Gulfsands Petroleum

Annual Report and Accounts 2018

Gulfsands Petroleum plc is an independent oil and gas exploration and production company, incorporated in the United Kingdom

The Group's focus is the Middle East region and its core asset is its interest in Block 26, a world class resource in North East Syria, which is currently under Force Majeure as a result of EU sanctions

Contents

Strategic Report
Highlights

Increased focus on core assets in North East Syria which, according to in-country sources, appear to be in good order, materially undamaged and operationally fit

Group working interest 2C Contingent Resources in Syrian assets of 77.4 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, with which Gulfsands remains committed to full compliance.

Production in Block 26, without the participation of Gulfsands, has reportedly been approximately 20,000 boepd throughout 2018 - no revenues have been recognised or received 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 fields continue to be operable.

The area surrounding Block 26 remains stable, with no major disruptions during the year.

Rationalisation of non-core assets almost complete

There are no active operations remaining in Tunisia and Morocco and the administrative closedown continues.

The Creditors Voluntary Liquidation ("CVL") of the Cyprus subsidiary, Gulfsands Petroleum Morocco Limited ("GPML"), through the Cypriot courts was approved and concluded at the final creditors meeting on 8 May 2019.

In Colombia, significant progress has been made:

- The Putumayo-14 licence was successfully divested and transferred in its entirety to the Amerisur Resources plc Group ("Amerisur"), alleviating a minimum work program obligation of $16.1 million.
- The Llanos-50 licence remains in suspension following identification of environmental restrictions on the block. These concerns have been confirmed by Corporinoquia, the local environmental agency, who have declared the planned seismic programme non-viable. The Company is in dialogue with the ANH to mutually terminate the LLA-50 licence.

Increased focus on business development

With much of the streamlining of the business complete, management has increased its focus on business development in the broader Middle East region.

Re-entry planning stepped up as political situation appears to be improving

After eight years of devastating war, and as the conflict enters its ninth year, the focus of the international community appears to be moving towards one of normalisation and reconstruction.

Gulfsands has spent a significant amount of time during 2018 formalising and analysing existing data, to ensure that the assets are fully understood such that the Group is in a position to initiate re-entry and to recommence operations as soon as it is permitted to do so.

This work continues to provide strong affirmation of the world class technical nature of Block 26, both in respect of the existing discoveries and also the significant exploration upside potential that remains within the block.

The Board believes that Block 26 could contain over a billion barrels of recoverable resource with the potential for production levels of around 50,000 boepd from existing discoveries and over 100,000 boepd from a full block development.

In addition, the technical team that has been assembled has begun supporting business development activities in the broader Middle East region, which will remain a focus during 2019.

Capital efficiency and continued financial support from major shareholders

The Group was funded throughout 2018 by the 2017 Secured Term Financing Facility provided by the Major Shareholders. This 2017 Facility was extended in March 2018, giving a further £4 million of committed capacity which is expected to fund G&A through to early 2020.

Continued initiatives to reduce the ongoing expenses across the Group with gross office costs after partner recoveries falling a further 10% from $3.2 million to $2.9 million during the year.

Budgeted G&A cost for 2019 is around $2.5 million.

At the date of this Report, the Group had unaudited free cash available for operations of $1.6 million.

Delisting from AIM

The Company delisted from the Alternative Investment Market ("AIM") of the London Stock Exchange on 23 April 2018, following shareholder approval at the General Meeting held on 10 April 2018.

The Company's shares continue to trade through the secondary trading auction facility provided by Asset Match **(www.assetmatch.com)**.

Chairman and Managing Director's Statement

Gulfsands' strategy keeps capital efficiency and Block 26 at its core, with an increased focus on preparing for Syria re-entry, once EU sanctions and the security situation permit, and business development in the broader Middle East region.

Dear Shareholder

2018 once again saw Gulfsands make significant progress in streamlining the Group to enable it to look towards a future focussed on the Middle East region and particularly its world class assets in Syria. With this streamlining process nearing completion, the Group has reduced overheads substantially to a sustainable level which continues to be funded by its major shareholders through the existing Secured Term Financing Facility. This Facility was extended during the year and is expected to fund the Group throughout 2019 and into 2020.

The Shareholders decided, at a General Meeting held on 10 April 2018, that the Company would be better positioned to implement its forward-looking strategy as a delisted company and so its shares were cancelled from trading on the Alternative Investment Market ("AIM") on 23 April 2018. Post delisting, the Company has committed that, for at least two years from the date of delisting, it will remain a Public Limited Company (a "PLC") and maintain high levels of corporate governance including ensuring independence of the Board from both the Major Shareholders and executive management. With the elimination of the financial, management and administrative cost of maintaining the listing, management can now focus on implementing the agreed strategy and adding value for all its shareholders.

Following the delisting, Gulfsands shares continue to trade through the secondary trading auction facility provided by Asset Match. Anyone wishing to trade Gulfsands shares should contact Asset Match directly at www.assetmatch.com.

At the core of Gulfsands' strategy remains its Block 26 assets in North East Syria. After eight years of devastating war, and as the conflict enters its ninth year, the Board remains cautiously optimistic in the medium-term regarding the political situation in Syria, and the focus of the international community appears to be moving towards one of normalisation and reconstruction. Therefore, Gulfsands has maintained a key focus on ensuring it is ready to recommence operations when sanctions allow, while remaining sanction compliant in the meantime.

In addition, the Company is also continuing to explore potential business development and acquisition opportunities in the broader Middle East region.

Our Major Shareholders have shown their support for this streamlined strategy by firstly making available £1.6 million remaining under the existing 2017 Facility in January 2018 and then by committing to an additional £4 million of funding under the expanded 2017 Facility to be drawn down in tranches. This is expected to fund the Company's G&A to early 2020.

In Block 26 in North East 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. Although Gulfsands is unable, due to EU sanctions, to be actively involved in operations, the assets appear, according to in-country sources, 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 this PSC since the introduction of EU sanctions in Syria in 2011. We do however continue to believe that these assets have the significant potential for increased reserves, resources and production when circumstances allow us to return. In early 2017, the Group was informed by Dijla Petroleum Company ("DPC") that the oil fields in Block 26 were returned to production during January 2017, with oil being produced from up to thirteen production wells. This situation appears to have persisted throughout 2017,

2018 and 2019 to date, and the average oil production rate during the period appears to be around 18-20,000 bopd, meaning a total production during 2018 of around 6.9 million barrels of oil (2017: 6.4 million). The Company continues to work on verifying this information and the status of this production under the terms of the PSC is unclear at this time. Gulfsands has not recognised or received 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 focussed on maintaining its readiness to resume operational activities once sanctions are lifted. This preparation has included significant internal technical work formalising and analysing existing data, to ensure that the assets are fully understood such that the Group is in a position to initiate re-entry and to recommence operations as soon as it is permitted to do so.

The Board believes that Block 26 could contain over a billion barrels of recoverable resource with the potential for production levels of around 50,000 boepd from existing discoveries and over 100,000 boepd from a full block development incorporating potential exploration upside.

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

In Morocco, on 27 November 2018, Cypriot subsidiary Gulfsands Petroleum Morocco Limited ("GPML"), entered Creditors Voluntary Liquidation ("CVL"). GPML was the previous owner of the Rharb and Fes Petroleum Agreements which expired in 2015. GPML's only material asset was the potential recovery of former guarantee funds of $6 million, currently being inappropriately held by Office National des Hydrocarbures et des Mines ("ONHYM"). Without these funds, GPML was unable to meet all its obligations in country and hence had no option but to enter the CVL process. The CVL process was approved and concluded at the final Creditors meeting held in Cyprus on 8 May 2019.

Gulfsands' regional focus in the Middle East region means that Colombia is no longer core to its strategy, and initiatives have been ongoing to divest from the country.

In July 2018 the Company announced that it had completed a Farm-out Agreement with Amerisur Exploracion Colombia Limitada, a subsidiary of Amerisur Resources plc ("Amerisur"), for its PUT-14 licence. Under the deal, which was effectively a complete divestment, Amerisur and Gulfsands applied to the Agencia Nacional De Hidrocarburos ("ANH") to transfer Gulfsands' entire participating interest and operatorship of the PUT-14 licence to Amerisur. This approval was given in December 2018 and the transaction completed. Under the terms of the transaction, Gulfsands transferred its entire participating interest and operatorship of the PUT-14 licence to Amerisur, and also made a contribution to the short-term costs of the business of $1.25 million, and transferred to Amerisur the Letter of Credit of $1.7 million (which secured the PUT-14 licence with ANH). Importantly, the divestment relieves Gulfsands of any further financial obligation on the PUT-14 licence, which obligation had stood at a $16.1 million minimum work program.

Gulfsands' other licence in Colombia, Llanos-50 remains in suspension following the identification of environmental issues and restrictions which impact the ability to execute an effective seismic and drilling programme on the block. These issues were confirmed by Corporinoquia, the local environmental agency, who declared the planned seismic programme non-viable. The Company has now submitted a formal request to relinquish the licence to the ANH and is in dialogue with ANH regarding the mutual termination of the LLA-50 licence. Further details of the LLA-50 licence are outlined in more detail in note 2.4.

Chairman and Managing Director’s Statement (continued)

Financial overview

In February 2017, the Company’s Major Shareholders provided funding for the Group through a Secured Term Financing Facility (the “2017 Facility”) of up to £4 million (c. $5 million) which was to be drawn-down in five equal tranches, subject to certain conditions. The first three tranches were drawn down in 2017, with the final two tranches being drawn down in January 2018.

On 21 March 2018, the Company announced that the Major Shareholders had agreed to amend the 2017 Facility both in amount, adding an additional £4 million to the Facility, available in four equal tranches of £1 million each over the next two years, and by extending the maturity by one year to February 2021. At maturity, all outstanding amounts will be repayable in cash unless the Company has exercised an equity conversion right. Under this equity conversion right the 2017 Facility (as amended) 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) 5.09 pence (being the 90-day average closing price prior to 19 March 2018) and (ii) the lowest price at which the Company has raised equity capital during the life of the 2017 Facility.

If fully drawn down, the extended 2017 Facility should fund the Group’s expected G&A through into early 2020. Note 1.3 (Going concern) of this Annual Report describes further the Group’s funding requirements.

The Group posted a loss for the year of $5.0 million, including divestment costs and impairments of $1.6 million relating to the Colombian business. The Group continues to focus on controlling costs to a sustainable level given the activities of the Group and this initiative has resulted in the ongoing gross office costs after partner recoveries across the Group falling a further 10% from $3.2 million in 2017 to $2.9 million in 2018 (see Financial Review on pages 16 - 19 for more details).

At 31 December 2018 the Group had total unrestricted cash and cash equivalents of $1.7 million and at the date of this Report, the Group had unaudited free cash available for operations of $1.6 million, subsequent to the drawdown of £1 million in January 2019. As at 31 December 2018, the Group had $8.3 million (2017: $3.4 million) debt outstanding including accrued interest and fees under the 2017 Facility.

Outlook for 2019 and beyond

With its focussed strategy and hopes emerging for a solution to Syria’s political situation after eight years of conflict, we believe that Gulfsands is well positioned to move forward when circumstances allow. Maintaining capital discipline, controlling costs and preserving the value inherent in our core Syrian assets remain at the centre of this strategy, but so does diligent preparation for a return to Syria to unlock further value from our assets, as well as potential business development activity in the region.

After another year of further successful progress towards rationalising the business and achieving our goals, we have a great platform for adding value for all our shareholders and we would like to particularly thank all our staff for their hard work over the last twelve months.

Yours sincerely,

John Bell
Managing Director
20 May 2019

James Ede-Golightly
Non-Executive Chairman

Strategic Report

Our Business Model

In recent years the Group has focussed on aggressively managing costs and streamlining its staffing and organisational model to match its reduced involvement in operations. The Group can now focus on its core strategy of building a strong, independent exploration and production company focussed on the Middle East. At the centre of this are the core, Block 26 assets where the Company is heightening its readiness to return to operations, as soon as sanctions permit. We also intend to increase our focus on potential business development in our core area of expertise, the Middle East.

Our business model remains based on the following building blocks:

Areas of expertise

- Commitment to excellence in HSSE.
- Extensive experience in our core area of the Middle East.
- Experienced and entrepreneurial leadership team.
- Access to strong technical skills either from our in-house team or network of advisers.
- Emphasis on building strong local organisations and skill sets.

Business development strategy

- Utilise regional knowledge and relationships with partners, to identify new opportunities.
- A disciplined approach to the evaluation of E&P opportunities.
- Readiness to return to Syria with focus on growth in resources, reserves and sustainable production.

Financial and corporate discipline

- Careful handling of cash resources.
- Strong emphasis on cost control and cost/benefit analysis.
- Robust financial evaluation of all business development opportunities.
- Rigorous approach to compliance and governance.

Business conduct

- Striving to be a partner of choice in the countries and regions in which we operate.
- Establishing strong relationships with our partners.
- Respecting the environment and the health and safety of our employees and the local communities.
- Respecting all relevant international and local legislation and regulations.
- Being a good corporate citizen wherever we operate.

