



**Gulfsands Petroleum plc  
Annual Report and Accounts  
for the year ended  
31 December 2017**

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## About Us

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

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

## Highlights

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

- Group working interest 2C Contingent Resources in Syrian assets of 80.0 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 15-20,000 boe per day through 2017 - no revenues recognised by Gulfsands
- While the status of this production under the terms of the PSC is unclear at this time, the production does appear to demonstrate the reservoir quality and that the field continues to be operable
- The area surrounding Block 26 remains stable, with no major disruptions during the year

### Good progress made streamlining the business to focus on its assets in Syria and business development in the Levant Region

- Exits from Tunisia and Morocco initiated
- Putumayo 14 licence in Colombia reset to Phase 0 and work commenced on the Consulta Previa
- On completion of Phase 0 Putumayo 14 will recommence Phase 1 which will run for 3 years
- Farm-out initiatives for Putumayo 14 continue
- MMA and EIA environmental work on Llanos-50 in progress
- Suspension of Llanos-50 licence agreed to allow time to determine solution for environmental issues and restrictions identified with respect to the execution of the planned seismic programme

### Costs reduced significantly

- Continued initiatives to reduce the ongoing expenses across the Group with gross office costs falling a further 25% from \$5.0 million to \$3.8 million during the year
- Budgeted G&A cost for 2018 is around \$2.5 million

### Progressive Medium-Term Strategy - Return to Growth

- Focus on ensuring preparedness to resume operational activities in Syria once EU sanctions are lifted
- Increased focus on business development in the broader Levant region

### Continued financial support from major shareholders

- Completion of Secured Term Financing Facility (the "2017 Facility") of up to £4.0 million (c. \$5.0 million) in February 2017
- Final two drawdowns under the 2017 Facility made in January 2018, giving current free cash available for operations of \$2.2 million
- Extension to the 2017 Facility agreed with Major Shareholders in March 2018, giving a further £4 million of committed capacity which is expected to fund G&A through to the middle of 2020

### 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 General Meeting
- Following the delisting, the Company believes it is now better positioned to implement its medium-term strategy

John Bell, Managing Director said:

*"We continue to focus on capital efficiency while protecting and preserving the value within Block 26, our core assets in North East Syria where we continue to ensure readiness to recommence operations there once EU Sanctions and the security situation permit."*

*"With the support of our major shareholders through the 2017 Facility, as expanded in March 2018, we are able to embrace a more progressive strategy in the months ahead, again focussing on our core areas of expertise in the Levant."*

*"We remain committed to high levels of corporate governance as we move forward as a unlisted Public Limited Company (PLC), leaving us well positioned to be responsive to the changing environment as opportunities arise."*

## Strategic Report

### Chairman and Managing Director's Statement

*Gulfsands' progressive strategy and growth plans, keep capital efficiency and Block 26 at its core but with an increased focus on preparing for Syria re-entry, once EU sanctions and the security situation permit, and business development in the broader Levant region.*

Dear Shareholder

2017 was the year when Gulfsands was able to begin planning for the future. Having spent recent years stabilising the Company such that it could operate within its financial capacity and risk tolerance, the Board has decided that it is now in a position to consider a more progressive medium-term strategy. The Shareholders have also decided, at a General Meeting held on 10 April 2018, that the Company will be better positioned to implement this new 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, 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.

The Board remains cautiously optimistic in the medium-term regarding the political situation in Syria. This means that the Company has increased its focus on its readiness to return to operations in Syria when the political situation allows and EU sanctions are lifted, as well as turning its attention to potential business development and acquisition opportunities in the broader Levant region. Our Major Shareholders have shown their support for this more progressive strategy by firstly making available £1.6 million remaining under the existing 2017 Facility in January 2018 and then by recently committing to an additional £4 million of funding under the expanded 2017 Facility to be drawn down over the next two years. This is expected to fund the Company's G&A to the middle of 2020.

At the core of Gulfsands' strategy remains its assets in North East Syria where Gulfsands is the operator of, and holds a 50% working interest in, the Block 26 Production Sharing Contract ("PSC"), a geo-technically world class asset. Block 26 is located in the relatively stable area of North East Syria and, although Gulfsands is unable, due to EU sanctions, to be actively involved in operations, the assets appear to be in good order, materially undamaged and operationally fit. Gulfsands is not presently involved in any production or exploration activities on Block 26 as Force Majeure has been declared in respect of this PSC following the introduction of EU sanctions in Syria. During the year, 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. The average oil production rate since then appears to be around 15-20,000 BOPD, meaning a total production during the year of around 6.4 million barrels of oil. 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 any revenue for any production under the PSC since the advent of Force Majeure. Gulfsands remains committed to full compliance with EU sanctions and is focused on maintaining its readiness to resume operational activities once sanctions are lifted.

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

In Tunisia, the Group chose not to seek a further extension to its Chorbane licence, and the licence expired on 12 July 2017. The Group no longer has any remaining oil and gas interests in country, and so has initiated the orderly closedown of its Tunisian branch.

In Morocco, the Group's remaining Petroleum Agreement, Moulay Bouchta, expired on 20 June 2017. Post expiry, constructive discussions with the Office National des Hydrocarbures et des Mines ("ONHYM") continued and a further extension of the initial phase to June 2018 remained available to the Group. The Group stated at that time that its ongoing participation in Morocco, was conditional upon it finding an appropriate partner to help take the project forward. On 10 November 2017, the Group concluded that it was unable to find such a partner and so informed ONHYM that it no longer wished to pursue the Moulay Bouchta extension. As a result, 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 our subsidiary, Gulfsands Petroleum Morocco Limited, in respect of the Minimum Exploration Work Programme. Both these items had already been provided for in the 2016 Annual Report.

Elsewhere in Morocco, the Group continues discussions with ONHYM to close out outstanding matters relating to the Rharb and Fes permits which expired in 2015.

