Gulfsands
Petroleum

Financial Statements
for the year ended 31 December 2008

Directors' report
for the year ended 31 December 2008

The Directors present their Directors' 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 2008.

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

The Group's principal activity is that of oil and gas production, exploration and development. The Group has development and exploration projects in the Syrian Arab Republic and a non-operated portfolio of producing oil and gas properties in the USA (offshore Gulf of Mexico and onshore Gulf Coast). The Group has also signed a Memorandum of Understanding relating to a large project in Iraq.

Review of the business and future prospects
A full review of the Group's operations, business, performance and prospects are set out in the Chairman's Statement, the Chief Executive's Statement, the Review of Operations and the Financial Review contained in this Annual Report.

Key performance indicators
During the year ended 31 December 2008 the Group had not formally adopted any key performance indicators ("KPIs"). Since then Directors have adopted certain financial and non-financial KPIs for 2009 with which to measure performance of the Group during the current financial year.

Financial KPIs
The table below sets out the financial KPIs adopted for 2009 and the outcome of each KPI for the year ended 31 December 2008 as if these KPIs had been in operation from the beginning of that financial year.

KPI	Units	**2008**	2007
Production growth (working interest)	%	**41.8%**	7.8%
Production cost per barrel (working interest)	$/bbl	**13.5**	18.5
Cash flow available for exploration	$ MM	**(1.0)**	(5.4)
Earnings per share growth	%	**n.a.**	n.a.
Reserves growth per share (annualised three year average)	%	**164%**	155%

The definitions of these KPIs are as follows:

Production Growth (working interest)
The year-on-year growth in Group working interest production. Working interest production is selected in preference to entitlement production since the latter is affected by the prevailing oil price and by the extent to which past costs have been recovered.

Production Cost per Barrel (working interest)
Cost of sales before depreciation, impairment and decommissioning costs, divided by working interest production. A core measure of production efficiency.

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

Earnings per share growth
The annual increase in basic earnings per share. Where basic earnings per share is negative no figure is shown.

Reserves Growth per Share (annualised three year average)
Closing proved and probable reserves (in boe, working interest basis) divided by the number of shares in issue at the year-end, as a ratio of the proved and probable reserves three years previously divided by the number of shares in issue three years previously. This ratio is then annualised. This is a measure of the Group's ability to grow its reserves from its financial resources without resorting to increasing its share capital. Given the typically sporadic pattern of reserves increases it is felt that an annualised three year moving average computation is more appropriate than an annual computation.

Non-Financial KPIs
The non-financial KPIs adopted for 2009 comprise measures relating to frequency and severity of Lost Time Incidents to monitor health and safety, employee staff turnover, and the frequency and severity of pollution incidents.

Statistics for non-financial KPIs have not been collated during 2008 and accordingly are not shown herein.

Directors' report continued
for the year ended 31 December 2008

Results and dividends
The Group made a loss after taxation for the year ended 31 December 2008 of $9,672,000 (2007 as restated – $1,212,000 loss). Earnings before interest, taxation, depreciation, impairment and share based payment charges was $16,688,000 (2007 as restated – $10,824,000). The Directors do not recommend payment of a dividend.

Group structure and changes in share capital
There were no changes in the Group structure during 2008. Details of movements in the Company's share capital during the year are set out in note 21 to the financial statements.

Directors and their interests
The Directors' interests in the Company's shares were as follows:

	At 31 December 2008		At 31 December 2007	
	Number of ordinary shares	**Number of share options**	Number of ordinary shares	Number of share options
A T West	**–**	**1,300,000**	–	200,000
M Sajjad[1]	**9,588,601**	**1,450,000**	8,141,875	1,893,750
R Malcolm[2]	**–**	**1,500,000**	–	–
A Rose[3]	**300,000**	**1,000,000**	–	–
K Judge[4]	**3,966,750**	**1,000,000**	3,966,750	400,000
D Cowan	**441,750**	**525,000**	437,500	300,000
J Dorrier[5]	**–**	**–**	9,098,750	500,000
D Decort[5]	**–**	**–**	5,164,375	450,000

1 The interest for Mr Sajjad disclosed above includes shares held by Nordman Continental S.A. and Wickham Holdings S.A. Both Nordman Continental S.A. and Wickham Holdings S.A. are owned by a trust of which Mr Sajjad's relatives are potential beneficiaries.
2 Appointed 15 October 2008.
3 Appointed 1 June 2008.
4 The interest for Mr Judge disclosed above includes shares held by Hamilton Capital Partners Limited, a company of which Mr Judge is a director.
5 Resigned 23 April 2008.

Issue of share options
Details of share options issued, lapsed and exercised during the year ended 31 December 2008 are set out in note 21 to the financial statements.

Directors' interest in transactions
Details of transactions with Directors for the year ended 31 December 2008 are set out in note 27 to the financial statements.

Internal controls
The Board is responsible for identifying and evaluating the major business risks faced by the Group and for determining and monitoring the appropriate course of action to manage these risks. Further information relating to the Directors' Corporate Governance policies is shown on page 31.

Substantial shareholders
The Company has been notified, in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, of the following interests in its ordinary shares as at 2 April 2009 of 3% shareholders and above.

Name	Number of shares	% of shares in issue
Schroder Investment Management	21,285,120	17.96%
Abdul Rahman Mohdabdullah Kayed	11,500,000	9.70%
Nordman Continental S.A. and Wickham Holdings[1]	9,588,601	8.09%
John Dorrier	9,098,750	7.68%
Al-Mashrek Global Invest Ltd	7,000,000	5.91%
Och-Ziff Capital Management	5,460,100	4.61%
David DeCort	5,164,375	4.36%
Hugh Sloan	5,007,240	4.22%
George Robinson	5,000,000	4.22%
Matterhorn Investment Management	4,258,409	3.59%
The Searle Family Trust	4,134,375	3.49%
Hamilton Capital Partners Limited[2]	3,966,750	3.35%

1 Nordman Continental S.A. and Wickham Holdings are owned by discretionary trusts of which Mr Sajjad's relatives are potential beneficiaries.
2 Hamilton Capital Partners Limited is an associated company of Mr Judge.

Principal risks and uncertainties facing the Group
The business of oil and gas exploration involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not be able to prevent. Principal risks and uncertainties facing the Group include but are not limited to:
- No assurance that oil or gas will be discovered and if it is, that it is not economically viable to be recovered.
- Delays in construction or commissioning of drilling projects may result in the Group's projected target dates for production being delayed or further capital expenditure required.
- Reliance on pipelines and facilities operated by others over which the Group has no control.
- Market price of oil and gas and foreign exchange rates which are affected by numerous factors beyond the Group's control but could have a material effect on the financial condition and value of its oil and gas reserves.
- Operations may be disrupted by a variety of risks and hazards which are beyond the control of the Group, including environmental hazards, accidents, technical failures, and inclement or hazardous weather conditions.
- The political situation in Syria and Iraq exposes the Group to political economic and other uncertainties, including but not limited to terrorism and changes in energy policies, regulations, and taxation of operations of foreign-based companies.
- Future exploration and development and/or acquisition of new properties may be dependent upon the Group's ability to obtain suitable financing and at reasonable terms.
- The Group competes with other companies in the search for and acquisition of oil and gas and other interests as well as for the recruitment and retention of qualified employees.

Supplier's payment policy
It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, providing that all trading terms and conditions have been complied with. The Group's average creditors' payment period at 31 December 2008 was 56 days.

Use of financial instruments
Gulfsands' financial risk management objectives are to limit debt to conservative levels, to fund exploration activity through cash flow and to ensure sufficient working capital for the Group's overhead and capital expenditure commitments. This is achieved by prudent financial management and careful management of the Group's cash balances, both short and long term. The financial risk management objectives and policies of the Group set out in note 26 to the Financial Statements include the Group's exposure to price, credit, liquidity and credit risk.

Political and charitable contributions
There were no political contributions made by the Group during the year ended 31 December 2008. The Group has a policy of making social contributions in its areas of operations where it will impact directly in the local communities. Further details are included in the Corporate social responsibility report on pages 24 to 26. Approximately $175,000 was provided to community programmes undertaken in Syria during 2008.

Annual General Meeting
The Company's Annual General Meeting will be held on 23 June 2009 at 11am. The Notice of the Meeting, which sets out the resolutions to be proposed, accompanies this Annual Report and Financial Statements.

Going concern
After making appropriate enquiries and examining those areas which could give rise to financial exposure the Directors are satisfied that no material or significant exposures exist and that the Group has adequate resources to continue its operations for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

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

Statement of responsibilities of those charged with governance
The Directors are responsible for preparing the financial statements in accordance with applicable laws and International Financial Reporting Standards as adopted by the European Union.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that year. In preparing those financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

Directors' report continued
for the year ended 31 December 2008

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable to ensure that the financial statements comply with the Companies Act 1985. 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.

Statement of disclosures to the auditors
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 auditors are 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 auditors are aware of that information.

Auditors
A resolution to reappoint UHY Hacker Young LLP as auditors of the Company and that the Directors be authorised to fix their remuneration will be put to shareholders at the Annual General Meeting.

By order of the Board

Richard Malcolm
Chief Executive Officer
16 April 2009

Andrew Rose
Chief Financial Officer

Corporate governance report
for the year ended 31 December 2008

Gulfsands Petroleum Plc is committed to meeting high standards of corporate governance and acting responsibly in all the Company's business activities. The Company is committed to maintaining throughout the Group the highest standards of business conduct and ethics, as well as full compliance with all applicable government laws, rules and regulations, corporate reporting and disclosure, accounting practices, accounting controls, auditing practices and other matters relating to fraud against shareholders.

The Company has established appropriate subcommittees, adopted an Audit Committee Charter, a Code of Business Conduct and Ethics Policy, a Whistleblower Policy and has also established a formal Health, Safety and Environment (HSE) Policy.

