



**Gulfsands Petroleum plc**  
**Annual report and accounts**  
**For the year ended 31 December 2010**

Registered number: 05302880 (England & Wales)

## Contents

2010 Highlights	3
Year in review	4
Vision and Strategy	5
Chairman's Statement	7
Key Performance Indicators	9
Chief Executive's Report	10
2011 Objectives	13
2010 Objectives: Outcome	14
Q&A with Mahdi Sajjad	15
Operations Review	19
Reserves and Other Discovered Petroleum Initially-in-place	27
Financial Review	30
Principal Risks and Uncertainties	38
Board of Directors	41
Corporate Social Responsibility	43
Directors' Report	47
Directors' Corporate Governance Report	52
Directors' Remuneration Report	55
Independent Auditors' Report	58
Consolidated Income Statement	60
Consolidated Balance Sheet	61
Consolidated Statement of Changes in Equity	62
Consolidated Cash Flow Statement	63
Notes to the Consolidated Financial Statements	64
Company Balance Sheet	100
Company Statement of Changes in Equity	101
Company Cash Flow Statement	102
Notes to the Company Financial Statements	103
Five Year Summary	111
Glossary of Terms	112
Corporate Information	114

## Description

Gulfsands Petroleum plc is an independent oil and gas exploration and production company, incorporated in the United Kingdom, whose shares are traded on the Alternative Investment Market ("AIM") of the London Stock Exchange (symbol : GPX).

The Group's major focus is on the Middle East and North Africa where it has oil exploration and development projects in the Syrian Arab Republic, oil exploration projects in Tunisia and upstream and midstream oil and gas business development activities in Iraq. Gulfsands also produces oil and gas from a portfolio of properties in the USA, offshore Gulf of Mexico.

**Annual General Meeting**

The Annual General Meeting of shareholders will take place at 11 am on Tuesday 24 May 2011 at the offices of Buchanan Communications, 3rd Floor, 107 Cheapside, London, EC2V 6DA. All shareholders are welcome to attend. If unable to attend, shareholders are encouraged to fill out the form of proxy and return it to our registrars, Capita IRG.

## 2010 Highlights

### Financial

- Revenues up by 37% to \$115.6 million (2009<sup>1</sup>: \$84.4 million)
- Profit after tax up by 58% to \$44.7 million (2009<sup>1</sup>: \$28.3 million)
- Cash from operating activities up by 61% to \$70.2 million (2009<sup>1</sup>: \$43.5 million)
- Signed contract for part-disposal of US business realising aggregate cash of \$10.9 million<sup>2</sup>
- Free cash balances at year-end of \$80.6 million<sup>3</sup>

### Operations

- Group working interest production up by 39% to 10,308 boepd (2009: 7,393 boepd)
- Group 2P working interest reserves (ex-US) up by 17% to 53.6 mmbbls (2009: 46.0 mmbbls)
- Pipeline of 24,000 bopd capacity installed at Khurbet East to replace trucking operation
- Contract for construction of 50,000 bfpd central production facility awarded to Saipem
- Five exploration and six development wells drilled in Block 26, Syria
- Potential offshore gas discovery in Tunisia

### Strategic

- Farm in to Kerkouane and Chorbane blocks in Tunisia
- Acceleration of new business development activity

### Outlook

- Up to twelve well exploration campaign in Syria in period to August 2012
- Study to commercialise offshore gas resources in Tunisia
- Exploration drilling of Sidi Dhaher well in Chorbane block, onshore Tunisia
- Completion of disposal of US business

#### Notes

1 : 2009 figures restated

2 : \$9.8 million received after year-end

3 : excludes restricted cash balances of \$15.2 million (2009: \$12.0 million)

## Year in review

Month	Country	Event
January	Syria	KHE-14 delineation well in south of Khurbet East field lowers the “oil down to” level. Development approval granted for Yousefieh field.
February	Syria	Zaman exploration well drilled.
April	Syria	Production commences on Yousefieh field. Hanoon exploration well drilled.
May	Tunisia	Signature of agreement with ADX Energy to farm in to Kerkouane and Chorbane permits in Tunisia. Completed processing of 630 km <sup>2</sup> of 3D seismic data offshore Tunisia and Italy (Kerkouane and Pantelleria permits respectively).
July	Tunisia	Southern Cross semi-submersible drilling rig spuds the Lambouka exploration well.
August	Syria	Cumulative oil production from Block 26 passes 10 million barrels as gross production hits 20,000 bopd. YOUS-4 production well drilled with a horizontal section of 710 metres, a record for Gulfsands.
September	Tunisia	Lambouka well completed resulting in potential offshore gas discovery.
September	Syria	Block 26 exploration licence extended to August 2012 after 25% relinquishment. 3D seismic acquisition programme on Block 26 commences.
October	Syria	22km pipeline to Tel Addas commissioned, replacing trucking as a means of oil transport. Second drilling rig brought into Syria: Yousefieh South exploration well drilled. KHE-18 delineation well encounters the second thickest net oil-bearing reservoir section found to date.
November	Syria	Contract for the construction of the central processing facility at Khurbet East awarded to Saipem.
December	Syria	3D seismic acquisition completed : 1,060 km <sup>2</sup> of data acquired. Zahraa and Twaiba exploration wells drilled.
December	USA	Signed contract for sale of part of the Gulf of Mexico asset portfolio.

## Vision and Strategy

### Vision

Our vision is to become one of the pre-eminent independent exploration & production companies in the Middle East & North Africa region and to be viewed as a preferred operator and partner, thereby creating significant shareholder value.

### Strategy

#### Focus on Middle East & North Africa

- We consider that the knowledge we have developed of how business is done in Arab countries is a significant intangible asset. We are well connected in many countries in the region and intend to use these connections in expanding the Group's footprint.
- Our success as operator in Syria is an achievement that gets recognition among other host governments and potential partners in the region.
- We have built a high calibre technical and operational team in Damascus which can act as a regional hub for technical know-how to serve future operations in other countries.

#### Grow organically and via acquisition

- There is a trade off between return on investment on the one hand and speed of growth on the other. We will look at acquiring assets to maintain the pace of growth, but the opportunity must be compelling and have potential materiality.
- We will avoid spreading ourselves too thinly. Any acquisition must be capable of adding significant value: we have no interest in buying mature production without identifiable upside.

#### Exploration and production

- We target a balance of risk and reward, from a combination of producing assets, "brownfield" (appraisal & development) assets, and pure exploration opportunities with material impact.
- We aim to achieve critical mass in our investments by limiting their number and maximising our influence. We see no merit in building up a disparate collection of small minority stakes.
- Our focus will remain predominantly onshore, where we prefer to act as operator as it affords better control and achieves greatly increased in-country visibility. However we will look at non-operated offshore assets if the risk/reward balance is right.

#### Develop and leverage key relationships

- We seek to maximise the return from host country relationships such as Syria. Relationships are key in Arabic countries: they require an investment of time in order to maximise their potential yield, in terms of both existing assets and new opportunities.
- We also seek to develop mutually beneficial strategic partnerships with other larger oil & gas companies, marrying our regional knowledge with their financial and technical firepower.

Preserve a strong financial position

- We prize cash-flow highly, as the financial flexibility that it affords allows for swift pursuit of opportunities, and enables us to take exploration risk without calling directly on shareholders.
- We will maintain a strict risk-weighted approach to capital allocation in order to accurately compare competing opportunities. Our goal is to realise our investments as and when we believe that, going forward, a third party can add more value than we can.

## Chairman's Statement

Dear Shareholder,

It gives me much pleasure to report another year of significant progress for Gulfsands Petroleum.

Our core business in Syria achieved a substantial increase in production, an encouraging uplift in reserves, and continues to be a significant cash generator for the Group. The award of the contract to construct our new central production facility to a company of the quality of Saipem gives me confidence that this important milestone will be achieved in a timely and efficient fashion.

We widened our footprint in the Middle East & North Africa region last year by entering Tunisia where with our first well, Lambouka-1, we made what we hope will eventually prove to be an offshore gas discovery. Together with the potential of our onshore Chorbane block there are grounds for hope that Tunisia may develop into an important business for Gulfsands.

And finally we made significant progress in our previously announced strategy to dispose of our interests in the Gulf of Mexico.

We enter the final eighteen months of the Block 26 exploration licence with a highly aggressive exploration drilling programme. Suffice it for me to say that Block 26 continues to justify high expectations of exploration prospectivity and that we are determined to leave none of that prospectivity unexplored by the time we relinquish the licence in August 2012. I consider it important to make the point that, due to the highly diverse characteristics of the various remaining exploration prospects within the Block, the disappointments experienced over the last 12 months really do not in our view provide any meaningful insight into our probabilities of success in the coming drilling programme. I would also remind you that (in particular on a cost-recovered basis) our exploration drilling costs in Syria are some of the lowest currently being experienced anywhere in the world.

In terms of new business, we have stepped up our efforts over the last year. In Syria we have participated in the recent tender round for onshore exploration licences, in partnership with Eni. Together with Eni, we also intend to evaluate the potential of Syria's offshore blocks, for which an international tender has now been announced. Elsewhere in the region we are actively reviewing opportunities to acquire assets or acreage, and in Iraq we are increasingly hopeful that, with the new government in place, we may be successful in securing a project that meets our return criteria. These are exciting developments and attest to the considerable recognition and "political capital" that we have managed to accumulate in our chosen region of speciality.

I am pleased to report Gulfsands' profile among the investment community has grown further over the year with ten independent brokerage firms now publishing regular research on the Company.

The political situation in the Middle East is no doubt very much on the minds of shareholders at present, as it is on the minds of your Board and senior management. It is no remit of mine to attempt to predict what the future may hold in this respect. I would, however, like to assure shareholders that we have to date experienced no disruption to our activities in Syria. We take great pains to be and to remain in good standing with all pertinent authorities and commercial partners in the country, to comply scrupulously with our legal and contractual obligations and to seek to ensure, to the fullest extent feasible, that we are positioned to continue to operate effectively whatever reforms or governmental changes may emerge over the coming months and years.



In conclusion, I would like to extend my sincere thanks to all the Group's staff, for their unremitting hard work and professionalism in enabling us to continue to drive Gulfsands Petroleum forward, and to the Syrian Oil Ministry, Syria Petroleum Company and General Petroleum Corporation for their invaluable continuing collaboration and support.

Yours sincerely

Andrew West

Chairman

**1 April 2011**

## Key Performance Indicators

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

		2010	2009	2008
<b>Financial Key Performance Indicators</b>				
<b>Working interest production</b>	mmboe	3.8	2.7	1.2
<u>Description:</u>	growth %	39%		
The key driver of cash generation. The working interest measure is preferred to entitlement production because the latter is impacted by the terms of production sharing agreements so is not representative of underlying operational performance				
<u>Outlook:</u> The Group's target for 2011 is 4.2 mmboe				
<b>Lifting cost per barrel (working interest)</b>	\$/bbl	4.7	6.9	13.5
<u>Description:</u>	reduction %	-32%		
The key measure of operating efficiency. Calculated as cost of sales excluding depreciation, impairment charges, dry hole costs, decommissioning costs and hurricane repair costs, divided by working interest production				
<u>Outlook:</u> Expected to remain broadly constant in 2011				
<b>Cash flow available for exploration</b>	\$MM	47.7	22.6	(1.0)
<u>Description:</u>	growth %	111%		
Calculated as net cash provided by operating activities, less net cash used in investing activities but excluding exploration and evaluation expenditure. This gives a measure of the cash flow available to the Group for exploration after investment in the development of its existing reserves, purchase of other fixed assets and payment of decommissioning costs				
<u>Outlook:</u> Expected to be of similar magnitude in 2011 as higher operating cashflow is offset by higher development expenditure				
<b>Earnings per share</b>	US cents	35.9	23.4	(4.5)
<u>Description:</u>	growth %	53%		
The standard measure of profit attributable to shareholders calculated on a diluted basis assuming the exercise of outstanding options				
<u>Outlook:</u> Expected to rise significantly in 2011 owing to higher production and oil prices				
<b>Underlying reserves growth</b>	%	20%	32%	8%
	3 year average growth %	20%		
<u>Description:</u>				
The growth in proved and probable working interest reserves over the year after adding back production in that year				
<u>Outlook:</u> The Group targets to at least replace the year's production with new reserves				
<b>Non-financial KPIs</b>				
<b>Lost time incidents</b>	Number	Nil	Nil	Nil
<u>Description:</u>				
The number of incidents during the year which resulted in a loss of working time				

## Chief Executive's Report

### *Achieving objectives*

The Group has delivered on its key objectives for the year in respect of production and reserves growth. Average daily working interest production of the Group increased by 39% to 10,308 barrels oil equivalent per day ("boepd"), as a result of the Yousefieh oil field coming on stream as planned in April and the excellent performance of three new producing wells at Khurbet East, bringing the total number of Syrian oil producers to 13. Proved and probable working interest reserves in Syria have increased by 17% to 53.6 million barrels of oil as a result of the outstanding reservoir performance of the Khurbet East field, where after gross production to date of 13.8 million barrels of oil, reservoir pressure depletion and water production have remained negligible. The Yousefieh oil field performance has also justified a larger in-place volume than previously determined.

We are very pleased that Saipem S.p.A, an internationally recognised leader in oil field engineering and construction, won the tender to build the central production facility at a cost of Euro 94 million gross (before cost recovery). The facility will be capable of producing up to 33,000 barrels of oil per day ("bopd"). Work is on schedule in anticipation of production start-up in the fourth quarter of 2012.

The farm-in to two exploration permits in Tunisia operated by ADX Energy, one offshore and one onshore, was completed in May. A potential offshore gas discovery was made during the year at Lambouka-1 in the Kerkouane permit (Gulfsands 30%). Together with offshore gas resources already identified by the previous Dougga gas discovery, initial efforts are now underway to establish the combined potential for a commercial development and basis for future investment.

### *Strategic direction*

Our goal is to establish a portfolio of production and development assets that offer long term reliable and sustainable cash flows that can in turn be reinvested in potentially high growth exploration and development opportunities, thereby building value for shareholders. The geographic focus of the Group is the Middle East & North Africa region where two thirds of the world's oil reserves are located and where we maintain and nurture a network of relationships and strategic partnerships, which when combined with our local knowledge, provides a sustainable competitive advantage. We continue to build a reputation in Syria as an efficient low cost operator that delivers on commitments and we intend to consolidate and build on this position within Syria, Tunisia and the region generally.

Iraq is central to our medium term strategy where, in a dynamically evolving environment, a large number of opportunities currently exist. We continue to stay focussed on the non-Kurdistan part of the country where we have targeted all our efforts to date, in the belief that these will eventually bear fruit. We will be pursuing, in conjunction with larger partners, those exploration and development opportunities that meet our risk tolerance and commercial criteria.

### *Block 26 Syria - highly prospective*

Surrounded to the north by multi-billion barrel oil fields, we consider Block 26 to be highly prospective. Exploration drilling in Block 26 commenced in 2006 and since then nine exploration wells have been drilled by the Group with the discovery of two commercial oil fields, namely Khurbet East and Yousefieh, which together have estimated combined proved and probable gross ultimate recoverable reserves of 134 million barrels. We plan to drill a further five development wells on these fields in 2011. 3D seismic data is the key to unlocking the remaining undiscovered potential and to date in excess of 2,200 km<sup>2</sup> of 3D seismic data have been acquired over what is considered the “sweet spot” of the Block. We anticipate drilling up to a dozen exploration wells on matured prospects prior to the Block being surrendered in August 2012, with six of these wells planned in 2011. The relatively low cost of drilling exploration wells (between \$3 and \$4 million gross to the “Massive” reservoir), together with recovery of costs against oil produced, enables exploration drilling to be extremely cost effective.

### *US divestment underway*

Divestment of our non-core US assets in the shallow water shelf area of the Gulf of Mexico commenced during the year with the sale of two tranches of assets. We plan to complete the sale of the remaining properties in 2011.

### *New business opportunities*

We intend to continue to build our portfolio of assets organically and through selective acquisitions. The evaluation of new venture opportunities continues in Tunisia and a number of other countries within the Middle East & North Africa region. We are constantly looking to add further licenses that would complement and broaden our portfolio.

In Tunisia, the drilling of the Sidi Dhaher exploration prospect is imminent. Gross mean recoverable resources for this prospect are estimated to be approximately 60 million barrels of oil equivalent, and if the result is a commercial discovery Gulfsands has the option to apply to take over as operator of the block. In Syria, we have recently bid to acquire a new onshore exploration permit in partnership with Eni and we also intend to evaluate the potential of Syria’s offshore blocks which are due to be the subject of an international tender later this year.

### *Health and Safety*

The building of a 22 km pipeline to deliver our Syrian oil, replacing trucking, significantly improved the safety and efficiency of our operations. During what was a very busy year in an operational sense, I am pleased to report that the Group’s safety record continues to be excellent with no lost-time injuries being reported during the year, nor since operation began in 2006. In order to ensure continual improvement, plans are in place to engage a corporate HSE Manager to be based in Damascus in 2011.

### *Outlook*

The Group is currently on a sound financial footing with no debt, approximately \$80 million in cash and the capacity to fully meet 2011 capital requirements from cash flow.

2011 and 2012 have the potential to be very exciting and rewarding years for the Group. Syria remains our primary focus with a target to deliver approximately 17,000 bopd working interest production by the end of 2012 and an active exploration programme to discover new oil and gas fields. At the same time we need to be establishing new fairways and frontiers and capture new opportunities within our focus area that will have the potential to provide a step-change in growth and financial returns and diversify the asset portfolio. These are the things that will inspire and drive us into the future.

Richard Malcolm

**Chief Executive Officer**

1 April 2011

## 2011 Objectives

### Syria

- Drill five development wells and six exploration wells
- Increase gross field production to an average 24,000 bopd by year-end
- Acquire at least one new block

### Tunisia

- Complete study into commercial development of offshore gas resources
- Drill at least one exploration well onshore

### Other

- Complete the divestment of the US assets
- Capture a material new project in Iraq

## 2010 Objectives: Outcome

Objective	Outcome
<u>Syria</u>	
• Bring Yousefieh into commercial production	Achieved
• Install 22km pipeline to replace trucking	Achieved
• Construct 2,000m <sup>3</sup> oil storage tank at the EPF	Achieved
• Award central production facility EPC contract	Achieved
• Drill four exploration wells & five production wells	Exceeded
• Achieve average production of 18,000 bopd gross	Exceeded
• Secure additional exploration or development licence	Pending
<u>USA</u>	
• Restore production to pre-hurricane levels by year-end	Not achieved
• Identify additional reserves via drilling and workovers	Achieved
• Commence the process of divestment	Achieved
<u>Tunisia</u>	
• Complete farm-in to Kerkouane and Chorbane permits	Achieved
• Acquire 3D seismic and drill two exploration wells	Partially achieved
<u>Business Development</u>	
• Progress Maysan or other project in Iraq	Not achieved
• Actively review farm-in or acquisition opportunities	Achieved

## **Q&A with Mahdi Sajjad**

### **Syria**

#### **How has the higher oil price impacted on Syria's plans to develop its economy?**

The stronger oil price has given all oil exporting countries a significant boost to foreign exchange earnings and when combined with Syria's recent achievement in increasing production to approximately 390,000 barrels per day ("bopd") it is obviously in the fortunate position of having additional funds with which to pursue its economic development goals. However, while higher oil prices provide additional revenues that can be applied to accelerate economic development, they also bring with them the challenge of keeping inflation in check, and it is evident that the Syrian government is very mindful of the potential negative impact that this inflation may have on its quite aggressive economic plans.

#### **What is the Syrian Government's target for economic growth in 2011?**

Economic growth during 2010 was almost 6% and this year the government is expecting economic growth to again exceed 5%, which suggests the government's strategy for economic growth remains on track. Achieving oil production self-sufficiency of 600,000 bopd by 2020 remains a critical element of the government's economic plan, so we are seeing evidence of the government accelerating efforts to try and ensure that target is achieved.

#### **Have you seen any evidence that international oil and gas companies are taking a closer interest in Syria as a destination for investment?**

International oil and gas companies continue to account for more than 60% of the country's current production and there was significant interest shown by international companies in Syria's tender for onshore exploration blocks which closed in December 2010.

#### **Were there any significant developments in Syria's oil & gas industry over the past year?**

A number of small oil discoveries were made during 2010 but, perhaps more significantly, three earlier gas discoveries came into production with the completion of new plants, thereby increasing Syria's gas production from approximately 150mmcf/d to more than 400mmcf/d. Syria remains gas deficient and with contracts signed for the development of three new gas fired power stations and those projects now moving into the construction phase, there is considerable pressure on the oil and gas industry to find additional gas resources. This strong demand for gas has encouraged us to consider the commercial development of the gas discovered in the KHE-1 well at the deeper Butmah and Kurrachine Dolomite formations, and these discoveries are being appraised with the drilling of the KHE-101 well.

Syria also moved during 2010 to achieve closer ties with the Iraqi government on several fronts, including with respect to securing additional Iraq gas supplies that would potentially complement the Arabian Gas Pipeline which links Egypt, Jordan, Syria and Lebanon. These closer political ties should provide a great opportunity for both governments and the international oil and gas companies to work closely on developing the oil and gas industries in both countries to their mutual benefit.



### **What did you see as the highlights for Gulfsands in Syria during 2010?**

Gulfsands spent much of 2010 working to obtain a deeper understanding of the Khurbet East and Yousefieh oil fields which are now producing oil at just under 21,000 bopd (gross). We have been very encouraged by the production performance in both fields, given that both are producing negligible amounts of water with only a limited drop in reservoir pressure having been observed. Khurbet East in particular is demonstrating the potential to recover more than 100 million barrels of oil during its economic life. Our development drilling efforts in 2010 have successfully focussed on supporting our gross production expansion from approximately 16,500 bopd to the present level and our target is to reach 24,000 bopd by the end of 2011. In 2010 we also drilled three delineation wells on Khurbet East, with the results of well KHE-18 indicating a promising structural trend in the north western flank of the field. This trend will be subject to further delineation drilling in 2011.

During 2010 we also completed a large 3D seismic program which has already provided us with some of the leads we are targeting in our current very active exploration program which will continue right through to the end of the exploration period in August 2012. Properly preparing ourselves for the intensity of the next 18 months or so of continuous exploration activity is key to our future success in Block 26.