Strategic Report
Strategic Priorities and Monitoring Performance

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

Strategic imperatives	Commentary
Protection, Preservation and Preparation for Re-entry of our Syrian interests	▪ We continue to seek to preserve all contractual rights and manage business relationships in a manner consistent with all relevant sanctions and Force Majeure status. ▪ Our local management team in Syria ensures strong local expertise and presence, and is supported by the Executive team to maintain readiness to return to conducting operations as soon as circumstances permit, including re-entry planning.
Rationalisation of the portfolio to fit the Company's financial and risk appetite	▪ No active operations in Tunisia or Morocco – administrative process to exit continues including the Creditors Voluntary Liquidation ("CVL") of the Cyprus subsidiary, Gulfsands Petroleum Morocco Limited ("GPML"), through the Cypriot courts. ▪ Putumayo-14 licence divested in its entirety to Amerisur Resources plc, alleviating a minimum work program obligation of $16.1million. ▪ Environmental work diligently executed on LLA-50 licence resulting in the suspension of LLA-50 following the planned seismic programme being declared non-viable by Corporinoquia, the local environmental agency. Ongoing dialogue with ANH regarding the mutual termination of the LLA-50 licence.
Comprehensive evaluation of new business opportunities	▪ As the Group increases its focus on business development, effective evaluation and risk assessment will become critical to success. ▪ In Syria, a rigorous re-entry planning process is underway to ensure readiness when EU sanctions allow.
Maintain HSES and community relations	▪ Continued community, security and environmental assessment processes incorporated into all our operations planning, including: - Consulta Previa initiative on Putumayo-14 licence prior to the divestment to Amerisur; - Environmental studies on Llanos-50 licence, prior to suspension of the licence; and - Syria re-entry planning. ▪ No recordable HSES incidents during the year.
Ensure Group is efficiently run and well financed	▪ Maintained control over costs and cost basis further reduced, with gross office costs after partner recoveries falling a further 10% from $3.2 million to $2.9 million. ▪ Maintained support of the three major shareholders while assessing potential new sources of finance. ▪ Secured Term Financing Facility ("2017 Facility") was extended by a further £4 million during the year. ▪ G&A now expected to be funded to early 2020.

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

KPI	Performance	Commentary and target
Contingent and Prospective working interest Resources (mmboe): ▪ 2C Contingent Resources and best estimate Prospective Resources are both stated on an unrisked working interest basis ▪ All Contingent Resources relate to Block 26 in Syria which is currently in Force Majeure *(see pages 10 - 12 for further details)*	**Contingent Resources** 2018: 77.4 2017: 80.0 2016: 86.4 **Prospective Resources** 2018: 0.0 2017: 0.0 2016: 55	In 2015 the Reserves held for Block 26 in Syria were re-classified as Contingent Resources as there is no certainty that development of the assets will resume within five years of the evaluation. This classification has been maintained since then. The Group remains ready to return to production and reclassify these Resources back to Reserves as soon as circumstances allow. The Group's business development initiatives will include the potential acquisition of further Reserves and/or Resources in the Middle East region, as well as the identification of additional Prospective Resources within Block 26.
Capital expenditure ($ million) ▪ Accrued expenditure on exploration for and appraisal and development of oil and gas assets ▪ Expenditures include capitalised internal costs on operated assets *(pages 37 – 38 for further details)*	2018: 0.35 2017: 0.7 2016: 0.9	Focussed cost-effective expenditure on exploration, appraisal and reserve development activity is an appropriate measure of success of the Group. In recent years financial discipline has reduced the amount of capital expenditure significantly from historic levels but when the circumstances allow, a significant capital programme in Syria is to be expected.
Safety – lost time incidents ▪ The number of incidents during the year which resulted in loss of working time	2018: 0.0 2017: 0.0 2016: 0.0	Since 2016 operations have been more limited compared to historical levels, though the Group continues to have staff in Colombia and Syria, as well as the UK. Management remains absolutely committed to HSES.
Total cash and cash equivalents ($ million) ▪ Cash and cash equivalents are funds immediately available to the Group *(page 41 for further details)*	2018: 1.7 2017: 1.7 2016: 1.0	Ensuring the Group has sufficient cash resources is key. Post year end, an additional £1.0 million of the 2017 Facility was drawn down and the final £1.0 million of the 2017 Facility is expected to be drawn down in early H2 2019. This is expected to fund the Company through to early 2020.
Gross office costs after partner recoveries ($ million) ▪ Total G&A costs, before depreciation and capitalised allocations (page 16 for further details)	2018: 2.9 2017: 3.2 2016: 4.7	It is important to ensure that the Group is run as efficiently as possible and with a cost base appropriate for the level of activity. Cost reductions initiatives are partly offset by increased expenditure on preparing for Syria re-entry readiness and administration in Colombia relating to the PUT-14 and LLA-50 Licences.

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 an 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.

The Group considers its principal risks and uncertainties to be as follows:

Geopolitical Risks

Nature of Risk	Mitigation
▪ The Group's core asset is based in Syria. This country continues to be subject to political uncertainty and its society and infrastructure have been damaged significantly by a civil war. ▪ The Group's interests in Syria are in Force Majeure as a consequence of EU sanctions being imposed. There is no indication that these sanctions will be relaxed in the immediate future. ▪ It is not possible at this stage to predict how the Syrian authorities will interpret the contractual position relating to the Company's interests once sanctions are lifted and activity resumes, including the extension of the licence period to take account of the period of Force Majeure.	▪ The Group's ability to mitigate these risks is limited but it liaises closely with the UK authorities to assess the geopolitical situation. ▪ The Group has declared Force Majeure and believes that its legal rights should be preserved upon its return to operations when circumstances allow. ▪ The Group is undertaking work to prepare itself for the time when sanctions are lifted, and it can resume operation of the asset with our partners. ▪ 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.

Financing

Nature of Risk	Mitigation
▪ The Group currently has no revenue, with its sole producing asset being in Syria and subject to EU sanctions. ▪ The Group is dependent entirely upon external financing to support any activity but its ability to attract and support such financing is constrained severely by the uncertainty surrounding the future of its principal asset. ▪ The Group is reliant on the continued support of its Major Shareholders who have been the only sources of significant funding over the past 3 years. ▪ Further discussion regarding the current funding situation is contained in the going concern note 1.3a to the Consolidated Financial Statements.	▪ The cost base and funding requirements of the business are continually being assessed to ensure ongoing efficiency and to minimise the requirements for cash injections. ▪ The Board maintains a close relationship with its Major Shareholders and seeks to confirm regularly their willingness to continue to support the group. ▪ The Board continues to assess alternative potential sources of financing.

Shareholder Concentration

Nature of Risk	Mitigation
▪ As a result of the financing constraints referred to above, a large proportion of the shares in the Company are held by three shareholders holding approximately 37.32%, 31.47%, and 14.01% respectively (the "Major Shareholders"). ▪ While access to sources of finance is an absolute priority, concentrated share ownership can enable those shareholders to exert influence on the Board and management which may reflect their interests to the detriment of the minority shareholders.	▪ Even post delisting, the Board continues to commit to high levels of corporate governance. This commitment was reiterated in undertakings made by the Major Shareholders when the Company delisted from AIM in April 2018 and which apply for a period of at least two years from that date. ▪ Following delisting from AIM in April 2018, a secondary market trading facility (off-market dealing facility, www.assetmatch.com) has been secured to enable existing shareholders and new investors to trade Ordinary Shares by matching buyers and sellers through periodic auctions.

Health, safety, environment and security

Nature of Risk	Mitigation
▪ The Group's licence to operate 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 its areas 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 seeks to manage its business and its contractors in accordance therewith.

Compliance: Bribery and corruption, EU sanctions

Nature of Risk	Mitigation
▪ The Group's licence to operate depends on its continued compliance with a range of relevant regulations including those relating to sanctions and bribery and corruption. ▪ These regulations are complex, and interpretation of their implications requires the Group to seek advice which is sometimes not definitive. ▪ The Group's failure to comply with such regulations could have a significant impact on its ability to operate as a result of reputational damage, legal liability and financial loss.	▪ The Group has a Code of Business Conduct which applies to all activities of the Group. This is complemented by specific sanction and anti-bribery guidance and policies. Business practices are reviewed against this code. ▪ Formal training and monitoring is provided across the Group particularly in respect of bribery, corruption and sanctions compliance. ▪ Professional advice is sought where required and regular briefing is received to update the Board on developments in the regulatory framework.

Reliance on key staff

Nature of Risk	Mitigation
▪ 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. ▪ There is therefore a heightened risk of loss of management continuity and impairment of the business model.	▪ The Group undertakes internal succession planning where possible together with maintaining contact with a network of experienced people in the industry, including consultants on whom it may call if required. ▪ Contracts with key personnel have notice periods that allow sufficient time to source replacements.

Business Development and Operational Success/Failure

Nature of Risk	Mitigation
▪ The Oil and Gas industry is a high-risk industry especially in the exploration and appraisal phases of projects. ▪ The Group's business development strategy is, to a significant extent, dependent upon achievement of exploration and operational success. ▪ Failure to select and implement successful projects will impact the Group's financial performance and ability to finance the growth and development of the Group.	▪ Technical risks are mitigated by careful analysis of the available geological, geophysical and petrophysical data prior to drilling. ▪ Financial risks are mitigated by rigorous economic modelling based on chance of success and a range of possible outcomes, prior to an acquisition, and before commencement of individual operations. ▪ An integrated approach is critical to all business development decisions.

Operations Review – Core Assets

SYRIA

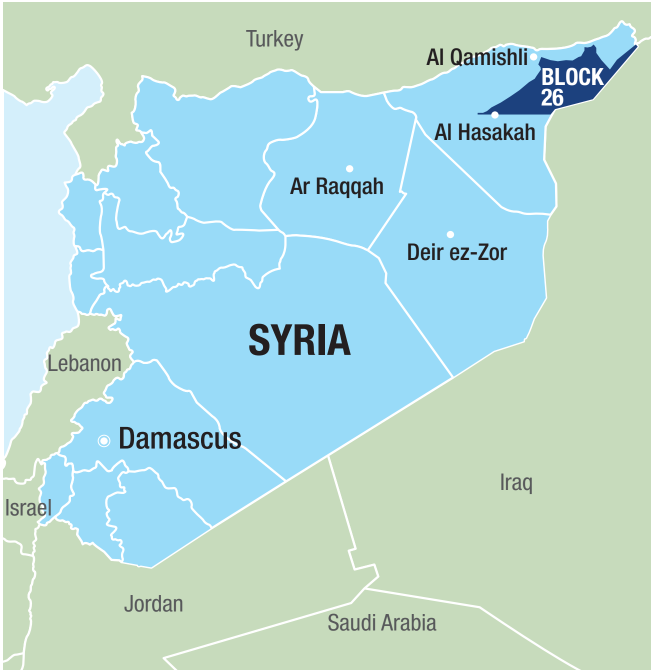
Gulfsands is the operator of the Block 26 Production Sharing Contract (“PSC”) and holds a 50% working interest in the PSC along with Sinochem Group (also 50% working interest).

Gulfsands is not presently involved in any production or exploration activities on Block 26 as Force Majeure has been declared in respect of the PSC 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 2018

- Continued compliance with applicable sanctions
- According to in-country sources, Block 26 facilities, wells and infrastructure are understood to remain secure and predominantly functional, whereby the Company has been informed that ongoing production since the beginning of 2017 has occurred of 18-20,000 bopd
- Office presence maintained in Damascus
- Increased focus on readiness to re-enter when permitted including internal technical re-work of existing data



Block 26 is located in North East Syria. 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, 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 Company (“DPC”), a joint operating company formed between Gulfsands, Sinochem and Syrian General Petroleum Corporation (“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 in early 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, nine months after the declaration of Force Majeure. The Company believes it is well positioned to progress a significant exploration work programme and will make its case for the reinstatement of this lost time period to undertake such a programme at the time of re-entry. 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 oil and gas Reserves were reclassified to Contingent Resources as a result of the continuing EU sanctions in Syria. 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. This process was subject to external audit and confirmation. Since 2015 this classification as Contingent Resources has continued, even though, as at 31 December 2018, the Board believes that EU sanctions will be lifted within the next 5 years.

The Board will continue to monitor all activity focussed on resolving the situation in Syria and will reconsider the basis for reversing this reclassification in line with any future developments.

Production

Since December 2011, Gulfsands has received periodic updates from DPC 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 early 2017 the Company was informed by DPC that the Group's Syrian fields had returned to significant and regular production, with oil being produced from up to 13 production wells (10 Khurbet East, 3 Yousefieh). The average oil production rate from both fields combined between January 2017 and 31 December 2018 appears to be around 18-20 thousand bopd, with a cumulative gross oil volume of approximately 13.3 million barrels of oil having been produced during that period from both fields (2017: 6.4 million barrels, 2018: 6.9 million barrels).

The Group is unable 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 or received any revenue for this or indeed any production, post the imposition of EU Sanctions. It has however, updated its remaining recoverable resource volumes for these fields, based on this new production information.

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 38.9 million barrels by year end 2018, (2017: 32 million barrels), of which around 20.6 million barrels (2017: 13.7 million barrels), have been produced since Force Majeure was declared, and without the involvement of Gulfsands.

Operations Review – Core Assets (continued)

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 60 mmbbls of oil and condensate, and 33 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 contingent resources have been subject to historic external audit, and the 2C category remains consistent with that historic audit, as adjusted for estimated production to date. The 1C and 3C resource categories have also been updated, based on management estimates.

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 originally due to expire, though there can be no guarantee that this extension will be granted.

