Gulfsands Petroleum

Annual Report and Accounts 2016

About Us

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

The Group's core interest is in Block 26, a world class reservoir in North East Syria (under Force Majeure as a result of EU sanctions). The Group also has oil and gas exploration projects in Morocco, Tunisia and Colombia, which are being rationalised.

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Highlights

Good progress made streamlining the business to focus on its assets in Syria

- Extension of the initial period of the Moulay Bouchta Licence in Morocco to June 2017 together with a revised work programme approved.
- Exit from Tunisia initiated.
- Llanos 50 licence in Colombia extended by 18 months to May 2018 and work commenced on MMA and EIA environmental work.
- Work commenced on the Consulta Previa on the Putumayo 14 licence in Colombia.

Core assets in North East Syria appear to be in good order, materially undamaged and operationally fit

- Group working interest 2C Contingent Resources in Syrian assets of 86.4 mmboe (reclassified from 2P reserves in 2015 due to EU sanctions).
- Over 20 year resource life.
- Involvement in Syrian operations remains suspended during continuation of EU sanctions, which Gulfsands remains committed to full compliance with.
- Production in Block 26, without the participation of Gulfsands, has reportedly increased to approximately 15-20,000 barrels per day through January – April 2017 – no revenues recognised by Gulfsands.
- While the status of this production under the terms of the PSC is unclear at this time, the production does appear to demonstrate the reservoir quality and that the field continues to be operable.
- Increasing stability in the area surrounding Block 26, with no major disruptions during the year.
- Gulfsands is focused on maintaining its readiness to resume operational activities once sanctions are lifted.

Costs reduced significantly

- Continued initiatives to reduce the ongoing expenses across the Group with gross office costs falling 43% from $8.7 million to $5 million.
- Further cost efficiencies planned for 2017 and 2018.

Continued financial support from major shareholders

- Open Offer completed in January 2016, with 354,837,296 shares subscribed for and admitted to AIM, raising £14.2 million ($20.4 million) at 4.0 pence per share. The proceeds were used, in part, to repay the $14.5 million Convertible Loan Facility.
- Placing completed in August 2016, with 47,272,344 new ordinary shares subscribed for and admitted to AIM, raising £1.5 million ($1.9 million) at 3.125 pence per share.
- Completion of Secured Term Financing Facility (the "2017 Facility") of up to £4.0 million (c. $5.0 million) in February 2017.
- Cash at 31 December 2016 of $1.0 million. Current cash available, after three 2017 Facility draw downs, of $2.4 million.

Strategic Report

Chairman and Managing Director's Statement

The Group's strategy is to focus on capital efficiency and protecting and preserving the value within Block 26, its core assets in North East Syria, by ensuring readiness to recommence operations there once EU sanctions and the security situation permit.

Dear Shareholder

During 2016 and early 2017 the Board has remained resolute in realigning the strategy of the Group to be consistent with its financial capacity and risk tolerance, despite a continued challenging business environment. It continues to pursue restructuring and farm-out or divestiture of its non-core assets, while its Syrian assets remain the core part of the Group's strategy with management monitoring the situation closely to ensure our ongoing readiness to return to operation when the political situation allows and EU sanctions are lifted.

In Syria, Gulfsands is the operator of, and holds a 50% working interest in the Block 26 Production Sharing Contract ("PSC"), a geo-technically world class asset. Block 26 is located in the relatively stable area of North East Syria and, although Gulfsands is unable, due to EU sanctions, to be actively involved in operations, the assets appear to be in good order, materially undamaged and operationally fit. Gulfsands is not presently involved in any production or exploration activities on Block 26 as Force Majeure has been declared in respect of the contract following the introduction of EU sanctions in Syria. Subsequent to the reporting period, the Group has been informed by DPC that the oil fields in Block 26 were returned to production during January 2017, with oil being produced from up to twelve production wells. The average oil production rate from both fields combined between January 2017 and the end of April 2017 appears to be around 15-20,000 BOPD, however the Company is still working to verify this. The status of this production under the terms of the PSC is unclear at this time. Gulfsands has not recognised any revenue for any production under the PSC since the advent of Force Majeure. Gulfsands remains committed to full compliance with EU sanctions and is focused on maintaining its readiness to resume operational activities once sanctions are lifted.

During the period, we continued to rationalise the non-core portfolio in Morocco, Tunisia and Colombia.

In Morocco, the Group's remaining licence, Moulay Bouchta, was due to expire in June 2016. Following constructive discussions with the Office National des Hydrocarbures et des Mines ("ONHYM") an agreement was reached, to restructure the minimum work programme and secure an extension of twelve months. Post year-end, this extension was confirmed. The Company has engaged in further discussions to further extend the initial phase to June 2018 to allow for the Company to complete its minimum work program and fully analyse the results. However, the Company intends to only take advantage of this extension if it is able to find a partner who would be interested in a farm-out of this project and help ease the financial burden. Elsewhere in Morocco, the Group continues discussions with ONHYM to close out outstanding matters relating to the Rharb and Fes permits which expired in 2015.

In Tunisia, the Group's subsidiary, Gulfsands Petroleum Tunisia Limited informed the Tunisian authorities that, if it could not find a partner for its projects, it intended to cease all Tunisian operations at the year end. Post year end the Group has initiated the close down of its activities in-country.

In Colombia, Gulfsands continues to invest significant time and resources into its assets with a view to finding a partner(s) who can assist in taking this part of the business forward as well as exploring other structures to enable these assets to be funded as a standalone South American strategy. The Llanos-50 ("LLA-50") licence expired in November 2016 and the Group has been in discussions with Agencia Nacional de Hidrocarburos ("ANH") since then to secure an extension to the licence together with a revised work program. This extension was confirmed in May 2017 and the Group has now commenced work on reprocessing legacy seismic and initial environment studies in advance of further seismic acquisition. The Putumayo-14 ("PUT-14") licence expires in November 2017 and the Group is in dialogue with ANH to secure an extension for this licence.

In October 2016, Gulfsands announced that it had entered into a Farm-Out Agreement with Samarium for the licence but has been unable to agree a mutually acceptable way to move forward with its implementation. As a result, Gulfsands took the decision to pursue the work programme alone, to ensure ongoing compliance with the terms of the licence, and amongst other things, contracted for the commencement of the first phase of work, the Consulta Previa in March 2017. In May 2017, the Farm-Out Agreement was terminated, and Gulfsands has reverted to having a 100% interest in the PUT-14 licence.

Financial overview

During early 2016 the Company significantly strengthened its Balance Sheet with the completion of a $20.4 million Open Offer, underwritten by two of our major shareholders. The proceeds were, in part, used to repay the $14.5 million debt outstanding under the Convertible Loan Facility. In the first half of the year we welcomed a new major Shareholder, ME Investments Limited, to our register, and in August 2016, the now three major shareholders, once again demonstrated their continued support for the Company with a $1.9 million mid-market equity placing. In February 2017, these shareholders provided further funding for the Group through a Secured Term Financing Facility (the “2017 Facility”) of up to £4 million (c. $5 million) which is to be drawn-down in tranches, subject to certain conditions. If fully drawn down, upon approval by the lenders, this 2017 Facility should fund the Group’s expected G&A through to Q2 2018.

Note 1.3 (Going concern) of this Annual Report describes further the funding requirements.

The Group posted a loss for the period of $19.8 million, including E&E write-offs and impairments of $8.1 million, of which, $5.3 million relates to Chorbane in Tunisia, $1.1 million relates to Llanos 50 in Colombia, $1.1 million relates to Putumayo 14 in Colombia.

The Group continues to focus on controlling costs to a sustainable level given the activities of the Group. This initiative has resulted in the ongoing operating expenses across the Group falling 43% from $8.7 million in 2015 to $5.0 million in 2016 (see Financial Review on page 20).

At 31 December 2016 the Group had total unrestricted cash and cash equivalents of $1.0 million.

As at 31 December 2016 the Group had zero debt after repaying the $14.5 million outstanding under the Convertible Loan Facility as part of the $20.4 million Open Offer which completed in January 2016. In February 2017, the 2017 Facility of up to £4.0 million (c. $5.0 million) was entered into with our three major shareholders. This 2017 Facility is extinguishable with equity at maturity, at the Company’s option into shares of the Company at a price equal to the lower of (i) the 90 day average closing price at the time of repayment and (ii) the lowest price at which the Company has raised equity capital during the life of the Facility.

At the date of this Report, the Group had unaudited unrestricted cash and cash equivalents of $2.4 million, subsequent to the first three draw downs of £0.8 million each under the £4.0 million 2017 Facility.

Chairman and Managing Director's Statement continued

We intend to further rationalise the non-core portfolio through farm-out or divestment and where this is not possible we will exit countries as efficiently as possible.

The Group continues to have material work obligations under its various exploration licences, as outlined in note 2.4, and if these obligations are not met, the Group may be forced to forfeit its working interests in these contracts and any sums of restricted cash lodged with host governments as guarantees for our performance of the minimum work obligations. Since some of the licences contain provisions for the payment of penalties if the minimum work obligations are not fulfilled, potential penalties may apply. The Company is currently engaged in various discussions to restructure its minimum work obligations and to divest or bring in partners in order to reduce or eliminate the Group's net exposure to such obligations. There is no certainty that any or all of the restructurings or farm-outs or divestments will be successful.

The 2016 Financial Statements have been prepared on a going concern basis (see note 1.3), and further details on this can be found in the Financial Review on page 20.

Board and management changes

In July 2016 Mr Alastair Beardsall stepped down as Executive Chairman, as well as a Director and Executive of the Company. At the same time Mr John Bell assumed the role of Managing Director, Mr Andrew Morris assumed the role of Finance Director and Mr James Ede-Golightly assumed the role of Non-Executive Chairman.

In October 2016 we welcomed Mr Michael Kroupeev and Mr Richard Milne to the Board as Non-Executive Directors and Mr Milne was subsequently elected chair of the Audit Committee. In December 2016 Andrew West stood down as a Non-Executive Director, returning the size of the Board to six members.

In December 2016 the Group settled its long outstanding dispute with former Chief Executive Officer, Mr Mahdi Sajjad. Under the terms of the settlement, all actions against the Group by Mr Sajjad in the London High Court, the Employment Tribunal in England, and in the Lebanese Arbitration Court, as well as the Group's counterclaim against Mr Sajjad, were settled without any admission of liability by either party.

Outlook for 2017 and beyond

The Group remains committed to controlling costs and preserving the value inherent in its Syrian assets. It considers its partnership with General Petroleum Corporation ("GPC") as a key element for the safe stewardship of Block 26 while the various sanctions prevent Gulfsands from a more active role.

We continue to enjoy the support of our three major shareholders, without whose support, the Company would be seriously financially challenged. We intend to further rationalise the non-core portfolio through farm-out or divestment and where this is not possible we will exit countries as efficiently as possible. While progressing our projects ourselves in the near term in Colombia, we continue to seek to find a solution for these assets whereby we can benefit from any success but without being exposed to the full cost of exploration.

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

Yours sincerely,

John Bell
Managing Director

James Ede-Golightly
Non-Executive Chairman

26 May 2017

Strategic Report

Our Business Model

In the immediate term, we expect to continue to aggressively manage costs and streamline our staffing and organisational model to match our reduced involvement in operations.

Over the longer term, we aim to be ready to return to operations in Syria as soon as sanctions permit, which will enable us to create real accretive value for our stakeholders by rebuilding a strong, independent exploration and production company.

Our business model remains based on the following building blocks:

1 Areas of expertise

- Experienced and entrepreneurial leadership team.
- Access to strong technical skills either from our in-house team or network of advisers.
- Cost-effective culture matched to a fit-for-purpose mindset.
- Emphasis on building strong local organisations and skill sets.
- Commitment to excellence in HSES.
- Rigorous approach to compliance and governance.
- Being a good corporate citizen wherever we operate.

2 Business development strategy

- Utilise regional knowledge and relationships with partners, to manage the existing portfolio.
- A disciplined approach to the evaluation of E&P opportunities for acquisition and/or divestment.
- Readiness to return to Syria where we will focus on growth in resources, reserves and sustainable production as key drivers of value creation.

3 Financial discipline

- Careful husbanding of cash resources.
- Strong emphasis on cost control and cost/benefit analysis.
- Creating and maintaining a strong Balance Sheet.

4 Business conduct

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

Strategic Report

Strategic Priorities and Monitoring Performance

Our strategic priorities are subject to our ability to finance projects through sourcing partners and/or raising finance.

The following tables set out our current strategic priorities and how we measure our progress towards their realisation:

Strategic imperatives	Progress in the year	Planned actions
Protection of Syrian interests and value	• Preserved all contractual rights and managed business relationships in a manner consistent with all relevant sanctions and Force Majeure status. • Change of local management team to increase local expertise and presence.	• Continued adherence to licence terms within terms of sanctions. • Maintain readiness to return to conducting operations as soon as circumstances permit, including re-entry planning.
Rationalisation of the portfolio to fit Company's financial and risk appetite	• Extension of the Moulay Bouchta Licence to June 2017 pursued during the year and confirmed post year end. • Decision made to exit Tunisia. • Improved relations and negotiation of the Colombian licences with ANH (with Llanos-50 extended subsequent to the year-end).	• Complete exit from Tunisia. • Make final decision on Moulay Bouchta depending on partner appetite. • Extend current licences and pursue partnerships in Colombia as well as explore other structures to enable these assets to be funded as a standalone strategy.
Evaluate existing assets comprehensively	• Evaluated all assets to assist in the determination of a future strategy.	• Morocco: analyse any farm-out or divestment opportunities or decide to exit. • Colombia: evaluate interests in Colombia, including potential partnering and restructuring options. • Syria: re-entry planning.
Longer term, to generate production and revenues	• No progress made during 2016 due to EU sanctions.	• No planned activity for 2017 in compliance with EU sanctions. • Increased focus on Syria re-entry readiness.
Maintain HSES and community relations	• Established good community relations. • No recordable HSES incidents during the year. • Continued community, security and environmental assessment processes and operations planning.	• Maintain HSES standards at the forefront of operational objectives. • Develop/maintain relationships with the communities with whom we work. • Consulta Previa initiative on Putumayo-14 licence in Colombia. • Environmental studies on Llanos-50 in Colombia.
Ensure Group is efficiently run and well financed	• Maintained control over costs and cost basis further reduced, with gross office costs falling 43% from \$8.7 million to \$5.0 million. • \$20.4 million Open Offer closed in January 2016. • Convertible Loan Facility paid off in January 2016. • \$1.9 million equity placing closed in August 2016.	• Secured Term Financing Facility entered into in February 2017 of up to £4 million (c. \$5 million). • Maintain support of the three major shareholders while exploring new sources of finance. • To seek equity financing, in due course, to strengthen capital base. • Ensure tight management of financial resources with continued reductions in cost base.

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

KPI	Performance	Commentary and target
Working interest Reserves and Resources **Proved and Probable Reserves (mmboe)** • Audited, Proved and Probable Reserves stated on a working interest basis (page 17 for further details).	**2016** 0 2015 0 2014 73.5	In 2015 the Reserves held for Block 26 in Syria were re-classified as Contingent Resources (see table below) as there is no certainty that development of the assets will resume within five years of the evaluation. This classification remains appropriate during 2016. The Group remains ready to return to production and reclassify these Resources back to Reserves as soon as circumstances allow.
Working interest Reserves and Resources **Contingent and Prospective working interest Reserves (mmboe)** • Audited 2C Contingent Resources and best estimate Prospective Resources both stated on an unrisked working interest basis (pages 18 and 19 for further details). • Contingent and Prospective Resources reflect the hydrocarbon potential of Gulfsands contract areas. • Note Syrian resources are held under contracts currently in Force Majeure.	**Contingent** **2016** 86.4 2015 87.3 2014 13.6 **Prospective** **2016** 55 2015 55 2014 548	The reduction during 2015 of Prospective Resource is the result of the expiry of the Fes licence. Further reduction in Prospective Resources will be expected in 2017 by the farm-out or exit from the Moulay Bouchta and Chorbane Licences during 2017. Management's longer-term objective, on return to Syria will be the capture of further Contingent and Prospective Resources and efficient conversion of such Resources into Reserves.
Capital expenditure ($ million) • Accrued expenditure on exploration for and appraisal and development of oil and gas assets. Expenditures include fair values of acquired assets and capitalised internal costs on operated assets (pages 48 and 49 for further details).	**2016** 0.9 2015 6.8 2014 23.8	Focused cost-effective expenditure on exploration, appraisal and reserve development activity is an appropriate measure of success of the Group but must remain within the financial capacity of the Group.
Safety – lost time incidents • The number of incidents during the year which resulted in loss of working time.	**2016** 0 2015 1 2014 0	The Group conducted drilling, well completion and well testing operations on its Moroccan Rharb Centre permit in 2014 and 2015. 2016 operations have been more limited but management's commitment to the Group's HSES performance remains absolute.
Total cash and cash equivalents ($ million) • Cash and cash equivalents are funds immediately available to the Group (page 52 for further details).	**2016** 1.0 2015 0.4 2014 7.9	Ensuring the Group has sufficient cash resources is key for the Group.
Gross office costs ($ million) • Total G&A costs, before capitalised allocations and partner recoveries (page 21 for further details).	**2016** 5.0 2015 8.7 2014 13.6	Ensuring the Group is run as efficiently as possible and with a cost base appropriate for the level of activity.

Strategic Report
Principal Risks and Uncertainties

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

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

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

The Group reviews the potential risks to its business and each is assessed in terms of:

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

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

Financing

Description	Impact	Mitigation	Change year on year
The terms for the Group's exploration interests (licences) include minimum work obligations agreed with the relevant state regulator. Additional work programmes will ordinarily be required to fully evaluate the exploration potential. This work will require significant investment. Even as the Group rationalises its portfolio of assets, and thus works to reduce its requirement for capital investments, in the absence of revenue, the ongoing day-to-day G&A costs still requires financing.	The non-satisfaction of work obligations under each licence could put our working interests, and restricted cash balances at risk; furthermore some licences may require the payment of penalties if minimum sums are not spent towards performing these work commitments. If the day-to-day G&A costs, capital requirements, or penalties are not financed, the Board may be forced to consider whether the Group and/or its subsidiaries can continue as solvent going concerns. Further discussion of these matters is contained in the going concern note 1.3a to the Consolidated Financial Statements.	The existing minimum work obligations under licences or contracts may require restructuring though negotiation with state regulators. The Group will always strive to avoid performance of commitments that are without technical and commercial justification. The cost base of the business is continually being assessed to ensure ongoing efficiency. The funding requirements of the Group are regularly reviewed and appropriate actions taken. The Board maintains a close relationship with its major shareholders who have increasingly become the only available source of capital, being the only significant participants in the Group's last three capital raises.	It is Management's strategy to farm-out, divest or exit its remaining assets in Morocco, Tunisia and Colombia. The Moulay Bouchta licence was extended by twelve months, to June 2017 to allow time for further analysis and to reduce the minimum work obligations (this was confirmed post year end). The Llanos-50 licence expired in November 2016 and subsequent to the year end was extended to May 2018. During 2016 the Group has reduced the gross G&A costs and will continue this initiative into 2017.

Business strategy fails to deliver on shareholder objectives

Description	Impact	Mitigation	Change year on year
The Group recognises the need to align its business strategy with the objectives of its shareholders and then to deliver on that strategy.	Non-alignment and non-delivery could both lead to discontented shareholders, a loss of confidence in Management and consequently a decline in share price and increased difficulty raising new capital.	Regular updates by the Group to the investment community, when appropriate, of its strategy, developments and the results achieved. Regular dialogue with major shareholders to ensure ongoing support for the Group's strategy.	During 2016 and into 2017, shareholders indicated their support for the Group's revised strategy through their approval and underwriting of the Open Offer in January 2016, their support of the placing in August 2016 and their provision of the 2017 Facility in February 2017.

Shareholder concentration

Description	Impact	Mitigation	Change year on year
At the date of this Report, a large proportion of the shares in the Company are held by three shareholders holding approximately 37.32%, 31.47%, and 13.97% respectively (the "Major Shareholders").	High levels of share ownership between only a small number of shareholders can offer stability of ownership, a stable capital source and protection against opportunistic or predator approaches. However, concentrated share ownership can also result in undue influence by shareholders on the Board and Management that may be to the detriment of the minority shareholders.	Commit to high levels of corporate governance and ensure the business is managed in a clear and transparent manner. Ensure the Board of Directors has sufficient independent directors and implement agreements with major shareholders to allow the Board to manage the business without undue influence from any particular shareholder.	During 2015 a Relationship Agreement was entered into with Waterford, who, as at the date of this Report control 37.32% of the voting shares, that regulates how Waterford may influence the management of the Group. A majority of the Board remain independent of the major shareholders.