### **Have the recent events in Syria impacted your operations in Block 26?**

We have always enjoyed and continue to enjoy an excellent working relationship with the General Petroleum Corporation ("GPC") and the Syrian government and ministries. All the functions of the government continue to operate without interruption. We fully expect the government will continue to honour all aspects of its PSC contractual obligations as it has in the past.

### **How is the exploration of Block 26 going and do you continue to be confident in its potential to produce another significant oil discovery?**

We are in the unusual position of having a PSC that allows us to recover the cost of exploration in the form of a greater share of production revenues generated from the Khurbet East and Yousefieh fields, thereby making the net cost of exploration very low. We decided last year to prioritise the drilling of targets located close to existing infrastructure which could therefore be commercialised quickly. While so far we have had some technical success with several of our recent exploration wells, we have yet to find another commercial oil discovery. However we remain quietly confident of doing so before the PSC exploration period ends in August 2012.

### **Do you see the residual US sanctions regime being lifted any time soon?**

The US Government has already removed most of the sanctions that for a number of years constrained the importation of a range of goods and technologies from the US. The Obama administration has established a more constructive dialogue with Syria than was the case with the previous US administration and this has resulted in a general expectation that those limited sanctions that still remain will be removed in the near term. The climate of improved relations between the US and Syria has resulted in the recent appointment of a new US Ambassador to Syria after an absence of almost six years so we are optimistic that the dialogue and cooperation between the US and Syria on a various regional issues is set to expand further.

**Syria and Iraq recently announced a joint initiative to transport oil and gas from Basrah in southern Iraq to the Syrian port of Banyas on the Mediterranean. How is this initiative expected to impact on both countries?**

Iraq has recently acknowledged the scale of the infrastructure challenges it faces in respect of the expansion of oil and gas production that will come from the redevelopment of major oil fields in the south of Iraq. Syria is almost uniquely placed to provide rights of way that would permit the construction of the pipelines to transport Iraq's oil and gas to the Mediterranean. These pipelines represent confirmation of the cooperation that exists between the countries and upon which Syria may be able to rely to supplement its own production and ensure its energy security. Securing reliable export routes for Iraq's oil and gas production is an urgent imperative for its government and potentially offers considerable benefits for the European Union as well, and Syria has responded quickly and constructively to Iraq's initiative to develop these export pipelines. This project will also provide a large number of direct and indirect employment opportunities for young Syrians and Iraqis, an important mutual objective of both governments, so we expect this project to contribute to the development of much broader political and deeper commercial relationships between the two countries.

**Iraq and other MENA**

**It took much of 2010 for the new government to be formed. What early signs have you seen in the new government's approach to running the country?**

While it did take longer than expected for the new government to be formed, the end result has been a government which appears to be more inclusive and representative of all elements of the population than the previous government, confirming that the democratic process has worked well, even if more slowly than everyone would have preferred. I think it is already clear that the Prime Minister's efforts to professionalise the way in which ministries are run and prioritise their functions are paying dividends, with accelerated activity to increase the availability of basic services such as electricity and clean water across the country. At the same time, there is now a concerted effort to address the urgent need to upgrade and expand the country's oil and gas transport and refining infrastructure so that Iraq's oil wealth can be utilised to finance the modernisation and development of the economy. The new Oil Minister is already working hard to ensure that the government can fulfil the commitments made to the international oil companies engaged in accelerating the development of some of Iraq's largest oil fields, and we expect this to result in a number of important initiatives to supplement Iraq's existing oil transport and refining infrastructure over the next few years.

**Are projects such as Gulfsands' southern Iraq gas utilisation project designed to utilise gas produced in fields in the south such as the Missan province, still a priority for the new government?**

The flaring of gas represents a significant economic and health issue that has now entered the wider public consciousness and the government has responded with a number of initiatives designed to tackle the problem, beginning in 2011. The government is now giving priority to short and medium term gas capture and utilisation strategies for the producing fields in southern Iraq, which has assumed even greater importance with the successful early redevelopment of the major fields awarded in the first bid round. Those fields have already begun to produce oil and gas at much higher volumes than were seen in the past, so the problem of how to handle co-produced gas is

already much bigger than when we first began discussions over fields in the Missan Province. The expansion of production from the major fields in the south is set to accelerate in the near term so it is encouraging to see the government responding to the urgent need to find solutions that can handle increasing volumes of associated gas that are currently being flared.

**Are you still confident there is a role for small E&P companies like Gulfsands in pursuing these large projects in Iraq?**

I am very confident that our efforts to position Gulfsands with the government of Iraq as a reliable project partner will pay off handsomely. I am pleased that the new government and its ministers have expressed their willingness to work with technically and financially qualified smaller companies with proven track records. Gulfsands has the qualities and a proven record of success that should enable us to capture interests in a number of projects, possibly including in the award of the exploration licences set to be offered by the Iraq government later this year. We continue to work closely with several large international oil companies on business development activities in Iraq and expect to eventually establish one or more partnerships to acquire interests in the projects on which we are currently focused.

**Is Kurdistan still off Gulfsands' business development radar?**

Kurdistan continues to suffer from the same legal and commercial complications that have so far deterred us from becoming more involved in the exploitation of oil and gas there. However the new Iraqi Prime Minister and Oil Minister have created a more positive political atmosphere to resolve the significant differences that exist between the central government and the regional government of Kurdistan. If it becomes clear that we would not be disqualified from an involvement in oil and gas projects in the south by taking an interest in projects in Kurdistan, as has been the case up until now, then we would of course consider acquiring interests in Kurdistan, but for the moment that seems some way off and therefore Kurdistan is not the focus of our attention.

**Gulfsands has now acquired two projects in Tunisia. Are you continuing to look at other projects outside of Syria and Iraq?**

Our new business activities are focused on expanding our presences in Syria, Iraq and Tunisia and looking at opportunities in other countries in the MENA region where we think we can operate successfully. The acquisition of interests in Tunisia demonstrated that we have been able to acquire projects that have the potential to create value for our shareholders. We intend to further consolidate our position in Tunisia and are actively seeking similar opportunities elsewhere in the region.

Mahdi Sajjad

**President**

1 April 2011

## Operations Review

### Syria

#### Description

Gulfsands is the operator of the Block 26 Production Sharing Contract (“PSC”) with a 50% working interest: the other 50% interest is held by Sinochem. Block 26 covers an area of 5,414 km<sup>2</sup>. The PSC grants rights to explore, develop and produce from all depths outside the existing field areas, and from the deeper stratigraphic levels only within the pre-existing discovered field areas. The final exploration period of the PSC expires in August 2012.

Gulfsands has two producing oil fields within the PSC area, Khurbet East and Yousefieh. The development and production period for the Khurbet East field expires in February 2033 (25 years after commercial approval) and that for the Yousefieh field in January 2035, but each may be extended for a further 10 years at the Contractor’s option.

The Khurbet East field was discovered in June 2007, commercial development approval was granted in February 2008, and production commenced in July 2008. The development and operation of the field is being undertaken by Dijla Petroleum Company (“DPC”), a joint operating company formed with the Syrian Petroleum Company (“SPC”) for this purpose. The KHE-1 discovery well encountered hydrocarbons in the Cretaceous Massive formation at a depth of approximately 2,000m and in the deeper Triassic Butmah and Kurrachine Dolomite formations. The reserves attributable to Khurbet East come from the Cretaceous Massive formation only and exclude hydrocarbons in the deeper Triassic formations.

The Yousefieh field was discovered in November 2008, commercial development approval was granted in January 2010, and production commenced in April 2010. Oil production is from Cretaceous aged reservoirs at a similar depth to the producing Massive formation at Khurbet East. The YOUS-1 discovery well is located approximately 3 km away from the early production facility (“EPF”) at Khurbet East.

The crude oil from Khurbet East has an API gravity of approximately 25°, slightly lighter than that of the area benchmark “Syrian Heavy” crude oil. Oil produced from the Yousefieh field is similar to that from the Khurbet East field, with an API gravity of 23-24°. As of October 2010, the trucking operation previously used to transport the Khurbet East and Yousefieh oil was discontinued and the oil is now transported via pipeline to the SPC operated gathering facilities located some 30km away at Tel Addas. There it is blended with the Syrian Heavy crude oil, and transported to the Mediterranean port of Tartous using SPC’s oil handling infrastructure.

## Operations

### *Production*

Gross oil production from Block 26 increased by 25% during 2010, with daily average production of 16,511 bopd in January rising to 20,578 bopd in December. For the full year, the daily average was 18,330 bopd compared with 12,499 bopd in 2009. The Yousefieh field was brought on production in April and by December was producing an average of 2,450 bopd from three wells. At Khurbet East production rose from 16,511 bopd from seven wells in January to 18,128 bopd from 10 wells in December.

The reservoir pressure at Khurbet East has fallen by only around 15 psi since the start of production in July 2008, a negligible amount given the 13.8 million barrels produced since inception, and implying the likely presence of an effective water drive from an aquifer located at the flanks of the field. During 2010 additional wells were brought on line and a few existing wells had their production rates decreased in order to more evenly distribute production across the fields. This has proved an effective reservoir management strategy as water production from both fields continues to be negligible. Gross daily oil production at the end of March 2011 stood at approximately 20,700 bopd.

### *Development wells*

During the year a total of six development wells were drilled: five on Khurbet East and one on Yousefieh. Three of the wells were designed as production wells whilst the other three wells were designed to delineate the Khurbet East field. Ultimately, four of these wells were placed on production immediately and the other two were suspended, one as a potential future production well and one as a potential future water disposal well.

The three production wells were drilled with horizontal sections, of which YOUS-4 contained the longest horizontal section drilled to date in Syria by Gulfsands at 710m. Wells KHE-15 and KHE-17 were horizontal production wells located within the central area of the Khurbet East field. All production wells were placed on-stream shortly after the cessation of drilling operations.

One of the three delineation wells drilled in 2010, KHE-14 was a vertical well drilled in the south of the Khurbet East field with the objective of locating the field oil-water contact. The well encountered the high quality Massive reservoir approximately 10m deep to prognosis but nevertheless contained a 12m net oil column with no fluid contact present. Therefore the well has been suspended as a future production well. The other two delineation wells, KHE-16 and KHE-18, were vertical wells aimed respectively at north-eastern and north-western extremities of the field. KHE-16 encountered the Massive formation some 39m deeper than the pre-drill prognosis: it produced water on test, and so has been suspended as a future water disposal well. KHE-18 encountered the Massive reservoir 12m higher than pre-drill prognosis and recorded the second thickest net reservoir section found in the field to date: it produced 2,385 bopd on test and was subsequently placed on production.

The development and appraisal wells drilled in 2010 cost an average of \$2.5 million to drill (50% for Gulfsands' interest) and took an average of 26 days from spud to rig release.

## *Facilities*

Production to date has been through the EPF located at Khurbet East, to which the Yousefieh field is also linked. In October a new 22km 8" pipeline was commissioned to take production from the EPF to the SPC processing facilities at Tel Addas, replacing the previous trucking operation which has now been discontinued. The rated capacity of this pipeline is 24,000 bopd.

A contract was awarded in November to Saipem to construct a central processing facility ("CPF") at Khurbet East at a gross cost of Euro 94 million, to replace the EPF. The initial fluid handling capacity of the CPF will be 50,000 bfpd of which the initial oil production capacity is expected to be 33,000 bopd. Completion is anticipated around September 2012.

## *Health, Safety & Environment ("HSE")*

Our HSE record continues to be excellent with no major accidents reported. By the end of 2010, more than 67,000m had been drilled with no Lost Time Incidents ("LTI") after approximately one million man-hours of drilling since the commencement of operations in 2006. The risk previously associated with the transport of our crude by truck was eliminated in October when the 22" pipeline was commissioned.

Our drilling, production and seismic operations today are all being conducted with either negligible or acceptable residual operational risks, mainly associated with the risk of driving and the risk of fire in low pressure facilities.

To address these risks, a regular formal HAZID (hazard identification) review process is in operation resulting in the issue of action plans for immediate implementation based on the Group's HSE policy and standards. As an example all vehicles in our fleet now have rollover bars and two firefighting trucks have been ordered. The focus going forward is to continue to improve awareness and qualification of our employees and contractors and to design and build our central production facility based on the highest international HSE standards.

## *Exploration programme*

Five exploration wells were drilled in 2010, none of which were commercially successful.

Zaman-1, located 4.5 km south of the Khurbet East field and targeting the same Cretaceous Massive formation as is under production at Khurbet East, was drilled in January/February. The well encountered good quality reservoir containing a small (approximately 4m) oil column based on wireline log evaluation. On production test, the well flowed formation water only and so has been suspended as a potential future water disposal well.

Hanoon-1, located 8 km north of the Khurbet East field, and targeting the Cretaceous aged reservoirs similar to the Massive formation, was drilled in March/April. Despite promising oil shows the reservoir was found to not have sufficient permeability to deliver commercial flow rates. The well has also been suspended.

YOUS-5, located 2 km south of the Yousefieh field, was drilled in September and encountered an 11m net oil column within the Massive formation, based on wireline log evaluation. However after reservoir stimulation with an acid treatment, only minor volumes of 16° API oil along with formation

water were recovered to surface. This well has been suspended as a future potential water disposal well.

Zahraa-1, located close to the north-eastern boundary of Block 26, was drilled in November and December to a depth of 2,450m to target Cretaceous aged reservoirs contained within a thrust-fault bound closure. The well proved to be quite problematic to drill, sustaining significant drilling fluid losses and extremely poor hole conditions. Due to the unstable condition of the hole, we were unable to obtain any wireline logs over the lower portion of the well. Although it does not appear that any significant hydrocarbons were encountered within this wellbore, all of the data obtained is being evaluated prior to considering any further operations. The well has also been suspended.

Twaiba-1, located 7 km north of the Khurbet East field, was drilled in December/January also to target Cretaceous aged reservoirs. Despite significant indications of oil-bearing reservoirs based on oil and gas shows while drilling, whole core recovery, wireline log evaluation and down-hole pressure measurements, only very high-salinity water and minor amounts of oil were recovered to surface during production testing in January 2011. The very high salinity of the produced water is very unusual for Cretaceous aged reservoir in this area, and all the data from the well is being analysed to determine the likely source of this water. This well has also been suspended.

Each of these wells has significantly enhanced our understanding of the complex carbonate geology within this Block.

A further 1,060 km<sup>2</sup> of 3D seismic data was acquired in 2010 over an area directly west of the Greater Khurbet East Area over which 3D seismic was acquired in 2009, using the Chinese firm BGP as seismic contractor. A preliminary version of the processed data is expected to be delivered late in the first quarter of 2011 with the final version expected late in the second quarter.

The exploration period for the Block was extended for a final time to August 2012, and a further 25% of the original acreage was relinquished.

### Plans for 2011

#### *Development*

Oil production is currently running at or near the throughput capacity of the Khurbet East EPF. We intend to add throughput capacity to this EPF and thereby increase gross production from the fields to 24,000 bopd, which is near the capacity of the pipeline to Tel Addas, by the end of the year.

We currently have two drilling rigs under contract, and drilling operations will be continuous throughout the year with an active exploration, appraisal and development drilling programme planned including up to five development /delineation wells on the existing fields.

#### *Exploration*

Two wells, Abu Ghazal-1 and KHE-101 are currently drilling and the results are expected to be known in late April. These are both designed to drill deeper than the majority of wells drilled to date, with planned total depths of 3,800m and 3,200m respectively. KHE-101 will provide further information on the hydrocarbon bearing Triassic aged reservoirs encountered in the KHE-1 discovery well. Abu Ghazal-1 is drilling into a relatively large, fault-bound structure with multiple potential objectives from the Cretaceous down through Triassic aged reservoirs.

A further four exploration wells are planned during the year.

We also plan to acquire further 3D seismic data over a 300 km<sup>2</sup> area of Block 26, with the aim of maximising the exploration prospectivity of the Block before the final relinquishment of the exploration licence in August 2012. This additional area will be selected after an initial review of the 2010 3D survey is undertaken. On completion of this survey Gulfsands will have acquired a total of approximately 2,500 km<sup>2</sup> of contiguous 3D seismic over Block 26.

## Tunisia

### Description

Gulfsands has non-operated working interests in two exploration permits in Tunisia (Chorbane and Kerkouane permits) and one exploration permit in Southern Italy (G.R15.PU) as a result of a farm-in in May 2010. The operator of all three permits is ADX Energy Ltd, an Australian independent E&P company. The Group's interest in the Chorbane permit remains subject to the completion of the Group's farm-in obligations and assignment of the Group's interest in all three permits remain subject to various formal approvals from the governments of Tunisia and Italy.

*Kerkouane permit - Offshore Tunisia (Gulfsands: 30%)*

*G.R15.PU permit (Pantelleria permit) - Offshore Italy (Gulfsands: 30%)*

The Kerkouane permit is located offshore northeast Tunisia and G.R15.PU is located offshore the island of Pantelleria southwest of Sicily in Italian waters. The two permits are contiguous and comprise a total area of approximately 3,700 km<sup>2</sup>. The Kerkouane exploration permit has been extended to February 2014 while the G.R15.PU permit remains suspended pending application to the Italian government for the permit to be reactivated. The Kerkouane block is governed by a Tunisian PSC, whilst the Pantelleria block is governed by an Italian tax/royalty structure.

Kerkouane contains the Dougga gas/condensate discovery made by Shell in 1981, which is estimated to comprise mean raw GIIP of 618 bcf. 640 km<sup>2</sup> of 3D seismic was acquired in H1 2010. The operator has identified multiple leads and targets on these permits.

*Chorbane permit - Onshore Tunisia (Gulfsands: 40%)*

The Chorbane permit is located in central Tunisia and covers an area of 2,428 km<sup>2</sup>. The permit is surrounded by several producing oil fields and extensive oil & gas infrastructure. A number of prospects and leads have been identified within the permit, the most prospective being a large tilted horst block ("Sidi Dhaher") where the operator has identified multiple potential targets estimated to hold recoverable mean unrisked prospective resources of 175 bcf of gas and 44 million bbls of oil from Tertiary and Cretaceous aged reservoirs. The current exploration term is set to expire in July 2011.



## Operations

### *Kerkouane*

In April 640 km<sup>2</sup> of 3D seismic data was acquired over the Lambouka prospect area within the Kerkouane and Pantelleria permit areas. Interpretation of these data provided additional verification as to the integrity of the Lambouka structure prior to spud.

The Lambouka-1 well was spudded in mid-July using Atwood's Southern Cross semi-submersible drilling unit, and drilled to a depth of 2,786m. Drilling operations were concluded in early September. Wireline log interpretation indicates that gas and possibly condensate was encountered in the Abiod formation; however, as a result of ongoing fluid losses and deterioration of the well bore it was not possible to safely recover fluid samples or pressure data from the formation. The well was suspended with the intention of re-entering at a later date and drilling and testing the reservoir in a sidetrack hole, probably targeting an area structurally up-dip of the existing well bore.

Gulfsands earned its 30% working interest in the Kerkouane and Pantelleria permits by paying approximately 35% of the cost of the Lambouka-1 well and reimbursing the operator for a portion of various pre-drill costs that include the recently completed 3D seismic programme.

### *Chorbane*

There were no significant operations undertaken within the Chorbane permit in 2010.

## Plans for 2011

The Sidi Dhaher exploration well on the Chorbane block is expected to spud imminently. The timing of spud has been delayed by several weeks owing to minor disruptions following the recent civil unrest in Tunisia. Gulfsands will pay 80% of the first \$5 million in drilling costs and 40% of the drilling costs in excess of \$5 million so as to earn a 40% interest in the permit.

On the Lambouka permit it is planned to complete the interpretation of the 3D seismic acquired in 2010, re-map and update the volumetric estimates of the Dougga gas discovery (Shell 1981) as well as evaluate any new leads arising from the seismic interpretation. Prospects identified will be matured for possible future drilling. It is also intended to carry out a study into the potential commercial development of the gas resources at Dougga and Lambouka. Upon successful completion of the current phase of technical and commercial evaluations, appraisal drilling of both the Dougga and Lambouka structures will be required in order to reduce the volumetric uncertainty and establish commercial flow rates from each of these.

## USA

### Description

Gulfsands owns a portfolio of non-operated oil & gas properties in the Gulf of Mexico, in the shallow “shelf” region offshore Texas and Louisiana. These comprise 30 leases containing 20 producing fields with some 130 wells operated by 13 different operators. Gulfsands also has a small interest in one onshore oil & gas field in Texas.

The assets are relatively mature, although some additional potential exists in the deeper sections. Proved & Probable reserves at year-end 2010 amounted to 3.2 million boe on a working interest basis (2.5 million boe on a net interest basis), comprised 59% of oil and 41% of gas.

The Group considers the US business to be non-core and intends to dispose of it as and when market conditions are favourable.

### Operations

Production on a working interest basis, including Natural Gas Liquids (“NGLs”), averaged 1,143 boepd in 2010, substantially unchanged from the 1,144 boepd in 2009. The composition of this production was 42% oil, 53% gas and 5% NGLs. After tax and royalties, net interest production in 2010 was 889 boepd.

However, this production figure was distorted by the sale of a package of properties in December: the production from these properties was excluded from the reported total as from the 1 May 2010 effective date of the transaction. In April 2010, the month prior to the effective date, working interest production from these sold properties was 440 boepd.

Production in December (which excludes the sold properties) was 845 boepd (working interest basis), comprising 51% oil, 48% gas and 1% NGLs.

The Group did not participate in any new drilling in this area during 2010. Many drilling programmes in the area were deferred or cancelled as a result of the Deepwater Horizon incident in the Gulf of Mexico during 2010 and the ensuing regulatory realignment.

The Group did, however, participate in a number of major rig-based workover operations (“MRWO”) and re-completions in existing wells in order to turn behind pipe reserves into production. With the current relatively low natural gas price environment in North America, these workover and recompletion operations were primarily within oil producing properties at Eugene Island (EI32) and West Delta (WD59). Recompletion opportunities are available at a number of gas producing fields, but these have been deferred due to low product prices.

During the year significant progress was made in the decommissioning of idle facilities on a number of properties including SMI 243/244, HIA 471, GA 250, VR 161 and EI 97. Most of the work in these field areas was completed during 2010, although some of the larger abandonment projects such as HIA 471 will continue into 2011.