Unrisked working interest basis
As at 1 January 2019

	Constituent	1C	2C	3C
Syria Block 26				
(Working interest 50%)				
Khurbet East and Yousefieh	Oil, Condensate and Gas, mmbbl	30.8	65.4	135.8
Al Khairat discovery	Oil, mmbbl	5.8	12.0	24.8
Total	**mmboe**	**36.6**	**77.4**	**160.6**

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

Re-Entry Planning

The Company remains cautiously optimistic in the medium-term regarding the political situation in Syria. The Company has therefore increased its focus on its readiness to return to operations when the political situation allows, and EU sanctions are lifted. This preparation has included significant internal technical work formalising and analysing existing data, to ensure that the assets are fully understood such that the Group is in a position to initiate re-entry and to recommence operations as soon as it is permitted to do so.

The Board believes that Block 26 could contain over a billion barrels of recoverable resource with the potential for production levels of around 50,000 boepd from existing discoveries and over 100,000 boepd from a full block development incorporating potential exploration upside.

Sanction compliance

Gulfsands has taken extensive legal advice with respect to its obligations under the sanctions in place, 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 also 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 2019

- 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
  - assess 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 further developing its re-entry plan and internal technical re-work of existing data

Strategic Report
Operations Review – Non Core Assets

COLOMBIA

Gulfsands began the year as operator and 100% interest holder in two Exploration and Production Contracts ("E&P contracts") in Colombia: the Putumayo Block 14 ("PUT-14") and the Llanos Block 50 ("LLA-50") contracts. During the year, the PUT-14 licence was divested and transferred in its entirety to Amerisur and the LLA-50 licence was suspended by agreement with the Agencia Nacional De Hidrocarburos ("ANH") as a result of environmental issues and restrictions which impact the ability to execute relevant exploration activities over the areas of interest.

Putumayo Block 14

During the year, having received approval from the ANH that the PUT-14 licence would return to "Phase 0" to allow time to diligently execute the required consultation process with the local indigenous communities (the "Consulta Previa") in the Putumayo region, Gulfsands began to implement the Consulta Previa process. In parallel, the Company was in negotiation with Amerisur Exploracion Colombia Limitada, a subsidiary of Amerisur Resources plc ("Amerisur") about a potential Farm-out Agreement. This deal, which was effectively a complete divestment, was agreed and announced on 30 July 2018 and completed on 31 December 2018. Under the terms of the divestment, Gulfsands agreed to transfer its entire participating interest and operatorship of the PUT-14 licence to Amerisur, as well as making a contribution of $1.25 million toward short term costs and to transfer the Letter of Credit, of $1.7 million, which secured the PUT-14 licence with ANH, to Amerisur. Importantly, this means that Gulfsands is now relieved of its obligation to fund the $16.1 million minimum work program on the PUT-14 licence.

Llanos Block 50

Contract expiry date:

First exploration phase due to expire May 2018 – currently suspended with agreement of ANH.

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, which was awarded as part of the Ronda 2012 national licensing round, covers approximately 514km², and is located towards the eastern margin of the Llanos Basin and is prospective for medium quality oil. The primary play system has been identified as Tertiary channel sands in structural-stratigraphic traps, present in the east of the Block where several faults are observed on seismic, along strike from producing oil fields in the Blocks to the south. Leads have been identified, and a 2D seismic work programme has been designed 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 LLA-50 Licence was due to expire in May 2018. Medidas de Manejo Ambiental ("MMA") and Environmental Impact Assessment ("EIA") environmental work performed in 2017 and 2018 identified relevant environmental issues and restrictions which impact the ability to execute the seismic and drilling programme on the block. In order to provide sufficient time to explore alternative ways forward for the LLA-50 licence that satisfy all stakeholders, it was agreed with ANH that the licence should be put into suspension prior to expiry. These issues were recently confirmed by Corporinoquia, the local environmental agency, who declared the planned seismic programme non-viable, and the Company has now submitted a formal request to relinquish the licence to the ANH and is in dialogue with ANH regarding the mutual termination of the LLA-50 licence.

MOROCCO

Expired Moulay Bouchta contract

The Moulay Bouchta contract expired in June 2017. As a result of this expiry, ONHYM called in $1.75 million of restricted cash held as a performance guarantee against the Moulay Bouchta contract and levied a further penalty of $0.75 million against the Group's Cayman Islands subsidiary, Gulfsands Petroleum Morocco Limited ("GPML-CI"), in respect of the Minimum Exploration Work Programme. All material liabilities have already been accrued and/or disclosed in this and the 2017 Annual Report. No parent company guarantee exists in respect of this subsidiary or the Moulay Bouchta Petroleum Agreement.

Expired Rharb and Fes contracts

The Rharb and Fes exploration contracts both expired during 2015. Upon expiry, ONHYM seized 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 has continued to request that ONHYM release these funds back to the Group.

ONHYM has continued to refuse to acknowledge this obligation to return the $6 million, without which Gulfsands' Cyprus subsidiary, Gulfsands Petroleum Morocco Limited ("GPML-CY"), which held these licences, had insufficient funds to fulfil certain outstanding obligations in country, including the plug and abandonment of certain oil and gas wells (see notes 2.6 and 6.6). As a result, on 27 November 2018, GPML-CY, entered a Creditors Voluntary Liquidation ("CVL") process under the Laws of the Republic of Cyprus. This CVL process was approved and concluded at a Final Creditors Meeting held in Cyprus on 8 May 2019.

The Board has asserted that all decommissioning obligations should now be met by ONHYM and funded out of the $6 million funds inappropriately taken by ONHYM as described above.

All material liabilities have already been accrued and/or disclosed in this and the 2017 Annual Report.

No parent company guarantee exists in respect of this subsidiary, nor under either the Fes Petroleum Agreement or the Rharb Petroleum Agreement.

Exploitation concessions located on former Rharb Centre permit

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

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

A prior 15 year exploitation concession, Zhana 2, expired in February 2018 (Gulfsands: 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. These liabilities lie within GPML-CY which is the subject of a Creditors Voluntary Liquidation in Cyprus, as described above.

TUNISIA

The Chorbane licence expired in July 2017, upon which the Group initiated an orderly closedown of its Tunisian branch and exit from the country. This administrative process is ongoing. All Tunisian operations were housed in a separate subsidiary and no parent company guarantee exists in respect of this subsidiary or the Chorbane licence.

All material liabilities have already been accrued and/or disclosed in this and the 2017 Annual Report.

Financial Review

Selected operational and financial data

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
General administrative expenses	**(2,783)**	(2,779)
Divestment costs	**(1,250)**	—
Loss before taxation	**(4,994)**	(4,015)
E&E cash expenditure	**(353)**	(735)
Cash and cash equivalents	**1,679**	1,731
Restricted cash balances	**500**	500

Financial highlights for the year ended 31 December 2018

- The loss for the year from continuing operations was $5.0 million (2017: $4.0 million)
- Gulfsands has continued to reduce its overhead burden, with gross office costs after partner recoveries reducing by a further 10% in the year compared with 2017, as outlined in the table below
- $1.25 million of divestment costs were incurred during the year relating to a contribution made toward short-term costs on the Putumayo-14 block as part of the Amerisur deal
- $0.35 million of E&E costs capitalised during the year relating to the Colombian assets have been fully impaired at 31 December 2018
- The Group continues to hold its investment in its Syrian interest at a carrying value of $102.0 million
- The Secured Term Financing Facility of £4 million, entered into in February 2017, ("2017 Facility"), was expanded by an additional £4 million, to £8 million (four additional tranches of £1 million each). £6.0 million had been drawn down by year end. Two remaining tranches are available on or after 31 December 2018 (subsequently drawn down in January 2019) and 30 June 2019
- Cash and cash equivalents were to $1.7 million at 31 December 2018 (31 December 2017: $1.7 million)

Operating performance

General administrative expenses

	Year ended 31 December 2018 $'000	Year ended 31 December 2017 $'000
Office expenses	**3,535**	3,760
Partner recoveries	**(633)**	(545)
Gross Office costs after partner recoveries	**2,902**	3,215
Depreciation and amortisation	**3**	8
Office expenses capitalised	**(122)**	(444)
General administrative expenses	**2,783**	2,779

General administrative expenses for the year ended 31 December 2018 totalled $2.8 million (2017: $2.8 million).

Increased activity in relation to Syria re-entry planning has meant increased contributions from the Group's Joint Venture partner, Sinochem. As a result, this year management has focussed on gross office expenses after partner recoveries as a measure of operating efficiency. Gross office costs after partner recoveries have fallen a further 10% from $3.2 million to $2.9 million during 2018. Cost reduction initiatives, particularly at Head office, are partly offset by increased expenditure preparing for Syria re-entry readiness and administration costs in Colombia relating to the Putumayo 14 and Llanos 50 licences.

Exploration and Evaluation ("E&E") asset impairments for the period totalled $0.35 million (2017: $0.7 million) and relate predominantly to expenditure during the year in relation to the Putumayo 14 and Llanos 50 licences in Colombia.

The Llanos 50 licence remains suspended following agreement with ANH to do so prior to expiry in May 2018, and the identification of relevant environmental issues and restrictions which impact the ability execute an effective seismic and drilling programme on the block. These issues have now been confirmed by Corporinoquia, the local environmental agency, who have declared the planned seismic programme non-viable. The Company has now submitted a formal request to relinquish the license to the ANH and is in dialogue with ANH regarding the mutual termination of the LLA-50 licence. The Company has continued its policy that any expenditure attributed to the Llanos-50 contract is immediately fully impaired. As at 31 December 2018 expenditures totalling $1.69 million from inception to-date (of which $0.24 million relates to 2018), has been fully impaired. Alongside this, the recovery of restricted cash balance of $1.8 million held as performance guarantees in relation to the minimum work obligation under this contract has also been fully provided against as it was in 2017, although management will seek the return of these funds to the Company as part of the proposed relinquishment process.

The Company completed the divestment and transfer of its Putumayo 14 licence in Colombia to Amerisur Exploracion Colombia Limitada, a subsidiary of Amerisur Resources plc. Under the terms of the Farm-out Agreement, which was effectively a complete divestment, Gulfsands transferred its entire participating interest and operatorship of the PUT-14 licence to Amerisur, and importantly is now relieved of its obligation to fund the $16.1 million minimum work program on the PUT-14 licence. Gulfsands made a contribution of $1.25 million towards short-term costs of the business and has also transferred the funds supporting a Letter of Credit of $1.7 million, which secured the PUT-14 licence with ANH, to Amerisur. Capital costs incurred during the year in relation to the Putumayo-14 contract, of $0.11 million are also fully written off.

The Group reported a loss before tax for continuing operations for the year ended 31 December 2018 of $5.0 million (2017: $4.0 million).

Balance Sheet

The Group's intangible exploration and evaluation ("E&E") assets are now held at a net book value of $nil at 31 December 2018 (31 December 2017: $nil million). All licences have been written off other than the Llanos 50 licence in Colombia which is in suspension but has been fully impaired.

Expired licences in Morocco and Tunisia contain the potential for penalties relating to non-fulfilment of work obligations in the necessary timeframes, and while appropriate provision has been made for certain exposures to these penalties, it is noted that all these licences are contained in separate ring-fenced subsidiaries.

The Llanos 50 licence is suspended, and the Company is in dialogue with ANH regarding its mutual termination of the LLA-50 licence. The contract/licence expiry dates, capital commitments and restricted cash balances held related to Llanos 50 are detailed further in note 2.4 to the Consolidated Financial Statements.

The Group's investment in DPC, the entity established in Syria, pursuant to the Block 26 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 there are a wide range of possible fair value measurements. Management reviewed the internal valuation methodology in 2018 (as well as 2017), and continues to believe that as a result of the passage of time and the high degree of judgement required, it is not possible to reliably estimate the investment's fair value. Management, continues to consider that the historical cost figure of $102 million, represents an appropriate estimate of fair value, given there is a wide range of possible fair value measurements, being the last valuation which could be reliably determined, as previously disclosed. This value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement.

At 31 December 2018, 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). While no definite timeline can be substantiated for the resumption of the full field development of the discovered fields in Block 26, the Board continues to believe that the EU Sanctions will be lifted within five years and will continue to monitor all activity focussed on resolving the situation in Syria. The Board continues to consider that its position in respect of its Block 26 interests remains strong, and expects Gulfsands and its partner's rights will be honoured and that it will be able to return to operational control of its interests in accordance with the terms of the PSC, as soon as circumstances permit. Based on recent developments in Syria the Board has decided to restate its "base case" assumption for impairment calculation purposes to be a resumption of operations in 3 years (2017: 5 years).

Financial Review (continued)

The 'base case' economic model calculates a gross contractor undiscounted NPV(0) of $2.59 billion, meaning a Gulfsands 50% interest undiscounted NPV(0) of $1.29 billion, as well as Gulfsands 50% interest discounted NPV(10) of $531 million and Gulfsands 50% interest discounted NPV(15) of $361 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 conclude that it is premature to revalue the carrying value upwards to reflect the potential NPV values, given the ongoing risks and uncertainties associated with the Syrian assets.

The Directors have reviewed the carrying value of this available-for-sale financial asset at 31 December 2018 and are of the opinion that the carrying value, although subject to significant uncertainty, remains appropriate in the circumstances.

