Gulfsands Petroleum

Annual Report and Accounts 2014

About Us

Gulfsands Petroleum plc is an independent oil and 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 geographical focus is the Middle East and North Africa where it has interests in oil exploration and development projects in the Syrian Arab Republic (under continuing suspension due to sanctions), and oil and gas exploration projects in Morocco and Tunisia. Gulfsands also has interests in two exploration licences in Colombia.

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Introduction

Our 2014 Highlights

- 2D and 3D seismic acquired in Morocco
- Gas discovery at LTU-1
- Group working interest Proved plus Probable Reserves of 73.5 mmboe
- Awarded Moulay Bouchta exploration licence in Morocco
- Syrian assets remain shut-in and secure during continuation of sanctions
- Total cash resources at year end of $19.4 million
  - Cash available for use by the Group of $7.9 million
  - Restricted cash balances of $11.5 million
- Convertible loan facility established. $5 million drawn at year end and a further $5 million drawn in 2015 with interest accruing at 10% per annum

Post period highlights

- Drilling and testing of DRC-1 and DOB-1 prove up two further gas discoveries
- Continued significant reduction in office expenses

Cover image

This image depicts the Atlas mountain range in Morocco.

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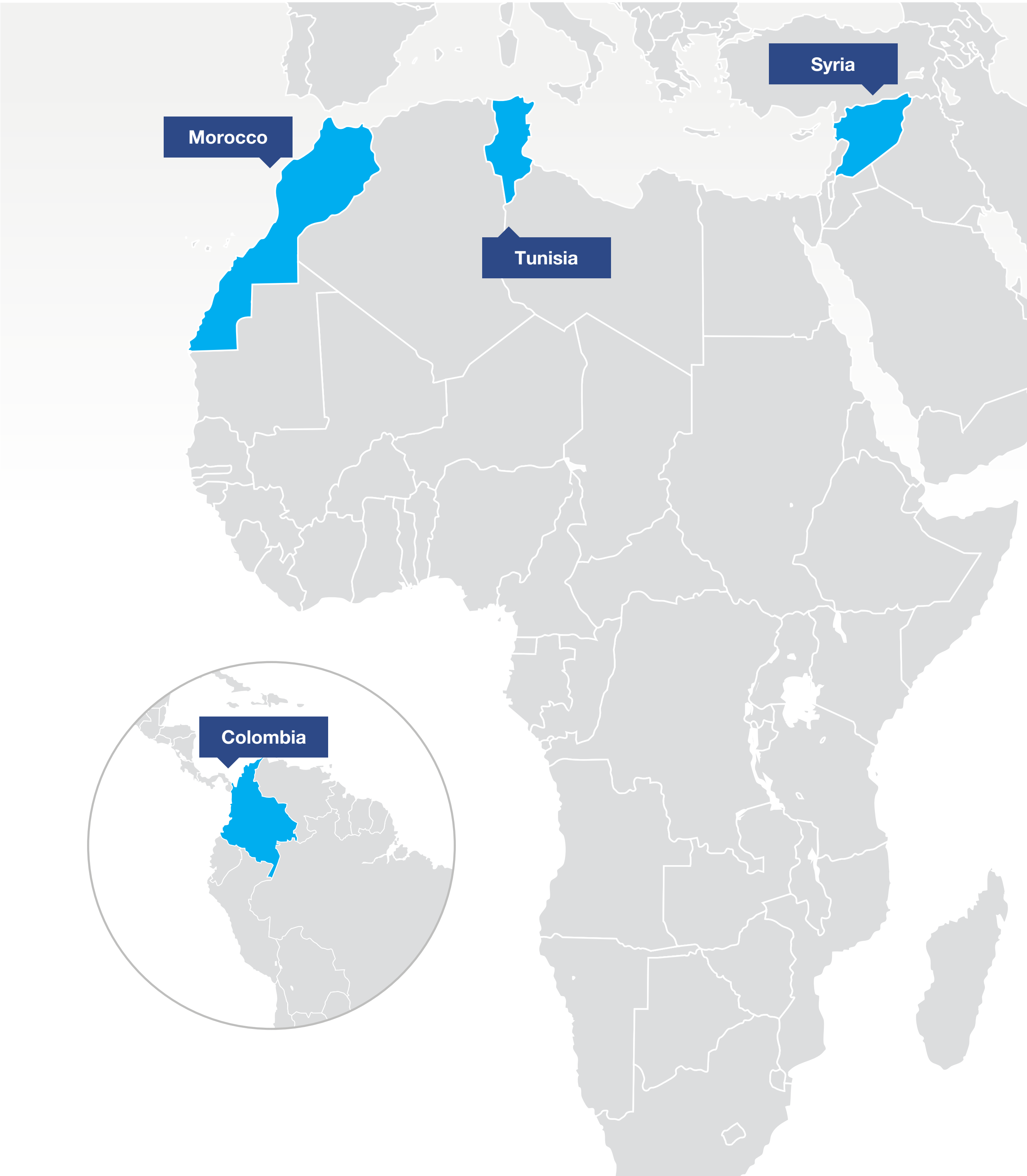
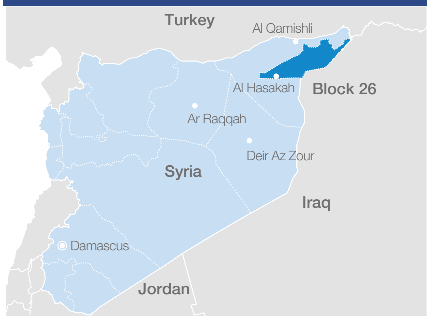
Introduction
At a Glance

Gulfsands has a diverse portfolio of projects; the development of significant oil and gas discoveries in the Syrian Arab Republic (activities currently suspended in compliance with EU sanctions), and oil and gas exploration projects in Tunisia, Morocco and Colombia.



Gulfsands' ambition is to become a significant exploration and production company, and a preferred operator and/or partner of governments and other oil and gas companies.

Syria



Block 26

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

Discover more: page 12

www.gulfsands.com/s/SyriaMaps.asp

Morocco

Exploration

Gulfsands is operator and majority interest holder of a significant portfolio of oil and gas exploration licences onshore Morocco.

Discover more: page 14

www.gulfsands.com/s/MoroccoMaps.asp

Tunisia

Exploration

Gulfsands is operator and 100% interest holder in the Chorbane oil and gas exploration licence, onshore Tunisia.

Discover more: page 18

www.gulfsands.com/s/TunisiaMaps.asp

Colombia

Exploration

Gulfsands is operator and 100% interest holder of two prospective blocks adjacent to prolific producing regions of Colombia.

Discover more: page 19

www.gulfsands.com/s/ColombiaMaps.asp

Key statistics

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Production sharing contracts ("PSC")

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Exploration licences

Introduction

Executive Chairman's Statement

The Group faces many challenges over the coming months, principally: the restructuring of our portfolio of interests; the refinancing of our business to allow those interests to be developed; and the re-building of relationships with all stakeholders.

Dear Shareholder

During 2014 the Group made good progress in Morocco completing the acquisition and processing of 2D and 3D seismic on Fes and Rharb Centre respectively; we believe the new 3D seismic was instrumental in producing the drilling success that has followed on the Rharb Centre area; three gas discoveries have been made at LTU-1, DRC-1 and DOB-1. Discussions are underway with Office National des Hydrocarbures et des Mines (Morocco) ("ONHYM") and other local operators to start connecting these wells to local gas sales pipelines to enable the Group to enter into a gas sales contract to monetise the gas.

The Group's interests in Morocco are held in three licences, covering four permits. The Rharb Centre and Rharb Sud permits are included in one licence under which the outstanding work commitment of three exploration wells must be drilled before the period expires in November 2015. The Group is actively working with several parties who have expressed an interest in partnering Gulfsands in the Rharb Centre area.

The Moulay Bouchta licence was awarded to Gulfsands during 2014; it covers an area of some 2,800 km², including three abandoned legacy oil fields which demonstrate that there is an active hydrocarbon system present, likely to be oil prone. The initial two year exploration period runs to June 2016 during which time the Group must acquire 500 km of new 2D seismic and reprocess some existing seismic data.

The Fes licence in Morocco covers a large under-explored area where seismic acquisition, processing and interpretation are difficult. Gulfsands is working with a processing company with particular expertise to better image the subsurface using the existing seismic data set. We are optimistic that the end product will help us identify potential leads to be matured to drill-ready prospect status. The contract for Fes includes an, as yet, unfulfilled work obligation of an additional 350 km of 2D seismic, 100 km² of 3D seismic and three exploration wells that should be completed before 25 September 2015.

Gulfsands are in discussions with ONHYM regarding the outstanding work commitments on our licences for Rharb Centre, Rharb Sud and Fes, and we are hopeful we can agree a forward plan that allows Gulfsands to continue to explore and develop our interests in Morocco.

In December 2013 the Group entered into a transaction with ADX Energy Limited ("ADX") whereby Gulfsands would acquire ADX's interest in the Chorbane licence in Tunisia for $1.75 million giving the Group 100% of the Chorbane licence. The transaction closed in 2014 and final consideration amounts were paid in early 2015. The current exploration period under the licence runs to mid July 2015 and Gulfsands has submitted an application for a two year extension during which the work obligation of acquiring 200 km 2D seismic and drilling one exploration well must be completed. If the application is successful the Group will look to farm-down its 100% interest in exchange for a carried work programme; if the application is unsuccessful, the licence will terminate.

The Group now holds 100% interest in its two Colombian blocks. Joint venture arrangements with our former partners, Luna Energy Inc, were terminated in early 2015 under the terms of the original farm-out agreements. Under the contracts for Llanos Block 50 and Putumayo Block 14, the Group has a minimum work obligation of acquiring approximately 100 km of 2D seismic and drilling one exploration well on each block before the end of the current phase which has one and a half years to run to November 2016 for Llanos Block 50 and two and a half years to run to November 2017 for Putumayo Block 14. The Group is actively seeking farm-in candidates to share the cost of the exploration programme on these blocks.

In December 2014 the Group sold its interest in Gulfsands Petroleum USA, Inc., for $50,000, thus divesting itself of its operations in the US; under the transaction all staff associated with the US operations were transferred to the purchaser along with all abandonment obligations. This transaction brought to a close an association with North American assets that were the cornerstone of Gulfsands when it was first founded.

Financial overview

The Group posted a loss for the year of $16.1 million, a significant reduction from the prior year, and completed exploration and evaluation asset investments of $21.0 million, predominantly in Morocco. At year end the Group had total cash resources of $19.4 million of which £7.9 million was cash and cash equivalents and $11.5 million was restricted; held as security for anticipated work programmes. At the date of this Report the Group had unaudited cash and cash equivalents of $3.0 million.

The Group entered into a Strategic Cooperation Agreement with Arawak Energy International Limited in November 2014, providing a framework so both parties could jointly identify, evaluate and acquire new ventures within a joint venture structure with a focus on the Middle East and North Africa ("MENA") region. Concurrently the Group entered into a $20 million Facility Agreement with Arawak Energy Bermuda Ltd ("Arawak") as a means of securing working capital. As of 9 January 2015 a total of $10 million had been drawn-down under the Facility Agreement. On 23 January 2015 however Arawak advised the Group that it was terminating the Strategic Cooperation Agreement and would not fund any further draw-downs under the Facility Agreement. Following this, in early March 2015, Arawak requested repayment of the $10 million drawn-down, and the interest that accrues at 10% per annum. The Group is in discussions with Arawak over the repayment of the monies owing.

The Group has material work obligations that must be completed under its various exploration licences and if these obligations are not met the Group may be forced to forfeit both its interest in these contracts and any sums of restricted cash lodged with host governments as guarantees for our performance of the minimum work obligations. The 2014 Financial Statements have been prepared on a going concern basis, and further details on this can be found in the Financial Review on pages 24 to 27.

The Company is proposing to seek short term, unsecured, financing from some of its shareholders to use as working capital while it implements a new strategy for the Group's assets that is both financeable and sustainable in the current equity capital markets. Longer term funding will probably be an equity raising or some combination of debt and equity. Further details will be announced before the Company's Annual General Meeting that is scheduled for 30 June 2015.

Introduction
Executive Chairman's Statement continued

Board and Management changes

James Ede-Golightly and John Bell were appointed as Non-Executive Directors on 13 August 2014. James has extensive board experience with a focus on financial matters, whilst John has more than 20 years' international experience in the management of oil and gas projects from exploration through to production. We welcome James and John and look forward to benefiting from their experience.

David Cowan and Michel Faure stepped down from the Board on 30 June 2014 and 13 August 2014 respectively. David had served as a Non-Executive Director for more than eight years; his legal expertise has been a great asset during the growth and development of the Gulfsands business since joining the Board in 2006. Michel was appointed a Non-Executive Director shortly after completing a long and successful career with Shell. Whilst his tenure was just over a year, his contribution was assisting in country relations in Morocco and Tunisia. On behalf of the Board we thank both David and Michel for their respective contributions to the business.

In February 2015 Ken Judge left the Board and was served notice to terminate his executive services as Gulfsands legal counsel.

On 13 April 2015 Mahdi Sajjad was removed from his role as the Company's Chief Executive. The Company has been advised by Mayer Brown International LLP, acting on behalf of Mr Sajjad, the action taken on 13 April 2015 constituted a material adverse change to Mr Sajjad's employment which he had not consented to; furthermore, Mr Sajjad has elected to treat his employment contract terminated on 8 May 2015 and claims certain payments are now due under his employment contract. Mr Sajjad remains a Director of Gulfsands.

In April 2015 Andrew West stood down as Non-Executive Chairman and remains on the Board as a Non-Executive Director. Simultaneously I was appointed to the Board as a Director and Executive Chairman; I look forward to working with the Board, Management and staff in ensuring that the Group can operate within its means and fulfil the vision shared by many of our shareholders.

Also in April 2015 Andrew Morris was appointed to the Board as a Non-Executive Director. Andrew is Chairman of Madagascar Oil Limited and his career includes a period with the global accounting firm Ernst & Young. We look forward to Andrew contributing on both technical and financial matters.

In April 2015 Alan Cutler resigned from his executive role as Director – Finance and Administration; it is expected that Alan will step down from the Board and leave the Company during the third quarter of 2015.

Outlook for 2015 and beyond

The Group remains committed to maintaining its presence in Syria, and it considers its partnership with General Petroleum Corporation ("GPC") as a key element for the safe stewardship of Block 26 while the various sanctions prevent Gulfsands from a more active role.

In Morocco the portfolio of interests vary greatly in nature; early stage exploration in Fes where interpreting the seismic may unlock our understanding of the sub-surface, highly prospective exploration acreage in Rharb Sud and Moulay Bouchta located in an area known to be oil prone, and appraisal and development opportunities in Rharb Centre; however to capitalise on these opportunities the Group will need to secure new funds from both existing and new investors.

We shall seek to farm-out the assets we hold in Colombia and Tunisia ensuring we can benefit from any success but without being exposed to the full cost of exploration.

The Group faces many challenges over the coming months, including seeking extensions to licences and completing our work programmes, but above all, securing new funds sufficient to repay the Arawak loan facility and to provide the necessary working capital to allow progress to be made on some of our assets.

I would like to thank all our staff for the fortitude shown over the last twelve months and look forward to working with them in the future to develop Gulfsands into an oil and gas company we can all be proud to be part of.

Yours sincerely,

Alastair Beardsall
Executive Chairman

19 May 2015

Strategic Report
Our Business Model

During 2014 we have recorded drilling success in Morocco and faced the challenges of funding the continued progress of the Group; however our mission has remained the same, to create real accretive value for our stakeholders by building a strong, independent exploration and production company.

Our business model is based on the following building blocks:

1 Areas of expertise

- Experienced, and entrepreneurial, management and leadership team
- Strong sub-surface and surface technical skills among our operational team
- Cost-effective culture matched to a fit-for-purpose mind-set
- Emphasis on building strong local organisations and skill sets
- Commitment to excellence in HSES
- Rigorous approach to compliance and governance
- Being a good corporate citizen wherever we operate

2 Business development strategy

- Deployment of regional knowledge, and relationships with partners, to identify exploration and production ("E&P") opportunities capable of delivering hydrocarbon reserves that can be monetised
- A disciplined approach to the evaluation and acquisition of E&P opportunities
- Focus on growth in resources, reserves and sustainable production as key drivers of value creation

3 Financial discipline

- Careful husbanding of cash resources
- Strong emphasis on cost control and cost/benefit analysis
- Seeking access to cash flow from production at the earliest opportunity
- Creating and maintaining a strong Balance Sheet

4 Business conduct

- Strive to be a partner of choice in the countries and regions in which we operate
- Establish relationships with partners with an ability to add material value to our joint ventures
- Respect the environment and the health and safety of our employees and the local communities
- Respect all relevant international and local legislation and regulations

Strategic Report

Strategic Priorities and Monitoring Performance

Our strategic priorities are subject to our ability to finance projects through sourcing partners and/or raising finance. The following tables set out our current strategic priorities and how we measure our progress towards their realisation.

Strategic imperatives	Progress in the year	Planned actions
Protection of Syrian interests and value	• Preserved all contractual rights and managed business relationships in a manner consistent with all relevant sanctions and force majeure status.	• Continued adherence to licence terms within terms of sanctions. • Maintain readiness to return to conducting operations as soon as circumstances permit.
Creation of a diversified portfolio focused on the MENA region	• Morocco: added oil prospective Moulay Bouchta permit. • Morocco: discovered gas in Rharb Centre permit. • US: disposed of Gulf of Mexico interests.	• Discuss with ONHYM and ETAP extensions to the Moroccan and Tunisian licences. • Develop and commercialise gas discoveries in Morocco. • Evaluate and rationalise interests in Colombia and Tunisia. • Develop strong industry and government relationships. • Pursue new business opportunities in the MENA region.
Evaluate assets comprehensively but expeditiously	• Morocco: drilled one gas discovery in 2014 (and two more in 2015) based on 3D seismic on Rharb Centre permit. • Morocco: commenced advanced re-processing of 2D seismic on Fes permit.	• Morocco: progress review of oil prospectivity on permits held. • Morocco: discuss outstanding drilling commitments with ONHYM. • Morocco: where justified, and subject to available finance, drill preferred gas targets from 3D seismic data. • Colombia: complete pre-seismic regulatory studies and reports.
Generate production and revenues at the earliest opportunity	• Morocco: made one gas discovery on Rharb Centre Permit in 2014 (and two more in 2015).	• Bring discoveries on-stream, safely and cost-effectively, at earliest opportunity.
Maintain HSES and community relations	• Established good community relations in Morocco. • HSES incidents were significantly reduced following learnings of early operations. • Continued community, security and environmental assessment processes and operations planning in Colombia. • Continued support of our current CSR projects where practicable.	• Maintain HSES standards at the forefront of operational objectives. • Develop/maintain relationships with communities in which we work. • Identify new CSR opportunities in Morocco, Colombia and Tunisia.
Ensure Group is well financed	• Maintained control over costs. • Established the Arawak Loan Facility.	• Pursue new debt and equity finance. • Ensure tight management of financial resources with additional reductions in the cost base. • Ensure financial commitments and actual funding are brought into balance. • Where appropriate pursue farm-out and divestment. • Maximise income generation from Rharb.

Key Performance Indicators ("KPIs") provide a means of measuring our progress in delivering our strategic objectives. The Group has identified five key performance indicators in respect of its corporate strategy.

KPI	Performance	Commentary and target
Proved & Probable working interest reserves (mmboe) • Audited, Proved and Probable reserves stated on a working interest basis (page 20 for further details). • Note Syrian reserves are under contracts currently in force majeure.	**2014** 73.5 2013 75.8 2012 75.9	Reserves represent the key asset of the Group. The goal of Management is to increase reserves on a year on year basis, converting Contingent Resources into reserves through successful exploration and appraisal. Reserves have decreased during the year primarily due to the disposal of the US Gulf of Mexico operations.
Contingent and Prospective Resources (mmboe) • Audited 2C, Contingent Resources and best estimate Prospective Resources both stated on an unrisked working interest basis (pages 21 and 22 for further details). • Contingent and Prospective Resources reflect the potential value of Gulfsands contract areas to be converted to reserves through the exploration and appraisal processes.	**Contingent** **2014** 13.6 2013 12.3 2012 31.5 **Prospective** **2014** 548 2013 526 2012 0	The primary movements in the year consisted of: an increase in Contingent Resources as a result of gas discoveries in the Morocco Rharb Centre permit; an increase in Prospective Resources based on identification of new gas prospects; and new oil and gas leads across the Group's Morocco acreage. Management is focused on capturing further Contingent and Prospective Resources and efficient conversion of such resources into reserves.
Capital expenditure ($ million) • Accrued expenditure on exploration for and appraisal and development of oil and gas assets. Expenditures include fair values of acquired assets and capitalised internal costs on operated assets (pages 52 and 54 for further details).	**2014** 23.8 2013 48.5 2012 6.5	Focused, quality expenditure on exploration, appraisal and reserve development activity is key to the success of the Group but must remain within the financial capacity of the Group.
Safety – lost time incidents • The number of incidents during the year which resulted in loss of working time.	**2014** 0 2013 1 2012 0	The Group conducted seismic acquisition and drilling operations on its Moroccan permits during 2014, and our safety record was improved versus 2013. Management's commitment to the Group's HSES performance remains absolute.
Total cash and cash equivalents ($ million) • Cash and cash equivalents are funds immediately available to the Group (page 58 for further details).	**2014** 7.9 2013 33.8 2012 91.0	Ensuring the Group has sufficient cash resources to fulfil its contractual obligations is key for the Group.

Strategic Report

Principle Risks and Uncertainties

The Group's approach to risk management aims to identify material risks as early as possible, to reduce or eliminate the probability of those risks occurring, and to mitigate to the greatest extent practicable the impact on the Group if the event does occur.

All staff within the Group take an active responsibility for identification of potential threats to the Group, to ensure these are communicated to the appropriate person and to participate in the mitigation processes.

Risk registers are initially prepared at the asset and function level and then communicated to Executive Director level. The Executive Directors hold the day to day responsibility for the risk management process and can delegate responsibility for specific risks to the appropriate senior manager.