### Partial Divestment

Portfolio rationalisation continued during 2010 with the sale of our interests in the Eugene Island 57/58 gas field, the Vermilion 379 oil & gas field and the South Pelto 13 oil & gas field for \$4.4 million. The transaction completed in January 2011. Since the purchaser has assumed all future abandonment obligations associated with the sold properties this has resulted in the return to Gulfsands of \$5.6 million of funds held as collateral for abandonment bonds.

### Plans for 2011

During 2011 the Group intends to maximise the value of these assets by continuing to convert both behind pipe and proved but undeveloped reserves into production. Due to the continued relatively low natural gas prices but strong oil price environment, we once again expect to concentrate these operations on oil producing properties such as Eugene Island 32.

The Group is currently participating in a 3D seismic re-processing project, with the objective of identifying undrilled fault blocks and un-tested reservoirs within and around existing fields. These re-processed data will be available for interpretation during the second quarter. The Group expects to participate in at least one and as many as three new wells during 2011.

## **Reserves and other Discovered Petroleum Initially-in-place**

The Group's reserves at 31 December 2010 are based on estimates made by management and reviewed by independent petroleum engineers. For the Syrian assets the review was performed by Senergy (2009: Senergy), and for the USA by Netherland, Sewell & Associates ("NSAI") (2009: NSAI).

Definitions for Proved, Probable and Possible reserves are contained in the Glossary.

Working interest reserves in Syria represent the proportion, attributable to the Group's 50% participating interest, of forecast future crude oil production during the economic life of the Block 26 PSC, including the share of that production attributable to Syrian Petroleum Company ("SPC"). In assessing the economic life it has been assumed that the option is exercised to extend the development period of each field for a further 10 years after its initial 25 year development period has expired.

Working interest reserves in the USA represent the proportion, attributable to the Group's participating interests, of forecast future oil and gas production during the economic life of the properties in question, before deduction of state production taxes and overriding royalty interests. Working interest reserves have been derived from the net revenue interest reserves data contained in the NSAI report, by grossing up for the percentage production tax and royalty "burden" applicable to each property. The reserves-weighted average burden at 31 December 2010 was 20%.

Entitlement reserves in Syria represent the Group's estimated share of working interest reserves after deducting the share of forecast future production attributable to SPC. This proportion is impacted by assumptions as to future development expenditure and future oil prices. For the calculation as at 31 December 2010 the average price of Brent crude was assumed to be \$80/bbl in 2011 and constant thereafter.

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

## Reserves table

### Working interest Basis

	Syria		USA		Group total		
	Oil & NGLS mmbbls	Gas bcf	Oil & NGLS mmbbls	Gas bcf	Oil & NGLS mmbbls	Gas bcf	Oil & Gas mmboe
<b>As at 31 December 2010</b>					-	-	-
Proved	30.5	-	1.4	6.3	31.9	6.3	33.0
Probable	23.1	-	0.5	1.7	23.6	1.7	23.9
<b>Proved &amp; Probable</b>	<b>53.6</b>	<b>-</b>	<b>1.9</b>	<b>8.0</b>	<b>55.5</b>	<b>8.0</b>	<b>56.9</b>
Possible	36.0	-	0.1	1.1	36.1	1.1	36.3
Proved, Probable & Possible	89.6	-	2.0	9.1	91.6	9.1	93.1

### Movements in Proved & Probable reserves during year

At 31 December 2009	46.0	-	2.1	15.5	48.1	15.5	50.7
Discoveries and additions	-	-	-	-	-	-	-
Disposals	-	-	(0.1)	(6.7)	(0.1)	(6.7)	(1.2)
Revisions	10.9	-	0.1	0.5	11.1	0.5	11.1
Less production	(3.3)	-	(0.2)	(1.3)	(3.5)	(1.3)	(3.7)
<b>At 31 December 2010</b>	<b>53.6</b>	<b>-</b>	<b>1.9</b>	<b>8.0</b>	<b>55.5</b>	<b>8.0</b>	<b>56.9</b>

### Entitlement Basis

	Syria		USA		Group total		
	Oil & NGLS mmbbls	Gas bcf	Oil & NGLS mmbbls	Gas bcf	Oil & NGLS mmbbls	Gas bcf	Oil & Gas mmboe
<b>As at 31 December 2010</b>					-	-	-
Proved	12.4	-	1.1	4.9	13.5	4.9	14.3
Probable	7.5	-	0.4	1.2	7.9	1.2	8.1
<b>Proved &amp; Probable</b>	<b>19.9</b>	<b>-</b>	<b>1.5</b>	<b>6.1</b>	<b>21.4</b>	<b>6.1</b>	<b>22.4</b>
Possible	11.4	-	0.1	0.8	11.5	0.8	11.6
Proved, Probable & Possible	31.3	-	1.6	6.9	32.9	6.9	34.0

### Movements in Proved & Probable reserves during year

At 31 December 2009	17.4	-	1.6	11.7	19.0	11.7	21.0
Discoveries and additions	-	-	-	-	-	-	-
Disposals	-	-	(0.1)	(5.1)	(0.1)	(5.1)	(0.9)
Revisions	3.8	-	0.2	0.5	4.0	0.5	4.1
Less production	(1.3)	-	(0.2)	(1.0)	(1.5)	(1.0)	(1.7)
<b>At 31 December 2010</b>	<b>19.9</b>	<b>-</b>	<b>1.5</b>	<b>6.1</b>	<b>21.4</b>	<b>6.1</b>	<b>22.4</b>

\* Certain figures may not add up due to rounding

### Other Discovered Petroleum Initially-in-place

In addition management has made estimates of discovered in-place oil and gas volumes where there is not as yet any clear basis for commercial development. In each case the activity to date has been insufficient to generate any reliable estimate of recoverable element of these in-place volumes.

The table below shows the volumes attributable to Gulfsands' working interest. The volumes applicable to Dougga Cretaceous Abiod were calculated by TRACS International Consultancy. In all other cases the estimates have not been subject to external independent audit.

## Discovered Petroleum Initially-in-place

<b>Syria, Block 26</b>						
Working interest 50%			P90	P50	P10	Notes
Khurbet East Triassic Kurrachine Dolomite	STOIP	mmstb	1.0	5.0	14.8	1
	GIIP	bcf	1.2	6.1	17.7	
Khurbet East Triassic Butmah	GIIP	bcf	3.8	25.4	125.7	2
<b>Syria Total</b>	<b>in-Place</b>	<b>mmboe</b>	<b>1.8</b>	<b>10.3</b>	<b>38.7</b>	

<b>Tunisia, Kerkouane permit</b>						
Working interest 30%			P90	P50	P10	
Dougga Cretaceous Abiod	GIIP	bcf	115.2	175.5	268.2	3
Lambouka Cretaceous Abiod	GIIP	bcf	31.2	72.6	157.5	4
<b>Tunisia Total</b>	<b>In-Place</b>	<b>mmboe</b>	<b>24.4</b>	<b>41.4</b>	<b>71.0</b>	

<b>Total Discovered Petroleum Initially-in-place</b>	<b>mmboe</b>	<b>26.2</b>	<b>51.6</b>	<b>109.6</b>	
--	--------------	-------------	-------------	--------------	--

### Notes:

1. Triassic Kurrachine Dolomite volatile oil accumulation located within Khurbet East field production licence area and discovered by well Khurbet East-1 (KHE-1) in 2007. In place volumes are GulfSands estimates of oil and associated gas.
2. Triassic Butmah gas accumulation located within Khurbet East field production licence area and discovered by well KHE-1 in 2007. In place volumes are GulfSands estimates of raw gas which is assumed to contain 5% hydrogen sulphide (KHE-1 gas sample).
3. Dougga Cretaceous Abiod and Allam wet gas accumulations located within the offshore Tunisia Kerkouane permit and discovered by Dougga-1 well drilled by Operator Shell in 1981. In place volumes are calculated by TRACS International Consultancy Ltd in 2011 and are of raw wet gas which is assumed to contain 30% carbon dioxide.
4. Lambouka Cretaceous Abiod gas accumulation located within the offshore Tunisia Kerkouane permit and discovered by Lambouka-1 well drilled by Operator Audax in 2010. In place volumes are GulfSands estimates of raw wet gas which is assumed to contain 30% carbon dioxide. Approximately 30-50% of in place volumes could lie in the Pantelleria permit offshore Italy (GulfSands working interest 30%).

## Financial Review

### Selected operational and financial data

	2010 mmboe	2009 (restated) mmboe	Change %
Production: working interest	3.8	2.7	39%
Production: entitlement interest	1.7	1.6	3%
	<b>\$MM</b>	<b>\$MM</b>	
Revenue	115.6	84.4	37%
Gross profit	76.8	46.9	64%
Operating profit	45.5	29.0	57%
Net profit after tax	44.7	28.3	58%
Net cash provided by operating activities	70.2	43.5	61%
Capital expenditure	(43.4)	(25.8)	68%
Decommissioning costs (net of escrow cash released)	(4.7)	(0.9)	428%
Cash balance	80.6	57.6	40%

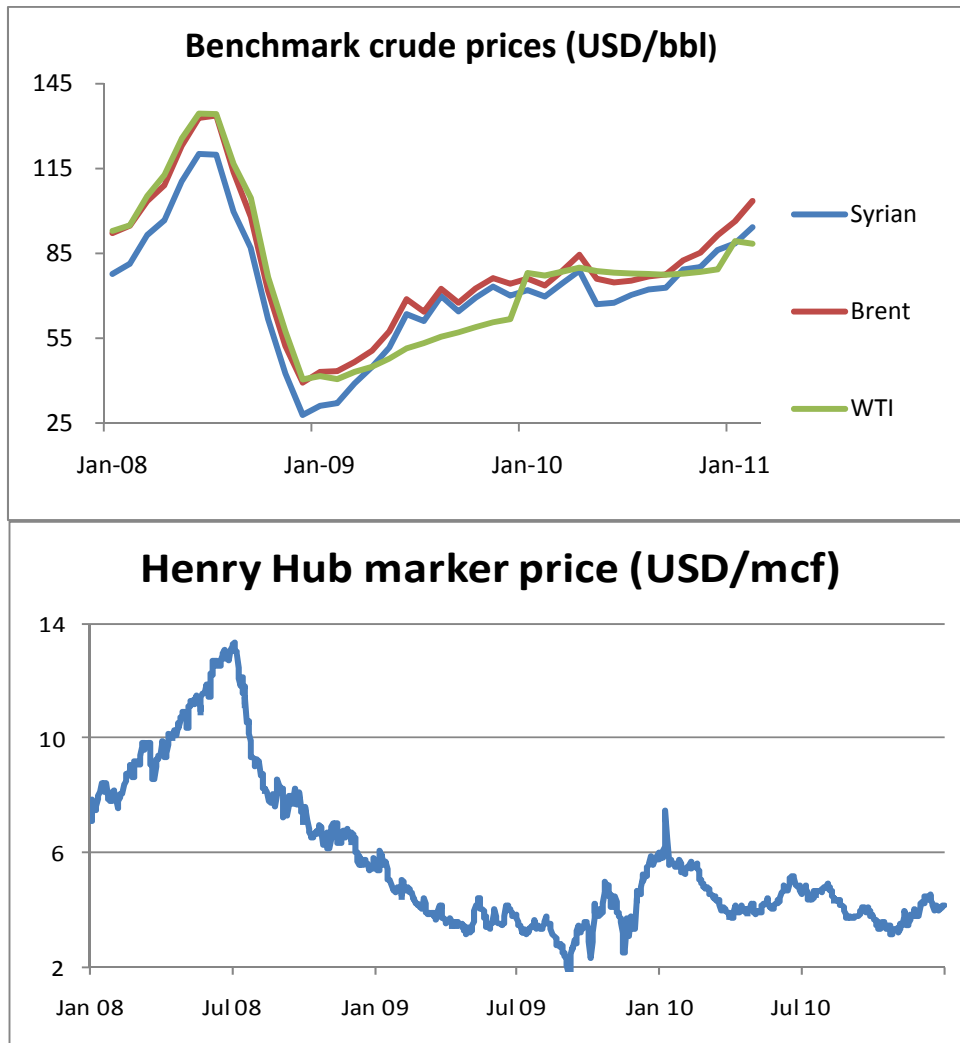
### Production and sales prices (excluding NGLs)

	Working interest				Average sales price		Premium / (discount) to Brent	Premium / (discount) to Henry Hub
	production		Entitlement production		Oil	Gas		
	Oil bopd	Gas mcf/d	Oil bopd	Gas mcf/d	\$/bbl	\$/mcf	\$/bbl	\$/mcf
<b>Year ended 31 December 2010</b>								
Syria	9,165	-	3,636	-	74.6	-	(4.9)	N/A
USA	479	3,613	379	2,727	76.5	5.1	(2.9)	0.8
<b>Total</b>	<b>9,644</b>	<b>3,613</b>	<b>4,015</b>	<b>2,727</b>				
<b>Year ended 31 December 2009</b>								
Syria	6,249	-	3,367	-	57.3	-	(4.4)	N/A
USA	503	3,526	399	2,669	60.5	3.9	(1.2)	(0.1)
<b>Total</b>	<b>6,752</b>	<b>3,526</b>	<b>3,766</b>	<b>2,669</b>				

### Market conditions

World crude oil prices were relatively stable for most of the year with Brent and WTI generally trading in a band between \$70/bbl and \$85/bbl for the first nine months. Towards the end of the year the price of both crudes picked up, finishing the year at \$93/bbl and \$91/bbl respectively. The average price of Brent during the year was \$79/bbl. US natural gas prices continued to struggle, starting the year at \$5.8/mcf but averaging only \$4.4/mcf across the year.

Since the end of the period the price of Brent has continued to climb as tensions across the Middle East region have led to speculation on the availability of crude delivered into the European markets. This has also led to an increased spread between the Brent and WTI prices, with the average price in February 2011 being \$104/bbl and \$88/bbl respectively. During 2010 approximately 80% of the Group's hydrocarbon output was Syrian Heavy crude, the price of which is linked more closely to Brent than WTI.



Group

After an internal review of accounting policies the Group has chosen to move to a successful efforts basis of accounting from the modified full cost basis that was previously used. The Directors consider that the successful efforts basis provides more relevant information to the users of the accounts. The net effect on the 2009 financial statements has been to increase Group profits by \$0.4 million and decrease net assets by \$6.0 million. The comparative figures referred to throughout this review are the restated numbers.

*Income Statement*

The Group recorded a net profit after tax in 2010 of \$44.7 million (2009: \$28.3 million), as a result of higher production and higher average realised sales prices. The Syrian operations contributed a net profit of \$63.9 million (2009: \$48.9 million) while the loss from the USA (excluding intra-group interest) reduced to \$6.6 million (2009: \$14.2 million loss). A commentary on the performance of each business unit is included below.

Revenues from sales of hydrocarbons increased by 37% from \$84.4 million to \$115.6 million of which \$99.0 million (2009: \$70.5 million) was from Syria and \$16.6 million (2009: \$13.9 million) was from the USA. Average entitlement production (including NGLs) increased by only 6% to 4,525 boepd (3,636 boepd in Syria and 889 boepd in USA) from 4,250 boepd (3,367 boepd from Syria and 883 boepd



from the USA) in 2009. The primary reason for the increase in revenues was the increased average realised price of crude oil sales which increased from \$57.7/bbl to \$74.8/bbl, an increase of 30%.

Cost of sales increased by 3% to \$38.8 million from \$37.5 million in 2009, of which \$20.9 million (2009: \$18.3 million) was attributable to depletion of development properties and impairment. Other cost of sales decreased from \$19.3 million to \$18.0 million principally due to sales of assets and reduced repair costs in the USA.

Administrative expenses increased significantly to \$27.7 million from \$15.5 million in 2009. Part of this increase is attributable to higher share-based payment charges (\$2.5 million in 2010 vs. \$1.1 million in 2009) and to foreign exchange losses of \$1.0 million compared with a foreign exchange gain in 2009 of \$0.5 million. The bulk of the increase, however, was in general administrative expenses which rose from \$14.9 million in 2009 to \$24.2 million in 2010. This is primarily due to an increase in Syrian administrative expenses from \$6.9 million to \$11.8 million (see "Syria" below) and an increase in head office and miscellaneous Group costs from \$5.9 million to \$9.0 million because of higher staff costs, new business development costs and the costs connected with the unsuccessful bid approach for the Company in the first half of the year. The average number of staff employed by the Group increased as additional resources were recruited to strengthen the senior technical team in London and Damascus.

In accordance with the new successful efforts accounting policy a charge of \$5.5 million (2009: nil) was incurred in respect of the unsuccessful drilling of the Zahraa and Hannon wells. Hurricane repair accruals amounting to \$0.8 million related to the 2008 hurricane season were written back during 2010 (in 2009 there was a corresponding charge of \$2.3 million). After a \$1.1 million charge for the unwinding of the discount in the decommissioning provision (2009: \$1.1 million) and net interest income of \$0.2 million (2009: \$0.3 million), the Group's profit before tax amounted to \$44.7 million (2009: \$28.3 million).

The Group recorded no material tax charge in 2010 or 2009 as its local tax obligations in Syria are settled on its behalf by the Syrian Petroleum Company. The Group has tax losses brought forward in the USA and has not provided a deferred tax asset as it does not foresee these losses becoming recoverable in the near future.

#### *Cash Flow*

The Group generated cash from operations of \$69.6 million (2009: \$43.3 million). Within this, working capital movements consumed \$6.5 million of cash (2009: \$6.0 million) as a result of a slight extension in the payment period for our oil revenues in Syria now the Group is in a full cost recovery position. The Group invested \$16.8 million (2009: \$19.8 million) in oil and gas development assets and inventory and \$1.1 million (2009: \$0.6 million) in other tangible assets and software. \$25.5 million (2009: \$5.4 million) was invested in exploration efforts in Syria and Tunisia (2009: all Syria). Decommissioning costs paid in the USA amounted to \$2.5 million (2009: \$2.1 million) and a further \$2.2 million was advanced to secure decommissioning bonds (2009: \$1.2 million released). \$1.0 million was placed in a restricted use account to secure a currency forward exchange facility. The sale of assets in the Gulf of Mexico in the first half of the year generated \$1.1 million (2009: \$0.5 million).

Net proceeds from the exercise of options, less cash paid to certain employees in Syria to buy back outstanding options at fair market value, generated \$0.8 million (2009: \$3.6 million). The resultant total increase in unrestricted cash balances was \$23.0 million (2009: \$20.8 million).

The Group continues to invest material sums in exploration and development capital expenditure and anticipates a significant increase in such expenditure during 2011. However, it is expected that all capital expenditure will be funded from operating cash flows in the year under all reasonably foreseeable scenarios.

#### *Financial position*

The Group remains in a strong financial position holding \$80.6 million (2009: \$57.6 million) of free cash at the year-end and with no external debt. \$68.9 million of the cash was denominated in US Dollars and of this \$62.5 million was invested in a money market fund which is rated AAAM by Standard & Poors and AAAMmf by Fitch. Restricted cash balances of \$15.2 million (2009: \$12.0 million) were held against decommissioning liabilities and to secure other facilities provided by the Group's bankers.

Trade and other receivables increased to \$35.6 million from \$21.9 million due to an increase of \$8.7 million in the receivable from Syrian oil sales and an amount of \$6.3 million invoiced by Saipem as an initial payment on the central production facility contract where no earned value was recorded by the year end. Trade payables and accruals increased to \$23.1 million from \$13.4 million in 2009 principally due to the same invoice.

The Group is debt free, has no debt facilities and at present has no identified need to establish any such facilities. At the end of March 2011 the Group had free cash resources of over \$100 million. Since the Group expects to be able to finance all currently foreseen capital expenditure in 2011 from operating cash flows, this cash is available to finance future new business activity or acquisitions.

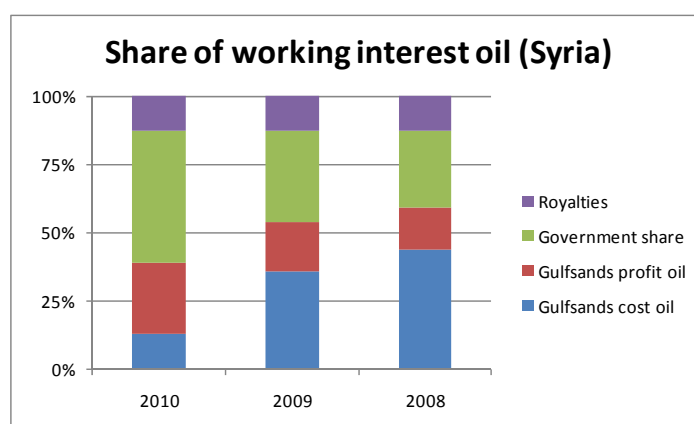
#### *Unit revenues and costs (per boe of working interest production)*

	SYRIA		USA	
	2010	2009	2010	2009
	\$/boe	\$/boe	\$/boe	\$/boe
Gross revenue	<b>74.6</b>	57.3	<b>51.1</b>	41.2
Less royalties and production share	<b>(45.0)</b>	(26.4)	<b>(11.4)</b>	(9.4)
Net revenue	<b>29.6</b>	30.9	<b>39.8</b>	31.8
Production and transport cost	<b>(1.9)</b>	(2.3)	<b>(27.7)</b>	(32.0)
Operating cash flow	<b>27.7</b>	28.6	<b>12.1</b>	(0.2)
Depletion	<b>(3.4)</b>	(4.3)	<b>(13.6)</b>	(4.5)
Decommissioning accrual	-	-	<b>(2.7)</b>	(2.5)
Operating profit / (loss) before G&A	<b>24.3</b>	24.3	<b>(4.2)</b>	(7.2)

## Syria

### Income Statement

Working interest production from Block 26 averaged 9,165 bopd in 2010 (2009: 6,249 bopd), an increase of 47%. Entitlement production was 3,636 bopd (2009: 3,367 bopd). The royalty and government share of oil increased from 46% to 60% in 2010. During the second half of 2009 the Group recovered all of the historic costs incurred on exploration and since then the cost recovery element of revenue has fallen thus reducing the Group's entitlement share.