Exploration success/failure

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

Health, safety, environment and security

Description	Impact	Mitigation	Change year on year
The Group's reputation and its value is critically dependent on: • the protection of the health and safety of its staff, its contractors and members of the community in which it operates; • the protection of the environment in which it operates; and • the security of its interests and assets.	Failure in respect of these matters could severely impact on the Group's ability to work and obtain further business in the area of operation as well as putting it at risk of legal and financial liabilities.	The Group maintains best practice policies and procedures in these areas and manages its business and its contractors in accordance therewith.	In 2016 the Group's operations have been limited but its good safety record has been maintained across the portfolio. Management's commitment to the Group's HSES performance has remained absolute.

Geopolitical instabilities in operational areas

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

Compliance: Bribery and corruption, EU sanctions

Description	Impact	Mitigation	Change year on year
The Group is subject to stringent bribery and corruption regulation across all its operations. Taking all reasonable measures to prevent bribery and corruption being perpetrated on, or within, the business is critical to the business model. In addition, the Group's operations in Syria are subject to EU sanctions and are currently under Force Majeure.	Possible reputation damage, legal liability and financial loss.	Embedding the Code of Business Conduct within the work of the Group. Diligence in reviewing business practices and results. Extensive training across the Group on bribery, corruption and sanctions compliance. Expert advice.	Continued employment of the Code of Business Conduct and business monitoring. Updated documentation and training in bribery and corruption and sanctions matters during the year.

Reliance on key staff

Description	Impact	Mitigation	Change year on year
The Group has a small staff of experienced people and relies heavily on their knowledge and experience in developing and delivering the Group's strategic objectives.	Possibility of loss of management continuity and impairment of the business model.	Internal succession planning where possible together with maintaining contact with a network of experienced people in the industry, including consultants on whom we may call if required.	Significant downsizing in recent years has been managed to minimise the loss of skills and experience that may be difficult to replace when operational activity increases. Continuity at senior management was maintained by the stepping up of two Non-Executive Directors to Executive positions during the year.

Syria

Gulfsands is the operator of the Block 26 Production Sharing Contract ("PSC") and holds a 50% working interest in the PSC along with Sinochem Group (also 50% working interest).

Gulfsands is not presently involved in any production or exploration activities on Block 26 as Force Majeure has been declared in respect of the contract following the introduction of EU sanctions in Syria.

The Group seeks to ensure that it remains compliant with all applicable sanctions in relation to Syria and intends to return to production and exploration activities as soon as permitted.

Position during 2016

- Continued compliance with applicable sanctions.
- Block 26 facilities, wells and infrastructure remain secure and predominantly functional.
- Office presence maintained in Damascus.

Block 26 is located in North East Syria and the PSC grants rights to the joint venture to the benefits of production from discovered fields for a minimum of 25 years from the date of development approval with an extension of a further ten years thereto at the partners' option. Gulfsands joint venture partner in Block 26 is Sinochem Group, a Chinese conglomerate primarily engaged in the production and trading of chemicals and fertilizer, and exploration and production of oil.

Under the Group's operatorship, two oil fields containing reservoirs of Cretaceous age have been discovered and appraised and approved for Development within the PSC area, Khurbet East (2008) and Yousefieh (2010). During 2011, combined production from these fields reached a level of just under 25,000 barrels of oil per day before the impact of EU sanctions resulted in the curtailing of production levels. Two additional oil and gas discoveries within reservoirs of Triassic age have been identified within the Kurrachine and Butmah Dolomite formations, beneath the Cretaceous aged oil producing reservoir in the Khurbet East field. Development approvals for these Triassic discoveries were granted in 2008 and 2011 respectively. A further oil discovery was made late in 2011 by Gulfsands in the Cretaceous aged reservoirs penetrated by the Al Khairat exploration well, a few kilometres east of the Yousefieh field. This discovery awaits further evaluation and development work, and is not currently incorporated into the Company's existing Production Licence areas.

Operation of the Khurbet East and Yousefieh fields during the production phase has been undertaken by Dijla Petroleum Corporation ("DPC"), a joint operating company formed between Gulfsands, Sinochem and Syrian General Petroleum Company ("GPC") for this purpose, to which staff of both Gulfsands and GPC had previously been seconded. As a consequence of the EU's imposition of further sanctions in Syria which came into effect in early December 2011, in accordance with the terms of the PSC for Block 26, a Notice of Force Majeure was served on GPC, the principal counterparty to the PSC.

The imposition of EU sanctions has prohibited Gulfsands' involvement in petroleum production operations in Syria and restricted its activities in relation to Block 26 generally and unless and until these sanctions are lifted or otherwise modified so as to permit the Company's return to its prior involvement in those activities, the Company will be obliged to maintain its current position with respect to Block 26 PSC matters. Since the introduction of EU sanctions on 1 December 2011 and the subsequent declaration of Force Majeure under the PSC, Gulfsands has had no involvement with the operations of DPC, and Gulfsands staff seconded to DPC have been withdrawn, leaving DPC under the management of GPC secondees.

The final exploration period of the PSC legally expired in August 2012. It is understood that the Syrian authorities may be prepared to grant the Group an additional period to undertake exploration work on Block 26 to replace that period of time which was lost when Force Majeure was declared. The Group has ensured that it remains compliant with all applicable sanctions in relation to Syria and intends to return to production and exploration activities as soon as permitted and conditions allow.

During 2015 the Group's Syria Reserves were reclassified to Contingent Resources as a result of the continuing EU sanctions in Syria. This process was subject to external audit and confirmation. During 2016 this classification as Contingent Resources continued.

Since December 2011, Gulfsands has received from DPC updates on oil volumes produced from the Group's Syrian fields under DPC's operation. These updates have been received on an infrequent and irregular basis and it has not been possible for Gulfsands to verify the content of the information provided. The Group has been updating its remaining recoverable resource volumes for these fields on at least an annual basis based on the information that has been received from DPC.

In February 2016 the Group received information from DPC stating that 0.267 million bbls of oil had been produced from the Group's fields during 2015 and exported by pipeline to the regional oil gathering station at Tal Addas, 22 km north east of the Group's Production Concessions. In addition, DPC reported for the first time, that oil also had been lifted from the Group's fields by an alternative oil export method, via production into tankers using gantry loading at the Khurbet East Production Facility, and that this method had been in operation throughout 2014 and 2015. Total oil production, by both methods, were therefore restated to being 2.384 million bbls of oil for 2014, and 1.421 million bbls of oil for 2015.

In early 2017, DPC reported total produced volumes of oil during 2016, via both export methods of 0.477 million barrels of oil. Of this volume, 0.184 million bbls has been exported by pipeline to Tal Addas and 0.263 million bbls of oil has been exported via production into tankers using gantry loading.

Subsequent to the reporting period the Group has also been informed by DPC that the Group's Syrian fields were returned to production in January 2017, with oil being produced from up to twelve production wells (nine Khurbet East, three Yousefieh). The average oil production rate from both fields combined between January 2017 and April 2017 appears to be around 15-20 thousand bopd, with a cumulative gross oil volume of approximately two million barrels of oil having been produced during 2017 from both fields.

The Group is challenged to independently verify this production information from DPC, and whilst remaining sanctions compliant, continually seeks to gain additional information regarding the ongoing status of production operations at its Syrian fields.

The status of this production under the terms of the PSC is unclear at this time and the Group has not recognised any revenue for this or indeed any production, post the imposition of EU Sanctions, but has updated its remaining recoverable resource volumes for these fields based on this new production information.

Contingent Resources

The Group has evaluated that it holds within the Massive, Butmah and Kurrachine reservoirs of Khurbet East field, and the Yousefieh field, 2C Contingent Resources of 68.7 mmbbls of oil and condensate, and 33.4 bcf of gas (working interest basis).

The Group has also evaluated that the oil discovery at Al Khairat contains 2C Contingent Resources of 12.0 mmbbls of oil (working interest basis). These resources have been subject to external audit.

Sanction compliance

Gulfsands has taken extensive legal advice with respect to its obligations under the sanctions in place at the time and has liaised regularly with relevant regulators and advisers and generally acted cautiously to be confident of remaining compliant with all relevant sanctions. The Board is determined to ensure that the Group's activities remain compliant and Management will continue to liaise closely with the relevant regulatory authorities to ensure this objective is achieved while continuing to keep GPC fully informed of the breadth and scope of restrictions on our activities as a result of continuing to comply with applicable sanctions.

Plan to monitor assets during 2017

- Continued compliance with applicable sanctions.
- Maintain an office presence in Damascus.
- Continue efforts to assimilate and verify where possible information from the field regarding:
  - oil production data
  - asset operations and facility/well integrity; and
  - overall status of security in the near field area.
- Re-confirm to the extent that it is possible Gulfsands' financial position including regarding cost recovery.
- Update Gulfsands' plans to maintain readiness to resume operational activities when sanctions are lifted, including developing a re-entry plan.

Colombia

Gulfsands has Exploration and Production Contracts ("E&P contracts") over two onshore contract areas, Llanos Block 50 ("LLA-50") and Putumayo Block 14 ("PUT-14"), covering approximately 514 km² and 464 km² respectively. Gulfsands is operator of both Blocks with 100% working interest. Both contracts were awarded as part of the Ronda 2012 national licensing round, and are subject to tax/royalty systems incorporating a low bid level of additional "X" factors royalties and work programme contributions.

Llanos Block 50

Contract expiry date: First exploration phase, May 2018.

Minimum work obligation: Acquisition of an additional 160 km of 2D seismic data to be captured in a new survey; and drilling one exploration well.

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

The LLA-50 Block is located towards the eastern margin of the Llanos Basin. The Block is considered prospective for medium quality oil, and it is on strike with producing oil fields in the Blocks to the south. The primary play system has been identified as structural-stratigraphic, linked to Tertiary channel sands which are thought to be present in the east of the Block where on-strike faults are also observed on seismic. Conceptual leads are identified, and the 2D seismic work programme has been targeted to better define the closure of these leads with an aim to mature them to drillable prospects. A well was previously drilled down dip in the west of the Block by another operator which confirmed the presence of good quality reservoir and seal elements.

The Llanos-50 licence was originally due to expire in November 2014, when an application for an extension of 18 months to May 2018 was made by the Group to the Agencia Nacional de Hidrocarburos in Colombia ("ANH"). As part of this application the Group indicated its willingness to acquire a further 52 km of 2D seismic data in addition to the 108 km already specified in the Minimum Exploration Programme work obligation. This extension was confirmed in May 2017 and work has commenced on the environmental studies on the Llanos-50 licence.

A limited amount of legacy seismic available on the Block nevertheless indicates the potential continuation into the Block of stacked Cretaceous sands which have been encountered in wells in Blocks to the west and north in Putumayo, and to the south in Ecuador's Oriente Basin.

Putumayo Block 14
Contract expiry date: First exploration phase, November 2017.

Minimum work obligation: Acquisition of an additional 98 km of 2D seismic data to be captured in a new survey; and drilling one exploration well.

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

The PUT-14 Block is located at the eastern margin of the Putumayo Basin and is considered prospective for medium quality oil. A limited amount of legacy seismic available on the Block nevertheless indicates the potential continuation into the Block of stacked Cretaceous sands which have been encountered in wells in Blocks to the west and north in Putumayo, and to the south in Ecuador's Oriente Basin where there also exist on strike producing oil fields. The potential for large stratigraphic pinch out leads in PUT-14 has been identified both by Gulfsands and by another operator in the area. In addition the on Block legacy seismic data indicates subtle structural leads west of the Basin margin that appear somewhat analogous to producing oil fields in the Putumayo Basin to the west. A 2D seismic programme is planned to better define all of these leads, aiming to mature them to drillable prospects.

The Putumayo-14 licence expires in November 2017 and the Group is in dialogue with ANH to also secure an extension for this licence. In October 2016 the terms of a farm-out were agreed with Samarium Energy & Resources Corporation, a fully owned subsidiary of Samarium Tennessine Corporation and Samarium Investment Corporation, acting as Guarantor (together "Samarium"). The Company simultaneously entered into a Joint Operating Agreement ("JOA") with Samarium Energy & Resource Corporation regarding the operations of the Putumayo-14 Contract. Under the terms of the Farm-Out Agreement, Samarium had the opportunity to earn 100% working interest in the PUT-14 Licence in return for funding the entire Minimum Exploration Programme.

Since October, Samarium and Gulfsands have been in regular dialogue regarding the implementation of this Agreement but have been unable to agree a mutually acceptable way to move forward. As a result, Gulfsands took the decision to pursue the work programme alone, to ensure ongoing compliance with the terms of the PUT-14 licence, and amongst other things contracted for the commencement of the first phase of work, the Consulta Previa in March 2017. In May 2017, the Farm-Out Agreement was terminated and Gulfsands has reverted to having a 100% interest in the PUT-14 licence.

The Group requires funding to execute the work programme on both permits and, to this end, continues farm-out or divestment exercises for its interests in the contract areas prior to any significant financial commitment with respect to further exploration work.

Strategic Report

Operations Review continued

Morocco

Gulfsands is the operator of the onshore Moulay Bouchta exploration permit in northern Morocco which incorporates proven conventional oil and biogenic gas petroleum systems. Moroccan hydrocarbon exploration and exploitation permits are subject to a tax/royalty fiscal system which is considered favourable by international standards.

Moulay Bouchta contract

Contract expiry date: Initial Exploration Phase, June 2017.

Minimum work obligation: Acquisition and processing of 200 km of 2D seismic data; reprocessing and interpretation of selected legacy 2D seismic lines; and a legacy oil field reactivation study.

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

The Group acquired operatorship of the Moulay Bouchta permit during 2014, taking a 75% participating interest while Morocco's Office National des Hydrocarbures et des Mines ("ONHYM") retained a 25% participating interest, the attributable cost of which will be carried by Gulfsands upon the usual terms for such participation through the exploration phase of the permit and until a commercial hydrocarbon discovery is made.

The Moulay Bouchta permit encompasses an elongated area running west to east covering approximately 2,808 km^2, and is located to the north of the cities of Rabat, Meknes and Fes. It covers terrain where the existence of a working petroleum system has been confirmed with the discovery and development of three light oil fields, the most recent of which was the Haricha Field which had produced a total of 2.8 mmboe of oil and 4.2 bcf of gas when production ceased in 1990. The prospectivity within Moulay Bouchta is considered to relate mainly to the potential for deeper and possibly larger hydrocarbon bearing structures within Jurassic and Cretaceous aged reservoirs to exist and be found within the permit area.

An agreement was reached with ONHYM, but only confirmed by government approval post year end, to extend the duration of the Initial Phase of the Exploration Period from two years to three years such that the Initial Phase will now run to 19 June 2017 (previously 19 June 2016). A revised work programme for the extended Initial Phase was also confirmed and approved, of:

- acquisition of 200 km 2D line seismic;
- reprocessing and interpretation of selected legacy 2D seismic data; and
- legacy field study with the aim to identify any potential for re-activation.

The Company has engaged in further discussions to extend the Initial Phase to June 2018 to allow time for the Company to complete its minimum work program and fully analyse the results. However, the Company will only take advantage of this extension if it is able to find a partner who would be interested in a farm-out of this project and help ease the financial burden.

If a partner is found, GPML plans to execute a focused work programme, incorporating acquisition of 200 km 2D line seismic over an oil prospective area identified to the east of the depleted Haricha oil field. Following re-interpretation of existing 2D legacy seismic data on the permit, and prior to the acquisition of further 2D data, the Group has identified best estimate Prospective Resources of 11.4 mmboe of oil and gas (75% working interest) within the Moulay Bouchta permit area. These resources have been subject to external audit.

Additional reprocessing and interpretation of selected 2D lines to the east of the depleted Haricha oil field has resulted in the identification of new lead concepts, with gross recoverable Prospective Resources now estimated at 149 mmboe. This estimate has not been subject to external audit.

The Group continues to seek to farm-down or divest its interest in the Moulay Bouchta Petroleum Agreement, to reduce its future financial commitments.

Note that there exists no parent company guarantee under the Moulay Bouchta Petroleum Agreement.

Other exploration contracts

Exploitation concessions located on former Rharb Centre permit

The Group also holds interests in three exploitation concessions lying within the former Rharb Centre permit area as follows:

- Zhana 1, a 25 year concession that expires in June 2025 (GPX: 65%, ONHYM: 35%);
- Zhana 2, a 15 year concession that expires in February 2018 (GPX: 75%, ONHYM: 25%); and
- Sidi Amer 1, a 15 year concession that expires in July 2019 (GPX: 75%, ONHYM: 25%).

There are four wells on these three concessions that penetrate depleted, or near depleted gas reservoirs. The Group has no plans to re-enter or produce from these four legacy wells or gas fields as such activities have been evaluated to be economically unattractive.

Expired Rharb and Fes contracts

The Rharb and Fes exploration contracts both expired during 2015.

The Group continues to discuss with ONHYM the status of the restricted cash totalling $6.0 million previously held as performance guarantees for these permits (Rharb $1.0 million and Fes $5.0 million). The Group believes there are no grounds for any potential claims for financial sums or penalties resulting from the expiry of these licences, and therefore continues to request that ONHYM release these funds back to the Group. Discussions with ONHYM continue.

In this regard, in January 2016 Gulfsands gave notice to ONHYM that if various matters including those of any potential penalty for non-fulfilment of the minimum exploration work programme and the return of guarantee funds called are not resolved then Gulfsands reserves the right to proceed with arbitration as set out under the Rharb and Fes Petroleum Agreements.

Note, no parent company guarantee exists under the Fes Petroleum Agreement, or the Rharb Petroleum Agreement.

Tunisia

Gulfsands has a 100% interest in the operated Chorbane exploration permit onshore Tunisia covering approximately 1,942 km². The permit is subject to a PSC signed in 2009. The fiscal terms of the PSC are considered reasonable when compared on an international basis.

Chorbane contract

Contract expiry date: Second phase July 2017 following approval by the Ministry of a two year extension.

Minimum work obligation: Drilling one exploration well; and acquisition of 200 km of 2D seismic data.

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

The exploration risk level associated with the drilling of identified prospects and leads is considered to be medium for light oil in Eocene and Cretaceous aged formations which exhibit moderate to good reservoir quality, but relatively high for wet gas in deeper Jurassic aged formations which are anticipated to be of low reservoir quality.

The Group has identified best estimate Prospective Resources of 44 mmboe of oil and gas (100% working interest) within the Chorbane permit area. This resource estimate has been subject to external audit.

The current exploration period under the contract originally ran to mid-July 2015. In May 2015, Gulfsands submitted an application for a two year extension to this period during which the work obligation of acquiring 200 line km of 2D seismic and the drilling of one exploration well must be completed. The extension was granted to July 2017 but since then there has been a dispute over the work required and the Group has been unable to agree an appropriate work program with Entreprise Tunisienne d'Activités Pétrolières ("ETAP").

Consequently, in November 2016, the Group's subsidiary, Gulfsands Petroleum Tunisia Limited informed the Tunisian authorities that, if it could not find a partner for its projects, it intended to cease all Tunisian operations at the year end. Post year end the Group has initiated the close down of its Tunisian activities.

Note, no parent company guarantee exists under the Chorbane exploration permit.

Strategic Report

Reserves and Resources Report

Reserves

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

Working interest Reserves estimates for Syria have, to date, represented the proportion attributable to the Group's 50% participating interest, of forecast future hydrocarbon production during the economic life of the Block 26 PSC, including the share of that production attributable to General Petroleum Corporation ("GPC"). Hydrocarbons discovered on the Block 26 PSC contract area in Syria have been evaluated as Reserves for several years leading up to, and after, the imposition of EU sanctions in Syria. The Group's Reserves over this period have been based on estimates made by Gulfsands' technical teams which are then reviewed by independent petroleum engineers from external parties. External reviews of the Group's Reserves have been performed by Senergy (GB) Limited ("Senergy") since 2009.

As a consequence of the EU's imposition of further sanctions in Syria which came into effect in early December 2011, GPC has assumed operational full control and responsibility for the management of DPC (the joint venture operating company set up for managing development and production operations within Block 26), and Gulfsands has withdrawn all of its staff previously seconded to DPC.

Since December 2011 Gulfsands has received updates from DPC updates on oil volumes produced from the Group's Syrian fields under DPC's operation. These updates have been received on an infrequent and irregular basis and it has not been possible for Gulfsands to verify the content of the information provided. The Group has updated its remaining recoverable Reserves/Resource volumes for these fields on at least an annual basis based on the information that has been received from DPC.

Since the date of the first commercial oil production from the Block 26 area by the Group, cumulative oil production from the Group's fields is understood to have exceeded 26 mmbbls by year end 2016.

The Company recognises that it cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. Furthermore, the SPE PRMS Guidelines suggest that if the (re)commencement of development is five or more years from the date of evaluation then the volumes of hydrocarbons should be classified as Contingent Resources. The Company concluded in December 2015 that the uncertainty in any timeline over which EU sanctions in Syria may be lifted require that the volumes of oil, gas and condensate previously reported as Syrian Reserves be reclassified by the Company as Contingent Resources. During 2016, this classification a Contingent Resources has continued.