The Group aggregates its risks in four categories: operational, strategic, financial and external and each recorded risk is assessed in terms of:

- the likelihood of occurrence;
- the magnitude of the potential impact on our operations, employees, performance, assets, reputation and shareholder expectations; and
- the means and extent to which risks can be mitigated.

The Audit Committee of the Board reviews the risk registers periodically. The Group considers its principal risks and uncertainties to be as follows:

Financing work commitments

Description	Impact	Mitigation	Change year on year
The terms for the Group's portfolio of exploration interests (licences), include minimum work obligations agreed with the relevant state regulator. Additional work programmes will ordinarily be required to fully evaluate the exploration potential. This work will require significant investment.	The non-satisfaction of work obligations under each licence could put our interests, including restricted cash balances, at risk. Further discussion of this matter is contained in the going concern note 1.3a to the Consolidated Financial Statements.	The Group strives to commit to work obligations that are appropriate for the assets and that are financeable. The minimum work obligations under a licence or contract may require restructuring as our understanding of the assets improves. The Group will always strive to avoid performance of commitments that are without technical and commercial justification. Funding requirements are regularly reviewed and appropriate actions taken.	The Rharb Licence was extended, initially for six months from July 2014 and then a further ten months in order to allow completion of the minimum work obligations on that licence following delays outside the Group's control. Further extension or alignment of the work programme to be discussed with ONHYM. Discussions with the Moroccan and Tunisian authorities to extend the periods for completion of obligations on the Rharb, Fes and Chorbane licences are ongoing.

Exploration success/failure in Morocco

Description	Impact	Mitigation	Change year on year
Exploration is a high risk activity; historic industry drilling results indicate only one exploration well out of six drilled identifies hydrocarbons. Morocco is a significant element of the Group's portfolio and the success of the Group's strategy outside of Syria is, to a significant extent, dependent upon achievement of exploration success and delivery of early production in Morocco.	Failure to discover hydrocarbons in commercial quantities and/or generate early revenues from production will impact the Group's financial performance and ability to finance the growth and development of the Group's assets.	Exploration risk can be mitigated by careful analysis of the available geological, geophysical and petrophysical data prior to drilling. 3D seismic is particularly helpful in the Rharb licence in Morocco. Furthermore, economic modelling based on the chance of success and a range of possible outcomes, prior to an acquisition and before commencement of individual operations is used in evaluation of risks and identification of reduction measures. Risks will also be reduced where appropriate by bringing in partners either by farm-in or through partial sale.	The Group drilled its first gas discovery well on the Rharb Centre permit in 2014 and followed up with a further discovery at the end of the year. Methodical evaluation of prospects for oil in the Group's licence areas continued with five prospects identified at year end for further detailed consideration.

Health, safety, environment and security

Description	Impact	Mitigation	Change year on year
The Group's reputation and its value is critically dependent on: • the protection of the health and safety of its staff, its contractors and members of the community in which it operates; • the protection of the environment in which it operates; and • the security of its interests and assets.	Failure in respect of these matters could severely impact on the Group's ability to work and obtain further business in the area of operation as well as putting it at risk of legal and financial liabilities.	The Group maintains best practice policies and procedures in these areas and manages its business and its contractors in accordance therewith.	The Group's safety record in Morocco improved in 2014 as contractors' performance improved. Management's commitment to the Group's HSES performance remained absolute.

Business strategy fails to deliver on shareholder objectives

Description	Impact	Mitigation	Change year on year
The Group recognises the need to align its business strategy with the objectives of the majority of its ordinary shareholders and then to deliver on that strategy.	Non-alignment and non-delivery could both lead to discontented shareholders, a loss of confidence in Management and consequently a decline in share price and increased difficulty raising new capital.	Regular communication by the Group of its strategy and the results achieved. Regular dialogue with significant shareholders to ensure communications are satisfactory.	Late in 2014, a significant number of shareholders expressed their concern with the Group's strategy and performance. This has led to several changes in executive management and the composition of the Board.

Geopolitical instabilities in operational areas

Description	Impact	Mitigation	Change year on year
The Group operates in areas in which it may suffer the effects of political instability and civil disturbances disrupting its operations. Currently the Group's interests in Syria are under force majeure consequent to EU sanctions being imposed.	Such instabilities can seriously impact upon the ability of the Group to carry out its operations leading to loss of time and value. In Syria the value of the Group's interests continue to be at risk from the continuing sanctions, the loss of ability to develop the portfolio of interests and the loss of physical control over its assets.	The Group carries out a thorough risk assessment of any proposed new country entry. The Group is not affiliated to any government, political party, religion, ethnic grouping or similar organisation, but maintains good relationships with communities and important local stakeholders. The Board accesses business intelligence and engages consultants to assist with risk management processes in this area.	The Group continued to monitor the operational areas and, where it can, work with local communities and stakeholders to ensure its position is protected and advanced.

Bribery and corruption

Description	Impact	Mitigation	Change year on year
Taking substantive measures to prevent bribery and corruption being perpetrated on the business and within the business is critical to the business model.	Possible reputation damage, legal liability and financial loss.	Embedding the Code of Business Conduct within the work of the Group. Diligence in reviewing business practices and results.	Continued employment of the Code of Business Conduct and business monitoring.

Reliance on key staff

Description	Impact	Mitigation	Change year on year
The Group has a small staff of experienced people and relies heavily on their knowledge and experience in developing and delivering the Group's strategic objectives.	Possibility of loss of management continuity and impairment of the business model.	Internal succession planning where possible together with maintaining contact with a network of experienced people in the industry, including consultants, on whom we may call if required.	Significant progress was made on succession planning for senior management, which enabled the Board to be confident that it can navigate the management changes that were effected in early 2015.

Strategic Report
Operations Review

Syria

Gulfsands is the operator of the Block 26 Production Sharing Contract ("PSC") and holds a 50% working interest in the PSC along with Sinochem. The Group is not presently involved in any production or exploration activities on Block 26 as force majeure has been declared in respect of the contract following the introduction of EU sanctions against Syria.

Position in 2014

- Maintained an office presence in Damascus.
- Block 26 facilities remain safe and secure.
- Retained technical capabilities through staff redeployment.
- Continued compliance with applicable sanctions.

Block 26 covers an area of 5,414 km² in north east Syria and the PSC grants rights to explore, develop and produce hydrocarbons from all depths outside the pre-existing fields within the area and from the deeper stratigraphic levels below the pre-existing discovered fields. The final exploration period of the PSC was set to expire in August 2012 when force majeure was declared in December 2011. It is anticipated that an extension in the exploration period can be negotiated with the Syrian authorities to at least replace that period of time which was remaining when force majeure was declared. Rights to the benefits of production from discovered fields last for a minimum of 25 years from the date of development approval with extension thereto at the partners' option.

Under the Group's operatorship, two oil fields containing reservoirs of Cretaceous age have been discovered and developed within the PSC area, Khurbet East (2008) and Yousefieh (2010). During 2011 combined production from these fields reached a level of just under 25,000 barrels of oil per day ("bopd") before the impact of EU sanctions resulted in the curtailing of production levels. In addition, two further oil and gas discoveries with reservoirs of Triassic age have been identified beneath the Cretaceous aged oil producing reservoir in the Khurbet East field and within the Butmah and Kurrachine Dolomite formations. Development approvals for these discoveries were granted in 2011 and 2008 respectively. A further oil discovery was made late in 2011 by Gulfsands in the Cretaceous aged reservoirs at the Al Khairat exploration well, this discovery awaits further evaluation and development work.

The operation of these fields during the production phase is undertaken by Dijla Petroleum Corporation ("DPC"), a joint operating company formed between Gulfsands, Sinochem and the General Petroleum Corporation ("GPC") for this purpose, to which staff of both Gulfsands and GPC had previously been seconded. Since the introduction of EU sanctions on 1 December 2011 that identified GPC as a designated entity and 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 taken extensive legal advice with respect to its obligations under the sanctions in place at the time and has liaised regularly with relevant regulators and generally acted cautiously to ensure it remains compliant with all relevant sanctions. The Board is determined to ensure that the Group's activities remain compliant and Management will continue to liaise closely with the relevant regulatory authorities to ensure this objective is achieved while continuing to keep GPC fully informed of the breadth and scope of restrictions on our activities as a result of continuing to comply with applicable sanctions.

Strategic Report
Operations Review continued

Morocco

Gulfsands is the operator of a contiguous portfolio of onshore oil and gas exploration permits covering an area of approximately 7,210 km² in northern Morocco which incorporate proven petroleum systems. The Group has material equity interests in the three Contracts which govern the Moulay Bouchta, Fes, Rharb Centre and Rharb Sud permits.

Progress in 2014

- Awarded newly created Moulay Bouchta exploration licence.
- Gas discovery at LTU-1.
- 2D seismic acquisition across Fes permit completed.
- Commenced drilling DRC-1, discovery made post year end.

Moulay Bouchta contract
Contract expiry date: First exploration phase, June 2016.

Minimum work obligation: Acquisition of 500 km of 2D seismic data to be captured in a new survey; reprocessing and interpretation of selected legacy 2D seismic lines and the existing 3D seismic data; and a legacy oil field reactivation study.

Further details are provided in note 2.4 to the Consolidated Financial Statements.

In June 2014, the Group finalised agreements with Morocco's Office National des Hydrocarbures et des Mines ("ONHYM") and the government of Morocco for the award of the newly created Moulay Bouchta permit. Gulfsands acquired operatorship of the permit with a 75% participating interest while ONHYM retained a 25% participating interest, the attributable cost of which will be carried by Gulfsands upon the usual terms for such participation, through the exploration phase of the permit. The Moulay Bouchta permit encompasses an area of approximately 2,850 km² and is located to the north of the Group's Rharb Sud permit and extends eastwards to surround the western, northern and eastern boundaries of the Fes Block onshore in northern Morocco.

The Moulay Bouchta permit includes an area where the existence of a working petroleum system has been confirmed with the discovery and development of three oil fields, the most recent of which was the Haricha Field which had produced a total of 2.8 mmboe of oil and 4.2 bcf of gas when production ceased in 1990. A portion of the Moulay Bouchta permit area that surrounds and incorporates the Haricha Field has been the subject of a 175 km² 3D seismic survey by a previous operator. It is the intention of the Group to evaluate the potential for deeper and potentially larger structures containing Jurassic and Cretaceous aged reservoirs within the permit area.

The permit is also believed to contain Tertiary aged reservoirs that may contain biogenic gas accumulations similar to those that occur in the adjacent Rharb Centre permit area, where commercially viable natural gas accumulations are found at depths of approximately 800-2,000 metres.

Plans with respect to the minimum work obligation activities are at a well developed stage. The Group is pursuing options with respect to funding this work programme including bringing in industry partners.

Fes contract

Contract expiry date: September 2015.

Minimum work obligation: Acquisition of an additional 350 km of 2D seismic data to be captured in a new survey; 100 km^2 of new 3D seismic data; and drilling three exploration wells.

Further details are provided in note 2.4 to the Consolidated Financial Statements.

2D seismic data has been acquired across the Fes permit area in a 650 km survey that commenced in 2013 and was completed in early 2014. Following this a conventional seismic processing of the data was undertaken that was completed in July 2014, however the results of this processing work did not yield the step change uplift in data quality and imaging that was anticipated.

Work is now underway to further reprocess and upgrade these 2D data using a bespoke approach that is more specifically tailored to the geological fold and thrust belt setting in the Fes permit where the data was acquired. This additional seismic data reprocessing is being carried out in Calgary, Canada, by specialists using processing techniques not previously applied in Morocco. Initial results from the newly reprocessed data set indicates that it is yielding greater clarity in data imaging, which in turn offers opportunities to improve upon the geological interpretation of the data and on the reliability of mapping of key prospective potential oil bearing horizons. The results from the reprocessing work conducted to date have supported a more extensive and fulsome reprocessing of the 2D data acquired by Gulfsands during the course of 2015 which is currently underway.

Once reprocessed, a further phase of re-interpretation and mapping work will be conducted in-house during 2015.

Gulfsands are working closely with ONHYM to optimise the work programme in the complex geological area of the Fes permit, and an extension period to the current permit exploration period beyond September 2015 is currently being discussed with ONHYM. In parallel, the Group will pursue options for funding this work programme including bringing in industry partners.

Evaluation of oil prospectivity

The Moulay Bouchta, Rharb Sud and Fes permits are all considered prospective for oil, encompassing a working petroleum system incorporating three previously developed and produced shallow oil fields, and with many oil seeps encountered at surface.

Working closely with the technical staff of ONHYM, the Group's technical teams have been consolidating, updating and interpreting a significant amount of technical data that covers the three permits, and includes 2D and 3D seismic and well data from more than 850 legacy wells within the permits and surrounding area.

The Group's technical teams have identified leads on each of the Moulay Bouchta, Rharb Sud and Fes permits via 2D and 3D seismic data and/or legacy well data, and these will be subject to further evaluation in 2015, with the possibility that some may be the location of further acquisition of 2D seismic data by the Group.

Morocco continued

During 2014, Gulfsands drilled its fourth and fifth gas exploration wells in the Rharb centre permit area, both of which were located and drilled utilising Gulfsands 3D seismic survey data acquired in 2013 and processed in 2014. Both of these exploration wells resulted in gas discoveries.

Rharb contract
Contract expiry date: November 2015.

Minimum work obligation: Drilling three exploration wells.

Further details are provided in note 2.4 to the Consolidated Financial Statements.

A formal ten month extension to the Rharb exploration contract was granted by ONHYM in January 2015 extending the licence period to 9 November 2015. The contract governs the Rharb Centre and Rharb Sud permits.

During 2014, Gulfsands drilled its fourth and fifth gas exploration wells in the Rharb centre permit area, both of which were located and drilled utilising Gulfsands 3D seismic survey data acquired in 2013 and processed in 2014. Both of these exploration wells resulted in gas discoveries.

Well LTU-1, targeting the Lalla Yetou Updip prospect was spudded on 20 June 2014 and was drilled to a total depth of 1,182 metres. Elevated gas readings obtained while drilling, as well as interpretation of wireline logs, indicated the presence of a gas bearing reservoir section of twelve metres thickness at the pre-drill target interval depth. The main reservoir encountered appeared consistent with the pre-drill expectation of a turbidite distributary channel/fan complex, with laminated sand and silt layers and normal bed grading. A gas-to-water contact was interpreted in the well, based on gas shows and petrophysical data, at a depth approximately 13 metres below the reservoir section, also consistent with the pre-drill expectation.

After the conclusion of drilling and formation evaluation operations, the twelve metre reservoir section was perforated and a short production clean up flow period was undertaken. Within one hour of commencing the cleanup flow period, the well had unloaded the completion fluids and was producing 100% gas to surface with 0% bulk solids and water. The estimated flow rate for the well, based on empirical calculation methods, was approximately 6.6 million standard cubic feet per day ("mmscfpd") on a 28/64 inch choke. After the clean up flow period the well was shut in and is now temporarily suspended as a future gas producer.

The LTU-1 gas discovery can be tied back to the area gas export pipeline system, and related civil works involving the installation of production facilities and connecting flow trunk lines are currently being evaluated.

Well DRC-1, targeting the Dardara South East gas exploration prospect and located in the north-west corner of the 3D seismic survey area, was spudded on 19 December 2014, and drilled to a total depth of 1,153 metres. The well encountered the primary reservoir target interval on prognosis at a depth of 875 metres. Significantly elevated gas readings obtained while drilling, as well as interpretation of geological samples and wireline logs, indicate the presence of a gas bearing sandstone reservoir section of excellent quality.

Detailed petrophysical evaluation of DRC-1 wireline logs yielded an interpretation indicating a 53 metres gross thickness of excellent quality reservoir sand between 875-928 metres, with a net gas bearing sand thickness of 16 metres, evaluated average gas saturation of 65% and average porosity of 32%. A gas-to-water contact was observed in the well at approximately 895 metres as evidenced by wireline log and formation pressure data.

Due to the presence of over-pressured shales in the lower section of the well-bore, and in order to ensure that the well-bore integrity was maintained for wireline logging operations, the well was not deepened further into a secondary target objective and beyond that to the original planned Total Depth ("TD") of 1,280 metres. Instead the well was cased, cemented, and perforated over the interval 876-884 metres, and a completion run in order to perform a flow test.

Following an initial two hour well clean-up flow period, the well was fully unloaded of completion fluids to a 100% gas stream. During two subsequent flow periods of six hours and eight hours respectively the well flowed first at an average gas rate of 7.1 mmscfpd on a 32/64 inch choke and then later at an average rate of 9.4 mmscfpd on a 40/64 inch choke. The well flowed with no associated formation water production or sand production in both flow periods. Following the second flow period the well was shut-in for a pressure survey in order to evaluate reservoir information and connected gas volumes, after which the well was suspended as a future gas production well.

In the Dardara area in addition to encountering a potentially highly productive net gas bearing interval of 16 metres, the DRC-1 well result indicates additional gas exploration potential to exist in adjacent areas and fault blocks.

The DOB-1 well was spudded in January 2015 and drilled to a TD of 1,140 metres Measured Depth ("MD") where it encountered the primary reservoir target interval on prognosis at a depth of approximately 808 metres MD. Significantly elevated gas readings obtained while drilling, as well as interpretation of geological samples and wire-line logs, indicated the presence of a gas bearing sandstone reservoir section of excellent quality. Detailed petrophysical evaluation of wireline logs over the primary target yielded an interpretation indicating a 4.2 metres gross sand thickness, with a net sand thickness of 3.7 metres and evaluated average gas saturation of 70% and average porosity of 34%.

The well was subjected to a flow testing and pressure survey period for evaluation of well flow performance and connected gas volumes. During initial clean up flow operations over this reservoir, the well produced natural gas at an estimated rate in excess of 10 mmscfpd on a 48/64 inch choke setting. During subsequent multi-rate flow testing, a stable flow of 6.2 mmscfpd was established for a period of four hours on a 32/64 inch choke setting, with a final wellhead flowing pressure of 1,084 psi. No formation water was detected in the gas production stream during testing operations.

The secondary reservoir target interval for the well was encountered at a depth of approximately 1,075 metres MD. Significantly elevated gas readings were encountered over the interval 1,075-1,127 metres MD. However, problems with well bore integrity above this interval prevented further evaluation of the potential of this deeper potential reservoir at this time. The Group is reviewing options for evaluating this reservoir in future operations.

Subsequent to these drilling operations the Group have been conducting a detailed technical assessment over the DOB-1 and DRC-1 gas discoveries that will include the identification of potential locations for further drilling in the near vicinity of these discoveries.

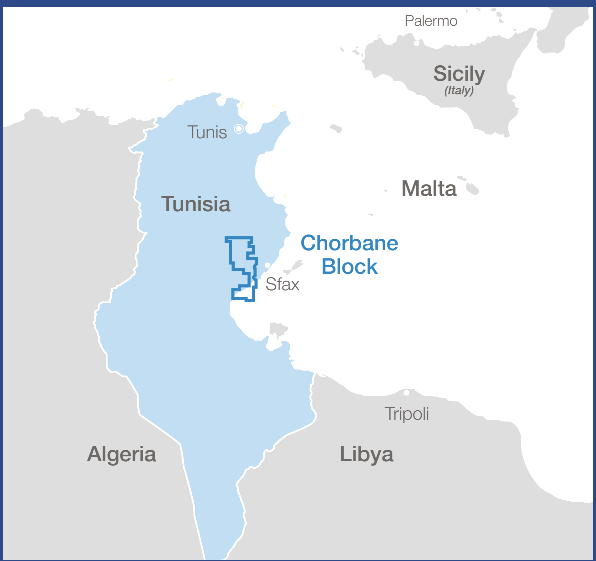
The Group have additionally been working with its partner, ONHYM, on strategies to commercialise the discoveries made. These discussions are ongoing at the date of this report.

Following the drilling of DOB-1, Gulfsands has three remaining well commitments across the Rharb concession including the Rharb Sud permit, to be drilled by the end of the licence period on 9 November 2015. The Group are working closely with ONHYM with respect to these work obligations and the commercialisation of discoveries made on this permit. In parallel, the Group are considering options for funding this work programme and the development of discoveries which may include bringing in industry partners.

Strategic Report
Operations Review continued

Tunisia

Gulfsands has a 100% interest in the operated Chorbane exploration permit onshore Tunisia covering approximately 1,942 km².



Chorbane contract

Contract expiry date: July 2015

Minimum work obligation: Drilling one exploration well.

Further details are provided in note 2.4 to the Consolidated Financial Statements.

The Tunisian Authorities (Comité Consultatif des Hydrocarbures or "CCH") have approved the transfer of all of ADX Energy Limited's remaining legal interest (30%) in the Chorbane permit, onshore Tunisia, to Gulfsands Petroleum Tunisia Limited, a wholly owned subsidiary of the Company. The Company's subsidiary is Operator of the Chorbane permit and is now legal owner of a 100% interest in the permit.

The current exploration period under the licence runs to mid July 2015 and Gulfsands has submitted an application for a two year extension during which the work obligation of acquiring 200 km 2D seismic and drilling one exploration well must be completed. If the application is successful the Group will look to farm-down its 100% interest in exchange for a carried work programme; if the application is unsuccessful, the licence will terminate.

Colombia

Gulfsands has Exploration and Production Contracts ("E&P Contracts") over two onshore contract areas, Putumayo Block 14 ("PUT 14") and Llanos Block 50 ("LLA 50").

Llanos Block 50

Contract expiry date: First exploration phase, November 2016.

Minimum work obligation: Acquisition of an additional 93 km of 2D seismic data to be captured in a new survey; and drilling one exploration well.

Further details are provided in note 2.4 to the Consolidated Financial Statements.

Putumayo Block 14

Contract expiry date: First exploration phase, November 2017.

Minimum work obligation: Acquisition of an additional 103 km of 2D seismic data to be captured in a new survey; and drilling one exploration well.

Further details are provided in note 2.4 to the Consolidated Financial Statements.