The average sales price was \$74.6/bbl, representing a \$4.9/bbl discount to the average Brent price (2009: \$57.3/bbl, representing a discount of \$4.4/bbl). The increased selling price was the primary factor behind the increase in revenues to \$99.0 million (2009: \$70.5 million).

Cost of sales increased to \$17.7 million (2009: \$14.7 million). Depletion charges were \$11.4 million in 2010 compared to \$9.5 million in 2009: this increase is principally due to an increase in the estimated cost of the central production facility at Khurbet East. Transportation costs of \$4.1 million (2009: \$2.9 million) increased in line with working interest production. Production costs remained the same as 2009 at \$2.3 million, equivalent to \$0.69 per working interest barrel (2009: \$1.01/bbl). The fall in the average cost per working interest barrel reflects the fixed cost of leasing the early production facilities coupled with rising production.

Administrative expenses increased 71% to \$11.8 million (2009: \$6.9 million). The principal reasons for this increase are \$2.3 million of one-off costs related to unanticipated compliance expenses and an increase of \$1.7 million for business development, sales and marketing costs. The Group's share of the average number of staff employed in the Syrian operations increased from 18 to 26 people as additional resources were recruited to strengthen the senior management team and in light of the higher level of production and the focus on exploration in Block 26.

A charge was made to the Income Statement for exploration expenditure written off of \$5.5 million in respect of the Zahraa and Hanoon wells (there was no corresponding charge in 2009). The Syrian operations made a profit before interest and tax of \$63.9 million (2009: \$48.8 million), an increase of 31%.

## *Cash Flow*

The net cash received from oil sales in Syria amounted to \$90.3 million, slightly lower than the recorded revenues primarily due to a small increase in the payment period of our invoices as a result of having reached full cost recovery. Cash outflows on operations and overhead expenditure totalled \$23.0 million giving a net cash flow from operations of \$ 67.3 million (2009 \$54.4 million). Capital expenditure was \$24.2 million (2009: \$22.1 million) including \$13.0 million (2009: \$16.5 million) in development and inventory and \$9.6 million (2009: \$5.4 million) in exploration activities. The net cash surplus in Syria amounted to \$42.8 million (2009: \$32.5 million). It is anticipated that capital investment in both exploration drilling and field development facilities will increase significantly during 2011.

## Tunisia

### *Cash Flow*

The Group invested \$13.8 million in drilling the Lambouka well and acquiring 3D seismic over the adjacent area, following the farm-in to the offshore Kerkouane block. This represents approximately 35% of the well cost for which the Group received a 30% working interest in the block. In addition to this a further \$2.1 million was advanced to the operator as part of the Group's initial obligations on the Chorbane block.

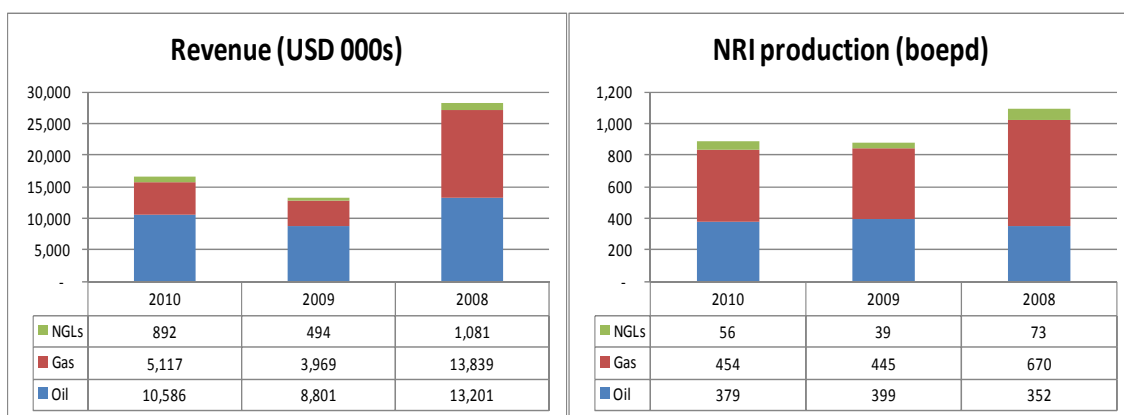
## USA

### *Income Statement*

Production during the year from onshore and offshore USA averaged 889 boepd on a net revenue interest ("NRI") basis (2009: 883 boepd). In January 2011 a package of assets was sold with an effective date of 1 May 2010 and the revenue from these properties has been excluded from that date. The NRI production of the remaining properties (excluding the sold assets) was 713 boepd in 2010 and 813 boepd in 2009.

The return to production of properties shut-in after the 2008 hurricanes was offset by significant downtime on other properties as repairs and improvements were carried out on the aging portfolio of properties. NRI production from recompletions during 2010 averaged 46 boepd over the year and 94 boepd in the periods since production started.

NRI production comprised 51% gas (2,726 mcf/d), 43% oil (479 bopd) and 6% NGLs (2,341 galls/d). Average sales prices were \$5.1/mcf for gas (2009: \$3.9/mcf), \$76.5/bbl for oil (2009: \$60.5/bbl) and \$1.0/gall for NGLs (2009: \$0.8/gall). The increased average sale prices accounted for almost all of the 25% increase in revenue to \$16.6 million (2009: \$13.3 million). The average gas price recorded was higher than the average Henry Hub marker price during the year as certain retrospective volume and price adjustments were received during the early part of 2010.



Depletion during 2010 was \$5.7 million (2009: \$2.4 million). The DD&A charge is calculated on an asset by asset basis and changes to decommissioning estimates or individual reserve estimates cause substantial changes to the overall charge. In 2009 the Group had benefited from significant adjustments to the forecast decommissioning cost which had in turn reduced the depletion charge in that year whereas in 2010 there was an increased charge from such adjustments. Impairment charges of \$3.8 million (2009: \$6.4 million) were made against the US assets: in 2010 this was principally related to the assets held for disposal, whereas in 2009 the impairment charges were incurred as a result of lower forecast gas prices in future years and increased estimates of future decommissioning costs.

Within other cost of sales of \$11.6 million (2009: \$14.0 million), lease operating expenses declined to \$6.0 million (2009: \$8.1 million) of which approximately \$1.5 million was attributable to costs associated with the package of assets sold. Repair costs were also significantly reduced to \$1.8 million (2009: \$3.5 million). The cost of insurance rose from \$1.5 million in 2009 to \$1.9 million in 2010 because windstorm cover was purchased for the 2010 hurricane season (2009 having not been covered for windstorm).

Administrative expenses net of inter-segmental revenue were \$3.0 million (2009: \$2.0 million) owing to staff severance payments and additional decommissioning bond fees.

#### *Cash Flow*

The net cash inflow from the US operations was \$2.3 million (2009: \$5.1 million outflow). \$3.2 million of development capital expenditure was incurred (2009: \$3.4 million) principally on recompletions for wells 24 and 26 on the Eugene Island 32 property. \$2.5 million of decommissioning expenditure was paid (2009: \$2.1 million) and \$2.0 million additional security was required as collateral for decommissioning bonds. The business received \$1.1 million of cash from the sale of the South Pass 49 properties and \$1.3 million from insurers in respect of the 2008 hurricanes. The net cash deficit for the US was \$3.3 million (2009: \$13.0 million) which was funded by the parent company. During January and February 2011 the US business received \$4.2 million for the sale of certain assets and \$5.6 million from the release of escrow amounts securing decommissioning liabilities on those assets.

## Financial risk management

The financial risks concerning the Group comprise pricing risk, currency risk, liquidity risk and access to capital.

Pricing risk arises because all of the Group's oil and gas production is sold under short term pricing arrangements and so the Group is exposed to movements in oil and gas prices. To date this exposure has not been hedged since the Board has taken the view that the Group's cash flow is sufficient to bear any reasonably foreseeable downturn in prices without affecting our core business. However this policy is kept under frequent review.

Currency risk arises because the Group's sales are denominated in US Dollars but a proportion of its expenses are in Euro (some procurement costs including the CPF) and Sterling (head office costs). The risk is mitigated by retaining a proportion of our cash resources in these currencies.

Liquidity risk concerns the Group's ability to access funds to meet its obligations as they fall due. Our policy is to maintain sufficient cash balances and readily realisable investments for this purpose, given that the Group has no bank lines of credit available to it. Sums in excess of what is needed to meet near-term obligations are invested in a money market fund which holds a diverse portfolio of short-term financial instruments rated A1 or better, resulting in a greater spread of risk and an improved return compared with what we would otherwise be able to achieve. It is the Board's intention to seek to put in place one or more bank credit lines as and when Syrian country risk becomes more readily acceptable in the international banking market.

Access to capital depends on conditions prevailing in the equity market for independent E&P companies generally and the sentiment among the Group's shareholders in particular. Considerable efforts have been devoted in 2010 to communicate with our shareholders, to cultivate new investors and to build relationships with research analysts and equity sales desks at brokerage houses, in order to widen the following of Gulfsands by the investment community generally. These efforts have borne fruit in that 10 independent brokerage firms now publish research regularly on Gulfsands.

Andrew Rose

**Chief Financial Officer**

1 April 2011

## Principal Risks and Uncertainties

The Board places a high priority on managing and mitigating risk. In early 2011 a Risk Committee was formed comprising inter alia the Chief Executive and Chief Financial Officer to take responsibility for management of risk in all its forms throughout the Group. A comprehensive assessment of risks facing the Group is undertaken annually using a matrix approach which assesses each risk in terms of its impact on both the financial statements and the value of the business, probability of occurrence, shareholder tolerance and cost of mitigation, and the conclusions are reviewed by the Board. Subsequent reviews are carried out as often as necessary during the year.

The following summarises what the Directors consider to be the principal risks and uncertainties facing the Group and the measures which have been taken to mitigate them.

Risk	Mitigation
<b>External</b>	
<p><u>Political interference</u></p> <p>The risk of authorities in the host country seeking to expropriate assets or change the terms of existing contracts.</p>	<p>This can only effectively be mitigated by developing close relationships at high level in the country in question. In the case of Syria we have successfully developed such relationships through Mahdi Sajjad as a result of our longstanding presence in the country and our active community programmes.</p>
<p><u>Civil unrest</u></p> <p>The risk of civil unrest increasing in Syria or re-occurring in Tunisia may impact the Group's operations or lead to damage to its assets.</p>	<p>Contingency plans exist to ensure that the Group maintains operations while it is safe for our staff to do so. Further contingency plans are in place to allow for the evacuation of personnel and for the temporary cessation of activities if required.</p>
<p><u>Act of war or terrorism</u></p> <p>The risk of an act of war or terrorism involving Syria, as a result of Middle East tensions generally, impacting the Group's operations or strategy.</p>	<p>We maintain insurance providing for the medical treatment and evacuation of personnel in the event of an act of war or terrorism. Corporately, we do not currently insure against such events in view of the costs of doing so, considering this to be a risk that investors are prepared to take if they invest in the Company.</p>
<p><u>Price and currency movements</u></p> <p>The risk of movements in oil and gas prices or currencies adversely impacting profits and cash flow.</p>	<p>The Group sells all its oil and gas production on the spot market: there are no long term price contracts in place. The Board considers that investors in the Company wish to retain exposure to oil and gas price movements, so will only undertake price hedging if available funds would be insufficient to finance planned expenditure in the event of a material price downturn, which is presently not the case.</p> <p>The Group maintains some cash balances in currencies other than US dollars to cover expenditure commitments in these currencies.</p>
<p><u>Natural disaster</u></p> <p>The principal risk is that of hurricanes in the Gulf of Mexico impacting our US business as occurred in 2008.</p>	<p>Until 2009 the Group insured its Gulf of Mexico properties against damage from hurricanes, but in the wake of the 2008 hurricane season the cost of such insurance became prohibitively high and so the Group did not insure against windstorm risk in 2009. In 2010 the Group chose to insure against windstorm risk once again as the premium rates eased.</p>

<b>Operational</b>	
<p><u>Oilfield accident</u></p> <p>The risk of a blow-out or other control-of-well incident leading to damage to people, property or environment.</p>	<p>The Group has implemented comprehensive health and safety procedures in Syria and has recently hired a full-time HSE manager. To date no lost-time incidents have occurred. Insurance is maintained for repair to structures and for the control and redrill of wells, as well as for third party liabilities.</p>
<p><u>Central production facility</u></p> <p>The risk that the CPF in Block 26 is not completed on time and on budget.</p>	<p>The timely commissioning of the CPF by the end of 2012 is critical to the Group's plans to maximise value from Block 26. The award of the contract to a world class contractor like Saipem provides substantial comfort in this regard.</p>
<p><u>Exploration failure</u></p> <p>The risk that an exploration well is found not to contain commercial quantities of hydrocarbons.</p>	<p>Exploration is an inherently risky business, where the risk of failure on any one well is usually significantly greater than the chance of success. Risk is mitigated by careful geological and petrophysical analysis prior to drilling, often involving the acquisition of 3D seismic data.</p> <p>The cost of failure is mitigated in Syria by the fact that operations are land-based so the cost of a well is comparatively low, as well as by the fact that exploration costs within Block 26 are recoverable against existing production under the terms of the PSC.</p>
<p><u>Partner approval</u></p> <p>The risk that a joint venture partner does not approve the Group's operational or budgetary plans.</p>	<p>In Syria the Group has a 50% interest in the Block 26 joint venture and acts as operator, with the other 50% being held by Sinochem. Because the Group does not hold outright majority voting powers it is possible in certain circumstances for a partner to block decisions. This is mitigated by intensive efforts to communicate our strategy and plans to our partner and to address their concerns, with the fall-back that we retain the option to carry out an operation on a sole-risk basis if approval is not forthcoming.</p>
<p><u>Equipment availability</u></p> <p>The risk of necessary equipment such as rigs not being available when required.</p>	<p>The US sanctions regime against Syria has resulted in the Group not being able to source goods and services from US companies. However, to date this has not proved a constraint as we have always been able to procure from non-US sources. For key equipment such as drilling rigs the procurement process is begun well in advance of the need crystallising, in order to minimise any delays.</p>
<b>Financial</b>	
<p><u>Cost control</u></p> <p>The risk of costs exceeding budget through inadequate cost control.</p>	<p>A detailed expenditure control framework is in place involving clear limits on expenditure authority and frequent reporting of costs and commitments against budget. Particular emphasis is placed on controlling expenditure at the pre-commitment stage. New accounting and procurement systems are being installed in 2011 to further improve controls.</p>



<p><u>Liquidity and funding</u></p> <p>The risk of insufficient short term funds being available to meet commitments or long term funds to finance capital projects.</p>	<p>The Group maintains significant balances in cash or short term money market funds. At present there are no bank lines of credit available to the Group given that the appetite for Syrian country exposure among international banks remains limited, but it is our intention to put in place such lines of credit as and when the situation eases.</p> <p>We place great importance on cultivating relations with the investor community and with research analysts in order to ensure that the stock market is receptive to our story should the need to raise further equity arise.</p>
<p><b>Other</b></p>	
<p><u>Retention of key staff</u></p> <p>The risk of defection of key staff as a result of higher financial inducement.</p>	<p>The Group aims to pay competitively and undertakes an annual benchmarking exercise to ensure that remuneration is in line with market rates. Remuneration includes a significant performance-based component and participation in share incentive schemes extends throughout the Group.</p> <p>We also aim to provide a challenging but fulfilling working environment so that pay is not the only determinant of job satisfaction.</p>
<p><u>Fraud and corruption</u></p> <p>The risk that actions by an employee or business associate damage the Group's reputation or result in a financial cost.</p>	<p>The Group has a detailed Code of Business Conduct and Ethics which establishes clear guidelines for relationships with officials and suppliers, and which has been circulated internally. In addition a Whistleblowing Policy is in place allowing employees who become aware of an incident of fraud or corruption to report it safely to the appropriate person.</p>

## **Board of Directors**

### **Andrew West**

#### **Non-Executive Chairman**

Andrew West (53) has been Chairman of Gulfsands since July 2006. An investment banker specialising in mergers and acquisitions by career, he has worked for Smith Barney (1981 - 85), Lehman Brothers (1985 – 90), Guinness Mahon (1990 – 97) and from 1997 to 1999 was Managing Director of Strand Partners, a privately owned investment banking firm specialising inter alia in energy and natural resources. For the past 12 years he has run his own consultancy practice. He is currently a non-executive director of, or advisor to, numerous companies, both public and private, and has had considerable experience as both a financial adviser and a non-executive director in the oil and gas sector.

### **Richard Malcolm**

#### **Chief Executive Officer**

Ric Malcolm (58) joined Gulfsands as Chief Executive in October 2008. A professional geoscientist with over 30 years of oil and gas experience, he began his career as a petroleum geologist with Woodside in Australia. He then spent 10 years with Ampolex, an Australian independent E&P company, latterly as Exploration Manager, followed by three years with Mobil as Manager for Papua New Guinea. In 1999 he joined OMV as Exploration Manager for Australia and New Zealand, going on to become Exploration Manager in Libya, General Manager in Norway and finally in 2006 Managing Director for OMV UK.

### **Mahdi Sajjad**

#### **Executive Director and President**

Mahdi Sajjad (52) is an Iraqi national who was educated in the UK, and was one of the founders of Gulfsands in 1998. Having worked from 1981–88 with a consortium of British engineering companies in the Middle East and Africa, in 1988 he joined International Development Corporation in Dubai where he became Managing Director. From 1988 – 95 he was also a director of Oil & Minerals Development Corporation in Dubai. He has also established a number of companies with interests in the Middle East in different industry sectors but with particular emphasis on the energy and mining sectors.

**Andrew Rose**  
**Chief Financial Officer**

Andrew Rose (54) joined Gulfsands as Chief Financial Officer in June 2008. He was formerly CFO of Burren Energy, the UK independent E&P company which he joined in 2001, helped to list it on the London Stock Exchange in December 2003 and oversaw its sale to ENI in January 2008. Prior to this he had spent his career in investment banking, working in advisory, capital markets and financing roles, latterly as head of Corporate Finance for Eastern Europe, Middle East and Africa at Société Générale.

**Ken Judge**  
**Director of Corporate Development & Communications**

Ken Judge (55) joined the Board in 2006 as a Non-Executive Director, becoming an executive Director in 2008. A former corporate lawyer in Australia, he has held numerous public company directorships and has been engaged in the establishment or corporate development of oil & gas, mining and technology companies in the United Kingdom, Middle East, USA, Australia, Europe, Canada, Latin America and South East Asia.

**David Cowan**  
**Non-Executive Director**

David Cowan (55) has been a Director of Gulfsands since 2006. A practicing solicitor, he is a partner with McMillan LLP based in Vancouver, Canada, and practices primarily in the area of corporate and securities law. He represents numerous publicly traded companies and has been involved in the drafting of British Columbia's securities legislation. He is a past Chairman of both the Securities and Natural Resources subsections of the British Columbia branch of the Canadian Bar Association, and the National Natural Resources subsection of the Canadian Bar Association. His specific Middle East experience includes ventures in Syria, Iraq and Algeria.

## **Corporate Social Responsibility**

### **A core value and key business priority.**

Gulfsands continues to develop policies and programmes designed to educate and train our employees and consultants to conduct our business in a manner that reflects our commitment to achieving high standards of corporate social responsibility (“CSR”) in the countries in which we operate. During 2010 we made significant progress towards achieving our goals and further enhanced the Group’s already well recognised reputation for its CSR initiatives. Building on our successes with these initiatives remains a key business priority for the Board of Directors.

During 2010 we were well supported in these initiatives by our partners in Block 26, Syria, China’s Sinochem Corporation, which shares with us a belief in the benefits of maintaining the highest levels of corporate and social responsibility and conducting our operations in a manner that recognises the importance of local stakeholders to our success in building and maintaining a thriving long term business.

Gulfsands is committed to the promotion of policies and practices that emphasise high levels of business ethics and social responsibility and provide a safe, reliable and enjoyable working environment for our employees.

During 2010 we completed construction of the new oil transport pipeline that now links our operations at the Khurbet East field to the central processing facilities of Syria Petroleum Company at Tel Addas some 22 kms away and, in so doing, replaced our previous intensive trucking operation. This pipeline provides a safer, more reliable and more efficient means of transporting our oil while at the same time reducing materially the impact on the daily lives of the local communities living and working near our operations. In addition, we have now upgraded the road system previously used for our trucking operations and this is now available for use by the local population and is already taking significant volumes of domestic human and livestock traffic off the main highway that passes through the area.

### **Supporting local communities and charitable causes**

During 2010 Gulfsands significantly increased its financial and logistical support for an expanded group of social and charitable organisations selected from among the growing population of organisations that make up Syria’s thriving non-governmental organisation (“NGO”) sector under the patronage and active encouragement of H.E. Mrs Asma Al Assad. Approximately 80 NGOs are now providing support of one kind or another at the national, regional or local levels of the communities where we operate. Gulfsands continues to believe that the principal focus of its support should remain programmes that are directed at improving the lives of children, women and the disadvantaged members of Syrian society.

## Education

The recent unrest in a number of countries of the Middle East raised international awareness of the considerable concern among the growing numbers of young people that much more needs to be done to improve the education and employment opportunities available to a fast expanding middle class.

Syria's President is well recognised for his public support for, and funding of, initiatives to expand and modernise the country's secondary and tertiary education system and the construction of new facilities, including facilities provided by the private sector. During the past decade this has resulted in a very significant growth in the number of children attending secondary schools for the first time and, upon graduation, going on to universities where they can attain the skills necessary to secure employment in the private sector.

Gulfsands supports a number of the government's ambitious public-private partnerships intended to help reduce unemployment levels among young people. These private sector sponsored organisations in general have, as their principal objective, the provision of education support for the young and disadvantaged members of Syria's society and the development of business, entrepreneurial and personal life skills. Their focus is on helping young people to remain in the education system far longer than has historically been the case, so that they may graduate with relevant and higher level skills necessary to secure better paid jobs or to start new businesses.

With these objectives in mind, Gulfsands has focused much of its CSR investment in supporting projects that are specifically directed at providing women and young and disadvantaged people with access to education and the development of the skills to create self-sustaining micro-businesses, especially in rural communities where these programmes have proved very popular and effective in reducing poverty levels. Gulfsands also continues to provide meaningful financial and logistical support for organisations such as **FIRDOS**, **BIDAYA**, **SHABAB**, **AWRD** and the **Syrian Young Scholars** programme to enable those organisations to expand their excellent work in providing access to education and educational infrastructure such as mobile libraries, micro finance and technical and mentoring assistance for the development of micro-businesses.