Audit committee
The Audit Committee meets at least twice each year to discuss the review of the interim financial statements and the audit of the year-end financial statements. For the annual results the independent auditors are invited to discuss the conclusions arising from their audit and their assessment of the Group's internal controls. The Chairman of the Audit Committee is Andrew West and the other participating members of the committee are David Cowan and Kenneth Judge.

The Company has adopted an Audit Committee Charter which addresses the mandate of the Committee, the composition, independence, expertise of the members, frequency of meetings, roles and responsibilities, external audit function, internal controls, financial reporting, annual and interim financial statements, release of financial information, non-audit services, delegation of authority, reporting responsibilities, resources and authority of the Committee, and compliance with laws and regulations.

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

Code of business conduct and ethics
The Company has adopted a Code of Business Conduct and Ethics which addresses the purpose of the code, the workplace (to include a non-discriminatory environment, harassment-free workplace, sexual harassment, substance abuse, violence, employment of the family members, HSE, conflict of interest, gifts and entertainment, competitive practices, supplier and contractor relationships, public relations, and governmental relations), legal compliance, information and records, company assets, and reporting of violations.

Whistleblower policy
The Company has adopted a Whistleblower Policy. Pursuant to its charter, the Audit Committee of the Board of Directors of the Company is responsible for ensuring that a confidential and anonymous process exists whereby persons can report Accounting Concerns relating to the Company and its subsidiaries. In order to carry out its responsibilities under its charter, the Committee has adopted this Whistleblower Policy.

For the purposes of this Policy, "Accounting Concerns" is intended to be broad and comprehensive and to include any matter, which in the view of the complainant, is illegal, unethical, contrary to the policies of the Company or in some other manner not right or proper.

All Directors, officers, employees, consultants and contractors of the Company are made aware of the Policy and a copy of the Policy has been distributed to Directors, officers and employees. All Directors, officers and employees will be informed whenever significant changes are made and new directors, officers and employees will be provided with a copy of this Policy and educated about its importance.

Health, safety and environment (HSE) policy
A primary goal of the Group is the protection of Health, Safety and Environment (HSE). The Group is dedicated to continuous efforts to make its operations compatible with protecting people, property and the environment.

This policy, whose implementation is overseen by the Chief Executive Officer, governs the Group's operations and is specifically designed to:
- Comply with and exceed relevant HSE legislation, regulations and other requirements;
- Maintain and develop systems to identify, assess, monitor, review and control HSE issues;
- Set HSE objectives and targets;
- Implement mechanisms to communicate with and to obtain input from: employees, contractors, partners and associates;
- Coordinate HSE policy, including the HSE management systems of contractors, to provide a unified system to guide operations;
- Institute a site-specific Emergency Response Procedure (ERP) so that immediate actions are taken, without delay, to minimise danger to personnel, the environment and property. Emergency Response Procedures will be rehearsed prior to commencing operations to ensure that personnel make the appropriate responses in the event of emergency.

It is the policy of the Group to consider the health and welfare of employees by maintaining a safe place and system of work as required by the Safety, Health and Welfare at Work Act, 1989.

The Group closely monitors activities to ensure to the best of its knowledge there is not potential for any such breach. There have been no convictions in relation to breaches of these Acts recorded against the Group during the reporting year.

Regular Board meetings
The Board of Directors holds regular Board Meetings approximately six times per year.

Directors' remuneration report

for the year ended 31 December 2008

This report has been prepared having regard to the Directors Remuneration Report Regulations 2002, which require the Auditors to report to a company's shareholders on the auditable part of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared. The report has therefore been divided into separate sections for audited and unaudited information.

The report has been prepared by the Remuneration Committee and has been approved by the Board for submission to shareholders.

Unaudited Information
Remuneration Policy
Up to and including the end of the 2008 financial year, no formal remuneration policy was in place for Directors and staff of the Group.

In March 2009 the Remuneration Committee retained the services of Hewitt New Bridge Street ("HNBS") as remuneration consultants to review the Group's historic remuneration policy and the existing share option plan, to undertake a benchmarking exercise for Directors and senior staff, and to make recommendations as to a formal remuneration policy for the Group going forward. A paper containing detailed proposals was prepared under the guidance of HNBS, reviewed by the Remuneration Committee on 15 April 2009 and discussed by the Board of Directors on 16 April 2009. Discussions to finalise the remuneration policy are still ongoing.

Audited Information
Remuneration of Directors
The remuneration of the Directors for the year ended 31 December 2008 was as follows:

	Annual remuneration ($000)									
	Salary and fees		Bonuses		Compensation for loss of office		Benefits in kind		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
A T West	**268**	100	**49**	–	**–**	–	**–**	–	**317**	100
M Sajjad	**519**	408	**1,681**	502	**–**	–	**53**	331	**2,253**	1,241
R Malcolm[1]	**97**	–	**–**	–	**–**	–	**–**	–	**97**	–
A Rose[2]	**160**	–	**–**	–	**–**	–	**4**	–	**164**	–
K Judge	**284**	160	**19**	–	**–**	–	**–**	–	**303**	160
D Cowan[3]	**91**	45	**–**	–	**–**	–	**–**	–	**91**	45
J Dorrier[4]	**96**	282	**–**	228	**444**	–	**25**	111	**565**	621
D DeCort[4]	**83**	242	**–**	195	**399**	–	**45**	119	**527**	556
Total	**1,598**	1,237	**1,749**	925	**843**	–	**127**	561	**4,317**	2,723

1 Appointed as a Director on 15 October 2008.
2 Appointed as a Director on 1 June 2008.
3 Non-executive Director.
4 Resigned on 23 April 2008.

In addition to the remuneration shown above the Group incurred share based payment charges of $10,725,000 (2007: $102,000) in respect of the above named Directors.

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 2008	Granted	Exercised	Lapsed	At 31 December 2008	Exercise price (£ unless stated)	Market price at date of exercise (£)	Gain on exercise of options ($000)	Date from which exercisable	Expiry date
A T West	125,000	–	–	–	125,000	1.45	–	–	14/02/06	13/02/11
	75,000	–	–	–	75,000	1.04	–	–	25/07/06	24/07/11
	–	1,000,000	–	–	1,000,000	1.88	–	–	13/05/08	12/05/13
M Sajjad[1]	568,750	–	–	568,750	–	US$0.41	–	–	01/01/03	31/12/07
	875,000	–	875,000	–	–	US$0.60	1.06	1,612	17/10/03	16/10/08
	450,000	–	–	–	450,000	1.30	–	–	05/04/05	04/04/10
	–	1,000,000	–	–	1,000,000	1.88	–	–	13/05/08	12/05/13
	–	568,750	568,750	–	–	US$0.41	2.30	2,256	17/06/08	16/06/13
R Malcolm	–	750,000	–	–	750,000	1.86	–	–	15/10/08	14/10/13
	–	375,000	–	–	375,000	1.86	–	–	15/10/09	14/10/13
	–	375,000	–	–	375,000	1.86	–	–	15/10/10	14/10/13
A Rose	–	500,000	–	–	500,000	1.80	–	–	08/05/08	07/05/13
	–	250,000	–	–	250,000	1.80	–	–	08/05/09	07/05/13
	–	250,000	–	–	250,000	1.80	–	–	08/05/10	07/05/13
K Judge	400,000	–	–	–	400,000	0.96	–	–	18/10/06	17/10/11
	–	600,000	–	–	600,000	1.88	–	–	13/05/08	12/05/13
D Cowan	175,000	–	175,000	–	–	US$0.57	1.06	322	17/10/03	16/10/08
	125,000	–	–	–	125,000	1.45	–	–	14/02/06	13/02/11
	–	400,000	–	–	400,000	1.88	–	–	13/05/08	12/05/13
J Dorrier[2]	500,000	–	–	–	500,000	1.30	–	–	05/04/05	04/04/10
D DeCort[2]	450,000	–	–	–	450,000	1.30	–	–	05/04/05	04/04/10

1 Share options details shown above include options granted to Nordman Continental S.A. Nordman Continental S.A. is owned by a trust in which Mr Sajjad's children are potential beneficiaries.

2 Resigned as a director on 23 April 2008.

This report was approved by the Board of Directors on 16 April 2009.

David Cowan
Chairman of the Remuneration Committee
16 April 2009

Independent auditors' report

to the shareholders of Gulfsands Petroleum Plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Gulfsands Petroleum Plc for the year ended 31 December 2008 which comprise the Consolidated income statement, the Consolidated and Company balance sheets, the Consolidated and Company statements of changes in equity, the Consolidated and Company cash flow statements and the related notes. These financial statements have been prepared in accordance with the basis and the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors

The Directors' responsibilities for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union are set out in the paragraph entitled "Statement of Responsibilities of Those Charged with Governance" in the Directors' Report, and for preparing the Directors' remuneration report are set out therein.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the 2008 Highlights, Gulfsands at a glance, Chairman's Statement, Chief Executive's report, Review of operations, Reserves and contingent resources, Financial review, Board of Directors, Corporate social responsibility, Directors' report, Directors' corporate governance and the unaudited part of the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of the Group's loss for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

UHY Hacker Young LLP
Chartered Accountants
Registered Auditors

Quadrant House
17 Thomas More Street
Thomas More Square
London E1W 1YW

21 April 2009

Consolidated income statement

For the year ended 31 December 2008

	Notes	2008 $'000	2007 (restated) $'000
Revenue	6	**53,600**	37,309
Cost of sales			
Depletion		**(8,767)**	(6,541)
Impairment		**(6,327)**	(1,418)
Other cost of sales		**(16,588)**	(17,425)
Total cost of sales		**(31,682)**	(25,384)
Gross profit		**21,918**	11,925
Administrative expenses before exceptional items		**(13,033)**	(7,431)
Foreign exchange losses		**(4,729)**	227
Share-based payments	7	**(12,572)**	(882)
Total administrative expenses		**(30,334)**	(8,086)
Hurricane repairs	8	**(2,750)**	(1,856)
Operating (loss)/profit	9	**(11,166)**	1,983
Discount expense on decommissioning provision	20	**(1,667)**	(1,828)
Net interest income	10	**1,229**	1,190
(Loss)/profit before taxation		**(11,604)**	1,345
Taxation	11	**1,932**	(2,557)
Loss for the year – attributable to equity holders of the Company		**(9,672)**	(1,212)
Loss per share (cents):			
Basic	12	**(8.37)**	(1.13)
Diluted	12	**(8.37)**	(1.13)

The losses for 2008 and 2007 relate entirely to continuing operations.