Whilst no definite timeline for the Syrian conflict can be substantiated, the Board believes that the EU sanctions ultimately will be lifted and will continue to monitor all activity focused on resolving the situation in Syria and reconsider the basis for reversing this reclassification in line with any future developments.

Resources

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

Summary of Contingent Resources

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

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

In estimating the Resources it has been assumed that the period of time elapsed during which the Group has declared Force Majeure on its Block 26 development and production activities will ultimately be added as an equivalent time period extension to the contractually specified time period following which the Block 26 Production Concessions were due to expire.

In February 2016 the Group received information from DPC stating that 0.267 million bbls of oil had been produced from the Group's fields during 2015 and exported by pipeline to the regional oil gathering station at Tal Addas, 22 km north east of the Group's Production Concessions. In addition, DPC reported for the first time, that oil also had been lifted from the Group's fields by an alternative oil export method, via production into tankers using gantry loading at the Khurbet East Production Facility, and that this method had been in operation throughout 2014 and 2015. Total oil production, by both methods, were therefore restated to being 2.384 million bbls of oil for 2014, and 1.421 million bbls of oil for 2015.

Reserves and Resources Report continued

Resources continued

Summary of Contingent Resources continued

In early 2017, DPC reported total produced volumes of oil during 2016, via both export methods of 0.477 million barrels of oil. Of this volume, 0.184 million bbls has been exported by pipeline to Tal Addas and 0.263 million bbls of oil has been exported via production into tankers using gantry loading.

Subsequent to the reporting period the Group has also been informed by DPC that the Group's Syrian fields were returned to production in January 2017, with oil being produced from up to 12 production wells (9 Khurbet East, 3 Yousefieh). The average oil production rate from both fields combined between January 2017 and April 2017 appears to be around 15-20 thousand bopd, with a cumulative gross oil volume of approximately 2 million barrels of oil having been produced during 2017 from both fields.

The Group is challenged to independently verify this production information from DPC, and whilst remaining sanctions compliant, continually seeks to gain additional information regarding the ongoing status of production operations at its Syrian fields.

The status of this production under the terms of the PSC is unclear at this time and the Group has not recognised any revenue for this or indeed any production, post the imposition of EU sanctions, but has updated based on this new production information the Group's Contingent Resource bookings (Gulfsands working interest 50%), which are stated below as of 1 January 2017. The revised Resource figures have not been reviewed by independent resource engineers.

In addition, Contingent Resources are estimated for the oil discovery at Al Khairat which is located a few kilometres outside of the Company's existing Block 26 Production Concession areas. These estimates have been reviewed by Senergy.

Unrisked working interest basis

As at 1 January 2017	Constituent	1C	2C	3C	**Risk factor** (Chance of development)
Syria Block 26 (Working interest 50%)					
Khurbet East and Yousefieh	Oil and Condensate, mmbbl	38.5	68.9	111.3	90%
Production Concessions	Gas, bscf	14.7	33.4	68.7	90%
Al Khairat discovery	Oil, mmbbl	2.9	12.0	45.7	30%
Total	**mmboe**	**43.8**	**86.4**	**168.4**	

Risked working interest basis

Total	**mmboe**	**37.7**	**70.6**	**124.1**

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

Summary of Prospective Resources

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

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

The Group has estimated Prospective Resources for its Moroccan Moulay Bouchta and Tunisian Chorbane onshore permits, and these estimates have been reviewed by Senergy.

Note that with the impending maturities of, and the Group's strategy with respect to, the Moulay Bouchta and Chorbane licences, it is likely that these Prospective resources will significantly reduce in 2017.

Unrisked working interest basis

As at 1 January 2017	Constituent	Low	Best	High	**Risk factor** (Chance of discovery)
Morocco Moulay Bouchta permit (Working interest 75%)					
Jurassic leads	Oil and Sales Gas, mmboe	1	11	75	Medium-High
Morocco total	**mmboe**	**1**	**11**	**75**	

	Constituent	Low	Best	High	**Risk factor** (Chance of discovery)
Tunisia Chorbane permit (Working interest 100%)					
Sidi Agareb prospect Eocene/Upper Cretaceous	Oil, mmbbl	8	27	63	9%-25%
Lafaya Deep and Sidi Daher prospects Jurassic leads	Sales Gas, bcf	21	103	398	11%
Tunisia total	**mmboe**	**12**	**44**	**129**	

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

Strategic Report
Financial Review

Gulfsands has continued to reduce its office expenses which have reduced by 43% in the year compared with 2015.

Selected operational and financial data

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
General administrative expenses	**(4,182)**	(6,965)
Exploration costs written-off/impaired	**(8,055)**	(53,799)
Adjustment to estimated decommissioning obligations	**(1,136)**	—
Adjustment to estimated penalty costs	**(2,800)**	—
Loss from continuing operations	**(19,755)**	(69,200)
E&E cash expenditure	**(1,879)**	(10,085)
Cash and cash equivalents	**1,036**	420
Restricted cash balances	**500**	3,691

Financial highlights for the year ended 31 December 2016

- The loss for the year from continuing operations was $19.8 million (2015: $69.2 million).
- Gulfsands has continued to reduce its office expenses have reduced by 43% in the year compared with 2015, as outlined in the table below.
- $5.3 million of E&E assets related to the Tunisian Chorbane licence have been written off at 31 December 2016, in addition, estimated potential penalty costs of $3.8 million which have been provided for.
- $1.1 million of E&E assets related to the Colombian Llanos 50 licence have been fully impaired as a result of the initial expiry of the licence in November 2016; in addition, the related restricted cash balances of $1.5 million have also been provided against.
- $1.1 million of E&E assets related to the Colombian Putumayo 14 licence have been fully impaired at 31 December 2016, given the time left on the licence; in addition, the related restricted cash balances of $1.8 million have also been provided against.
- $0.5 million of costs related to the Moulay Bouchta licence were incurred and immediately impaired during the year. This was offset by a $1.0 million reduction to the estimated potential penalty costs provided for, subsequent to the amendment of the minimum work programme.
- The estimated decommissioning provision obligations of the Rharb permit has been increased by $1.1 million.
- The Group continues to hold its investment in its Syrian interest at a carrying value of $102.0 million.
- Cash and cash equivalents increased by $0.6 million in the year to $1.0 million at 31 December 2016 (31 December 2015: $0.4 million).

Operating performance

General administrative expenses

	Year ended 31 December 2016 $'000	Year ended 31 December 2015 $'000
Office expenses	**4,986**	8,727
Partner recoveries	**(276)**	(552)
Restructuring costs	**—**	1,044
Depreciation and amortisation	**78**	506
Office expenses capitalised	**(606)**	(2,760)
General administrative expenses	**4,182**	6,965

General administrative expenses for the year ended 31 December 2016 totalled $4.2 million (2015: $7.0 million). This decrease follows a reduction of activity in Colombia, Morocco and Tunisia, an increased focus of management on the Syrian Block 26 asset, and continuing efforts to manage costs to fit the current business model and strategy.

Exploration and evaluation ("E&E") asset impairments for the period totalled $8.1 million (2015: $51.0 million) and relate predominantly to the Tunisia (the Chorbane licence) and Colombia (the Llanos 50 block and the Putumayo 14 block).

In November 2016, the Llanos-50 contract expired, and given that there was uncertainty over whether the licence could be successfully extended, the expenditure to date attributed to the Llanos-50 contract of $1.1 million has been fully impaired. Alongside this, the recovery of restricted cash balance of $1.5 million held as performance guarantees in relation to the minimum work obligation under this contract has also been fully provided against. Subsequent to the year end the contract was successfully extended by 18 months to May 2018, however despite this extension, there remains uncertainty as to whether the Group will attract a partner to execute the work programme and so this treatment has been retained.

The Putumayo-14 licence expires in November 2017 and the company is in dialogue with ANH regarding an extension. However, given the time left on the licence, and notwithstanding the Samarium farm-out deal, in accordance with Group policy, the Board has taken the prudent approach of providing against the $1.7 million of restricted cash supporting the Putumayo-14 Letter of Credit, and the expenditure to date attributed to the Putumayo-14 contract of $1.1 million has been fully impaired.

On the Moulay Bouchta licence, discussions to extend the licence progressed during the year with an agreement reached to extend the Initial phase to June 2017, which was eventually approved in February 2017. The extension reduces the minimum work programme commitment by $1 million, and so the provision for a potential penalty has been commensurately reduced by $1 million. $0.5 million of internally capitalised costs in 2016 were immediately impaired.

In late 2016, the Group made a strategic decision to exit from Tunisia if it could not find a partner for its projects, where it holds the Chorbane contract which is due to expire in July 2017. The capitalised E&E asset under the Chorbane contract during the period of the contract, totalling $5.3 million, has been fully impaired, with associated penalty costs of the minimum work obligation of $3.8 million being provided for. No restricted cash balances are held as a guarantee in relation to the minimum work obligation under the Chorbane contract.

The Group reported a loss before tax for continuing operations for the year ended 31 December 2016 of $19.8 million (2015: $69.2 million).

Balance Sheet

While the Group still has interests in a number of E&P contracts in its portfolio, the Group's intangible exploration and evaluation ("E&E") assets are now held at a net book value of $nil at 31 December 2016 (31 December 2015: $7.1 million). Capital expenditures totalled $0.9 million for the year (2015: $8.5 million).

Management has reviewed the carrying value of all its remaining E&E assets at the date of this Report and notes that there are uncertainties caused by the upcoming expiry dates on certain contracts and the potential for non-fulfilment of work obligations in the necessary timeframes. Despite the write-downs and impairments in accordance with its accounting policies, management's strategy remains to protect the value of all of its E&E assets, and where possible it is seeking contract extensions and the restructuring of certain of its work obligations to allow the contracts to be appropriately farmed down, divested or exited. It should be noted that management may not be successful in its strategies for the E&E assets. The contract/licence expiry dates, capital commitments and restricted cash balances held are detailed further in note 2.4 to the Consolidated Financial Statements.

Strategic Report
Financial Review continued

Balance Sheet continued
The Group's investment in DPC, the entity established in Syria, pursuant to the PSC, to administer the Group's Syrian oil and gas development and production assets (and which is considered to also include the related rights to production under the PSC), is recorded as an available-for-sale investment. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and subject to material change and uncertainty. Management reviewed the internal valuation methodology in 2016, and as per 2015, continues to believe that as a result of the passage of time and the high degree of judgement required, it is no longer possible to reliably estimate the investment's fair value. Management, as it did at 31 December 2015, continues to carry forward the last valuation which could be reliably determined, being the $102 million previously disclosed. This value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement.

At 31 December 2016 management has carried out an impairment review, using an economic model of the estimated future cash flows that could be generated in respect of the Group's entitlement volumes in Block 26 (see note 4.2 for details). The Management team has reviewed this economic model in detail and believes, due to the high degree of subjectivity inherent in the valuation, that it is imperative that the valuation model and its key drivers and assumptions are as transparent as possible. Management assessed the key drivers to be: the oil price, and the delay to resumption of production. For the year ended 31 December 2016 Management has decided to use the Brent forward curve to 2022 (Source: Hannam & Partners) for its oil price assumption, and then a 2% per annum escalation factor applied thereafter as the forecast for the 'base case' comparative. Given the other sources of oil price data reviewed, Management consider this to be a conservative approach. Gulfsands cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. Whilst no definite timeline can be substantiated, the Board continues to believe that the EU sanctions will be lifted within five years and will continue to monitor all activity focused on resolving the situation in Syria. Management has decided to use commencement of production in five years as the 'base case' comparative.

The 'base case' comparative model calculates: a gross contractor undiscounted NPV(0) of $1.93 billion; Gulfsands 50% interest NPV(0) of $0.97 billion and Gulfsands discounted NPV(15) of $150.7 million. Therefore, Management believes no impairment is necessary and has maintained the $102 million carrying value on the Balance Sheet at year end. Following consideration, Management consider it premature to revalue the carrying value to the $150.7 million discounted cash flow given the ongoing risks of the Block 26 asset in Syria.

The Board's view is that there has been little significant change to the circumstances and status of the Group's Syrian interests during the year. The Board is still unable to provide a firm view as to the eventual outcome and the timing of resolution of the situation in Syria that would lead to the EU lifting sanctions against Syria, allowing Gulfsands to return, however, they continue to consider that its position in respect of its interests remains strong and all indications are that the Syrian authorities expect Gulfsands and its partner to return to operational control of their interests in accordance with the terms of the PSC as soon as circumstances permit.

The Directors have reviewed the carrying value of this available-for-sale financial asset at 31 December 2016 and are of the opinion that the carrying value, although subject to significant uncertainty, remains appropriate in the circumstances.

Inventory held at 31 December 2016 totalled $1.1 million (2015: $1.1 million) related to inventory held in Morocco. Due to Management's strategy in Morocco, it is anticipated that the inventory will not be utilised on future drilling and production activities and instead value will be likely extracted via disposal.

At 31 December 2016, the Group has decommissioning and/or restoration obligations in respect of a number of wells and well sites in Morocco under the Moroccan Hydrocarbon Code. A provision has been established for these obligations totalling $1.6 million (2015: $0.4 million). The wells and well sites are located on the expired Rharb and Fes permits and on the three exploitation concessions located within these permits. These include the three discoveries on the Rharb Centre permit: LTU-1, DRC-1 and DOB-1, which have all been temporarily suspended. Included within the decommissioning and/or restoration obligations are obligations on all legacy wells drilled prior to the Group's acquisition of those interests. Following continued examination during 2016 of the scope of work involved, it is anticipated that the fulfilment of these obligations can be completed by a combination of well work-over completions (in conjunction with a plug and abandonment programme with other operators in-country) and full column cementing (based upon technical and/or health and safety interpretation). The Rharb and Fes petroleum contracts expired during 2015, and as at 31 December 2016 all decommissioning provisions are disclosed as current liabilities and no discount rate has been applied to the estimated cost of decommissioning works.

While this provision has been established as a liability under IFRS, the Company considers that this decommissioning obligation should be fully satisfied by part of the performance guarantees inappropriately taken by ONHYM in respect of the Rharb and Fes licences, as described in note 6.6.

At the end of 2015, the Company made an Open Offer to all qualifying Shareholders to provide an opportunity to subscribe for an aggregate of 354,837,296 Open Offer Shares (representing a subscription of 350,733,941 new ordinary shares and a purchase of 4,103,355 Treasury Shares) on the basis of 3.01 Open Offer Shares for every one existing share held as at the Record Date, at an Open Offer Price of 4.0 pence per Open Offer Share. The Open Offer closed for acceptances at 11:00 a.m. on 12 January 2016 and the Company announced that it had received valid acceptances in respect of 151,760,157 Open Offer Shares from Qualifying Shareholders. Pursuant to the Underwriting, a further 203,077,139 Open Offer Shares were subscribed for by Waterford Finance & Investment Limited ("Waterford") and Blake Holdings Limited ("Blake"), (a company owned and controlled by Mr. Richard Griffiths), such that a total of 354,837,296 Open Offer Shares were subscribed for under the Open Offer. The Company therefore raised aggregate gross proceeds of £14,193,491.84 through the Open Offer. The 350,733,941 new ordinary shares were admitted to trading on AIM on 14 January 2016. The Company also sold its 4,103,355 treasury shares to Qualifying Shareholders under the terms of the Open Offer. Following the issue of the new ordinary shares and the sale of the treasury shares, at 30 June 2016 Gulfsands had 472,723,441 ordinary shares of 1.0 pence each in issue.

Subsequent to the closing of the Open Offer, the Convertible Loan Facility was discharged in full on 14 January 2016. The balance outstanding on the Convertible Loan Facility at this date was $14.5 million inclusive of rolled up interest and facility fees.

On 12 August 2016 the Company raised approximately £1.5 million ($1.9 million) by a placing of 47,272,344 new ordinary shares at 3.125 pence per share ("Placing Shares"), the mid-market closing price per ordinary share on 9 August 2016 (the "Placing"). The Placing Shares were subscribed for by existing shareholders in the Company, Waterford, Blake, and ME Investments Limited (the "Major Shareholders"), and the proceeds were used for general working capital purposes. Following the Placing the total number of ordinary shares in the Company in issue is 519,995,785, which remains unchanged at the date of this Report.

On 15 February 2017, the Company entered into a Secured Term Financing Facility of up to £4.0 million (the "2017 Facility") with its Major Shareholders (the "Lenders"). The 2017 Facility is available for drawdown by the Company in five equal tranches of £0.8 million each. The first tranche was drawn immediately upon the satisfaction of various administrative conditions precedent in February 2017, with the further tranches being available on or after 31 March 2017 (which was completed in April 2017), 30 June 2017, 30 September 2017 and 31 December 2017. The first two tranches, were committed by the Lenders, with the final three tranches, being subject to re-approval by each of the Lenders prior to each drawdown request. At the time of writing, the first three tranches have been drawn down after the Lenders unanimously agreeing to allow the third tranche to be drawn down ahead of the scheduled date of 30 June, 2017, in late April 2017, to assist with working capital requirements. Further details of the Facility are outlined in note 6.7.

Cash flow

The total increase in cash and cash equivalents during the year was $0.6 million (2015: $7.5 million decrease). Net cash outflow from operating activities during the period totalled $5.0 million (2015: $5.5 million). Investing cash outflow from continuing operations during the period totalled $1.9 million (2015: $10.1 million). Net cash received from financing activities totalled $7.5 million, due to the January 2016 Open Offer and August 2016 placing, net of repayment of the Convertible Loan Facility.

Financial position

At 31 December 2016 the Group had total unrestricted cash and cash equivalents of $1.0 million (31 December 2015: $0.4 million).

Restricted cash balances at the end of the year (which are presented as long-term financial assets in the Balance Sheet) totalled $0.5 million (31 December 2015: $3.7 million), and represent funds securitised as collateral in respect of future work obligations – with amounts not provided against, principally being in respect of the Group's Syrian Block 26 interest. At 31 December 2016, a provision of $3.2 million was made against the restricted cash balances securitised as collateral in respect of future work obligations on the Llanos-50, and the Putumayo-14 licence.

In 2015 $6.0 million of restricted cash balances had been provided for in relation to the maturing Rharb and Fes Petroleum Agreements. During 2015 ONHYM seized these funds. The Group considers that this restricted cash should not be retained by ONHYM and continues to pursue the return of these restricted funds from ONHYM in relation to the Fes and Rharb licences.

Going concern

As at the date of this Report, the Group has cash balances immediately available to it totalling approximately $2.4 million and ongoing General and Administrative costs are expected to further decrease by the end of the second half of 2017 to a level of approximately $0.2 million per month.

On 15 February 2017, the company entered into a Secured Term Financing Facility of up to £4 million (the "2017 Facility") with its Major Shareholders (the "Lenders"). The 2017 Facility is available for drawdown by the Company in five equal tranches of £0.8 million, the first was drawn immediately upon the satisfaction of various administrative conditions precedent in February 2017, with the further tranches being available on or after 31 March 2017 (which was completed in early April 2017), 30 June 2017, 30 September 2017 and 31 December 2017. The first two tranches, were committed by the Lenders, while the final three outstanding tranches, remain subject to re-approval by each of the Lenders prior to each drawdown request. In late April 2017, the Lenders unanimously agreed to allow the third tranche to be drawn down ahead of the scheduled date of 30 June, 2017 to assist with working capital requirements. Further details of the Facility are outlined in note 6.7.

Strategic Report
Financial Review continued

Going concern continued

In the absence of any other sources of cash flow, the Group will need to raise additional capital by the end of Q3 2017 to fund ongoing operations. There remains up to £1.6 million (c. $2.0 million) available under the 2017 Facility, and should that be approved for drawdown by the Lenders, the Group's cash forecast indicates that the Group would have sufficient funds until Q2 2018.

The company remains reliant on the support of its three major shareholders, without whose support, the Company would be seriously financially challenged. Based upon its experience and ongoing discussions with those shareholders, the Board believes that the Group will be able to access the appropriate resources, either through the remaining 2017 Facility drawdowns and/or through equity, to finance the revised strategy, however there are no binding agreements or commitments in place.

If the Company and Group not complete the minimum work commitments within agreed time periods, either directly, or via strategic divestments or transactions with third party entities, penalties equal to the unfulfilled contracted work commitments may be payable. These could be substantial and additional details of the capital commitments for the Company's licences/permits are fully described in note 2.4.

Potential liabilities to licences in Morocco and Tunisia, are housed in dedicated subsidiaries without any parent company guarantees in place. In analysing the Group's financial needs, the Board has considered the timing and likelihood of the payment of all current and potential liabilities.

Following completion of a review of the going concern position of the Company and Group at the meeting of the Board of Directors on 26 May 2017, including the uncertainties described above, the Board has concluded that, with current consolidated cash and cash equivalents totalling $2.4 million and taking into account both the Board's current strategy and the new financial resources that the Board might reasonably expect to become available, the Company and the Group will have sufficient resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of approval of this Financial Report. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these Financial Statements.