In Colombia, Gulfsands continues to hold a 100% interest in the Putumayo-14 ("PUT-14") and the Llanos-50 ("LLA-50") licences. The PUT-14 licence was due to expire in November 2017 but on 11 October 2017, Gulfsands announced that it has received confirmation from Agencia Nacional de Hidrocarburos ("ANH") that the PUT-14 Licence will be reset to "Phase 0", meaning that the Company will now have the required time to diligently complete the consultation process with the local indigenous communities (the "Consulta Previa") in the Putumayo region. This Consulta Previa is now underway and is expected to be completed in H2 2018. On completion of Phase 0, the PUT-14 Licence will re-enter a full 3-year Phase 1 exploration period. This means that the PUT-14 Licence will now run until at least mid-

## Strategic Report

### Chairman and Managing Director's Statement

2021. This has helped us re-invigorate our farm-out initiative to find a partner to take forward this licence and which is ongoing. While Gulfsands is in discussions with a number of potential parties, no binding agreement has yet been reached with any such partner.

The LLA-50 Licence was due to expire in May 2018. For the last 6 months, the Company has been diligently completing Medidas de Manejo Ambiental ("MMA") and Environmental Impact Assessment ("EIA") environmental work. Seismic reprocessing work in H2 2017 reconfirmed the leads which had been previously identified, but this subsequent environmental work has identified relevant environmental issues and restrictions which would impact the ability to execute the seismic programme over the areas of interest. In order to provide sufficient time to explore potential ways forward for the LLA-50 licence which satisfy all stakeholders, it was agreed with ANH that the licence should put into suspension prior to expiry. It is unclear how long the suspension will last and what the outcome of the discussions will be. The Company's rights and obligations with respect to the LLA-50 licence are outlined in more detail in note 2.4.

#### Financial overview

In February 2017, the Company's Major Shareholders provided further funding for the Group through a Secured Term Financing Facility (the "2017 Facility") of up to £4 million (c. \$5 million) which was to be drawn-down in five equal tranches, subject to certain conditions. The first three tranches were drawn down on 23 February 2017, 3 April 2017 and 26 April 2017 with the final two tranches being drawn down post year-end on 16 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. If fully drawn down, the extended 2017 Facility should fund the Group's expected G&A through into 2020.

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

The Group posted a loss for the year of \$4.0 million, including write-offs and impairments of \$1.25 million relating to the Colombian and Moroccan businesses. The result of the year was positively influenced by the recovery of \$0.6 million relating to a long outstanding insurance claim relating to the theft of Syrian inventory in 2013. The cash flow was further enhanced by the sale of surplus Moroccan inventory which contributed \$0.85 million of cash for the Group.

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 expenses across the Group falling 25% from \$5.0 million in 2016 to \$3.8 million in 2017 (see Financial Review on page 16 for more details).

At 31 December 2017 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 \$2.2 million, subsequent to the five draw-downs of £0.8 million each under the original 2017 Facility. As at 31 December 2017, the Group had \$3.4 million debt outstanding including accrued interest and fees under this 2017 Facility.

Following the March 2018 amendment to the 2017 Facility, 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) and (ii) the lowest price at which the Company has raised equity capital during the life of the 2017 Facility.

The Group continues to have material work obligations under its various exploration licences, as outlined in note 2.4, and if these obligations are not met or renegotiated, the Group may be forced to forfeit its working interests in these contracts as well as any sums of restricted cash lodged with host governments as guarantees for its performance of the minimum work obligations. Since some of the licences contain provisions for the payment of penalties if the minimum work obligations are not fulfilled, potential penalties may also apply. The Company is currently engaged in various discussions to restructure its minimum work obligations or to divest or bring in partners in order to reduce or eliminate the Group's net exposure to such obligations. There is no certainty that any or all of these discussions will be successful. The 2017 Financial Statements have been prepared on a going concern basis (see note 1.3), and further details on this can be found in the Financial Review on page 16.

#### Outlook for 2018 and beyond

As the Company embarks on a new era as a delisted PLC, we believe that it has an exciting future to look forward to. Maintaining capital discipline, controlling costs and preserving the value inherent in our core Syrian assets remain at the centre of this strategy, but an exciting period of business development and active preparation for re-entry into Syria lies ahead.

Having secured financing from our Major Shareholders which will cover G&A for another two years and also a commitment from them to protect governance standards for a similar period, we have a great platform to now focus on adding value for all our shareholders.

## **Strategic Report**

### **Chairman and Managing Director's Statement**

We would like to thank all our staff for their hard work over the last twelve months which has once again been a period of significant progress towards our goals.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J Bell', with a large loop at the end.

**John Bell**  
Managing Director

21 May 2018

**James Ede-Golightly**  
Non-Executive Chairman

## **Strategic Report**


### **Chairman and Managing Director's Statement**

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Yours sincerely,

**John Bell**  
Managing Director

21 May 2018



**James Ede-Golightly**  
Non-Executive Chairman

## **Strategic Report**

### **Strategic Priorities and Monitoring Performance**

In recent years the Group has focused on aggressively managing costs and streamlining its staffing and organisational model to match its reduced involvement in operations. With this virtually complete, the Group can now focus on its core strategy of building a strong, independent exploration and production company focused 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 business development in the Middle East and especially our core area of expertise, the Levant.

Our business model remains based on the following building blocks:

#### **Areas of expertise**

- Extensive experience in our core area of the Levant.
- 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.
- Commitment to excellence in HSES.