Consolidated balance sheet

As at 31 December 2008

	Notes	2008 $'000	2007 (restated) $'000
Assets			
Non-current assets			
Property, plant and equipment	13	**79,661**	49,532
Intangible assets	14	**343**	28,593
Long term financial assets	17	**13,167**	16,078
		93,171	94,203
Current assets			
Inventory		**2,401**	–
Trade and other receivables	16	**15,536**	11,154
Cash and cash equivalents	17	**36,812**	18,533
		54,749	29,687
Total assets		**147,920**	123,890
Liabilities			
Current liabilities			
Trade and other payables	18	**11,245**	6,672
Provision for decommissioning	20	**5,877**	10,952
		17,122	17,624
Non-current liabilities			
Deferred tax liabilities	19	**–**	1,932
Provision for decommissioning	20	**20,430**	16,824
		20,430	18,756
Total liabilities		**37,552**	36,380
Net assets		**110,368**	87,510
Equity			
Capital and reserves attributable to equity holders			
Share capital	21	**12,814**	11,997
Share premium		**98,530**	79,389
Share-based payments reserve		**14,305**	1,733
Merger reserve		**11,709**	11,709
Retained losses		**(26,990)**	(17,318)
Total equity		**110,368**	87,510

These financial statements were approved by the Board of Directors on 16 April 2009 and signed on its behalf by:

Richard Malcolm
Chief Executive Officer

Andrew Rose
Chief Financial Officer

Company balance sheet
As at 31 December 2008

	Notes	2008 $'000	2007 $'000
Assets			
Non-current assets			
Property, plant and equipment	13	**145**	13
Investments in and loans to subsidiaries	15	**50,136**	80,178
		50,281	80,191
Current assets			
Trade and other receivables	16	**33,911**	108
Cash and cash equivalents	17	**28,339**	14,831
		62,250	14,939
Total assets		**112,531**	95,130
Liabilities			
Current liabilities			
Trade and other payables	18	**4,467**	221
Total liabilities		**4,467**	221
Net assets		**108,064**	94,909
Equity			
Capital and reserves attributable to equity holders			
Share capital	21	**12,814**	11,997
Share premium		**98,530**	79,389
Share-based payments reserve		**14,305**	1,733
Retained (losses)/earnings		**(17,585)**	1,790
Total equity		**108,064**	94,909

These financial statements were approved by the Board of Directors on 16 April 2009 and signed on its behalf by:

Richard Malcolm
Chief Executive Officer

Andrew Rose
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2008

	Share capital $'000	Share premium $'000	Share-based payments reserve $'000	Merger reserve $'000	Retained losses $'000	Total equity $'000
Year ended 31 December 2008						
At 1 January 2008 (restated)	11,997	79,389	1,733	11,709	(17,318)	87,510
Options exercised	194	1,224	–	–	–	1,418
Shares issued	623	17,917	–	–	–	18,540
Share-based payment charge	–	–	12,572	–	–	12,572
Loss for 2008	–	–	–	–	(9,672)	(9,672)
At 31 December 2008	12,814	98,530	14,305	11,709	(26,990)	110,368
Year ended 31 December 2007						
At 1 January 2007 (restated)	11,047	56,506	851	11,709	(16,106)	64,007
Options exercised	9	187	–	–	–	196
Shares issued	941	22,946	–	–	–	23,887
Share issue costs	–	(250)	–	–	–	(250)
Share-based payment charge	–	–	882	–	–	882
Loss for 2007 (restated)	–	–	–	–	(1,212)	(1,212)
At 31 December 2007 (restated)	11,997	79,389	1,733	11,709	(17,318)	87,510

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

Company statement of changes in equity

For the year ended 31 December 2008

	Share capital $'000	Share premium $'000	Share-based payments reserve $'000	Retained (losses)/ earnings $'000	Total equity $'000
Year ended 31 December 2008					
At 1 January 2008	11,997	79,389	1,733	1,790	94,909
Options exercised	194	1,224	–	–	1,418
Shares issued	623	17,917	–	–	18,540
Share-based payment charge	–	–	12,572	–	12,572
Loss for 2008	–	–	–	(19,375)	(19,375)
At 31 December 2008	12,814	98,530	14,305	(17,585)	108,064
Year ended 31 December 2007					
At 1 January 2007	11,047	56,506	851	1,885	70,289
Options exercised	9	187	–	–	196
Shares issued	941	22,946	–	–	23,887
Share issue costs	–	(250)	–	–	(250)
Share-based payment charge	–	–	882	–	882
Loss for 2007	–	–	–	(95)	(95)
At 31 December 2007	11,997	79,389	1,733	1,790	94,909

Consolidated cash flow statement

For the year ended 31 December 2008

	Notes	2008 $'000	2007 (restated) $'000
Cash flows from operating activities			
Operating (loss)/profit		**(11,166)**	1,983
Depreciation, depletion and amortisation	13, 14	**8,953**	6,541
Impairment charge	13	**6,327**	1,418
Decommissioning costs paid in excess of provision	20	**2,987**	1,640
Share-based payment charge	7	**12,572**	882
Non-cash bonus		**–**	252
Loss on disposal of assets		**9**	2
Increase in receivables		**(4,066)**	(2,265)
Increase/(decrease) in payables		**4,781**	(5,398)
Increase in inventory		**(2,401)**	–
Net cash provided by operations		**17,996**	5,055
Interest received		**1,229**	1,190
Taxation paid		**(524)**	(356)
Net cash provided by operating activities		**18,701**	5,889
Investing activities			
Exploration and evaluation expenditure	14	**(645)**	(13,510)
Oil and gas properties expenditure	13	**(16,157)**	(5,275)
Other capital expenditures	13, 14	**(923)**	(46)
Change in long term financial assets	17	**2,911**	(3,181)
Decommissioning costs paid	20	**(5,566)**	(2,752)
Net cash used in investing activities		**(20,380)**	(24,764)
Financing activities			
Cash proceeds from issue of shares		**19,958**	23,831
Share issue costs		**–**	(250)
Net cash provided by financing activities		**19,958**	23,581
Increase in cash and cash equivalents		**18,279**	4,706
Cash and cash equivalents at beginning of year		**18,533**	13,827
Cash and cash equivalents at end of year	17	**36,812**	18,533

Company cash flow statement

For the year ended 31 December 2008

	Notes	2008 $'000	2007 $'000
Cash flows from operating activities			
Operating loss		**(23,627)**	(3,499)
Depreciation and amortisation	13	**17**	11
Share-based payment charge	7	**12,572**	882
Non-cash bonus		**–**	252
Loss on disposal of assets		**9**	–
(Increase)/decrease in receivables		**(26)**	3,368
Increase in payables		**4,397**	40
Net cash (used in)/provided by operations		**(6,658)**	1,054
Interest received		**4,252**	3,796
Taxation paid		**(413)**	(1,096)
Net cash (used in)/provided by operating activities		**(2,819)**	3,754
Investing activities			
Other capital expenditures	13	**(158)**	(1)
Loans to subsidiaries	15, 16	**(3,473)**	(22,331)
Net cash used in investing activities		**(3,631)**	(22,332)
Financing activities			
Cash proceeds from issue of shares		**19,958**	23,831
Share issue costs		**–**	(250)
Net cash provided by financing activities		**19,958**	23,581
Increase in cash and cash equivalents		**13,508**	5,003
Cash and cash equivalents at beginning of year		**14,831**	9,828
Cash and cash equivalents at end of year	17	**28,339**	14,831

Notes to the consolidated financial statements

For the year ended 31 December 2008

1. Authorisation of financial statements and statement of compliance with IFRSs
Gulfsands Petroleum Plc is a public limited company listed on the Alternative Investment Market (AIM) of the London Stock Exchange and incorporated in England. The principal activities of the Company and its subsidiaries (the Group) is that of oil and gas production, exploration, and development.

The Group's financial statements for the year ended 31 December 2008 were authorised for issue by the Board of Directors on 16 April 2009 and the balance sheets were signed on the Board's behalf by Richard Malcolm and Andrew Rose.

The Company's and Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The principal accounting policies adopted are set out in note 3 below.

2. Adoption of International Financial Reporting Standards and correction of errors in prior periods
The Company's and Group's financial statements for the year ended 31 December 2008 and for the comparative year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards and IFRIC (International Financial Reporting Interpretations Committee) interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The Group has restated the Income Statements, Balance Sheets and Cash Flow Statements as reported for prior periods. In prior periods the Group had omitted to take into account future forecast capital expenditure when calculating a depletion charge for its Gulf of Mexico assets and had understated the provision for decommissioning for the periods ended 31 December 2007 and 31 December 2006. In addition the Group had inaccurately recorded balances held in escrow accounts as cash equivalents rather than long term financial assets. Further details of these restatements are shown in note 30.

3. Significant accounting policies
3.1 Basis of preparation and accounting standards
The Group's significant accounting policies used in the preparation of the financial statements are set out below.

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards and under the historical cost convention.

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

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

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

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

The consolidated financial statements include the accounts of subsidiary undertakings when the Company has the power to exercise, or actually exercises, dominant influence or control over the undertaking.

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

No individual income statement is presented in respect of the Company as permitted by section 230 of the Companies Act 1985. The Company's loss for the year was $19,375,000 (2007: loss of $95,000).

3.3 Reporting currency
These financial statements are presented in US Dollars. The Company's operations and the majority of all costs associated with foreign operations are paid in US Dollars and not the local currency of the operations. Therefore the presentational and functional currency 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 2008 was £1: US$1.45 (2007: £1: US$1.99).