The Group continues to undertake the preliminary studies required to be completed prior to the commencement of either 2D or possibly exploration-oriented 3D seismic acquisition programmes on the contract areas. Discussions with other operators in the Putumayo and Llanos areas and seismic contractors active in these areas have commenced with a view to coordinating and sharing logistics as well as optimising parameters for the seismic programmes being planned on both contract areas.

The next phase of the work programme on PUT 14 includes a "Consulta Previa", being a consultation with local indigenous and tribal peoples regarding the implementation of any project that may have an impact on their culture, heritage, social-economical conditions and environment. This Consulta Previa has an expected duration of six months. In parallel, a PMA "Plan de Manejo Ambiental", or Environmental Management Plan, is required to be prepared across the whole contract area, completion of which will allow the commencement of a seismic survey. Operators in nearby contract areas in the Putumayo basin have successfully utilised 2D and 3D seismic data and interpretation methods generating multiple discoveries in the area.

On LLA 50, a MMA "Medidas Manejo Ambiental", or Environmental Management Measures, is being prepared across the whole contract area, completion of which will allow the commencement of a seismic survey. The annual weather window (dry season) for seismic operations in this region is quite narrow, typically restricting seismic acquisition to the period from mid-December to mid-April. The LLA 50 contract area is located within the proven and productive Llanos basin in eastern Colombia.

The Group is currently considering divestment or farm-down options for its interests in the contract areas prior to any significant financial commitment with respect to further exploration work.

Strategic Report

Reserves and Resources Report

Reserves

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

The Group's Reserves are based on estimates made by Gulfsands' Technical teams which are approved by Management and then reviewed by independent petroleum engineers from external parties. External reviews have been performed for the Group by Senergy (GB) Limited ("Senergy") since 2009.

Summary of Reserves

Working interest reserves in Syria represent the proportion, attributable to the Group's 50% participating interest, of forecast future hydrocarbon production during the economic life of the Block 26 PSC, including the share of that production attributable to General Petroleum Corporation ("GPC"). In assessing the Group's Reserves attributable to Syria Block 26 it has been assumed that the force majeure condition is lifted with effect from 1 January 2016 and Gulfsands resumes its role as operator. It should be noted that there remain significant uncertainties with respect to the timing of the Group's re-entry into Syria and the conditions encountered upon its return.

Reserves attributable to the Group's US business, which was divested during 2014, are no longer recorded.

Working interest basis

	Syria		US		Group total		
As at 31 December 2014	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil & Gas mmboe
Proved	**38.5**	**11.0**	**0.0**	**0.0**	**38.5**	**11.0**	**40.3**
Probable	29.7	20.5	0.0	0.0	29.7	20.5	33.2
Proved and Probable	**68.2**	**31.5**	**0.0**	**0.0**	**68.2**	**31.5**	**73.5**
Possible	41.8	35.5	0.0	0.0	41.8	35.5	47.7
Proved, Probable and Possible	**110.0**	**67.0**	**0.0**	**0.0**	**110.0**	**67.0**	**121.2**
Movements in Proved and Probable reserves during year							
As at 31 December 2013	68.9	33.0	1.0	2.0	69.9	35.0	75.8
Discoveries and additions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	(0.9)	(1.9)	(0.9)	(1.9)	(1.2)
Revisions	(0.5)	(1.5)	0.0	0.0	(0.5)	(1.5)	(0.8)
Less estimated production	(0.2)	(0.0)	(0.1)	(0.1)	(0.3)	(0.1)	(0.3)
At 31 December 2014	**68.2**	**31.5**	**0.0**	**0.0**	**68.2**	**31.5**	**73.5**
Represented on an entitlement basis at 31 December 2014	**29.5**	**16.5**	**0.0**	**0.0**	**29.5**	**16.5**	**32.3**

Note, certain figures may not add up due to roundings.
"Oil" includes condensate and NGLs.
Gas is converted to mmboe at the conversion factor 1 bcf = 0.1667 mmboe.

Resources

The Group's Resources are based on estimates made by Gulfsands' Technical teams which are approved by Management and then reviewed by independent petroleum engineers from external parties. External reviews have been performed for the Group by Senergy since 2009.

Summary of Contingent Resources

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

In accordance with the 2007 SPE PRMS, a guideline risk factor should be stated associated with the Contingent Resources quoted for each category; the risk factor indicates the likelihood that the Group will ultimately commercially develop the resource. The risk factor considers all technical and non-technical factors that are impacting or are likely to impact on the likelihood of development, and is termed the "Chance of Development".

Unrisked working interest basis

As at 31 March 2015	Constituent	1C	2C	3C	**Risk factor** (Chance of development)
Syria Block 26 (Working interest 50%)					
Al Khairat discovery	Oil, mmbbl	2.9	12.0	45.7	**30%**
Syria total	**mmbbl**	**2.9**	**12.0**	**45.7**	
Morocco Rharb Centre permit (Working interest 75%)					
Beni Fdal discovery	Sales Gas, bcf	0.3	0.7	1.9	**50%**
Douar Nouaoura discovery	Sales Gas, bcf	0.4	1.3	4.3	**20%**
Lalla Yetou Updip discovery	Sales Gas, bcf	0.8	2.0	4.3	**90%**
Dardara Southeast discovery	Sales Gas, bcf	1.6	4.7	13.9	**90%**
Douar Ouled Balkhair discovery	Sales Gas, bcf	0.2	0.6	1.9	**90%**
Morocco total	**bcf**	**3.3**	**9.3**	**26.3**	

Note, certain figures may not add up due to roundings.
"Oil" includes condensate and NGLs.
Gas is converted to mmboe at the conversion factor 1 bcf = 0.1667 mmboe.

Strategic Report

Reserves and Resources Report continued

Summary of Prospective Resources

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. They are further categorised by the 2007 SPE PRMS into Low, Best and High estimates. The quoted Low, Best and High estimates are the 90% probability ("P90"), 50% probability ("P50") and 10% probability ("P10") values respectively derived from probabilistic estimates generated using a Monte Carlo statistical approach.

In accordance with the 2007 SPE PRMS, a guideline risk assessment should be provided associated with the Prospective Resources quoted for Low, Best and High estimate categories. The risk assessment here is the Chance of Discovery; the additional risk assessment relating to the Chance of Development is not normally quantified at this level of resource classification.

For Morocco Rharb Centre prospects and leads the chance of producing any hydrocarbons commercially may be significantly lower than the Chance of Discovery as most potential traps are likely to be small and it is possible that a number of proximal discoveries will be required for commerciality.

Unrisked working interest basis

As at 31 March 2015	Constituent	Low	Best	High	**Risk factor** (Chance of discovery)
Morocco Rharb Centre permit (Working interest 75%)					
Upper Miocene prospects	Sales Gas, bcf	3.0	7.4	16.3	**35-48%**
Upper Miocene leads	Sales Gas, bcf	6	17	37	**Medium-High**
Morocco Rharb Sud permit (Working interest 75%) Jurassic leads	Oil and Sales Gas, mmboe	1	11	66	**Low-Medium**
Morocco Moulay Bouchta permit (Working interest 75%) Jurassic leads	Oil and Sales Gas, mmboe	1	11	75	**Low-Medium**
Morocco Fes permit (Working interest 50%) Jurassic leads	Oil and Sales Gas, mmboe	21	478	2,250	**Low-Medium**
Morocco total	**mmboe**	**24**	**504**	**2,400**	

	Constituent	Low	Best	High	**Risk factor** (Chance of discovery)
Tunisia Chorbane permit (Working interest 100%)					
Sidi Agareb prospect Eocene/Upper Cretaceous	Oil, mmbbl	8	27	63	**9%-25%**
Lafaya Deep & Sidi Daher prospects Jurassic leads	Sales Gas, bcf	21	103	398	**Low**
Tunisia total	**mmboe**	**12**	**44**	**129**	

Note, certain figures may not add up due to roundings.
"Oil" includes condensate and NGLs.
Gas is converted to mmboe at the conversion factor 1 bcf = 0.1667 mmboe.

Strategic Report
Corporate Social Responsibility

With the operatorship of projects in Syria, Morocco, Colombia and Tunisia, the Group has been able to take the initiative to develop and implement Corporate and Social Responsibility (“CSR”) programmes for the communities in these countries.

We are focusing our efforts on assisting organisations to develop and implement education, health and employment programmes that address issues particularly affecting the disadvantaged members of society.

Despite the security difficulties in Syria, we have managed to continue our work with a number of the local Syrian organisations with which we have worked in the past. We have again been supported in these efforts by our Block 26 partners, Sinochem, our staff located in Damascus and Beirut, and the many Damascus-based volunteers who continue to support these important organisations. Within the constraints on our ability to fund deserving CSR activities, we provided modest support for a number of worthy projects in Damascus and the north east region of Syria where our Khurbet East and Yousefieh projects remain suspended.

In Morocco we are working with local authorities to establish appropriate CSR projects in the area of our future production operations. The intention is that these projects will be scalable to match the growth in our operations over time.

Our projects in Colombia and Tunisia are still in their early stages of exploration and our CSR programmes for these countries are in their infancy, however with our growing experience of running CSR programmes elsewhere, and seeing the benefit even small and simple programmes can deliver to the local communities, we shall endeavour to establish CSR programmes commensurate with our level of activity.

Strategic Report

Financial Review

Disposal of our US business in 2014 was evidence of progress towards better capital discipline. The optimisation of our portfolio of E&P assets and an emphasis on creating a smaller and more cost-effective management structure will be our themes for 2015.

Selected operational and financial data

	Year ended 31 December 2014 $'000	Year ended 31 December 2013 $'000
General administrative expenses	**(5,469)**	(9,408)
Exploration costs written-off	**(6,040)**	(12,301)
Loss from continuing operations	**(12,113)**	(25,382)
Loss for the year	**(16,091)**	(26,757)
Net cash used in operating activities by continuing operations	**(3,799)**	(8,611)
E&E cash expenditure	**(26,987)**	(17,302)
Cash and cash equivalents	**7,907**	33,824
Restricted cash balances	**11,514**	19,138

The loss for the year was $16.1 million (2013: $26.8 million), consisting of a loss from continuing operations for the year of $12.1 million (2013: $25.4 million) and a loss from discontinued operations for the year of $4.0 million (2013: $1.4 million). The loss from discontinued operations related to the US operations which were disposed of in December 2014. Under the requirements of IFRS 5, the 2013 comparatives for discontinued operations have been reclassified in the Income Statement.

General administrative expenses fell by $4.0 million during the year. Office expenses after partner recoveries reduced by $1.7 million whilst a reduction in depreciation and an increase in office expenses capitalised, further reduced general administrative expenses by $2.3 million.

Exploration and evaluation asset write-offs decreased in the year to $6.0 million (2013: $12.3 million). 2014 write-offs consisted of $5.2 million in respect of Moroccan E&E assets and $0.8 million in respect of Tunisian E&E assets. 2013 write-offs largely reflected three unsuccessful exploration wells drilled on the Rharb Centre permit.

The carrying value of exploration and evaluation assets on the Balance Sheet increased to $53.0 million at 31 December 2014 (31 December 2013: $37.1 million), predominantly due to the substantial investment in Morocco during the year including the drilling of the successful LTU-1 and DRC-1 gas wells.

The Group continues to value its investment in its Syrian interest at $102.0 million.

Total unrestricted cash and cash equivalents reduced by $25.9 million in the year to $7.9 million at 31 December 2014 (31 December 2013: $33.8 million). Restricted cash balances reduced by $7.6 million to $11.5 million (31 December 2013: $19.1 million).

Operating performance

General administrative expenses

	Year ended 31 December 2014 $'000	Year ended 31 December 2013 $'000
Office expenses after partner recoveries	**(12,163)**	(13,815)
Depreciation and amortisation	**(602)**	(1,124)
Office expenses capitalised	**7,296**	5,531
General administrative expenses	**(5,469)**	(9,408)

Gulfsands made significant progress in 2014 to further reduce its operating cost base with general administrative expenses reducing to $5.5 million in the year (2013: $9.4 million). $1.7 million of the reduction represents a reduction in office expenses after partner recoveries. In addition to this: a reduction in depreciation; and the progression in the Group's business model toward operatorship of its assets as well as increased operational activity, particularly in Morocco, resulting in increased amounts capitalised, further reduced general administrative expenses by $2.3 million in the year.

Exploration write-offs for the year totalled $6.0 million (2013: $12.3 million), of which $5.2 million relates to Moroccan operations and $0.8 million relates to Tunisian operations. Expenditure written-off in relation to Moroccan operations included $1.5 million of expenditure related to 2014 expenditures on the wells drilled in the first phase of drilling on the Rharb Centre permit, which commenced in October 2013 and completed in January 2014. These wells were deemed non-commercial and plugged and abandoned. A further $3.7 million of expenditure, on activities that were unsuccessful, was written-off in the year.

The Group reported a reduced loss before tax from continuing operations of $12.1 million (2013: $25.4 million) for the year. In addition to the reduction in general administrative expenses and reduced exploration write-offs in the year, this improved performance also reflects the incurrence of exceptional one-off Syrian inventory write-offs and impairments in 2013 of $2.9 million.

The Group sold its investment in its wholly-owned US subsidiary, Gulfsands Petroleum USA, Inc. ("GPUSA"), to Hillcrest Resources Ltd ("Hillcrest") for a consideration of $50k. As part of the sale and purchase agreement the intercorporate debt owed by GPUSA to the Gulfsands Group was also assigned to Hillcrest. The sale of the investment in GPUSA means all of the Group's interests in oil and gas licences in the Gulf of Mexico as well as their related decommissioning liabilities and amounts held in escrow to guarantee those decommissioning liabilities have been disposed of. The transaction was completed on 18 December 2014. Losses from discontinued operations in the year were $4.0 million (2013: $1.4 million) consisting of a loss on disposal of $2.5 million in addition to the loss for the eleven months to disposal generated by the US operations of $1.5 million (2013 twelve months loss: $1.4 million). The results of the discontinued US operations have been consolidated to 30 November 2014 which is treated as the effective completion date; the results for the 18 days to 18 December 2014 are considered not material to the Group.

Under the requirements of IFRS 5, the 2013 comparatives for the discontinued operations have been reclassified in the Consolidated Income Statement and Consolidated Cash Flow Statement.

The Group reported a reduced loss for the year of $16.1 million (2013: $26.8 million).

Balance sheet

Property, plant and equipment reduced as the Group's producing Gulf of Mexico oil and gas assets were disposed of in December 2014 as part of the sale of the Group's investment in GPUSA.

The Group continued to build on its exploration portfolio and was awarded the Moulay Bouchta contract, onshore Morocco, in April 2014. At 31 December 2014, intangible exploration and evaluation assets are held at a net book value of $53.0 million (31 December 2013: $37.1 million) of which $46.6 million relates to cumulative expenditure capitalised against Moroccan permits (31 December 2013: $31.6 million). Capital expenditures during the year totalled $21.0 million (2013: $46.5 million), on an accrued basis, including $7.9 million of drilling related costs incurred in respect of successful drilling on the Rharb Centre permit. The drilling of LTU-1 commenced on 20 June 2014 and a gas discovery made. Drilling of the DRC-1 well commenced on 19 December 2014. This well, was being tested at year end and declared a discovery post year end. Drilling continued into the first quarter of 2015 with a further well, DOB-1, also declared a discovery post year end.

Other significant exploration expenditures incurred in the year for Moroccan operations included: $1.1 million of Rharb Centre 3D seismic costs with processing completed in the first quarter of 2014; $2.7 million of 2D seismic costs over the Fes area with the acquisition and processing completing in the first quarter of 2014; and $1.2 million for the first phase of drilling in Rharb Centre, with the final well of three, BFD-2, completing in January 2014. As a result of the increased operational activity during the year, $7.3 million of operations office expenses were capitalised against the Moroccan, Tunisian and Colombian contracts. Exploration write-offs for the year totalled $6.0 million (2013: $12.3 million); the previous year included the cost of the three unsuccessful wells drilled.

Balance sheet continued
The fair value of the Group's net investment in its Syrian interests remains unchanged at $102.0 million. The Board reconsidered the valuation as at 31 December 2014, and it is their view that there has been little significant change to the circumstances and status of the Group's Syrian interests. The Board are still unable to provide a firm view as to the eventual outcome and the timing of resolution of the situation in Syria that would lead to the EU lifting sanctions against Syria, allowing Gulfsands to return, however, they continue to consider that its position in respect of its interests remains strong and all indications are that Syrian authorities expect Gulfsands and its partner to return to operational control of their interests in accordance with the terms of the PSC as soon as circumstances permit. The carrying value of the Syrian interest continues to be supported by the Group's valuation model based on the estimated future cash flows that could be generated from the Group's remaining entitlement reserves in Block 26 in Syria. Due to the recent significant fall in oil price the Board has decided that it would be more appropriate to use the forward Brent oil price curve to value forecast production from the assets, with an assumption of 2% price inflation beyond the end of the quoted curve. This would have a significant impact on the value of near-term production but, because the valuation model includes an assumption that the recommencement of production is deferred for five years, the actual impact on forecast revenues is limited. The Board continues to hold the view that its current valuation of $102.0 million, representing 25% of the base "value in use" calculation for its Syrian interests, remains fair and appropriate.

Trade and other receivables have decreased during the year to $1.0 million (31 December 2013: $3.5 million). This is predominantly due to the recovery of historic balances due from oil and gas partners totalling $1.3 million.

Current trade and other payables at 31 December 2014 have decreased significantly from 2013 year end to $5.9 million (31 December 2013: $15.2 million) predominantly as a result of the timing of drilling operations in Morocco with substantially lower activity at the 2014 year end than the previous year end.

Decommissioning provisions relate to abandonment and restoration provisions on the Rharb Centre Moroccan wells and total $1.0 million at 31 December 2014. Decommissioning provisions at 31 December 2013 totalled $13.2 million and related to the US Gulf of Mexico assets which have been disposed of in December 2014.

On 19 November 2014, the Group announced the closing of a $20.0 million convertible loan facility with Arawak Energy Bermuda Ltd ("Arawak") and subsequently drew-down the first $5.0 million tranche on 25 November 2014. The loan bears interest at 10% per annum in addition to a commitment fee of 3% per annum on the available facility, both of which are rolled up quarterly into the loan balance. The loan matures on 30 November 2017 and is repayable in full on the maturity date. The convertible loan is a hybrid financial instrument and the option to convert is an embedded derivative.

The conversion option has been valued at the date of the first draw-down and at the year end using a Black-Scholes model and the valuation considered immaterial for separate recognition in the Balance Sheet. Subsequent to the year end a further $5.0 million was drawn-down. In early March Arawak requested early repayment of the outstanding loan amount.

Cash flow
Operating cash outflow from continuing operations was substantially reduced in the year to $3.8 million (2013: $8.6 million) largely as a consequence of the reduction in general administrative expenses.

Investing cash outflow from continuing operations during the year totalled $24.0 million (2013 $45.6 million). This predominantly consists of: $27.0 million of exploration expenditure inclusive of $24.8 million spent on Moroccan operations and $1.75 million being placed as security with respect to the newly awarded Moulay Bouchta licence obligations; partially offset by restricted cash balances released during the year totalling $6.5 million.

The total cash outflow for the US discontinued operation in the year was $2.8 million (2013: $3.0 million). This consisted of: cash outflows for investing activities of $5.0 million (2013: $3.7 million); cash disposed of as part of the disposal of $0.2 million; partially offset by cash generated by production operations of $2.4 million (2013: $0.7 million). The improvement in cash generated by operating activities was due to the increased revenues from Eugene Island Block 32 resulting from the work-over of well #33 and the sidetrack of well #30. These work-overs and sidetracks were also the reason for the increase in investing cash outflows in 2014.

The total decrease in cash and cash equivalents during the year was $25.9 million (2013: $57.2 million).

Financial position
The Group had total unrestricted cash and cash equivalents of $7.9 million (31 December 2013: $33.8 million).

Restricted cash balances at the end of the period (which are presented as long-term financial assets in the Balance Sheet) totalled $11.5 million, and represent funds securitised as collateral in respect of future work obligations – principally in respect of the Group's Moroccan interests. Restricted cash balances have decreased by $7.6 million during the year as a result of: a release of $6.5 million due to partial completion of the Moroccan work programmes, disposal of the $2.9 million US guarantees as part of the disposal of the investment in GPUSA, all partially offset by a new $1.75 million deposit being placed for future work obligations relating to the award of the Moulay Bouchta licence. The restricted cash balances will continue to be released to the Group as work programmes are completed with $2.5 million to be repaid to a third party upon release.

Going concern

The Consolidated and Company Financial Statements have been prepared on the going concern basis which has been approved by the Board. The basis on which the Board has reached this decision is as follows:

As at the date of this report, the Group has cash balances immediately available to it totalling approximately $3.0 million with net current liabilities of approximately $2.6 million and ongoing costs currently approximating to $1.0 million per month. Restricted cash balances and the work commitments to which they relate are described in note 2.4 to the Consolidated Financial Statements. Additionally, the Group has an outstanding loan of $10 million from Arawak, which they have requested be repaid. This loan is described in note 3.5 to the Consolidated Financial Statements. Early repayment will cause a minimum of $1 million of interest and fees to also become payable.

The Board is in the process of actioning its strategy for each asset and these strategies are laid out in the Operations Review on pages 12 to 19 of this Report. This includes substantially reducing its costs whilst, farming-down, divesting or otherwise rationalising certain interests and the associated work commitments. In parallel the Group is actioning a financing strategy which includes accessing a short-term working capital loan from existing shareholders to provide the Group with time to progress a more significant financing exercise. The Board has received indications from certain of its shareholders of a willingness to contribute to such a working capital loan. Shortly, the Board will develop and communicate its longer-term financing strategy which should allow the Group to achieve the following:

- repayment of the Arawak facility;
- rationalisation of existing minimum work commitments;
- further appraisal and exploitation of selected assets;
- working capital to provide stability for the medium term.

As stated elsewhere, the Group may not finance all its work commitments itself but will look to bring in partners to reduce the Group's net exposure to such commitments to a level that the Board considers sustainable and financeable or, alternatively, it will divest itself of assets as necessary.

Based upon its experience and ongoing discussions with existing shareholders and potential partners, the Board is confident that the Group will be able to access appropriate resources to finance the strategy that it is developing.