#### **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	<ul style="list-style-type: none"> <li>We continue to preserve all contractual rights and manage business relationships in a manner consistent with all relevant sanctions and Force Majeure status</li> <li>Our local management team 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</li> </ul>
Rationalisation of the portfolio to fit the Company's financial and risk appetite	<ul style="list-style-type: none"> <li>Decisions made to exit both Tunisia and Morocco – process underway</li> <li>Putumayo-14 licence reset to Phase 0 such that licence will run to at least the middle of 2021</li> <li>Farm-out process continues to find a partner for the PUT-14 licence</li> <li>Environmental work diligently executed on LLA-50 licence</li> <li>Suspension of LLA-50 Licence agreed with ANH to provide sufficient time to resolve environmental issues and restrictions identified</li> </ul>
Comprehensive evaluation of new business opportunities	<ul style="list-style-type: none"> <li>As the Group moves towards a more progressive strategy with an increased focus on business development, effective evaluation and risk assessment will become critical to success</li> <li>In Syria, a rigorous re-entry planning process with our Joint Venture partners is underway to ensure readiness when EU sanctions allow</li> </ul>
Maintain HSES and community relations	<ul style="list-style-type: none"> <li>Continued community, security and environmental assessment processes incorporated into all our operations planning, including: <ul style="list-style-type: none"> <li>Consulta Previa initiative on Putumayo-14 licence in Colombia</li> <li>Environmental studies on Llanos-50 licence in Colombia; and</li> <li>Syria re-entry planning</li> </ul> </li> <li>No recordable HSES incidents during the year</li> </ul>
Ensure Group is efficiently run and well financed	<ul style="list-style-type: none"> <li>Maintained control over costs and cost basis further reduced, with gross office costs falling a further 25% from \$5.0 million to \$3.8 million</li> <li>Maintained support of the three major shareholders while exploring potential new sources of finance</li> <li>Secured Term Financing Facility entered into in February 2017 of up to £4 million (c. \$5 million), which was extended by a further £4 million subsequent to the year-end</li> <li>G&amp;A now expected to be funded to middle of 2020</li> </ul>



## Strategic Report

### Strategic Priorities and Monitoring Performance

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
<b>Working interest Reserves and Resources (mmboe)</b>			
<b>Contingent and Prospective working interest Resources (mmboe):</b>		Contingent Resources	Prospective Resources
	2015	87.3	55
Audited 2C Contingent Resources and best estimate Prospective Resources are both stated on an unrisks working interest basis	2016	86.4	55
	2017	80.0	0.0
All Contingent Resources in 2017 now relate to Block 26 in Syria which is currently in Force Majeure. (see page 12 for further details).			<p>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.</p> <p>This classification remains appropriate during 2017. The Group remains ready to return to production and reclassify these Resources back to Reserves as soon as circumstances allow.</p> <p>The Groups business development initiatives will include the potential acquisition of further Reserves and/or Resources in the Levant region.</p>
<b>Capital expenditure (\$ million)</b>			
Accrued expenditure on exploration for and appraisal and development of oil and gas assets. Expenditures include capitalised internal costs on operated assets (pages 36 – 37 for further details).	2015	6.8	<p>Focused cost-effective expenditure on exploration, appraisal and reserve development activity is an appropriate measure of success of the Group but must remain within the Group's financial capacity. In recent years financial discipline has reduced the amount of capital expenditure.</p>
	2016	0.9	
	2017	0.7	
<b>Safety – lost time incidents</b>			
The number of incidents during the year which resulted in loss of working time.	2015	1	<p>The Group conducted drilling, well completion and well testing operations on its Moroccan Rhab Centre permit in 2015. During 2016 and 2017 operations have been more limited, though the group continues to have staff in Colombia, Syria, Morocco and Tunisia as well as the UK. Management remains absolutely committed to HSES.</p>
	2016	0	
	2017	0	
<b>Total cash and cash equivalents (\$ million)</b>			
Cash and cash equivalents are funds immediately available to the Group (page 39 for further details).	2015	0.4	<p>Ensuring the Group has sufficient cash resources is key for the Group.</p> <p>Post year end, an additional £1.6 million of the 2017 Facility was drawn down and an extension was agreed with Major Shareholders to provide an additional £4 million over the next two years.</p>
	2016	1.0	
	2017	1.7	
<b>Gross office costs (\$ million)</b>			
Total G&A costs, before capitalised allocations and partner recoveries (page 16 for further details).	2015	8.7	<p>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.</p> <p>Cost reductions implemented during 2017 will enable 2018 cost to reduce further.</p>
	2016	5.0	
	2017	3.8	

## Strategic Report

### Strategic Priorities and Monitoring Performance

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

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

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

<b>Financing</b>	
<b>Nature of Risk</b>	<b>Mitigation</b>
<p>The Group currently has no revenue due to the Force Majeure situation in Syria.</p> <p>The Group therefore needs to secure financing to ensure it remains funded, both for any work obligations under its oil and gas licences and for ongoing day-to-day G&amp;A costs of the business.</p> <p>Further discussion regarding the current funding situation is contained in the going concern note 1.3a to the Consolidated Financial Statements.</p>	<p>The cost base and funding requirements of the business are continually being assessed to ensure ongoing efficiency.</p> <p>The Board maintains a close relationship with its Major Shareholders who have increasingly become the only available source of capital, being the only significant participants in the Group's last three capital raises.</p> <p>There remain existing minimum work obligations under licences or contracts which the Company is working to restructure through negotiation with state regulators, or through farm-out or divestiture to reduce exposure.</p> <p>Going forward, the Group will always strive to avoid the performance of commitments that are without technical and commercial justification.</p>
<b>Shareholder Concentration</b>	
<b>Nature of Risk</b>	<b>Mitigation</b>
<p>At the date of this Report, a large proportion of the shares in the Company are held by three shareholders holding approximately 37.32%, 31.47%, and 13.97% respectively (the "Major Shareholders").</p> <p>While high levels of share ownership between a small number of shareholders can offer stability of ownership, a stable capital source and protection against opportunistic or predatory approaches, concentrated share ownership can also result in undue influence by shareholders on the Board and management that may be to the detriment of the minority shareholders.</p>	<p>Even post delisting, the Board continues to commit to high levels of corporate governance and to ensuring the business is managed in a clear and transparent manner. This commitment, for a period of at least 2 years, was reiterated in undertakings made by the Major Shareholders when the Company delisted from AIM in April 2018.</p> <p>These undertakings included the fact that a majority of the Board of Directors will be independent of the Major Shareholders for at least 2 years after delisting.</p> <p>Following delisting from AIM in April 2018, a secondary market trading facility (off-market dealing facility, <a href="http://www.assetmatch.com">www.assetmatch.com</a>) has been secured to enable existing shareholders and new investors to trade Ordinary Shares by matching buyers and sellers through periodic auctions.</p>
<b>Business Development and Operational Success/Failure</b>	
<b>Nature of Risk</b>	<b>Mitigation</b>
<p>The Oil and Gas industry is a high-risk industry especially in the exploration and appraisal phases of projects.</p> <p>The Group's business development strategy is, to a significant extent, dependent upon achievement of exploration and operational success.</p> <p>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.</p>	<p>Technical risks are mitigated by careful analysis of the available geological, geophysical and petrophysical data prior to drilling.</p> <p>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.</p> <p>An integrated approach is critical to all business development decisions.</p>