During 2010 Gulfsands funded the installation of facilities to provide internet access, the purchase of approximately 50 computers and peripherals, the refurbishment of dedicated class rooms, and programmes to train teaching staff at three elementary schools in villages local to our operations. These facilities are used to teach children of all ages during the day and, in the evenings, to provide educational training courses for the adults of these villages.

## Childhood medicine

The organisations supported by Gulfsands are all heavily dependent upon the support of volunteers, including, we are proud to acknowledge, volunteers from within our own organisation. The financial support provided by Gulfsands has proved to be especially effective when combined with the great energy and application shown by these well organised groups of volunteers and this is perhaps best demonstrated by the remarkable achievements of the **BASMA** (Children with Cancer) organisation to

which Gulfsands continues to provide substantial assistance.

Gulfsands' financial support was instrumental in funding the development of the **BASMA** paediatric oncology unit at the Al Buruni University Hospital in Damascus, which remains Syria's first and only dedicated paediatric oncology unit. It is especially pleasing to report that, while Gulfsands has continued to support the operations of this important medical facility, other important corporations working in Syria have now joined with us to support the expansion of this unit with the redevelopment of an additional floor at the Al Buruni University Hospital which, when completed, will significantly expand the capacity of the unit to treat in-bed and outpatients at the hospital.

This expanded facility is certain to help further reduce paediatric oncology mortality rates which have already reduced considerably as a result of the high quality medical support and treatment now available at this specialist hospital unit. Gulfsands' funding of specialised oncology treatments and pharmaceuticals at this unit and at the upgraded Haematology and Oncology Unit at the larger Children's Hospital in Damascus has introduced cancer treatment therapies that were never previously available in Syria and, as a consequence, a large number of families have travelled to Damascus from across the country to attend these facilities with impressive results.

#### Disabled children

During 2010 Gulfsands also extended its support for **BANA**, the volunteer organisation providing educational facilities and general support for blind children, with the purchase and supply of a large number of Braille typewriters and the construction of a facility and equipment to introduce, for the first time in Syria, a computer based Braille teaching programme. This project is to be followed during 2011 with the construction and population of a digital audio library.

Gulfsands has also expanded upon its earlier support for **AAMAL**, the Syrian Organisation for the Disabled, the **Syrian Association for Autistic Children** which provides teaching and support facilities for children with learning difficulties, and the **Light and Flowers Centre for Cerebral Palsy**. We expect to further increase our support for organisations working with disabled children and their families during the current year.

#### Culture

Finally, during 2010, Gulfsands joined with the International Institute for Mesopotamian Area Studies to help finance its important work undertaking the archaeological excavation of an ancient Urkesh Palace at the Tell Mozan site near to Block 26 in north east Syria. This world renowned excavation follows the discovery of this extraordinary building, believed to have been the original home of the Hurrian Kings of Syria and built in circa 2250 B.C.

The excavation of this famous archeological site is carried out under the guidance of Professor Giorgio Buccellati, Director, Mesopotamian Lab, Cotsen Institute of Archaeology, UCLA and Professor Emeritus, Department of Near Eastern Languages and Cultures, UCLA. Following a long association with this project and using well trained local students and workmen, Professor Buccellati and his teams have now partially excavated one of the most important archaeological sites in Syrian and

Middle Eastern history. Further details about this important work and the Gulfsands Urkesh Exploration Fund can be viewed at [www.urkesh.org](http://www.urkesh.org).

### **Continuing our support in the future**

Through its support for these worthy social programmes, Gulfsands is widely recognised for its commitment to supporting the communities in which we operate, whether in the remote north-east of Syria or central Damascus. We are proud of our achievements but humbled by the enormous support we receive from the large number of committed volunteers working within the organisations with which we are involved, who are so motivated to assist those less fortunate in society than themselves.

We would like to acknowledge the significant personal commitment of Syria's first lady, H.E. Mrs Asma Al Assad, to supporting these initiatives, as well as the corporate support and encouragement of our partners, Sinochem Corporation.

Our policy of supporting worthy and well run non-government organisations to fulfil their social objectives in the countries in which we operate will continue to be an important point of reference for our organisation when pursuing new business opportunities in Syria, Iraq, Tunisia and elsewhere in the MENA region. With the continued support of our shareholders and partners we expect to further build on our present record during the coming year.

The Directors present their report together with the audited financial statements of Gulfsands Petroleum plc and its subsidiary undertakings ("the Group" or "the Company" or "Gulfsands") for the year ended 31 December 2010.

### 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, exploration projects onshore and offshore Tunisia and a non-operated portfolio of producing oil and gas properties in the USA (offshore Gulf of Mexico and onshore Gulf Coast). The Group also has business development activities in Iraq.

### Review of the business and future prospects

The Group is required by the Companies Act 2006 to set out in this report a review of the business for the year ended 31 December 2010. A full review of the Group's operations, performance and prospects is set out in the following sections of this report:

	Pages
The Chairman's Statement	7-8
The Chief Executive's Report	10-12
The Operations Review	19-26
The Financial Review	30-37
The Corporate Social Responsibility Review	43-46
The Directors' Remuneration Report	55-57

### Key Performance Indicators

The Directors have adopted certain financial and non-financial Key Performance Indicators ("KPIs") with which to measure performance of the Group during the current and future financial years. Definitions of these KPIs plus the outcome for the year are contained in the section "Key Performance Indicators" on page 9.



## Results and dividends

The Group made a profit after taxation for the year ended 31 December 2010 of \$44.7 million (2009 as restated: \$28.3 million). Earnings before interest, taxation, depreciation, impairment, exploration expenditure written off and share-based payment charges were \$75.1 million (2009 as restated: \$48.9 million). The Directors do not recommend payment of a dividend.

## Group Structure and changes in share capital

In 2010 the Group incorporated a new subsidiary undertaking, Gulfsands Petroleum Tunisia Limited, to hold its Tunisian assets. Other than this there were no changes in the Group structure during the year. Details of movements in the Company's share capital during the year are set out in note 21 to the Consolidated Financial Statements.

## Directors and their interests

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

	At 31 December 2010		At 31 December 2009	
	Number of ordinary shares	Number of share options	Number of ordinary shares	Number of share options
AT West	-	1,200,000	-	1,200,000
M Sajjad <sup>(1)</sup>	8,655,268	1,500,000	8,250,268	1,450,000
R Malcolm	150,000	1,850,000	-	1,500,000
A Rose	600,000	1,100,000	400,000	1,000,000
K Judge <sup>(2)</sup>	3,966,750	1,300,000	3,966,750	1,000,000
D Cowan	441,750	525,000	441,750	525,000

(1) The interest for Mr Sajjad disclosed above includes shares held by Nordman Continental S.A., a company owned by a trust of which Mr Sajjad's children are potential beneficiaries.

(2) The interest for Mr Judge disclosed above includes shares held by Hamilton Capital Partners Limited, an associated company of Mr Judge.

## Issue of share options and restricted shares

Details of share options and restricted shares issued, exercised and cash settled during the year ended 31 December 2010 are set out in note 21 to the Consolidated Financial Statements.

## Directors' interests in transactions

Details of transactions with Directors for the year ended 31 December 2010 are set out in note 27 to the Consolidated Financial Statements.

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

## Internal Controls

The Board is responsible for identifying and evaluating the major business risks faced by the Group and for determining and monitoring the appropriate course of action to manage these risks. Further information relating to the Group's corporate governance policies is shown on pages 52-54.

## Substantial shareholders

The Company has been notified, in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, of the following voting interests in its ordinary shares as at 29 March 2011 of 3% shareholders and above:

Name	Number of shares	% of shares in issue
Schroder Investment Management	18,396,136	15.1%
Abdul Rahman Mohdabdullah Kayed	11,500,000	9.4%
Nordman Continental S.A. <sup>(1)</sup>	8,655,268	7.1%
Al-Mashrek Global Invest Ltd	7,000,000	5.7%
BlackRock Group	6,060,071	5.0%
Hugh Sloan	5,007,240	4.1%
George Robinson	5,000,000	4.1%
Standard Life Investments	4,431,591	3.6%
Hamilton Capital Partners Limited <sup>(2)</sup>	3,966,750	3.3%

(1) Nordman Continental S.A. is owned by discretionary trusts of which Mr Sajjad's children 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. The Board has established a process for identifying and evaluating the principal risks and uncertainties facing the Group and a summary of these risks and uncertainties, together with measures taken to mitigate them, is contained on pages 38-40.

## Suppliers' payments policy

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. The Company's average creditors' payment period at 31 December 2010 was 24 days.

## Risk management objectives and policies

GulfSands' approach to financial risk management is described in the Financial Review on pages 30-37 and in the Principal Risks and Uncertainties section on pages 38-40. Further disclosure is made in note 26 to the Consolidated Financial Statements and note 16 to the Company Financial Statements including the Group and Company's exposure to price, credit, liquidity and currency risk.

## Political and charitable donations

There were no political contributions made by the Group during the years ended 31 December 2010 and 2009. 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 43-46. Approximately \$543,000 was provided to community programmes undertaken in Syria during 2010 (2009: \$238,000) and a further \$184,000 (2009: nil) was donated to other charitable causes outside Syria.

## **Annual General Meeting**

The Company's Annual General Meeting will be held on 24 May 2011 at 11am. The Notice of the Meeting, which sets out the resolutions to be proposed, accompanies this Annual Report and Financial Statements.

## **Going concern**

The Group's business activities, financial performance, financial position and risks are set out in the Operations Review and the Financial Review. The financial position of the Group, its cash flows, liquidity position and resources are detailed in these reviews and further details are included in the Consolidated Financial Statements. The Group has significant cash resources, no debt and, based on current predictions of expenditure, forecasts surplus cash being generated in 2011 and the first half of 2012. 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 and Company has adequate resources to continue its operations for the foreseeable future, despite the current uncertain economic environment. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

## **Information to shareholders**

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

## **Statement of Directors' Responsibilities**

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

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

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

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

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

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

#### **Statement of disclosure to the 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.

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

#### **Auditors**

A resolution to reappoint Deloitte LLP as auditors 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

Andrew Rose

**Chief Executive Officer**

**Chief Financial Officer**

1 April 2011

## **Directors' Corporate Governance Report for the year ended 31 December 2010**

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

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

The Company has established subcommittees of the Board, comprising an Audit Committee, a Remuneration Committee and a Risk Committee, each of which has its own written terms of reference. A copy of these terms of reference is available on the Company's website. A detailed schedule of matters reserved to the Board has been revised and adopted during the year. The Company also has a Code of Business Conduct and Ethics, a Whistleblower Policy and has also established a formal Health, Safety & Environment ("HSE") Policy, all of which have been disseminated throughout the Group.

### **Audit Committee**

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

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

### **Remuneration Committee**

The Remuneration Committee meets at least once per year and is responsible for setting the remuneration of the Board of Directors, including 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.

## **Risk Committee**

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

## **Code of Business Conduct and Ethics**

The Code of Business Conduct and Ethics policy addresses the workplace environment (including non-discrimination, harassment, substance abuse, violence and employment of family members), HSE, relationships with third parties (including conflicts of interest, gifts and entertainment, competitive practices, supplier and contractor relationships, public relations and governmental relations), legal compliance, information and records, use and misuse of Group assets and reporting of violations.

## **Whistleblower Policy**

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

All Directors, Officers, employees, consultants and contractors of the Company and its subsidiaries are made aware of the Policy a copy of which has been distributed to all staff.

## **Health, Safety & Environment 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; and
- institute a site-specific Emergency Response Procedure ("ERP") so that immediate actions are taken, without delay, to minimize danger to personnel, the environment and property. ERPs

will be rehearsed prior to commencing operations to ensure that personnel make the appropriate responses in the event of emergency.

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 this Act recorded against the Group during the reporting year.

## **Directors' Remuneration report for the year ended 31 December 2010**

This report has been prepared having regard to Schedule 8 to the Accounting Regulations under the Companies Act 2006, which requires 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. The Chairman of the Remuneration Committee is David Cowan and the other participating member is Andrew West.

### **Unaudited Information**

#### Remuneration Policy

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

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

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

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



## Audited Information

### Remuneration of Directors

The remuneration of the Directors for the year ended 31 December 2010 was as follows:

	Annual remuneration (\$'000)							
	Salary and fees		Bonuses <sup>3</sup>		Benefits in kind		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
A West	232	195	-	-	-	-	232	195
M Sajjad	670	538	336	-	27	25	1,033	563
R Malcolm	534	428	149	208	3	5	686	641
A Rose	447	338	150	165	12	8	609	511
K Judge <sup>1</sup>	552	264	187	-	-	-	739	264
D Cowan <sup>2</sup>	61	77	-	-	-	-	61	77
	<b>2,496</b>	<b>1,840</b>	<b>822</b>	<b>373</b>	<b>42</b>	<b>38</b>	<b>3,360</b>	<b>2,251</b>

- (1) Paid to Hamilton Capital Partners Limited, a company with which Mr Judge is associated. Included in the fees paid during 2010 is an amount of \$187,000 in respect of fees paid to Hamilton Capital Partners Limited for services provided in prior periods.
- (2) Non-executive director
- (3) In March 2011 bonuses of \$1.9 million were awarded to Executive Directors taking into account the performance of the Group in 2010.

In addition to the remuneration shown above the Group incurred share based payment charges of \$1,529,000 (2009: \$824,000) in respect of the above named Directors.

Remuneration for 2009 included benefits in kind for two Directors who had left the Group during 2008. The amount charged was \$427,000 in respect of Mr Dorrier and \$313,000 in respect of Mr DeCort. Details of these benefits are included in the 2009 Remuneration Report.

## 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 31 December 2010	Exercise price (£)	Market price at date of exercise (£)	Gain on exercise of options (\$'000)	Date from which exerciseable	Expiry date
	At 1 January 2010	Granted	Exercised						
A West	125,000			125,000	1.45			14/02/2006	13/02/2011
	75,000			75,000	1.04			25/07/2006	24/07/2011
	1,000,000			1,000,000	1.88			13/05/2008	12/05/2013
M Sajjad <sup>1</sup>	450,000		(450,000)	-	1.30	2.715	1,031	05/04/2005	04/04/2010
	1,000,000			1,000,000	1.88			13/05/2008	12/05/2013
	-	250,000		250,000	3.20			04/05/2011	03/05/2015
	-	250,000		250,000	3.20			04/05/2012	03/05/2015
R Malcolm	750,000		(150,000)	600,000	1.86	2.715	208	15/10/2008	14/10/2013
	375,000			375,000	1.86			15/10/2009	14/10/2013
	375,000			375,000	1.86			15/10/2010	14/10/2013
	-	250,000		250,000	3.20			04/05/2011	03/05/2015
	-	250,000		250,000	3.20			04/05/2012	03/05/2015
A Rose	500,000		(200,000)	300,000	1.80	2.715	296	08/05/2008	07/05/2013
	250,000			250,000	1.80			08/05/2009	07/05/2013
	250,000			250,000	1.80			08/05/2010	07/05/2013
	-	150,000		150,000	3.20			04/05/2011	03/05/2015
	-	150,000		150,000	3.20			04/05/2012	03/05/2015
K Judge	400,000			400,000	0.96			18/10/2006	17/10/2011
	600,000			600,000	1.88			13/05/2008	12/05/2013
	-	150,000		150,000	3.20			04/05/2011	03/05/2015
	-	150,000		150,000	3.20			04/05/2012	03/05/2015
D Cowan	125,000			125,000	1.45			14/02/2006	13/02/2011
	400,000			400,000	1.88			13/05/2008	12/05/2013

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

This report was approved by the Board of Directors on 1 April 2011.

David Cowan

Chairman of the Remuneration Committee

1 April 2011

## **Independent Auditors' Report to the shareholders of Gulfsands Petroleum plc**

We have audited the financial statements of Gulfsands Petroleum plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity and the Consolidated and Company Cash Flow Statements, and the related notes 1 to 29 of the Consolidated Financial Statements and notes 1 to 17 of the Company Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### **Respective responsibilities of Directors and Auditor**

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

### **Scope of the audit of the Financial Statements**

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

### **Opinion on Financial Statements**

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

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

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

**Other matters**

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

David Paterson (Senior Statutory Auditor)

for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

1 April 2011

**Consolidated Income Statement  
for the year ended 31 December 2010**

	Notes	2010 \$' 000	2009 (restated*) \$' 000
<b>Revenue</b>	6	<b>115,578</b>	84,415
<b>Cost of sales</b>			
Depletion	13	(17,042)	(11,860)
Impairment	13	(3,820)	(6,420)
Other cost of sales		(17,954)	(19,250)
<b>Total cost of sales</b>		<b>(38,816)</b>	(37,530)
<b>Gross profit</b>		<b>76,762</b>	46,885
General administrative expenses		(24,179)	(14,947)
Foreign exchange (losses) / gains		(968)	538
Share based payments	7	(2,533)	(1,124)
<b>Total administrative expenses</b>		<b>(27,680)</b>	(15,533)
Exploration costs written off	14	(5,498)	-
Other operating income / (expenses) - hurricane repairs	8	816	(2,316)
Profit on disposal of oil and gas properties		1,137	-
<b>Operating profit</b>	9	<b>45,537</b>	29,036
Discount expense on decommissioning provision	20	(1,113)	(1,056)
Net interest income	10	228	293
<b>Profit before taxation</b>		<b>44,652</b>	28,273
Taxation	11	18	(12)
<b>Profit for the year - attributable to owners of the Parent Company</b>		<b>44,670</b>	28,261
<b>Earnings per share (cents):</b>			
<b>Basic</b>	12	<b>36.88</b>	23.68
<b>Diluted</b>	12	<b>35.88</b>	23.42

The profit and loss for 2010 and 2009 relate entirely to continuing operations. There are no items of comprehensive income not included in the Income Statement.

\* Comparatives have been adjusted in accordance with IAS 1 "Presentation of Financial Statements – Revised", as described in notes 2 and 29.

**Consolidated Balance Sheet**  
as at 31 December 2010

		2010	2009	2008
			(*restated)	(*restated)
	Notes	\$' 000	\$' 000	\$' 000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	13	63,878	76,525	70,582
Intangible assets	14	30,958	7,091	343
Long term financial assets	17	9,603	11,990	13,167
		<b>104,439</b>	95,606	84,092
<b>Current assets</b>				
Inventory - materials		4,002	4,165	2,401
Trade and other receivables	16	35,559	21,867	15,536
Cash and cash equivalents	17	80,625	57,623	36,812
Short term financial assets	17	5,576	-	-
Assets classified as held for sale	13	12,711	-	-
		<b>138,473</b>	83,655	54,749
<b>Total assets</b>		<b>242,912</b>	179,261	138,841
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	18	23,126	13,411	11,245
Provision for decommissioning	20	7,473	3,683	5,877
Liabilities associated with assets held for sale	13	8,623	-	-
		<b>39,222</b>	17,094	17,122
<b>Non-current liabilities</b>				
Provision for decommissioning	20	20,683	27,937	20,430
<b>Total liabilities</b>		<b>59,905</b>	45,031	37,552
<b>Net assets</b>		<b>183,007</b>	134,230	101,289
<b>Equity</b>				
<b>Capital and reserves attributable to equity holders</b>				
Share capital	21	13,093	12,971	12,814
Share premium		105,025	101,929	98,530
Share-based payments reserve		16,318	15,429	14,305
Merger reserve		11,709	11,709	11,709
Retained profit / (loss)		36,862	(7,808)	(36,069)
<b>Total equity</b>		<b>183,007</b>	134,230	101,289

\* Comparatives have been adjusted in accordance with IAS 1 "Presentation of Financial Statements – Revised", as described in notes 2 and 29.

These Financial Statements were approved by the Board of Directors on 1 April 2011 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 2010**

	Share capital \$'000	Share premium \$'000	Share based payments reserve \$'000	Merger reserve \$'000	Retained profit / (loss) \$'000	Total equity \$'000
<b>Year ended 31 December 2010</b>						
At 1 January 2010 (restated)	12,971	101,929	15,429	11,709	(7,808)	134,230
Options exercised	122	3,096	-	-	-	3,218
Share-based payment charge	-	-	2,359	-	-	2,359
Payments made in lieu of option exercise	-	-	(1,470)	-	-	(1,470)
Profit for 2010	-	-	-	-	44,670	44,670
<b>At 31 December 2010</b>	<b>13,093</b>	<b>105,025</b>	<b>16,318</b>	<b>11,709</b>	<b>36,862</b>	<b>183,007</b>
<b>Year ended 31 December 2009</b>						
At 1 January 2009 (restated)	12,814	98,530	14,305	11,709	(36,069)	101,289
Options exercised	157	3,399	-	-	-	3,556
Share-based payment charge	-	-	1,124	-	-	1,124
Profit for 2009 (restated)	-	-	-	-	28,261	28,261
<b>At 31 December 2009 (restated)</b>	<b>12,971</b>	<b>101,929</b>	<b>15,429</b>	<b>11,709</b>	<b>(7,808)</b>	<b>134,230</b>

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

**Consolidated Cash Flow Statement  
for the year ended 31 December 2010**

		2010	2009
	<i>Notes</i>	\$' 000	(restated*) \$' 000
<b>Cash flows from operating activities</b>			
Operating profit		45,537	29,036
Depreciation, depletion and amortisation	13 & 14	17,725	12,352
Impairment charge	13	3,820	6,420
Exploration costs written off	14	5,498	-
Decommissioning costs in excess of provision	20	2,048	696
Share-based payment charge		2,533	1,124
Profit on disposal of assets		(1,137)	(284)
Increase in receivables		(12,050)	(6,239)
Increase in payables		5,587	198
<b>Net cash provided by operations</b>		<b>69,561</b>	<b>43,303</b>
Interest received		228	293
Taxation recovered / (paid)		402	(66)
<b>Net cash provided by operating activities</b>		<b>70,191</b>	<b>43,530</b>
<b>Investing activities</b>			
Exploration and evaluation expenditure		(25,502)	(5,358)
Oil and gas properties expenditure		(16,304)	(18,082)
Increase in inventory		(488)	(1,764)
Disposal of oil and gas assets		1,100	455
Other capital expenditures		(1,096)	(630)
Change in other financial assets	17	(3,189)	1,177
Decommissioning costs paid		(2,544)	(2,073)
<b>Net cash used in investing activities</b>		<b>(48,023)</b>	<b>(26,275)</b>
<b>Financing activities</b>			
Cash proceeds from issue of shares		3,218	3,556
Payments made in lieu of options exercised		(1,470)	-
Other payments in connection with options issued		(914)	-
<b>Net cash provided by financing activities</b>		<b>834</b>	<b>3,556</b>
<b>Increase in cash and cash equivalents</b>		<b>23,002</b>	<b>20,811</b>
Cash and cash equivalents at beginning of period		57,623	36,812
Cash and cash equivalents at end of period	17	80,625	57,623

\* Comparatives have been adjusted in accordance with IAS 1 "Presentation of Financial Statements – Revised", as described in notes 2 and 29.