At 31 December 2018, despite the Rharb and Fes permits having expired in 2015, the Group has decommissioning and/or restoration obligations in respect to 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 (2017: $1.6 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. Included within the decommissioning and/or restoration obligations are obligations on all legacy wells drilled prior to the Group's acquisition of those interests. 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). Given that the Rharb and Fes petroleum contracts expired during 2015, as at 31 December 2018 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 notes 6.5/6.6. It is also noted that the decommissioning liability and the claim for the performance guarantees both sit with the Group's Cypriot subsidiary, Gulfsands Petroleum Morocco Limited, an entity that is in Creditors Voluntary Liquidation through the Cypriot courts.

In January 2018 the Company drew down the final two tranches totalling £1.6 million under the original £4 million Secured Term Financing Facility ("2017 facility") from its Major Shareholders, being ME Investments Ltd, Waterford Finance & Investment Limited and Blake Holdings Limited. In March 2018, the Company finalised a £4 million extension to this existing 2017 Facility and entered into an amendment agreement with the Major Shareholders, to extend the maturity of the Facility for 12 months to 23 February 2021 and whereby the Major Shareholders committed to provide four additional tranches of £1 million each, to be available on each of 30 June 2018, 31 December 2018, 30 June 2019 and 31 December 2019 (with no further lender re-confirmations required). The December 2019 tranche was subsequently accelerated to October 2018 to help fund the Putumayo 14 transaction with Amerisur. The Company's option to convert the debt on maturity was also amended to make reference to the 90-day average closing share price prior to 19 March 2018 (being the date immediately prior to the announcement of the delisting proposal), meaning 5.09 pence per share, rather than the 90-day average closing price prior to repayment. All other terms are unchanged. Further details of the 2017 Facility are outlined in note 3.6.

Cash flow

The total change in cash and cash equivalents during the year was $0.0 million (2017: $0.7 million increase). Net cash outflow from operating activities during the period totalled $2.8 million (2017: $2.4 million). Investing cash outflow from continuing operations during the period totalled $1.6 million (2017: $0.2 million), which included the $1.25 million contribution towards short term costs as part of the Putumayo 14 divestment transaction. Net cash received from financing activities totalled $4.4 million (2017: $3.2 million), following draw-downs 4–7 of the Secured Term Financing Facility (note 3.6) during 2018. Foreign exchange gains totalled $0.3 million (2017: $0.2 million loss).

Financial position

At 31 December 2018 the Group had total cash and cash equivalents of $1.7 million (31 December 2017: $1.7 million), of which: $0.02 million was due to Sinochem, Gulfsands' Block 26 joint venture partner, and $0.2 million was due to Amerisur as final settlement of the Putumayo 14 transaction.

Restricted cash balances at the end of the year (which are presented as long-term financial assets in the Balance Sheet) represent funds held as collateral in respect of future work obligations. The net amount, not provided against, totalled $0.5 million (31 December 2017: $0.5 million), and relates to the Group's Syrian Block 26 interest. At 31 December 2018, a provision of $1.8 million was made against the restricted cash balances securitised as collateral in respect of future work obligations on the Llanos-50 licence (31 December 2017: $1.8 million), although management will seek the return of these funds as part of the proposed relinquishment process.

Going concern

As at the date of this Report, the Group has free cash available for operations totalling approximately $1.6 million and ongoing general and administrative costs are expected to be approximately $0.2 million per month. Post year end, in early January 2019, the Company drew down the eighth Tranche under the existing 2017 Facility (£1.0 million). The ninth and final Tranche is available to be drawn down on 30 June 2019. These funds are expected to fund the Company's general and administrative costs through to early 2020. Further details of the Facility are outlined in notes 3.6.

The Directors note that the Company remains reliant on the support of its three Major Shareholders, without whose support, the Company would be seriously financially challenged. The Directors have sought indications from the Major shareholders that they currently intend to continue to fund the company through 2019 and 2020. These indications of intent have been forthcoming but there are no firm commitments in place at the time of this report.

Although Llanos-50 licence in Colombia is in suspension, there are still outstanding work commitments that the Company has requested be terminated as part of a mutual termination of the licence on environmental grounds. There is however a possibility that penalties could apply if such mutual termination is not agreed with ANH. This could be substantial and additional details of the capital commitments for the Company 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 20 May 2019, including the uncertainties described above, the Board has concluded that, with free cash available for operations totalling $1.6 million and their reasonable expectation of funding that will be available during 2019/2020, 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 business, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that finance could be procured to fund certain potential capital obligations, ongoing overheads and liabilities if they fall due 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 20 May 2019.

John Bell
Managing Director
20 May 2019

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.

Board of Directors

James Lawrence Ede-Golightly, aged 39
Chairman

James Ede-Golightly is chairman of DeepMatter Group Plc, East Balkan Properties Plc and Oxford Advanced Surfaces Ltd and has extensive experience as a non-executive on the boards of AIM-quoted companies with international business interests. James was a founder of ORA Capital Partners in 2006, having previously worked as an analyst at Merrill Lynch Investment Managers and Commerzbank. He is a CFA Charterholder and holds an MA in economics from Cambridge University. In 2012, he was awarded New Chartered Director of the Year by the Institute of Directors. Mr Ede-Golightly was appointed a Non-Executive Director of Gulfsands in August 2014. Mr Ede-Golightly is a Non-Executive Director of Sarossa Plc, 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 53
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. He is currently also a Non-Executive Chairman at Aminex Plc and 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 50
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 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 Madagascar Oil Limited, 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 71
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 was also more recently a Non-Executive Director of Bowleven plc and a Non-Executive Director of Premier Oil plc. He was appointed a Non-Executive Director of Gulfsands in November 2012.

Michael Kroupeev, aged 52
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 focussed 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 is a substantial shareholder of Gulfsands, holding a 37.32 percent interest in the Company. He was appointed a Non-Executive Director of Gulfsands in October 2016.

Richard Milne, aged 63
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 2018.

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 19.

Dividends

The Directors do not recommend payment of a dividend in respect of 2018 (2017: $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.

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 2018 all issued shares were fully paid.

Substantial shareholders

Except for the holdings of ordinary shares listed below, the Company has not been notified by, or become aware of, any persons holding 3% or more of the issued ordinary shares of the Company at 20 May 2019:

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	**72,827,086**	14.01%
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 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 2018		At 31 December 2017	
	Number of ordinary shares	**Number of share options**	Number of ordinary shares	Number of share options
A Morris	**320,800**	**10,000,000**	320,800	5,000,000
J Darby	**100,250**	**—**	100,250	—
J Bell	**—**	**16,000,000**	—	8,000,000
J Ede-Golightly	**80,200**	**2,000,000**	80,200	2,000,000
M Kroupeev (1)	**194,042,618**	**1,000,000**	194,042,618	1,000,000
R Milne	**—**	**1,000,000**	—	1,000,000

(1) Mr Kroupeev is an ultimate beneficial owner of Waterford Finance and Investment Limited.

Directors' interests in transactions

Details of transactions with Directors for the year ended 31 December 2018 are set out in note 6.3 to the Consolidated Financial Statements.

Directors' Report (continued)

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 regulations, 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.

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
20 May 2019

Directors' Corporate Governance Report

The Company delisted from the AIM market in April 2018 but remains a Public Limited Company ("PLC"). While non- listed companies are not subject to the requirements of the UK Corporate Governance Code on corporate governance, the Company is committed to maintaining appropriate standards of corporate governance.

As part of the delisting process the Company and its Major Shareholders committed, for a period of at least two years from the date of delisting, to;

- maintain the current balance of the Board and any Board Committees such that there will at all times be a majority of the Board who are independent of the Executive Directors and a majority of the Board who are independent of the Major Shareholders;
- manage the Company in accordance with such provisions of the QCA Corporate Governance code 2013 as the Board considers practicable and appropriate for the size, stage of development and operations of the Group at the relevant time; and
- implement certain controls, administered by the Independent Directors regarding related party transactions and capital raises.

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 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 20. 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, if prepared, half-yearly Financial Statements;
- Board appointments, remuneration and roles;
- corporate policies and corporate governance arrangements; and
- any transactions with related parties such as Major Shareholders.

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 face to face Board Meetings approximately six times per year. On occasions, additional meetings are convened by conference call to resolve urgent business matters.

Directors’ Corporate Governance Report (continued)

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. While the Board delegates certain of its duties, responsibilities and powers to the Committees, so that these can receive suitably focussed attention, they both act on behalf of the full Board, and the matters reviewed and managed by the Committees remain the responsibility of the Board of Directors as a whole.

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 is chaired by Richard Milne and its activities are governed by terms of reference that are available on the Company’s website. 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.

2. Remuneration Committee

The Remuneration Committee is chaired by Joe Darby and its activities are governed by terms of reference that are available on the Company’s website. 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.

The number of meetings of the Board and its Committees during 2018, and individual attendance by Directors, is shown below:

	Board	Audit	Remuneration
Number of meetings 2018	12	3	6
Attendance:			
Andrew Morris	12	3	n/a
Joe Darby	12	n/a	6
John Bell	12	2	n/a
James Ede-Golightly	12	3	6
Michael Kroupeev	12	1	5
Richard Milne	12	3	n/a

Remuneration of Directors

The remuneration of the Directors for the year ended 31 December 2018 was as follows:

	Annual Remuneration ($'000)							
	Salary and fees		Bonuses		Benefits in kind		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
A Morris (4)	**227**	206	**34**	20	**1**	1	**262**	227
J Darby (2)	**46**	47	**—**	—	**—**	—	**46**	47
J Bell(3)	**280**	232	**46**	41	**1**	1	**327**	274
J Ede-Golightly (1)	**60**	62	**—**	—	**—**	—	**60**	62
M Kroupeev (2)	**40**	41	**—**	—	**—**	—	**40**	41
R Milne (2)	**40**	41	**—**	—	**—**	—	**40**	41
	693	629	**80**	61	**2**	2	**775**	692

(1) Non-Executive Chairman.
(2) Non-Executive Director.
(3) Managing Director.
(4) Finance Director.

In addition to the remuneration shown, the Group incurred share-based payment charges of $259k (2017: $160k) in respect of the above-named Directors relating to options granted in 2016 and 2018.

Share options

The interests of the Directors, who held office during 2018, in options over the Company's shares are set out in the table below:

	Number of options						
	At 1 January 2018	Issued	**At 31 December 2018**	Exercise price (£)	Exercisable at 31 December 2018	Grant date	Expiry date
J Bell	8,000,000	—	**8,000,000**	0.01	6,000,000	11/11/2016	11/11/2026
	—	8.000,000	**8,000,000**	0.05	—	28/06/2018	26/06/2028
A Morris	5,000,000	1,000,000	**6,000,000**	0.01	4,500,000	11/11/2016	11/11/2026
	—	4,000,000	**4,000,000**	0.05	—	28/06/2018	28/06/2028
J Ede-Golightly	2,000,000	—	**2,000,000**	0.0375	2,000,000	11/11/2016	11/11/2026
M Kroupeev	1,000,000	—	**1,000,000**	0.0375	1,000,000	11/11/2016	11/11/2026
R Milne	1,000,000	—	**1,000,000**	0.0375	1,000,000	11/11/2016	11/11/2026

All other Directors held no share options at 31 December 2017 or 2018.

This Report was approved by the Board of Directors on 20 May 2019.

Independent Auditor's Report

to the members of Gulfsands Petroleum plc

Opinion

We have audited the financial statements of Gulfsands Petroleum plc for the year ended 31 December 2018 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 to the financial statements, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group and Parent Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to the disclosures made by the Directors in note 1.3a to the Consolidated Financial Statements concerning the Group and the Company's ability to continue as a going concern.

The Directors have prepared cash flow forecasts for the Group covering the period to 31 May 2020, which show that the Group will require further funding in the next 12 months. The Group's working capital requirements, certain potential capital obligations and liabilities for the period to 31 May 2020 indicate that the going concern assumption is dependent upon the continued financial support of the group's principal shareholders, although 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 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. Our opinion is not modified in respect of this matter.