## Strategic Report

### Strategic Priorities and Monitoring Performance

<b>Health, safety, environment and security</b>	
<b>Nature of Risk</b>	<b>Mitigation</b>
<p>The Group's reputation and its value is critically dependent on:</p> <ul style="list-style-type: none"> <li>• the protection of the health and safety of its staff, its contractors and members of the community in which it operates;</li> <li>• the protection of the environment in which it operates; and</li> <li>• the security of its interests and assets.</li> </ul> <p>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.</p>	<p>The Group maintains best practice policies and procedures in these areas and manages its business and its contractors in accordance therewith.</p>

<b>Geopolitical Risks</b>	
<b>Nature of Risk</b>	<b>Mitigation</b>
<p>The Group operates in areas in which it may be exposed to political instability and civil disturbances disrupting its operations.</p> <p>Specifically, the Group's core interests in Syria are under Force Majeure as a consequence of EU sanctions being imposed. Therefore, the value of the Group's interests continue to be at risk from the continuing sanctions, the loss of ability to develop the portfolio of interests and the loss of physical control over its assets.</p>	<p>The Group liaises closely with government officials to assess the geopolitical situation especially with respect to Syria. The Board accesses business intelligence and engages consultants where necessary to assist with risk management processes in this area.</p> <p>More generally, the Group carries out a thorough risk assessment of any proposed new country entry.</p> <p>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.</p>

<b>Compliance: Bribery and corruption, EU sanctions</b>	
<b>Nature of Risk</b>	<b>Mitigation</b>
<p>The Group is subject to stringent bribery and corruption regulation across all its operations. Taking all reasonable measures to prevent bribery and corruption being perpetrated on, or within, the business is critical to the business model.</p> <p>In addition, the Group's operations in Syria are subject to EU Sanctions and are currently under Force Majeure.</p> <p>Reputational damage, legal liability and financial loss could result from breach of any of these regulations and guidelines.</p>	<p>The Group has a Code of Business Conduct which is embedded within all activities of the Group. Business practices and results are continually reviewed against the Code, and extensive training is provided across the Group on bribery, corruption and sanctions compliance.</p> <p>Expert advice is sought where necessary.</p>

<b>Reliance on key staff</b>	
<b>Nature of Risk</b>	<b>Mitigation</b>
<p>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.</p> <p>There is therefore a heightened risk of loss of management continuity and impairment of the business model.</p>	<p>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 we may call if required.</p> <p>Contracts with key personnel have notice periods that allow sufficient time to source replacements.</p>

## Strategic Report

### Operations/Reserves/Resources Review

#### Syria

Gulfsands is the operator of the Block 26 Production Sharing Contract ("PSC") and holds a 50% working interest in the PSC along with Sinochem 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 2017

- Continued compliance with applicable sanctions
- Block 26 facilities, wells and infrastructure remain secure and predominantly functional
- Company was informed that production had been increased to 15-20,000 bopd in early 2017
- Office presence maintained in Damascus
- Increased focus on readiness to re-enter when permitted

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

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

Operation of the Khurbet East and Yousefieh fields during the production phase has been undertaken by Dijla Petroleum Corporation ("DPC"), a joint operating company formed between Gulfsands, Sinochem and Syrian General Petroleum Company ("GPC") for this purpose, to which staff of both Gulfsands and GPC had previously been seconded. As a consequence of the EU's imposition of further sanctions in Syria which came into effect in early December 2011, in accordance with the terms of the PSC for Block 26, a Notice of Force Majeure was served on GPC, the principal counterparty to the PSC. The imposition of EU sanctions has prohibited Gulfsands' involvement in petroleum production operations in Syria and restricted its activities in relation to Block 26 generally, and unless and until these sanctions are lifted or otherwise modified so as to permit the Company's return to its prior involvement in those activities, the Company will be obliged to maintain its current position with respect to Block 26 PSC matters. Since the introduction of EU sanctions on 1 December 2011 and the subsequent declaration of Force Majeure under the PSC, Gulfsands has had no involvement with the operations of DPC, and Gulfsands staff seconded to DPC have been withdrawn, leaving DPC under the management of GPC secondees.

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

During 2015 the Group's Syria 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. During 2016 and 2017 this classification as Contingent Resources continued. The Board believes that the EU sanctions ultimately will be lifted and will continue to monitor all activity focused on resolving the situation in Syria and will reconsider the basis for reversing this reclassification in line with any future developments.

## Strategic Report

### Operations/Reserves/Resources Review

#### Production

Since December 2011, Gulfsands has received 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 February 2016 the Group received information from DPC stating that 0.267 million bbls of oil had been produced from the Group's fields during 2015 and exported by pipeline to the regional oil gathering station at Tal Addas, 22 km north east of the Group's Production Concessions. In addition, DPC reported for the first time, that oil also had been lifted from the Group's fields by an alternative oil export method, via production into tankers using gantry loading at the Khurbet East Production Facility, and that this method had been in operation throughout 2014 and 2015. Total oil production, by both methods, were therefore restated to being 2.384 million bbls of oil for 2014, and 1.421 million bbls of oil for 2015.

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

In early 2017 the Company was also 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 2017 appears to be around 15-20 thousand bopd, with a cumulative gross oil volume of approximately 6.4 million barrels of oil having been produced during the year from both fields.

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 any revenue for this or indeed any production, post the imposition of EU Sanctions, but has updated its remaining recoverable resource volumes for these fields based on this new production information.

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 32 mmbbls by year end 2017 (2016: 26 mmbbls).

#### 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 63 mmbbls of oil and condensate, and 30 bcf of gas (working interest basis). The Group has also evaluated that the oil discovery at Al Khairat contains 2C Contingent Resources of 12.0 mmbbls of oil (working interest basis). These resources have been subject to external audit.