Notwithstanding the confidence that the Board has in its ability to stabilise and finance the Group's re-shaped business, the Directors, in accordance with FRC guidance in this area, conclude that at this time there is material uncertainty that such finance can be procured and failure to do so might cast significant doubt upon the Company's and the Group's ability to continue as a going concern and that the Company and the Group may therefore be unable to realise their assets and discharge their liabilities in the normal course of business. Such scenario could impact upon the carrying value of intangible exploration and evaluation assets as disclosed in note 2.3 to the Consolidated Financial Statements and on the recoverability of certain restricted cash amounts, as disclosed in note 2.4 to the Consolidated Financial Statements, held in escrow to support guarantees of performance of minimum work obligations.

However, following completion of a review of the going concern position of the Company and Group at the meeting of the Board of Directors on 18 May 2015, including the uncertainties described above, the Board has concluded that, with current consolidated cash and cash equivalents totalling $3.0 million and taking into account both the revised strategy of farming-down or divesting assets and new financial resources that the Board might reasonably expect to become available, the Company and the Group will have sufficient resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of approval of this Annual Report. Accordingly, the Directors consider it appropriate to continue to adopt the "going concern basis" in preparing these Financial Statements.

This Strategic Report was approved by the Board of Directors on 19 May 2015.

Alastair Beardsall
Executive Chairman

19 May 2015

Cautionary statement

This Strategic Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed.

The Strategic Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The Directors, in preparing this Strategic Report, have been guided by the requirements of section 414c of the Companies Act 2006. The report has been prepared for the Group as a whole and therefore gives emphasis to those matters which are significant to the Group as a whole.

Governance

Board of Directors

Alastair Beardsall, aged 61

Executive Chairman

Alastair was appointed to the Board in April 2015. He has been involved in the oil industry for over 35 years. For the first twelve years Alastair worked on international assignments with Schlumberger, the oil-field services company. From 1992 he began working for exploration and production operators, with increasing responsibility for exploration, development and production ventures. Between September 2003 and October 2009, Alastair was Executive Chairman of Emerald Energy plc; in October 2009 Emerald was acquired by Sinochem Resources UK Limited, for £7.50 per share in a transaction that valued Emerald at £532.0 million. Alastair is Executive Chairman of Sterling Energy plc (AIM:SEY), a Non-Executive Director of Jupiter Energy Limited (AIM:JPRL) and advises other private companies in the oil and gas industry.

Mr Beardsall holds and/or has held positions as an officer and/or director of several other companies in which Waterford Finance and Investment Limited ("Waterford") has been and/or remains a substantial shareholder. Mr Beardsall has no business, financial or commercial interests with Waterford beyond the fact of him being an officer or director of such other companies. Waterford is a substantial shareholder in Gulfsands and Mr Beardsall and Waterford have entered into a Relationship Deed with the Company which embodies customary terms providing for the proper handling of any potential conflicts.

Alan Cutler, aged 56

Director – Finance and Administration

Alan Cutler is a Chartered Accountant, he holds a Business Studies degree and was admitted to the ICAEW in 1985. He has subsequently gained over 30 years of experience in the upstream oil and gas business, including senior finance positions at LASMO plc in London, Pakistan and Libya, and also at Intrepid Energy, Sterling Energy and most recently as Finance Director at Setanta Energy, a West Africa-focused subsidiary of Aker ASA. Alan joined Gulfsands in June 2013 and became a Director in September 2013. Alan has tendered his resignation and is expected to leave Gulfsands during the third quarter of 2015.

John Bell, aged 49

Non-Executive Director

John Bell is a Chartered Engineer with over 30 years' experience in the energy sector having worked at Vice President or Managing Director level at BP, Statoil AS and Suncor Energy (Syria). He has spent a large part of his career in the Middle East, as well as time in North Africa, the Americas, the UK North Sea, Scandinavia & the Caribbean. John is currently Executive Chairman of Tethys Petroleum, a TSX and LSE listed public oil and gas company.

From May 2014 to December 2014, a company associated with John had a consultancy agreement with a subsidiary of the Company. Subsequent to the termination of that agreement, the Board has considered John to be an independent Non-Executive Director.

Ian Conway, aged 52

Director – Technical and Operations

Ian Conway holds a BA and MA in Physics from Oxford University, and an MSc in Finance from London Business School. He has 28 years of experience in petroleum/reservoir engineering, technical leadership and commercial roles. Ian has worked extensively on reservoir development studies in the Middle East, Europe and Asia. He started his career with BP Exploration in 1985, progressing through a number of technical, commercial and operational roles. In 1993 he joined Maersk Oil International as a Senior Reservoir Engineer. Following a period as an independent consultant, he joined ExxonMobil International Ltd in 2002, reaching the position of Lead Reservoir Advisor for the UK and Netherlands. Mr Conway joined Gulfsands Petroleum in 2009 as Vice President, Petroleum Engineering, and became a Director of Gulfsands in June 2014.

Joe Darby, aged 67

Senior Independent Non-Executive Director

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

James Ede-Golightly, aged 35

Non-Executive Director

James Ede-Golightly is Chairman of East Balkan Properties plc and Quoram plc and has extensive experience as a Non-Executive Director on the boards of AIM-quoted companies with international business interests. James was a founder of ORA Capital Partners in 2006, having previously worked as an analyst at Merrill Lynch Investment Managers and Commerzbank. He is a CFA Charterholder and holds an MA in Economics from Cambridge University. In 2012 he was awarded New Chartered Director of the Year by the Institute of Directors. James was appointed a Non-Executive Director of Gulfsands in August 2014.

James holds a 5.0% interest in, and is a Non-Executive Director of, ORA, which is a company chaired and majority owned by Richard Griffiths. Mr Griffiths, through other associated entities, is a substantial shareholder in Gulfsands.

Mahdi Sajjad, aged 56
Non-Executive Director

Educated in the United Kingdom, Mahdi Sajjad worked from 1981-1988 with a consortium of British companies marketing products and engineering services in the Middle East and Africa. In 1988, he joined International Development Corporation in Dubai as a Senior Executive and later as Managing Director whilst also serving during the same period through to 1995 as a Director of Oil & Minerals Development Corporation. He has also established, as a founder shareholder and financier, a number of companies with interests in the Middle East in different industry sectors but with particular emphasis on the energy and mining sectors. Mahdi has been a Director of Gulfsands since 1998.

Andrew Morris, aged 46
Non-Executive Director

Andrew Morris has extensive international business experience and sits on the Board of several companies, ranging from early stage resource companies to emerging technology companies. He is currently Non-Executive Chairman of Madagascar Oil Limited, an AIM listed company with oil and gas assets situated onshore Madagascar. He was founder of Persistency Capital, a private investment company, where he has acted as both investor in, and adviser to, companies across a broad range of sectors and geographies focusing on value investing, deal structuring and turnarounds. His other current directorships include serving on the Board of Blake Oil and Gas Limited which has operations in Georgia, Kriisa Research Inc and as Director and Principal of Vokings Advisers Limited. Previous, directorships include Falcon Oil and Gas Ltd, Southwest Energy and Direct Petroleum Exploration. Previously, Mr Morris spent 15 years in the financial services industry, during which time he served as a Director of Ernst & Young in London. Mr Morris holds a BSc (Hons.) degree in Mathematics from Bristol University and is a Fellow of the Institute of Chartered Accountants in England and Wales. Andrew was appointed a Non-Executive Director of Gulfsands in April 2015.

Andrew holds a 3.4% interest in Swiss Energy Partners AG, the parent company of SEP African Ventures Ltd which is a substantial shareholder in Gulfsands. Andrew is also a Director of other subsidiaries of Swiss Energy Partners AG.

Andrew West, aged 58
Non-Executive Director

Andrew West has spent much of his career as an investment banker specialising in mergers and acquisitions. He worked for Smith Barney (1981-85), Lehman Brothers (1985-90), Guinness Mahon (1990-96) and from 1996-99 was Managing Director of Strand Partners, a privately-owned investment banking firm specialising inter alia in energy and natural resources. For the past sixteen years he has run his own consultancy practice. Andrew is currently a Non-Executive Director of or adviser to numerous companies, both public and private, and has had considerable experience as both a financial adviser and a Non-Executive Director in the oil and gas sector. Andrew was appointed to the Board in March 2006 and became Chairman in July 2006; he stepped down as Chairman in April 2015 and remains on the Board as a Non-Executive Director.

Governance

Directors' Report

The Directors present their Annual Report together with the audited Financial Statements of Gulfsands Petroleum plc and its subsidiary undertakings (the "Group" or the "Company" or "Gulfsands") for the year ended 31 December 2014.

The Corporate Governance Report, Audit Committee Report and Directors' Remuneration Report set out on pages 35 to 37 form part of this Directors' Report.

Any significant events since the Balance Sheet date are detailed in note 6.5 to the Consolidated Financial Statements, however an indication of possible future developments in the business of the Group are included in the Strategic Report on pages 7 to 27.

Dividends

The Directors do not recommend payment of a dividend in respect of 2014 (2013: nil).

Capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are set out in note 6.1 to the Consolidated Financial Statements. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company except for those held as treasury shares by the Company, which are not eligible to vote.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 6.1 to the Consolidated Financial Statements.

No person has any special rights of control over the Company's share capital and all issued shares except treasury shares are fully paid.

Substantial shareholders

Except for the holdings of ordinary shares listed below, the Company has not been notified by, or become aware of, any persons holding 3% or more of the issued ordinary shares of the Company at 19 May 2015:

Name	Number of shares	% of shares in issue
Waterford Finance & Investment Limited	33,100,513	27.13%
Abdul Rahman Mohdabdullah Kayed	11,500,000	9.43%
Seren Capital Management Limited(1)	9,780,717	8.02%
Schroder Investment Management	8,868,408	7.27%
Nordman Continental S.A.(2)	8,685,268	7.12%
Al-Mashrek Global Invest Ltd	7,000,000	5.74%
Hugh Sloan	5,000,000	4.10%
SEP African Ventures Ltd	4,866,842	3.99%
Cream Capital Limited(1)	2,000,000	1.64%
Shares held in Treasury by the Company(3)	4,103,355	3.36%

(1) Companies associated with Richard Griffiths.
(2) Nordman Continental S.A. is owned by discretionary trusts of which Mr Sajjad's children are potential beneficiaries.
(3) Not eligible for voting rights.

Directors and their interests

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

	At 31 December 2014		At 31 December 2013	
	Number of ordinary shares	**Number of share options**	Number of ordinary shares	Number of share options
A Beardsall[(1)]	**—**	**—**	—	—
I Conway[(2)]	**—**	**167,490**	—	417,490
A Cutler[(3)]	**—**	**—**	—	—
M Sajjad[(4)]	**8,685,268**	**750,000**	8,685,268	750,000
J Darby	**—**	**—**	—	—
J Bell[(5)]	**—**	**—**	—	—
J Ede-Golightly[(6)]	**20,000**	**—**	—	—
A Morris[(7)]	**—**	**—**	—	—
A West	**140,144**	**—**	140,144	—
K Judge[(8)]	**2,616,750**	**450,000**	2,616,750	450,000
D Cowan[(9)]	**491,750**	**—**	491,750	—
M Faure[(10)]	**—**	**—**	—	—

(1) Appointed 14 April 2015.
(2) Appointed 30 June 2014. Note, 47,490 share options are restricted share options (2013: 47,490). See note 6.1 to the Consolidated Financial Statements for further details.
(3) Appointed 13 September 2013.
(4) The interest for Mr Sajjad includes shares held by Nordman Continental S.A., a company owned by a trust of which Mr Sajjad's children are potential beneficiaries.
(5) Appointed 13 August 2014.
(6) Appointed 13 August 2014.
(7) Appointed 22 April 2015.
(8) The interest for Mr Judge includes shares held by Hamilton Capital Partners Limited, an associated company of Mr Judge. Mr Judge left the Board on 3 February 2015.
(9) Resigned 30 June 2014.
(10) Resigned 13 August 2014.

Governance
Directors' Report continued

Directors' interests in transactions
Details of transactions with Directors for the year ended 31 December 2014 are set out in note 6.3 to the Consolidated Financial Statements.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Financial Statements in accordance with applicable laws and International Financial Reporting Standards ("IFRSs") as adopted by the EU.

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

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

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

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

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

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

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

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

Auditor
Following a tender process in 2014, BDO LLP was appointed as the Company's external auditor commencing with the 2014 financial year. BDO LLP is subject to annual re-election by shareholders and resolutions on its appointment and seeking authorisation for the Directors to set the auditor's remuneration are included in the Notice of AGM.

By order of the Board,

Alastair Beardsall
Executive Chairman

19 May 2015

Governance

Directors' Corporate Governance Report

Gulfsands Petroleum plc is committed to maintaining high standards of corporate governance, business conduct and ethics throughout the Group. Gulfsands is not required to comply with the UK Corporate Governance Code ("the Code"); but it is the policy of the Board to apply the Code as is appropriate given the size of the Group. Where the Company does not, at the date of this Report, apply relevant provisions of the Code these are disclosed and explained in the following table:

Code Provisions	Principle with which Company is non-compliant	Explanation
A.2.1	The roles of CEO and Chairman are currently combined.	The role of CEO was vacated in April 2015, the Group will commence the search for a new CEO shortly. The role of interim CEO is being undertaken by the Executive Chairman.
A.3.1	The current Chairman, appointed April 2015 is not independent.	The Chairman was appointed in an executive capacity and holds positions as an officer and director of several other companies related to a substantial shareholder, and consequently is not considered independent. See page 28 for further details.
B.2.1 **B.2.2** **B.2.4**	The Company has no Nominations Committee.	The matters normally delegated to the Nomination Committee are managed by the whole Board. The Board considers this appropriate for a company of our size.
B.4.1 **B.4.2**	Formal induction, training and development processes are not in place for Non-Executive Directors.	The Non-Executive Directors arrange their own personal development and training; formal induction procedures have not been deemed necessary given the experience of the individuals concerned.
B.6.1 **B.6.3** **B.7.2**	Board performance evaluation has not been implemented and reported.	It is the intention of the Company to develop a Board evaluation process in future.
D.1.1 **D.1.4**	Directors' remuneration provisions are not applied in the current service agreements.	Compliance will be addressed when new service contracts are contemplated.
E.2.2	Sufficient communication is not provided on the Company's website with regards to votes at general meetings.	Compliance will be addressed at future general meetings.

In order to communicate its corporate governance standards to employees, contract staff and contractor personnel across the Group, the Board has established a Code of Business Conduct and Ethics which is available on the Company's website and supported by detailed internal policies and procedures. Compliance with the Code of Business Conduct and Ethics is a contractual requirement for all personnel.

The Gulfsands Board

The role of the Board

The Board sets the Group's strategic objectives taking into account the financial and human resources available within the Group to meet these objectives. The Board determines the Company's key policies, values and standards, effectively communicating these throughout the Group. Periodically the Board reviews the potential risks to the Group and the Board ensures the probability of these risks affecting the business are minimised via management and mitigation.

The Board's role is to provide entrepreneurial leadership of the Group within a framework of effective controls and periodic reporting; this enables operational and financial performance to be actively monitored and managed.

The composition of the Board

Gulfsands' business carries political, commercial and technical risks. Accordingly, particular attention is paid to the composition and balance of the Board to ensure that it has experience of the oil and gas industry, the regulatory environments in which the Group operates and has appropriate financial and risk management skills to lead the Group.

The Board considers that objectivity and integrity are prerequisites for all appointments, as are the skills, experience, ability and diversity that will assist the Board in its key functions and decision-making. The Board sees the role of the Non-Executive Directors is to independently and constructively challenge the performance of the Executive Management and to offer assistance and mentor where their skills and experience can assist the performance of the Management team in the delivery of agreed objectives.

Directors' Corporate Governance Report continued

The Gulfsands Board continued

The composition of the Board continued

The Board of Directors currently comprises the Executive Chairman, two Executive Directors and six Non-Executive Directors including a Senior Independent Director. A brief description of each of the Directors' background and experience can be found on pages 28 and 29.

The Board currently has two independent Non-Executive Directors and is seeking to increase the number of independent Non-Executive Directors on the Board.

Terms and conditions of appointment of Non-Executive Directors are set out in appointment letters.

How the Board operates

A detailed schedule of matters reserved for the Board has been established and is periodically reviewed. The key matters reserved are the consideration and approval of:

- The Group's overall strategy and objectives.
- Material acquisitions and disposals and major expenditure commitments.
- Borrowing and hedging of oil and gas sales.
- The issuance of equity and options.
- The Group's annual and half-yearly Financial Statements.
- Board appointments, remuneration and roles.
- Corporate Policies and corporate governance arrangements.

Through the publication of regular announcements, corporate presentations posted to the Company website and face to face meetings, the Board has sought to communicate its strategy, objectives and performance to all shareholders on a timely basis. When shareholders raise concerns with the Board over the Group's strategy, objectives or performance, the Board endeavours to actively engage with the shareholders in dialogue.

The Board of Directors expects to hold Board Meetings approximately six times per year. On occasions additional meetings are convened to resolve urgent business matters.

Committees of the Board

The Company has established two sub-committees of the Board, an Audit Committee and a Remuneration Committee, the purpose of which are to review areas of the business mandated by the Board and to present findings and recommendations to the Board for its decision. Each of the Committees has its own written terms of reference; a copy of which is available on the Company's website.

1. Audit Committee

The Audit Committee Report on pages 38 to 40 includes a discussion of the role, structure and composition of the Audit Committee.

2. Remuneration Committee

The Directors' Remuneration Report on pages 35 to 37 includes a discussion of the role, structure and composition of the Remuneration Committee.

The number of meetings of the Board and its committees during 2014, and individual attendance by Directors, is shown below:

	Board	Audit	Remuneration
Number of meetings 2014	**9**	**2**	**2**
Attendance:			
Ian Conway(1)	6	n/a	n/a
Alan Cutler	9	n/a	n/a
Joe Darby	9	2	2
John Bell(2)	5	1	0
James Ede-Golightly(2)	4	1	0
Mahdi Sajjad	9	n/a	n/a
Andrew West	9	2	2
David Cowan(3)	1	0	1
Michel Faure(4)	4	1	2
Ken Judge(5)	9	n/a	n/a

(1) Appointed 30 June 2014.
(2) Appointed 13 August 2014.
(3) Resigned 30 June 2014.
(4) Resigned 13 August 2014.
(5) Left the Board 3 February 2015.

Governance
Directors' Remuneration Report

As noted in the Corporate Governance Report, the Board delegates certain of its duties, responsibilities and powers to the Remuneration Committee, so that these can receive suitably focused attention. However, it acts on behalf of the full Board, and the matters reviewed and managed by the Committee remain the responsibility of the Board of Directors as a whole.

This report has been prepared having regard to sections 473(3) and 1290 of the Companies Act 2006. The report has been divided into separate sections for audited and unaudited information. It has been prepared by the Remuneration Committee and has been approved by the Board for submission to shareholders.

Unaudited information

Role of the Remuneration Committee

The activities of the Remuneration Committee are governed by terms of reference which cover its mandate, its composition, the independence and expertise of the members, frequency of meetings, and its responsibilities which include: determining and developing the remuneration policy and determining the remuneration packages of the Executive Board. The terms of reference were reviewed in March 2014 and are available on the Company's website.

The Remuneration Committee derives its authorities from the Delegation of Board Authorities and is the Committee responsible for ensuring that the Company's overall reward philosophy is consistent with achievement of the Company's strategic objectives in line with the Company's values.

It is responsible for considering and making recommendations to the Board in respect of remuneration for the Chairman, Chief Executive Officer ("CEO") and Executive Directors. The Committee also has oversight of the remuneration arrangements for the direct reports to the Executive Directors, the remuneration policy for which is set by the CEO.

The remuneration of Non-Executive Directors is a matter for the Chairman in consultation with the CEO with fees being determined by the Board excluding the Non-Executive Directors.

Composition of the Remuneration Committee

The Chairman of the Remuneration Committee was David Cowan until he stepped down from the Board on 30 June 2014, with Michel Faure, Andrew West and Joe Darby serving as members. Since then Andrew West assumed the responsibilities of Chairman of the Committee. On 6 May 2015, Joe Darby was appointed Chairman of the Committee with James Ede-Golightly and John Bell as members. A brief description of their background and experience can be found on pages 28 and 29. The varied backgrounds of the Committee's members, and their collective skills, experience and knowledge of the Company, allows them to fulfil the Committee's remit and to oversee the Company's remuneration policy. The Remuneration Committee has the power to engage such external advisers as it deems necessary to discharge its responsibilities.

Number of Remuneration Committee meetings and attendance

The Remuneration Committee meets at least twice a year and during 2014 met on two occasions with all members of the Committee being present.

Remuneration policy

The overall policy of the Group is to attract, motivate and retain high quality employees capable of pursing the Company's long-term strategic objectives and delivering its short to medium-term goals.

Directors and employees are remunerated by a combination of salary, annual bonuses and share based awards which in future will reflect the size of the Company and the scope of its activities. Salary levels will reflect the seniority of the individuals and responsibilities of their roles. Variable elements of remuneration, annual bonus and share incentive awards, will be dependent upon the Company and individual performance. Generally, variable remuneration will comprise a significant part of overall remuneration.

The policy was reviewed in 2011 by Hewitt New Bridge Street, independent remuneration consultants, who undertook a benchmarking exercise in 2013 comparing remuneration of Directors and other staff with their equivalent peers in other independent oil and gas companies.

Annual bonus

The annual bonus scheme provides bonuses up to 100% of base salary for Executive Directors for achievement of performance in excess of normal expectation. In the past, bonuses were entirely discretionary based upon performance during the year; in future, challenging targets will be set annually, performance measured against those targets and bonuses awarded accordingly. No bonuses were paid to Executive Directors in respect of 2014 in view of the financial position of the Company.

All staff are eligible to be considered for the award of performance bonuses which are entirely at the discretion of the Company.