3.4 Oil and gas assets
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 Equipmen" and IAS 36 "mpairment of assets" noting that several items in the latter two standards are excepted due to the application of IFRS 6. Set out below are our interpretation of the principles set out in IFRS 6 and other IFRSs. It should be noted that guidance on certain aspects of IFRS 6 has not yet been provided by the IASB or IFRIC. Accordingly, amendments may be required to the accounting policies set out below in future years.

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

Oil and gas assets: exploration and evaluation

Recognition and measurement

Exploration and evaluation (E&E) assets consist of costs of license acquisition, exploration, evaluation, appraisal and development activities and evaluating oil and gas properties. The cost of E&E assets includes capitalised overheads relevant to the exploration and evaluation up to the point of commercial discovery. Costs incurred prior to having obtained the legal rights to explore an area (pre-license costs) are expensed directly to the income statement as they are incurred and are not included in E&E assets. E&E costs are accumulated and capitalised into cost pools and added to Intangible assets pending determination of commercial reserves.

E&E assets relating to each exploration license/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.

Impairment

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether commercial reserves exist.

Where the E&E assets concerned fall within the scope of a cash generating unit, the E&E assets are tested for impairment together with all development and production assets associated within the cash generating unit. The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. Where the E&E assets to be tested fall outside the scope of a cash generating unit, there will generally be no commercial reserves and the E&E assets concerned will generally be written off in full.

Any impairment loss is recognised in the income statement and is separately disclosed. In the balance sheet it is recorded against the carrying value of the related E&E asset.

Oil and gas assets: development and production

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

Recognition and measurement

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

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

Depletion of producing assets

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

Impairment

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

3.5 Decommissioning

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2008

3. Significant accounting policies continued

3.6 Definition of reserves

The Group's definition of commercial reserves is proven and probable reserves. Proven and probable oil and gas reserves are estimated quantities of commercially producible petroleum which the existing geological, geophysical and engineering data show to be recoverable in future years. The proven reserves included herein conform to the definition approved by the Society of Petroleum Engineers ("SPE") and the World Petroleum Congress ("WPC"). The probable reserves included herein conform to the definition of probable reserves approved by the SPE/WPC using the deterministic methodology.

3.7 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.

3.8 Intangible assets other than oil and gas assets

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

3.9 Revenue recognition

Oil sales revenue represents amounts invoiced exclusive of sales related taxes for the Group's share of oil and gas sales in the year.

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

3.10 Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term.

3.11 Taxation

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 substantially enacted by the balance sheet date.

The liability method is used in accounting for deferred income taxes. Under this method, 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 tax rates and laws that will be in effect when the differences are expected to reverse. The recoverability of deferred tax assets are 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 Group's tax returns.

3.12 Derivative financial instruments

The Group has in the past used forward crude oil and gas sales contracts and swaps to reduce exposure to fluctuations in the price of crude oil and natural gas in order to reduce the volatility of the cash flows of the Group. Contracts are only entered into to hedge physical positions related to the Group's crude oil and natural gas production and are accordingly accounted for as hedge transactions. At year ends, unrealised gains or losses which were based on the market values of oil and gas prices compared to the value of the contracts at that date based on the designated prices on those contracts, are included in turnover.

3.13 Share-based payments

The Company has made share-based payments to certain employees and Directors by way of issues of share options. The fair value of these payments is calculated by the Company using the Black-Scholes option pricing model. 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 shares that will eventually vest.

3.14 Cash and cash equivalents

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

3.15 Foreign currency

Foreign currency transactions of individual companies within the Group are translated to the functional and reporting currency of US Dollars at the rates 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.

3.16 Investments

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

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

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

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

3.20 Equity interests
Equity interests issued by the Company are recorded at the proceeds received, net of direct issue costs.

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

IFRS 8 "Operating Segments" was issued in October 2006 and defines operating segments as components of an entity about which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The new standard sets out the required disclosures for operating segments and is effective for annual periods beginning on or after 1 January 2009. The Group will adopt the new standard with effect from 1 January 2009 and expects no change to its segments that are separately reported and no effect on the Group's reported income or net assets. IFRS 8 has been adopted by the EU.

In September 2007, the IASB issued Amendments to IAS 1 "Presentation of Financial Statements" – A Revised Presentation, which requires separate presentation of owner and non-owner changes in equity by introducing the statement of comprehensive income. Whenever there is a restatement or reclassification, an additional balance sheet, as at the beginning of the earliest period presented, will be required to be published. The revised standard is effective for annual periods beginning on or after 1 January 2009 and the Group will adopt it from that date. There will be no effect on the Group's reported income or net assets. IAS 1 Revised has been adopted by the EU.

In January 2008, the IASB issued a revised version of IFRS 3 "Business Combinations". The revised standard still requires the purchase method of accounting to be applied to business combinations but will introduce some changes to existing accounting treatment. For example, contingent consideration is measured at fair value at the date of acquisition and subsequently remeasured to fair value with changes recognised in profit or loss. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs are expensed. The standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009 and the Group plans to adopt it with effect from 1 January 2010. Assets and liabilities arising from business combinations occurring before the date of adoption by the Group will not be restated and thus there will be no effect on the Group's reported income or net assets on adoption. The revised standard has not yet been adopted by the EU.

Also in January 2008, the IASB issued an amended version of IAS 27 "Consolidated and Separate Financial Statements". This requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. Such transactions will no longer result in goodwill or gains or losses. When control is lost, any remaining interest in the entity is remeasured to fair value and a gain or loss recognised in profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2009 and is to be applied retrospectively, with certain exceptions. The Group plans to adopt the amendment with effect from 1 January 2010 and does not expect there to be any effect on the Group's reported income or net assets. The revised standard has not yet been adopted by the EU.

IFRIC 18 "Transfers of assets from Customers" was issued in January 2009 and is effective prospectively from 1 July 2009. The Group has not yet completed its evaluation of the effect of adopting this interpretation.

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group.

5. Critical accounting estimates and assumptions
In the process of applying the Group's accounting policies, which are set out in note 3, the Directors have made the following judgements and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Intangible oil and gas exploration and evaluation costs
Costs capitalised as intangible assets are assessed for impairment when circumstances suggest that the carrying value may exceed its recoverable value. This assessment involves judgement as to the (i) likely commerciality of the assets, and (ii) future revenues and costs pertaining and the discount rate to be applied for the purpose of deriving a recoverable value.

Notes to the consolidated financial statements continued

For the year ended 31 December 2008

5. Critical accounting estimates and assumptions continued

b) Decommissioning

The Group has decommissioning obligations in respect of its producing interests in the Gulf of Mexico. The full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs. The Group has received a report from external specialist decommissioning experts regarding the cost of future works. The timing of these works is inherently uncertain and depends upon the determination of the end of commercial production. The Group has utilised the expected useful lives in the year end reserves report to estimate the timing of decommissioning liabilities. An appropriate risk free interest rate plus a risk premium of 4.25% has been used to discount the expected costs of decommissioning.

c) Oil and gas development and production assets and reserves

Oil and gas development and production assets held in property plant and equipment are depleted on a unit of production basis calculated by reference to proven and probable reserves. The Group's estimated commercial reserves take the estimated future cost of developing and extracting those reserves into account. Future forecast capital expenditure associated with developing proved and probable reserves is included in the cost base for the purposes of calculating depletion charges. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future oil and gas prices. The carrying amount of oil and gas assets therefore depends upon a number of estimates at year end.

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

6. Segmental information

The primary segmental reporting format is determined to be the geographical segment according to the location of the assets. The Directors consider the Group to have a single line of business, being the exploration, development and production of oil and gas. Accordingly no secondary segmental information is presented.

There are two major geographical segments, the USA and Syria. Both segments are involved with production and exploration of oil and gas.

The Group loss before interest for the year is analysed by geographical area as follows:

	2008			
	USA $'000	**Syria $'000**	**Other $'000**	**Total $'000**
Revenues	**28,121**	**25,479**	**–**	**53,600**
Depreciation, depletion and amortisation	**(6,010)**	**(2,930)**	**(23)**	**(8,963)**
Impairment	**(6,327)**	**–**	**–**	**(6,327)**
Hurricane repairs	**(2,750)**	**–**	**–**	**(2,750)**
Other cost of sales	**(15,270)**	**(1,318)**	**–**	**(16,588)**
Administrative expenses before exceptional items and depreciation	**(3,208)**	**(3,026)**	**(6,603)**	**(12,837)**
Foreign exchange gains/(losses)	**–**	**74**	**(4,803)**	**(4,729)**
Share-based payments	**–**	**–**	**(12,572)**	**(12,572)**
(Loss)/profit before interest and taxation	**(5,444)**	**18,279**	**(24,001)**	**(11,166)**
Net interest and unwinding of discount	**(1,204)**	**133**	**633**	**(438)**
Inter-segment interest	**(3,618)**	**–**	**3,618**	**–**
Taxation	**1,932**	**–**	**–**	**1,932**
(Loss)/profit for the year	**(8,334)**	**18,412**	**(19,750)**	**(9,672)**

	2007 (restated)			
	USA $'000	Syria $'000	Other $'000	Total $'000
Revenues	37,309	–	–	37,309
Depreciation, depletion and amortisation	(6,485)	(44)	(12)	(6,541)
Impairment	(1,418)	–	–	(1,418)
Hurricane repairs	(1,856)	–	–	(1,856)
Other cost of sales	(17,425)	–	–	(17,425)
Administrative expenses before exceptional items and depreciation	(3,522)	(844)	(3,065)	(7,431)
Foreign exchange gains/(losses)	–	(6)	233	227
Share-based payments	–	–	(882)	(882)
Profit/(loss) before interest and taxation	6,603	(894)	(3,726)	1,983
Net interest and unwinding of discount	(712)	72	2	(638)
Inter-segment interest	(3,296)	–	3,296	–
Taxation	(2,164)	–	(393)	(2,557)
(Loss)/profit for the year	431	(822)	(821)	(1,212)

Central costs have not been apportioned to geographical areas and are included with "other" above.