Notwithstanding the confidence that the Board has in its ability to finance the Group's re-shaped business, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that such finance can be procured and failure to do so might cast significant doubt upon the Company's and the Group's ability to continue as a going concern and that the Company and the Group may therefore be unable to realise their assets and discharge their liabilities in the normal course of business. These Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

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

This Strategic Report was approved by the Board of Directors on 26 May 2017.

John Bell
Managing Director

26 May 2017

Cautionary statement

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

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

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

Governance

Board of Directors

James Lawrence Ede-Golightly, aged 37

Chairman

Mr Ede-Golightly is chairman of East Balkan Properties plc, Quoram plc and Cronin plc and has extensive experience as a non-executive director on the boards of AIM-quoted companies with international business interests.
Mr Ede-Golightly was a founder of ORA Limited in 2006, having previously worked as an analyst at Merrill Lynch Investment Managers and Commerzbank AG. He is a CFA Charterholder and holds an MA in Economics from Cambridge University. In 2012 he was awarded New Chartered Director of the Year by the Institute of Directors. Mr Ede-Golightly was appointed a Non-Executive Director of Gulfsands in August 2014. Mr Ede-Golightly holds a 5.0% interest in, and is a Non-Executive Director of, ORA Limited, which is a Company chaired and majority owned by Mr Richard Griffiths. Mr Griffiths, through other associated entities, is a substantial shareholder in Gulfsands.

John Bell, aged 51

Managing Director

Mr Bell is a Chartered Engineer with over 25 years of experience in the energy sector having worked at Vice President or Managing Director level at BP plc, Statoil AS and Suncor Energy (Syria). He has spent a large part of his career in the Middle East, as well as time in North Africa, the Americas, the UK North Sea, Scandinavia and the Caribbean. Where he has successfully been involved in developments, operations, corporate restructuring, refinancing and growing businesses to provide enhanced shareholder returns. He has a First Class Honours Degree in Engineering from Strathclyde University in Scotland, and studied Executive Leadership at Haas School of Business University of California, Berkeley. Previous directorships include Gulf Keystone Petroleum (NED) and Tethys Petroleum where he was Executive Chairman.
Mr Bell joined the Board as a Non-Executive Director of Gulfsands in August 2014 and assumed the role of Managing Director in July 2016.

Andrew James Morris, aged 48

Finance Director

Mr Morris has extensive international business experience and advises and sits on the boards of companies, ranging from early stage resource companies to emerging technology companies. He is currently non-executive chairman of Madagascar Oil Limited and was founder of Persistency Capital, where he acted as both investor in, and adviser to, companies across a broad range of sectors and geographies. Previous directorships include Falcon Oil & Gas Ltd, SouthWest Energy Ltd, Kriisa Research Inc. and Direct Petroleum Exploration Inc. as well as Blake Oil and Gas Limited and various related parties. Previously, Mr Morris served as a director of Ernst & Young, where he advised a broad range of organisations on enterprise risk management including corporate governance, management reporting, financial control, operational risk and process improvement. Mr Morris holds a BSc (Hons) degree in Mathematics from Bristol University and is a Fellow of the Institute of Chartered Accountants in England and Wales. Mr Morris joined the Board of Gulfsands as a Non-Executive Director in April 2015 and became Finance Director in July 2016.

Joseph Darby, aged 69

Senior Independent Non-Executive Director

Mr Darby has over 40 years of experience in the energy sector, including eight years with Shell Petroleum before becoming managing director of Thomson North Sea Ltd and later the Chief Executive of LASMO plc. He has held non-executive roles at Nordaq Energy plc, British Nuclear Fuels plc, Mowlem plc, Centurion Energy Inc and Alkane Energy plc. Mr Darby was previously chairman of Mowlem plc (2005-06) and Faroe Petroleum plc (2003-07). Mr Darby is currently a Non-Executive Director of Bowleven plc and recently stepped down from being Non-Executive Director of Premier Oil plc. He was appointed a Non-Executive Director of Gulfsands in November 2012.

Michael Kroupeev, aged 50

Non-Executive Director

Mr Kroupeev has 22 years' experience working within the exploration and production sector. After University in Moscow and MBA at London Business School, he began his career working for Dana Petroleum plc as a Director in 1994. In 1995, Mr Kroupeev founded Waterford Finance and Investment Limited ("Waterford"). Waterford is an oil and gas focused vehicle, specialising in the financing of oil, gas and other energy related projects. He has been directly involved in the capital raising for natural resource projects and in acquiring, restructuring, developing and divesting such assets. Waterford has a number of substantial shareholdings in oil and gas companies with operations in Europe, Africa, Australasia and Former Soviet Union countries, and holds a 37.32% interest in the Company. He was appointed a Non-Executive Director of Gulfsands in October 2016.

Richard Milne, aged 61

Non-Executive Director

Mr Milne was most recently Group Head of Legal and Commercial Affairs at Petrofac Limited ("Petrofac"), from which he retired in 2015. Mr Milne joined Petrofac in 2004 with responsibility for advising on the legal and commercial aspects of the group's activities. Mr Milne was heavily involved in Petrofac's successful admission to listing on The London Stock Exchange in 2005 and in developing the group's governance and compliance framework. Prior to joining Petrofac, Mr Milne spent some 15 years in corporate finance after working in the insurance brokerage industry. Mr Milne is a graduate of Oxford University and qualified as a solicitor. He was appointed a Non-Executive Director of Gulfsands in October 2016.

Directors' Report

The Directors present their Annual Report together with the audited Financial Statements of Gulfsands Petroleum plc and its subsidiary undertakings (the "Group" or the "Company" or "Gulfsands") for the year ended 31 December 2016.

The Corporate Governance Report, Audit Committee Report and Directors' Remuneration Report set out on pages 28 to 35 form part of this Directors' Report.

Any significant events since the Balance Sheet date are detailed in note 6.7 to the Consolidated Financial Statements, however an indication of possible future developments in the business of the Group are included in the Strategic Report on pages 1 to 24.

Dividends

The Directors do not recommend payment of a dividend in respect of 2016 (2015: $nil).

Capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are set out in note 6.1 to the Consolidated Financial Statements. The ordinary and deferred shares carry no right to fixed income. Each ordinary share carries the right to one vote at general meetings of the Company. The deferred shares have no voting rights.

On 14 January 2016 the Company completed an Open Offer of ordinary shares to shareholders on the record date resulting in the issue of 350,733,941 new ordinary shares and the sale of 4,103,355 treasury shares.

On 12 August 2016 the Company completed a Placing of ordinary shares to existing shareholders in the Company, Waterford, Blake, and ME Investments Limited, and the proceeds were used for general working capital purposes. Following the Placing the total number of ordinary shares in the Company in issue is 519,995,785.

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

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

No person has any special rights of control over the Company's share capital. As at 31 December 2016 all issued shares were fully paid.

Directors and their interests

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

	At 31 December 2016		At 31 December 2015	
	Number of ordinary shares	**Number of share options**	Number of ordinary shares	Number of share options
A Beardsall[(1)]	**–**	**–**	–	–
A West[(5,6)]	**561,977**	**–**	140,144	–
A Morris[(2,6)]	**320,800**	**5,000,000**	80,000	–
J Darby[(6)]	**100,250**	**–**	25,000	–
J Bell[(3)]	**–**	**8,000,000**	–	–
J Ede-Golightly[(6)]	**80,200**	**2,000,000**	20,000	–
M Kroupeev[(4,7)]	**194,042,618**	**1,000,000**	33,100,513	–
R Milne[(4)]	**–**	**1,000,000**	–	–

(1) Appointed 14 April 2015. Resigned on 22 July 2016.
(2) Appointed Non-Executive Director on 22 April 2015, appointed Finance Director on 22 July 2016.
(3) Appointed Non-Executive Director on 13 August 2014, appointed Managing Director on 22 July 2016.
(4) Appointed 10 October 2016.
(5) Resigned 31 December 2016.
(6) Following the Open Offer on 14 January 2016, Mr West, Mr Morris, Mr Darby and Mr Ede-Golightly all took up their entitlement of 3.01 shares per existing share and increased their shareholdings to the following: Mr West 561,977; Mr Morris 320,800; Mr Darby 100,250 and Mr Ede-Golightly 80,200.
(7) Mr Kroupeev is an ultimate beneficial owner of Waterford.

Substantial shareholders

Except for the holdings of ordinary shares listed below, the Company has not been notified by, or become aware of, any persons holding 3% or more of the issued ordinary shares of the Company at 26 May 2017:

Name	Number of shares	% of shares in issue
Waterford Finance and Investment Limited(1)	194,042,618	37.32%
Blake Holdings Limited(2)	145,856,452	27.70%
ME Investments Limited	72,623,428	13.97%
Seren Capital Management Limited(2)	9,730,717	2.06%
Cream Capital Limited(2)	8,020,000	1.70%
Richard Griffiths	50,000	0.01%

(1) Companies associated with Michael Kroupeev.
(2) Companies associated with Richard Griffiths.

Directors' interests in transactions

Details of transactions with Directors for the year ended 31 December 2016 are set out in note 6.3 to the Consolidated Financial Statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable laws and International Financial Reporting Standards ("IFRS") as adopted by the EU.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group and Company financial statements in accordance with IFRS as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Statement of disclosure to the auditor

So far as the Directors, at the time of approval of their Report, are aware:

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

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

Auditor

A resolution to reappoint BDO LLP as auditor and to authorise the Directors to fix their remuneration will be put to shareholders at the Annual General Meeting.

By order of the Board,

John Bell
Managing Director

26 May 2017

Governance

Directors' Corporate Governance Report

Companies listed on the main market of the London Stock Exchange are required to comply with the UK Corporate Governance Code. Gulfsands Petroleum shares are traded on AIM and as such, the Company is not subject to the requirements of the UK Corporate Governance Code on corporate governance. However, as a publicly quoted company, the Company is committed to maintaining appropriate standards of corporate governance.

The UK Corporate Governance Code represents the 'gold standard'. However, the UK Corporate Governance Code was not designed with smaller companies in mind. Adherence to the full UK Corporate Governance Code is often impractical for smaller companies.

The Directors recognise the importance of sound corporate governance and seeks to comply with the Main Principles of the UK Corporate Governance Code and the detailed provisions of the QCA corporate governance code 2013, as is appropriate for a company of Gulfsands' current size and stage of development.

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

The Gulfsands Board

The role of the Board

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

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

The composition of the Board

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

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

The Board of Directors currently comprises six Directors; the Non-Executive Chairman, the Managing Director, the Finance Director, and three Non-Executive Directors including a Senior Independent Director. In accordance with the QCA code the Board includes two independent Non-Executive Directors, Joe Darby and Richard Milne. A brief description of each of the Directors' backgrounds and experience can be found on page 25. The Board continues to review its composition.

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

How the Board operates

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

- the Group's overall strategy and objectives;
- material acquisitions and disposals and major expenditure commitments;
- borrowing and hedging of oil and gas sales;
- the issuance of equity and options;
- annual work programme and budget;
- the Group's annual and half-yearly Financial Statements;
- Board appointments, remuneration and roles; and
- corporate policies and corporate governance arrangements.

Through the publication of regular announcements, and face-to-face meetings where appropriate, the Board has sought to communicate its strategy, objectives and performance to all shareholders on a timely basis.

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

Committees of the Board

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

1. Audit Committee

The Audit Committee Report on pages 33 to 35 includes a discussion of the role, structure and composition of the Audit Committee.

2. Remuneration Committee

The Directors' Remuneration Report on pages 30 to 32 includes a discussion of the role, structure and composition of the Remuneration Committee.

The number of meetings of the Board and its Committees during 2016, and individual attendance by Directors, is shown below:

	Board	Audit	Remuneration
Number of meetings 2016	**15**	**4**	**5**
Attendance:			
Alastair Beardsall	6	n/a	n/a
Andrew West	12	n/a	n/a
Andrew Morris	15	4	n/a
Joe Darby	13	n/a	5
John Bell	14	3	2
James Ede-Golightly	14	2	5
Michael Kroupeev(1)	2	0	3
Richard Milne(1)	2	1	n/a

(1) Appointed 10 October 2016.

Governance

Directors' Remuneration Report

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

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

Unaudited information

Role of the Remuneration Committee

The activities of the Remuneration Committee are governed by terms of reference which cover its mandate, its composition, the independence and expertise of the members, frequency of meetings, and its responsibilities which include: determining and developing the remuneration policy and determining the remuneration packages of the Executive Board. The terms of reference were reviewed in March 2016 and are available on the Company's website.

The Remuneration Committee derives its authorities from the Delegation of Board Authorities, which was last reviewed in October 2016, and is the Committee responsible for ensuring that the Company's overall reward philosophy is consistent with achievement of the Company's strategic objectives in line with the Company's values.

It is responsible for considering and making recommendations to the Board in respect of remuneration for the Chairman and Executive Directors. The Committee also has oversight of the remuneration arrangements for the direct reports to the Executive Directors, the remuneration for whom is set by the Managing Director in conjunction with the Chairman.

The remuneration of Non-Executive Directors is a matter for the Chairman in consultation with the Managing Director and the Chairman of the Remuneration Committee, with fees being determined by the Board excluding the Non-Executive Directors.

Composition of the Remuneration Committee

Joe Darby was Chairman of the Remuneration Committee throughout the year initially with James Ede-Golightly and John Bell as members of the Committee. Following the appointment of John Bell as Managing Director, his place on the Committee was taken by Michael Kroupeev. A brief description of their backgrounds and experience can be found on page 25. The varied backgrounds of the Committee's members, and their collective skills, experience and knowledge of the Company, allows them to fulfil the Committee's remit and to oversee the Company's remuneration policy.

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

Number of Remuneration Committee meetings and attendance

The Remuneration Committee normally meets at least twice a year but during 2016 met on several occasions and had numerous meetings by telephone to review the remuneration reporting in the Annual Report and Accounts for 2015 and in the interim report for 2016, and to determine remuneration packages for the Chairman, Managing Director, Finance Director and new Non-Executive Directors following Board changes which occurred in July 2016 and subsequently.

Remuneration policy

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

Directors and employees may be remunerated by a combination of salary, annual bonuses and share-based awards which reflect the size of the Company, the scope of its activities and its financial position. Salary levels will reflect the seniority of the individuals and responsibilities of their roles. Variable elements of remuneration, annual bonus and share incentive awards, will be dependent upon Company and individual performance, and/or linked to length of service. Generally, variable remuneration will comprise a significant part of overall remuneration.

The policy was reviewed in 2011 by Hewitt New Bridge Street, independent remuneration consultants, who undertook a benchmarking exercise in 2013 comparing remuneration of Directors and other staff with their equivalent peers in other independent oil and gas companies. Hewitt New Bridge Street were also consulted in 2016 on remuneration packages for Executive and Non-Executive Directors appointed in 2016.

Annual bonus

The annual bonus scheme provides bonuses up to 100% of base salary for Executive Directors and staff for achievement of performance in excess of normal expectations. In the past, bonuses were entirely discretionary based upon performance during the year compared to budget and plan. This practice may continue In the future, but it is likely to be supplemented or replaced by setting challenging targets in advance against which performance can be measured and bonuses paid accordingly.

No bonuses were paid to Executive Directors in respect of 2016.

All staff are eligible to be considered for the award of annual bonuses but these are entirely at the discretion of the Company.

Share incentive schemes

The only share-based plan currently in operation is the Gulfsands Restricted Share Plan which was introduced in 2010 and expires in 2020. Under this plan, share awards may be granted to Directors and members of staff and may be based upon length of service and/or linked to achievement of performance criteria.

No share awards were granted to Directors or employees between 2011 and 2015. As a result of the fall in share price since the imposition of sanctions against Syria towards the end of 2011, options held by Directors at that time have either lapsed or, if still outstanding, are exercisable at share prices significantly in excess of the current share price.

During 2016, John Bell was appointed full time Managing Director and Andrew Morris was appointed Finance Director on a less than full time basis. In view of the continuing uncertainty surrounding the Company's business in Syria and the shortage of available funds, it was decided that remuneration packages for these two executives should be a combination of base salary and share options. Accordingly, John Bell was awarded 8 million share options and Andrew Morris 5 million share options. 4 million of Mr. Bell's options and 3 million of Mr. Morris' will vest quarterly over a two-year period from July 2016 dependent in part on continued service during that period and in part on performance criteria related to the achievement of strategic objectives. The vesting schedule of the additional 4 million and 2 million options respectively have yet to be determined. Once vested, the options are exercisable for a period of 10 years.

Share options were also granted to the Chairman and two new Non-Executive Directors as detailed in the table below. These options are not subject to performance criteria. Half of their respective awards vested on the date of award and the other half will vest after one year.

Audited information

Remuneration of Directors

The remuneration of the Directors for the year ended 31 December 2016 was as follows:

	Annual remuneration ($'000)							
	Salary and fees		Bonuses		Benefits in kind		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
A Beardsall(2)	**253**	304	**—**	—	**—**	—	**253**	304
A West(1,6)	**45**	72	**—**	—	**—**	—	**45**	72
A Morris(3)	**124**	40	**—**	—	**1**	—	**125**	40
J Darby(1)	**52**	69	**—**	—	**—**	—	**52**	69
J Bell(4)	**129**	59	**—**	—	**1**	—	**130**	59
J Ede-Golightly(1,7)	**54**	59	**—**	—	**—**	—	**54**	59
M Kroupeev(1,5)	**9**	—	**—**	—	**—**	—	**9**	—
R Milne(1,5)	**9**	—	**—**	—	**—**	—	**9**	—
	677	603	**—**	—	**2**	—	**679**	603

(1) Non-Executive Director.
(2) Appointed as Executive Chairman on 14 April 2015. Resigned 22 July 2016.
(3) Appointed Non-Executive Director 22 April 2015. Appointed Finance Director 22 July 2016.
(4) Appointed Non-Executive Director 13 August 2014. Appointed Managing Director 22 July 2016.
(5) Appointed 10 October 2016.
(6) Resigned 31 December 2016.
(7) Non-Executive Director 1 January 2016 – 21 July 2016. Appointed Chairman 22 July 2016.

In addition to the remuneration shown, the Group incurred share-based payment charges of $159K (2015: nil) in respect of the above named Directors relating to options granted in 2016.

Governance

Directors' Remuneration Report continued

Share options

The interests of the Directors, who held office during the 2016, in options over the Company's shares are set out in the table below:

	Number of options						
	At 1 January 2016	Issued	**At 31 December 2016**	Exercise price (£)	Exercisable at 31 December 2016	Date from which exercisable	Expiry date
J Bell	—	8,000,000	**8,000,000**	0.01	1,000,000	11/11/2016	11/11/2026
A Morris	—	5,000,000	**5,000,000**	0.01	620,000	11/11/2016	11/11/2026
J Ede-Golightly	—	2,000,000	**2,000,000**	0.0375	1,000,000	11/11/2016	11/11/2026
M Kroupeev	—	1,000,000	**1,000,000**	0.0375	500,000	11/11/2016	11/11/2026
R Milne	—	1,000,000	**1,000,000**	0.0375	500,000	11/11/2016	11/11/2026

All other Directors held no share options or restricted share options at 31 December 2015 or 2016.

This Report was approved by the Board of Directors on 26 May 2017 and signed on its behalf by:

Joe Darby
Chairman of the Remuneration Committee

26 May 2017

Governance
Audit Committee Report

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

During 2016, four meetings were held which were also attended by Executive Directors and members of staff who had input relevant to the meeting agendas.

As far as financial reporting was concerned, attention focused mainly upon the value of the Group's assets in Syria, the carrying values for tangible and intangible assets, disclosure of contingent liabilities and the going concern basis for reporting. In addition, the Committee reviewed the key risks to which the Group is exposed.

The relationship with, and performance of, the external auditor was evaluated. The Audit Committee is satisfied that non-audit fees payable to the external auditor are not material enough to impact auditor objectivity or independence.

After consultation with the external auditor following the full year 2016 audit, the Committee advised the Board that in its view the Annual Report and Financial Statements for 2016 are a true and fair reflection of the Company's and the Group's performance and position at year end, and provide the information necessary for shareholders to understand the Company and make their own assessments.

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

Composition of the Audit Committee

Andrew Morris began the year as Chairman of the Audit Committee, but following his appointment as Finance Director, James Ede-Golightly was appointed interim Chairman of the Committee. Richard Milne was appointed Chairman of the Committee in November 2016 and the members became and remain James Ede-Golightly and Michael Kroupeev. A brief description of the background and experience of the current members of the Committee can be found on page 25. The varied backgrounds of the Committee's members, and their collective skills, experience and knowledge of the Company, allows them to fulfil the Committee's remit and to oversee the Company's auditor.

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

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

Role of the Audit Committee

The activities of the Audit Committee are governed by terms of reference which cover its mandate, its composition, the independence and expertise of the members, frequency of meetings, and its responsibilities which include oversight of the external audit function, risk management, internal controls, financial reporting, and the provision by the auditor of non-audit services. The terms of reference were last updated in March 2016 and can be found on the Company's website.