Share incentive schemes

Up until 2015, there were two share-based plans in operation: the Gulfsands Share Option Plan and the Gulfsands Restricted Share Plan. The Share Option Plan, which expired early in 2015, was reserved for Directors and senior management while other employees received rewards under the Restricted Share Plan. No share awards have been made to Directors or employees since 2011. As a result of the fall in share price since the imposition of sanctions against Syria towards the end of 2011, options held by Directors at that time have either lapsed or, if still outstanding, are exercisable at share prices significantly in excess of the current share price. In view of the expiry of the Gulfsands Share Option Plan, it is proposed to put in place new share incentive arrangements which will be performance based and in alignment with shareholder interests. Details will be discussed with shareholders.

Governance

Directors' Remuneration Report continued

Other benefits

The Company provides life assurance cover and medical insurance cover for substantially all staff. There is no Company pension scheme and the Company does not make any contribution to individual employee pension schemes.

Audited information

Remuneration of Directors

The remuneration of the Directors for the year ended 31 December 2014 was as follows:

	Annual remuneration ($'000)							
	Salary and fees		Bonuses		Benefits in kind		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
A West(1)	**228**	235	**–**	–	**–**	–	**228**	235
M Sajjad	**680**	636	**–**	152	**27**	24	**707**	812
K Judge(2)	**579**	504	**–**	320	**6**	–	**585**	824
A Cutler(3)	**330**	97	**–**	–	**6**	5	**336**	102
I Conway(4)	**142**	–	**–**	–	**2**	–	**144**	–
R Malcolm(5)	**–**	992	**–**	–	**–**	4	**–**	996
J Bell(1,6)	**31**	–	**–**	–	**–**	–	**31**	–
J Darby(1)	**99**	94	**–**	–	**–**	–	**99**	94
D Cowan(1,7)	**42**	78	**–**	–	**–**	–	**42**	78
J Ede Golightly(1,8)	**31**	–	**–**	–	**–**	–	**31**	–
M Faure(1,9)	**41**	37	**–**	–	**–**	–	**41**	37
	2,203	2,673	**–**	472	**41**	33	**2,244**	3,178

(1) Non Executive Director.
(2) Paid to Hamilton Capital Partners Limited, a company with which Mr Judge is associated. Mr Judge left the Board on 3 February 2015.
(3) Appointed 13 September 2013.
(4) Appointed 30 June 2014.
(5) Resigned 10 April 2013. Salaries and fees in 2013 included $837,815 compensation for loss of office.
(6) Appointed 13 August 2014.
(7) Resigned 30 June 2014.
(8) Appointed 13 August 2014.
(9) Resigned 13 August 2014.

In addition to the remuneration shown, the Group incurred share based payment charges of $6,659 (2013:$180,950) in respect of the above named Directors relating to options granted in prior years.

Shortly after the year end the Company entered into an agreement with HMRC to settle historic UK income tax and national insurance contributions with respect to non-resident Directors through to 4 April 2014. The total amount agreed in this settlement of £195,561 included £144,654 for income tax and employees' national insurance. £100,000 of the agreed settlement amount was paid during 2014 and £95,561 was accrued at year end and paid shortly thereafter.

Share options

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

	Number of options						
	At 1 January 2014	Exercised	Lapsed/ relinquished	**At 31 December 2014**	Exercise price (£)	Date from which exercisable	Expiry date
M Sajjad(1)	250,000	—	—	**250,000**	3.20	04/05/2011	03/05/2015
	250,000	—	—	**250,000**	3.20	04/05/2012	03/05/2015
	125,000	—	—	**125,000**	2.35	03/06/2012	02/06/2016
	125,000	—	—	**125,000**	2.35	03/06/2013	02/06/2016
K Judge(2)	150,000	—	—	**150,000**	3.20	04/05/2011	03/05/2015
	150,000	—	—	**150,000**	3.20	04/05/2012	03/05/2015
	75,000	—	—	**75,000**	2.35	03/06/2012	02/06/2016
	75,000	—	—	**75,000**	2.35	03/06/2013	02/06/2016
I Conway	125,000	—	(125,000)	**—**	1.86	16/02/2009	16/02/2014
	62,500	—	(62,500)	**—**	1.86	16/02/2010	16/02/2014
	62,500	—	(62,500)	**—**	1.86	16/02/2011	16/02/2014
	27,500	—	—	**27,500**	3.20	04/05/2011	03/05/2015
	27,500	—	—	**27,500**	3.20	04/05/2012	03/05/2015
	32,500	—	—	**32,500**	2.35	03/06/2012	02/06/2016
	32,500	—	—	**32,500**	2.35	03/06/2013	02/06/2016

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

(2) Mr Judge left the Board on 3 February 2015.

Restricted share options

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

	Number of options						
	At 1 January 2014	Exercised	Lapsed/ relinquished	**At 31 December 2014**	Exercise price (£)	Date from which exercisable	Expiry date
I Conway	23,745	—	—	**23,745**	0.06	04/04/2013	03/04/2017
	23,745	—	—	**23,745**	0.06	04/04/2014	03/04/2017

All other Directors held no share options or restricted share options at 31 December 2013 or 2014.

This Report was approved by the Board of Directors on 19 May 2015 and signed on its behalf by:

Joe Darby
Chairman of the Remuneration Committee

19 May 2015

Governance
Audit Committee Report

The Audit Committee, which reports to and advises the Board, comprises Non-Executive Directors of the Company. It is the Board's view that the membership meets the requirement for recent and relevant financial experience.

During 2014, two meetings were held which were also attended by the Director – Finance and Administration and by other Directors and members of staff who had input relevant to the meeting agendas.

As far as reporting was concerned, attention focused mainly upon the value of the Company's assets in Syria, the carrying values for tangible and intangible assets, and the 'going concern' basis for reporting. In addition, the Committee regularly reviewed the key risks to which the Company is exposed. The relationship with, and performance of, the external auditor was evaluated and a decision taken during 2014 to change the auditor. The Audit Committee is satisfied that non-audit fees payable to the external auditor are not material enough to impact auditor objectivity or independence.

After consultation with the external auditor following the full year 2014 audit, the Committee advised the Board that in its view the Annual Report and Financial Statements for 2014 are a true and fair reflection of the Company's and the Group's performance and position at year end, and provide the information necessary for shareholders to understand the Company and make their own assessments.

As noted in the Corporate Governance Report, the Board delegates certain of its duties, responsibilities and powers to the Audit Committee, so that these can receive suitably focused attention. However, it acts on behalf of the full Board, and the matters reviewed and managed by the Committee remain the responsibility of the Board of Directors as a whole.

Composition of the Audit Committee

The Chairman of the Audit Committee during the year was Joe Darby. On 6 May 2015 Andrew Morris took over Chairmanship and Mr Darby will continue to serve to allow a smooth transition and will then step down from the Committee. The other participating members of the Committee during the year were Andrew West, James Ede-Golightly and John Bell. Mr West stepped down from the Audit Committee on 6 May 2015.

A brief description of the background and experience of the current members of the Committee can be found on pages 28 and 29. The varied backgrounds of the Committee's members, and their collective skills, experience and knowledge of the Company, allows them to fulfil the Committee's remit and to oversee the Company's auditor.

The Audit Committee invites Executive Directors, and other relevant staff as it wishes, to attend Audit Committee meetings although none attend as of right. For the annual results the independent external auditor is invited to attend the meeting and discuss the conclusions arising from their audit and their assessment of the Group's internal controls.

The Audit Committee has the power to engage such external advisers as it deems necessary to discharge its responsibilities.

Role of the Audit Committee

The activities of the Audit Committee are governed by terms of reference which cover its mandate, its composition, the independence and expertise of the members, frequency of meetings, and its responsibilities which include oversight of the external audit function, risk management, internal controls, financial reporting, and the provision by the auditor of non-audit services. The terms of reference were last updated in March 2014 and can be found on the Company's website.

The authority of the Audit Committee derives from the Delegation of Board Authority which was last reviewed in December 2013. As further set out in the terms of reference, the primary duties of the Audit Committee are:

- to review and consider the integrity of the Company's Financial Statements and regulatory announcements;
- to keep under review the effectiveness of the Company's internal controls;
- to assist the Board in ensuring that it receives appropriate financial and risk reporting to enable it to make its business decisions;
- to regularly review the Company's risk management processes and the risks to which the Company is exposed;
- to oversee the relationship with the external auditor;
- to review the Company's whistle-blowing processes; and
- to report to the Board on how the Audit Committee has discharged its responsibilities.

Activities of the Audit Committee during the year

The work of the Audit Committee in the financial year 2014 principally fell under three main areas and is summarised below:

Accounting and financial reporting	Internal controls and risk	External auditors

• Reviewed the interim and annual Financial Statements and the significant financial reporting judgements.
• Considered the solvency and liquidity risks and basis for preparing the Company and the Group interim and annual accounts on a going concern basis and reviewed the related disclosures in the Annual Report and Accounts.
• Reviewed an accounting matters update, including consideration of relevant accounting standards and underlying assumptions.
• Reviewed disclosures in the Annual Report and Accounts in relation to internal controls, risk management, principal risks and uncertainties and the work of the Audit Committee.
• Approved the Group accounting policies.
	• Considered reports from the external auditors on their assessment of the control environment.
	• Reviewed periodic management accounts and cash and going concern forecasts prepared by Management.
	• Considered and approved the structure, scope of cover and renewal terms of the Group's D&O insurances.
	• Reviewed reports generated from the Group's risk management process and considered the key risks facing the Group and strategies for mitigation.
	• Reviewed Code of Corporate Governance practice and reporting requirements.
		• Considered and approved the audit approach and scope of the audit work to be undertaken by the external auditor and the fees for the same.
		• Reviewed the auditor's reports on audit findings.
		• Considered and approved letters of representation issued to the external auditor.
		• Considered the independence of the auditor and their effectiveness taking into account:
		  • non-audit work undertaken by the external auditor and compliance with the policy; and
		  • the Committee's own assessment.
		• Replaced the external auditor.

Significant issues considered by the Audit Committee

Fair value of investment in Dijla Petroleum Company

(see note 4.2 to the Consolidated Financial Statements)

Following loss of joint control over DPC in 2011, the Group has valued its investment in that entity at fair value. This value represents a significant element of the Group's net assets and is subject to significant uncertainty. The Committee reviewed the valuation model, the assumptions under-pinning the model including the risking assumptions and the resulting valuation in the context of previous valuations and current circumstances. The Committee concluded that it remained appropriate to retain a valuation of $102 million for the investment whilst EU sanctions are ongoing. The Committee has also concluded that disclosures within this Report are fair and appropriate.

The carrying value of intangible oil and gas assets

(see notes 2.3 to the Consolidated Financial Statements)

At 31 December 2014, the Group has intangible exploration assets with a carrying value of $53 million on the Balance Sheet (2013: $37.1 million). This figure is significant in the context of the Group's net assets. The Committee reviewed an impairment paper prepared by Management, which summarised the costs capitalised to cash generating unit as at 31 December 2014 and Management's impairment assessment. The paper concluded that there were no indicators of impairment events as further set out in note 2.3 to the Consolidated Financial Statements. The Committee has therefore concluded that the carrying value of its intangible oil and gas assets, which are stated at cost less any amounts written-off and impairment, is fair and reasonable.

The Committee further notes that the realisation of value from the assets will depend upon a number of factors including securing funding, and in some cases, extensions of licences which the Group is currently seeking to negotiate. More details are included in the Operations Review on pages 12 to 19. Should the Group be unsuccessful in either gaining extensions or securing funding the realisable value of the assets may fall below their carrying value.

Governance

Audit Committee Report continued

Significant issues considered by the Audit Committee continued

The going concern basis of reporting

(see note 1.3a to the Consolidated Financial Statements)

The Committee has regularly reviewed financial forecasts for the Group throughout the year. At 31 December 2014, the Group was holding $19.4 million of cash resources which consists of $7.9 million cash and cash equivalents and $11.5 million restricted cash balances. As at the date of this Report the Group has cash balances immediately available to it of $3.0 million with net current liabilities of approximately $2.6 million and ongoing costs currently approximating to $1.0 million per month. Additionally, the Group has an outstanding loan of $10 million from Arawak, which they have requested be repaid. This loan is described in note 3.5 to the Consolidated Financial Statements. Early repayment will cause a minimum of $1 million of interest and fees to also become payable.

The Committee reviewed the level of these resources in the context of the Group's work and expenditure plans over the foreseeable future. The Board and Management have actively reviewed the Group's strategy and adjusted it to one that it is confident can be financed and can bring stability to the Group. Notwithstanding the confidence that the Committee has in this review, it has concluded, as required by FRC guidance, that there is material uncertainty as to the Group's access to the financial and commercial resources necessary to fund the activities going forward. However, based upon feedback from current strategy discussions and ongoing discussions with existing shareholders and potential partners, the Committee concluded that the going concern basis is appropriate in reporting and in the preparation of the Financial Statements.

Further details are available in the Financial Review on pages 24 to 27.

2014 Annual Report and Accounts

The Audit Committee reviewed the 2014 Annual Report and Accounts with Management and the external auditor to enable it to conclude that the Financial Statements as presented are true and fair and include all disclosures required by IFRS and applicable legislation.

Internal audit

The Audit Committee have reviewed whether the Group has a requirement for an internal audit function and has concluded at this time that it is not appropriate. Ad hoc internal audit reviews may be commissioned from third parties from time to time and the requirement for a dedicated internal audit function will be kept under consideration.

On behalf of the Audit Committee:

Andrew Morris
Chairman of the Audit Committee

19 May 2015

Consolidated Financial Statements and Notes to the Consolidated Financial Statements

Consolidated Primary Statements

This section contains the Group's primary Financial Statements and the independent auditor's report.

Section 1 Basis of Preparation

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

Section 2 Oil and Gas Assets

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

Section 3 Working Capital

This section focuses on the working capital position of the Group supporting our business.

Section 4 Other Assets and Liabilities

This section details the Group's investments.

Section 5 Results for the Year

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

Section 6 Capital Structure and Other Disclosures

The disclosures in this section focus on the issued share capital, the share schemes in operation and other mandatory disclosures.

Independent Auditor's Report

to the members of Gulfsands Petroleum plc

We have audited the financial statements of Gulfsands Petroleum plc for the year ended 31 December 2014 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheet, the Consolidated and Company Cash Flow Statement, the Consolidated and Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and, as regards the parent company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the state of the Group's and parent company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Without modifying our opinion on the Financial Statements for the year ended 31 December 2014, we draw attention to the disclosures made in note 4.2 to the Consolidated Financial Statements concerning the valuation of the Group's suspended producing operations in Syria, which are recorded at the Directors' best estimate of their fair value following the loss of joint control in December 2011. There is significant uncertainty as to the duration of the EU sanctions imposed in December 2011 and the eventual outcome of events in Syria. The potential impact any outcome will have on the recoverable amount from the producing operations in Syria (current value of $102.0 million) is not known.

Emphasis of matter – Going concern

In forming our opinion on the Financial Statements, which is not modified, we have considered the adequacy of the disclosures made by the Directors in note 1.3a to the Consolidated Financial Statements and within the Financial Review of the Strategic Report concerning the Group and the Company's ability to continue as a going concern. The Group requires additional funding and careful management of its commitments in order to meet both capital and administrative obligations and liabilities as they fall due. The Directors believe, based upon discussions with major shareholders, that the Group will be able to secure the necessary funds within the required timescale, but there are currently no binding agreements in place.

These conditions, along with the other matters explained in note 1.3a to the Consolidated Financial Statements and within the Financial Review of the Strategic Report, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern, which would principally relate to the impairment of the Group's non-current assets as licence commitments would not be met and licences may then be revoked with restricted cash balances not recovered.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Scott Knight (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London,
United Kingdom

19 May 2015

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement

for the year ended 31 December 2014

	Notes	2014 $'000	2013 $'000
Continuing operations			
General administrative expenses		**(5,469)**	(9,408)
Share-based payments	5.3	**(56)**	(514)
Total administrative expenses		**(5,525)**	(9,922)
Exploration costs written-off	2.3	**(6,040)**	(12,301)
Syrian inventory provision/write-off	3.4	**—**	(2,905)
Other Syrian adjustments		**(202)**	(383)
Operating loss	5.2	**(11,767)**	(25,511)
Foreign exchange (losses)/gains		**(218)**	89
Bank fees and charges		**(76)**	(49)
Loan facility finance cost	3.5	**(70)**	—
Net interest income	5.7	**18**	89
Loss before taxation from continuing activities		**(12,113)**	(25,382)
Taxation from continuing activities	5.8	**—**	—
Loss for the year from continuing operations		**(12,113)**	(25,382)
Discontinued operations			
Loss for the year from discontinued operations	5.9	**(3,978)**	(1,375)
Loss for the year attributable to owners of the parent company		**(16,091)**	(26,757)
Loss per share from continuing operations (cents)			
Basic and diluted	5.10	**(10.28)**	(21.54)
Loss per share attributable to the owners of the parent company (cents)			
Basic and diluted	5.10	**(13.65)**	(22.70)

There are no items of comprehensive income outside of the Consolidated Income Statement.

Consolidated Balance Sheet
as at 31 December 2014

	Notes	2014 $'000	2013 $'000
Assets			
Non-current assets			
Property, plant and equipment	2.1	**285**	12,893
Intangible assets	2.3	**53,352**	37,558
Long term financial assets	3.2	**11,514**	19,138
Investments	4.2	**102,000**	102,000
		167,151	171,589
Current assets			
Inventory	3.4	**2,361**	2,247
Trade and other receivables	3.1	**1,028**	3,542
Cash and cash equivalents	3.2	**7,907**	33,824
		11,296	39,613
Total assets		**178,447**	211,202
Liabilities			
Current liabilities			
Trade and other payables	3.3	**5,882**	15,245
Provision for decommissioning	2.6	**580**	2,573
		6,462	17,818
Non-current liabilities			
Trade and other payables	3.3	**6,178**	6,155
Provision for decommissioning	2.6	**397**	10,578
Loan facility	3.5	**4,855**	—
		11,430	16,733
Total liabilities		**17,892**	34,551
Net assets		**160,555**	176,651
Equity			
Capital and reserves attributable to equity holders			
Share capital	6.1	**13,131**	13,131
Share premium		**105,926**	105,926
Merger reserve		**11,709**	11,709
Treasury shares		**(11,502)**	(11,502)
Retained profit		**41,291**	57,387
Total equity		**160,555**	176,651

These Consolidated Financial Statements were approved by the Board of Directors on 19 May 2015 and signed on its behalf by:

Alan Cutler
Director – Finance and Administration

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

	Share capital $'000	Share premium $'000	Merger reserve $'000	Treasury shares $'000	Retained profit $'000	Total equity $'000
At 1 January 2013	13,131	105,926	11,709	(11,619)	83,776	202,923
Options exercised	—	—	—	117	(148)	(31)
Share-based payment charge	—	—	—	—	516	516
Loss for 2013	—	—	—	—	(26,757)	(26,757)
At 31 December 2013	13,131	105,926	11,709	(11,502)	57,387	176,651
Options exercised	—	—	—	—	(61)	(61)
Share-based payment charge	—	—	—	—	56	56
Loss for 2014	—	—	—	—	(16,091)	(16,091)
At 31 December 2014	**13,131**	**105,926**	**11,709**	**(11,502)**	**41,291**	**160,555**

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

Consolidated Cash Flow Statement

for the year ended 31 December 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Operating loss from continuing operations		**(11,767)**	(25,511)
Depreciation and amortisation	2.1 & 2.3	**602**	877
Exploration costs written-off	2.3	**6,040**	12,301
Other Syrian adjustments		**202**	383
Share-based payment charge	5.3	**56**	514
Syrian inventory provision/write-off	3.4	**—**	2,905
Decrease/(increase) in receivables		**1,598**	(527)
(Decrease)/increase in payables		**(254)**	318
Foreign exchange (losses)/gains		**(218)**	89
Bank fees		**(76)**	(49)
Interest received		**18**	89
Net cash used in operating activities by continuing operations		**(3,799)**	(8,611)
Net cash generated by operating activities of discontinued operations	5.9	**2,347**	724
Total net cash used in operating activities		**(1,452)**	(7,887)
Investing activities			
Acquisition of subsidiary undertaking		**—**	(17,103)
Exploration and evaluation expenditure		**(26,987)**	(17,302)
Inventory purchased		**(1,420)**	(2,247)
Other capital expenditures		**(340)**	(630)
Change in restricted cash balances	3.2	**4,750**	(8,270)
Net cash used in investing activities by continuing operations		**(23,997)**	(45,552)
Net cash used in investing activities by discontinued operations	5.9	**(5,011)**	(3,688)
Total net cash used in investing activities		**(29,008)**	(49,240)
Financing activities			
Loan draw-down		**5,000**	—
Transactions costs paid on loan facility		**(215)**	—
Other payments in connection with options exercised		**(61)**	(31)
Net cash provided by/(used in) financing activities of continuing operations		**4,724**	(31)
Net cash used in financing activities of discontinued operations	5.9	**—**	—
Total net cash provided by/(used in) financing activities		**4,724**	(31)
Cash disposed as part of disposal of discontinued operations	5.9	**(181)**	—
Decrease in cash and cash equivalents		**(25,917)**	(57,158)
Cash and cash equivalents at beginning of year		**33,824**	90,982
Cash and cash equivalents at end of year	3.2	**7,907**	33,824

Notes to the Consolidated Financial Statements

for the year ended 31 December 2014

Section 1 – Basis of Preparation

1.1 Authorisation of Financial Statements and statement of compliance with IFRS

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

The Consolidated Financial Statements for the year ended 31 December 2014 were authorised for issue by the Board of Directors on 19 May 2015 and the Balance Sheets were signed on the Board's behalf by Alan Cutler, Director – Finance and Administration.

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

1.2 Adoption of International Financial Reporting Standards

The Consolidated Financial Statements for the year ended 31 December 2014 and for the comparative year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and IFRIC (IFRS Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

1.3 Significant accounting policies

a) Basis of preparation and accounting standards

The Consolidated Financial Statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU and, except for share-based payments and the valuation of available-for-sale investments, under the historical cost convention.