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

	2008			
	USA $'000	**Syria $'000**	**Other $'000**	**Total $'000**
Assets	**68,866**	**52,475**	**26,579**	**147,920**
Liabilities	**(33,397)**	**(3,757)**	**(398)**	**(37,552)**
Inter-segment balances	**(40,466)**	**(32,466)**	**72,932**	**–**
Capital expenditure	**5,887**	**11,125**	**156**	**17,168**

	2007 (restated)			
	USA $'000	Syria $'000	Other $'000	Total $'000
Assets	72,978	35,769	15,143	123,890
Liabilities	(34,380)	(1,769)	(231)	(36,380)
Inter-segment balances	(37,699)	(36,161)	73,860	–
Capital expenditure	6,138	13,510	–	19,648

7. Share-based payments

The charge for the period is based upon the requirements of IFRS 2 regarding share-based payments. For this purpose, the weighted average estimated fair value of the share options granted was calculated using a Black-Scholes option pricing model. The volatility measured at the standard deviation of expected share price return is 63.6%. No dividends were factored into the model.

Details of option grants made during the year and assumptions included in the calculation of the charge to the income statement are as follows:

Grant date	Stock price at date of grant	Exercise price	Number of options issued	Weighted average option life	Risk free interest rate
8 May 2008	£1.80	£1.75	1,000,000*	4.5	4.45%
13 May 2008	£1.88	£1.88	3,075,000	4.5	4.53%
13 May 2008	£1.88	£1.88	500,000	4.0	4.53%
13 May 2008	£1.88	£1.88	50,000	0.5	4.53%
17 June 2008	£2.38	£0.22	568,750	0.1	1.86%
18 July 2008	£1.95	£1.86	20,000	0.5	5.30%
5 September 2008	£1.75	£1.86	225,000	4.0	4.29%
15 October 2008	£1.17	£1.86	1,500,000*	4.5	4.37%
27 October 2008	£0.94	£1.86	200,000*	4.0	3.92%
24 November 2008	£1.37	£1.86	10,000	4.0	3.18%
8 December 2008	£1.30	£1.86	15,000	4.0	3.13%
Total options granted			7,163,750		

The share options granted on 17 June 2008 were issued to replace an identical number of options granted on 1 January 2003 at the same price which had expired unexercised. These options were not exercised prior to their expiry date as the option holder was in possession of unpublished price sensitive information in the period leading up to the option lapse date. The reissued options were exercised immediately upon grant.

Other than the options marked with an * above, which vest over a period of three years, all options are exercisable immediately and accordingly the greater part of the estimated fair value was expensed during the period.

8. Hurricane repairs

In 2008 Hurricanes Gustav and Ike caused damage to several of the Group's oil and gas properties and supporting infrastructure in the Gulf of Mexico. A provision has been made in these accounts for the full amount of any damage notified by the operators less potential insurance claim refunds. The amount charged to the Income Statement in the year end 31 December 2008 was $2,750,000.

In 2005, Hurricanes Katrina and Rita hit the Gulf Coast and several of the Group's offshore oil and gas properties were damaged. Most of the repairs were not performed until 2006 and 2007. The charge to the Income Statement for these hurricane repairs was $1,856,000 in 2007. These charges are net of insurance claims of which $3,701,000 was receivable at 31 December 2007 (see note 16). The insurance claim amount reflects the Directors' best estimate of the refund due from insurance companies.

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For the year ended 31 December 2008

9. Operating (loss)/profit

The Group's operating (loss)/profit is stated before charging:

	Note	2008 $'000	2007 (restated) $'000
Foreign exchange loss/(gain)		**4,729**	(227)
Auditors' remuneration			
Audit services		**203**	176
Non-audit services		**21**	73
Share-based payment charges	7	**12,572**	882
Hurricane repairs	8	**2,750**	1,856
Depletion of oil and gas properties	13	**8,767**	6,433
Depreciation and amortisation of other fixed assets	13, 14	**186**	108
Impairment of development and production assets	13	**6,327**	1,418
Staff costs excluding share-based payments	22	**6,176**	3,135
Operating lease rentals:			
Buildings		**232**	250
Vehicles and equipment		**2,614**	4

The operating lease rentals shown for 2008 include $2,523,000 (2007: $ nil) in respect of the hire of drilling rigs and operating staff.

Fees payable to the Company's auditors for non-audit services consist of $8,000 (2007: $47,000) for tax compliance services, $1,000 (2007: $9,000) for general advisory services and $12,000 (2007: $17,000) for reviewing the interim results.

10. Interest receivable

	2008 $'000	2007 $'000
Short-term bank deposit interest	**1,229**	1,190

11. Taxation charge

	2008 $'000	2007 (restated) $'000
Current Corporation Tax:		
UK Corporation Tax	**–**	393
Overseas Corporation Tax	**–**	56
Deferred Taxation:		
Tax losses carried forward	**1,725**	996
Timing differences	**(3,657)**	1,112
	(1,932)	2,557

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:

	2008 $'000	2007 $'000
(Loss)/profit before tax	**(11,604)**	1,345
Tax calculated at domestic rates	**(3,307)**	484
Effects of:		
Expenses not deductible for taxation purposes	**19**	(4)
Share-based payments	**3,583**	318
Tax losses for which no deferred taxation asset was recognised	**8,032**	369
Impact of local tax rates	**(5,808)**	–
Other tax adjustments	**163**	(4)
Effect of prior period adjustment	**(4,614)**	1,394
	(1,932)	2,557

In 2008 the Group has reconciled the tax charge to the UK domestic corporation tax rate of 30% for the period from 1 January 2008 to 31 March 2008 and 28% thereafter. This is a change to the method used in 2007 when the tax charge was reconciled to a weighted average rate of 36%. This change has been made to reflect the more diversified income stream of the Group. The 2007 calculation above has not been restated.

12. Loss per share

The basic and diluted loss per share have been calculated using the loss for the year ended 31 December 2008 of $9,672,000 (2007 loss (restated): $1,212,000). The basic and diluted loss per share were calculated using a weighted average number of shares in issue of 115,520,651 (2007: 107,223,298).

13. Property, plant and equipment

Group	Oil and gas properties USA $'000	Oil and gas properties Syria $'000	Other fixed assets $'000	Total $'000
Cost:				
At 1 January 2007 (restated)	75,899	–	273	76,172
Additions (restated)	6,092	–	45	6,137
Disposals	–	–	(8)	(8)
At 31 December 2007 (restated)	81,991	–	310	82,301
Additions	5,600	10,000	596	16,196
Transfer from Intangible assets	–	29,221	–	29,221
Disposals	–	–	(33)	(33)
At 31 December 2008	87,591	39,221	873	127,685
Accumulated depreciation and depletion:				
At 1 January 2007 (restated)	(19,475)	–	(80)	(19,555)
Charge for 2007 (restated)	(6,433)	–	(93)	(6,526)
Disposals	–	–	7	7
At 31 December 2007 (restated)	(25,908)	–	(166)	(26,074)
Charge for 2008	(5,961)	(2,806)	(185)	(8,952)
Disposals	–	–	24	24
At 31 December 2008	(31,869)	(2,806)	(327)	(35,002)
Accumulated impairment:				
At 1 January 2007 (restated)	(5,277)	–	–	(5,277)
Impairment charge for 2007 (restated)	(1,418)	–	–	(1,418)
At 31 December 2007 (restated)	(6,695)	–	–	(6,695)
Impairment charge for 2008	(8,154)	–	–	(8,154)
Reversal of impairment charges from prior years	1,827	–	–	1,827
At 31 December 2008	(13,022)	–	–	(13,022)
Net book value at 31 December 2008	**42,700**	**36,415**	**546**	**79,661**
Net book value at 31 December 2007 (restated)	49,388	–	144	49,532

The impairment charges for 2007 and 2008 relate to provisions against the Group's carrying values of its USA producing assets, following a review of reserves at the year end. The decrease in the market price of oil and gas has led to reductions in forecast future revenues per barrel of oil equivalent and also a reappraisal of the economics of certain fields in the Gulf of Mexico together with decreases in the estimated commercially recoverable reserves of those fields.

Company	Office equipment, fixtures and fittings $'000	Total $'000
Cost:		
At 1 January 2007	32	32
Additions	1	1
At 31 December 2007	33	33
Additions	158	158
Disposals	(33)	(33)
At 31 December 2008	158	158
Accumulated depreciation:		
At 1 January 2007	(9)	(9)
Charge for 2007	(11)	(11)
At 31 December 2007	(20)	(20)
Charge for 2008	(17)	(17)
Disposals	24	24
At 31 December 2008	(13)	(13)
Net book value at 31 December 2008	**145**	**145**
Net book value at 31 December 2007	13	13

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14. Intangible assets

Group	Exploration and evaluation assets $'000	Computer software $'000	Total $'000
Cost:			
At 1 January 2007	15,066	49	15,115
Additions	13,510	1	13,511
At 31 December 2007	28,576	50	28,626
Additions	645	327	972
Transfer to Property, plant and equipment	(29,221)	–	(29,221)
At 31 December 2008	–	377	377
Accumulated amortisation:			
At 1 January 2007	–	(18)	(18)
Charge for 2007	–	(15)	(15)
At 31 December 2007	–	(33)	(33)
Charge for 2008	–	(1)	(1)
At 31 December 2008	–	(34)	(34)
Net book value at 31 December 2008	**–**	**343**	**343**
Net book value at 31 December 2007	28,576	17	28,593

Intangible Exploration and Evaluation ("E&E") assets of $29,221,000 representing the cumulative cost of exploration work in Block 26 in Syria were transferred to development and production assets within tangible fixed assets upon the successful declaration of commerciality for the Khurbet East field in the second half of 2008. At 31 December 2008 there were no E&E assets.

Included in E&E assets at 31 December 2007 was an amount of $1,664,000 in respect of capitalised overheads related to the exploration and evaluation activities in Block 26, Syria. A further $645,000 of overhead expense was capitalised during the year ended 31 December 2008 in respect of general and administrative costs prior to discovery of commercial reserves.