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 2018, 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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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 Group and Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Jack Draycott (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
20 May 2019

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

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 Consolidated Primary Statements

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
Consolidated Income Statement
for the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Continuing operations			
General administrative expenses		**(2,783)**	(2,779)
Share-based payments	5.3	**(284)**	(160)
Exploration costs written-off/impaired	2.3	**(353)**	(735)
Divestment costs		**(1,250)**	—
Restricted cash balances provided against	3.3	**—**	(300)
Other income	3.5	**—**	591
Inventory impairment	3.5	**—**	(242)
Operating loss	5.2	**(4,670)**	(3,625)
Foreign exchange gains/(losses)		**293**	(170)
Loan facility finance cost	3.6	**(495)**	(198)
Other finance expenses		**(150)**	(110)
Other finance income	5.7	**28**	88
Loss before taxation		**(4,994)**	(4,015)
Taxation	5.8	**—**	—
Loss for the year		**(4,994)**	(4,015)
Loss per share attributable to the owners of the parent company (cents)			
Basic and diluted	5.9	**(0.96)**	(0.77)

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

Financial Statements

Consolidated Balance Sheet

as at 31 December 2018

	Notes	2018 $'000	2017 $'000
Assets			
Non-current assets			
Property, plant and equipment	2.1	**18**	23
Intangible assets	2.3	**—**	—
Long-term financial assets	3.3	**500**	500
Investments	4.2	**102,000**	102,000
		102,518	102,523
Current assets			
Inventory	3.5	—	—
Trade and other receivables	3.1	**243**	383
Cash and cash equivalents	3.2	**1,679**	1,731
		1,922	2,114
Total assets		**104,440**	104,637
Liabilities			
Current liabilities			
Trade and other payables	3.4	**1,280**	1,634
Loan facility	3.6	**—**	—
Provisions	2.6	**6,137**	6,137
		7,417	7,771
Non-current liabilities			
Trade and other payables	3.4	**3,547**	3,563
Loan facility	3.6	**8,328**	3,445
Provisions	2.6	**—**	—
		11,875	7,008
Total liabilities		**19,292**	14,779
Net assets		**85,148**	89,858
Equity			
Capital and reserves attributable to equity holders			
Share capital	6.1	**18,803**	18,803
Share premium		**110,737**	110,737
Merger reserve		**11,709**	11,709
Retained loss		**(56,101)**	(51,391)
Total equity		**85,148**	89,858

These Consolidated Financial Statements were approved by the Board of Directors on 20 May 2019 and signed on its behalf by:

Andrew James Morris
Finance Director
20 May 2019

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital $'000	Share premium $'000	Merger reserve $'000	Retained (loss)/profit $'000	Total equity $'000
At 1 January 2017	18,303	110,737	11,709	(47,536)	93,713
Loss for 2017	—	—	—	(4,015)	(4,015)
Transactions with owners					
Share-based payment charge	—	—	—	160	160
At 31 December 2017	18,803	110,737	11,709	(51,391)	89,858
Loss for 2018	**—**	**—**	**—**	**(4,994)**	**(4,994)**
Transactions with owners					
Share-based payment charge	**—**	**—**	**—**	**284**	**284**
At 31 December 2018	**18,803**	**110,737**	**11,709**	**(56,101)**	**85,148**

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 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Operating loss from continuing operations		**(4,670)**	(3,625)
Depreciation and amortisation	2.2	**5**	5
Divestment costs		**1,250**	—
Loss on disposal of tangible fixed assets	2.2	**—**	—
Exploration costs written off/impaired/costs accrued	2.3	**353**	735
Restricted cash balances forfeited/provided against	3.3	**—**	300
Inventory impairment	3.5	**—**	242
Share-based payment charge	5.3	**284**	160
Decrease/(increase) in receivables		**140**	(212)
(Decrease)/Increase in payables		**(370)**	220
Foreign exchange gains/(losses)		**293**	(170)
Finance expenses paid		**(150)**	(110)
Interest received		**28**	88
Net cash used in operating activities		**(2,837)**	(2,367)
Investing activities			
Exploration and evaluation expenditure		**(353)**	(735)
Proceeds on disposal of inventory		**—**	850
Divestment costs		**(1,250)**	—
Increase in restricted cash balances		**—**	(300)
Net cash used in investing activities		**(1,603)**	(185)
Financing activities			
Loan draw-down (net of foreign exchange gains/(losses))	3.6	**4,388**	3,247
Net cash provided by financing activities		**4,388**	3,247
Increase/(decrease) in cash and cash equivalents		**(52)**	695
Cash and cash equivalents at beginning of year		**1,731**	1,036
Cash and cash equivalents at end of year	3.2	**1,679**	1,731

Financial Statements

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

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 which was quoted on the Alternative Investment Market of the London Stock Exchange ("AIM") until 23 April 2018 and is 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 2018 were authorised for issue by the Board of Directors on 20 May 2019 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 2018 and for the comparative year ended 31 December 2017 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.

Going concern

In March 2018 the Company agreed an extension to the 2017 Facility which secured an additional £4 million of funding over the following two years, split into four equal tranches (the "sixth", "seventh", "eighth" and "ninth" tranches each of £1.0 million). The sixth tranche (£1.0 million) and seventh tranche (£1.0 million) were drawn down during 2018.

As at the date of this Report, the Group has free cash available for operations totalling approximately $1.6 million and ongoing general and administrative costs are expected to be approximately $0.2 million per month. Post year end, in early January 2019, the Company drew down the eighth tranche under the existing 2017 Facility (£1.0 million). The ninth and final tranche is available to be drawn down on 30 June 2019. These funds are expected to fund the Company's general and administrative costs through to early 2020. Further details of the Facility are outlined in note 3.6.

The Directors note that the Company remains reliant on the support of its three Major Shareholders, without whose support, the Company would be seriously financially challenged. The Directors have sought indications from the Major shareholders that they currently intend to continue to fund the company through 2019 and 2020. These indications of intent have been forthcoming but there are no firm commitments in place at the time of this report.

Although the Llanos-50 licence in Colombia is in suspension, there are still outstanding work commitments that the Company has requested be terminated as part of a mutual termination of the licence on environmental grounds. There is however a possibility that penalties could apply if such mutual termination is not agreed with ANH. This could be substantial and additional details of the capital commitments for the Company 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 20 May 2019, including the uncertainties described above, the Board has concluded that, with free cash available for operations totalling $1.6 million and their reasonable expectation of funding that will be available during 2019/2020, 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 business, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that finance could be procured to fund certain potential capital obligations, ongoing overheads and liabilities if they fall due 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.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

1.3 Significant accounting policies (continued)

b) New and amended standards adopted

IFRS 15 replaced IAS 18 'Revenue' and IAS 11 'Construction Contracts' for accounting periods commencing on or after 1 January 2018. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Directors have concluded that no transition adjustments were required.

The Company adopted IFRS 9 Financial Instruments on 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement ('IAS 39').

On 1 January 2018, the Directors considered the impact of IFRS 9 on the valuation of the Block 26 Syria available-for-sale investment and concluded that there is no substantive difference between IAS 39 and IFRS 9 in respect of Gulfsands' carrying value of the asset. In particular, IFRS 9 B5.2.3 states that cost may be an appropriate estimate of fair value if there is a wide range of possible fair value measurements.

On 1 January 2018, the Directors:

- Identified the business model used to manage its financial assets and classified its financial instruments into the appropriate IFRS 9 category;
- Applied the 'expected credit loss' ('ECL') model to financial assets classified as measured at amortised cost.

Management's assessment of the impact of IFRS 9 has focussed on the change in IFRS 9 around expected credit losses on intercompany balances.

The adoption of IFRS 9 has impacted the Company as a result of the existing incurred loss approach under IAS 39 being replaced by the forward-looking expected credit loss model approach of IFRS 9. The expected credit loss model is required to be applied to the intercompany loan receivables (Note 6.6, page 71), which are classified as held at amortised cost.

As part of the assessment of expected credit losses of the intercompany loan receivables, the Directors have assessed the cash flows associated with a number of different recovery scenarios. This included consideration of the exploration project risk, country risk, the expected future oil prices, the value of the potential reserves, the ability to sell the project, and the ability to find a new farm-out partner.

The credit loss allowance was assessed at the date of initial application of IFRS 9, being 1 January 2018, and again at 31 December 2018. During 2018 there was a net increase in the expected credit loss allowance of $4,571k.

c) Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

Standard	Description	Effective Date	EU status
IFRS 16	Leases	1 January 2019	Endorsed
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	Endorsed

Under IFRS 16 the revised standard requires lessees to account for all leases under a single balance sheet model recognising both the rights to the asset and the liability arising under the lease. This introduces a single lessee accounting model and eliminates the previous distinction between an operating lease and a finance lease. The Directors have considered the impact of application of the new standard on the Group's lease commitments (see Note 6.4, page 56) and do not consider that implementation will have a significant impact. The Group has identified its lease arrangements as at 31 December 2018 and there is no impact of this new Standard as a result of the short-term nature of its current leases. Certain leases that are less than 12 months and leases of low-value assets are exempt from the requirements and may continue to be treated as an operating lease. The Group plans to adopt IFRS 16 effective 1 January 2019, using the modified retrospective approach, and apply several of the practical expedients available such as low-value and short-term exemptions. Management will continue to assess the impact of this Standard if new leases are executed during 2019.

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 2018 was £1: $1.33 (2017: £1: $1.35).

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.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

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.

The Company currently has no tangible Oil and Gas Assets, following the reclassification of its Syrian assets to Investments (see note 4.2).

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.

	Other fixed assets $'000	Property Plant & Equipment Total $'000
Cost:		
At 1 January 2017	1,539	1,539
Additions	—	—
At 31 December 2017	**1,539**	**1,539**
Additions	—	—
At 31 December 2018	**1,539**	**1,539**
Accumulated depreciation and depletion:		
At 1 January 2017	(1,511)	(1,511)
Charge for 2017	(5)	(5)
Disposals	—	—
At 31 December 2017	(1,516)	(1,516)
Charge for 2018	(5)	(5)
At 31 December 2018	**(1,521)**	**(1,521)**
Net book value at 31 December 2017	23	23
Net book value at 31 December 2018	**18**	**18**

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.

	Syria $'000	Colombia $'000	Total $'000
Cost:			
At 1 January 2017	10,505	2,213	12,718
Additions	—	677	677
Exploration expenditure written off	—	—	—
At 31 December 2017	10,505	2,890	13,395
Additions	—	353	353
Disposals	—	(1,533)	(1,533)
At 31 December 2018	**10,505**	**1,710**	**12,215**
Accumulated amortisation:			
At 1 January 2017	—	—	—
At 31 December 2017	—	—	—
At 31 December 2018	**—**	**—**	**—**
Accumulated impairment:			
At 1 January 2017	(10,505)	(2,213)	(12,718)
Exploration expenditure impaired	—	(677)	(677)
Exploration expenditure written off	—	—	—
At 31 December 2017	(10,505)	(2,890)	(13,395)
Exploration expenditure impaired	—	(353)	(353)
Disposals	—	(1,533)	(1,533)
At 31 December 2018	**(10,505)**	**(1,710)**	**(12,215)**
Net book value at 31 December 2017	—	—	—
Net book value at 31 December 2018	**—**	**—**	**—**

2.3 Intangible assets (continued)

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, although Contingent Resources have been allocated to this discovery. 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 a result of the uncertainty arising at that time. The E&E assets remain impaired as at the date of this Report.

Colombia

During the year the Putumayo-14 ("PUT-14") licence was divested and transferred to Amerisur.

Consequently, the Group has an interest in an E&P contract for one block in Colombia, Llanos-50 ("LLA-50"). The Llanos-50 licence was due to expire in May 2018 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 $1.71 million (2018: $0.26 million, 2017: $0.35 million, to 31 December 2016 $1.1 million) has been fully impaired. Alongside this, the recovery of restricted cash balance of $1.8 million held as performance guarantees in relation to the minimum work obligation under this contract has also been fully provided against, although management will seek the return of these funds to the Company as part of the proposed relinquishment process, described below.

Extensive environmental work recently performed has identified relevant environmental issues and restrictions which impact the ability to execute the seismic and drilling programme on the block. The Company entered into discussion with Agencia Nacional de Hidrocarburos ("ANH") to find a potential resolution to these issues, and to provide sufficient time to explore alternative ways forward for the LLA-50 licence, it was agreed with ANH that the licence should be put into suspension prior to expiry. These environmental issues were recently confirmed by Corporinoquia, the local environmental agency, who have declared the planned seismic programme non-viable. The Company has now therefore submitted a formal request to relinquish the license to the ANH and is in dialogue with them regarding the mutual termination of the LLA-50 licence. The Board does not believe that a provision should be recognised for minimum work commitments, as outlined in Note 2.4, until there is more clarity on the potential way forward.

2.4 Work obligation commitments

At 31 December 2018 the Group had the following capital commitments in respect of its exploration activities:

Colombia

Llanos 50 - first exploration phase expiry date and deadline for fulfilment of capital commitments; originally May 2018 - licence now suspended by agreement with ANH.

- 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 $15.2 million.

$1.8 million (31 December 2017: $1.8 million) of deposits have been lodged to support guarantees given to the ANH in respect of completion of the minimum work commitments on Llanos 50. These have been fully provided against as at 31 December 2018, although management will seek the return of these funds to the Company as part of the proposed relinquishment process described above. 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 for 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 straightline basis over their useful lives of between two and five years. Amortisation is included with depreciation and classified as cost of sales or administrative expenses as appropriate. No intangible assets have indefinite lives.

2.6 Provisions

	Decommissioning Note 2.6 (i) $'000	Licence penalties Note 2.6 (ii) $'000	Total $'000
At 1 January 2017	1,587	4,550	6,137
Changes to decommissioning estimates	—	—	—
Change to licence penalties	—	—	—
At 31 December 2017	1,587	4,550	6,137
Changes to decommissioning estimates	—	—	—
Change to licence penalties	—	—	—
At 31 December 2018	**1,587**	**4,550**	**6,137**

Key accounting judgements, estimates and assumptions:

(i) Decommissioning: At 31 December 2018 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 2018 (and as at 31 December 2017) all of the decommissioning provisions are 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.

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

2.6 Provisions (continued)

The movement in the provision for decommissioning was as follows:

	$'000
At 1 January 2017	1,587
Changes in estimates	—
At 31 December 2017	1,587
Current portion	1,587
Non-current portion	—
At 1 January 2018	1,587
Changes in estimates	—
At 31 December 2018	**1,587**
Current portion	**1,587**
Non-current portion	**—**

The decommissioning provision of $1.6 million at 31 December 2018 (2017: $1.6 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 analysis and discussion with ONHYM, 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.

The decommissioning obligations sit within the Group's Cyprus Subsidiary Gulfsands Petroleum Morocco Limited, which entered a Creditors Voluntary Liquidation process which was approved and concluded at the final creditors meeting held on 8 May 2019.

