful exploration drilling may, subject to a pool wide impairment test, remain on the balance sheet and be depleted on the basis of the reserves of the associated pool.

The Directors consider that the cost of unsuccessful exploration should not be added to the costs attributable to the development of commercial reserves as it distorts the reporting of the future underlying performance of those assets and, accordingly, adopted the successful efforts method of accounting in the financial statements for the year ended 31 December 2010. The results of the six months ended 30 June 2010 included in this report have been restated to reflect the accounting policy as if the financial statements had always been prepared on a similar basis.

Additionally, a reclassification of other income from revenue to profit on disposal of oil and gas properties has been made to ensure consistent treatment with the financial statements for the year ended 31 December 2010.

The effect of these restatements to the income statement, balance sheet and statement of cash flows for the six months ended 30 June 2010 is set out below:

Impact of prior period restatements on Condensed Consolidated Income Statement for the six months ended 30 June 2010

	6 months ended 30 June 2010 (Unaudited)		
	As originally stated $'000	Restatement $'000	As restated $'000
Revenue	52,492	(1,137)	51,355
Exploration costs written off	-	(2,000)	(2,000)
Profit on disposal of oil and gas properties	-	1,137	1,137
Profit for the period	18,732	(2,000)	16,732

Impact of prior period restatements on Earnings per Share (cents) for the six months ended 30 June 2010

	6 months ended 30 June 2010 (Unaudited)		
	As originally stated	Restatement	As restated
Earnings per share (basic)	15.49	(1.65)	13.84
Earnings per share (diluted)	15.09	(1.61)	13.48

NOTES TO THE HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2011

11. Restatement of Half-Yearly Financial Report for the six months ended 30 June 2010 (continued)

Impact of prior period restatement on Condensed Consolidated Balance Sheet as at 30 June 2010

	6 months ended 30 June 2010 (Unaudited)		
	As originally stated $'000	Restatement $'000	As restated $'000
Property, plant and equipment	77,631	(6,044)	71,587
Intangible assets	17,533	(2,000)	15,533
All other assets	110,926	-	110,926
Total Assets	206,090	(8,044)	198,046
Total liabilities	44,145	-	44,145
Net Assets	161,945	(8,044)	153,901
Retained profit	16,968	(8,044)	8,924
All other capital and reserves	144,977	-	144,947
Total Equity	161,945	(8,044)	153,901

Impact of prior period restatement on Condensed Consolidated Cash Flow Statement as at 30 June 2010

	6 months ended 30 June 2010 (Unaudited)		
	As originally stated $'000	Restatement $'000	As restated $'000
Cash flows from operating activities			
Operating profit	19,266	(2,000)	17,266
Impairment charge	3,646	2,000	5,646
All other operating activities	4,992	-	4,992
Net cash provided by operating activities	27,904	-	27,904
Net cash used in investing activities	(18,922)	-	(18,922)
Net cash provided by financing activities	1,957	-	1,957
Increase in cash and cash equivalents	10,939	-	10,939
Cash and cash equivalents at the beginning of period	57,623	-	57,623
Cash and cash equivalents at the end of the period	68,562	-	68,562

Impact of prior period restatement on Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2010

	6 months ended 30 June 2010 (Unaudited)		
	As originally stated $'000	Restatement $'000	As restated $'000
Retained profit			
At 1 January 2010	(1,764)	(6,044)	(7,808)
Profit for the period	18,732	(2,000)	16,732
At 30 June 2010	16,968	(8,044)	8,924

12. Post balance sheet events

Syrian sanctions

Since the period end the European Union and the United States of America have imposed further sanctions on certain of the Group's trading partners in Syria. These EU sanctions of 2 September 2011, which amended the sanctions imposed on 9 May 2011, and the US sanctions of 17 August 2011 have also introduced a ban on the transport and import of Syrian hydrocarbons to the EU and the USA. A description of the potential impact of both these sanctions and those imposed earlier in the year is included in the Risks and Uncertainties section of the Financial Review. The Directors have taken legal advice on the effect of the sanctions on the Group's activities, and are satisfied that the Group continues to be compliant with applicable sanctions. However, as some aspects of the EU sanctions are not clearly worded, there remains a risk, which the Directors consider to be low, that some elements of the Group's activities in Syria are captured. If this happens, it would create a significant uncertainty as to the Group's ability to continue producing and selling its share of production in respect of its principal producing asset in Syria, which had a carrying value (including related exploration and evaluation assets, inventory balances and contract advances) of $67.3 million at 30 June 2011.

Other matters

On 30 August 2011, an agreement was signed to sell some of Gulfsands Petroleum's US properties to Dynamic Offshore Resources LLC for a price of $6 million. Dynamic Offshore Resources LLC will assume all of Gulfsands' existing plugging and abandonment liabilities and entitlement to future production. The effective date of the purchase is 1 June 2011.

Drilling operations on the Safa-1 well commenced on 4 July 2011. On 26 August 2011 the Group announced that the well had discovered non-commercial heavy oil and the well was to be plugged and abandoned. At 30 June 2011 the costs carried in exploration and evaluation assets amounted to approximately $0.1 million. A total charge of approximately $2.0 million will be made to the income statement during the second half of 2011 to write off the cost of this unsuccessful exploration.