The authority of the Audit Committee derives from the Delegation of Board Authority which was last reviewed in October 2016. As further set out in the terms of reference, the primary duties of the Audit Committee are:

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

Audit Committee Report continued

Activities of the Audit Committee during the year

The work of the Audit Committee in the financial year 2016 principally fell under three main areas and is summarised below:

Accounting and financial reporting	Internal controls and risk	External auditor

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

Significant issues considered by the Audit Committee

Carrying value of the Group's producing operations in Syria

(see note 4.2 to the Consolidated Financial Statements)

Following loss of joint control over DPC in 2011, the Group has valued its investment in that entity at fair value. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and subject to material change and uncertainty. Management reviewed the internal valuation methodology in 2016, and as per 2015, continues to believe that as a result of the passage of time and the high degree of judgement required, it is no longer possible to reliably estimate the investment's fair value. Management, as it did at 31 December 2015, continues to carry forward the last valuation which could be reliably determined, being the $102 million previously disclosed. This carrying value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement. Management has undertaken an impairment review at 31 December 2016 and believe no impairment is necessary. In order to carry out an impairment review, Management uses an economic model of the estimated future cash flows that could be generated in respect of the Group's entitlement reserves in Block 26. The Committee reviewed the economic model, the assumptions underpinning the model being most significantly the oil price and the delay until resumption of production. The Committee concluded that it remained appropriate to retain a carrying value of $102 million for the investment whilst EU sanctions are ongoing. The Committee has also concluded that disclosures within this Report are fair and appropriate.

The carrying value of intangible oil and gas assets

(see note 2.3 to the Consolidated Financial Statements)

At 31 December 2016, the Group has intangible exploration assets with a carrying value of $nil on the Balance Sheet (2015: $7.1 million). The Committee reviewed an impairment paper prepared by Management, which summarised the costs capitalised to cash generating units as at 31 December 2016, those costs written off during the year due to licence expiries and Management's impairment assessment.

The Board concluded that for Colombia Llanos 50 licence, subsequent to the licence expiry in November, the expenditure to date attributed to the licence of $1.1 million, plus the $1.5 million of restricted cash should be impaired, however the potential penalty for non-completion of the minimum work obligation should be not be recognised as a liability, as the Company was confident of securing an extension, which was subsequently secured in February 2017, and the Company is now pursuing farm-out efforts.

The Board concluded that for Colombia Putumayo 14 licence, given the licence expiry in November 2017, and the terms of the agreement executed with Samarium in October 2016, the expenditure to date attributed to the licence of $1.1 million, plus the $1.7 million of restricted cash should be impaired, however the potential penalty for non-completion of the minimum work obligation should not be recognised as a liability as a result of ongoing farm-out efforts and discussion regarding a licence extension with ANH.

The Board concluded that for Tunisia, given the licence expiry date for the initial exploration phase in July 2017; the outstanding work commitments on the permit which could not physically be fulfilled before this date; and the uncertainty securing an industry partner before licence expiry, along with the decision of the Company to exit the country if a partner can not be found, that the expenditure to date attributed to the Tunisia licence of $5.3 million should be written-off. The Board also concluded that the minimum work obligations totalling $3.8 million should be accrued as a potential penalty, whilst recognising that no parent Company guarantee is in place.

Note 2.3 further sets out background and details of the E&E assets to the Consolidated Financial Statements. The Committee has therefore concluded that the carrying value of its intangible oil and gas assets, which are stated at cost less any amounts written-off and impairment, is fair and reasonable.

The Committee further notes that the realisation of value from the assets will depend upon a number of factors including securing farm-in partners or divesting assets and in some cases extensions of licences which the Group is currently seeking to negotiate. More details are included in the Operations Review on pages 10 to 16. Should the Group be unsuccessful in completing a farm-in or divestment transaction the realisable value of the assets may be zero and under certain contracts penalties may be payable for unfulfilled commitments (see note 2.4).

The going concern basis of reporting

(see note 1.3a to the Consolidated Financial Statements)

The Committee has regularly reviewed financial forecasts for the Group throughout the year and closely monitored the Group's capital raising activities, not least the Open Offer and Placing. At 31 December 2016, the Group was holding $1.5 million of cash resources which consists of $1.0 million cash and cash equivalents and $0.5 million of restricted cash balances. As at the date of this Report the Group has cash balances immediately available to it of $2.4 million and initiatives to reduce the ongoing costs by the end of 2017 onwards to approximately $0.2 million per month.

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

Further details are available in the Financial Review on page 20.

2016 Annual Report and Accounts

The Audit Committee reviewed the 2016 Annual Report and Accounts with Management and the external auditor to enable it to conclude that the Financial Statements as presented are true and fair and include all disclosures required by IFRS and applicable legislation.

Internal audit

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

On behalf of the Audit Committee:

Richard Milne
Chairman of the Audit Committee

26 May 2017

Financial Statements
Consolidated Financial Statements and Notes to the Consolidated Financial Statements

Consolidated Primary Statements

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

Section 1 Basis of Preparation

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

Section 2 Oil and Gas Assets

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

Section 3 Working Capital

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

Section 4 Other Assets and Liabilities

This section details the Group's investments.

Section 5 Results for the Year

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

Section 6 Capital Structure and Other Disclosures

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

Financial Statements
Independent Auditor's Report
to the members of Gulfsands Petroleum plc

We have audited the financial statements of Gulfsands Petroleum plc for the year ended 31 December 2016 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheet, the Consolidated and Company Cash Flow Statement, the Consolidated and Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("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, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's ("FRC's") Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and parent company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Without modifying our opinion on the Financial Statements for the year ended 31 December 2016, we draw attention to the disclosures made in note 4.2 to the Consolidated Financial Statements concerning the valuation of the Group's suspended producing operations in Syria, which is recorded at $102 million following the loss of joint control in December 2011. There is significant uncertainty as to the duration of the EU sanctions imposed in December 2011 and the eventual outcome of events in Syria. The potential impact any outcome will have on the carrying value from the producing operations in Syria is not known.

Emphasis of matter – going concern

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

These conditions, along with the other matters explained in note 1.3a to the Consolidated Financial Statements and within the Financial Review of the Strategic Report, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern. The Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of the audit:

- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

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

26 May 2017

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

Consolidated Income Statement

for the year ended 31 December 2016

	Notes	2016 $'000	2015 $'000
Continuing operations			
General administrative expenses		**(4,182)**	(6,965)
Share-based payments	5.3	**(161)**	—
Exploration costs written-off/impaired	2.3	**(8,055)**	(53,799)
Decommissioning – change in estimate	2.6	**(1,139)**	—
Penalty provisions – change in estimates	2.6	**(2,800)**	—
Restricted cash balances provided against	3.3	**(3,191)**	(5,750)
Inventory impairment	3.5	**—**	(1,117)
Operating loss	5.2	**(19,528)**	(67,631)
Foreign exchange losses		**(37)**	(43)
Loan facility finance cost	3.6	**(51)**	(1,351)
Other finance expenses		**(162)**	(188)
Other finance income	5.7	**23**	13
Loss before taxation		**(19,755)**	(69,200)
Taxation	5.8	**—**	—
Loss for the year		**(19,755)**	(69,200)
Loss per share attributable to the owners of the parent company (cents)			
Basic and diluted	5.9	**(4.17)**	(58.70)

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

Financial Statements
Consolidated Balance Sheet
as at 31 December 2016

	Notes	2016 $'000	2015 $'000
Assets			
Non-current assets			
Property, plant and equipment	2.1	**28**	159
Intangible assets	2.3	**—**	7,168
Long-term financial assets	3.3	**500**	3,691
Investments	4.2	**102,000**	102,000
		102,528	113,018
Current assets			
Inventory	3.5	**1,092**	1,096
Trade and other receivables	3.1	**171**	790
Cash and cash equivalents	3.2	**1,036**	420
		2,299	2,306
Total assets		**104,827**	115,323
Liabilities			
Current liabilities			
Trade and other payables	3.4	**1,531**	3,969
Loan facility	3.6	**—**	14,406
Provisions	2.6	**6,137**	2,198
		7,668	20,573
Non-current liabilities			
Trade and other payables	3.4	**3,446**	3,427
Provisions	2.6	**—**	—
		3,446	3,427
Total liabilities		**11,114**	24,000
Net assets		**93,713**	91,324
Equity			
Capital and reserves attributable to equity holders			
Share capital	6.1	**18,803**	13,131
Share premium		**110,737**	105,926
Merger reserve		**11,709**	11,709
Treasury shares		**—**	(11,502)
Retained loss		**(47,536)**	(27,940)
Total equity		**93,713**	91,324

These Consolidated Financial Statements were approved by the Board of Directors on 26 May 2017 and signed on its behalf by:

Andrew James Morris
Finance Director

26 May 2017

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital $'000	Share premium $'000	Merger reserve $'000	Treasury shares $'000	Retained (loss)/profit $'000	Total equity $'000
At 1 January 2015	13,131	105,926	11,709	(11,502)	41,291	160,555
Loss for 2015						
Transactions with owners	—	—	—	—	(69,200)	(69,200)
Options settled or exercised	—	—	—	—	(31)	(31)
At 31 December 2016	13,131	105,926	11,709	(11,502)	(27,940)	91,324
Loss for 2016	—	—	—	—	(19,755)	(19,755)
Transactions with owners						
Shares issued	5,672	4,811	—	11,502	—	21,985
Share-based payment charge	—	—	—	—	159	159
At 31 December 2016	**18,803**	**110,737**	**11,709**	**—**	**(47,536)**	**93,713**

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

Financial Statements

Consolidated Cash Flow Statement

for the year ended 31 December 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Operating loss from continuing operations		**(19,528)**	(67,631)
Depreciation and amortisation	2.1 & 2.3	**89**	507
Loss on disposal of tangible fixed assets	2.1	**62**	10
Exploration costs written off/impaired/costs accrued	2.3	**8,055**	53,799
Decommissioning estimates adjustment	2.6	**1,139**	—
Restricted cash balances forfeited/provided against	3.3	**3,191**	5,750
Inventory impairment	3.5	**—**	1,117
Share-based payment charge	5.3	**159**	—
Decrease in receivables		**391**	516
Increase in payables		**1,587**	522
Foreign exchange losses		**(37)**	(43)
Finance expenses paid		**(162)**	(101)
Interest received		**23**	13
Net cash used in operating activities by continuing operations		**(5,031)**	(5,541)
Net cash generated by operating activities of discontinued operations		**—**	—
Total net cash used in operating activities		**(5,031)**	(5,541)
Investing activities			
Exploration and evaluation expenditure		**(1,879)**	(10,085)
Other capital expenditures		**(2)**	(30)
Net cash used in investing activities by continuing operations		**(1,881)**	(10,115)
Net cash used in investing activities by discontinued operations		**—**	—
Total net cash used in investing activities		**(1,881)**	(10,115)
Financing activities			
Loan (repayment)/draw-down		**(14,457)**	8,200
Funds received under Open Offer/share Placing		**20,427**	—
Share placing		**1,949**	—
Open Offer finance costs		**(391)**	—
Other payments in connection with options settled or exercised		**—**	(31)
Net cash provided by financing activities of continuing operations		**7,528**	8,169
Net cash used in financing activities of discontinued operations		**—**	—
Total net cash provided by financing activities		**7,528**	8,169
Cash disposed as part of disposal of discontinued operations		**—**	—
Increase/(decrease) in cash and cash equivalents		**616**	(7,487)
Cash and cash equivalents at beginning of year		**420**	7,907
Cash and cash equivalents at end of year	3.2	**1,036**	420

Notes to the Consolidated Financial Statements

for the year ended 31 December 2016

Section 1 – Basis of Preparation

1.1 Authorisation of Financial Statements and statement of compliance with IFRS

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

The Consolidated Financial Statements for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 26 May 2017 and the Balance Sheets were signed on the Board's behalf by Andrew Morris, Finance Director.

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

1.2 Adoption of International Financial Reporting Standards

The Consolidated Financial Statements for the year ended 31 December 2016 and for the comparative year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and IFRIC (IFRS Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

1.3 Significant accounting policies

a) Basis of preparation and accounting standards

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

Going concern

On 15 February 2017, the Company entered into a Secured Term Financing Facility (the "2017 Facility") of up to £4 million (the "Facility") with its Major Shareholders (the "Lenders"). The 2017 Facility is available for drawdown by the Company in five equal tranches of £0.8 million each, the first three of which have been drawn and the final two of which remain available on or after 30 September 2017 and 31 December 2017 respectively, subject to re-approval by each of the Lenders prior to each drawdown request. Further details of the 2017 Facility are outlined in note 6.7.

As at the date of this Report, the Group has cash balances immediately available to it totalling approximately $2.4 million.

Ongoing General and Administrative costs are expected to further decrease by the end of the second half of 2017 to a level of approximately $0.2 million per month.

In the absence of any other sources of cash flow, the Group will need to raise additional capital by the end of Q3 2017 to fund ongoing operations. There remains up to £1.6 million (c. $2.0 million) available under the 2017 Facility, and should that be approved for drawdown by the Lenders, the Group's cash forecast indicates that the Group would have sufficient funds until Q2 2018.

The Company remains reliant on the support of its three Major Shareholders, without whose support, the Company would be seriously financially challenged. Based upon its experience and ongoing discussions with those shareholders, the Board believes that the Group will be able to access the appropriate resources, either through the remaining 2017 Facility draw-downs and/or through equity, to finance the revised strategy, however there are no binding agreements or commitments in place.

If the Company and Group does not complete the minimum work commitments under its various oil and gas licences within agreed time periods, either directly, or via strategic divestments or transactions with third party entities, penalties equal to the unfulfilled contracted work commitments may be payable. These could be substantial and additional details of the capital commitments for the Company's licences are fully described in note 2.4.

Potential liabilities to licences in Morocco and Tunisia are housed in dedicated subsidiaries without any parent company guarantees in place. In analysing the Group's financial needs the Board has considered the timing and likelihood of the payment of all current and potential liabilities.

Following completion of a review of the going concern position of the Company and Group at the meeting of the Board of Directors on 26 May 2017, including the uncertainties described above, the Board has concluded that, with current consolidated cash and cash equivalents totalling $2.4 million and taking into account both the Board's current strategy and the new financial resources that the Board might reasonably expect to become available, the Company and the Group will have sufficient resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of approval of this Financial Report. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these Financial Statements.

Financial Statements

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2016

Section 1 – Basis of Preparation continued

1.3 Significant accounting policies continued

a) Basis of preparation and accounting standards continued

Going concern continued

Notwithstanding the confidence that the Board has in its ability to finance the Group's re-shaped business, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that such finance can be procured and failure to do so might cast significant doubt upon the Company's and the Group's ability to continue as a going concern and that the Company and the Group may therefore be unable to realise their assets and discharge their liabilities in the normal course of business. These Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

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

b) New and amended IFRS

The following relevant new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2016, but had no significant impact on the Group or Company:

Standard	Effective date as adopted by the EU
Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016
Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciations and Amortisation'	1 January 2016
Amendments to IAS 16 and IAS 41 'Update on Agriculture: Bearer Plants'	1 January 2016
Amendments to IAS 27 'Separate Financial Statements Permitting Investments in Subsidiaries, Joint Ventures and Associates to be Optionally Accounted for Using Equity Method'	1 January 2016
Amendment to IAS 1 'Disclosure Amendments'	1 February 2016

c) Standards issued but not yet effective

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2016, as adopted by the EU, and have not been early adopted:

Standard	Effective date as adopted by the EU
IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
IFRS 9 'Financial Instruments'	1 January 2018
IFRS 16 'Leases'	1 January 2019

The Directors are currently assessing these standards but based on current operations do not anticipate that the adoption of these standards and interpretations will have a material effect on the reported income or net assets of the Group or Company.

d) Basis of consolidation

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

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

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

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

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

e) Foreign and reporting currency

These Consolidated Financial Statements are presented in US Dollars. The majority of all costs associated with foreign operations are denominated in US Dollars and not the local currency of the operations. Therefore the presentational and functional currency of the Company, and the functional currency of all subsidiaries, is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2016 was £1: $1.26 (2015: £1: $1.47).

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

1.4 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

- going concern – for further details see note 1.3a;
- recoverability of intangible oil and gas exploration and evaluations assets – for further details see note 2.3;
- recoverability of restricted cash balances – for further details see notes 2.4 and 3.3.
- work obligation commitments – for further details see note 2.4;
- decommissioning provisions – for further details see note 2.6; and
- carrying value of the Group's investment in DPC – for further details see note 4.2.

Section 2 – Oil and Gas Assets

2.1 Property, plant and equipment

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 IFRS.

Recognition and measurement

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

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

Depletion of producing assets

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

Impairment

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

	Oil and gas properties $'000	Other fixed assets $'000	Total $'000
Cost:			
At 1 January 2015	—	2,835	2,835
Additions	—	31	31
Changes to decommissioning estimates	—	—	—
Disposals	—	(69)	(69)
At 31 December 2015	—	2,797	2,797
Additions	—	1	1
Disposals	—	(1,259)	(1,259)
At 31 December 2016	**—**	**1,539**	**1,539**
Accumulated depreciation and depletion:			
At 1 January 2015	—	(2,550)	(2,550)
Charge for 2015	—	(147)	(147)
Disposals	—	59	59
At 31 December 2015	—	(2,638)	(2,638)
Charge for 2016	—	(71)	(71)
Disposals	—	1,198	1,198
At 31 December 2016	**—**	**(1,511)**	**(1,511)**
Net book value at 31 December 2015	—	159	159
Net book value at 31 December 2016	**—**	**28**	**28**

During 2016, in parallel to head office relocation, computer software costs and office fixtures and fittings were disposed of.

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

Property, plant and equipment other than oil and gas assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write-off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Freehold land is not depreciated. See note 2.1 for movements in property, plant and equipment other than oil and gas assets in the year.

2.3 Intangible assets

Key accounting judgements, estimates and assumptions

Recoverability of intangible oil and gas exploration and evaluation assets

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

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

Recognition and measurement

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

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

Impairment

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

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

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

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2016

Section 2 – Oil and Gas Assets continued

2.3 Intangible assets continued

Key accounting judgements, estimates and assumptions continued

Exploration and evaluation assets

	Syria $'000	Morocco $'000	Tunisia $'000	Colombia $'000	Computer software $'000	Total $'000
Cost:						
At 1 January 2015	10,505	46,555	5,195	1,225	2,370	65,850
Additions	—	7,773	75	654	2	8,504
Change in decommissioning estimates	—	(529)	—	—	—	(529)
Exploration expenditure written off	—	(51,007)	—	—	—	(51,007)
At 31 December 2015	10,505	2,792	5,270	1,879	2,372	22,818
Additions	—	528	44	334	—	906
Exploration expenditure written off	—	—	(5,314)	—	—	(5,314)
At 31 December 2016	**10,505**	**3,320**	**—**	**2,213**	**2,372**	**18,410**
Accumulated amortisation:						
At 1 January 2015	—	—	—	—	(1,518)	(1,524)
Charge for 2015	—	—	—	—	(360)	(360)
At 31 December 2015	—	—	—	—	(1,878)	(1,878)
Charge for 2016	—	—	—	—	(19)	(19)
At 31 December 2016	**—**	**—**	**—**	**—**	**(1,897)**	**(1,897)**
Accumulated impairment:						
At 1 January 2015	(10,505)	(2,792)	—	—	(475)	(13,772)
Additions	—	—	—		—	(213)
At 31 December 2015	(10,505)	(2,792)	—	—	(475)	(13,772)
Exploration expenditure impaired	—	(528)		(2,213)	—	(2,741)
At 31 December 2016	**(10,505)**	**(3,320)**	**—**	**(2,213)**	**(475)**	**(16,513)**
Net book value at 31 December 2015	—	—	5,270	1,879	19	7,168
Net book value at 31 December 2016	**—**	**—**	**—**	**—**	**—**	**—**

Syria

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

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

Morocco

Moroccan E&E assets at 31 December 2016 represent exploration expenditure on the Moulay Bouchta licence. The licence expiry date for the initial exploration phase was initially June 2016 although his has since been extended to June 2017. Due to the original expiry date the Company wrote off the expenditure attributed to Moulay Bouchta at 2015 year-end and has maintained this policy since then. The expenditure to date attributed to the Moulay Bouchta licence has been impaired, including $0.5 million in 2016 (2015: $2.8 million, inclusive of $1.75 million potential penalty for non-completion of the minimum work obligations). As part of the extension granted during the year, and confirmed post year-end, the minimum work obligations relating to the Moulay Bouchta contract was reduced from $3.5 million to $2.5 million and so the possible penalty accrued has also been reduced from $1.75 million to $0.75 million.

On 24 September 2015 the Fes Petroleum Agreement expired. All E&E expenditure related to the Fes permit was written off in 2015, with write-offs totalling $22.2 million, inclusive of $12.0 million fair value recognised on acquisition.