## **Notes to the Consolidated Financial Statements**

**for the year ended 31 December 2010**

---

### **1. Authorisation of financial statements and statement of compliance with IFRSs**

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

The Consolidated Financial Statements for the year ended 31 December 2010 were authorised for issue by the Board of Directors on 1 April 2011 and the balance sheets were signed on the Board’s behalf by Richard Malcolm and Andrew Rose.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. The principal accounting policies adopted are set out in note 3 below.

### **2. Adoption of International Financial Reporting Standards and change of accounting policy**

The Consolidated Financial Statements for the year ended 31 December 2010 and for the comparative year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and IFRIC (International Financial Reporting Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

During the year the Directors undertook a review of the Group’s accounting policies and have determined that the successful efforts method of accounting provides a more relevant and reliable guide to the underlying performance of the Group than the modified full cost method that was previously used. Details of the change of accounting policy and its impact on the Financial Statements are included in note 29.

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

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

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

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

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

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

#### **3.3 Reporting currency**

These financial statements are presented in US Dollars. 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 of the Group, and the functional currency of all subsidiaries, is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the income statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2010 was £1: US \$1.55 (2009 – £1: US \$1.66).

#### **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 Equipment' and IAS 36 'Impairment of Assets' noting that several items in the latter two standards are exempted for assets

at the exploration and evaluation stage due to the application of IFRS 6. Set out below is our interpretation of the principles set out in IFRS 6 and other IFRSs.

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

### ***Oil and gas assets: exploration and evaluation***

#### *Recognition and measurement*

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

Exploration and evaluation (“E&E”) assets relating to each exploration 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. Costs of unsuccessful exploration efforts are expensed at the time that a determination is made that the exploration has failed to locate commercially recoverable hydrocarbons.

#### *Impairment*

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

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

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

### ***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 inter-related revenues and may be a well, field, area, block, region, or other defined area as appropriate. Inter-relationships can be measured by oil and gas production agreements, geological analysis, or other documentation showing such relationships.

The only limitation in the size of a cash generating unit is that it cannot be larger than an operating segment of the Group.

#### *Recognition and measurement*

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

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

#### *Depletion of producing assets*

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

#### *Impairment*

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

### **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.

### **3.6 Definition of reserves**

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

Proved plus Probable (2P) entitlement reserves are utilised as the basis for the Group's calculations of depletion and impairment as these represent the Group's estimate of the most likely commercially recoverable reserves as per the approved probabilistic methodology.

### **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. Freehold land is not depreciated.

### **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**

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

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

### **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 substantively enacted by the balance sheet date.

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

### **3.12 Derivative financial instruments**

The Group enters into regular forward-dated foreign exchange transactions as a means of reducing the exposure of the Group to exchange rate differences. These transactions are normally of a duration of less than two weeks and the amounts sold forward approximates to the monthly hydrocarbon invoicing for the Group's Syrian operations.

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

### **3.13 Share-based payments**

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

### **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 and are shown as long term financial assets.

### **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 prevailing when the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. All differences are taken to the Income Statement.

### **3.16 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.

### **3.17 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.

### **3.18 Trade payables**

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

### **3.19 Equity instruments**

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

#### 4. New IFRS standards and interpretations

The Financial Statements have been prepared after adopting the following pronouncements from the IASB which have no effect on either the reported results and financial position or the presentation or disclosure within these financial statements.

IFRS 3 (2008) <i>Business Combinations</i> ; IAS 27 (2008) <i>Consolidated and Separate Financial Statements</i> ; IAS 28 (2008) <i>Investments in Associates</i>	These standards introduce a number of changes in accounting for business combinations including additional disclosure.
Amendment to IFRS 2 <i>Share based payments</i>	Following the issue of IFRS 3 (2008), IFRS 2 was amended to clarify the treatment of the contribution of a business on the formation of a joint venture and common control transactions.
Amendment to IAS 17 <i>Leases</i>	This amendment allows for the classification of a lease of land as a finance lease under certain conditions.
Amendment to IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	This amendment brings option contracts between a selling shareholder and an acquiring entity that will result in a future business combination within the scope of the standard.
IFRIC 17 <i>Distribution of Non-cash Assets to Owners</i>	This interpretation provides guidance on recognition, measurement and accounting treatment of non-cash dividends.
IFRS 2 (amended) <i>Group Cash-Settled Share-based Payment Transactions</i>	This amendment clarifies the accounting treatment of share-based payment transactions between group entities.

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

IFRS 9	Financial Instruments
IAS 24 (amended)	Related party disclosures
IAS 32 (amended)	Classification of rights issues
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 14 (amended)	Prepayments of a Minimum Funding Requirement
Improvements to IFRSs (May 2010)	

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

## 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 assets*

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

### *b) Decommissioning*

The Group has decommissioning obligations in respect of its producing interests in the Gulf of Mexico and its exploration well offshore Tunisia. The full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs. The Group has received a report from external specialist decommissioning experts regarding the cost of future works in the Gulf of Mexico and has prepared an internal estimate of the work required offshore Tunisia. The timing of the decommissioning works is inherently uncertain and depends upon the determination of the end of commercial production. The Group has utilised the expected useful lives in the year end reserves report for the Gulf of Mexico to estimate the timing of associated decommissioning liabilities. A risk free interest rate of 4% (2009: 4%) has been used to discount the expected costs of decommissioning. The sensitivity of the provision to the discount rate is set out below:

#### **Sensitivity of decommissioning provision to discount rate**

Discount rate	Decommissioning liability (\$ mm)
2%	33.1
4%	28.2
6%	24.4

### *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 Proved and Probable ("2P") reserves. The Group's 2P reserves take the estimated future cost of developing and extracting those reserves into account.

Future forecast capital expenditure associated with developing proved and probable reserves is included in the cost base for the purposes of calculating depletion charges. 2P reserves are determined using estimates of oil and gas in place, recovery factors and future oil and gas prices. A long-term oil price of \$80/bbl (2009: \$80/bbl) and a long term gas price of \$6.00/mcf (2009:



\$6.00/mcf) have been used in determining the commercial reserves. The carrying amount of oil and gas assets therefore depends upon a number of estimates at year end.

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

The carrying amount of oil and gas development and production assets is shown in note 13.

An increase in the forecast long-term oil price of \$10/bbl would reduce the 2P entitlement reserves in Syria by approximately 0.4mmboe with a corresponding increase to the depletion charge of \$0.3 million in 2010. A \$10/bbl reduction in the forecast long-term oil price would increase 2P entitlement reserves in Syria by approximately 0.5mmboe with a consequent decrease in the 2010 depletion charge of \$0.2 million. There would be no significant impact on the reserves, depletion charge or impairment attributable to the USA under either scenario.

An increase in the forecast future capital expenditure for Block 26 of \$50 million (gross) would increase the Group's entitlement reserves by 0.2mmboe and increase the depletion charge in 2010 by \$1.4 million. An increase of 50% in the forecast future expenditure in the USA would increase the depletion charge for 2010 by \$0.6 million.

## **6. Total revenue and segmental information**

The total revenue of the Group, as defined by IAS 18, for 2010 was \$115,825,000 (2009: \$84,741,000) comprising sales of hydrocarbons and incidental income of \$115,578,000 (2009: \$84,415,000) and interest income of \$247,000 (2009: \$326,000).

For management purposes, the Group operates in three geographical areas, Syria, Tunisia and the US. All segments are involved with production and exploration of oil and gas.

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

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

	Year ended 31 December 2009 (restated)				
	Syria \$' 000	Tunisia \$' 000	USA \$' 000	Other \$' 000	Total \$' 000
Revenues from external parties	70,453	-	13,962	-	84,415
Inter-segment revenue	-	-	648	382	1,030
<b>Total segment revenue</b>	<b>70,453</b>	<b>-</b>	<b>14,610</b>	<b>382</b>	<b>85,445</b>
Depletion charges	(9,488)	-	(2,372)	-	(11,860)
Impairment	-	-	(6,420)	-	(6,420)
Exploration costs written off	-	-	-	-	-
Hurricane repairs	-	-	(2,316)	-	(2,316)
Other cost of sales	(5,227)	-	(14,023)	-	(19,250)
General administrative expenses before depreciation	(5,467)	-	(2,670)	(6,317)	(14,454)
Inter-segment administrative expense	(1,030)	-	-	-	(1,030)
Depreciation and amortisation	(329)	-	(16)	(148)	(493)
Foreign exchange gains / (losses)	(98)	-	-	636	538
Share-based payments	-	-	-	(1,124)	(1,124)
<b>Profit / (loss) before interest and taxation</b>	<b>48,814</b>	<b>-</b>	<b>(13,207)</b>	<b>(6,571)</b>	<b>29,036</b>
Interest expense and unwinding of discount	-	-	(1,056)	(33)	(1,089)
Interest income from external parties	38	-	82	206	326
Inter-segment interest	-	-	(3,910)	3,910	-
Taxation	(2)	-	(10)	-	(12)
<b>Profit / (loss) for the year</b>	<b>48,850</b>	<b>-</b>	<b>(18,101)</b>	<b>(2,488)</b>	<b>28,261</b>

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

All external revenues are derived from production in, and sales to, the segments above. See the credit risk section of note 26 for details on major customers.

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

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

	At 31 December 2009 (restated)				
	Syria \$' 000	Tunisia \$' 000	USA \$' 000	Other \$' 000	Total \$' 000
Assets	75,960	-	58,072	45,229	179,261
Liabilities	(7,579)	-	(36,405)	(1,047)	(45,031)
Inter-segment balances	(8,823)	-	(47,370)	56,193	-
Exploration and evaluation expenditure	6,724	-	-	-	6,724
All other additions to non-current assets	15,584	-	9,015	349	24,948
<b>Total capital expenditure during period</b>	<b>22,308</b>	<b>-</b>	<b>9,015</b>	<b>349</b>	<b>31,672</b>

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

## 7. Share-based payments

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

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

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

dividends were factored into the model. Volatility has been estimated based on the historical volatility of the underlying shares.

The fair value of options and restricted shares issued in 2010 was \$3,915,000 (2009: \$313,000). Details of grants made during the year and assumptions included in the calculation of the charge to the income statement are as follows:

Grant date	Years options or restricted shares vest	Stock price at date of grant (£)	Exercise price (£)	Number of options or restricted shares issued	Risk free interest rate	Volatility
28/01/2010	2010 and 2011	2.64	0.06	100,000	2.6%	26.1%
01/02/2010	2011 and 2012	2.66	0.06	50,000	2.6%	26.1%
04/05/2010	2011 and 2012	3.00	3.20	105,000	2.3%	42.3%
04/05/2010	2011 and 2012	3.00	3.20	1,600,000	2.6%	42.3%
04/05/2010	2011 and 2012	3.00	0.06	80,835	2.3%	42.3%
16/08/2010	2011 and 2012	2.94	0.06	20,000	1.7%	39.8%
04/11/2010	2011 and 2012	3.38	0.06	5,000	1.5%	38.3%

The estimated fair value of options and restricted shares with a deferred vesting period is charged to the Income Statement over the vesting period of the options concerned. The estimated fair value of options and restricted shares exercisable immediately is expensed at the time of issuance of the award. Further details are provided in note 21.

## 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. During 2009 a charge was made in the accounts for the estimated full amount of any damage notified by the operators less insurance claim refunds that the Directors were satisfied were virtually certain to be recoverable. The Income Statement in 2010 reflects a write back of certain estimates of costs from operators that are now not forecast to occur and an increased insurance recovery. The insurance proceeds were received during 2010. The amount credited to the Income Statement in the year end 31 December 2010 was \$816,000 (2009: \$2,316,000 charge).

## 9. Operating profit

The Group's operating profit is stated after charging / (crediting):

	2010	2009
	\$' 000	(restated) \$' 000
Foreign exchange loss / (gain)	968	(538)
Share based payment charges (note 7)	2,533	1,124
Hurricane repairs (note 8)	(816)	2,316
Depletion of oil and gas properties (note 13)	17,042	12,289
Depreciation and amortisation of other assets (notes 13 & 14)	684	493
Impairment of development and production assets (note 13)	3,820	6,420
Exploration expenditure written off	5,498	-
Staff costs excluding share based payments (note 22)	8,277	8,177
Operating lease rentals:		
Buildings	1,113	1,268
Vehicles and equipment	5,467	4,420

The operating lease rentals shown for 2010 include \$4,019,000 (2009: \$3,463,000) in respect of the hire of drilling rigs and operating staff.

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

	2010	2009
	\$' 000	\$' 000
Fees payable to the Company's auditors for the audit of the Company's accounts	233	216
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries pursuant to legislation	24	23
Fees payable to the Company's auditors and their associates for the audit of the Company's joint ventures pursuant to legislation	26	27
<b>Total audit fees</b>	<b>283</b>	<b>266</b>
Other services pursuant to legislation - interim review	55	66
Taxation services	86	33
<b>Total non-audit fees</b>	<b>141</b>	<b>99</b>

## 10. Net Interest receivable

	2010	2009
	\$' 000	\$' 000
Short-term bank deposit interest	247	326
Overdraft and similar interest charges	(19)	(33)
<b>Total</b>	<b>228</b>	<b>293</b>

## 11. Taxation charge

	2010	2009
	\$' 000	\$' 000
Current Corporation Tax:		
UK Corporation Tax	-	-
Overseas Corporation Tax	(18)	12
Deferred Taxation:		
Tax losses carried forward	-	-
Timing differences	-	-
<b>Total (credit) / charge</b>	<b>(18)</b>	<b>12</b>

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:

	2010	2009 (restated)
	\$' 000	\$' 000
Profit before tax	44,652	28,273
Tax calculated at domestic rate of 28%	12,503	7,916
Effects of:		
Expenses not deductible for taxation purposes	32	15
Share based payments	(512)	315
Tax losses for which no deferred taxation asset was recognised	6,914	4,368
Effect of prior period adjustment	(702)	98
Impact of local tax rates	(18,383)	(12,553)
Other tax adjustments	130	(147)
	<b>(18)</b>	<b>12</b>

The Group's tax liability in Syria is settled on its behalf by the Syrian Petroleum Company out of the latter's share of royalties and profit oil and, as such, is not reflected in the Group's tax charge for the year.

## 12. Earnings per share

The basic and diluted earnings per share have been calculated using the earnings for the year ended 31 December 2010 of \$44,670,000 (2009 (restated): \$28,261,000). The basic earnings per share was calculated using a weighted average number of shares in issue of 121,116,459 (2009: 119,334,527). The weighted average number of ordinary shares, allowing for the exercise of share options, for the purposes of calculating the diluted earnings per share was 124,513,383 (2009: 120,681,343).

### 13. Property, plant and equipment

#### Property, plant and equipment Group

	Oil and gas properties		Other fixed assets	Total
	USA \$' 000	Syria \$' 000		
<b>Cost:</b>				
At 1 January 2009 (restated)	77,849	32,512	873	111,234
Additions	9,010	15,308	428	24,746
Disposals	(1,625)	-	-	(1,625)
<b>At 1 January 2010 (restated)</b>	<b>85,234</b>	<b>47,820</b>	<b>1,301</b>	<b>134,355</b>
Additions	5,847	13,099	872	19,818
Disposals	(4,255)	-	-	(4,255)
Transfer to Disposal Group	(23,997)	-	-	(23,997)
<b>At 31 December 2010</b>	<b>62,829</b>	<b>60,919</b>	<b>2,173</b>	<b>125,921</b>
<b>Accumulated depreciation and depletion:</b>				
At 1 January 2009 (restated)	(30,046)	(2,570)	(327)	(32,943)
Charge for 2009 (restated)	(2,372)	(9,488)	(314)	(12,174)
Disposals	1,087	-	-	1,087
<b>At 1 January 2010 (restated)</b>	<b>(31,331)</b>	<b>(12,058)</b>	<b>(641)</b>	<b>(44,030)</b>
Charge for 2010	(5,689)	(11,353)	(377)	(17,419)
Disposals	1,033	-	-	1,033
Transfer to Disposal Group	7,424	-	-	7,424
<b>At 31 December 2010</b>	<b>(28,563)</b>	<b>(23,411)</b>	<b>(1,018)</b>	<b>(52,992)</b>
<b>Accumulated impairment:</b>				
At 1 January 2009	(7,709)	-	-	(7,709)
Impairment charge for 2009	(7,218)	-	-	(7,218)
Reversal of impairment charges from prior years	798	-	-	798
Disposals	329	-	-	329
<b>At 1 January 2010</b>	<b>(13,800)</b>	<b>-</b>	<b>-</b>	<b>(13,800)</b>
Impairment charge for 2010	(3,820)	-	-	(3,820)
Disposals	3,222	-	-	3,222
Transfer to Disposal Group	5,347	-	-	5,347
<b>At 31 December 2010</b>	<b>(9,051)</b>	<b>-</b>	<b>-</b>	<b>(9,051)</b>
<b>Net book value at 31 December 2010</b>	<b>25,215</b>	<b>37,508</b>	<b>1,155</b>	<b>63,878</b>
Net book value at 31 December 2009 (restated)	40,103	35,762	660	76,525
Net book value at 31 December 2008 (restated)	40,094	29,942	546	70,582

Included in the 2010 depletion charge for the US oil and gas properties is a charge of \$2,397,000 (2009: \$2,317,000 credit) related to properties substantially depleted in prior years. These depletion adjustments occur where revisions to decommissioning estimates have been made to properties with very short useful lives.

The impairment charge for 2010 includes \$2,918,000 in respect of the package of assets referred to below that were disposed of with an effective date of 1 May 2010. These assets were written down to the agreed selling price. Other impairment charges related to provisions against the Group's

carrying values of its USA producing assets, following a review of reserves at the year end. The larger charge in 2009 reflects a change to the underlying market prices of hydrocarbons during that year.

Impairment for those assets not held for sale has been assessed, based on a value in use calculation, and using a discount rate of 6% (2009: 6%), a long-term oil price of \$80/bbl (2009: \$80/bbl) and a long term gas price of \$6.00/mcf (2009: \$6.00/mcf). In determining the appropriate discount rate to be used consideration is given to the risk directly incorporated in the underlying cash flow forecasts.

On 20 December 2010 the Group signed an agreement to sell its interests in the Eugene Island 57 / 58, South Pelto 13 and Vermilion 379 fields for a price of \$4.2 million with an effective date of 1 May 2010. The completion date for the transaction was 31 January 2011. These assets are classified as held for sale as at 31 December 2010. An analysis of these assets is set out below:

Amount transferred from oil and gas properties	
Accumulated costs	23,997
Accumulated depletion	(7,424)
Accumulated impairment to 31 December 2009	(2,429)
Impairment in 2010	(2,918)
Amount transferred from Decommissioning provision	(7,027)
Other working capital adjustments	(111)
	4,088
Summary of amounts classified as held for disposal	
Included as current assets	12,711
Included as current liabilities	(8,623)
	4,088



## 14. Intangible assets

	Exploration and evaluation assets		Computer software	Total
	Tunisia \$' 000	Syria \$' 000	\$' 000	\$' 000
<b>Cost:</b>				
At 1 January 2009	-	-	377	377
Additions	-	6,724	202	6,926
At 1 January 2010	-	6,724	579	7,303
Additions	15,971	13,044	657	29,672
Exploration expenditure written off	-	(5,498)	-	(5,498)
At 31 December 2010	15,971	14,270	1,236	31,477
<b>Accumulated amortisation:</b>				
At 1 January 2009	-	-	(34)	(34)
Charge for 2009	-	-	(178)	(178)
At 1 January 2010	-	-	(212)	(212)
Charge for 2010	-	-	(307)	(307)
At 31 December 2010	-	-	(519)	(519)
<b>Net book value at 31 December 2010</b>	<b>15,971</b>	<b>14,270</b>	<b>717</b>	<b>30,958</b>
Net book value at 31 December 2009	-	6,724	367	7,091

At 31 December 2010 E&E assets in Syria represent \$11,959,000 of seismic acquisition costs and \$2,311,000 of drilling costs, substantially all in respect of the Twaiba well. The Tunisian E&E assets represent the costs invoiced to date by the operator of the Lambouka well plus an estimate of the current net present value of decommissioning liabilities for that well totalling \$13,029,000 plus seismic acquisition and processing for both the onshore and offshore Tunisian assets.

The costs of the Hanoon and Al-Zahraa wells were written off during 2010 as unsuccessful exploration efforts.

## 15. Investments

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

<i>Name of Company</i>	<i>Proportion of voting shares at 31 December 2010</i>	<i>Nature of business</i>	<i>Country of Incorporation</i>
<i>Directly held by the Company:</i>			
Gulfsands Petroleum Ltd.	100%	Holding company	Cayman Islands
<i>Indirectly held by the Company:</i>			
Gulfsands Petroleum Holdings	100%	Holding company	Cayman Islands
Gulfsands Petroleum Syria Ltd.	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd.	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd.	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum USA, Inc.	100%	Oil & gas exploration	US
Darcy Energy LLC	100%	Oil & gas exploration	US

Gulfsands Petroleum Syria Limited owns a 50% interest in a contractor group exploring for hydrocarbons in Block 26 in Syria. The results and net assets of the contractor group are proportionally consolidated within the Group accounts.

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, Sinochem. In the Group accounts the results and net assets of DPC are proportionally consolidated.