Going concern

The Consolidated Financial Statements have been prepared on the going concern basis which has been approved by the Board. The basis on which the Board has reached this decision is as follows:

As at the date of this Report, the Group has cash balances immediately available to it totalling approximately $3.0 million with net current liabilities of approximately $2.6 million and ongoing costs currently approximating to $1.0 million per month. Restricted cash balances and the work commitments to which they relate are described in note 2.4. Additionally, the Group has an outstanding loan of $10 million from Arawak, which they have requested be repaid. This loan is described in note 3.5. Early repayment will cause a minimum of $1 million of interest and fees to also become payable.

The Board is in the process of actioning its strategy for each asset and these strategies are laid out in the Operations Review on pages 12 to 19 of this Report. This includes substantially reducing its costs whilst, farming-down, divesting or otherwise rationalising certain interests and the associated work commitments. In parallel the Group is actioning a financing strategy which includes accessing a short-term working capital loan from existing shareholders to provide the Group with time to progress a more significant financing exercise. The Board has received indications from certain of its shareholders of a willingness to contribute to such a working capital loan. Shortly, the Board will develop and communicate its longer-term financing strategy which should allow the Group to achieve the following:

- repayment of the Arawak facility;
- rationalisation of existing minimum work commitments;
- further appraisal and exploitation of selected assets; and
- working capital to provide stability for the medium term.

As stated elsewhere, the Group may not finance all its work commitments itself but will look to bring in partners to reduce the Group's net exposure to such commitments to a level that the Board considers sustainable and financeable or, alternatively, it will divest itself of assets as necessary.

Based upon its experience and ongoing discussions with existing shareholders and potential partners, the Board is confident that the Group will be able to access appropriate resources to finance the strategy that it is developing.

Notwithstanding the confidence that the Board has in its ability to stabilise and finance the Group's re-shaped business, the Directors, in accordance with FRC guidance in this area, conclude that at this time there is material uncertainty that such finance can be procured and failure to do so might cast significant doubt upon the Company's and the Group's ability to continue as a going concern and that the Company and the Group may therefore be unable to realise their assets and discharge their liabilities in the normal course of business. Such scenario could impact upon the carrying value of intangible exploration and evaluation assets as disclosed in note 2.3 and on the recoverability of certain restricted cash amounts, as disclosed in note 2.4, held in escrow to support guarantees of performance of minimum work obligations.

However, following completion of a review of the going concern position of the Company and Group at the meeting of the Board of Directors on 18 May 2015, including the uncertainties described above, the Board has concluded that, with current consolidated cash and cash equivalents totalling $3.0 million and taking into account both the revised strategy of farming-down or divesting assets and new financial resources that the Board might reasonably expect to become available, the Company and the Group will have sufficient resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of approval of this Annual Report. Accordingly, the Directors consider it appropriate to continue to adopt the "going concern basis" in preparing these Financial Statements.

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

b) New and amended IFRS standards

The following relevant new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2014, but had no significant impact on the Group or Company:

Standard	Effective date as adopted by the EU
Amendment to IAS 27 'Separate Financial Statements'	1 January 2014
Amendment to IAS 28 'Investments in Associates and Joint Ventures'	1 January 2014
Amendment to IAS 32 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'	1 January 2014
Amendments to IAS 36 'Impairment of Assets'	1 January 2014
Amendment to IFRS 11 'Joint Arrangements'	1 January 2014
IFRS 12 'Disclosure of Interests in Other Entities'	1 January 2014
Amendments to IFRS 10, IFRS 11 and IFRS 12	1 January 2014

c) Standards issued but not yet effective

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2014, as adopted by the EU, and have not been early adopted:

Standard	Effective date as adopted by the EU
Amendments to IFRS 11 'Acquisitions of Interests in Joint Operations' *	1 January 2016
Amendments to IAS 16 and IAS 38, 'Clarification of Acceptable Methods of Depreciations and Amortisation'*	1 January 2016
IFRS 9 'Financial Instruments' *	1 January 2019
IFRS 15 'Revenue from Contracts with Customers' *	1 January 2017
Amendment to IAS 19 'Employee Benefits'	1 February 2015

* Not yet endorsed by the EU.

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

d) Basis of consolidation

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

The results of subsidiaries acquired or sold are consolidated for the periods from, or to, the date when control passed. Acquisitions are accounted for under the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for the control of the acquiree. Acquisition related costs are recognised in the Income Statement as incurred. At the acquisition date the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

The Consolidated Financial Statements include the accounts of subsidiary undertakings when the Company has the control over the undertaking. The Company controls an investee if all three of the following elements are present: power over the investee; exposure to variable returns from the investee; and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The Group is engaged in oil and gas exploration, development and production through joint operations. A joint operation is whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. As a Joint Operator the Group recognises its assets, including its share of any assets incurred jointly; its liabilities, including its share of any liabilities incurred jointly; its revenues, including its share of revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses jointly incurred.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

Section 1 – Basis of Preparation continued

1.3 Significant accounting policies continued

d) Basis of consolidation continued

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

e) Foreign and reporting currency

These Consolidated Financial Statements are presented in US Dollars. The majority of all costs associated with foreign operations are denominated in US Dollars and not the local currency of the operations. Therefore the presentational and functional currency of the Company, and the functional currency of all subsidiaries, is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2014 was £1: $1.56 (2013: £1: US $1.66).

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

1.4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The following sets out the critical judgements that the Directors have made in the process of applying the Group's accounting policies and the key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year:

- Going concern – for further details see note 1.3a.
- Reserves estimation – for further details see note 2.1.
- Recoverability of intangible oil and gas exploration and evaluations assets – for further details see note 2.3.
- Decommissioning provisions – for further details see note 2.6.
- Fair value of the Group's investment in DPC – for further details see note 4.2.
- Recoverability of restricted cash balances – for further details see note 2.4 and 3.2.

Section 2 – Oil and Gas Assets

2.1 Property, plant and equipment

Key accounting judgements, estimates and assumptions:

Reserves estimation

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

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

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

Recognition and measurement

Development and production assets are accumulated on a cash generating unit basis and represent the cost of developing the Proved plus Probable reserves discovered and bringing them into production, together with the exploration and evaluation ("E&E") asset expenditures incurred in finding Proved plus Probable reserves, transferred from intangible E&E assets.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, and the cost of recognising provisions for future restoration and decommissioning. See note 2.6 for further details.

Depletion of producing assets

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

Impairment

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

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

Primary Statements
Basis of Preparation
Oil and Gas Assets
Working Capital
Other Assets/Liabilities
Results for the Year
Capital Structure

Section 2 – Oil and Gas Assets continued

2.1 Property, plant and equipment continued

	Oil and gas properties $'000	Other fixed assets $'000	Total $'000
Cost:			
At 1 January 2013	34,799	2,397	37,196
Additions	2,467	217	2,684
Changes to decommissioning estimates	(1,859)	—	(1,859)
At 31 December 2013	35,407	2,614	38,021
Additions	2,787	401	3,188
Changes to decommissioning estimates	(92)	—	(92)
Disposals	(38,102)	(180)	(38,282)
At 31 December 2014	**—**	**2,835**	**2,835**
Accumulated depreciation and depletion:			
At 1 January 2013	(17,351)	(1,691)	(19,042)
Charge for 2013	(1,267)	(479)	(1,746)
At 31 December 2013	(18,618)	(2,170)	(20,788)
Charge for 2014	(1,686)	(556)	(2,242)
Disposals	20,304	176	20,480
At 31 December 2014	**—**	**(2,550)**	**(2,550)**
Accumulated impairment:			
At 1 January 2013	(4,282)	—	(4,282)
Impairment charge for 2013	(58)	—	(58)
At 31 December 2013	(4,340)	—	(4,340)
Disposals	4,340	—	4,340
At 31 December 2014	**—**	**—**	**—**
Net book value at 31 December 2014	**—**	**285**	**285**
Net book value at 31 December 2013	12,449	444	12,893

In December 2014 the Group completed the disposal of all of its US Gulf of Mexico interests, including its producing oil and gas assets, through the disposal of its wholly-owned subsidiary, GPUSA. See note 5.9 for further details of this disposal.

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

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

2.3 Intangible assets

Key accounting judgements, estimates and assumptions:

Recoverability of intangible oil and gas exploration and evaluation assets

If there are indicators of impairment, the carrying values of E&E assets are assessed for impairment which involves judgement as to the (i) likely commerciality of the assets, (ii) future revenues and costs pertaining and (iii) the discount rate to be applied for the purpose of deriving a recoverable value. Additional judgements apply to the Group's E&E assets affected by sanctions in Syria. See note 4.2 for further details.

The Board reviewed the carrying value of its E&E assets as at 31 December 2014 and concluded that there are no indicators that the carrying value is impaired.

The Group applies the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources', set out below is our interpretation of the principles set out in IFRS 6.

Recognition and measurement

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

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

Impairment

As the Group does not hold any intangibles with an indefinite useful life, non-current assets are assessed for impairment on a cash generating unit basis when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such triggering events in respect of E&E assets include: the point at which final determination is made as to whether commercial reserves exist; actual or imminent expiry of exploration licence/contract without expectation of renewal; and/or no further plans to explore the licence/contract area.

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

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

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

Section 2 – Oil and Gas Assets continued

2.3 Intangible assets continued

	Exploration and evaluation assets					
	Syria $'000	Morocco $'000	Tunisia $'000	Colombia $'000	Computer software $'000	Total $'000
Cost:						
At 1 January 2013	10,031	—	4,796	—	2,537	17,364
Additions	474	41,783	3,553	243	421	46,474
Other write-offs	—	—	(1,000)	—	(475)	(1,475)
Exploration expenditure written-off	—	(10,147)	(2,154)	—	—	(12,301)
At 31 December 2013	10,505	31,636	5,195	243	2,483	50,062
Additions	—	19,188	794	982	10	20,974
Change in decommissioning estimates	—	977	—	—	—	977
Disposals	—	—	—	—	(123)	(123)
Exploration expenditure written-off	—	(5,246)	(794)	—	—	(6,040)
At 31 December 2014	**10,505**	**46,555**	**5,195**	**1,225**	**2,370**	**65,850**
Accumulated amortisation:						
At 1 January 2013	—	—	—	—	(1,126)	(1,126)
Charge for 2013	—	—	—	—	(398)	(398)
At 31 December 2013	—	—	—	—	(1,524)	(1,524)
Charge for 2014	—	—	—	—	(46)	(46)
Disposals	—	—	—	—	52	52
At 31 December 2014	**—**	**—**	**—**	**—**	**(1,518)**	**(1,518)**
Accumulated impairment:						
At 1 January 2013	(10,031)	—	—	—	—	(10,031)
Impairment provision for 2013	(474)	—	—	—	(475)	(949)
At 31 December 2013	(10,505)	—	—	—	(475)	(10,980)
Impairment provision for 2014	—	—	—	—	—	—
At 31 December 2014	**(10,505)**	**—**	**—**	**—**	**(475)**	**(10,980)**
Net book value at 31 December 2014	**—**	**46,555**	**5,195**	**1,225**	**377**	**53,352**
Net book value at 31 December 2013	—	31,636	5,195	243	484	37,558

Syria

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

Following the imposition of EU sanctions against the oil industry in Syria, an impairment test was conducted and the carrying value of all E&E assets in Syria was impaired to nil as it is was unclear whether the Group would be able to apply for commercial development approval in the manner contemplated by the Production Sharing Contract. That position remains at the date of this Report.

Morocco

Moroccan E&E assets at 31 December 2014 represent exploration expenditure on the Rharb Centre, Rharb Sud, Fes and Moulay Bouchta permits, in addition to $17.8 million of fair value attributed to the Fes, Rharb Centre and Rharb Sud permits at acquisition in 2013, less write-offs.

In respect of the Rharb petroleum contract, the BFD-2 well was completed in early January 2014, considered non-commercial and plugged and abandoned. In 2014, $1.3 million of costs related to the three non-commercial wells in the first phase of drilling were written-off. In addition, during 2014, $3.9 million of further abortive exploration expenditure was written-off.

In June 2014, a second phase of drilling commenced with the fourth Rharb well, LTU-1. This well discovered hydrocarbons and was temporarily suspended as a future gas producer. Drilling of the fifth well on the Rharb Centre permit, DRC-1, commenced in December 2014 and completed shortly after the year end as a discovery and was also temporarily suspended as a future gas producer. At the year end, as the commerciality of these two wells had not been determined, the cost of these wells was retained in intangible assets.

Management have reviewed the carrying value of all its interests in Morocco as at the date of this Report and notes that the Rharb contract expires in November 2015 and the Fes contract in September 2015. There remain significant work obligations to be performed on both contracts as set out in note 2.4 and which, if not completed before expiry, could lead to ONHYM terminating those contracts. The Moulay Bouchta contract by contrast expires in June 2016. Management have considered the risks associated with licence expiry and are optimistic that through dialogue with ONHYM and with its partner it can retain these contracts in good order. Management would seek to restructure some of the work obligations to allow the contracts to be appropriately re-financed or divested in part or whole. Should Management be unsuccessful in this strategy, the carrying value of those assets and the restricted cash, set out in note 2.4, securing those work obligations would become impaired. However, Management has considered the risks and determined that no impairment in the carrying value of its Moroccan interests is appropriate at this time.

Tunisia

At 31 December 2014 the Tunisian E&E assets represent expenditures under the Chorbane contract including amounts paid during 2013 to increase participation in the contract. During 2014, $0.8 million of abortive exploration expenditure was written-off. The Chorbane contract expires in July 2015 but Management are actively pursuing an extension to that contract following which a part or full disposal of its interests would be anticipated. Management have reviewed its intention for this asset and the carrying value thereof as at the date of this Report and concluded that no impairment of its carrying value is required. Management notes however, that if the contract is not extended or if satisfactory terms in any disposal cannot be obtained then the carrying value of this asset might become impaired. There is no security deposit or other guarantee in place with respect to these work obligations.

Colombia

The Group has interests in E&P contracts over two blocks in Colombia: LLA 50 and PUT 14, which expire in November 2016 and November 2017 respectively. At 31 December 2014 the E&E assets of $1.2 million represent costs incurred in respect of these blocks which are in the early stages of exploration. Management have reviewed its intentions for these assets, which could include divestment thereof, and the carrying value of these assets as at the date of this Report and concluded that no impairment of their carrying value is required. The work obligations and the restricted cash securing these obligations are set out in note 2.4. Both the asset carrying values and the restricted cash amounts could become impaired should the Group fail to satisfy the work obligations or to realise sufficient value from any divestment or farm-out.

2.4 Work obligation commitments

At 31 December 2014 the Group had the following capital commitments in respect of its exploration activities:

Morocco

Rharb permit – licence expiry date and deadline for fulfilment of capital commitments extended to November 2015

- Drilling of a further four exploration wells. Note DOB-1 was drilled in the first quarter of 2015.
- Total cost of commitments outstanding estimated at $9.3 million including DOB-1.

$1 million (2013: $6 million) of deposits have been lodged to support guarantees given to ONHYM in respect of completion of these minimum work commitments. Of these amounts $1 million (2013: $1 million) is payable to a third party following release of deposits by ONHYM. Note, by agreement subsequent to the year end, the amount repayable to the third party has reduced to a maximum of $0.5 million.

Fes permit – licence expiry date and deadline for fulfilment of capital commitments; September 2015

- Drilling of three exploration wells.
- Acquisition of a further 350 km of 2D seismic.
- Acquisition of 100 km² of 3D seismic.
- Total cost of commitments outstanding estimated at $32.8 million inclusive of a $5.7 million carry in favour of a third party.

$5 million (2013: $6.5 million) of deposits have been lodged to support guarantees given to ONHYM in respect of completion of these minimum work commitments. Of these amounts, $1.5 million (2013: $1.5 million) is payable to a third party following release of deposits by ONHYM.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

Section 2 – Oil and Gas Assets continued

2.4 Work obligation commitments continued

Morocco continued

Moulay Bouchta permit – licence expiry date and deadline for fulfilment of capital commitments; June 2016

- Acquisition of a 500 km of 2D seismic.
- Reprocessing and interpretation of existing seismic data.
- Legacy oil field reactivation survey.
- Total cost of commitments estimated at $6.5 million.

$1.75 million (2013: $nil) of deposits have been lodged to support guarantees given to the ONHYM in respect of completion of these minimum work commitments.

Tunisia

Chorbane permit – contract expiry date and deadline for fulfilment of capital commitments; July 2015

- Drilling of one exploration well.
- Total commitments outstanding estimated at $7.0 million.

Colombia

Putumayo 14 – licence expiry date and deadline for fulfilment of capital commitments; November 2017

- Drilling of one exploration well.
- 2D seismic minimum 103 km.
- Total commitments outstanding estimated at $22.9 million.

Llanos 50 – licence expiry date and deadline for fulfilment of capital commitments; November 2016

- Drilling of one exploration well.
- 2D seismic minimum 93 km.
- Total commitments outstanding estimated at $14.6 million.

$3.2 million (2013: $3.2 million) of deposits have been lodged to support guarantees given to the Agencia Nacional de Hidrocarburos in respect of completion of these minimum work commitments on Putumayo 14 and Llanos 50.

The deposits referenced in this note are shown as restricted cash amounts in note 3.2.

There were no other material obligations or contracts outstanding in relation to ongoing projects not provided or disclosed in these Consolidated Financial Statements.

2.5 Intangible assets other than oil and gas assets – computer software

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

2.6 Decommissioning

Key accounting judgements, estimates and assumptions:

At 31 December 2014 the Group has decommissioning obligations in respect of the LTU-1 well in Morocco, which has been temporarily suspended as a future gas producer, and restoration obligations on other current Moroccan well sites. The full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs. Internal technical experts provide estimates regarding the cost of future decommissioning works and the determination of the life of the field and the potential decommissioning date.

A discount rate of 10% has been used to discount the expected costs of decommissioning based upon the Group's cost of capital. A decrease in the discount rate utilised to 5% per annum would increase the total value of the decommissioning provision by $0.1 million. An increase in the discount rate to 15% would decrease the decommissioning provision by $0.2 million. A future cost inflation rate of 2.5% per annum has been used, based on a historical average. An increase in this estimate to 5% per annum would increase the decommissioning provision by $0.1 million at 31 December 2014.

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

The Group's Moroccan interests include certain wells drilled prior to the Group's acquisition of those interests in 2013. Management have discussed these legacy wells with the Moroccan oil and gas regulator, ONHYM, and has concluded that the Group has no liability with respect to those legacy wells. It will, however, work with the relevant authorities to maintain the safety and security of those well-sites. As a result, the Group continues to make no provision for the decommissioning of these wells in these Consolidated Financial Statements.

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

The movement in the provision for decommissioning was as follows:

	$'000
At 1 January 2013	17,661
Changes in estimates	(1,859)
Decommissioning expenses	(2,151)
Discount expense	500
Disposal	(1,000)
At 31 December 2013	13,151
Current portion	2,573
Non-current portion	10,578
At 1 January 2014	13,151
Changes in estimates	885
Decommissioning expenses	(2,382)
Discount expense	354
Disposal	(11,031)
At 31 December 2014	**977**
Current portion	**580**
Non-current portion	**397**

In December 2014 the Group completed the disposal of all of its US Gulf of Mexico interests, including its producing oil and gas assets and related decommissioning liabilities, through the disposal of its wholly-owned subsidiary, GPUSA. See note 5.9 for further details of this disposal.

The decommissioning provision of $1.0 million at 31 December 2014 (2013: $nil) relates to decommissioning obligations in respect of the Moroccan Rharb Centre permit, including: well LTU-1, which was drilled successfully during 2014 and has been temporarily suspended as a future gas producer; and restoration obligations on other current Moroccan well-sites.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

Section 3 – Working Capital

3.1 Trade and other receivables

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

	2014 $'000	2013 $'000
Trade receivables	—	272
Other receivables	467	710
Prepayments and accrued income	499	1,188
Amounts due from oil and gas partnerships	62	1,372
	1,028	3,542

At 31 December 2014 and 2013 the Group was owed $25.3 million by the government of the Syrian Arab Republic relating to oil delivered during the period of August to November 2011. The total amount invoiced was $31.2 million and to November 2011 an amount of $5.9 million had been paid. The government of the Syrian Arab Republic has acknowledged the debt. This asset was fully provided against in 2011 due to the uncertainties of recovery.

3.2 Cash and cash equivalents

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

	2014 $'000	2013 $'000
Cash at bank and in hand	7,907	33,824
Restricted cash balances	11,514	19,138
Total cash and bank resources	19,421	52,962
Included in long-term financial assets	(11,514)	(19,138)
Total cash and cash equivalents	7,907	33,824

Restricted cash balances at 31 December 2014 include $11.0 million of deposits collateralising guarantees given to state regulators to secure minimum exploration work commitments in Morocco and Colombia as set out in note 2.4.

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 were disposed of as part of the disposal of the subsidiary GPUSA in December 2014. See note 5.9 for further details of this disposal. At 31 December 2013 these totalled $2.9 million.

3.3 Trade and other payables

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

	2014 $'000	2013 $'000
Current liabilities		
Trade payables	816	3,059
Accruals and other payables	5,066	12,186
	5,882	15,245
Non-current liabilities		
Trade payables	1,974	1,887
Accruals and other payables	4,204	4,268
	6,178	6,155

Included within non-current liabilities is $2.5 million which will be payable following the release of restricted cash amounts. For further details see note 3.2.

Included within non-current liabilities is $3.7 million (2013: $3.7 million) owed to parties subject to asset freezing regulations under the EU sanctions regime. These amounts relate to goods and services acquired before those entities were designated as sanctioned parties. The Group is not in a position to make payments for these goods or services until such time as sanctions are lifted against the named parties. These liabilities are therefore classified as non-current liabilities as payment of these balances is not expected to be permissible within the next year.

3.4 Inventory

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

	2014 $'000	2013 $'000
Drilling and production inventory	**4,565**	4,451
Provisions	**(2,204)**	(2,204)
	2,361	2,247

It is anticipated that inventory carried forward at 31 December 2014 will be utilised on future drilling and production activities in Morocco.

During 2013, $0.7 million of inventory held for Syrian operations was written-off due to a theft at the warehouse. An insurance claim for the full value was submitted during 2013 however, due to complications with the insurance claim it has not been appropriate, as yet, to recognise the claim as an asset as it is not virtually certain that the claim will be paid. There has been no change in this position during 2014.