On 9 November 2015, the extension period of the Rharb Petroleum Agreement expired and the Company's request to further extend the Rharb Petroleum Agreement for a period of two years to allow the Company to appraise the gas discoveries made in 2014/15 was rejected. All E&E expenditure related to the Rharb Centre and Rharb Sud permits was written off in 2015, with write-offs totalling $28.8 million, inclusive of $5.8 million fair value recognised on acquisition.

During 2016, the estimated decommissioning obligation for the Rharb and Fes Petroleum Agreements was increased by $1.2 million, from $0.4 million to $1.6 million, as described in note 2.6. This was not booked through E&E assets but directly through the Income Statement. While this provision has been established as a liability under IFRS, the Company considers that this decommissioning obligation should be fully satisfied by part of the performance guarantees inappropriately taken by ONHYM on the Rharb and Fes licences, as described in note 6.6.

Tunisia

At 31 December 2016 the Tunisian E&E assets represent expenditures under the Chorbane contract including amounts paid during 2013 and 2015 to increase participation in the contract. A two year extension to the PSC was granted on 22 December 2015, extending the contract date to 12 July 2017 but the Group has been unable to agree an appropriate work program with Entreprise Tunisienne d'Activités Pétrolières ("ETAP") since then, and with the expiry date of the contract approaching, in accordance with the Group's policy it has been decided to fully write-off the expenditure attributed to Chorbane Contract as at 2016 year-end. The total write-off was $5.3 million. As at 31 December 2016 $3.8 million (31 December 2015: $nil) has been accrued as potential penalties of the minimum work programme.

While management continued to seek a partner to whom it can farm-down or divest the Group's interests in the PSC during the year, in November 2016, the Group's subsidiary, Gulfsands Petroleum Tunisia Limited informed the Tunisian authorities that, if it could not find a partner for its projects, it intended to cease all Tunisian operations at the year-end. Post year-end the Group has initiated the close down of its Tunisian activities.

Colombia

The Group has interests in E&P contracts over two blocks in Colombia: Llanos 50 ("LLA-50") and Putumayo 14 ("PUT-14").

The Llanos-50 licence expired in November 2016 and given that there was uncertainty over whether the licence could be successfully extended, the expenditure to date attributed to the Llanos-50 contract of $1.1 million has been fully impaired. Alongside this, the recovery of restricted cash balance of $1.5 million held as performance guarantees in relation to the minimum work obligation under this contract has also been fully provided against. Subsequent to the year-end the contract was successfully extended by 18 months to May 2018, however despite this extension, and the commencement of work on reprocessing legacy seismic and initial environment studies in advance of further seismic acquisition, there remains uncertainty as to whether the Group will attract a partner to execute the work programme and so it is considered appropriate to retain the provisions in these accounts.

The Putumayo-14 licence expires in November 2017. In October 2016, the Company entered into a farm-out agreement with Samarium Energy & Resources Corporation ("Samarium") for the Putumayo-14 contract although this subsequently terminated post year-end. The Company continues an active and constructive dialogue with the Agencia Nacional de Hidrocarburos ("ANH") regarding an extension to the Putumayo-14 licence and has commenced work on the initial phase, the Consulta Previa. However, given the time left on the licence, and notwithstanding the Samarium farm-out, in accordance with Group policy it has been decided to fully impair the expenditure attributed to the Putumayo-14 licence, of $1.1 million as at 2016 year-end, as well as the $1.7 million of Restricted Cash supporting the Putumayo-14 Letter of Credit.

No provision has been recognised as at 31 December 2016 for the minimum work obligation commitments for the Putuamyo-14 licence, as management was in active and positive discussion regarding a licence extension with ANH.

2.4 Work obligation commitments

At 31 December 2016 the Group had the following capital commitments in respect of its exploration activities:

Morocco

Moulay Bouchta permit – initial exploration phase expiry date and deadline for fulfilment of capital commitments; June 2017

- Acquisition and processing of 500 km of 2D seismic.
- Reprocessing and interpretation of selected legacy 2D seismic lines and the existing 3D seismic data.
- Legacy oil field reactivation survey.
- Total cost of commitments estimated at $2.5 million.

As at 31 December 2016 $1.75 million (31 December 2015: $1.75 million) of deposits have been lodged to support guarantees given to ONHYM in respect of completion of these minimum work commitments. These have been fully provided against at 31 December 2016, given the licence expiry date for the initial exploration phase in June 2017. The Company remains in discussion with OMHYM regarding a further extension and possible farm-out efforts continue, but the Company only intends to only take advantage of any extension if the farm-out efforts are successful. If the licence is relinquished, in addition to the potential forfeiture of restricted cash balances, a further $0.75 million potential penalty for non-completion of the minimum work obligations could be enforced on the Group. This has been provided for within these accounts (2015: $1.75 million).

Section 2 – Oil and Gas Assets continued

2.4 Work obligation commitments continued

Tunisia

Chorbane permit – second phase of contract expiry date and deadline for fulfilment of capital commitments; July 2017

- Drilling of one exploration well.
- Acquisition of 200 km of 2D seismic data, although this was disputed by ETAP.
- Total contractual commitment: $3.8 million for the drilling of the exploration well.

There are no guarantees against the obligations relating to the Chorbane Licence. Given the impending expiry of the licence in July 2017 and the decision by the Board to exit Tunisia if a partner cannot be found, a provision has been recognised of $3.8 million to reflect the potential penalty for non-fulfilment of the contractual work programme.

Colombia

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

- Drilling of one exploration well.
- 2D seismic minimum 93 km.
- The Company has also undertaken to spend $100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5 km of 2D seismic.
- Total commitments outstanding estimated at $16.1 million.

$1.7 million (31 December 2015: $1.7 million) of deposits have been lodged to support guarantees given to the Agencia Nacional de Hidrocarburos in respect of completion of the minimum work commitments on Putumayo 14. These have been fully provided against as at 31 December 2016 given the licence expiry date for the initial exploration phase in November 2017, and uncertainty about being granted an extension.

Llanos 50 – first exploration phase expiry date and deadline for fulfilment of capital commitments; May 2018 following 18 month extension confirmed in May 2017

- Drilling of one exploration well.
- 2D seismic minimum 103 km.
- The Company has also undertaken to spend $100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5 km of 2D seismic.
- Total commitments outstanding estimated at $13.9 million, plus an additional $1.4 million for the extension i.e. $15.2 million.

$1.5 million (31 December 2015: $1.5 million) of deposits have been lodged to support guarantees given to the Agencia Nacional de Hidrocarburos in respect of completion of the minimum work commitments on Llanos 50. These have been fully provided against as at 31 December 2016 as, given the licence expiry date for the initial exploration phase in November 2016 and uncertainty about being granted an extension.

The deposits referenced in this note are shown as restricted cash amounts in note 3.3.

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

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

Intangible assets other than oil and gas assets are stated at cost less accumulated amortisation and any provision for impairment. Amortisation is charged so as to write-off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years. Amortisation is included with depreciation and classified as cost of sales or administrative expenses as appropriate. No intangible assets have indefinite lives. See note 2.3 for movements in intangible assets – computer software in the year.

2.6 Provisions

	Decommissioning Note 2.6 (i) $'000	Licence penalties Note 2.6 (ii) $'000	Total $'000
At 1 January 2016	448	1,750	2,198
Changes to decommissioning estimates	1,139	—	1,139
Change to licence penalties	—	2,800	2,800
At 31 December 2016	**1,587**	**4,550**	**6,137**

Key accounting judgements, estimates and assumptions:
(i) Decommissioning: At 31 December 2016 the Group has decommissioning and/or restoration obligations in respect of a number of wells and well sites in Morocco under the Moroccan Hydrocarbon Code. The wells and well sites are located on the expired Rharb and Fes permits and on the three exploitation concessions located within these permits. These include the three discoveries on the Rharb Centre permit: LTU-1, DRC-1 and DOB-1, which have all been suspended. Included within the decommissioning and/or restoration obligations are obligations on all legacy wells drilled prior to the Group's acquisition of those interests.

The Rharb and Fes petroleum contracts expired during 2015, and consequently as at 31 December 2016 (and as at 31 December 2015) all of the decommissioning provisions are disclosed as current liabilities and no discount rate has been applied to the estimated cost of decommissioning works.

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

The movement in the provision for decommissioning was as follows:

	$'000
At 1 January 2015	977
Changes in estimates	(529)
At 31 December 2015	448
Current portion	448
Non-current portion	—
At 1 January 2016	448
Changes in estimates	1,139
At 31 December 2016	**1,587**
Current portion	**1,587**
Non-current portion	**—**

The decommissioning provision of $1.6 million at 31 December 2016 (2015: $0.4 million) relates to decommissioning obligations in respect of the Moroccan Rharb and Fes permits and the exploitation concessions located within these permits. This includes provisions for both Gulfsands drilled wells and legacy wells drilled prior to the Group's acquisition of the interests. Following further analysis and discussion with ONHYM during the year, the Company believes that these obligations can be completed by a combination of well work-over completions (in conjunction with a plug and abandonment programme with other operators' in-country) and full column cementing (based upon technical and/or health and safety interpretation). The Company considers that this obligation should be fully satisfied by part of the performance guarantees inappropriately taken by ONHYM on the Rharb and Fes, as described in Note 6.6 – Contingent Assets.

(ii) Licence penalties: The provision of $4.55 million at 31 December 2016 (2015: $1.75 million) includes an accrual of $0.75 million in respect to minimum work obligation of the Moulay Bouchta licence (2015: $1.75 million), and $3.8 million in respect to the minimum work obligation of the Chorbane licence (2015: $nil). See note 2.3 for further details.

Section 3 – Working Capital

3.1 Trade and other receivables

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

	2016 $'000	2015 $'000
Trade receivables	—	—
Other receivables	**78**	96
Prepayments and accrued income	**93**	694
	171	790

At 31 December 2016 and 2015 the Group was owed $25.3 million by the government of the Syrian Arab Republic relating to oil delivered during the period of August to November 2011. The total amount invoiced was $31.2 million and to November 2011 an amount of $5.9 million had been paid. This asset was fully provided against in 2011 due to the uncertainties of recovery. The recovery of this amount is included within the impairment calculations modelled when reviewing the Syrian investment for any impairment, see note 4.2 for further details.

3.2 Cash and cash equivalents

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

	2016 $'000	2015 $'000
Cash at bank and in hand	**1,036**	420
Restricted cash balances	**500**	3,691
Total cash and bank resources	**1,536**	4,111
Included in long-term financial assets (note 3.3)	**(500)**	(3,691)
Total cash and cash equivalents	**1,036**	420

3.3 Long-term financial assets

Long-term financial assets comprise balances held in bank accounts subject to escrow agreements as collateral for performance bonds issued.

Key accounting judgements, estimates and assumptions:

Restricted cash balances at 31 December 2016 include $4.94 million (31 December 2015: $2.75 million) of deposits collateralising guarantees given to state regulators to secure minimum exploration work commitments in Morocco under the Moulay Bouchta Petroleum Agreement ($1.75 million) the Llanos-50 licence in Colombia ($1.48 million) and the Putumayo 14 licence ($1.71 million) in Colombia, which have all been fully provided against at 31 December 2016. Further details of the minimum work obligations to which these guarantees relate are set out in note 2.4.

As explained further in Note 6.6, during October 2015 ONHYM drew $5.0 million of restricted cash relating to the Fes Contract and in January 2016, they drew $1.0 million relating to the Rharb contract. These amounts are no longer recorded as restricted cash balances but the Company continues to believe that these were inappropriately drawn by ONHYM and that they should be refunded back to Gulfsands. If any amounts are recovered, one third of the balance is due to a third party.

	2016 $'000	2015 $'000
Restricted cash balances	**5,441**	6,441
Provision against recovery of restricted cash balances	**(4,941)**	(2,750)
Total cash and cash equivalents	**500**	3,691

3.4 Trade and other payables

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

	2016 $'000	2015 $'000
Current liabilities		
Trade payables	**315**	1,534
Accruals and other payables	**868**	2,086
Amounts due to oil and gas partnerships	**348**	349
	1,531	3,969
Non-current liabilities		
Trade payables	**1,893**	1,893
Accruals and other payables	**1,553**	1,534
	3,446	3,427

Included within non-current liabilities is $3.4 million (2015: $3.4 million) owed to parties subject to asset freezing regulations under the EU sanctions regime. These amounts relate to goods and services acquired before those entities were designated as sanctioned parties. The Group is not in a position to make payments for these goods or services until such time as sanctions are lifted against the named parties. These liabilities are therefore classified as non-current liabilities as payment of these balances is not expected to be permissible within the next year.

3.5 Inventory

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

	2016 $'000	2015 $'000
Drilling and production inventory	**4,412**	4,417
Provisions	**(3,320)**	(3,321)
	1,092	1,096

Drilling and production inventory relates to Moroccan $2.2 million (2015: $2.2 million) and Syrian $2.2 million (2015: $2.2 million) operations.

Due to Management's revised strategy to farm-out/divest its remaining Moroccan licence, it is anticipated that the inventory will not be utilised on future drilling and production activities in Morocco and instead value will be extracted via disposal. Therefore a provision of $1.1 million (2015: $1.1 million) has been recognised to reduce the value of the inventory to its expected net realisable value.

During 2013, $0.7 million of inventory held for Syrian operations was written-off due to a theft at the warehouse. An insurance claim for the full value was submitted during 2013 however, due to the complexity of the insurance claim it has not been appropriate, as yet, to recognise the claim as an asset as it is not virtually certain that the claim will be paid. There has been no change in this position during 2016.

At 31 December 2016 a provision of $2.2 million (2015: $2.2 million) has been carried forward against the value of the remaining Syrian stock. Management believe this is appropriate in light of the theft in 2013 and the lack of Management's control over, and access to, the warehouse at this present time due to the security situation in Syria.

Section 3 – Working Capital continued

3.6 Loans and borrowings

Recognition and measurement

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

Convertible loan – hybrid financial instrument

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

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

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

Convertible loan facility

On 18 November 2014, the Group and Arawak Energy Bermuda Ltd ("Arawak") entered into a strategic cooperation arrangement which included an agreement pursuant to which Arawak agreed to provide a three year loan facility of up to $20.0 million. The Convertible Loan Facility (including amounts drawn, accrued but unpaid interest and fees) was convertible at any time prior to maturity into ordinary shares, initially at a price of £0.80. In addition, the Lender had the right to participate in any equity offering by the company up to the amount of the outstanding facility and has certain other anti–dilution protections as well as certain use of proceeds restrictions. More detailed terms were described in the 2015 Annual Report.

The Convertible Loan Facility was secured by a floating charge over all of the assets of Gulfsands Petroleum Holdings Ltd, the holding company for the Group's interest in Block 26, and a share mortgage over the shares in Gulfsands Petroleum Morocco Ltd (the holding company for the Group's interests in Morocco) with further credit support provided by a guarantee from the Company. The Convertible Loan Facility contained representations, warranties and indemnities in favour of the Lender and provided for events of default and a negative pledge.

On 23 January 2015, Arawak terminated its strategic cooperation agreement with the Company amid circumstances under which the holder of the facility may demand repayment of the Convertible Loan Facility in full.

On 30 June 2015, the Company announced that Arawak had entered into an assignment agreement with Weighbridge Trust Limited ("Weighbridge"), acting as agent for Waterford and Blake, to acquire the Convertible Loan Facility from Arawak. Subsequent to the assignment of the Convertible Loan Facility, a further $3.2 million was advanced under the facility during the latter half of 2015 and Weighbridge made certain commitments about delaying the right to immediate repayment.

Following the Open Offer which closed in January 2016 and was underwritten by Waterford and Blake, the Convertible Loan Facility was discharged in full on 14 January 2016.

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

	$'000
At 1 January 2016	14,406
Interest expense	51
Amortisation of transaction costs	—
Repayment of loan facility	(14,457)
At 31 December 2016	**–**

Section 4 – Other Assets and Liabilities

4.1 Investments

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

Name of company	Proportion of voting shares at 31 December 2016	Nature of business	Country of incorporation
Directly held by the Company:			
Gulfsands Petroleum Ltd.[(1)]	100%	Holding company	Cayman Islands
Indirectly held by the Company:			
Gulfsands Petroleum Holdings Ltd[(1)]	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd[(1)]	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd[(1)]	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd[(1)]	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd[(1)]	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd[(2)]	100%	Oil and gas exploration	Cyprus
Gulfsands Petroleum (MENA) Ltd[(1)]	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Sud America Ltd[(1)]	100%	Oil and gas exploration	Cayman Islands

Company registered addresses:

(1) 31 The Strand, 46 Canal Point Drive, Grand Cayman KY1-1105, Cayman Islands.

(2) Chapo Central, 3rd Floor, 20 Spyrou Kyprianou Avenue, 1075 Nicosia, Cyprus.

4.2 Available-for-sale financial assets

Key accounting judgements, estimates and assumptions

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

The Group's investment in DPC, the entity established in Syria, pursuant to the PSC, to administer the Group's Syrian oil and gas development and production assets (and which is considered to also include the related rights to production under the PSC), is recorded as an available-for-sale investment. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and subject to material change and uncertainty. Management have reviewed their internal valuation methodology and believe that as a result of the further passage of time and the high degree of judgement required, it is no longer possible to reliably estimate the investment's fair value. Management will therefore carry forward the last valuation which could be reliably determined, being the $102 million previously disclosed. This value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement.

Where they can be reliably measured, available-for-sale financial assets are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses which are recognised directly to the Income Statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss. Where the fair value cannot be reliably measured the available-for-sale investments are held at the deemed cost, being the last valuation at which they could be reliably measured. Available-for-sale investments held at cost are reviewed for impairment when there has been an indication of a possible impairment. Management assess the recoverability of the carrying value of the available-for-sale investment by comparison with the estimated discounted future net cash flows based on Management's expectation of the future production, hydrocarbon prices, estimated time to resumption of production and costs. Any identified impairment is charged to the Income Statement.

The Group is party to a PSC for the exploitation of hydrocarbon production in Block 26 in Syria. Pursuant to the PSC the Group operates its Syrian oil and gas production assets through a joint venture administered by DPC in which the Group has a 25% equity interest. The Group lost joint control of DPC on 1 December 2011 following the publication of European Union Council Decision 2011/782/CFSP. For the purposes of EU sanctions, DPC is considered to be controlled by General Petroleum Corporation. Since the Group has neither joint control nor significant influence over the financial and operating policy decisions of the entity, it carries its investment in DPC and the associated rights under the Block 26 PSC as an available-for-sale financial asset. The carrying value of the available-for-sale investment at 31 December 2016 is $102 million (2015: $102 million).

Section 4 – Other Assets and Liabilities continued

4.2 Available-for-sale financial assets continued

Impairment review of the Group's investment in DPC

In order to carry out an impairment review, Management use an economic model of the estimated future cash flows that could be generated in respect of the Group's entitlement volumes in Block 26. The Management team have reviewed this in detail and believe due to the high degree of subjectivity inherent in the valuation it is imperative that the valuation model and its key drivers and assumptions are as transparent as possible. Management assessed the key drivers to be:

- the oil price; and
- the delay to resumption of production.

1. Oil price

There has been a significant downward movement in the oil price since 2014 although there has been some recovery since the lows of early 2016. It is difficult to predict the oil price in these volatile times. For the year ended 31 December 2016 Management has used the Brent forward curve to 2022 and then a 2% per annum escalation factor applied thereafter as the forecast for the 'base case' comparative valuation for the impairment review. Given the other sources of oil price data reviewed, Management considers this to be a conservative approach.

2. Delay to resumption of production

Gulfsands cannot give a definite timeline for the resumption of the full field development of the discovered fields within Block 26 that was suspended under the declaration of Force Majeure in 2011. Whilst no definite timeline can be substantiated, the Board continues to believe that the EU Sanctions will be lifted within five years and will continue to monitor all activity focused on resolving the situation in Syria. Management have decided to use commencement of production in five years as the estimate 'base case' comparative valuation for the impairment review.

Other model assumptions

The model uses the production profiles based upon 2C contingent resources at Khurbet East (Massive, Butmah and Kurrachine Dolomite) and Yousefieh. Receivables are included in relation to oil produced and invoiced but not yet received, and oil produced and not yet invoiced, on the expectation that these amounts will be recovered once EU sanctions are lifted. A 15% discount rate is then applied to give a net present value ("NPV").

The valuation model calculates:

- a Gross Contractor undiscounted NPV(0) of $1.93 billion;
- Gulfsands 50% interest NPV(0) of $0.97 billion; and
- Gulfsands discounted NPV(15) of $150.7 million.

The Group has used the NPV(15) of $150.7 million (2015: $107.2 million) to conclude that no impairment is necessary but the following table sets out the NPV(15) calculated when adjusting the two key drivers: oil price and time delay to resumption of production. All figures are presented in $'000:

	Delay to first production		
Oil price	Three year delay	Five year delay	Seven year delay
20% decrease	133,967	102,652	78,820
10% decrease	164,212	126,729	97,792
Brent forward curve	195,071	**150,667**	116,655
10% increase	225,413	174,514	135,446
20% increase	255,734	198,345	154,224

The following table sets out the impact that changes in the key variables would have on the comparative valuation of the asset, $150.7 million, for the impairment review.