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

#### Unrisked working interest basis As at 1 January 2018

	Constituent	1C	2C	3C	Risk factor (Chance of development)
<b>Syria Block 26</b>					
(Working interest 50%)					
	Oil and Condensate, mmbbl	34.5	63.0	106.3	90%
Khurbet East and Yousefieh Production Concessions	Gas, bscf	11.0	30.0	67.1	90%
Al Khairat discovery	Oil, mmbbl	2.9	12.0	45.7	30%
<b>Total</b>	<b>mmboe</b>	<b>39.2</b>	<b>80.0</b>	<b>163.2</b>	

#### Risked working interest basis

<b>Total</b>	<b>mmboe</b>	<b>33.6</b>	<b>64.8</b>	<b>119.4</b>
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Please note, certain figures may not add up due to roundings.

"Oil" includes condensate and NGLs.

Gas is converted to mmboe at the conversion factor 1 bcf = 0.1667 mmboe

## **Strategic Report**

### **Operations/Reserves/Resources Review**

#### **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.

#### **Sanction compliance**

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

#### **Plan to monitor assets during 2018**

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

## Strategic Report

### Operations/Reserves/Resources Review

#### Colombia

Gulfsands has Exploration and Production Contracts ("E&P contracts") over two onshore contract areas, Llanos Block 50 ("LLA-50") and Putumayo Block 14 ("PUT-14"), covering approximately 514 km<sup>2</sup> and 464 km<sup>2</sup> respectively. Gulfsands is operator of both Blocks with 100% working interest. Both contracts were awarded as part of the Ronda 2012 national licensing round and are subject to tax/royalty systems incorporating a low bid level of additional "X" factors royalties and work programme contributions.

##### Llanos Block 50

<b>Contract expiry date:</b>	First exploration phase, May 2018 – currently suspended with agreement of ANH.
<b>Minimum work obligation:</b>	Acquisition of an additional 160 km of 2D seismic data to be captured in a new survey; and drilling one exploration well.
	Further details are provided in note 2.4 to the Consolidated Financial Statements.

The LLA-50 Block is located towards the eastern margin of the Llanos Basin 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 Llanos-50 licence was due to expire in November 2016, when an application for an extension of 18 months to May 2018 was made by the Group to the Agencia Nacional de Hidrocarburos in Colombia ("ANH"). As part of this application the Group indicated its willingness to acquire a further 52 km of 2D seismic data in addition to the 108 km already specified in the Minimum Exploration Programme work obligation. This extension was confirmed in May 2017 and work has commenced on the environmental studies on the Llanos-50 licence.

The LLA-50 Licence was due to expire in May 2018. Medidas de Manejo Ambiental ("MMA") and Environmental Impact Assessment ("EIA") environmental work recently performed has identified relevant environmental issues and restrictions which would impact the ability to execute the seismic programme over areas of interest. 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. It is unclear how long the suspension will last and what the outcome will be to these discussions.

##### Putumayo Block 14

<b>Contract expiry date:</b>	First exploration phase, at least mid-2021:
<b>Minimum work obligation:</b>	Acquisition of an additional 98 km of 2D seismic data to be captured in a new survey; and drilling one exploration well.
	Further details are provided in note 2.4 to the Consolidated Financial Statements.

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

In October 2016 the terms of a farm-out were agreed with Samarium Energy & Resources Corporation, a fully owned subsidiary of Samarium Tennessee Corporation and Samarium Investment Corporation, acting as Guarantor (together "Samarium"). The Company simultaneously entered into a Joint Operating Agreement ("JOA") with Samarium Energy & Resource Corporation regarding the operations of the Putumayo-14 Contract. Under the terms of the farm-out Agreement, Samarium had the opportunity to earn 100% working interest in the PUT-14 Licence in return for funding the entire Minimum Exploration Programme. During early 2017, Gulfsands and Samarium remained in regular dialogue regarding the implementation of this Agreement but were unable to agree a mutually acceptable way to move forward. As a result, Gulfsands took the decision to pursue the work programme alone, to ensure ongoing compliance with the terms of the PUT-14 licence, and among other things contracted for the commencement of the first phase of work, the Consulta Previa in March 2017. In May 2017, the Farm-Out Agreement was terminated and Gulfsands has reverted to having a 100% interest in the PUT-14 licence.

The Putumayo-14 licence was due to expire in November 2017. On 11 October 2017, Gulfsands announced that it had received confirmation from Agencia Nacional de Hidrocarburos ("ANH") that the PUT-14 Licence would return to "Phase 0", meaning that the Company now has the required time to diligently complete the consultation process with the local indigenous communities (the "Consulta Previa") in the Putumayo region. This Consulta Previa is now underway and is expected to be completed in H2 2018. On completion of Phase 0, the PUT-14 Licence will enter a 3-year Phase 1 exploration period meaning that the PUT-14 Licence will now run until at least mid-2021. The Group is working to find a partner to take the asset forward and has initiated a structured marketing campaign to find such a partner. This could take the form of a conventional farm-out or could involve other structures to allow these assets to

## **Strategic Report**

### **Operations/Reserves/Resources Review**

move forward as an independent strategy. While Gulfsands is in discussions with a number of potential parties, no binding agreement has yet been reached with any such partner.

#### **Morocco**

##### **Expired Moulay Bouchta contract**

The Moulay Bouchta contract expired in June 2017.

Post expiry, constructive discussions with the Office National des Hydrocarbures et des Mines ("ONHYM") continued and a further extension of the initial phase to June 2018 remained available to the Group. However, the Company stated it only intended to take advantage of this extension if it was able to find a partner which would be interested in a farm-out of this project. No such partner was identified and as such the licence has expired.

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 our subsidiary, Gulfsands Petroleum Morocco Limited, in respect of the Minimum Exploration Work Programme. Both of these items are provided for in this Annual Report, and were provided for in the 2016 Annual Report.

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

##### **Exploitation concessions located on former Rharrb Centre permit**

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

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

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

##### **Expired Rharrb and Fes contracts**

The Rharrb and Fes exploration contracts both expired during 2015.

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

ONHYM currently refuses to acknowledge this obligation, without which Gulfsands' subsidiaries in the Cayman Islands and Cyprus, each called Gulfsands Petroleum Morocco Limited, will be unable to fulfil their outstanding obligations in country. Gulfsands remains open to discussion with ONHYM but is also seeking legal advice regarding the dispute including arbitration and insolvency advice in relation to its two Morocco subsidiaries. All material liabilities have already been accrued and/or disclosed in this and the 2016 Annual Report.