At 31 December 2014 a provision of $2.2 million (2013: $2.2 million) has been made against the value of the remaining Syrian stock. Management believe this is appropriate in light of the theft in 2013 and the lack of Management's control over, and access to, the warehouse at this present time due to the security situation in Syria.

3.5 Loans and borrowings

Recognition and measurement

Equity and debt instruments are classified as either equity or as financial liabilities in accordance with the substance of the contractual arrangement. Debt instruments include convertible loans.

Convertible loan – hybrid financial instrument

Where, at inception, the conversion option is denominated in foreign currency terms such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, the convertible loan (the host contract) is accounted for as a hybrid financial instrument and the option to convert is an embedded derivative.

The embedded derivative is separated from the host contract as its risks and characteristics are not closely related to those of the host contract. At each reporting date, the embedded derivative is measured at fair value with changes in fair value recognised in the Income Statement as they arise. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivative and is subsequently carried at each reporting date at amortised cost. The embedded derivative and host contract are presented under separate headings in the Balance Sheet.

Finance costs of debt are amortised over the term of the related debt using the effective interest rate method. Transaction costs are deducted from debt proceeds on initial recognition of the liability and are amortised and charged to the Income Statement as finance costs over the term of the debt.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

Section 3 – Working Capital continued

3.5 Loans and borrowings continued

Convertible loan – Arawak Energy Bermuda Ltd

On 19 November 2014, the Group announced the closing of a convertible loan facility of $20 million with Arawak Energy Bermuda Ltd ("Arawak"). The loan has an initial available facility of $10 million with the balance of the facility available contingent upon additional exploration drilling success in Morocco. The facility has a twelve month availability period.

The loan bears interest at the rate of 10% per annum on the drawn-down facility, which is rolled up into the loan balance quarterly from the date of the draw-down. A commitment fee of 3% is charged on the available facility undrawn during the twelve month availability period and is rolled up into the loan balance quarterly from the date of the loan draw-down. The loan matures on 30 November 2017 and is repayable in full on that date. Gulfsands may prepay the facility on 60 days notice.

The loan amount (including amounts drawn and, accrued but unpaid interest and fees) is convertible at any time prior to maturity into ordinary shares of the Company, initially at a price of £0.80. In the event that the Company issues new shares prior to: conversion, repayment or maturity of the loan facility; Arawak shall have the right but not the obligation to subscribe for new shares, up to the amount of the loan amount at that time, at the same subscription price per share as paid by the other subscribers. If Arawak elects not to participate in such issue of new shares, the mechanics of conversion of the loan amount provide that an adjustment be made in order that Arawak's conversion rights will continue to represent an entitlement to the same proportion of the Company's issued share capital, after the new issue of shares, as they represented prior to such new issue of shares.

Gulfsands may require conversion of the outstanding balance of the loan facility into ordinary shares of the Company in the event Gulfsands' share price, on an unadjusted basis, exceeds £1.04 per share for a period of more than 20 consecutive trading days at any time prior to the expiry of the term of the facility.

The loan facility is secured by a share mortgage over the shares in Gulfsands Petroleum Morocco Ltd (the holding company for the Group's interests in Morocco) and a floating charge over all of the assets of Gulfsands Petroleum Holdings Ltd (a subsidiary company) with further credit support provided by a guarantee from the Company.

On 25 November 2014 the Group drew-down the first $5.0 million tranche of the loan facility.

The embedded derivative element of the loan amount has been valued using a Black-Scholes model. The model assumes an expected life of three years, a risk free rate of 0.8% and a volatility of 60%. The valuation of the embedded derivative at the date of the first draw-down, 25 November 2014, and at the year end, 31 December 2014, is not considered material and has therefore not been separately recognised from the host loan debt instrument. Management will continue to revalue the conversion option at subsequent accounting period ends and reassess its materiality. The valuation represents a level 3 measurement basis as defined by IFRS 7 'Financial Instruments: Disclosures'.

The movement on the loan balance in the year is represented as follows:

	$'000
Loan draw-down	5,000
Transaction costs	(215)
Interest expense	49
Commitment fee	15
Amortisation of transaction costs	6
At 31 December 2014	**4,855**

Section 4 – Other Assets and Liabilities

4.1 Investments

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

Name of company	Proportion of voting shares at 31 December 2014	Nature of business	Country of incorporation
Directly held by the Company:			
Gulfsands Petroleum Ltd.	100%	Holding company	Cayman Islands
Indirectly held by the Company:			
Gulfsands Petroleum Holdings Ltd	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd	100%	Oil and gas exploration	Cyprus
Gulfsands Petroleum (MENA) Ltd	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Sud America Ltd	100%	Oil and gas exploration	Cayman Islands

4.2 Available-for-sale financial assets

Key accounting judgements, estimates and assumptions:

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

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

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

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 DPC in which the Group has a 25% equity interest. The Group lost joint 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 31 December 2014 is $102 million (2013: $102 million).

The valuation that the Group carries for its investment in DPC is supported by the Group's economic model of the estimated future cash flows that could be generated in respect of the Group's entitlement reserves in Block 26. The model uses oil prices quoted on the current forward Brent oil price curve, with an assumption of 2% price inflation beyond the end of the quoted curve discounted using a 15% discount rate. The basic model also assumes a short-term resumption of production. The net present value ("NPV") derived from this model ("the base case NPV") is then subjected to scenario analysis taking into account the Board's view of specific risks associated with investments in the Syrian oil and gas sector at the current time including the potential for significant delay in resumption of oil production and in receipt of revenues, potential additional costs associated with re-establishment of operations and, ultimately, a potential inability to resume operations. This methodology supports a valuation for the Group's investment in DPC of $102 million which represents a 74% discount to the base case NPV. The valuation represents a level 3 measurement basis as defined by IFRS 7 'Financial Instruments: Disclosures'.

Note, in previous financial periods the Group used a long-term Brent oil price assumption of $90/bbl in the valuation but, due to the recent significant fall in the oil price, the Board decided it was more appropriate to use the forward Brent oil price curve to value forecast production from the assets. Whilst this change would have a significant impact on the value of near-term production, because the valuation model scenarios include an assumption that the re-commencement of production is subject to a significant delay, the actual impact on forecast revenue values is limited.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

Section 4 – Other Assets and Liabilities continued

4.2 Available-for-sale financial assets continued

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%	(1,888)
Decrease in long-term commodity prices	5%	(6,214)
Increase in forecast operating expenditure	5%	(1,015)
Change in discount rate to 10%	5%	40,022
Change in discount rate to 20%	5%	(25,267)

The Directors have reviewed the carrying value of this available-for-sale financial asset at 31 December 2014 and are of the opinion that the valuation, although subject to significant uncertainty, remains appropriate in the circumstances, although not necessarily reflective of the value of the Group's investments in its Syrian operations over the long-term.

Section 5 – Results for the Year

5.1 Segmental analysis of continuing operations

For Management purposes, at 31 December 2014 the Group operated in three geographical areas: Morocco, Tunisia and Colombia with suspended operations in Syria as discussed in note 4.2. All segments are involved with the production of, and exploration for, oil and gas. The "Other" segment represents corporate and head office costs.

The Group's result and certain asset and liability information for the year are analysed by reportable segment as follows. The comparatives for the year ended 31 December 2013 have been re-presented to remove the discontinued US operations.

Year ended 31 December 2014

	Syria $'000	Morocco $'000	Tunisia $'000	Colombia $'000	Other $'000	Total $'000
Total administrative expenditure	**(482)**	**(149)**	**10**	**(168)**	**(4,736)**	**(5,525)**
Exploration costs written-off	**—**	**(5,246)**	**(794)**	**—**	**—**	**(6,040)**
Other Syrian adjustments	**(202)**	**—**	**—**	**—**	**—**	**(202)**
Operating loss	**(684)**	**(5,395)**	**(784)**	**(168)**	**(4,736)**	**(11,767)**
Financing cost						**(346)**
Net loss from continuing operations						**(12,113)**
Total assets	**102,325**	**51,845**	**5,256**	**1,324**	**17,697**	**178,447**
Total liabilities	**(3,827)**	**(6,486)**	**(1,587)**	**(69)**	**(5,923)**	**(17,892)**
E&E capital expenditure	**—**	**19,188**	**794**	**982**	**—**	**20,964**

Year ended 31 December 2013

	Syria $'000	Morocco $'000	Tunisia $'000	Colombia $'000	Other $'000	Total $'000
Total administrative expenditure	(1,573)	(18)	(280)	(11)	(8,040)	(9,922)
Exploration costs written-off	—	(10,147)	(2,154)	—	—	(12,301)
Other Syrian adjustments	(383)	—	—	—	—	(383)
Inventory provision/written-off	(2,905)	—	—	—	—	(2,905)
Operating loss	(4,861)	(10,165)	(2,434)	(11)	(8,040)	(25,511)
Net financing cost credit						129
Net loss from continuing operations						(25,382)
Total assets	104,128	39,924	5,673	489	44,640	194,854
Total liabilities	(3,766)	(12,562)	(1,835)	(347)	(1,205)	(19,715)
E&E capital expenditure	474	41,783	3,553	243	—	46,053

5.2 Operating loss

The Group's operating loss for continuing operations is stated after charging:

	2014 $'000	2013 $'000
Share-based payment charges (note 5.3)	**56**	516
Depreciation and amortisation of other assets (notes 2.1 and 2.3)	**602**	877
Exploration expenditure written-off (note 2.3)	**6,040**	12,301
Other Syrian adjustments	**—**	383
Syrian inventory impairment/written-off (note 3.4)	**—**	2,905
Staff costs excluding share-based payments (note 5.5)	**6,168**	7,503
Operating lease rentals:		
Buildings	**1,146**	1,044
Vehicles and equipment	**—**	10

Note the 2013 results have been re-presented so they no longer include the discontinued US operations.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

Section 5 – Results for the Year continued

5.2 Operating loss continued

Operating leases

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

5.3 Share-based payments

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

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

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

The share-based payment charge for the period is based upon the requirements of IFRS 2 'Share-based Payment'. For this purpose, the weighted average estimated fair value of the share options and restricted share options granted was calculated using a Black-Scholes option pricing model. The expected average life of options and restricted share options was assumed to be four years.

No dividends were factored into the model. Volatility has been estimated based on the historical volatility of the underlying shares.

No options or restricted share options were issued in 2014 or 2013.

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

5.4 Auditor's remuneration

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

	2014 $'000	2013 $'000
Fees payable to the Company's principal auditor for the audit of:		
Company's accounts	**141**	176
Company's subsidiaries	**—**	46
Total audit fees	**141**	222
Audit related assurance services	**26**	47
Taxation compliance services	**6**	49
Other taxation advisory services	**—**	18
Other services	**—**	—
Total non-audit fees	**32**	114
Fees payable to other auditors for the audit of:		
Company's subsidiaries	**77**	—
Total audit fees	**77**	—
Audit related assurance services	**42**	—
Taxation compliance services	**8**	—
Total non-audit fees	**50**	—

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

	2014 $'000	2013 $'000
Wages and salaries	**5,224**	6,780
Social security costs	**528**	578
Share-based payment charges	**56**	514
Other benefits in kind	**109**	145
HMRC settlement [(1)]	**307**	—
	6,224	8,017

(1) Shortly after the year end the Company entered into an agreement with HMRC to settle historic UK income tax and national insurance contributions with respect to non-resident Directors through to 4 April 2014. The total amount agreed in this settlement of £195,561 included £144,654 for income tax and employees' national insurance. £100,000 of the agreed settlement amount was paid during 2014 and £95,561 was accrued at year end and paid shortly thereafter.

Included in wages and salaries above is an amount of $0.1 million in respect of termination payments to staff paid during 2014 (2013: $1.0 million).

Note the 2013 results have been re-presented so they no longer include the discontinued US operations.

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

	2014	2013
Operational and technical	**19**	20
Administrative	**33**	37
	52	57

5.6 Directors' emoluments
Details of the remuneration of Directors are included in the Directors' Remuneration Report on pages 35 to 37. No employees other than Directors are determined to be key management personnel.

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

	2014 $'000	2013 $'000
Short-term bank deposit interest	**18**	89

5.8 Taxation
Current tax

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

Where current or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

	2014 $'000	2013 $'000
Current Corporation Tax:		
UK Corporation Tax	**—**	—
Overseas Corporation Tax	**—**	—
Total credit	**—**	—

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

Section 5 – Results for the Year continued

5.8 Taxation continued

Current tax continued

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

	2014 $'000	2013 $'000
Total loss before tax from continuing operations	**(12,113)**	(25,382)
Tax calculated at domestic rate of 21.5% (2013: 23.25%)	**(2,604)**	(5,901)
Effects of:		
Expenses not deductible for tax purposes	**2,354**	3,478
PSC expenses not subject to corporation tax (1)	**346**	1,591
Tax losses utilised	**(126)**	—
Tax losses for which no deferred tax asset was recognised	**30**	822
Impact of local tax rates	**—**	10
	—	—

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

In Morocco under section 42 of law no. 21-90 related to the Hydrocarbon Code, the Group benefits from a ten-year exemption from Moroccan corporate income tax in respect of each exploitation concession, commencing on the date on which regular production begins from that exploitation concession.

Deferred tax

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

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

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

	2014 $'000	2013 $'000
DD&A and impairment in excess of tax allowances	**957**	2,040
Other short-term temporary differences	**—**	2,017
Tax losses carried forward	**9,019**	20,943
Unprovided deferred tax asset	**(9,976)**	(25,000)
Deferred tax asset/(liability) at 31 December	**—**	—

$0.4 million of the Group's unutilised tax losses expire within one to five years of the Balance Sheet date.

5.9 Discontinued operations

In November 2014 the Group entered into a sale agreement with Hillcrest Resources Ltd to dispose of its wholly-owned US subsidiary GPUSA. The disposal was completed on the 18 December 2014.

The results of the discontinued operations, which have been included in the Consolidated Income Statement, were as follows:

	2014 $'000	2013 $'000
Revenue	**5,366**	4,367
Expenses	**(6,870)**	(5,742)
Loss before tax	**(1,504)**	(1,375)
Attributable tax expense	**—**	—
	(1,504)	(1,375)
Loss on disposal of discontinued operations	**(2,474)**	—
	(3,978)	(1,375)
Attributable tax expense	**—**	—
Net loss attributable to discontinued operations (attributable to owners of the parent company)	**(3,978)**	(1,375)

During the year, GPUSA contributed $2.4 million (2013: $0.7 million) to the Group's net operating cash flows and paid $5.0 million (2013: $3.7 million) in respect of investing activities. Cash and cash equivalents of $0.2 million were disposed of as part of the disposal of discontinued operations.

A loss of $2.5 million arose on the disposal of GPUSA, being the proceeds of disposal and the carrying amount of the subsidiary's net assets, as follows:

	$'000
Property, plant and equipment	13,458
Long-term financial assets	2,865
Trade and other receivables	609
Cash and cash equivalents	181
Trade and other payables	(3,601)
Provision for decommissioning	(11,031)
Net assets of discontinued operations at disposal	2,481
Consideration	50
Costs to sell	(57)
Loss on disposal of discontinued operations	**(2,474)**

5.10 Loss per share

The basic and diluted loss per share has been calculated using the loss for the year ended 31 December 2014 of $12.1 million (2013: $25.4 million) for continuing operations and $16.1 million (2013: $26.8 million) for the loss attributable to the owners of the parent company. The basic loss per share was calculated using a weighted average number of shares in issue less treasury shares held of 117,886,145 (2013: 117,855,702). The weighted average number of ordinary shares, allowing for the exercise of share options, for the purposes of calculating the diluted loss per share was 118,210,676 (2013: 118,192,648).

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

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

Section 6 – Capital Structure and Other Disclosures

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

6.1 Share capital

Group and Company

	2014 $'000	2013 $'000
Allotted, called up and fully paid:		
121,989,500 (2013: 121,989,500) ordinary shares of 5.714 pence each	**13,131**	13,131

The movements in share capital and share options were:

	Number of ordinary shares	Number of share options	Number of restricted share options	Weighted average price of options £
At 31 December 2013	121,989,500	1,636,000	363,649	2.72
Restricted share options cash-settled	—	—	(98,221)	—
Restricted share options lapsing unexercised	—	—	(31,692)	—
Share options lapsing unexercised	—	(250,000)	—	1.86
At 31 December 2014	**121,989,500**	**1,386,000**	**233,736**	**2.87**

All restricted share options have an exercise price of 5.714 pence per restricted share option.

Pursuant to a share buyback programme in 2011 the Company holds 4,103,355 shares in Treasury at 31 December 2014 (2013: 4,103,355). During 2014, no shares were issued from Treasury as all restricted share options settled were cash-settled (2013: 41,465 shares issued from Treasury to satisfy the exercise of restricted share options).

The detail of the share options and restricted share options outstanding at 31 December 2014 are as follows:

Exercise period	Year options or restricted share options vest	Weighted average exercise price of options (£)	Number of options	Number of restricted share options
4 May 2011 – 3 May 2015	2011	£3.20	427,500	—
4 May 2012 – 3 May 2015	2012	£3.20	427,500	—
3 June 2012 – 2 June 2016	2012	£2.35	265,500	—
3 June 2013 – 2 June 2016	2013	£2.35	265,500	—
4 May 2011 – 3 May 2015	2011	—	—	20,668
4 May 2012 – 3 May 2015	2012	—	—	20,667
3 June 2012 – 2 June 2016	2012	—	—	9,533
3 June 2013 – 2 June 2016	2013	—	—	9,532
4 April 2013 – 3 April 2017	2013	—	—	86,668
4 April 2014 – 3 April 2017	2014	—	—	86,668
		£2.87	1,386,000	233,736

Options are exercisable at prices from £2.35 to £3.20 per share and had a weighted estimated remaining contractual life of 0.7 years at 31 December 2014. The weighted remaining contractual life of the restricted share options is approximately 2.4 years.

Of the total outstanding options at 31 December 2014, the options granted to Directors numbered 1,320,000 (2013: 1,570,000) and 66,000 (2013: 66,000) had been granted to employees of the discontinued US operations. Of the restricted share options outstanding at 31 December 2014, 47,490 (2013: 47,490) had been granted to Directors, 87,303 (2013: 87,303) to employees of the discontinued US operations and 98,943 (2013: 228,856) to current staff.

The average share price during 2014 was £0.46 (2013: £0.78). The highest share price during the year was £0.70 and the lowest price was £0.23 (2013: £1.16 and £0.47).

6.2 Financial instruments, derivatives and capital management

Risk assessment

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

Liquidity risk

At the end of the year the Group had cash and cash equivalents of $7.9 million, and further bank balances of $11.5 million held in escrow to guarantee minimum work obligations.

Cash forecasts identifying the liquidity requirements of the Group are produced frequently. These are reviewed regularly by Management and the Board.

The following table details the Group's remaining contractual maturity for its non-derivative financial assets and liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of the financial assets and liabilities based upon the earliest date on which the Group can be required to pay or receipt. The table includes both interest and principal cash flows.

	Less than three months $'000	Three months to one year $'000	One to three years $'000	More than three years $'000	Total $'000
31 December 2014					
Long-term financial assets	**—**	**1,083**	**9,931**	**500**	**11,514**
Trade and other receivables	**247**	**—**	**—**	**—**	**247**
Current trade and other payables	**(4,898)**	**(539)**	**—**	**—**	**(5,437)**
Non-current trade and other payables	**—**	**(1,000)**	**(1,500)**	**(3,678)**	**(6,178)**
Loan facility	**—**	**—**	**(6,916)**	**—**	**(6,916)**
	(4,651)	**(456)**	**1,515**	**(3,178)**	**(6,770)**
31 December 2013					
Long-term financial assets	—	—	18,638	500	19,138
Trade and other receivables	2,185	—	—	—	2,185
Current trade and other payables	(11,897)	(1,500)	(436)	—	(13,833)
Non-current trade and other payables	—	—	(2,500)	(3,655)	(6,155)
Loan facility	—	—	—	—	—
	(9,712)	(1,500)	15,702	(3,155)	1,335

The loan facility bears a weighted average effective interest rate of 13%. No other balances in the table above are interest bearing.

Currency risk

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

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

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

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2014

Section 6 – Capital Structure and Other Disclosures continued

6.2 Financial instruments, derivatives and capital management continued

Currency risk continued

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

	Change in US Dollar rate	Effect on profit before tax $'000
2014	**(+ or –) 5%**	**27**
2013	(+ or –) 5%	130

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's operations are typically structured via contractual joint venture arrangements. As such, the Group is reliant on joint venture partners to fund their capital or other funding obligations in relation to assets and operations which are not yet cash generative. The Group closely monitors the risks and maintains a close dialogue with those counterparties considered to be highest risk in this regard.

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

Capital risk management

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

The capital structure of the Group consists of net debt (borrowings as disclosed in note 3.5 after deducting cash and cash equivalents and restricted cash balances as disclosed in note 3.2) and equity of the Group (comprising issued capital, reserves and retained earnings).

Financial assets

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

	Financial assets on which interest is earned $'000	Financial assets on which no interest is earned $'000	Total $'000
2014			
US Dollar	**5,111**	**114,556**	**119,667**
Pound Sterling	**241**	**57**	**298**
Euro	**105**	**240**	**345**
Syrian Pounds	**3**	**—**	**3**
Moroccan Dirham	**1,189**	**83**	**1,272**
Other currencies	**95**	**100**	**195**
	6,744	**115,036**	**121,780**
2013			
US Dollar	50,310	102,573	152,883
Pound Sterling	75	223	298
Euro	730	14	744
Syrian Pounds	148	7	155
Moroccan Dirham	1,621	147	1,768
Other currencies	79	101	180
	52,963	103,065	156,028

The Pound Sterling, Euro, Moroccan Dirham and Syrian Pound assets principally comprise cash in hand, cash in instant access accounts and short-term money market deposits. The US Dollar assets represent an available-for-sale financial asset, cash on call accounts, money market accounts, and short-term receivables. The Group earned interest on its interest bearing financial assets at rates between 0.01% and 0.35%.