(ii) Licence penalties: The provision of $4.55 million at 31 December 2018 (2017: $4.55 million) includes an accrual of $0.75 million in respect to minimum work obligation of the Moulay Bouchta licence (2017: $0.75 million), and $3.8 million in respect to the minimum work obligation of the Chorbane licence (2017: $3.8 million). See note 2.3 of the 2017 Annual Report for further details.

All these potential penalties are housed in dedicated subsidiaries without any parent company guarantees in place.

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.

	2018 $'000	2017 $'000
Other receivables	**55**	148
Prepayments and accrued income	**188**	235
	243	383

At 31 December 2018 and 2017 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.

	2018 $'000	2017 $'000
Cash at bank and in hand	**1,679**	1,731
Restricted cash balances	**500**	500
Total cash and bank resources	**2,179**	2,231
Included in long-term financial assets (note 3.3)	**(500)**	(500)
Total cash and cash equivalents	**1,679**	1,731

Of the $1.68 million (2017: $1.73 million), $0.28 million (2017: $1.08 million) is held in joint venture accounts and a payable of $0.24 million is set up to reflect the joint venture partners share (2017: $0.54 million). Therefore, the Directors consider free cash attributable to the Company totals $1.44 million (2017: $1.19 million).

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 2018 include $1.78 million (31 December 2017: $3.49 million) of deposits collateralising guarantees given to the state regulator to secure minimum exploration work commitments in Colombia under the Llanos-50 licence ($1.78 million), which have all been fully provided against at 31 December 2018. Further details of the minimum work obligations to which these guarantees relate are set out in note 2.4.

The movement in the year of both the restricted cash balance and provision of $1.7 million, relates to the guarantee funds transferred to Amerisur as part of the divestment transaction of the PUT-14 licence.

	2018 $'000	2017 $'000
Restricted cash balances	**2,281**	3,991
Provision against recovery of restricted cash balances	**(1,781)**	(3,491)
Total cash and cash equivalents	**500**	500

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 ONHYM 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.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

3.4 Trade and other payables

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

	2018 $'000	2017 $'000
Current liabilities		
Trade payables	**159**	233
Accruals and other payables	**825**	684
Amounts due to oil and gas partnerships	**296**	717
	1,280	1,634
Non-current liabilities		
Trade payables	**1,875**	1,904
Accruals and other payables	**1,672**	1,659
	3,547	3,563

Included within non-current liabilities is $3.6 million (2017: $3.6 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.

	2018 $'000	2017 $'000
Drilling and production inventory	**2,203**	2,203
Provisions	**(2,203)**	(2,203)
	-	-

Drilling and production inventory relates to Syrian $2.2 million (2017: $2.2 million) operations. During 2013, $0.7 million of inventory held for Syrian operations was written-off due to a theft at the warehouse. During 2017, the insurance claim was successfully settled, and the joint venture was paid $1.18 million ($0.59 million net to each JV partner). At 31 December 2018 a provision of $2.2 million (2017: $2.2 million) has been carried forward against the value of the remaining Syrian stock. Management believe this is appropriate in light of the lack of Management's control over, and access to, the warehouse at this present time due to the security situation in Syria.

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.

Secured Term Financing Facility

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 was 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. During 2017, three tranches were 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. In March 2018 an extension to the 2017 Facility was agreed with the Major Shareholders, giving a further £4 million of committed funding (in four new tranches, referred to as the sixth, seventh, eighth and ninth tranches), and an extension of the maturity date to February 2021. This expanded facility is expected to fund the Company's general and administrative costs through to early 2020.

During 2018 the fourth tranche (£0.8 million), fifth tranche (£0.8 million), sixth tranche (£1.0 million) and seventh tranche (£1.0 million) of the 2017 Facility were drawn down during 2018.

Following this amendment consummated in March 2018, the maturity date of the 2017 Facility was extended by one year to February 2021, at which date all outstanding amounts will be repayable in cash unless the Company has exercised an equity conversion right. Under this equity conversion right the 2017 Facility (as amended) 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) 5.09 pence (being the 90-day average closing price prior to 19 March 2018 - the date immediately prior to the announcement of the delisting proposal) and (ii) the lowest price at which the Company has raised equity capital during the life of the 2017 Facility.

Interest on loans made (together with accrued fees and interest) runs at 7% per annum. A commitment fee of 1% per annum runs 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 are being used for general and administrative expenses of the Group and for working capital purposes.

The entire 2017 Facility (the 2017 Facility as amended in March 2018, i.e. £8 million) 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.

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

	$'000
At 1 January 2018	3,445
Loan draw-downs	4,795
Interest expense	495
Foreign exchange gains	(407)
At 31 December 2018	**8,328**

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

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 2018	Nature of business	Country of incorporation
Directly held by the Company:			
Gulfsands Petroleum Ltd.[(1)]	99.99% [(a)]	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% [(b)]	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

(a) One share of Gulfsands Petroleum Limited is owned by the Security trustee under the 2017 Facility security provisions.

(b) During 2018, Gulfsands Petroleum Morocco Limited entered Creditors Voluntary Liquidation ("CVL") process, which was approved and concluded at the final creditors meeting held on 8 May 2019.

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 Block 26 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 there are a wide range of possible fair value measurements. Management have reviewed their internal valuation methodology in 2018 (as well as 2017) and continues to believe that as a result of the further passage of time and the high degree of judgement required, it is not possible to reliably estimate the investment's fair value. Management, continues to consider that the historical cost figure of $102 million, represents an appropriate estimate of fair value, given there is a wide range of possible fair value measurements, being the last valuation which could be reliably determined, as previously disclosed. This value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement.

Available-for-sale financial assets should be 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. 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 2018 is $102 million (2017: $102 million).

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 2018 Management have used ERC Equipose Ltd's (Independent Energy Experts) Q1 2019 "base oil price deck" for the period from 2019 to 2023, 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 focussed on resolving the situation in Syria. Given recent positive developments in Syria and the Board's cautious optimism regarding the political situation, the Board considers that a more appropriate, and still conservative, assumption for the time to resumption of operations to be three years. Therefore, the Board has decided to use commencement of production in three 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), Yousefieh (Massive) and Al Khairat (Massive). During the year Management has revisited the potential production profiles and development plans, in particular, the potential for accelerating production on return and operational efficiency. The model has been amended accordingly. 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. The table below is based on using a 15% discount rate to give a net present value ("NPV").

The economic model calculates:

- a Gross Contractor undiscounted NPV(0) of $2.59 billion;
- Gulfsands 50% interest, undiscounted NPV(0) of $1.29 billion; and
- Gulfsands 50% interest discounted NPV (10) of $531 million
- Gulfsands 50% interest discounted NPV(15) of $361 million.

The Group has used the NPV(15) of $361.0 million (2017: $148.5 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 $ million:

	Delay to first production		
Oil price	One year delay	Three year delay	Five year delay
20% decrease	236.5	154.5	90.5
10% decrease	386.0	257.5	162.0
Brent forward curve	534.5	**361.0**	230.5
10% increase	682.5	464.0	299.0
20% increase	831.0	566.5	367.5

4.2 Available-for-sale financial assets (continued)

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

The following table sets out the impact that changes in the key variables would have on the comparative valuation of the asset, $361.0 million, for the impairment review.

	Change in comparative valuation of investment from $361.0 million ($ million)
Delay until first production	
7 years	(130.5)
3 years	173.5
Oil price	
20% decrease	(206.5)
10% decrease	(103.5)
10% increase	103.0
20% increase	205.5
Change in discount rate to	
20%	(106.5)
10%	170.0
Change in forecast capex	
25% increase	(13.0)
25% decrease	13.0
Change in forecast opex	
25% increase	(6.5)
25% decrease	6.5

The Directors have reviewed the carrying value of this available-for-sale financial asset at 31 December 2018 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.

Section 5 – Results for the Year

5.1 Segmental analysis of continuing operations

For management purposes, during 2017and 2018 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 2018

	Syria $'000	**Morocco $'000**	**Tunisia $'000**	**Colombia $'000**	**Other $'000**	**Total $'000**
Total administrative expenditure	**(800)**	**—**	**—**	**(460)**	**(1,813)**	**(3,073)**
Exploration costs written off/impaired	**—**	**—**	**—**	**(353)**	**—**	**(353)**
Divestment costs	**—**	**—**	**—**	**(1,250)**	**—**	**(1,250)**
Restricted cash forfeited/provided against	**—**	**—**	**—**	**—**	**—**	**—**
Operating profit/(loss)	**(800)**	**—**	**—**	**(2,063)**	**(1,813)**	**(4,676)**
Financing cost						**(318)**
Net loss from continuing operations						**(4,994)**
Total assets	**103,100**	**18**	**—**	**195**	**1,126**	**104,440**
Total liabilities	**(3,908)**	**(2,546)**	**(3,970)**	**(331)**	**(8,497)**	**(19,292)**
E&E capital expenditure	**—**	**—**	**—**	**353**	**—**	**353**

Year ended 31 December 2017

	Syria $'000	Morocco $'000	Tunisia $'000	Colombia $'000	Other $'000	Total $'000
Total administrative expenditure	(392)	(468)	(152)	(187)	(1,740)	(2,939)
Exploration costs written off/impaired	—	(58)	—	(677)	—	(735)
Decommissioning – change in estimate	—	—	—	—	—	—
Other income	591	—	—	—	—	591
Inventory impairment	—	(242)	—	—	—	(242)
Penalty provision – change in estimate	—	—	—	—	—	—
Restricted cash forfeited/provided against	—	—	—	(300)	—	(300)
Operating profit/(loss)	199	(768)	(152)	(1,164)	(1,740)	(3,625)
Financing cost						(390)
Net loss from continuing operations						(4,015)
Total assets	103,721	74	—	152	690	104,637
Total liabilities	(4,359)	(2,709)	(3,970)	(87)	(3,654)	(14,779)
E&E capital expenditure	—	58	—	677	—	735

Notes to the Consolidated Financial Statements (continued)
for the year ended 31 December 2018

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

	2018 $'000	2017 $'000
Share-based payment charges (note 5.3)	**284**	160
Depreciation and amortisation of other assets (notes 2.1 and 2.3)	**5**	5
Exploration expenditure written-off/impaired (note 2.3)	**353**	735
Restricted cash balances forfeited/provided against (note 3.3)	**—**	300
Staff costs excluding share-based payments (note 5.5)	**1,999**	1,824
Operating lease rentals:		
Buildings	**127**	214
Vehicles and equipment	**—**	—

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 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 granted was calculated using a Black-Scholes option pricing model.

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

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 $284,000 (2017: $160,000) and further details are provided in note 6.1.

No share awards were granted to Directors or employees between 2011 and 2015.

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' were set to 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. All these options have now vested.

The vesting schedule of the additional 4 million and 2 million options respectively was not set at the time of issuance but during 2018, the Board confirmed the vesting criteria would be based upon operational target expected to be met prior to the end of 2019. In addition, contractual terms were clarified which resulted in Mr. Morris being issued an additional 1 million such options. Once vested, the options are exercisable for a period of 10 years (from 2016).

Share options were also granted to the Chairman and two new Non-Executive Directors in 2016. These options are not subject to performance criteria. Half of their respective awards vested on the date of award in 2016 and the other half vested after one year in mid-2017.

During 2017, 1,900,000 stock options were issued to key members of staff, which options are not subject to performance criteria and vested after one year. No further stock options were issued to staff during 2018.

During 2018, in addition to the clarifications on the 2016 stock options issued to Mr. Bell and Mr. Morris as described above, the Board issued additional options to Mr Bell and Mr Morris to vest based upon strategic goals in relation to Syria. Mr Bell was issued 8 million such options and Mr. Morris was issued 4 million such options ("2018 Executive Options"). These 2018 options are set to accumulate to the holders over a period of 3 years (in 6 equal tranches, each 6 months starting on 1 July 2018) but will only vest upon the achievement of key strategic milestones in respect of Syria. Once vested the 2018 Executive Options are exercisable for a period of 10 years (from July 2018) and have a strike price of 5p. As of 31 December 2018, none of the 2018 Executive Options have vested.

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 2018 and 31 December 2017. The expected future volatility has been determined by reference to the historical volatility.

Year Issued:	**2018**	2017
Dividend yield	**n/a**	n/a
Expected share price volatility	**50.0%**	50.0%
Risk free interest rate	**2.0%**	2.0%
Exercise price	**5p**	4.25p
Expected life of option (years)	**10**	10

5.4 Auditor's remuneration

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

	2018 $'000	2017 $'000
Fees payable to the Company's principal auditor for the audit of:		
Company's accounts	**62**	62
Company's subsidiaries	**—**	—
Total audit fees	**62**	62
Audit related assurance services	**5**	8
Total non-audit fees	**5**	8
Fees payable to other auditors for the audit of:		
Company's subsidiaries	**25**	25
Total audit fees	**25**	25
Taxation compliance services	**6**	6
Other taxation advisory services	**2**	2
Total non-audit fees	**8**	8

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

5.5 Staff costs

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

	2018 $'000	2017 $'000
Wages and salaries	**1,794**	1,669
Social security costs	**140**	115
Share-based payment charges	**284**	160
Other benefits in kind	**65**	40
	2,283	1,984

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

	2018	2017
Operational and technical	**3**	2
Administrative	**9**	16
	12	18

5.6 Directors' emoluments

Details of the remuneration of Directors are included in the Directors' Corporate Governance Report on page 25.