15. Investments

Company	**2008 $'000**	2007 $'000
Cost of shares in Gulfsands Petroleum Ltd.	**7,306**	7,306
Loans to subsidiaries	**42,830**	72,872
	50,136	80,178

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

Loans to subsidiary undertakings include a revolving loan from the Company to Gulfsands Petroleum USA, Inc. for $42,830,000 (2007: $39,588,000) including accrued interest. Interest is charged at 8.5% per annum on the outstanding principal and is payable in full on 31 December annually. The principal balance may be paid in part or in full at anytime with no penalty. On 1 January 2011, the loan converts to a term loan and the payments will be made in four instalments over the next four years.

During 2008 the Group's subsidiary in Syria commenced repayment of the Company's loans to Gulfsands Petroleum Syria Limited upon the declaration of commerciality of Khurbet East and the commencement of production. These loans have been transferred to current assets during the year to 31 December 2008.

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 2008	Nature of business	Country of incorporation
Directly held by the Company:			
Gulfsands Petroleum Ltd.	100%	Holding company	Cayman Islands
Indirectly held by the Company:			
Gulfsands Petroleum Holdings	100%	Holding company	Cayman Islands
Gulfsands Petroleum Colombia Ltd.	100%	Dormant	Cayman Islands
Gulfsands Petroleum Syria Ltd.	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd.	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum USA, Inc.	100%	Oil & gas exploration	US
Darcy Energy LLC	100%	Oil & gas exploration	US

Gulfsands Petroleum Syria Limited owns 25% of the voting shares in Dijla Petroleum Company ("DPC"), a company incorporated in Syria. DPC is a joint venture undertaking between the Syrian Petroleum Company and the other parties participating in the production of hydrocarbons from Block 26 in Syria. All costs of DPC are ultimately borne equally between the Group and its joint venture partner, Emerald Energy plc. In the Group accounts the results of DPC are proportionally consolidated.

The Group's share of the summarised aggregated balance sheet of jointly controlled entities is set out below:

	2008 $'000	2007 $'000
Long term assets	**28,973**	28,658
Current assets	**16,958**	7,111
Current liabilities	**(36,223)**	(37,930)
Long term liabilities and provisions	**–**	–

The Group's share of the summarised aggregated income statement of jointly controlled entities is set out below:

	2008 $'000	2007 $'000
Income	**25,479**	–
Expenses	**(7,193)**	(932)

16. Trade and other receivables

	Group		Company	
	2008 $'000	2007 (restated) $'000	**2008 $'000**	2007 $'000
Trade receivables	**8,266**	4,491	**–**	–
Other receivables	**28**	–	**–**	–
Insurance receivable	**–**	3,701	**–**	–
Underlift	**919**	919	**–**	–
Corporation tax recoverable	**316**	–	**262**	–
Prepayments and accrued income	**1,378**	2,043	**134**	108
Amounts due from oil and gas partnerships	**4,629**	–	**–**	–
Amounts due from subsidiaries	**–**	–	**33,515**	–
	15,536	11,154	**33,911**	108

Included in trade receivables is an amount of $5,096,000 that represents a retention of 20% on the oil sales to the Oil Marketing Bureau of the Government of the Syrian Arab Republic. This retention will be released during September 2009 upon completion of certain assay tests on the quality of the crude oil delivered from the Khurbet East field. The Group does not believe that there is any significant risk that the crude oil delivered will fail to meet the benchmark tests in the oil sales agreement.

No significant trade receivables are classified as past due or considered impaired.

Underlift at 31 December 2008 and 2007 represents underlift acquired as a result of the acquisition of oil and gas properties in the Gulf of Mexico in May 2004. Underlift represents a right to future economic benefits (through entitlement to receive equivalent future production), which constitutes an asset. This amount is due after more than one year.

Amounts due from oil and gas partnerships represents the excess of the Group's loans and advances to jointly controlled entities over its share of the assets less liabilities of those entities. This amount is recoverable within one year.

17. Cash and cash equivalents

	Group		Company	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Short term cash deposits	**–**	11,115	**–**	11,115
Cash at bank and in hand	**36,812**	7,418	**28,339**	3,716
Restricted cash balances	**13,167**	16,078	**–**	–
	49,979	34,611	**28,339**	14,831
Included in long term financial assets	**13,167**	16,078	**–**	–
Total cash and cash equivalents	**36,812**	18,533	**28,339**	14,831

Short term cash deposits comprised amounts held on deposit, but readily convertible to cash.

Notes to the consolidated financial statements continued

For the year ended 31 December 2008

17. Cash and cash equivalents continued

The restricted cash balances include (i) amounts held in escrow to cover decommissioning expenditures under the requirements of the regulatory authorities that manage the oil and gas and other mineral resources in the Gulf of Mexico and (ii) a bank guarantee that is required under the terms of the Production Sharing Contract with the Syrian Petroleum Company and which is reduced quarterly as the obligations under the required work programmes are completed.

18. Trade and other payables

	Group		Company	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Trade payables	**9,266**	6,194	**251**	60
Other payables	**1,979**	270	**144**	10
US Corporation tax payable	**–**	56	**–**	–
UK Corporation tax payable	**–**	152	**–**	151
Amounts due to subsidiaries	**–**	–	**4,072**	–
	11,245	6,672	**4,467**	221

19. Deferred tax assets/(liabilities)

	Group		Company	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Accelerated oil and gas depreciation allowance	**767**	(5,908)	**–**	–
Other short term timing differences	**943**	–	**–**	–
Tax losses carried forward	**6,322**	3,976	**2,328**	–
Unprovided deferred tax asset	**(8,032)**	–	**(2,328)**	–
Deferred tax asset/(liability) at 31 December	**–**	(1,932)	**–**	–

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

	Group		Company	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000
Unutilised tax losses	**6,755**	–	**2,328**	–
Other short term timing differences	**1,277**	–	**–**	–
	8,032	–	**2,328**	–

Deferred taxation 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.

20. Provision for decommissioning

The provision for decommissioning relates to the expected present value of costs of plugging and abandoning the oil and gas properties held by Gulfsands Petroleum USA, Inc and Darcy Energy LLC. The provision for decommissioning is estimated after taking account of inflation, years to abandonment, and borrowing rates. At 31 December 2008, the oil and gas properties have estimated plugging and abandonment dates between 2009 and 2036.

The portion of the provision for decommissioning expected to be settled in 2009 totalling approximately $5.9 million is included in current liabilities and the remainder totalling approximately $20.4 million is included in non-current liabilities in the consolidated balance sheet at 31 December 2008.

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

The movement in the provision for decommissioning was as follows:

	$'000
At 1 January 2007 (restated)	26,141
Changes in estimates (restated)	919
Additions (restated)	–
Costs in excess of provision (restated)	1,640
Decommissioning costs paid	(2,752)
Discount expense (restated)	1,828
At 31 December 2007 (restated)	27,776
Less: current portion (restated)	10,952
Non-current portion (restated)	16,824
At 1 January 2008 (restated)	27,776
Changes in estimates	(557)
Additions	–
Costs in excess of provision	2,987
Decommissioning costs paid	(5,566)
Discount expense	1,667
At 31 December 2008	**26,307**
Less: current portion	5,877
Non-current portion	20,430

21. Share capital

Group and Company	**2008 Number**	2007 Number
Authorised:		
Ordinary shares of 5.714 pence each	**175,000,000**	175,000,000

	2008 $'000	2007 $'000
Allotted, called up and fully paid:		
118,522,500 (2007: 111,178,750) ordinary shares of 5.714 pence each	**12,814**	11,997

The movements in share capital and share options were:

	Weighted average exercise price of options	Number of share options	Number of ordinary shares
At 1 January 2008	£0.95	5,413,750	111,178,750
Private placement		–	5,500,000
Share options exercised for cash	£0.39	(1,843,750)	1,843,750
Share options lapsed	£0.22	(568,750)	–
Share options issued	£1.76	7,163,750	–
At 31 December 2008	**£1.64**	**10,165,000**	**118,522,500**

The detail of the share options outstanding at 31 December 2008 are as follows:

Exercise period	Year options vest	Weighted average exercise price	Number of options
5 April 2005 – 4 April 2010	2005	£1.30	2,135,000
13 February 2006 – 18 October 2011	2006	£1.18	855,000
19 February 2007 – 3 June 2012	2007	£1.12	580,000
8 May 2008 – 8 December 2013	2008	£1.84	5,245,000
8 May 2009 – 27 November 2015	2009 and 2010	£1.83	1,350,000
		£1.64	10,165,000

Options are exercisable at prices from £0.96 to £1.88 per share and have a weighted estimated remaining contractual life of 3.8 years.

Of the total outstanding options at 31 December 2008, the options granted to the Directors numbered 6,675,000 (2007: 3,743,750) and those granted to other staff numbered 1,845,000. The remaining 1,645,000 were granted to ex-employees and ex-directors or consultants who are currently involved with or have performed work for the Group.

The average share price during 2008 was £1.64 (2007: £1.19).

Notes to the consolidated financial statements continued

For the year ended 31 December 2008

22. Staff costs

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

	2008 $'000	2007 $'000
Wages and salaries	**5,858**	2,764
Social security costs	**175**	371
Share-based payment charges	**12,572**	882
Other benefits in kind	**143**	–
	18,748	4,017

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

	2008 Number	2007 Number
Operational and technical	**6**	4
Administrative	**15**	22
	21	26

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

Details of the remuneration of Directors are included in the Directors' remuneration report on page 32. No employees other than Directors are determined to be key management personnel.

23. 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:

	2008		2007	
	Land & buildings $'000	Other $'000	Land & buildings $'000	Other $'000
Amounts payable on leases:				
Within one year	**539**	**395**	362	10
In two to five years	**1,462**	**7**	293	5
After more than five years	**–**	**–**	–	–
	2,001	**402**	655	15

In addition to the items mentioned above the Group had commitments to make payments under a non-cancellable lease for the provision of an oil rig. This lease expires in 2010. At 31 December 2008 the Group had a commitment to make further payments totalling approximately $7.5 million for the provision of the rig and operating staff. The ultimate timing of these payments will depend upon the Group's drilling programme.