	Change in comparative valuation of investment from $150.7 million $'000
Delay until first production	
7 years	(34,012)
3 years	44,404
Oil price	
20% decrease	(48,015)
10% decrease	(23,939)
10% increase	23,847
20% increase	47,677
Change in discount rate to	
20%	(59,340)
10%	108,525
Change in forecast capex	
5% increase	(1,302)
5% decrease	1,302
Change in forecast opex	
5% increase	(805)
5% decrease	805

The Directors have reviewed the carrying value of this available-for-sale financial asset at 31 December 2016 and are of the opinion that no impairment is required to the carrying value. Although the carrying value is subject to significant uncertainty, Management believes it remains appropriate in the circumstances, although not necessarily reflective of the value of the Group's investments in its Syrian operations over the long term. Management reiterate that there is a high degree of subjectivity inherent in the valuation calculated for impairment purposes, due to the unknown duration of the sanctions and the eventual outcome of events in Syria. Accordingly, it may change materially in future periods depending on a wide range of factors and an impairment may then be required.

Financial Statements
Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2016

Section 5 – Results for the Year
5.1 Segmental analysis of continuing operations
For management purposes, at 31 December 2016 the Group operated in three geographical areas: Morocco, Tunisia and Colombia with suspended operations in Syria as discussed in note 4.2. All segments are involved with the production of, and exploration for, oil and gas. The "Other" segment represents corporate and head office costs.

The Group's results and certain asset and liability information for the year are analysed by reportable segment as follows.

Year ended 31 December 2016

	Syria $'000	Morocco $'000	Tunisia $'000	Colombia $'000	Other $'000	Total $'000
Total administrative expenditure	(456)	(421)	(322)	(238)	(2,906)	(4,343)
Exploration costs written off/impaired	—	(528)	(5,314)	(2,213)	—	(8,055)
Decommissioning – change in estimate	—	(1,139)	—	—	—	(1,139)
Penalty provision – change in estimate	—	1,000	(3,800)	—	—	(2,800)
Restricted cash forfeited/provided against	—	—	—	(3,191)	—	(3,191)
Operating loss	(456)	(1,088)	(9,437)	(5,642)	(2,905)	(19,528)
Financing cost						(227)
Net loss from continuing operations						(19,755)
Total assets	102,539	1,190	9	53	1,036	104,827
Total liabilities	(4,048)	(2,608)	(3,896)	(78)	(484)	(11,114)
E&E capital expenditure	—	528	44	334	—	906

Year ended 31 December 2015

	Syria $'000	Morocco $'000	Tunisia $'000	Colombia $'000	Other $'000	Total $'000
Total administrative expenditure	(180)	(950)	(418)	(112)	(5,305)	(6,965)
Exploration costs written off/impaired	—	(53,799)	—	—	—	(53,799)
Restricted cash balances forfeited/ provided against	—	(5,750)	—	—	—	(5,750)
Inventory adjustments	—	(1,117)	—	—	—	(202)
Operating loss	(180)	(61,616)	(418)	(112)	(5,305)	(67,631)
Net financing cost credit						(1,569)
Net loss from continuing operations						(69,200)
Total assets	102,574	1,385	5,294	1,913	4,157	115,323
Total liabilities	(3,929)	(3,211)	(74)	(49)	(16,737)	(24,000)
E&E capital expenditure	—	7,773	75	654	—	8,502

5.2 Operating loss

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

	2016 $'000	2015 $'000
Share-based payment charges (note 5.3)	**159**	—
Depreciation and amortisation of other assets (notes 2.1 and 2.3)	**78**	507
Exploration expenditure written-off/impaired (note 2.3)	**8,055**	53,799
Restricted cash balances forfeited/provided against (note 3.3)	**3,191**	5,750
Staff costs excluding share-based payments (note 5.5)	**2,474**	5,217
Operating lease rentals:		
Buildings	**399**	887
Vehicles and equipment	**—**	90

Operating leases

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

5.3 Share-based payments

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

The only share-based plan currently in operation is the Gulfsands Restricted Share Plan which was introduced in 2010 and expires in 2020. Under this plan, share awards may be granted to Directors and members of staff and may be based upon length of service and/or linked to achievement of performance criteria. All instruments outstanding and issued during the year under this plan are share options to purchase Ordinary Shares in the Company.

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

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

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

No share options were issued in 2015. During 2016, 17,000,000 restricted stock options were issued to serving Directors.

The estimated fair value of share options with a deferred vesting period is charged to the Income Statement over the vesting period of the options concerned. The estimated fair value of options and restricted shares exercisable immediately is expensed at the time of issuance of the award. The charge for the year was $159,000 and further details are provided in note 6.1.

No share awards were granted to Directors or employees between 2011 and 2015. As a result of the fall in share price since the imposition of sanctions against Syria towards the end of 2011, options held by Directors at that time have either lapsed or, if still outstanding, are exercisable at share prices significantly in excess of the current share price.

Section 5 – Results for the Year continued

5.3 Share-based payments continued

During 2016, John Bell was appointed full time Managing Director and Andrew Morris was appointed Finance Director on a less than full time basis. In view of the continuing uncertainty surrounding the Company's business in Syria and the shortage of available funds, it was decided that remuneration packages for these two executives should be a combination of base salary and share options. Accordingly, John Bell was awarded eight million share options and Andrew Morris five million share options. Four million of Mr Bell's options and three million of Mr Morris' will vest quarterly over a two-year period from July 2016 dependent in part on continued service during that period and in part on performance criteria related to the achievement of strategic objectives. The vesting schedule of the additional four million and two million options respectively have yet to be determined. Once vested, the options are exercisable for a period of ten years.

Share options were also granted to the Chairman and two new Non-Executive Directors. These options are not subject to performance criteria. Half of their respective awards vested on the date of award and the other half will vest after one year.

Fair value of share options granted

The fair value of options granted under the share options scheme is estimated as at the date of grant using a variant of the Black Scholes model, taking into account the terms and conditions upon which the options are granted, which includes the performance conditions. The following table lists the inputs to the model used for the options granted in the years ended 31 December 2016 and 31 December 2015. The expected future volatility has been determined by reference to the historical volatility.

Exercise period	2016	2015
Dividend yield	n/a	n/a
Expected share price volatility	50.0%	n/a
Risk free interest rate	2.0%	n/a
Exercise price	1p – 3.375p	n/a
Expected life of option (years)	10	n/a

5.4 Auditor's remuneration

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

	2016 $'000	2015 $'000
Fees payable to the Company's principal auditor for the audit of:		
Company's accounts	78	90
Company's subsidiaries	1	20
Total audit fees	79	110
Audit related assurance services	8	13
Taxation compliance services	–	1
Other services	–	60
Total non-audit fees	8	74
Fees payable to other auditors for the audit of:		
Company's subsidiaries	33	26
Total audit fees	33	26
Taxation compliance services	6	8
Other taxation advisory services	2	12
Total non-audit fees	8	20

5.5 Staff costs

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

	2016 $'000	2015 $'000
Wages and salaries	**2,235**	4,769
Social security costs	**191**	334
Share-based payment charges	**159**	—
Other benefits in kind	**48**	114
	2,633	5,217

Included in wages and salaries above is an amount of $nil in respect of termination payments to staff accrued or paid during 2016 (2015: $0.1 million).

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

	2016	2015
Operational and technical	**4**	13
Administrative	**21**	30
	25	43

5.6 Directors' emoluments

Details of the remuneration of Directors are included in the Directors' Remuneration Report on pages 30 to 32. No employees other than Directors are determined to be key management personnel.

In addition, the aggregate amount paid to former directors as compensation for loss of office was $819,000 (2015: $nil).

5.7 Net interest receivable

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

	2016 $'000	2015 $'000
Short-term bank deposit interest	**23**	13

5.8 Taxation

Current tax

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

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

	2016 $'000	2015 $'000
Current Corporation Tax:		
UK Corporation Tax	**—**	—
Overseas Corporation Tax	**—**	—
Total credit	**—**	—

Section 5 – Results for the Year continued

5.8 Taxation continued

Current tax continued

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

	2016 $'000	2015 $'000
Total loss before tax from continuing operations	**(19,755)**	(69,200)
Tax calculated at domestic rate of 20% (2015: 20.25%)	**(3,951)**	(14,200)
Effects of:		
Expenses not deductible for tax purposes	**3,254**	11,615
PSC expenses not subject to corporation tax(1)	**145**	103
Tax losses utilised	**—**	—
Tax losses for which no deferred tax asset was recognised	**590**	957
Impact of local tax rates	**(38)**	1,338
	—	—

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

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

Deferred tax

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted, or substantively enacted, tax rates and laws that will be in effect when the differences are expected to reverse. The recoverability of deferred tax assets is evaluated annually and an impairment provision is made if it is more likely than not that the deferred tax asset will not give rise to future benefits in the Group's tax returns. Deferred tax assets are not provided where the Group does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets. In performing this calculation the Group considers deferred tax balances relating to each tax authority separately. No deferred tax assets have been provided in respect of losses carried forward and other temporary timing differences as the Board does not consider it probable that sufficient future taxable profits will be made to offset the deductions represented by those deferred tax assets.

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

	2016 $'000	2015 $'000
DD&A and impairment in excess of tax allowances	**247**	5,874
Other short-term temporary differences	**—**	—
Tax losses carried forward	**8,125**	8,797
Unprovided deferred tax asset	**(8,371)**	(14,671)
Deferred tax asset/(liability) at 31 December	**—**	—

$0.2 million of the Group's unutilised tax losses expire within one to five years of the Balance Sheet date.

5.9 Loss per share

The basic and diluted loss per share has been calculated using the loss for the year ended 31 December 2016 of $19.8 million (2015: $69.2 million) for continuing operations and $19.8 million (2015: $69.2 million) for the loss attributable to the owners of the parent company. The basic loss per share was calculated using a weighted average number of ordinary shares in issue less treasury shares held of 473,428,648 (2015: 117,886,145). The weighted average number of ordinary shares, allowing for the exercise of share options, for the purposes of calculating the diluted loss per share was 480,880,703 (2015: 117,965,804).

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

Section 6 – Capital Structure and Other Disclosures
Equity instruments

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

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

6.1 Share capital
Group and Company

	2016 $'000	2015 $'000
Allotted, called up and fully paid:		
519,995,785 (2015: 121,989,500)	**18,803**	13,131

On 17 September 2015, each of the Company's existing ordinary shares were subdivided into one ordinary share of 1 pence and one deferred share of 4.7142865 pence. Consequently, other than the ordinary share referenced in the above table, there are in issue 121,989,500 deferred shares. The rights of both the ordinary and the deferred shares are as set out in the Articles of Association as amended 15 September 2015. Deferred shares on issue do not have voting rights and are not entitled to dividends.

On 14 January 2016 the Company completed an Open Offer of ordinary shares to shareholders on the record date resulting in the issue of 350,733,941 new ordinary shares and the sale of 4,103,355 treasury shares.

On 10 August 2016 the Company completed a Placing of ordinary shares to 47,272,344.

The movements in share capital and share options were:

	Number of ordinary shares	Number of deferred shares	Number of 2005 share options	Number of 2010 share options	Weighted average price of options (£)
At 31 December 2015	121,989,500	121,989,500	465,000	136,693	2.35
Share capital raised under Open Offer	350,733,941	—	—	—	—
Share capital raised in Placing	47,272,344	—	—	—	—
Restricted share options lapsing unexercised	—	—	—	(19,065)	—
Share options lapsing unexercised	—	—	(465,000)	—	—
Share options granted	—	—	—	17,000,000	0.016
At 31 December 2016	**519,995,785**	**121,989,500**	**—**	**17,117,628**	**0.016**

Financial Statements
Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2016

Section 6 – Capital Structure and Other Disclosures continued

6.1 Share capital continued

Group and Company continued

Of the share options outstanding, 117,628 options have an exercise price of 5.714 pence per share, 13,000,000 options have an exercise price of 1 pence per share, and 4,000,000 options have an exercise price of 3.375 pence per share, as shown in the table below.

The detail of the share options outstanding at 31 December 2016 are as follows:

Exercise period	Year share options vest	Weighted average exercise price of options (£ pence)	Number of share options
4 April 2012 – 3 April 2017	2013	5.714	58,814
4 April 2012 – 3 April 2017	2014	5.714	58,814
22 October 2016 – 22 October 2026	2016-2018	1.558	17,000,000
		1.587	**17,117,628**

Of the total options issued during the year, 17,000,000 options were granted to Directors in office at that time (31 December 2015: nil), no options were granted to current employees (31 December 2015: nil).

The average share price during 2016 was £0.05 (2015: £0.13). The highest share price during the year was £0.14 and the lowest price was £0.03 (2015: £0.38 and £0.03).

6.2 Financial instruments, derivatives and capital management

Risk assessment

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

Liquidity risk

At the end of the year the Group had cash and cash equivalents of $1.0 million, and further bank balances of $0.5 million held in escrow to guarantee minimum work obligations.

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

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

	Less than three months $'000	**Three months to one year $'000**	**One to three years $'000**	**More than three years $'000**	**Total $'000**
31 December 2016					
Current trade and other payables	**(1,183)**	**—**	**—**	**—**	**(1,183)**
Non-current trade and other payables	**—**	**—**	**—**	**(3,446)**	**(3,446)**
Loan facility	**—**	**—**	**—**	**—**	**—**
	(1,183)	**—**	**—**	**(3,446)**	**(4,629)**
31 December 2015					
Current trade and other payables	(3,620)	—	—	—	(3,620)
Non-current trade and other payables	—	—	—	(3,427)	(3,427)
Loan facility	(14,406)	—	—	—	(14,406)
	(18,026)	—	—	(3,427)	(21,453)

During 2015, the loan facility bears a weighted average effective interest rate of 10%. No other balances in the table above are interest bearing.

Currency risk

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

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

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

The following table demonstrates the sensitivity to changes in the US Dollar exchange rate, with all other variables held constant, on the Group's net assets:

	Change in US Dollar rate	Effect on net assets $'000
2016	**(+ or –) 5%**	**+/– 33**
2015	(+ or –) 5%	+/– 145

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:

	Change in US Dollar rate	Effect on profit before tax $'000
2016	**(+ or –) 5%**	**+/– 234**
2015	(+ or –) 5%	+/– 431

Credit risk

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

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

Capital risk management

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

The capital structure of the Group consists of net debt (borrowings as disclosed in note 3.6 after deducting cash and cash equivalents and restricted cash balances as disclosed in note 3.2) and equity of the Group (comprising issued capital, reserves and retained earnings).

Financial Statements
Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2016

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

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

	Financial assets on which interest is earned $'000	Financial assets on which no interest is earned $'000	Total $'000
2016			
US Dollar	**89**	**102,637**	**102,726**
Pound Sterling	**33**	**4**	**37**
Euro	**27**	**94**	**121**
Syrian Pound	**14**	**—**	**14**
Moroccan Dirham	**2**	**—**	**2**
Other currencies	**20**	**11**	**31**
	185	**102,746**	**102,931**

	Financial assets on which interest is earned $'000	Financial assets on which no interest is earned $'000	Total $'000
2015			
US Dollar	3,290	102,637	105,927
Pound Sterling	34	4	38
Euro	122	94	216
Syrian Pound	15	—	15
Moroccan Dirham	2	—	2
Other currencies	11	11	22
	3,474	102,746	106,220

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

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

Included in financial assets on which no interest is earned at 31 December 2016 and 2015 was a gross amount of $25.3 million of trade receivables that has been fully provided against. This amount is due from the government of the Syrian Arab Republic in respect of oil sales in Syria. Due to the ongoing sanctions against the country's oil industry the payment of this amount has been delayed and, taking into account the current exceptional circumstances in Syria and the consequential difficulty of predicting the timing of future payment, has been fully impaired. The recovery of this amount is included within the impairment calculations modelled when reviewing the Syrian investment for any impairment, see note 4.2 for further details. The remaining trade receivables consist of amounts receivable from various counterparties where the Group considers the credit risk to be low. This risk is monitored by the Group.

Financial liabilities

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

	Financial liabilities on which interest is charged $'000	Financial liabilities on which no interest is charged $'000	Total $'000
2016			
US Dollar	**—**	**8,836**	**8,836**
Pound Sterling	**—**	**331**	**331**
Euro	**—**	**166**	**166**
Syrian Pound	**—**	**54**	**54**
Moroccan Dirham	**—**	**106**	**106**
Other currencies	**—**	**17**	**17**
	—	**9,510**	**9,510**
2015			
US Dollar	14,406	5,548	19,954
Pound Sterling	—	1,905	1,905
Euro	—	579	579
Syrian Pounds	—	153	153
Moroccan Dirham	—	230	230
Other currencies	—	87	87
	14,406	8,502	22,908

Commodity price risk

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

In 2016 and 2015 the Group did not enter into any derivative contracts in respect of its exposure to fluctuations in the price of oil and gas.

Fair values

The Group's investment in DPC, the entity established in Syria, pursuant to the PSC, to administer the Group's Syrian oil and gas development and production assets (and which is considered to also include the related rights to production under the PSC), is recorded as an available-for-sale investment. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and subject to material change and uncertainty. Management believes that as a result of the further passage of time and the high degree of judgement required, it is no longer possible to reliably estimate the investment's fair value. Management will therefore carry forward the last valuation which could be reliably determined, being the $102 million previously disclosed. This value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement, this is described further in note 4.2.

At 31 December 2016 and 2015, the Directors considered the fair values and book values of the Group's financial assets and liabilities to be level 3 valuations.

Section 6 – Capital Structure and Other Disclosures continued

6.3 Related party transactions and key management

Key management of the Group are considered to be the Directors of the Company. Directors' interests in shares and their remuneration and share options are disclosed in the Directors' Remuneration Report on pages 30 to 32.

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

	2016 $'000	2015 $'000
Short-term employee benefits	**677**	1,235
Share-based payments	**159**	—
	836	1,235

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

Balances and transactions between the Company and its subsidiaries, which are related, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its subsidiaries are disclosed in note 6.6 of the Company Financial Statements.

There were no other related party transactions of the Group during the years ended 31 December 2016 or 2015.

6.4 Obligations under operating leases

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

	2016		2015	
	Land and buildings $'000	**Other $'000**	Land and buildings $'000	Other $'000
Amounts payable on leases:				
Within one year	**109**	**—**	647	—
In two to five years	**—**	**—**	95	—
	109	**—**	742	—

There are no future minimum sublease payments expected to be received under non cancellable subleases at the end of the reporting period (31 December 2015: $nil).

6.5 Contingent liabilities

Legal claim – Mahdi Sajjad

In December 2016 the Group settled its long outstanding dispute with former Chief Executive Officer, Mr Mahdi Sajjad. Under the terms of the settlement, all actions against the Group by Mr. Sajjad in the London High Court, the Employment Tribunal in England, and in the Lebanese Arbitration Court, as well as the Group's counterclaim against Mr. Sajjad, were settled without any admission of liability by either party.

Claim by Al Mashrek Group in Syria

Al Mashrek Global Investment Ltd ("Al Mashrek") has filed a claim with the Courts in Damascus, Syria, against Gulfsands Petroleum Levant Limited (incorporated in Cayman Islands) ("GPLL") and the Syrian registered branch of GPLL on the grounds that Al Mashrek was not properly notified of the Open Offer completed in January 2016 and hence lost the opportunity to subscribe for new shares in the Open Offer and as a result Al Mashrek's equity was subsequently diluted.

The Court of Appeal of Damascus has issued an order of provisional attachment on GPLL's moveable and immovable assets, including GPLL's share of Block 26, to secure Al Mashrek's claim of an amount of Syrian pounds equivalent to $2.0 million. While Gulfsands continues to investigate the alleged claim it is determined to protect its rights in Syria. Gulfsands are seeking legal advice on this matter. Management believe the outflow of funds in relation to this claim to be possible but not probable and therefore no provision has been made as at 31 December 2016.

Penalties sought by ONHYM under the Rharb Petroleum Agreement
In late 2015 (9 November 2015), the extension period of the Rharb Petroleum Agreement expired and the Company submitted a request to further extend the Rharb Petroleum Agreement for a period of two years to allow the Company to appraise the gas discoveries made in 2014/15.

On 30 November 2015, the Company received a response from ONHYM, dated 26 November 2015, advising that its request for an extension to the Rharb Petroleum Agreement had been rejected and furthermore that:

- Gulfsands Morocco will forfeit its $1.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Rharb Petroleum Agreement;
- ONHYM is seeking a penalty equal to the estimated cost of the minimum exploration work programme of the Rharb Petroleum Agreement less the costs actually incurred in respect of exploration work required, whereby ONHYM is claiming a sum of $7.5 million;
- ONHYM advised they will also, by separate request, seek the outstanding amount under the training obligation of the Rharb Petroleum Agreement; and
- ONHYM was seeking an update on the Company's progress in relation to the abandonment of the legacy producing wells and the cleaning and restoring of the well sites in the Rharb Centre permit area.