5.7 Net interest receivable

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

	2018 $'000	2017 $'000
Short-term bank deposit interest	**28**	88

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.

	2018 $'000	2017 $'000
Current Corporation Tax:		
UK Corporation Tax	**—**	—
Overseas Corporation Tax	**—**	—
Total credit	**—**	—

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:

	2018 $'000	2017 $'000
Total loss before tax from continuing operations	**(4,994)**	(4,015)
Tax calculated at domestic rate of 19% (2017: 19.25%)	**(949)**	(773)
Effects of:		
Expenses not deductible for tax purposes	**101**	704
PSC expenses not subject to corporation tax(1)	**153**	(49)
Tax losses utilised	**—**	—
Tax losses for which no deferred tax asset was recognised	**703**	124
Impact of local tax rates	**(8)**	(6)
	—	—

(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.

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:

	2018 $'000	2017 $'000
DD&A and impairment in excess of tax allowances	**138**	149
Other short-term temporary differences	**—**	—
Tax losses carried forward	**8,189**	7,794
Unprovided deferred tax asset	**(8,327)**	(7,943)
Deferred tax asset/(liability) at 31 December	**—**	—

$0.3 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 2018 of $5.0 million (2017: $4.0 million) for continuing operations and $5.0 million (2017: $4.0 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 of 519,995,785 (2017: 519,995,785). 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 551,895,785 (2017: 538,895,785), however, where there is a loss, the impact of share options is not 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

	2018 $'000	2017 $'000
Allotted, called up and fully paid:		
519,995,785 Ordinary Shares of 1 pence (2017: 519,995,785 Ordinary Shares of 1 pence)	**18,803**	18,803

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.

The movements in share capital and share options were:

	Number of ordinary shares	Number of deferred shares	Number of 2010 share options	Weighted average price of options (£)
At 31 December 2017	519,995,785	121,989,500	18,900,000	0.0183
Share options granted	—	—	13,000,000	0.047
At 31 December 2018	**519,995,785**	**121,989,500**	**31,900,000**	**0.030**

Of the share options outstanding, 14,000,000 options have an exercise price of 1 pence per share, 4,000,000 options have an exercise price of 3.375 pence per share, 1,900,000 have an exercise price of 4.25 pence and 12,000,000 have an exercise price of 5.00 pence.

The detail of the share options outstanding at 31 December 2018 are as follows:

Exercise period	Year share options vest	Weighted average exercise price of options (£ pence)	Number of share options
22 October 2016 – 22 October 2026	2016-2018	1.86	11,000,000
22 October 2016 – 22 October 2026	See Note 5.3	1.00	7,000,000
5 July 2017 – 5 July 2018	2018	4.25	1,900,000
1 January 2021 – 28 June 2028	See Note 5.3	5.00	12,000,000
		3.04	31,900,000

13,000,000 options were granted to Directors in office at that time during 2018 (31 December 2017: nil). No options were granted to Employees at that time during 2018 (31 December 2017: 1,900,000).

The average share price during 2018 was £0.02 (2017: £0.06). The highest share price during the year was £0.03 and the lowest price was £0.01 (2017: £0.13 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 $1.7 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 2018					
Current trade and other payables	**(1,076)**	**—**	**—**	**—**	**(1,076)**
Non-current trade and other payables	**—**	**—**	**—**	**(3,546)**	**(3,546)**
Loan facility	**—**	**—**	**(8,328)**	**—**	**(8,328)**
	(1,076)	**—**	**(8,328)**	**(3,546)**	**(12,950)**
31 December 2017					
Current trade and other payables	(917)	—	—	—	(917)
Non-current trade and other payables	—	—	—	(3,563)	(3,563)
Loan facility	—	—	(3,445)	—	(3,445)
	(917)	—	(3,445)	(3,563)	(7,925)

During 2018, the loan facility bears a weighted average effective interest rate of 7.25%. 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, including the 2017 Facility, which are denominated in Pounds Sterling.

In Syria where 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
2018	**(+ or –) 5%**	**+/- 250**
2017	(+ or –) 5%	+/- 263

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
2018	**(+ or –) 5%**	**+/- 184**
2017	(+ or –) 5%	+/- 175

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2018

6.2 Financial instruments, derivatives and capital management (continued)

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 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
2018			
US Dollar	**259**	**102,000**	**102,259**
Pound Sterling	**789**	**181**	**970**
Euro	**640**	**—**	**640**
Syrian Pound	**9**	**—**	**9**
Moroccan Dirham	**4**	**1**	**5**
Other currencies	**8**	**61**	**69**
	1,709	**102,243**	**103,952**
2017			
US Dollar	155	102,505	102,660
Pound Sterling	49	159	208
Euro	940	184	1,124
Syrian Pound	7	—	7
Moroccan Dirham	14	—	14
Other currencies	18	2	20
	1,183	102,850	104,033

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 2.30%.

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 2018 and 2017 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 7% 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
2018			
US Dollar	**—**	**8,286**	**8,286**
Pound Sterling	**8,328**	**209**	**8,537**
Euro	**—**	**—**	**—**
Syrian Pound	**—**	**2**	**2**
Moroccan Dirham	**—**	**209**	**209**
Other currencies	**—**	**378**	**378**
	8,328	**9,081**	**17,409**
2017			
US Dollar	—	8,346	8,346
Pound Sterling	3,445	127	3,572
Euro	—	270	270
Syrian Pound	—	41	41
Moroccan Dirham	—	135	135
Other currencies	—	7	7
	3,445	8,926	12,371

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 2018 and 2017 the Group did not enter into any derivative contracts in respect of its exposure to fluctuations in the price of oil and gas.

6.2 Financial instruments, derivatives and capital management (continued)

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 not 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 as described further in note 4.2.

At 31 December 2018 and 2017, the Directors considered the fair values and book values of the Group's financial assets and liabilities to be level 3 valuations.

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' Corporate Governance Report on pages 23 to 25. The remuneration of Directors is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2018	2017
	$'000	$'000
Short-term employee benefits	775	692
Share-based payments	259	160
	1,034	852

The 2017 Facility is deemed a related party transaction as a result of the affiliation of Directors', Mr. Kroupeev and Mr. Ede-Golightly to the Major Shareholders.

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 2018 or 2017.

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:

	2018 Land and buildings $'000	2018 Other $'000	2017 Land and buildings $'000	2017 Other $'000
Amounts payable on leases:				
Within one year	77	—	84	—
In two to five years	58	—	—	—
	135	—	84	—

There are no future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period (31 December 2017: $nil).

6.5 Contingent liabilities

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.

In 2018 the Courts in Damascus, Syria has accepted the request of Al Mashrek to amend the name of the defendant from GPLL and the Syrian registered branch of GPLL, to Gulfsands Petroleum Plc. In consequence, a submission was made to the Court challenging its jurisdiction over a claim against GP Plc, however, this was rejected by the court which referred the matter for expert analysis. The branch of GPLL in Syria has submitted a request to the Court to remove its' name and the name of GPLL from the claim. The court is yet to decide on this request.

In connection with the claim, 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. The removal of GPLL and its Syrian branch from the claim should lead to lifting the provisional attachment placed on GPLL's moveable and immovable assets. 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 2018.

MOROCCO

During the Creditors Voluntary Liquidation ("CVL") process of the Cypriot subsidiary Gulfsands Petroleum Morocco Limited ("GPML"), creditors of that company are invited to make creditor claims. Given the dispute that GPML has with Office National des Hydrocarbures et des Mines ("ONHYM"), several counterclaims were made by ONHYM through that process. The Directors of GPML did not consider that the majority of these claims are valid and that they are simply a negotiating tactic for the liquidation process, and to counter GPML's claim for the $6 million of funds described in Note 6.6. The Directors have accrued for what they consider to be legitimate claims and therefore genuine liabilities but, consider it appropriate to highlight in this report certain other material claims made by ONHYM during that process. These include:

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.

Penalties sought by ONHYM under the Fes Petroleum Agreement

On 26 February 2019, as part of the CVL process, and over three years after the expiry of the Fes Licence and the seizing of the $5 million of restricted cash held as a performance guarantee, the GPML received a claim from ONHYM, dated 26 February 2019, advising that:

- ONHYM is seeking a penalty equal to the estimated cost of the minimum exploration work programme of the Fes Petroleum Agreement less the costs actually incurred in respect of exploration work required, whereby ONHYM is claiming a sum of $7.5 million; and
- ONHYM advised they will also, by separate request, seek the outstanding amount under the training obligation of the Fes Petroleum Agreement.
- Plug and abandonment obligations to be completed on Fes.

The Company strongly refutes these claims for financial sums and penalties under both of these contracts, in particular in the context of the $6 million inappropriately taken and retained by ONHYM as more fully described in Note 6.6.

In these 2018 year-end Financial Statements the 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 these penalties.

The CVL process was approved and concluded at the final creditors meeting held in Cyprus on 8 May 2019.

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

6.6 Contingent assets

MOROCCO

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 has 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.

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 either of these contingent assets, which sit within Cypriot subsidiary Gulfsands Petroleum Morocco Limited, which entered a Creditors Voluntary Liquidation ("CVL") process on 28 November 2018, and the CVL was approved and concluded at the final creditors meeting held on 8 May 2019.

6.7 Post balance sheet events

On 8 May 2019 the final members meeting and final creditors meeting of Gulfsands Petroleum Morocco Limited (Cyprus) were held, the outcome being that the CVL was approved and concluded.

Financial Statements

Parent Company Financial Statements and Notes to the Company Financial Statements

Parent Company Primary Statements

This section contains the Company's primary Financial Statements.

Primary 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.

Basis of Preparation

Section 2 Property, Plant and Equipment and Intangible Assets

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

PPE/Intangible Assets

Section 3 Investments in and Loans to Subsidiaries

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

Investments and Loans

Section 4 Working Capital

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

Working Capital

Section 5 Results for the Year

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

Results for the Year

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.

Capital Structure

Primary Statements | Basis of Preparation | PPE/Intangible Assets | Investments and Loans | Working Capital | Results for the Year | Capital Structure

Parent Company Financial Statements
Company Balance Sheet
as at 31 December 2018

	Notes	2018 $'000	2017 $'000
Assets			
Non-current assets			
Property, plant and equipment	2.1	**—**	1
Intangible assets	2.2	**—**	—
Investments in and loans to subsidiaries	3.1	**7,307**	7,307
Amounts due from subsidiaries	4.1	**32,770**	36,364
		40,077	43,672
Current assets			
Trade and other receivables	4.1	**78**	328
Cash and cash equivalents	4.2	**1,081**	419
		1,159	747
Total assets		**41,236**	44,419
Liabilities			
Current liabilities			
Trade and other payables	4.4	**448**	237
		448	237
Non-current liabilities			
Loan facility	4.5	**8,328**	3,445
Total liabilities		**8,776**	3,682
Net assets		**32,460**	40,737
Equity			
Capital and reserves attributable to equity holders			
Share capital	6.1	**18,803**	18,803
Share premium		**110,737**	110,737
Retained loss		**(97,080)**	(88,803)
Total equity		**32,460**	40,737

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 $8.6 million (2017: $2.9 million).

The Financial Statements of Gulfsands Petroleum plc (registered number: 05302880) were approved by the Board of Directors on 20 May 2019 and signed on its behalf by:

Andrew James Morris
Finance Director
20 May 2019

Company Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital $'000	Share premium $'000	Retained (loss)/profit $'000	Total equity $'000
At 1 January 2017	18,803	110,737	(86,049)	43,491
Loss for 2017	—	—	(2,914)	(2,914)
Share-based payment charge	—	—	160	160
At 31 December 2017	18,803	110,737	(88,803)	40,737
Loss for 2018	—	—	(8,561)	(8,561)
Share-based payment charge	—	—	284	284
At 31 December 2018	**18,803**	**110,737**	**(97,080)**	**32,460**

Parent Company Financial Statements
Company Cash Flow Statement
for the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Operating loss		**(3,691)**	(2,614)
Share-based payment charge		**284**	160
Exploration costs written off/impaired/costs accrued		**353**	677
Profit on disposal of assets		**—**	(3)
Decrease/(increase) in receivables		**169**	(227)
Increase/(decrease) in payables		**257**	(317)
Net cash used in operations		**(2,628)**	(2,324)
Interest received		**28**	83
Bank fees		**(150)**	(61)
Foreign exchange gains/(losses)		**288**	(124)
Net cash used in operating activities		**(2,462)**	(2,426)
Investing activities			
Exploration and evaluation expenditure		**(353)**	(677)
Funds transferred (to)/from subsidiaries		**(881)**	(280)
Net cash used in investing activities		**(1,234)**	(957)
Financing activities			
Secured financing		**4,388**	3,247
Net cash used in financing activities		**4,388**	3,247
Increase/(decrease) in cash and cash equivalents		**662**	(136)
Cash and cash equivalents at beginning of year		**419**	555
Cash and cash equivalents at end of year	4.2	**1,081**	419

Financial Statements

Notes to the Parent Company Financial Statements

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 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 2018 were authorised for issue by the Board of Directors on 20 May 2019 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 2018 and for the comparative year ended 31 December 2017 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 2018 was £1: $1.33 (2017: £1: $1.35).