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

#### **Tunisia**

The Chorbane licence expired in July 2017.

The Group chose not to seek a further extension to its Chorbane licence and so that licence expired on 12 July 2017. The Group therefore, no longer has any remaining oil and gas interests in country, and so has initiated the orderly closedown of its Tunisian branch and exit from the country.

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



## Strategic Report

### Financial review

#### Selected operational and financial data

	Year ended 31 December 2017	Year ended 31 December 2016
	\$'000	\$'000
General administrative expenses	(2,779)	(4,182)
Exploration costs written-off/impaired	(735)	(8,055)
Adjustment to estimated decommissioning obligations	-	(1,136)
Adjustment to estimated penalty costs	-	(2,800)
Loss from continuing operations	(4,015)	(19,755)
E&E cash expenditure	(735)	(1,879)
Cash and cash equivalents	1,731	1,036
Restricted cash balances	500	500

#### Financial highlights for the year ended 31 December 2017

- The loss for the year from continuing operations was \$4.0 million (2016: \$19.8 million).
- Gulfsands has continued to reduce its G&A, with Gross Office Costs reducing by 25% in the year compared with 2016, as outlined in the table below.
- \$0.7 million of E&E costs capitalised during the year relating to the Colombian assets have been fully impaired at 31 December 2017.
- The Group continues to hold its investment in its Syrian interest at a carrying value of \$102.0 million.
- Secured Term Financing Facility of £4 million entered into in February 2017 ("2017 Facility") with £2.4 million drawn down by year end.
- Remaining Tranches under 2017 Facility drawn down post year-end and the facility expanded by an additional £4 million to £8 million to be drawn down over the next two years.
- Cash and cash equivalents increased by \$0.7 million in the year to \$1.7 million at 31 December 2017 (31 December 2016: \$1.0 million).

#### Operating performance

General administrative expenses	Year ended 31 December 2017	Year ended 31 December 2016
	\$'000	\$'000
Office expenses	3,760	4,986
Partner recoveries	(545)	(276)
Depreciation and amortisation	8	78
Office expenses capitalised	(444)	(606)
General administrative expenses	2,779	4,182

General administrative expenses for the year ended 31 December 2017 totalled \$2.8 million (2016: \$4.2 million). This decrease follows a reduction of activity in Colombia, Morocco and Tunisia, an increased focus of management on the Syrian Block 26 asset, and continuing efforts to manage costs to fit the current business model and strategy.

Management monitors the gross office costs (prior to capitalised allocations and partner recoveries) as a measure of its ongoing cost base and this has fallen a further 25% during the year from \$5.0 million in 2016 to \$3.8 million during 2017.

Exploration and Evaluation ("E&E") asset impairments for the period totalled \$0.7 million (2016: \$8.1 million) and relate predominantly to the Colombia (the Llanos 50 and the Putumayo 14) licences.

At 31 December 2016, it was unclear whether an extension to the Llanos-50 licence would be achieved or whether the Group could attract a partner to execute the work programme. Consequently, the expenditure to date attributed to the Llanos-50 contract was fully impaired. Since then an extension to May 2018 was granted and environmental work undertaken which has now raised issues and restrictions with respect to the planned seismic programme. Despite the agreement with ANH to suspend the Llanos-50 licence prior to expiry in May 2018, to allow time for discussions regarding certain environmental issues, there remains uncertainty as to the outcome of those discussions and so the impairment treatment has been maintained. As at 31 December 2017 expenditures totalling \$1.45 million from inception to-date (of which \$0.35 million relates to 2017), 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 2016.

## Strategic Report

### Financial review

Following the reset of the Putumayo-14 licence to Phase 0 during the year, the licence is now expected to expire in mid-2021. The Company is actively seeking a partner to take forward the Putumayo licence and so, despite the reset, in accordance with Group policy, the Board has taken the prudent approach to continue to provide against the \$1.7 million of restricted cash supporting the Putumayo-14 Letter of Credit, and to fully impair any expenditure to date attributed to the Putumayo-14 contract totalling \$1.45 million to date (of which \$0.35 million relates to 2017).

In late 2017, the Group elected not to pursue an extension of its Moulay Bouchta licence in Morocco which consequently expired. The Group also made a strategic decision to exit from Morocco. Costs incurred on the Moulay Bouchta licence had already been impaired in 2016 and these costs together with costs incurred during the year on the licence have been written off (\$3.4 million in total). On maturity, the \$1.75 million of restricted cash held as bank guarantee against the licence, and which had been provided against in 2016, were seized by ONHYM and an associated penalty of \$0.75 million, also provided for in 2016, has been claimed by ONHYM.

In late 2016, the Group made a strategic decision to exit from Tunisia if it could not find a partner for its projects and when the Chorbane contract expired in July 2017, this exit was initiated. The capitalised E&E asset totalling \$5.3 million, which was fully impaired in 2016, has now been written off, with potential associated penalty costs of the minimum work obligation of \$3.8 million being provided for. No restricted cash balances were held as a guarantee in relation to the minimum work obligation under the Chorbane contract.

The Group reported a loss before tax for continuing operations for the year ended 31 December 2017 of \$4.0 million (2016: \$19.8 million).

#### Balance Sheet

While the Group still has interests in a number of E&P contracts in its portfolio, the Group's intangible exploration and evaluation ("E&E") assets are now held at a net book value of \$nil at 31 December 2017 (31 December 2016: \$nil million). The interests in Tunisia and Morocco have been fully written off having expired. Colombia capital expenditure totalled \$0.7 million for the year (2016: \$0.9 million), which has been immediately impaired.

Despite the write-downs and impairments in accordance with its accounting policies, management's strategy remains to recover some value from its E&E assets, and where possible it is seeking contract extensions and the restructuring of certain of its work obligations to allow the contracts to be appropriately farmed down, divested or exited. It should be noted that management may not be successful in its strategies for the E&E assets and there remains a potential for penalties relating to non-fulfilment of work obligations in the necessary timeframes. The contract/licence expiry dates, capital commitments and restricted cash balances held 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 subject to material change and uncertainty. Management reviewed the internal valuation methodology in 2017, and as per 2016, 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, therefore continues to carry forward the last valuation which could be reliably determined, being the \$102 million previously disclosed. This value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement.