The Company strongly refutes the claims for financial sums and penalties and is seeking legal advice on the matter.

In these 2016 year-end Financial Statements the $1.0 million restricted cash balance has been fully provided against and decommissioning and restoration provisions of $1.6 million covering all Gulfsands drilled wells and legacy wells have been provided for, although the Company considers that this decommissioning obligation should be fully satisfied by part of the performance guarantees inappropriately taken by ONHYM on the Rharb and Fes licences, as described in note 6.6.

No provisions have been made for training obligations or the penalty.

6.6 Contingent assets

Recovery of guarantee amounts under the Rharb Petroleum Agreement
In late 2015, on 30 November 2015 the Company received a response from ONHYM stating Gulfsands Morocco will forfeit its $1.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Rharb Petroleum Agreement. ONHYM drew this amount in January 2016.

Gulfsands have provided ONHYM with details of the costs actually incurred in respect of the exploration work required to be carried out during the extension period and these costs significantly exceed the $15 million estimated costs of the minimum exploration work programme. Therefore Gulfsands believe that in accordance with the Rharb Petroleum Agreement no penalty payment is due. As a result the $1.0 million drawn by ONHYM was not drawn under the provisions of the Rharb Petroleum Agreement as no penalty was due and therefore should be refunded back to Gulfsands. Of the $1.0 million, $0.33 million is due back to a third party if released by ONHYM.

No asset has been recognised in these Financial Statements for this contingent asset.

Recovery of guarantee amounts under the Fes Petroleum Agreement
In late 2015 (16 October 2015), the Company announced that the extension period of the Fes Petroleum Agreement expired on 24 September 2015 and the request to further extend the agreement was not granted by ONHYM, and furthermore that:

- ONHYM advised that Gulfsands Morocco will forfeit its $5.0 million in restricted cash held as a performance guarantee in relation to its minimum work obligation under the Fes Petroleum Agreement and the restricted cash had been drawn by ONHYM; and
- ONHYM had requested details of the costs incurred during the six year extension period in order to determine if a penalty was payable, with such penalty being the estimated cost of the minimum exploration work programme of $18.5 million, less the costs actually incurred in respect of exploration work required to be carried out during the extension period.

Gulfsands provided ONHYM with details of the costs actually incurred in respect of the exploration work required to be carried out during the extension period and these costs significantly exceed the $18.5 million estimated costs of the minimum exploration work programme. Therefore, Gulfsands believes that in accordance with the Fes Petroleum Agreement no penalty payment is due. As a result the $5.0 million drawn by ONHYM was not drawn under the provisions of the Fes Petroleum Agreement as no penalty was due and therefore should be refunded back to Gulfsands. Of the $5.0 million, $1.33 million is due back to a third party if released by ONHYM.

No asset has been recognised in these Financial Statements for this contingent asset.

Section 6 – Capital Structure and Other Disclosures continued

6.7 Post balance sheet events

Secured Term Financing Facility

Subsequent to the year end, on 15 February 2017, the Company closed a Secured Term Financing Facility of up to £4 million (the "2017 Facility") with its Major Shareholders, Waterford, Blake and ME Investments Limited.

The 2017 Facility is available for drawdown by the Company in five equal tranches of £0.8 million, the first available immediately upon the satisfaction of various administrative conditions precedent (completed in February 2017), and the further tranches being available on or after 31 March 2017, 30 June 2017, 30 September 2017 and 31 December 2017. The first two tranches, were committed by the Lenders, with the final three tranches, being subject to re-approval by each of the Lenders prior to each drawdown request.

At the date of this report, the first three tranches have been drawn down: the initial tranche was drawn immediately, the 31 March tranche was drawn down in early April 2017, and in late April 2017, the Lenders unanimously agreed to allow the third tranche to be drawn down ahead of the scheduled date of 30 June, 2017 to assist with working capital requirements.

Interest on loans made (together with accrued fees and interest) shall run at 7% per annum. A commitment fee of 1% per annum shall run on any undrawn proportion of the Facility. All fees and interest accrue quarterly until maturity. All, or part, of the undrawn portion of the Facility may be cancelled at any time by the Company. The Company may prepay the whole or any part (if at least £0.8 million) of the outstanding amounts at any time subject to paying a 10% premium on the amount pre-paid.

The proceeds will be used for general and administrative expenses of the Group and for working capital purposes.

The maturity date of the 2017 Facility is three years from the first drawdown date, at which date all outstanding amounts will be repayable in cash unless the Company has exercised an equity conversion right. Pursuant to that right, the outstanding amounts to be repaid may be converted at the Company's option into shares of the Company at a price equal to the lower of (i) the 90 day average closing price at the time of repayment and (ii) the lowest price at which the Company has raised equity capital during the life of the 2017 Facility.

The Facility is secured: by a mortgage over the shares of the Company's direct subsidiary, Gulfsands Petroleum Limited; by a charge over certain intercompany receivables of the Company; by a charge over certain bank accounts of the Company (should the Lenders require such a charge to be created); and through the issue of one ordinary share in the share capital of Gulfsands Petroleum Limited to the security trustee. The security trustee for the Facility is Weighbridge Trust. The articles of association of Gulfsands Petroleum Limited have also been amended to include certain reserved matters requiring unanimous shareholder consent, pre-emption provisions and compulsory transfer provisions. In addition to the right to enforce the security, on an insolvency-related event of default, the Lenders have the right to convert outstanding amounts under the Facility into a direct equity holding in Gulfsands Petroleum Limited, at a fair price (from a financial point of view taking into account all relevant circumstances) to be determined by an expert at the time.

Parent Company Financial Statements and Notes to the Company Financial Statements

Parent Company Primary Statements

This section contains the Company's primary Financial Statements.

Section 1 Basis of Preparation

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

Section 2 Property, Plant and Equipment and Intangible Assets

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

Section 3 Investments in and Loans to Subsidiaries

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

Section 4 Working Capital

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

Section 5 Results for the Year

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

Section 6 Capital Structure and Other Disclosures

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

Financial Statements
Company Balance sheet
as at 31 December 2016

	Notes	2016 $'000	2015 $'000
Assets			
Non-current assets			
Property, plant and equipment	2.1	**2**	14
Long-term financial assets	4.3	**–**	3,191
Investments in and loans to subsidiaries	3.1	**7,307**	7,307
Amounts due from subsidiaries	4.1	**36,084**	25,401
		43,393	35,914
Current assets			
Trade and other receivables	4.1	**80**	680
Cash and cash equivalents	4.2	**555**	85
Asset held for sale	6.3	**–**	1,810
		635	2,575
Total assets		**44,028**	38,489
Liabilities			
Current liabilities			
Trade and other payables	4.4	**537**	1,707
Total liabilities		**537**	1,707
Net assets		**43,491**	36,782
Equity			
Capital and reserves attributable to equity holders			
Share capital	6.1	**18,803**	13,131
Share premium		**110,737**	105,926
Treasury shares		**–**	(11,502)
Retained loss		**(86,049)**	(70,773)
Total equity		**43,491**	36,782

The Company has elected to take the exemption under section 408 of the Companies Act 2006, to not present the parent company income statement. The net loss for the parent company was $15.4 million (2015: $53.6 million).

The Financial Statements of Gulfsands Petroleum plc (registered number: 05302880) were approved by the Board of Directors on 26 May 2017 and signed on its behalf by:

Andrew James Morris
Finance Director

26 May 2017

Company Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital $'000	Share premium $'000	Treasury shares $'000	Retained (loss)/profit $'000	Total equity $'000
At 1 January 2015	13,131	105,926	(11,502)	(17,155)	90,400
Loss for 2015	—	—	—	(53,587)	(53,587)
Transactions with owners:					
Options exercised or cash settled	—	—	—	(31)	(31)
At 31 December 2015	13,131	105,926	(11,502)	(70,773)	36,782
Loss for 2016	—	—	—	(15,435)	(15,435)
Transactions with owners:					
Equity raise – Open Offer/Placing	5,672	4,811	11,502	—	21,985
Share-based payment charge	—	—	—	159	159
At 31 December 2016	**18,803**	**110,737**	**—**	**(86,049)**	**43,113**

Financial Statements
Company Cash Flow Statement
for the year ended 31 December 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Operating loss before impairments		**(2,202)**	(3,766)
Depreciation and amortisation	2.1 & 2.2	**–**	307
Share-based payment charge		**159**	–
Decrease in receivables		**600**	207
(Decrease)/Increase in payables		**(1,229)**	614
Net cash used in operations		**(2,672)**	(3,052)
Interest received		**14**	10
Bank fees		**(124)**	(13)
Foreign exchange losses		**(100)**	(18)
Net cash used in operating activities		**(2,882)**	(3,073)
Investing activities			
Investment in assets held for sale		**(325)**	(479)
Capital expenditure		**–**	(9)
Funds transferred to/(from) subsidiaries		**3,677**	2,948
Net cash used in investing activities		**3,352**	2,460
Financing activities			
Other payments in connection with options issued		**–**	(31)
Net cash used in financing activities		**–**	(31)
Increase/(decrease) in cash and cash equivalents		**470**	(644)
Cash and cash equivalents at beginning of year		**85**	729
Cash and cash equivalents at end of year	4.2	**555**	85

Notes to the Parent Company Financial Statements

for the year ended 31 December 2016

Section 1 – Basis of Preparation

1.1 Authorisation of Financial Statements and statement of compliance with IFRSs

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

The Company Financial Statements for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 26 May 2017 and the Balance Sheet was signed on the Board's behalf by Andrew Morris, Finance Director.

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

1.2 Adoption of International Financial Reporting Standards

The Company's Financial Statements for the year ended 31 December 2016 and for the comparative year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and IFRIC (IFRS Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

1.3 Significant accounting policies

a) Basis of preparation and accounting standards

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

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

b) Reporting currency

These Company Financial Statements are presented in US Dollars. The Company's operations and the majority of all costs associated with foreign operations are paid in US Dollars and all loan balances with subsidiary undertakings are denominated in US Dollars. Therefore the presentational and functional currency of the Company is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling at 31 December 2016 was £1: $1.26 (2015: £1: $1.47).

1.4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described below, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Financial Statements
Notes to the Parent Company Financial Statements continued
for the year ended 31 December 2016

Section 2 – Property, Plant and Equipment and Intangible Assets
2.1 Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write-off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives of between two and five years.

	Office equipment, fixtures and fittings $'000
Cost:	
At 1 January 2015	939
Additions	9
At 1 January 2016	948
Disposals	(887)
At 31 December 2016	**61**
Accumulated depreciation:	
At 1 January 2015	(925)
Charge for 2015	(8)
At 1 January 2016	(933)
Disposals	887
Charge for 2016	(13)
At 31 December 2016	**(59)**
Net book value at 31 December 2016	**2**
Net book value at 31 December 2015	15

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

	Computer software $'000
Cost:	
At 1 January 2015	1,234
Additions	2
At 1 January 2016 and 31 December 2016	**1,234**
Accumulated amortisation:	
At 1 January 2015	(936)
Amortisation charge for 2015	(298)
At 1 January 2016	(1,234)
Amortisation charge for 2016	—
At 31 December 2016	**(1,234)**
Net book value at 31 December 2016	**—**
Net book value at 31 December 2015	—

Section 3 – Investments in and Loans to Subsidiaries

3.1 Investments

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

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

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

Section 4 – Working Capital

4.1 Trade and other receivables

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

	2016 $'000	2015 $'000
Current		
Other receivables	25	85
Prepayments and accrued income	55	595
	80	680
Non-current		
Amounts due from subsidiaries	36,084	25,401

Further details on the amounts due from subsidiaries are included in note 6.6.

4.2 Cash and cash equivalents

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

	2016 $'000	2015 $'000
Cash at bank and in hand	555	85
Restricted cash balances	—	3,191
Total cash and bank resources	555	3,276
Included in long-term financial assets	—	(3,191)
Total cash and cash equivalents	555	85

4.3 Long-term financial assets

Long-term financial assets comprise balances held in bank accounts subject to escrow agreements as collateral for performance bonds issued.

	2016 $'000	2015 $'000
Restricted cash balances	4,941	4,941
Provision against recovery of restricted cash balances	(4,941)	(1,750)
Total cash and cash equivalents	—	3,191

Restricted cash balances at 31 December 2016 include $1.75 million of deposits collateralising guarantees given to state regulators to secure minimum exploration work commitments in Morocco, and $3.2 million relates to amounts held in escrow to guarantee minimum work obligations on PUT-14 and LLA-50 in Colombia. All amounts have been fully provided against at 31 December 2016.

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

Section 4 – Working Capital continued

4.4 Trade and other payables

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

	2016 $'000	2015 $'000
Current		
Trade payables	**223**	881
Accruals and other payables	**314**	826
	537	1,707

Section 5 – Results for the Year

5.1 Revenue recognition

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

Income Statement and total revenue

No individual Income Statement is presented in respect of the Company as permitted by section 408 of the Companies Act 2006. The Company's loss for the year was $15.4 million (2015: $53.6 million). There was no revenue during 2016, as defined by IAS 18 'Revenue' (2015: nil).

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

5.2 Operating leases

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

Obligations under operating leases

At the end of the year the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings of $0.1 million (31 December 2015: $0.6 million) within one year and $nil (31 December 2015: $0.1 million) between two and five years.

5.3 Share-based payments

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

See note 5.3 to the Consolidated Financial Statements.

5.4 Taxation

Current tax

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

Deferred tax

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

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

5.4 Taxation
Deferred tax assets/(liabilities)

	2016 $'000	2015 $'000
Tax losses carried forward	**7,974**	7,948
Depreciation in advance of capital allowances	**247**	120
Unprovided deferred tax asset	**(8,221)**	(8,068)
Deferred tax asset/(liability) at 31 December	**—**	—

The tax losses of the Company have no expiry date.

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

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

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

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

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

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

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

	Financial assets on which interest is earned $'000	Financial assets on which no interest is earned $'000	Total $'000
2016			
US Dollar	**34**	**36,450**	**36,484**
Pound Sterling	**37**	**137**	**174**
Euro	**7**	**45**	**52**
Other currencies	**—**	**—**	**—**
	78	**36,632**	**36,710**
2015			
US Dollar	3,185	32,753	35,938
Pound Sterling	34	5	39
Euro	—	7	7
Other currencies	—	—	—
	3,219	32,765	35,984

Financial Statements

Notes to the Parent Company Financial Statements continued

for the year ended 31 December 2016

Section 6 – Capital Structure and Other Disclosures continued

6.2 Financial instruments, derivatives and capital management

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

	Financial assets on which interest is charged $'000
2016	
US Dollar	**39**
Pound Sterling	**1,014**
Other currencies	**12**
	1,065
2015	
US Dollar	48
Pound Sterling	1,358
Other currencies	12
	1,418

During the year ended 31 December 2016, the Company impaired balances owed from subsidiary undertakings totalling $8.0 million (2015: $49.8 million).

6.3 Assets held for sale

Assets held for sale of $nil (2015: $1.8 million) represent exploration expenditures relating to the Colombian Putumayo 14 and Llanos 50 E&P contracts. As detailed in note 2.3 of the Consolidated Financial Statements it was decided to fully impair the expenditure of $2.2 million attributed to these licences. These contracts were granted to the Colombian branch of the Company, however it remains Management's intention to transfer these contracts to the Colombian branch of a subsidiary company, Gulfsands Petroleum Sud America Limited.

The Company's capital commitments under these contracts are as follows:

Colombia

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

- Drilling of one exploration well.
- 2D seismic minimum 93 km.
- The Company has also undertaken to spend $100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5 km of 2D seismic.
- Total commitments outstanding estimated at $16.1 million.

Llanos 50 – first exploration phase expiry date and deadline for fulfilment of capital commitments; May 2018 following 18 month extension confirmed in May 2017

- Drilling of one exploration well.
- 2D seismic minimum 103 km.
- The Company has also undertaken to spend $100,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 5 km of 2D seismic.
- The Company has also undertaken to spend $1,400,000 on an additional work programme obligation which may be satisfied via the acquisition of an additional 52 km of 2D seismic.
- Total commitments outstanding estimated at $13.9 million, plus an additional $1.4 million for the extension ($15.3 million).

$3.2 million (31 December 2015: $3.2 million) of deposits have been lodged to support guarantees given to the Agencia Nacional de Hidrocarburos in respect of completion of these minimum work commitments on Putumayo 14 and Llanos 50.

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

6.5 Employees
The average monthly number of persons employed by the Company, including Executive Directors was seven (2015: 14).

6.6 Related party transactions and key management
Key management of the Company are considered to be the Directors of the Company. Any transactions with Directors are disclosed in note 6.3 to the Consolidated Financial Statements. Interests in shares and their remuneration and share options are disclosed in the Directors' Remuneration Report on pages 30 to 32.

The Company traded with various undertakings within the same Group during the years ended 31 December 2016 and 2015. 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	2016 $'000	2015 $'000
Gulfsands Petroleum Tunisia Ltd	Subsidiary	Non-interest bearing	**30,735**	30,391
		Provision	**(30,735)**	(25,277)
Gulfsands Petroleum Levant Ltd	Subsidiary	Non-interest bearing	**18,735**	18,383
		Provision	**(16,038)**	(16,038)
Gulfsands Petroleum Ltd.	Subsidiary	Non-interest bearing	**2,630**	2,630
Gulfsands Petroleum Sud America Ltd	Subsidiary	Non-interest bearing	**319**	247
		Provision	**(319)**	(214)
Gulfsands Petroleum (MENA) Ltd	Subsidiary	Non-interest bearing	**2,193**	1,254
		Provision	**(1,463)**	(599)
Gulfsands Petroleum Morocco Ltd	Subsidiary	Non-interest bearing	**45,681**	44,062
		Provision	**(45,681)**	(44,062)
Gulfsands Petroleum Holdings Ltd	Subsidiary	Non-interest bearing	**29,926**	14,512
Gulfsands Petroleum Iraq Ltd	Subsidiary	Non-interest bearing	**5,905**	5,916
		Provision	**(5,804)**	(5,804)

Services recharged to related parties

	2016		2015	
Name of related party	Time writing $'000	Indirect overhead $'000	Time writing $'000	Indirect overhead $'000
Gulfsands Petroleum Levant Ltd	**279**	**5**	101	5
Gulfsands Petroleum Morocco Ltd	**474**	**9**	1,126	179
Gulfsands Petroleum Sud America Ltd	**161**	**–**	77	51
Gulfsands Petroleum Tunisia Ltd	**114**	**–**	76	20

Financial Statements
Glossary of Terms

1C Low estimate (P90) Contingent Resources

2C Best estimate (P50) Contingent Resources

3C High estimate (P10) Contingent Resources

AIM Alternative Investment Market of the London Stock Exchange

Arawak Arawak Energy Bermuda Ltd

bbls Barrels of oil

bcf Billion cubic feet of gas

Blake Blake Holdings Limited

Code UK Corporate Governance Code

CSR Corporate social responsibility

DD&A Depletion, depreciation and amortisation

DOB-1 Douar Ouled Balkhair location

DPC Dijla Petroleum Company

DRC-1 Dardara South East location

E&E Exploration and evaluation

E&P Exploration and production

FD Finance Director

FRC Financial Reporting Council

G&A General and administrative expenses

GPC General Petroleum Corporation

Gulfsands Levant Gulfsands Petroleum Levant Limited

Gulfsands (MENA) Gulfsands Petroleum (MENA) Limited

Gulfsands Morocco Gulfsands Morocco Limited

HSES Health, safety, environment and security

IFRS International Financial Reporting Standards

km Kilometres

km^2 Square kilometres

KPI Key performance indicator

LLA-50 Llanos Block 50

MENA Middle East and North Africa

mmbbl Millions of barrels of oil

mmboe Millions of barrels of oil equivalent

NGLs Natural gas liquids

NPV Net present value

ONHYM Office National des Hydrocarbures et des Mines (Morocco)

P10 There exists a 10% probability that the true quantity or value is greater than or equal to the stated P10 quantity or value

P50 There exists a 50% probability that the true quantity or value is greater than or equal to the stated P50 quantity or value

P90 There exists a 90% probability that the true quantity or value is greater than or equal to the stated P90 quantity or value

Possible Reserves Possible Reserves are those additional reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible ("3P") Reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be more than a 10% probability that the quantities actually recovered will equal or exceed the 3P estimate.

Probable Reserves Probable Reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be more than a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable Reserves.

Proved Reserves Proved Reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty (normally over 90% if measured on a probabilistic basis) to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

PRMS The 2007 Petroleum Resources Management classification system of the SPE

PSC Production Sharing Contract

PUT-14 Putumayo Block 14

Senergy Senergy (GB) Limited

SPE Society of Petroleum Engineers

Waterford Waterford Finance and Investment Limited

Weighbridge Weighbridge Trust Limited

Financial Statements
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