1.4 Critical accounting judgements and key sources of estimation uncertainty

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

Notes to the Parent Company Financial Statements (continued)

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 2017	61
At 1 January 2018	61
At 31 December 2018	**61**
Accumulated depreciation:	
At 1 January 2017	(59)
Charge for 2017	(1)
At 1 January 2018	**(59)**
Charge for 2018	(1)
At 31 December 2018	**(60)**
Net book value at 31 December 2018	**—**
Net book value at 31 December 2017	1

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.

	$'000
Cost:	
At 1 January 2018	1,910
Additions	353
Disposals	(1,367)
At 31 December 2018	**896**
Accumulated impairment / accumulated amortisation:	
At 1 January 2018	(1,910)
Amortisation charge for 2018	—
Exploration expenditure impaired in 2018	(353)
Disposals	1,367
At 31 December 2018	**(896)**
Net book value at 31 December 2018	**—**
Net book value at 31 December 2017	—

Additions during the year relate to oil and gas activities in Colombia. Disposals during the year relate to the Putumayo-14 Colombian licence.

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.

	2018 $'000	2017 $'000
Current		
Other receivables	**64**	100
Prepayments and accrued income	**14**	228
	78	328
Non-current		
Amounts due from subsidiaries	**32,770**	36,364

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.

	2018 $'000	2017 $'000
Cash at bank and in hand	**1,081**	419
Total cash and cash equivalents	**1,081**	419

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.

	2018 $'000	2017 $'000
Restricted cash balances	–	1,702
Provision against recovery of restricted cash balances	–	(1,702)
Total cash and cash equivalents	–	–

The movement in the year of both the restricted cash balance and provision of $1.7 million, relates to the guarantee funds transferred to Amerisur as part of the divestment transaction of the PUT-14 licence.

In 2017, an amount of $1.5 million held in escrow to guarantee minimum work obligations on LLA-50 in Colombia was released to the Company, which was consequently replaced by the Group through a locally held escrowed guarantee, namely by the Colombian branch of a subsidiary Company, Gulfsands Petroleum Sud America Limited.

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.

4.4 Trade and other payables

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

	2018 $'000	2017 $'000
Current		
Trade payables	131	164
Accruals and other payables	317	73
	448	237

4.5 Secured Term Financing Facility

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. During 2017, three tranches were 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. In March 2018 an extension to the 2017 Facility was agreed with the Major Shareholders, giving a further £4 million of committed funding (in four new tranches, referred to as the sixth, seventh, eighth and ninth tranches), and an extension of the maturity date to February 2021. This expanded facility is expected to fund the Company's general and administrative costs through to early 2020.

During 2018 the fourth tranche (£0.8 million), fifth tranche (£0.8 million), sixth tranche (£1.0 million) and seventh tranche (£1.0 million) of the 2017 Facility were drawn down during 2018.

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 are being used for general and administrative expenses of the Group and for working capital purposes.

Following this amendment consummated in March 2018, the maturity date of the 2017 Facility was extended by one year to February 2021, at which date all outstanding amounts will be repayable in cash unless the Company has exercised an equity conversion right. Under this equity conversion right the 2017 Facility (as amended) 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) 5.09 pence (being the 90-day average closing price prior to 19 March 2018 – the date immediately prior to the announcement of the delisting proposal and (ii) the lowest price at which the Company has raised equity capital during the life of the 2017 Facility.

The entire 2017 Facility (the 2017 Facility as amended in March 2018 , i.e. £8 million) 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.

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

	$'000
At 1 January 2018	3,445
Loan draw-downs	4,795
Interest expense	495
Foreign exchange gains	(407)
At 31 December 2018	**8,328**

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 $8.6 million (2017: $2.9 million). There was no revenue during 2018, as defined by IAS 18 Revenue' (2017: 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 2017: $0.1 million) within one year and $nil (31 December 2017: $nil) between two and five years.

5.3 Share-based payments

The Company has made equity settled share-based payments to certain employees and Directors by way of issues of share options. The fair value of these payments is calculated at grant date by the Company using the Black-Scholes option pricing model excluding the effect of non market-based vesting conditions. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of the number of options that will eventually vest. At each Balance Sheet date, the Company revises its estimates of the number of options expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained profit. See note 5.3 to the Consolidated Financial Statements.

5.4 Taxation

Current tax

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

Deferred tax

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

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

Deferred tax assets/(liabilities)

	2018 $'000	2017 $'000
Tax losses carried forward	**8,088**	7,794
Depreciation in advance of capital allowances	**112**	149
Unprovided deferred tax asset	**(8,200)**	(7,943)
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
2018			
US Dollar	**253**	**32,673**	**32,926**
Pound Sterling	**778**	**78**	**856**
Euro	**80**	**—**	**80**
Other currencies	**—**	**—**	**—**
	1,111	**32,751**	**33,862**
2017			
US Dollar	—	36,364	36,364
Pound Sterling	48	159	207
Euro	5	50	55
Other currencies	—	—	—
	53	36,573	36,626

Section 6 – Capital Structure and Other Disclosures (continued)

6.2 Financial instruments, derivatives and capital management (continued)

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

	Financial assets on which interest is earned $'000	Financial assets on which no interest is earned $'000	Total $'000
2018			
US Dollar	**—**	**—**	**—**
Pound Sterling	**8,328**	**493**	**8,821**
Other currencies	**—**	**—**	**—**
	8,328	**493**	**8,821**
2017			
US Dollar	—	28	28
Pound Sterling	3,648	—	3,648
Other currencies	—	10	10
	3,648	38	3,686

During the year ended 31 December 2018, the Company impaired balances owed from subsidiary undertakings totalling $4.6 million (2017: $2.1 million).

6.3 Assets held by the Company

Assets held by the Company of $nil (2017: $nil) represent exploration expenditures relating to the Colombian Llanos 50 E&P contract. As detailed in note 2.3 of the Consolidated Financial Statements it was decided to fully impair the exploration expenditure of $0.35 million in 2018 attributed to this licence (2017: $0.35 million). The contract was 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

Llanos 50 - first exploration phase expiry date and deadline for fulfilment of capital commitments; originally May 2018 - licence now suspended by agreement with ANH.

- 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 $15.2 million.

$1.8 million (31 December 2017: $1.8 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.

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 five (2017: 6).

6.6 Related party transactions

Transactions with Directors are disclosed in note 6.3 to the Consolidated Financial Statements and in note 3.6 to the Consolidated Financial Statements. Interests in shares and their remuneration and share options are disclosed in the Directors' Corporate Governance Report on pages 23 to 25. The Company traded with various undertakings within the same Group during the years ended 31 December 2018 and 2017. 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	2018 $'000	2017 $'000
Gulfsands Petroleum Tunisia Ltd	Subsidiary	Non-interest bearing	**30,740**	30,740
		Provision	**(30,740)**	(30,809)
Gulfsands Petroleum Levant Ltd	Subsidiary	Non-interest bearing	**19,763**	19,016
		Provision	**(19,763)**	(16,038)
Gulfsands Petroleum Ltd	Subsidiary	Non-interest bearing	**2,633**	2,633
Gulfsands Petroleum Sud America Ltd	Subsidiary	Non-interest bearing	**2,952**	2,730
		Provision	**(2,952)**	(2,365)
Gulfsands Petroleum MENA Ltd	Subsidiary	Non-interest bearing	**2,203**	2,279
		Provision	**(2,203)**	(1,546)
Gulfsands Petroleum Morocco Ltd	Subsidiary	Non-interest bearing	**45,393**	45,286
		Provision	**(45,393)**	(45,681)
Gulfsands Petroleum Holdings Ltd	Subsidiary	Non-interest bearing	**30,137**	30,015
Gulfsands Petroleum Iraq Ltd	Subsidiary	Non-interest bearing	**5,942**	5,908
		Provision	**(5,942)**	(5,804)

Services recharged to related parties

	2018		2017	
Name of related party	Time writing $'000	Indirect overhead $'000	Time writing $'000	Indirect overhead $'000
Gulfsands Petroleum Levant Ltd	**767**	**—**	300	12
Gulfsands Petroleum Morocco Ltd	**67**	**—**	110	—
Gulfsands Petroleum Sud America Ltd	**67**	**—**	241	—
Gulfsands Petroleum Tunisia Ltd	**—**	**—**	10	—
Gulfsands Petroleum Iraq Ltd	**15**	**—**	—	—

6.7 Post balance sheet events

Post balance sheet events are disclosed in note 6.7 to the Consolidated 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

ANH Agencia Nacional De Hidrocarburos

bbls Barrels of oil

bcf Billion cubic feet of gas

boe Barrels of oil equivalent

boed Barrels of oil per day

Blake Blake Holdings Limited

CSR Corporate social responsibility

CVL Creditors Voluntary Liquidation

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

ERCE ERC Equipoise Limited (Independent Energy Experts)

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 Petroleum Morocco Limited

HSSE Health, safety, environment and security

IFRS International Financial Reporting Standards

km Kilometres

km² 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

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Shareholder Information

Post delisting trading in Gulfsands Petroleum PLC shares

Gulfsands Petroleum Plc ("Gulfsands") shares may be bought and sold through an electronic trading platform administered by **Asset Match**. https://www.assetmatch.com

Buy and sell orders are handled by **Asset Match's** nominated broker, The Share Centre. They can be contacted through their website www.share.com or phone them on **01296 41 42 43.**

Asset Match is authorised and regulated by the Financial Conduct Authority.

The Share Centre Limited is a member of the London Stock Exchange and is authorised and regulated by the Financial Conduct Authority.

If you have any queries regarding your shareholding or wish to advise any amendments, such as change of address, please contact our Registrars:

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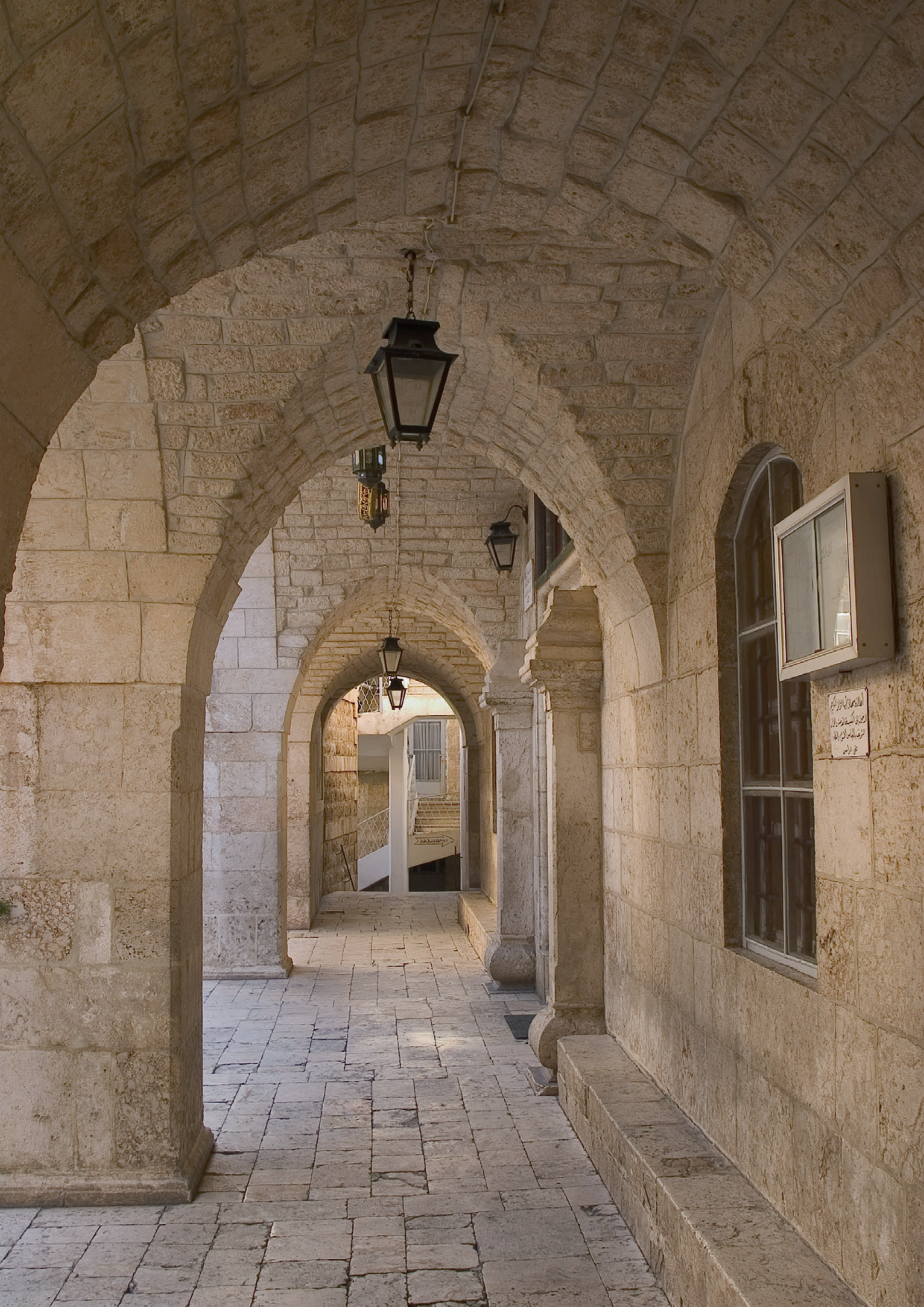

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