At 31 December 2017, 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 focused on resolving the situation in Syria. The Board continues to consider that its position in respect of its interests remains strong and all indications are that the Syrian authorities expect Gulfsands and its partner to return to operational control of their interests in accordance with the terms of the PSC as soon as circumstances permit. Management has decided to use commencement of production in five years as the 'base case' comparative.

The 'base case' comparative model calculates: a gross contractor undiscounted NPV(0) of \$1.61 billion; Gulfsands 50% interest NPV(0) of \$0.78 billion and Gulfsands discounted NPV(15) of \$148.5 million. Therefore, management believes no impairment is necessary and has maintained the \$102 million carrying value on the Balance Sheet at year end. Following consideration, management consider it premature to revalue the carrying value to the \$148.5 million discounted cash flow given the ongoing risks of the Block 26 asset in Syria.

The Directors have reviewed the carrying value of this available-for-sale financial asset at 31 December 2017 and are of the opinion that the carrying value, although subject to significant uncertainty, remains appropriate in the circumstances.

## Strategic Report

### Financial review

Inventory held at 31 December 2017 totalled \$nil million (2016: \$1.1 million) following the sale during the year of its inventory held in Morocco.

At 31 December 2017, 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 (2016: \$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 2017 all decommissioning provisions are disclosed as current liabilities and no discount rate has been applied to the estimated cost of decommissioning works.

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

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

#### Cash flow

The total increase in cash and cash equivalents during the year was \$0.7 million (2016: \$0.6 million increase). Net cash outflow from operating activities during the period totalled \$2.4 million (2016: \$5.0 million). Investing cash outflow from continuing operations during the period totalled \$0.2 million, net of the \$0.8 million cash inflow generated from the sale of surplus oil and gas inventory (2016: \$1.9 million). Net cash received from financing activities totalled \$3.2 million, following the first three draw-downs of the Secured Term Financing Facility (note 3.6).

#### Financial position

At 31 December 2017 the Group had total cash and cash equivalents of \$1.7 million (31 December 2016: \$1.0 million), of which \$0.54 million is due to Sinochem, Gulfsands' Block 26 joint venture partner.

Restricted cash balances at the end of the year (which are presented as long-term financial assets in the Balance Sheet) totalled \$0.5 million (31 December 2016: \$0.5 million), and represent funds securitised as collateral in respect of future work obligations – with amounts not provided against principally being in respect of the Group's Syrian Block 26 interest. At 31 December 2017, a provision of \$3.5 million was made against the restricted cash balances securitised as collateral in respect of future work obligations on the Llanos-50, and the Putumayo-14 licence (31 December 2016: \$3.2 million).

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

#### Going concern

As at the date of this Report, the Group has free cash available for operations totalling approximately \$2.2 million and ongoing general and administrative costs are expected to be approximately \$0.2 million per month.

Post year end, in January 2018, the Company drew down the remaining two Tranches under the existing 2017 Facility, totalling £1.6 million. In March 2018 an extension to the 2017 Facility was agreed with the Major Shareholders, giving a further £4 million of committed funding, 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 the middle of 2020. 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.

Further details of the Facility are outlined in notes 3.6 and 6.7.

## **Strategic Report**

### **Financial review**

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

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

Following completion of a review of the going concern position of the Company and Group at the meeting of the Board of Directors on 21 May 2018, including the uncertainties described above, the Board has concluded that, with free cash available for operations totalling \$2.2 million and the funds available under the expanded 2017 Facility, the Company and the Group will have sufficient resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of approval of this Financial Report. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these Financial Statements.

Notwithstanding the confidence that the Board has in its ability to finance the Group's re-shaped business, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that finance could be procured to fund certain potential capital obligations 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 21 May 2018.



**John Bell**  
Managing Director  
21 May 2018

#### **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 38**

#### **Chairman**

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

### **John Bell, aged 52**

#### **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 Director 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 49**

#### **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 70**

#### **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 51**

#### **Non-Executive Director**

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

### **Richard Milne, aged 62**

#### **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.

## Governance

### Directors' Report

The Directors present their Annual Report together with the audited Financial Statements of Gulfsands Petroleum plc and its subsidiary undertakings (the "Group" or the "Company" or "Gulfsands") for the year ended 31 December 2017.

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 2017 (2016: \$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 2017 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 21 May 2018:

Name	Number of shares	% of shares in issue
Waterford Finance and Investment Limited <sup>(1)</sup>	194,042,618	37.32%
Blake Holdings Limited <sup>(2)</sup>	145,856,452	27.70%
ME Investments Limited	72,623,428	13.97%
Seren Capital Management Limited <sup>(2)</sup>	9,730,717	2.06%
Cream Capital Limited <sup>(2)</sup>	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 2017		At 31 December 2016	
	Number of ordinary shares	Number of share options	Number of ordinary shares	Number of share options
A Morris	320,800	5,000,000	320,800	5,000,000
J Darby	100,250	—	100,250	—
J Bell	—	8,000,000	—	8,000,000
J Ede-Golightly	80,200	2,000,000	80,200	2,000,000
M Kroupeev <sup>(1)</sup>	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.

#### Directors' interests in transactions

Details of transactions with Directors for the year ended 31 December 2017 are set out in note 6.3 to the Consolidated Financial Statements.

## **Governance**

### **Directors' Report**

#### **Statement of Directors' responsibilities**

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Website publication**

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

#### **Statement of disclosure to the auditor**

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

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

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

#### **Auditor**

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

By order of the Board,



**John Bell**  
Managing Director  
21 May 2018

## **Governance**

### **Directors' Corporate Governance Report** for the year ended 31 December 2017

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 which is available on the Company's website and supported by detailed internal policies and procedures. Compliance with the Code of Business Conduct and Ethics is a contractual requirement for all personnel.