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

Included in financial assets on which no interest is earned at 31 December 2014 and 2013 was a gross amount of $25.3 million of trade receivables that has been fully provided against. This amount is due from the government of the Syrian Arab Republic in respect of oil sales in Syria. The receivable is acknowledged by General Petroleum Corporation of the Syrian Arab Republic but due to the ongoing sanctions against the country's oil industry the payment of this amount has been delayed and, taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future payment, has been fully impaired. The remaining trade receivables consist of amounts receivable from various counterparties where the Group considers the credit risk to be low. This risk is monitored by the Group.

Financial liabilities

The Group's financial liabilities consist of both short-term and long-term payables in addition to the loan facility. None of the short and long-term payables bear interest to external parties. However, the loan facility bears interest at 10% per annum. Note 3.5 sets out details of the loan facility. The Group's short-term liabilities are considered to be payable on demand. At 31 December financial liabilities are classified as shown below:

	Financial liabilities on which interest is charged $'000	Financial liabilities on which no interest is charged $'000	Total $'000
2014			
US Dollar	**5,065**	**9,268**	**14,333**
Pound Sterling	**–**	**821**	**821**
Euro	**–**	**666**	**666**
Syrian Pounds	**–**	**357**	**357**
Moroccan Dirham	**–**	**447**	**447**
Other currencies	**–**	**59**	**59**
	5,065	**11,618**	**16,683**
2013			
US Dollar	–	15,923	15,923
Pound Sterling	–	928	928
Euro	–	446	446
Syrian Pounds	–	292	292
Moroccan Dirham	–	3,138	3,138
Other currencies	–	719	719
	–	21,446	21,446

Commodity price risk

The realisation of the carrying values of oil and gas assets within these Consolidated Financial Statements, and the value of the Group's available-for-sale financial assets, being the Syrian interests, are in part dependent upon future oil and gas prices achieved. Note 4.2 gives details of the impact of a change in the oil price on the valuation of available-for-sale financial assets.

In 2014 and 2013 the Group did not enter into any derivative contracts in respect of its exposure to fluctuations in the price of oil and gas.

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2014

Section 6 – Capital Structure and Other Disclosures continued
6.2 Financial instruments, derivatives and capital management continued
Fair values

The Group has an available-for-sale financial asset valued by the Directors at $102 million as described further in note 4.2.

The Group has a convertible loan facility where the conversion option is denominated in foreign currency terms such that the option will not be settled by the Company exchanging a fixed number of its own equity instruments for a fixed amount of cash, and therefore it is recognised as a hybrid financial instrument with the option to convert being an embedded derivative. The embedded derivative is recognised at fair value and re-measured at each subsequent reporting date. At the initial loan draw-down and subsequently at year end, Management have valued the embedded derivative at fair value using the Black-Scholes model and the value is immaterial to separate from the host debt contract. This is described further in note 3.5.

At 31 December 2014 and 2013, the Directors considered the fair values and book values of the Group's financial assets and liabilities to be materially the same.

6.3 Related party transactions and key management
Key management of the Group are considered to be the Directors of the Company. Directors' interests in shares and their remuneration and share options are disclosed in the Directors' Remuneration Report on pages 35 to 37.

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

	2014 $'000	2013 $'000
Short-term employee benefits	**2,219**	3,178
Share-based payments	**7**	181
	2,226	3,359

In 2014 the Group received management consultancy services from Cresand Holdings Ltd, a company associated with Mr Bell, totalling $82,590 (2013: $nil). At 31 December 2014 no amounts were due to Cresand Holding Ltd in respect of these services (2013: $nil).

In 2014 the Group received management consultancy services from Emiga Conseils SAS, a company associated with Mr Faure, totalling $69,152 (2013: $31,000). At 31 December 2014 $4,812 (2013: $nil) was accrued in the Consolidated Financial Statements in respect of these services.

In 2014 the Group received legal services from McMillan LLP, a company associated with Mr Cowan, totalling $30,878 (2013: $30,000). At 31 December 2014 $24,502 (2013: $nil) was accrued in the Consolidated Financial Statements in relation to these services.

All of the above related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Balances and transactions between the Company and its subsidiaries, which are related, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its subsidiaries are disclosed in note 6.5 of the Company Financial Statements.

There were no other related party transactions of the Group during the years ended 31 December 2014 or 2013.

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

	2014		2013	
	Land and buildings $'000	Other $'000	Land and buildings $'000	Other $'000
Amounts payable on leases:				
Within one year	**817**	**–**	712	8
In two to five years	**789**	**–**	1,266	10
	1,606	**–**	1,978	18

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period is $0.8 million (2013: $1.2 million).

6.5 Post balance sheet events
On 23 January 2015, the Company was notified by Arawak Energy International Limited that it was taking action that would, by consequence, prevent the Group further utilising the loan facility and, in early March 2015, Arawak Energy Bermuda Ltd requested early repayment of the outstanding loan amount. See note 3.5 for further details of the loan facility.

Parent Company Financial Statements and Notes to the Company Financial Statements

Parent Company Primary Statements

This section contains the Company's primary Financial Statements.

Section 1 Basis of Preparation

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

Section 2 Property, Plant and Equipment and Intangible Assets

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

Section 3 Investments in and Loans to Subsidiaries

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

Section 4 Working Capital

This section focuses on the working capital position of the Company supporting its business.

Section 5 Results for the Year

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

Section 6 Capital Structure and Other Disclosures

The disclosures in this section focus on the issued share capital, the share schemes in operation and other mandatory disclosures.

Company Balance Sheet

as at 31 December 2014

	Notes	2014 $'000	2013 $'000
Assets			
Non-current assets			
Property, plant and equipment	2.1	**14**	232
Intangible assets	2.2	**298**	283
Long-term financial assets	4.2	**9,931**	13,181
Investments in and loans to subsidiaries	3.1	**7,307**	22,247
Amounts due from subsidiaries	4.1	**71,394**	49,158
		88,944	85,101
Current assets			
Trade and other receivables	4.1	**579**	1,155
Cash and cash equivalents	4.2	**729**	29,168
Asset held for sale	6.3	**1,225**	243
		2,533	30,566
Total assets		**91,477**	115,667
Liabilities			
Current liabilities			
Trade and other payables	4.3	**1,077**	913
Non-current liabilities			
Amounts due to subsidiaries	4.3	**—**	2,690
Total liabilities		**1,077**	3,603
Net assets		**90,400**	112,064
Equity			
Capital and reserves attributable to equity holders			
Share capital	6.1	**13,131**	13,131
Share premium		**105,926**	105,926
Treasury shares		**(11,502)**	(11,502)
Retained (loss)/profit		**(17,155)**	4,509
Total equity		**90,400**	112,064

The Financial Statements of Gulfsands Petroleum plc (registered number: 05302880) were approved by the Board of Directors on 19 May 2015 and signed on its behalf by:

Alan Cutler
Director – Finance and Administration

Company Statement of Changes in Equity

for the year ended 31 December 2014

	Share capital $'000	Share premium $'000	Treasury shares $'000	Retained (loss)/profit $'000	Total equity $'000
At 1 January 2013	13,131	105,926	(11,619)	12,570	120,008
Options exercised	—	—	117	(148)	(31)
Share-based payment charge	—	—	—	516	516
Loss for 2013	—	—	—	(8,429)	(8,429)
At 31 December 2013	13,131	105,926	(11,502)	4,509	112,064
Options exercised	—	—	—	(61)	(61)
Share-based payment charge	—	—	—	56	56
Loss for 2014	—	—	—	(21,659)	(21,659)
At 31 December 2014	**13,131**	**105,926**	**(11,502)**	**(17,155)**	**90,400**

Company Cash Flow Statement

for the year ended 31 December 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Operating loss		**(3,597)**	(8,400)
Depreciation and amortisation	2.1 & 2.2	**244**	562
Share-based payment charge		**56**	516
Decrease/(increase) in receivables		**493**	(811)
Increase/(decrease) in payables		**167**	(273)
Net cash used in operations		**(2,637)**	(8,406)
Interest received		**9**	78
Bank fees		**(18)**	(26)
Foreign exchange losses		**(136)**	(81)
Net cash used in operating activities		**(2,782)**	(8,435)
Investing activities			
Investment in assets held for sale		**(889)**	—
Capital expenditure		**(42)**	(62)
Change in restricted cash balances	4.2	**3,250**	(8,181)
Funds transferred to subsidiaries		**(27,915)**	(43,563)
Net cash used in investing activities		**(25,596)**	(51,806)
Financing activities			
Other payments in connection with options issued		**(61)**	(31)
Net cash used in financing activities		**(61)**	(31)
Decrease in cash and cash equivalents		**(28,439)**	(60,272)
Cash and cash equivalents at beginning of year		**29,168**	89,440
Cash and cash equivalents at end of year	4.2	**729**	29,168

Notes to the Parent Company Financial Statements

for the year ended 31 December 2014

Section 1 – Basis of Preparation

1.1 Authorisation of Financial Statements and statement of compliance with IFRSs

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

The Company Financial Statements for the year ended 31 December 2014 were authorised for issue by the Board of Directors on 19 May 2015 and the Balance Sheet was signed on the Board's behalf by Alan Cutler, Director – Finance and Administration.

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

1.2 Adoption of International Financial Reporting Standards

The Company's Financial Statements for the year ended 31 December 2014 and for the comparative year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and IFRIC (IFRS Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

1.3 Significant accounting policies

a) Basis of preparation and accounting standards

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

The Company Financial Statements have been prepared in accordance with applicable IFRS's as adopted by the EU and, except for share-based payments, under the historical cost convention. They have also been prepared on the going concern basis of accounting, for the reasons set out in note 1.3a to the Consolidated Financial Statements.

b) Reporting currency

These Company Financial Statements are presented in US Dollars. The Company's operations and the majority of all costs associated with foreign operations are paid in US Dollars and all loan balances with subsidiary undertakings are denominated in US Dollars. Therefore the presentational and functional currency of the Company is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2014 was £1: $1.56 (2013: £1: $1.66).

1.4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described below, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Notes to the Parent Company Financial Statements continued

for the year ended 31 December 2014

Section 2 – Property, Plant and Equipment and Intangible Assets

2.1 Property, plant and equipment

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

	Office equipment, fixtures and fittings $'000
Cost:	
At 1 January 2013	898
Additions	16
At 1 January 2014	914
Additions	25
At 31 December 2014	**939**
Accumulated depreciation:	
At 1 January 2013	(425)
Charge for 2013	(257)
At 1 January 2014	(682)
Charge for 2014	(243)
At 31 December 2014	**(925)**
Net book value at 31 December 2014	**14**
Net book value at 31 December 2013	232

2.2 Intangible assets

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

	Computer software $'000
Cost:	
At 1 January 2013	2,364
Additions	45
Transfer to Group companies	(1,177)
At 1 January 2014	1,232
Additions	2
At 31 December 2014	**1,234**
Accumulated amortisation:	
At 1 January 2013	(644)
Amortisation charge for 2013	(305)
At 1 January 2014	(949)
Asset corrections	14
Amortisation charge for 2014	(1)
At 31 December 2014	**(936)**
Net book value at 31 December 2014	**298**
Net book value at 31 December 2013	283

Section 3 – Investments in and Loans to Subsidiaries

3.1 Investments

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

The Company's fixed asset investment of $7.3 million represents the historic cost of acquisition of the entire share capital of Gulfsands Petroleum Ltd. by means of a share-for-share exchange in 2005, less any required provision for impairment.

Loans to subsidiary undertakings of $55.6 million at 31 December 2013 comprised a revolving loan from the Company to GPUSA including accrued interest of $12.7 million. Interest was charged on this revolving loan facility at 8.5% per annum. On 18 December 2014 the Company's subsidiary Gulfsands Petroleum Ltd. disposed of its investment GPUSA and as part of the sale and purchase agreement the inter-company debt owed by GPUSA to Gulfsands Petroleum plc, the ultimate parent company, was novated to the purchaser Hillcrest Resources Ltd. At the date of novation the outstanding loan balance was $62.0 million inclusive of $16.6 million accrued interest and $40.6 million of this balance had already been provided against. The remaining balance of $21.4 million was written-off on novation.

The Company's investments in subsidiary undertakings are shown in note 4.1 to the Consolidated Financial Statements.

Section 4 – Working Capital

4.1 Trade and other receivables

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

	2014 $'000	2013 $'000
Current		
Trade receivables	**—**	223
Other receivables	**278**	407
Prepayments and accrued income	**301**	525
	579	1,155
Non-current		
Amounts due from subsidiaries	**71,394**	49,158

Further details on the amounts due from subsidiaries are included in note 6.5.

4.2 Cash and cash equivalents

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

	2014 $'000	2013 $'000
Cash at bank and in hand	**729**	29,168
Restricted cash balances	**9,931**	13,181
Total cash and bank resources	**10,660**	42,349
Included in long-term financial assets	**9,931**	13,181
Total cash and cash equivalents	**729**	29,168

The restricted cash balances at 31 December 2014 consist of:

- $6.8 million (2013: $10.0 million) held in escrow to guarantee minimum work obligations on the Rharb, Fes and Moulay Bouchta permits in Morocco; and
- $3.2 million (2013: $3.2 million) held in escrow to guarantee minimum work obligations on PUT 14 and LLA 50 in Colombia.

For each of the licences above, the licence period and remaining minimum work commitments are detailed in note 2.4 to the Consolidated Financial Statements.

Notes to the Parent Company Financial Statements continued

for the year ended 31 December 2014

Section 4 – Working Capital continued

4.3 Trade and other payables

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

Trade and other payables

	2014 $'000	2013 $'000
Current		
Trade payables	**350**	52
Accruals and other payables	**727**	861
	1,077	913
Non-current		
Amounts due to subsidiaries	**–**	2,690

Section 5 – Results for the Year

5.1 Revenue recognition

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

Income Statement and total revenue

No individual Income Statement is presented in respect of the Company as permitted by section 408 of the Companies Act 2006. The Company's loss for the year was $21.2 million (2013: $8.4 million). The total revenue of the Company, as defined by IAS 18 'Revenue', for 2014 was $3.9 million (2013: $4.2 million) comprising of interest income.

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

5.2 Operating leases

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

Obligations under operating leases

At the end of the year the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings of $0.6 million (2013: $0.6 million) within one year and $0.7 million (2013: $0.8 million) between two and five years.

5.3 Share-based payments

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

See note 5.3 to the Consolidated Financial Statements.

5.4 Taxation

Current tax

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

Deferred tax

No deferred tax assets have been provided in respect of losses carried forward in the UK and other temporary timing differences as the Board does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets.

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

Deferred tax assets/(liabilities)

	2014 $'000	2013 $'000
Tax losses carried forward	**7,550**	9,053
Depreciation in advance of capital allowances	**124**	227
Unprovided deferred tax asset	**(7,674)**	(9,280)
Deferred tax asset/(liability) at 31 December	**—**	—

The tax losses of the Company have no expiry date.

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

Section 6 – Capital Structure and Other Disclosures
Equity instruments
Equity instruments issued by the Company, being any instruments with a residual interest in the assets of the Company after deducting all its liabilities, are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

6.1 Share capital
See note 6.1 to the Consolidated Financial Statements.

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

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

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

	Financial assets on which interest is earned $'000	Financial assets on which no interest is earned $'000	Total $'000
2014			
US Dollar	**4,997**	**76,787**	**81,784**
Pound Sterling	**237**	**30**	**267**
Euro	**90**	**38**	**128**
Other currencies	**1**	**97**	**98**
	5,325	**76,952**	**82,277**
2013			
US Dollar	42,045	49,247	91,292
Pound Sterling	214	271	485
Euro	84	—	84
Other currencies	7	53	60
	42,350	49,571	91,921

Notes to the Parent Company Financial Statements continued

for the year ended 31 December 2014

Section 6 – Capital Structure and Other Disclosures continued

6.2 Financial instruments, derivatives and capital management continued

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

	Financial liabilities on which no interest is charged $'000
2014	
US Dollar	**88**
Pound Sterling	**888**
Other currencies	**23**
	999
2013	
US Dollar	2,927
Pound Sterling	529
Other currencies	22
	3,478

During the year ended 31 December 2014, the Company impaired balances owed from subsidiary undertakings totalling $21.4 million (2013: $4.2 million) in respect of activities in the Gulf of Mexico.

6.3 Assets held for sale

Assets held for sale of $1.2 million (2013: $0.2 million) represent exploration expenditures relating to the Colombian Putumayo 14 and Llanos 50 E&P contracts. These contracts were granted to the Colombian Branch of the Company, however it is Management's intention to transfer these contracts to the Colombian Branch of a subsidiary company, Gulfsands Petroleum Sud America Limited. This is anticipated to happen within the next twelve months.

6.4 Foreign currency

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

6.5 Related party transactions and key management

Key management of the Company are considered to be the Directors of the Company. Any transactions with Directors are disclosed in note 6.3 to the Consolidated Financial Statements. Interests in shares and their remuneration and share options are disclosed in the Directors' Remuneration Report on pages 35 to 37.

The Company traded with various undertakings within the same Group during the years ended 31 December 2014 and 2013. A summary of the transactions and outstanding balances at the year end is set out below.

Balances owed by/(owed to) related parties

Name of related party	Nature of relationship	Commercial terms	2014 $'000	2013 $'000
Gulfsands Petroleum Tunisia Ltd	Subsidiary	Non-interest bearing	**28,511**	27,882
		Provision	**(19,856)**	(19,856)
Gulfsands Petroleum Levant Ltd	Subsidiary	Non-interest bearing	**18,201**	19,268
		Provision	**(16,038)**	(16,038)
Gulfsands Petroleum Ltd.	Subsidiary	Non-interest bearing	**2,622**	(2,378)
Gulfsands Petroleum Sud America Ltd	Subsidiary	Non-interest bearing	**175**	(265)
		Provision	**(135)**	—
Gulfsands Petroleum (MENA) Ltd	Subsidiary	Non-interest bearing	**1,340**	362
		Provision	**(405)**	—
Gulfsands Petroleum Morocco Ltd	Subsidiary	Non-interest bearing	**38,256**	18,505
Gulfsands Petroleum Holdings Ltd	Subsidiary	Non-interest bearing	**18,621**	18,952
Gulfsands Petroleum Iraq Ltd	Subsidiary	Non-interest bearing	**5,867**	5,781
		Provision	**(5,765)**	(5,698)
Gulfsands Petroleum USA, Inc. (1)	Subsidiary disposed of in year	Interest rate 8.5% per annum	**—**	55,632
		Provision	**—**	(40,692)
		Non-interest bearing	**(82)**	(47)

Services recharged to related parties

Name of related party	2014 Time writing $'000	2014 Indirect overhead $'000	2013 Time writing $'000	2013 Indirect overhead $'000
Gulfsands Petroleum Levant Ltd	**57**	**118**	354	—
Gulfsands Petroleum Morocco Ltd	**2,758**	**382**	1,668	367
Gulfsands Petroleum Sud America Ltd	**—**	**—**	46	13
Gulfsands Petroleum Tunisia Ltd	**312**	**47**	1,074	56
Gulfsands Petroleum USA, Inc.(1)	**7**	**—**	16	—

Services recharged from related parties

Name of related party	2014 Time writing $'000	2014 Management fee $'000	2013 Time writing $'000	2013 Management fee $'000
Gulfsands Petroleum USA, Inc.(1)	**456**	**43**	90	9

(1) The Company's subsidiary Gulfsands Petroleum Ltd. disposed of its investment in Gulfsands Petroleum USA, Inc. in December 2014, and at year end that company was no longer a related party.

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Stock Exchange listing
AIM market of London Stock Exchange
Symbol: GPX

Glossary of Terms

1C	Low estimate (P90) Contingent Resources
2C	Best estimate (P50) Contingent Resources
3C	High estimate (P10) Contingent Resources
ADX	ADX Energy Limited
AIM	Alternative Investment Market of the London Stock Exchange
Arawak	Arawak Energy Bermuda Ltd
bbl	Barrel of oil
bcf	Billion cubic feet of gas
boe	Barrels of oil equivalent where the gas component is converted into an equivalent amount of oil using a conversion rate of 1 bcf to 0.1667 mmboe
bopd	Barrels of oil per day
CCH	Comité Consultatif des Hydrocarbures
Code	UK Corporate Governance Code
CSR	Corporate social responsibility
DD&A	Depletion, depreciation and amortisation
DPC	Dijla Petroleum Company
E&E	Exploration and evaluation
E&P	Exploration and production
FRC	Financial Reporting Council
G&A	General and administrative expenses
GPC	General Petroleum Corporation
GPUSA	Gulfsands Petroleum USA, Inc.
Hillcrest	Hillcrest Resources Ltd
HSES	Health, safety, environment and security
IFRS	International Financial Reporting Standards
km	Kilometres
km^2	Square kilometres
KPI	Key performance indicators
LLA 50	Llanos Block 50
mboe	Thousand barrels of oil equivalent
mcf	Thousand cubic feet of gas
MD	Measured depth
MENA	Middle East and North Africa
mmbbl	Millions of barrels of oil
mmboe	Millions of barrels of oil equivalent
mmscfpd	Million standard cubic feet per day
NGLs	Natural gas liquids
NPV	Net present value
ONHYM	Office National des Hydrocarbures et des Mines (Morocco)
Possible reserves	Possible reserves are those additional reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (“3P”) reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be more than a 10% probability that the quantities actually recovered will equal or exceed the 3P estimate.
Probable reserves	Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be more than a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable reserves.
Proved reserves	Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty (normally over 90% if measured on a probabilistic basis) to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.
P10	There exists a 10% probability that the true quantity or value is greater than or equal to the stated P10 quantity or value
P50	There exists a 50% probability that the true quantity or value is greater than or equal to the stated P50 quantity or value
P90	There exists a 90% probability that the true quantity or value is greater than or equal to the stated P90 quantity or value
PRMS	The 2007 Petroleum Resources Management classification system of the SPE
PSC	Production Sharing Contract
psi	Pounds per square inch
PUT 14	Putumayo Block 14
Senergy	Senergy (GB) Limited
SPE	Society of Petroleum Engineers
TD	Total depth
WPC	World Petroleum Congress

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