24. Commitments

At 31 December 2008 all exploration expenditure and work programme commitments pertaining to the current exploration period (ending August 2010) in Block 26 in Syria had been satisfied in full.

There were no other material obligations or contracts outstanding in relation to ongoing projects not provided for at 31 December 2008 or 2007.

25. Contingent liabilities

Due to the nature of the Group's business, some contamination of the real estate property owned or leased by the Group is possible. Environmental site assessments of the property would be necessary to adequately determine remediation costs, if any. The Directors do not consider the amounts that would result from any environmental site assessments to be significant to the financial position or results of operations of the Group. Accordingly, except for the provision made against decommissioning costs (note 20), no further provision for potential remediation costs is required.

26. Financial instruments and derivatives

Risk assessment

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

Liquidity rate risk
At 31 December 2008 the Group had sufficient funds available to progress its exploration portfolio and projected requirements for the development of existing reserves. At the end of the year the Group had cash in hand of $36.8 million, and further bank balances of $13.2 million held in escrow.

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

Currency risk
The Group has currency exposure arising from transactions denominated in currencies other than its functional currency, US Dollars. These transactions relate predominantly to the cost of its Syrian operations which are denominated in Euro and Syrian Pounds and its head office costs which are denominated in Pounds Sterling.

Although sales of crude oil by the Group's Syrian operations are invoiced in US Dollars payment is made in Euro according to the exchange rate pertaining between US Dollars and Euro shortly before the payment is made. The Group manages any further risk through the use of short term foreign currency forward contracts of not more than 10 days duration. Each contract is entered into with the aim of exactly covering any foreign currency risk on Euro receivables.

Costs incurred in Euro in the Syrian operations are recoverable under the terms of the Production Sharing Contract at the rate of exchange between US Dollars and Euro at the date of payment.

The Group maintains part of its cash balances in Pounds Sterling to defray head office costs.

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 Group's equity.

	Change in US Dollar rate	Effect on (loss)/profit before tax $'000	Effect on equity $'000
2008	**(+ or –) 5%**	**660**	**660**
2007	(+ or –) 5%	157	157

Operational risk
Operational risks include equipment failure, well blowouts, pollution, fire and the consequences of bad weather. Where the Group is a project operator of either a producing field or an exploration drilling programme, it takes increased responsibility for ensuring that all relevant legislation is met, and that all partners have appropriate insurance cover in place. The Group's insurance policies contain overall limits and deductibles, which are reviewed each year prior to policy renewal.

Credit risk
In the USA the Group trades only with recognised, creditworthy third parties. The Group manages the exposures to credit risk by performing credit evaluations on all of their major customers requiring credit.

In Syria, the Group's share of crude oil is sold to the Oil Marketing Bureau of the Government of the Syrian Arab Republic. Management believe that the counterparty risk is low and similar to the sovereign risk of Syria.

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

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2008

26. Financial instruments and derivatives continued

Financial assets

The Group's financial assets consist of long term financial assets, 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
2008			
US Dollar	**35,780**	**16,042**	**51,822**
UK Sterling	**12,656**	**149**	**12,805**
Euro	**698**	**–**	**698**
Syrian Pounds	**185**	**5**	**190**
	49,319	**16,196**	**65,515**
2007			
US Dollar	27,287	15,108	42,395
UK Sterling	3,324	22	3,346
Syrian Pounds	–	24	24
	30,611	15,154	45,765

The UK Sterling, Euro and Syrian Pound assets principally comprise cash on hand, cash in instant access accounts and short term money market deposits. The US Dollar assets represent cash on call accounts, money market accounts, and short term receivables. The Group earned interest on its interest bearing financial assets at rates between 0.1% and 5.07%. All financial assets on which no interest is earned are considered immediately available to turn into cash on demand.

Included in US Dollar financial assets are amounts of $8,266,000 (2007: $4,491,000) of trade receivables. The Group considers that $7,015,000 (2007: £nil) carries the risk of the sovereign debt of the Syrian Arab Republic. The remaining trade receivables consist of amounts receivable from various counter-parties where the Group considers the credit risk to be low. This risk is monitored by the Group. No significant assets included in trade receivables are past due or considered impaired.

Financial liabilities

The Group's financial liabilities consist of short term payables and decommissioning liabilities (as shown in note 20). None of these liabilities bear interest to external parties.

The Group imputes a charge to the Income Statement each year to reflect the unwinding of discounts on decommissioning liabilities. In 2008 the discount rate used to record the charge was 10%. In 2009 the expected discount rate is 6%.

At 31 December financial liabilities are classified as shown below:

	Financial liabilities on which no interest is charged $'000	Financial liabilities on which interest is imputed $'000	Total $'000
2008			
US Dollar	**10,755**	**26,307**	**37,062**
UK Sterling	**395**	**–**	**395**
Euro	**–**	**–**	**–**
Syrian Pounds	**95**	**–**	**95**
	11,245	**26,307**	**37,552**
2007			
US Dollar	6,436	27,776	34,212
UK Sterling	179	–	179
Syrian Pounds	57	–	57
	6,672	27,776	34,448

The Group's short term creditors, except decommissioning liabilities, are considered to be payable on demand.

Derivatives

The Group has exposure to changes in oil and gas prices. In the past the Group utilised derivative financial instruments to reduce exposure to market risks resulting from fluctuations in oil and gas prices in order to reduce the volatility of the cash flows of the Group. The derivative contracts expired in May 2007 and no such contracts are currently outstanding. The future use of derivatives will be kept under review. The Group incurred no expense in respect of oil and gas price derivatives in 2008 (2007: $92,000 loss).

Fair values
At 31 December 2008 and 2007, the Directors considered the fair values and book values of the Group's financial assets and liabilities to be materially the same.

27. Related party transactions and key management
Key management of the Group are considered to be the Directors of the Company. There were no transactions with Directors, other than interests in shares and their remuneration and share options as disclosed in the Directors' remuneration report on page 32.

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

	2008 $'000	2007 $'000
Short-term employee benefits	**3,384**	2,423
Post-employment benefits	**50**	300
Termination benefits	**843**	–
Share-based payments	**10,725**	102
	15,002	2,825

There were no other related party transactions during the year ended 31 December 2008.

28. Ultimate controlling party
Ultimate control is exercised by the shareholders of Gulfsands Petroleum Plc.

29. Events after the balance sheet date
There have been no material events since 31 December 2008.

30. Restatement of previous period financial statements
The Group has identified corrections required to certain balances and also in the classification of certain other balances in the financial statements of prior periods. The Group has chosen to restate the Balance Sheets, Income Statements and Statements of Cash Flows as at, and for the periods ended, 31 December 2007 and 2006.

(i) In prior years the Group had calculated depletion charges on its oil and gas assets over the estimated proved and probable reserves. No allowance had been made for forecast future capital expenditure associated with producing those reserves. At 31 December 2007 the forecast future capital expenditure, excluding plugging and abandonment costs, amounted to approximately $34,452,000 (2006: $26,683,000).

(ii) In prior years the Group had provided for decommissioning liabilities using an outdated estimate of the cost of decommissioning work required (as stated in current prices). Prior to the completion of the financial statements for those years the Group had received a report from third party specialist surveyors in connection with insurance related matters which report also included an update of the estimated cost of decommissioning and which, if adopted for use in the preparation of the financial statements, would more accurately reflect the current cost of decommissioning work. This report included an estimated value of $38,127,000 (in current prices) for decommissioning. This is $17,539,000 in excess of the previously estimated amounts and the decommissioning liabilities for prior periods have been restated to reflect the higher figure.

(iii) In prior years bank balances held in escrow accounts were treated as cash and cash equivalents. These balances were, however, not available to the Group to fund short term requirements and the Group now considers that these should more accurately be classified as other financial assets. Retrospective adjustments have been made to the Balance Sheets and Statement of Cash Fows for the Group to reclassify $16,078,000 (2006: $12,897,000) of such balances.

Notes to the consolidated financial statements continued

For the year ended 31 December 2008

30. Restatement of previous period financial statements continued

The effect of these restatements to the Income Statement, Balance Sheet and Statement of Cash Flows is set out below:

Consolidated income statement
For the year ended 31 December 2007

	As originally stated $'000	(i) and (ii) $'000	As restated $'000
Revenue	37,309	–	37,309
Cost of sales			
Depletion	(5,034)	(1,507)	(6,541)
Impairment	(947)	(471)	(1,418)
Other cost of sales	(15,883)	(1,542)	(17,425)
Total cost of sales	(21,864)	(3,520)	(25,384)
Gross profit	15,445	(3,520)	11,925
Administrative expenses before exceptional items	(7,204)	–	(7,204)
Share-based payments	(882)	–	(882)
Total administrative expenses	(8,086)	–	(8,086)
Hurricane repairs	(1,856)	–	(1,856)
Operating profit	5,503	(3,520)	1,983
Discount expense on decommissioning provision	(1,475)	(353)	(1,828)
Net interest income	1,190	–	1,190
Profit before taxation	5,218	(3,873)	1,345
Taxation	(2,557)	–	(2,557)
(Loss)/profit for the year – attributable to equity holders of the Company	2,661	(3,873)	(1,212)
Earnings per share (cents):			
Basic	2.48		(1.13)
Diluted	2.37		(1.13)

Note that the adjustments required to restate the depletion, impairment charges and decommissioning liabilities in (i) and (ii) above are not practicable to separate and are aggregated in the presentation above.