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

	<b>2010</b>	2009
	<b>\$' 000</b>	\$' 000
Long term assets	<b>53,497</b>	52,831
Current assets	<b>69,182</b>	47,032
Current liabilities	<b>(29,187)</b>	(22,197)

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

	<b>2010</b>	2009
	<b>\$' 000</b>	\$' 000
Income	<b>98,983</b>	70,453
Expenses	<b>(35,049)</b>	(18,216)

## 16. Trade and other receivables

	<b>2010</b>	2009
	<b>\$' 000</b>	\$' 000
Trade receivables	<b>23,119</b>	15,213
Insurance receivable	-	1,128
Underlift	<b>452</b>	502
Corporation tax recoverable	<b>55</b>	408
Prepayments and accrued income	<b>3,405</b>	1,427
Advances on contracts	<b>6,252</b>	-
Amounts due from oil and gas partnerships	<b>2,276</b>	3,189
	<b>35,559</b>	21,867

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

Underlift at 31 December 2010 and 2009 represents the rights to gas revenue receivable as a result of the acquisition of oil and gas properties in the Gulf of Mexico in May 2004. Underlift represents a right to future economic benefits (through entitlement to receive equivalent future production), which constitutes an asset and of which the timing of recovery is uncertain. During the year ended 31 December 2009 certain underlift balances were sold to external parties.

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

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.

## 17. Cash and cash equivalents

	<b>2010</b>	2009
	<b>\$' 000</b>	\$' 000
Cash at bank and in hand	<b>80,625</b>	57,623
Restricted cash balances	<b>15,179</b>	11,990
	<b>95,804</b>	69,613
Included in long term financial assets	<b>9,603</b>	11,990
Included in short term financial assets	<b>5,576</b>	-
Total cash and cash equivalents	<b>80,625</b>	57,623

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

quarterly as the obligations under the required work programmes are completed, and (iii) amounts held in escrow to secure a line of credit for forward foreign currency trading.

## 18. Trade and other payables

	2010 \$' 000	2009 \$' 000
Trade payables	10,799	6,732
Accruals and other payables	12,296	6,679
UK Corporation tax payable	31	-
	<b>23,126</b>	<b>13,411</b>

## 19. Deferred tax assets / (liabilities)

	2010 \$' 000	2009 \$' 000
DD&A and impairment in excess of tax allowances	5,275	2,980
Other short term temporary differences	2,330	2,330
Tax losses carried forward	14,844	10,810
Unprovided deferred tax asset	(22,449)	(16,120)
Deferred tax asset / (liability) at 31 December	-	-

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

	2010 \$' 000	2009 \$' 000
Unutilised tax losses	14,844	10,810
Other short term temporary differences	7,605	5,310
	<b>22,449</b>	<b>16,120</b>

\$27 million (2009: \$24 million) of the Group's unutilised tax losses have expiry dates between 2024 and 2031. The remaining tax losses of the Group have no expiry date.

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

## 20. Provision for decommissioning

The provision for decommissioning relates to the expected present value of costs of plugging and abandoning the exploration and development assets held by Gulfsands Petroleum Tunisia Limited, Gulfsands Petroleum USA, Inc and Darcy Energy LLC. The provision for decommissioning is estimated after taking account of inflation, years to abandonment and an appropriate discount rate. At 31 December 2010, the oil and gas properties had estimated plugging and abandonment dates between 2011 and 2026.

Actual decommissioning costs will ultimately depend upon future market prices for the

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

The actual amounts paid for decommissioning may ultimately vary significantly from the provision at 31 December 2010 requiring potentially material adjustments to the carrying value of the obligations.

The movement in the provision for decommissioning was as follows:

	\$' 000
At 1 January 2009	26,307
Changes in estimates	5,542
Additions	92
Costs in excess of provision	696
Decommissioning expenses	(2,073)
Discount expense	1,056
<b>At 31 December 2009</b>	<b>31,620</b>
Current portion	3,683
Non-current portion	27,937
At 1 January 2010	31,620
Changes in estimates	2,437
Additions less disposals	662
Transfer to disposal group	(7,027)
Costs in excess of provision	2,048
Decommissioning expenses	(2,697)
Discount expense	1,113
<b>At 31 December 2010</b>	<b>28,156</b>
Current portion	7,473
Non-current portion	20,683

## 21. Share capital

### Group and Company

	2010 Number	2009 Number
<i>Authorised:</i>		
Ordinary shares of 5.714 pence each	<b>175,000,000</b>	175,000,000
	2010 \$' 000	2009 \$' 000
<i>Allotted, called up and fully paid:</i>		
121,577,500 (2009 - 120,222,500) ordinary shares of 5.714 pence each	<b>13,093</b>	12,971

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

The movements in share capital and share options were:

	Number of ordinary shares	Number of share options	Number of restricted shares	Weighted average price of options £
At 31 December 2009	120,222,500	8,810,000	-	1.71
Share options and restricted shares exercised for cash	1,355,000	(1,355,000)	-	1.51
Share options and restricted shares cash settled		(575,000)	(25,000)	1.50
Share options and restricted shares issued	-	1,705,000	255,835	3.20
<b>At 31 December 2010</b>	<b>121,577,500</b>	<b>8,585,000</b>	<b>230,835</b>	<b>2.05</b>

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

The detail of the share options and restricted shares outstanding at 31 December 2010 are as follows:

Exercise period	Year options or restricted shares vest	Weighted average exercise price of options (£)	Number of options	Number of restricted shares
13 February 2006 - 18 October 2011	2006	£1.14	725,000	
19 February 2007 - 3 June 2012	2007	£1.02	95,000	
8 May 2008 - 8 December 2013	2008	£1.87	4,365,000	
8 May 2009 - 27 November 2013	2009	£1.82	675,000	
9 February 2009 - 10 June 2014	2009	£1.87	172,500	
8 May 2010 - 27 November 2013	2010	£1.82	675,000	
16 February 2010 - 10 June 2014	2010	£1.88	110,000	
16 February 2011 - 15 February 2014	2011	£1.86	62,500	
4 May 2011 - 3 May 2015	2011	£3.20	852,500	
4 May 2012 - 3 May 2015	2012	£3.20	852,500	
1 July 2010 - 27 January 2015	2010			25,000
4 May 2011 - 3 November 2015	2011			133,918
4 May 2012 - 3 November 2015	2012			71,917
		<b>£2.05</b>	<b>8,585,000</b>	<b>230,835</b>

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

Options are exercisable at prices from £0.96 to £3.20 per share and had a weighted estimated remaining contractual life of 2.7 years at 31 December 2010. The weighted remaining contractual life of the restricted shares is approximately 4.2 years.

Of the total outstanding options at 31 December 2010, the options granted to the Directors numbered 7,475,000 (2009: 6,675,000) and those granted to other staff numbered 1,035,000 (2009: 2,040,000). The remaining 75,000 (2009: 95,000) were granted to ex-employees and ex-directors or consultants who are currently involved with or have performed work for the Group.

All restricted shares outstanding were granted to non-Directors employed by the Group. The average share price during 2010 was £3.00. The highest share price during the year was £3.91 and the lowest price was £2.39.

## 22. Staff costs

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

	2010 \$' 000	2009 \$' 000
Wages and salaries	6,948	6,891
Social security costs	740	373
Share based payment charges	2,533	1,124
Other benefits in kind	589	913
	<b>10,810</b>	<b>9,301</b>

Included in other benefits in kind in 2009 is a sum of \$740,000 in respect of benefits paid to former directors.

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

	<b>2010</b>	2009
	<b>\$' 000</b>	\$' 000
Operational and technical	<b>27</b>	12
Administrative	<b>16</b>	20
	<b>43</b>	32

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

Details of the remuneration of Directors are included in the Directors' Remuneration Report on pages 55-57. 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:

	2010		2009	
	Land & Buildings	Other	Land & Buildings	Other
	\$' 000	\$' 000	\$' 000	\$' 000
Amounts payable on leases:				
Within one year	<b>857</b>	<b>720</b>	612	472
In two to five years	<b>499</b>	<b>24</b>	986	-
	<b>1,356</b>	<b>744</b>	1,598	472

In addition to the items mentioned above the Group had commitments to make payments under non-cancellable leases for the provision of two oil rigs (2009: one). These leases expire in 2012. At 31 December 2010 the Group had obligations to make further payments totalling approximately \$7.9 million (2009: \$2.7 million) for the provision of the rigs and associated operating staff. The ultimate timing of these payments will depend upon the Group's drilling programme.

### **24. Commitments**

At 31 December 2010 all exploration expenditure and work programme commitments pertaining to the current exploration period (ending August 2012) in Block 26 in Syria had been satisfied in full.

At 31 December 2010 the Group had commitments to pay 80% of the costs of the Sidi Dhaher well that do not exceed \$5,000,000 and 40% of the costs exceeding this amount. This commitment will earn the Group an interest of 40% in the Chorbane permit. The Group estimates that this amounts to approximately \$4,400,000 and will be paid during 2011. The drilling of the Sidi Dhaher well during 2011 will complete the minimum work commitments in respect of the Chorbane permit. The minimum work commitment under the Kerkouane permit was fulfilled with the drilling of the Lambouka-1 well.

In December 2010 the Group signed a contract with Saipem S.p.A for the construction of a central processing facility to be installed at the Khurbet East Field on Block 26, Syria. The total contract cost is denominated in Euro and, net to the Group, is approximately \$65 million. As at 31 December 2010 the Group had outstanding commitments under this contract of approximately \$59 million. The cost of the central processing facility is included in future forecast costs when calculating the depletion rate for the Syrian oil and gas properties.

There were no other material obligations or contracts outstanding in relation to ongoing projects not provided for at 31 December 2010 or 2009.

## **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, derivatives and capital management**

### *Risk assessment*

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

### *Liquidity risk*

At 31 December 2010 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 \$80.6 million, and further bank balances of \$15.2 million held in escrow to cover expected decommissioning liabilities and other obligations.

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 the functional currency of the Company and all its subsidiaries, US Dollars. These transactions relate predominantly to certain costs of its Syrian operations which are denominated in Syrian Pounds and Euro, 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 two weeks duration. Each contract is entered into with the aim of exactly covering any foreign currency risk on Euro receivables. There was no significant exposure to forward exchange contracts in place as at 31 December 2010 or 2009.



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 the Group's equity:

	Change in US Dollar rate	Effect on profit before tax \$ 000
<b>2010</b>	<b>(+ or -) 5%</b>	<b>260</b>
2009	(+ or -) 5%	505

#### *Credit risk*

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

In Syria, the Group's share of crude oil 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 KPIs and other management information to ensure its activities are progressing in line with expectations, controlling costs and placing unused funds on deposit to conserve resources and increase returns on surplus cash held.

#### *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
<b>2010</b>			
US Dollar	<b>72,869</b>	<b>26,736</b>	<b>99,605</b>
UK Sterling	<b>794</b>	<b>956</b>	<b>1,750</b>
Euro	<b>257</b>	<b>19,746</b>	<b>20,003</b>
Syrian Pounds	-	<b>348</b>	<b>348</b>
	<b>73,920</b>	<b>47,786</b>	<b>121,706</b>
<b>2009</b>			
US Dollar	41,725	38,816	80,541
UK Sterling	7,129	559	7,688
Euro	6,628	10	6,638
Syrian Pounds	167	7	174
	55,649	39,392	95,041

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 0.01% and 1.0%. All financial assets are considered to be immediately available to turn into cash on demand.

Included in the Euro denominated financial assets on which no interest is earned is an amount of €6.7 million (\$9.0 million) which was subject to a short term forward exchange contract entered into on 31 December 2010 which matured on 11 January 2011. There was no similar amount at 31 December 2009. This amount is excluded from the currency sensitivity analysis disclosed above.

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

Included in financial assets on which no interest is earned are amounts of \$23,119,000 (2009: \$15,213,000) of trade receivables. The Group considers that \$21,886,000 (2009: \$13,217,000) 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. None of these liabilities bear interest to external parties.

At 31 December financial liabilities are classified as shown below:

	Financial liabilities on which no interest is charged \$ 000
<b>2010</b>	
US Dollar	<b>15,198</b>
UK Sterling	<b>528</b>
Euro	<b>6,791</b>
Syrian Pounds	<b>574</b>
	<b>23,091</b>
<hr/>	
2009	
US Dollar	9,869
UK Sterling	1,073
Euro	1,637
Syrian Pounds	832
	<b>13,411</b>
<hr/>	

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

#### *Commodity derivatives*

The Group sells its hydrocarbon production on the spot market and has exposure to changes in oil and gas prices. The Directors consider the Group has the financial strength to withstand such changes under all reasonable prognoses and, accordingly, no commodity derivative contracts are currently outstanding. The potential future use of derivatives will be kept under review should the Group feel that the exposure to commodity price risk significantly impacts the liquidity risk of the Group. The Group incurred no expense in respect of oil and gas price derivatives in 2010 or 2009.

#### *Fair values*

At 31 December 2010 and 2009, 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 pages 55-57.

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

	2010 \$' 000	2009 \$' 000
Short-term employee benefits	<b>3,360</b>	2,251
Share-based payments	<b>1,529</b>	824
	<b>4,889</b>	3,075
<hr/>		
	<b>4,889</b>	3,075
<hr/>		

In 2010 the Group paid \$30,000 to Hamilton Capital Partners Limited, a company associated with Mr Judge, for London office representative costs.

There were no other related party transactions of the Group during the years ended 31 December 2010 or 2009.

## **28. Events after the balance sheet date**

On 9 February 2011, the Group announced that testing operations on the Twaiba 1 exploration well were complete and that commercially recoverable hydrocarbons had not been proved and that the well was to be suspended pending further analysis. The costs associated with drilling this well as at 31 December 2010 amounted to \$2.1 million and were included in intangible assets. The total costs to date for drilling and testing the well are approximately \$3.3 million.

On 31 January 2011 the Group completed the sale of its interests in the Eugene Island 57/58 gas field, the Vermilion 379 oil & gas field and the South Pelto 13 oil & gas field for \$4.4 million received in cash. The purchaser has assumed all future abandonment obligations associated with the sold properties and this has resulted in the return to Gulfsands of \$5.6 million of funds held as collateral for abandonment bonds.

## **29. Change of accounting policy**

During the year the Directors undertook a review of the Group's accounting policies and have determined that the successful efforts method of accounting provides a more relevant and reliable guide to the underlying performance of the Group than the modified full cost method that was previously used. Under the successful efforts method of accounting exploration and evaluation costs are capitalised on a licence / prospect basis and the costs of unsuccessful exploration efforts are expensed at the time that a determination is made that the exploration has failed to locate commercially recoverable hydrocarbons. Under the modified full cost method such costs are capitalised using wider geographic cost pools and the cost associated with unsuccessful exploration drilling may, subject to a pool wide impairment test, remain on the balance sheet and be depleted on the basis of the reserves of the associated pool.

The Directors consider that the cost of unsuccessful exploration should not be added to the costs attributable to the development of commercial reserves as it distorts the reporting of the future underlying performance of those assets and, accordingly, have adopted the successful efforts method of accounting in these financial statements and restated the results of prior periods to reflect the accounting policy as if the financial statements had always been prepared on a similar basis.

Details of the impact of the change of accounting policy on the financial statements for all years affected are set out below:

**Consolidated Income Statement  
for the year ended 31 December 2009**

	As stated in 2009 Annual Report \$' 000	Restatement \$' 000	As restated \$' 000
Depletion	(12,289)	429	(11,860)
Total cost of sales	(37,959)	429	(37,530)
<b>Gross profit</b>	<b>46,456</b>	<b>429</b>	<b>46,885</b>
<b>Operating profit</b>	<b>28,607</b>	<b>429</b>	<b>29,036</b>
<b>Profit for the year - attributable to equity holders of the Company</b>	<b>27,832</b>	<b>429</b>	<b>28,261</b>
<b>Earnings per share (cents):</b>			
Basic	23.32		23.68
Diluted	23.06		23.42

**Consolidated Income Statement  
for the year ended 31 December 2008**

	As stated in 2009 Annual Report \$' 000	Restatement \$' 000	As restated \$' 000
Depletion	(8,165)	236	(7,929)
Total cost of sales	(27,387)	236	(27,151)
<b>Gross profit</b>	<b>26,213</b>	<b>236</b>	<b>26,449</b>
<b>Operating loss</b>	<b>(6,871)</b>	<b>236</b>	<b>(6,635)</b>
<b>Loss for the year - attributable to equity holders of the Company</b>	<b>(5,377)</b>	<b>236</b>	<b>(5,141)</b>
<b>Loss per share (cents):</b>			
Basic	(4.65)		(4.45)
Diluted	(4.65)		(4.45)

**Consolidated Income Statement  
for the year ended 31 December 2007**

	As stated in 2009 Annual		
	Report	Restatement	As restated
	\$' 000	\$' 000	\$' 000
<b>Gross profit</b>	10,454	-	10,454
Exploration expenditure written off	-	(5,254)	(5,254)
<b>Operating profit / (loss)</b>	512	(5,254)	(4,742)
<b>Loss before taxation</b>	(126)	(5,254)	(5,380)
<b>Loss for the year - attributable to equity holders of the Company</b>	(2,683)	(5,254)	(7,937)
<b>Loss per share (cents):</b>			
Basic	(2.50)		(7.40)
Diluted	(2.50)		(7.40)

**Consolidated Income Statement  
for the year ended 31 December 2006**

	As stated in 2009 Annual		
	Report	Restatement	As restated
	\$' 000	\$' 000	\$' 000
<b>Gross loss</b>	(2,758)	-	(2,758)
Exploration expenditure written off	-	(1,455)	(1,455)
<b>Operating loss</b>	(10,637)	(1,455)	(12,092)
<b>Loss before taxation</b>	(10,229)	(1,455)	(11,684)
<b>Loss for the year - attributable to equity holders of the Company</b>	(12,662)	(1,455)	(14,117)
<b>Loss per share (cents):</b>			
Basic	(13.25)		(14.77)
Diluted	(13.25)		(14.77)

**Consolidated Balance Sheet  
as at 31 December 2009**

	As stated in 2009 Annual Report \$' 000	Restatement \$' 000	As restated \$' 000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	82,569	(6,044)	76,525
Intangible assets	7,091	-	7,091
Long term financial assets	11,990	-	11,990
	101,650	(6,044)	95,606
<b>Current assets</b>	83,655	-	83,655
<b>Total assets</b>	185,305	(6,044)	179,261
<b>Liabilities</b>			
<b>Current liabilities</b>	17,094	-	17,094
<b>Non-current liabilities</b>	27,937	-	27,937
<b>Total liabilities</b>	45,031	-	45,031
<b>Net assets</b>	140,274	(6,044)	134,230
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders</b>			
Share capital	12,971	-	12,971
Share premium	101,929	-	101,929
Share-based payments reserve	15,429	-	15,429
Merger reserve	11,709	-	11,709
Retained losses	(1,764)	(6,044)	(7,808)
<b>Total equity</b>	140,274	(6,044)	134,230

**Consolidated Balance Sheet  
as at 31 December 2008**

	As stated in 2009 Annual Report \$' 000	Restatement \$' 000	As restated \$' 000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	77,055	(6,473)	70,582
Intangible assets	343	-	343
Long term financial assets	13,167	-	13,167
	90,565	(6,473)	84,092
<b>Current assets</b>	54,749	-	54,749
<b>Total assets</b>	145,314	(6,473)	138,841
<b>Liabilities</b>			
<b>Current liabilities</b>	17,122	-	17,122
<b>Non-current liabilities</b>	20,430	-	20,430
<b>Total liabilities</b>	37,552	-	37,552
<b>Net assets</b>	107,762	(6,473)	101,289
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders</b>			
Share capital	12,814	-	12,814
Share premium	98,530	-	98,530
Share-based payments reserve	14,305	-	14,305
Merger reserve	11,709	-	11,709
Retained losses	(29,596)	(6,473)	(36,069)
<b>Total equity</b>	107,762	(6,473)	101,289



**Consolidated Balance Sheet  
as at 31 December 2007**

	As stated in 2009 Annual		
	Report	Restatement	As restated
	\$' 000	\$' 000	\$' 000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	42,631	-	42,631
Intangible assets	28,593	(6,709)	21,884
Long term financial assets	16,078	-	16,078
	87,302	(6,709)	80,593
<b>Current assets</b>	29,687	-	29,687
<b>Total assets</b>	116,989	(6,709)	110,280
<b>Liabilities</b>			
<b>Current liabilities</b>	17,624	-	17,624
<b>Non-current liabilities</b>	18,756	-	18,756
<b>Total liabilities</b>	36,380	-	36,380
<b>Net assets</b>	80,609	(6,709)	73,900
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders</b>			
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	(24,219)	(6,709)	(30,928)
<b>Total equity</b>	80,609	(6,709)	73,900

**Consolidated Balance Sheet  
as at 31 December 2006**

	As stated in 2009 Annual Report \$' 000	Restatement \$' 000	As restated \$' 000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	45,910	-	45,910
Intangible assets	15,097	(1,455)	13,642
Long term financial assets	12,897	-	12,897
Deferred tax asset	176	-	176
	74,080	(1,455)	72,625
<b>Current assets</b>	23,456	-	23,456
<b>Total assets</b>	97,536	(1,455)	96,081
<b>Liabilities</b>			
<b>Current liabilities</b>	20,445	-	20,445
<b>Non-current liabilities</b>	18,514	-	18,514
<b>Total liabilities</b>	38,959	-	38,959
<b>Net assets</b>	58,577	(1,455)	57,122
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders</b>			
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	(21,536)	(1,455)	(22,991)
<b>Total equity</b>	58,577	(1,455)	57,122

**Consolidated Cash Flow Statement  
for the year ended 31 December 2009**

	As stated in 2009 Annual Report \$' 000	Restatement \$' 000	As restated \$' 000
<b>Cash flows from operating activities</b>			
Operating profit	28,607	429	29,036
Depreciation, depletion and amortisation	12,781	(429)	12,352
Exploration expenditure written off	-	-	-
All other operating cash flows	2,142	-	2,142
<b>Net cash provided by operating activities</b>	<b>43,530</b>	<b>-</b>	<b>43,530</b>
All other cash flows	(22,719)	-	(22,719)
<b>Increase in cash and cash equivalents</b>	<b>20,811</b>	<b>-</b>	<b>20,811</b>