Consolidated income statement
For the year ended 31 December 2006

	As originally stated $'000	(i) and (ii) $'000	As restated $'000
Revenue	33,934	–	33,934
Cost of sales			
Depletion	(4,716)	(6,977)	(11,693)
Impairment	(1,334)	(2,801)	(4,135)
Other cost of sales	(14,465)	(969)	(15,434)
Total cost of sales	(20,515)	(10,747)	(31,262)
Gross profit	13,419	(10,747)	2,672
Administrative expenses before exceptional items	(4,455)	–	(4,455)
Share-based payments	(851)	–	(851)
Total administrative expenses	(5,306)	–	(5,306)
Hurricane repairs	(2,573)	–	(2,573)
Operating profit	5,540	(10,747)	(5,207)
Discount expense on decommissioning provision	(2,223)	1,438	(785)
Net interest income	1,193	–	1,193
(Loss)/profit before taxation	4,510	(9,309)	(4,799)
Taxation	(2,433)	–	(2,433)
(Loss)/profit for the year – attributable to equity holders of the Company	2,077	(9,309)	(7,232)
Earnings per share (cents):			
Basic	2.17		(7.57)
Diluted	2.15		(7.57)

Note that the adjustments required to restate the depletion, impairment charges and decommissioning liabilities in (i) and (ii) above are not practicable to separate and are aggregated in the presentation above.

Consolidated balance sheet
As at 31 December 2007

	As originally stated $'000	(i) and (ii) $'000	(iii) $'000	As restated $'000
Assets				
Non-current assets				
Property, plant and equipment	46,925	2,607	–	49,532
Intangible assets	28,593	–	–	28,593
Long term financial assets	–	–	16,078	16,078
	75,518	2,607	16,078	94,203
Current assets				
Trade and other receivables	11,154	–	–	11,154
Cash and cash equivalents	34,611	–	(16,078)	18,533
	45,765	–	(16,078)	29,687
Total assets	121,283	2,607	–	123,890
Liabilities				
Current liabilities				
Trade and other payables	6,672	–	–	6,672
Provision for decommissioning	2,512	8,440	–	10,952
	9,184	8,440	–	17,624
Non-current liabilities				
Deferred tax liabilities	1,932	–	–	1,932
Provision for decommissioning	9,475	7,349	–	16,824
	11,407	7,349	–	18,756
Total liabilities	20,591	15,789	–	36,380
Net assets	100,692	(13,182)	–	87,510
Equity				
Capital and reserves attributable to equity holders				
Share capital	11,997	–	–	11,997
Share premium	79,389	–	–	79,389
Share-based payments reserve	1,733	–	–	1,733
Merger reserve	11,709	–	–	11,709
Retained losses	(4,136)	(13,182)	–	(17,318)
Total equity	100,692	(13,182)	–	87,510

Note that the adjustments required to restate the depletion, impairment charges and decommissioning liabilities in (i) and (ii) above are not practicable to separate and are aggregated in the presentation above.

Notes to the consolidated financial statements continued

For the year ended 31 December 2008

30. Restatement of previous period financial statements continued
Consolidated balance sheet
As at 31 December 2006

	As originally stated $'000	(i) and (ii) $'000	(iii) $'000	As restated $'000
Assets				
Non-current assets				
Property, plant and equipment	46,247	5,093	–	51,340
Intangible assets	15,097	–	–	15,097
Long term financial assets	–	–	12,897	12,897
Deferred tax asset	176	–	–	176
	61,520	5,093	12,897	79,510
Current assets				
Trade and other receivables	9,629	–	–	9,629
Cash and cash equivalents	26,724	–	(12,897)	13,827
	36,353	–	(12,897)	23,456
Total assets	97,873	5,093	–	102,966
Liabilities				
Current liabilities				
Trade and other payables	12,717	–	–	12,717
Provision for decommissioning	3,319	4,308	–	7,627
Oil and gas price derivatives	101	–	–	101
	16,137	4,308	–	20,445
Non-current liabilities				
Provision for decommissioning	8,420	10,094	–	18,514
	8,420	10,094	–	18,514
Total liabilities	24,557	14,402	–	38,959
Net assets	73,316	(9,309)	–	64,007
Equity				
Capital and reserves attributable to equity holders				
Share capital	11,047	–	–	11,047
Share premium	56,506	–	–	56,506
Share-based payments reserve	851	–	–	851
Merger reserve	11,709	–	–	11,709
Retained losses	(6,797)	(9,309)	–	(16,106)
Total equity	73,316	(9,309)	–	64,007

Note that the adjustments required to restate the depletion, impairment charges and decommissioning liabilities in (i) and (ii) above are not practicable to separate and are aggregated in the presentation above.

Consolidated cash flow statement
For the year ended 31 December 2007

	As originally stated $'000	(i) and (ii) $'000	(iii) $'000	As restated $'000
Cash flows from operating activities:				
Operating profit	5,503	(3,520)	–	1,983
Depreciation, depletion and amortisation	5,034	1,507	–	6,541
Impairment charge	947	471	–	1,418
Decommissioning costs paid in excess of provision	–	1,640	–	1,640
Share-based payment charge	882	–	–	882
Non-cash bonus	252	–	–	252
Loss on disposal of assets	2	–	–	2
Increase in receivables	(2,266)	1	–	(2,265)
(Decrease)/increase in payables	(5,399)	1	–	(5,398)
Net cash from operations	4,955	100	–	5,055
Interest received	1,190	–	–	1,190
Taxation paid	(356)	–	–	(356)
Net cash from operating activities	5,789	100	–	5,889
Investing activities				
Exploration and evaluation expenditure	(13,511)	1	–	(13,510)
Oil and gas properties expenditure	(5,175)	(100)	–	(5,275)
Other capital expenditures	(45)	(1)	–	(46)
Change in long term financial assets	–	–	(3,181)	(3,181)
Decommissioning costs paid	(2,752)	–	–	(2,752)
Net cash used in investing activities	(21,483)	(100)	(3,181)	(24,764)
Financing activities				
Cash proceeds from issue of shares	23,831	–	–	23,831
Share issue costs	(250)	–	–	(250)
Net cash from financing activities	23,581	–	–	23,581
Increase/(decrease) in cash and cash equivalents	7,887	–	(3,181)	4,706
Cash and cash equivalents at beginning of year	26,724	–	(12,897)	13,827
Cash and cash equivalents at end of year	34,611	–	(16,078)	18,533

Note that the adjustments required to restate the depletion, impairment charges and decommissioning liabilities in (i) and (ii) above are not practicable to separate and are aggregated in the presentation above.

Notes to the consolidated financial statements continued

For the year ended 31 December 2008

30. Restatement of previous period financial statements continued
Consolidated cash flow statement
For the year ended 31 December 2006

	As originally stated $'000	(i) and (ii) $'000	(iii) $'000	As restated $'000
Cash flows from operating activities:				
Operating profit/(loss)	5,540	(10,747)	–	(5,207)
Depreciation, depletion and amortisation	4,716	6,977	–	11,693
Impairment charge	1,334	2,801	–	4,135
Decommissioning costs paid in excess of provision	–	969	–	969
Share-based payment charge	851	–	–	851
Increase in receivables	(3,888)	–	–	(3,888)
Increase in payables	7,441	–	–	7,441
Net cash from operations	15,994	–	–	15,994
Interest received	1,193	–	–	1,193
Taxation paid	(1,111)	–	–	(1,111)
Net cash from operating activities	16,076	–	–	16,076
Investing activities				
Exploration and evaluation expenditure	(9,375)	–	–	(9,375)
Oil and gas properties expenditure	(17,896)	–	–	(17,896)
Purchase of minority interest	(277)	–	–	(277)
Other capital expenditures	(234)	–	–	(234)
Change in long term financial assets	–	–	1,691	1,691
Decommissioning costs paid	(2,062)	–	–	(2,062)
Net cash used in investing activities	(29,844)	–	1,691	(28,153)
Financing activities				
Cash proceeds from issue of shares	3,931	–	–	3,931
Net cash from financing activities	3,931	–	–	3,931
(Decrease)/increase in cash and cash equivalents	(9,837)	–	1,691	(8,146)
Cash and cash equivalents at beginning of year	36,561	–	(14,588)	21,973
Cash and cash equivalents at end of year	26,724	–	(12,897)	13,827

Note that the adjustments required to restate the depletion, impairment charges and decommissioning liabilities in (i) and (ii) above are not practicable to separate and are aggregated in the presentation above.

Glossary

2D seismic	Seismic data, obtained using a sound source and receivers placed in a straight line on the surface of the earth, that is processed to provide a graphic representation of a vertical cross-section through the subsurface rock layers ("seismic line"). In a 2D seismic survey, several seismic lines are recorded and the cross-sections are interpolated to yield subsurface maps on which exploration prospects can be delineated
2P	Proved and probable reserves
3D seismic	In a 3D seismic survey, multiple closely spaced seismic lines are recorded and the high density of cross sections are interpolated to yield detailed subsurface maps on which exploration prospects can be delineated
Appraisal well	An appraisal well is drilled to assess the characteristics (e.g. flow rate) of a proven oil and gas accumulation
bbl	Barrel of oil
bcf	Billion cubic feet of gas
bfpd	Barrels of fluid per day
boe	Barrels of oil equivalent where the gas component is converted into an equivalent amount of oil using a conversion rate of 6mcf to one barrel of oil
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
CSR	Corporate Social Responsibility
Development well	A development well is drilled within the proved area of an oil or gas reservoir to the depth of the stratigraphic horizon known to be productive
DPC	Dijla Petroleum Company.
Exploration well	An exploration well is drilled to find and produce oil or gas in an unproved area, to find a reservoir in a field previously found to be productive of oil or gas in another reservoir, or to extend a known reservoir
Km^2	Square kilometres
KPI	Key Performance Indicators
mcf	Thousand cubic feet of gas
mmbbl	Millions of barrels of oil
mmboe	Millions of barrels of oil equivalent
NGLs	Natural Gas Liquids
NGO	Non-governmental organisation
OMB	The Oil Marketing Bureau of the Government of the Syrian Arab Republic
P+P	Proved and probable reserves
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 at least 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 deterministic basis) to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations
PSC	Production Sharing Contract
psi	Pounds per square inch (pressure)
SPC	Syrian Petroleum Company
SPE	Society of Petroleum Engineers
WPC	World Petroleum Council

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