**Consolidated Cash Flow Statement  
for the year ended 31 December 2008**

	As stated in 2009 Annual Report \$' 000	Restatement \$' 000	As restated \$' 000
<b>Cash flows from operating activities</b>			
Operating loss	(6,871)	236	(6,635)
Depreciation, depletion and amortisation	8,351	(236)	8,115
Exploration expenditure written off	-	-	-
All other operating cash flows	18,534	-	18,534
<b>Net cash provided by operating activities</b>	<b>20,014</b>	<b>-</b>	<b>20,014</b>
All other cash flows	(1,735)	-	(1,735)
<b>Increase in cash and cash equivalents</b>	<b>18,279</b>	<b>-</b>	<b>18,279</b>

**Consolidated Cash Flow Statement  
for the year ended 31 December 2007**

	As stated in 2009 Annual Report \$' 000	Restatement \$' 000	As restated \$' 000
<b>Cash flows from operating activities</b>			
Operating profit / (loss)	512	(5,254)	(4,742)
Depreciation, depletion and amortisation	5,854	-	5,854
Exploration expenditure written off	-	5,254	5,254
All other operating cash flows	(3,626)	-	(3,626)
<b>Net cash provided by operating activities</b>	<b>2,740</b>	<b>-</b>	<b>2,740</b>
All other cash flows	1,966	-	1,966
<b>Increase in cash and cash equivalents</b>	<b>4,706</b>	<b>-</b>	<b>4,706</b>

**Consolidated Cash Flow Statement  
for the year ended 31 December 2006**

	As stated in 2009 Annual Report \$' 000	Restatement \$' 000	As restated \$' 000
<b>Cash flows from operating activities</b>			
Operating loss	(10,637)	(1,455)	(12,092)
Depreciation, depletion and amortisation	11,159	-	11,159
Exploration expenditure written off	-	1,455	1,455
All other operating cash flows	9,884	-	9,884
<b>Net cash provided by operating activities</b>	<b>10,406</b>	<b>-</b>	<b>10,406</b>
All other cash flows	(18,552)	-	(18,552)
<b>Decrease in cash and cash equivalents</b>	<b>(8,146)</b>	<b>-</b>	<b>(8,146)</b>

# Parent Company Financial Statements

## Company Balance Sheet as at 31 December 2010

	<i>Notes</i>	2010 \$' 000	2009 \$' 000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	107	196
Intangible assets	8	393	121
Long term financial assets	11	1,000	-
Investments in and loans to subsidiaries	9	35,161	59,741
		<b>36,661</b>	<b>60,058</b>
<b>Current assets</b>			
Trade and other receivables	10	70,273	4,485
Cash and cash equivalents	11	68,901	45,578
		<b>139,174</b>	<b>50,063</b>
<b>Total assets</b>		<b>175,835</b>	<b>110,121</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	71,482	1,122
<b>Total Liabilities</b>		<b>71,482</b>	<b>1,122</b>
<b>Net assets</b>		<b>104,353</b>	<b>108,999</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders</b>			
Share capital	14	13,093	12,971
Share premium		105,025	101,929
Share-based payments reserve		16,318	15,429
Retained losses		(30,083)	(21,330)
<b>Total equity</b>		<b>104,353</b>	<b>108,999</b>

The Financial Statements of Gulfsands Petroleum Plc (registered number: 05302880) were approved by the Board of Directors on 1 April 2011 and signed on its behalf by:

Richard Malcolm  
Chief Executive Officer

Andrew Rose  
Chief Financial Officer

**Company Statement of Changes in Equity  
for the year ended 31 December 2010**

	Share capital \$'000	Share premium \$'000	Share based payments reserve \$'000	Retained losses \$'000	Total equity \$'000
<b>Year ended 31 December 2010</b>					
At 1 January 2010	12,971	101,929	15,429	(21,330)	108,999
Options exercised	122	3,096	-	-	3,218
Share-based payment charge	-	-	2,359	-	2,359
Payments made in lieu of option exercise	-	-	(1,470)	-	(1,470)
Loss for 2010	-	-	-	(8,753)	(8,753)
<b>At 31 December 2010</b>	<b>13,093</b>	<b>105,025</b>	<b>16,318</b>	<b>(30,083)</b>	<b>104,353</b>
<b>Year ended 31 December 2009</b>					
At 1 January 2009	12,814	98,530	14,305	(17,585)	108,064
Options exercised	157	3,399	-	-	3,556
Share-based payment charge	-	-	1,124	-	1,124
Loss for 2009	-	-	-	(3,745)	(3,745)
<b>At 31 December 2009</b>	<b>12,971</b>	<b>101,929</b>	<b>15,429</b>	<b>(21,330)</b>	<b>108,999</b>

**Company Cash Flow Statement  
for the year ended 31 December 2010**

	<i>Notes</i>	<b>2010</b> <b>\$' 000</b>	2009 \$' 000
<b>Cash flows from operating activities</b>			
Operating loss		<b>(11,481)</b>	(7,827)
Depreciation and amortisation	7 & 8	<b>159</b>	141
Share-based payment charge		<b>2,533</b>	1,124
Decrease / (increase) in receivables		<b>(99)</b>	29,426
Decrease in payables		<b>(767)</b>	(3,345)
<b>Net cash provided by / (used in) operations</b>		<b>(9,655)</b>	19,519
Interest received		<b>4,503</b>	4,082
Taxation received		<b>385</b>	-
<b>Net cash provided by / (used in) operating activities</b>		<b>(4,767)</b>	23,601
<b>Investing activities</b>			
Capital expenditure		<b>(33)</b>	(313)
Change in long term financial assets	11	<b>(1,000)</b>	-
Loans to subsidiaries		<b>(851)</b>	(9,605)
<b>Net cash used in investing activities</b>		<b>(1,884)</b>	(9,918)
<b>Financing activities</b>			
Cash proceeds from issue of shares		<b>3,218</b>	3,556
Payments made in lieu of options exercised		<b>(1,470)</b>	-
Payments in connection with options issued		<b>(174)</b>	-
Dividend received		<b>28,400</b>	-
<b>Net cash provided by financing activities</b>		<b>29,974</b>	3,556
<b>Increase in cash and cash equivalents</b>		<b>23,323</b>	17,239
Cash and cash equivalents at beginning of period		<b>45,578</b>	28,339
Cash and cash equivalents at end of period	11	<b>68,901</b>	45,578

## Notes to the parent Company Financial Statements for the year ended 31 December 2010

### 1. Authorisation of financial statements and statement of compliance with IFRSs

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

The Company’s Financial Statements for the year ended 31 December 2010 were authorised for issue by the Board of Directors on 1 April 2011 and the balance sheet was signed on the Board’s behalf by Richard Malcolm and Andrew Rose.

The Company’s Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. The principal accounting policies adopted are set out in note 3 below.

### 2. Adoption of International Financial Reporting Standards

The Company’s financial statements for the year ended 31 December 2010 and for the comparative year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and IFRIC (International Financial Reporting Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

See note 4 to the Consolidated Financial Statements for details of new IFRSs and interpretations.

### 3. Significant accounting policies

#### 3.1 Basis of preparation and accounting standards

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

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

#### 3.2 Reporting currency

These financial statements are presented in US Dollars. The Company’s operations and the majority of all costs associated with foreign operations are paid in US Dollars and all loan balances with subsidiary undertakings are denominated in US Dollars. Therefore the presentational and functional currency of the Company is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2010 was £1: US \$1.55 (2009 – £1: US \$1.66).

#### 3.3 Property, plant and equipment



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

### **3.4 Intangible assets**

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

### **3.5 Revenue recognition**

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

### **3.6 Operating leases**

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

### **3.7 Taxation**

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

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

### **3.8 Derivative financial instruments**

The Company enters into regular forward dated foreign exchange transactions as a means of reducing its exposure to exchange rate differences. These transactions are normally of a duration of less than two weeks and the amounts sold forward approximates to the anticipated monthly receipts from the Company's Syrian subsidiary.

### **3.9 Share based payments**

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

loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share based payments reserve.

### **3.10 Cash and cash equivalents**

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

### **3.11 Foreign currency**

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

### **3.11 Investments**

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

### **3.12 Trade receivables**

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

### **3.13 Trade payables**

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

### **3.14 Equity instruments**

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

## **4. Income statement and total revenue**

No individual Income Statement is presented in respect of the Company as permitted by section 408 of the Companies Act 2006. The Company's loss for the year was \$8,753,000 (2009 – loss of \$3,745,000). The total revenue of the Company, as defined by IAS 18, for 2010 was \$7,259,000 (2009: \$4,492,000) comprising management fees of \$2,739,000 (2009: \$382,000) and interest income of \$4,520,000 (2009: \$4,110,000).

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

## **5. Share-based payments**

See note 7 within the financial statements of the Group.

## 6. Earnings per share

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

## 7. Property, plant and equipment

	Office equipment, fixtures and fittings \$' 000
<b>Cost:</b>	
At 1 January 2009	158
Additions	140
<b>At 1 January 2010</b>	<b>298</b>
Additions	12
<b>At 31 December 2010</b>	<b>310</b>
<b>Accumulated depreciation:</b>	
At 1 January 2009	(13)
Charge for 2009	(89)
<b>At 1 January 2010</b>	<b>(102)</b>
Charge for 2010	(101)
<b>At 31 December 2010</b>	<b>(203)</b>
<b>Net book value at 31 December 2010</b>	<b>107</b>
Net book value at 31 December 2009	196

## 8. Intangible assets

	Computer software \$' 000
<b>Cost:</b>	
At 1 January 2009	-
Additions	173
<b>At 1 January 2010</b>	<b>173</b>
Additions	330
<b>At 31 December 2010</b>	<b>503</b>
<b>Accumulated amortisation:</b>	
At 1 January 2009	-
Amortisation charge for 2009	(52)
<b>At 31 December 2009</b>	<b>(52)</b>
Amortisation charge for 2010	(58)
<b>At 31 December 2010</b>	<b>(110)</b>
<b>Net book value at 31 December 2010</b>	<b>393</b>
Net book value at 31 December 2009	121

## 9. Investments

Company	2010 \$' 000	2009 \$' 000
Cost of shares in Gulfsands Petroleum Limited	7,306	7,306
Loans to subsidiaries	27,855	52,435
	<b>35,161</b>	59,741

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

Loans to subsidiary undertakings comprise a revolving loan from the Company to Gulfsands Petroleum USA, Inc. for \$56,262,000 (2008: \$52,435,000) 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 2015 the loan converts to a term loan and the payments will be made in 4 instalments over the next 4 years.

An impairment charge of \$28,407,000 (2009: nil) has been recognised against the carrying value of this loan in the Company's Financial Statements. This impairment charge writes down the value of the loan to Gulfsands Petroleum USA, Inc. to the amount expected to be realisable after the anticipated disposal of the Company's assets in the Gulf of Mexico. The impairment follows the change of classification of the Gulf of Mexico assets from being valued at their expected value in use to their fair value less costs to sell. The fair value less costs to sell has been estimated following discussions with external specialist transaction advisors retained by the Group.

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

<i>Name of Company</i>	<i>Proportion of voting shares at 31 December 2010</i>	<i>Nature of business</i>	<i>Country of Incorporation</i>
<i>Directly held by the Company:</i>			
Gulfsands Petroleum Ltd.	100%	Holding company	Cayman Islands
<i>Indirectly held by the Company:</i>			
Gulfsands Petroleum Holdings	100%	Holding company	Cayman Islands
Gulfsands Petroleum Syria Ltd.	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd.	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd.	100%	Oil & gas exploration	Cayman Islands
Gulfsands Petroleum USA, Inc.	100%	Oil & gas exploration	US
Darcy Energy LLC	100%	Oil & gas exploration	US

## 10. Trade and other receivables

	2010	2009
	\$' 000	\$' 000
Corporation tax recoverable	-	354
Prepayments and accrued income	308	209
Amounts due from subsidiaries	69,965	3,922
	<b>70,273</b>	<b>4,485</b>

## 11. Cash and cash equivalents

	2010	2009
	\$' 000	\$' 000
Cash at bank and in hand	68,901	45,578
Restricted cash balances	1,000	-
	<b>69,901</b>	<b>45,578</b>
Included in long term financial assets	1,000	-
	<b>68,901</b>	<b>45,578</b>

The restricted cash balance represents an amount held in escrow to secure a line of credit for forward foreign currency trading.

## 12. Trade and other payables

	2010	2009
	\$' 000	\$' 000
Trade payables	517	316
Accruals and other payables	72	731
UK Corporation tax payable	31	-
Amounts due to subsidiaries	70,862	75
	<b>71,482</b>	<b>1,122</b>

## 13. Deferred tax assets / (liabilities)

	2010	2009
	\$' 000	\$' 000
DD&A and impairment in excess of tax allowances	-	-
Other short term temporary differences	-	-
Tax losses carried forward	5,489	2,243
Unprovided deferred tax asset	(5,489)	(2,243)
	<b>-</b>	<b>-</b>

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

	<b>2010</b>	2009
	<b>\$' 000</b>	\$' 000
Unutilised tax losses	5,489	2,423
Other short term temporary differences	-	-
	<b>5,489</b>	<b>2,423</b>

The tax losses of the Company have no expiry date.

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

#### **14. Share capital**

See note 21 within the Financial Statements of the Group.

#### **15. Obligations under operating leases**

At the end of the year the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings of \$399,000 (2009: \$438,000) within one year and \$499,000 (2009: \$986,000) between two and five years. This lease is due to expire in 2013.

#### **16. Financial instruments, derivatives and capital management of the Company**

The financial risks of the Company are principally in respect of balances held in bank accounts and on deposit, and balances owed to, or owed by, subsidiary undertakings. Balances owed to or owed by subsidiary undertakings are all denominated in US Dollars. Other risks are managed on a unified basis with the Group and a full disclosure of these risks is made in note 26 of the Group's Financial Statements.

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

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

	Financial assets on which interest is earned \$ 000	Financial assets on which no interest is earned \$ 000	Total \$ 000
<b>2010</b>			
US Dollar	<b>90,415</b>	<b>74,025</b>	<b>164,440</b>
UK Sterling	<b>794</b>	<b>921</b>	<b>1,715</b>
Euro	-	<b>1,565</b>	<b>1,565</b>
	<b>91,209</b>	<b>76,511</b>	<b>167,720</b>
<b>2009</b>			
US Dollar	78,295	16,295	94,590
UK Sterling	7,129	559	7,688
Euro	-	9	9
	<b>85,424</b>	<b>16,863</b>	<b>102,287</b>

	Financial liabilities on which no interest is charged \$ 000
<b>2010</b>	
US Dollar	<b>70,862</b>
UK Sterling	<b>517</b>
	<b>71,379</b>
<b>2009</b>	
US Dollar	75
UK Sterling	1,047
	<b>1,122</b>

## 17. Related party transactions and key management

Key management of the Company are considered to be the Directors of the Company. There were no transactions with Directors, other than interests in shares and their remuneration and share options as disclosed in the Directors' Remuneration Report on pages 55-57.

The remuneration of Directors is set out in note 27 to the Financial Statements of the Group.

The Company traded with various undertakings within the same Group during the years ended 31 December 2010 and 2009. A summary of the transactions and outstanding balances at the year end is set out below.

### Balances owed by / (owed to) related parties

Name of related party	Nature of relationship	Commercial terms	2010 \$'000 s	2009 \$'000 s
Gulfsands Petroleum USA, Inc.	Subsidiary	Interest rate 8% per annum	<b>56,262</b>	52,434
		Asset impairment	<b>(28,407)</b>	-
Gulfsands Petroleum Tunisia Limited	Subsidiary	Non-interest bearing	<b>16,208</b>	-
Gulfsands Petroleum Syria Limited	Subsidiary	Non-interest bearing	<b>48,291</b>	11,735
Gulfsands Petroleum Syria Limited	Subsidiary	Non-interest bearing	<b>(68,507)</b>	(14,442)
All other subsidiary undertakings	Subsidiary	Non-interest bearing	<b>4,007</b>	6,555

### Services recharged to related parties

Name of related party	Nature of relationship	Commercial terms	2010 \$'000 s	2009 \$'000 s
Gulfsands Petroleum USA, Inc.	Subsidiary	All materials and services recharged at cost. Labour recharged at marked up amounts	<b>30</b>	-
Gulfsands Petroleum Tunisia Limited	Subsidiary		<b>16</b>	-
Gulfsands Petroleum Syria Limited	Subsidiary		<b>1,729</b>	1,256
Gulfsands Petroleum Iraq Limited	Subsidiary		<b>184</b>	-
All other subsidiary undertakings	Subsidiary		-	-
Gulfsands Petroleum Syria Limited	Subsidiary	Management fee	<b>780</b>	382

### Services recharged by related parties

Name of related party	Nature of relationship	Commercial terms	2010 \$'000 s	2009 \$'000 s
Gulfsands Petroleum USA, Inc.	Subsidiary	Marked up amount	<b>201</b>	648

## Five Year Summary

		2010	2009	2008	2007	2006
		(restated)	(restated)	(restated)	(restated)	(restated)
<u>Production</u>						
Production - Working Interest	mmboe	3.8	2.7	1.2	0.8	0.8
Production - Entitlement	mmboe	1.7	1.6	0.8	0.7	0.6
<u>Summary income statement</u>						
Revenue	\$MM	115.6	84.4	53.6	37.3	33.9
Operating profit / (loss)	\$MM	45.5	29.0	(6.6)	(4.7)	(12.1)
Net profit / (loss) to shareholders	\$MM	44.7	28.3	(5.1)	(7.9)	(14.1)
Basic earnings / (loss) per share	US cents	36.88	23.68	(4.45)	(7.40)	(14.77)
<u>Summary cash flow statement</u>						
Net cash from operating activities	\$MM	70.2	43.5	20.0	2.7	10.4
Net cash used in investing activities	\$MM	(48.0)	(26.3)	(21.7)	(21.5)	(22.5)
Net cash from financing activities	\$MM	0.8	3.6	20.0	23.6	3.9
Net increase in cash and cash equivalents	\$MM	23.0	20.8	18.3	4.7	(8.2)
<u>Summary balance sheet</u>						
Total assets	\$MM	242.9	179.3	138.8	110.3	96.1
Shareholders equity	\$MM	183.0	134.2	101.3	73.9	57.1
Cash and cash equivalents less debt	\$MM	80.6	57.6	36.8	18.5	13.8



# Gulfsands Petroleum plc

## Glossary of Terms

2D seismic	Seismic data, obtained using a sound source and receivers placed in a straight line on the surface of the earth, that is processed to provide a graphic representation of a vertical cross-section through the subsurface rock layers (“seismic line”). In a 2D seismic survey, several seismic lines are recorded and the cross-sections are interpolated to yield subsurface maps on which exploration prospects can be delineated
2P	Proved and Probable reserves
3D seismic	In a 3D seismic survey, multiple closely spaced seismic lines are recorded and the high density of cross sections are interpolated to yield detailed subsurface maps on which exploration prospects can be delineated
Appraisal well	An appraisal well is drilled to assess the characteristics (e.g. flow rate) of a proved oil and gas accumulation
bbbl	Barrel of oil
bcf	Billion cubic feet of gas
bfpd	Barrels of fluid per day
boe	Barrels of oil equivalent where the gas component is converted into an equivalent amount of oil using a conversion rate of 6mcf to one barrel of oil
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
CPF	Central production facility
CSR	Corporate Social Responsibility
Development well	A development well is drilled within the proved area of an oil or gas reservoir to the depth of the stratigraphic horizon known to be productive.
DPC	Dijla Petroleum Company
E&P	Exploration and production
EPF	Early production facility
Exploration well	An exploration well is drilled to find and produce oil or gas in an unproved area, to find a reservoir in a field previously found to be productive of oil or gas in another reservoir, or to extend a known reservoir
HSE	Health, Safety and Environment
GIIP	Gas Initially-in-place
GPC	General Petroleum Corporation
Km <sup>2</sup>	Square kilometres
KPI	Key Performance Indicators
mcf	Thousand cubic feet of gas
mcf/d	Thousand cubic feet of gas per day
MENA	Middle East and North Africa
mmbbl	Millions of barrels of oil
mmboe	Millions of barrels of oil equivalent
mmcf/d	Millions of cubic feet of gas per day
mmstb	Millions of stock tank barrels
NGLs	Natural Gas Liquids
NGO	Non-governmental organisation
NRI	Net revenue interest
OMB	The Oil Marketing Bureau of the Government of the Syrian Arab Republic
P+P	Proved and Probable reserves
Possible reserves	Possible reserves are those additional reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be more than a 10% probability that the quantities actually recovered will equal or exceed the 3P estimate

Probable reserves	Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be more than a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable reserves
Proved reserves	Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty (normally over 90% if measured on a probabilistic basis) to be commercially recoverable, from a given date forward, from known reservoirs and under 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
Stock tank barrel	A barrel of oil measured at standard temperature (60°F) and pressure (14.7 psi)
STOIIP	Stock Tank Oil Initially-in-place
WI	Working interest
WPC	World Petroleum Congress
WTI	West Texas Intermediate (crude)

# Gulfsands Petroleum plc

## Corporate information

### **CORPORATE HEADQUARTERS**

2-4 Cork Street  
London W1S 3LG  
www.gulfsands.com  
[info@gulfsands.com](mailto:info@gulfsands.com)  
T: +44 (0)20 7434 6060

### **SECRETARY & REGISTERED OFFICE**

John Bottomley  
Sprecher Grier Halberstam LLP  
1 America Square  
Crosswall  
London EC3N 2SG

### **REGIONAL OFFICES – SYRIA**

Building No 653 – First floor  
Daraa Highway - Ashrafiyat Sahnaya  
P O Box 81, Damascus  
Syria

### **REGIONAL OFFICES - USA**

3050 Post Oak Boulevard  
Suite 1700  
Houston  
Texas 77056 USA

### **COMPANY NUMBER**

5302880

### **NOMINATED ADVISOR & BROKER**

RBC Capital Markets  
71 Queen Victoria Street  
London EC4V 4DE

### **AUDITORS**

Deloitte LLP  
2 New Street Square  
London EC4A 3BZ

### **SOLICITORS**

Field Fisher Waterhouse LLP  
35 Vine Street  
London EC3N 2AA

### **REGISTRARS**

Capita IRG  
Beaufort House  
34 Beckenham Road  
Kent BR3 4TU

### **STOCK EXCHANGE LISTING**

AIM market of London Stock Exchange  
Symbol : GPX