#### **The Gulfsands Board**

##### **The role of the Board**

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

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

##### **The composition of the Board**

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

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

The Board of Directors currently comprises six Directors; the Non-Executive Chairman, the Managing Director, the Finance Director, and three Non-Executive Directors including a Senior Independent Director. In accordance with the QCA code the Board includes two independent Non-Executive Directors, Joe Darby and Richard Milne. A brief description of each of the Directors' backgrounds and experience can be found on page 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 half-yearly Financial Statements;
- Board appointments, remuneration and roles; and
- corporate policies and corporate governance arrangements.

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

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



## Governance

### Directors' Corporate Governance Report for the year ended 31 December 2017

#### 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 focused 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 2017, and individual attendance by Directors, is shown below:

	Board	Audit	Remuneration
Number of meetings 2017	15	4	5
Attendance:			
Andrew Morris	15	4	n/a
Joe Darby	15	n/a	5
John Bell	15	2	n/a
James Ede-Golightly	15	1	5
Michael Kroupeev	13	1	5
Richard Milne	15	4	n/a

#### Remuneration of Directors

The remuneration of the Directors for the year ended 31 December 2017 was as follows:

	Annual remuneration (\$'000)							
	Salary and fees		Bonuses		Benefits in kind		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
A Morris <sup>(2)</sup>	206	124	20	—	1	1	227	125
J Darby <sup>(1)</sup>	47	52	—	—	—	—	47	52
J Bell <sup>(3)</sup>	232	129	41	—	1	1	274	130
J Ede-Golightly <sup>(1,5)</sup>	62	54	—	—	—	—	62	54
M Kroupeev <sup>(1,4)</sup>	41	9	—	—	—	—	41	9
R Milne <sup>(1,4)</sup>	41	9	—	—	—	—	41	9
	629	377	61	—	2	2	692	379

(1) Non-Executive Director.

(2) Non-Executive Director 1 January 2016 – 21 July 2016. Appointed Finance Director 22 July 2016.

(3) Non-Executive Director 1 January 2016 – 21 July 2016. Appointed Managing Director 22 July 2016.

(4) Appointed 10 October 2016.

(5) Non-Executive Director 1 January 2016 – 21 July 2016. Appointed Chairman 22 July 2016.

## Governance

### Directors' Corporate Governance Report for the year ended 31 December 2017

In addition to the remuneration shown, the Group incurred share-based payment charges of \$160K (2016: \$159K) in respect of the above-named Directors relating to options granted in 2016.

#### Share options

The interests of the Directors, who held office during the 2017, in options over the Company's shares are set out in the table below:

	Number of options		Exercise price (£)	Exercisable at 31 December 2017	Date from which exercisable	Expiry date
	At 1 January 2017	Issued				
J Bell	8,000,000	—	0.01	3,000,000	11/11/2016	11/11/2026
A Morris	5,000,000	—	0.01	2,100,000	11/11/2016	11/11/2026
J Ede-Golightly	2,000,000	—	0.0375	2,000,000	11/11/2016	11/11/2026
M Kroupeeov	1,000,000	—	0.0375	1,000,000	11/11/2016	11/11/2026
R Milne	1,000,000	—	0.0375	1,000,000	11/11/2016	11/11/2026

All other Directors held no share options or restricted share options at 31 December 2016 or 2017.

This Report was approved by the Board of Directors on 21 May 2018.

## **Primary Statements**

### **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 2017 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 2017 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 which explains that the Group may require additional funding in order to meet certain potential capital obligations and liabilities if they fall due. The Directors believe that these capital obligations can be effectively managed and are unlikely to result in a material cash outflow based on the current situation, however there remains uncertainty.

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 2017, 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.

## Primary Statements

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

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.

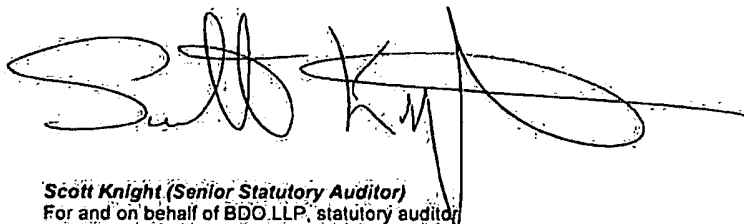
In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company 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.



**Scott Knight (Senior Statutory Auditor)**  
For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom  
21 May 2018

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

## Financial Statements

### Consolidated Income Statement for the year ended 31 December 2017

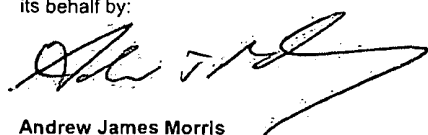
	Notes	2017 \$'000	2016 \$'000
<b>Continuing operations</b>			
General administrative expenses		(2,779)	(4,182)
Share-based payments	5.3	(160)	(161)
Exploration costs written-off/impaired	2.3	(735)	(8,055)
Decommissioning – change in estimate	2.6	—	(1,139)
Penalty provisions – change in estimates	2.6	—	(2,800)
Restricted cash balances provided against	3.3	(300)	(3,191)
Other income	3.5	591	—
Inventory impairment	3.5	(242)	—
<b>Operating loss</b>	5.2	(3,625)	(19,528)
Foreign exchange losses		(170)	(37)
Loan facility finance cost	3.6	(198)	(51)
Other finance expenses		(110)	(162)
Other finance income	5.7	88	23
<b>Loss before taxation</b>		(4,015)	(19,755)
Taxation	5.8	—	—
<b>Loss for the year</b>		(4,015)	(19,755)
<b>Loss per share attributable to the owners of the parent company (cents)</b>			
Basic and diluted	5.9	(0.77)	(4.17)

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

**Financial Statements**  
**Consolidated Balance Sheet as at 31 December 2017**

	Notes	2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2.1	23	28
Intangible assets	2.3	—	—
Long-term financial assets	3.3	500	500
Investments	4.2	102,000	102,000
		<b>102,523</b>	<b>102,528</b>
<b>Current assets</b>			
Inventory	3.5	—	1,092
Trade and other receivables	3.1	383	171
Cash and cash equivalents	3.2	1,731	1,036
		<b>2,114</b>	<b>2,299</b>
<b>Total assets</b>		<b>104,637</b>	<b>104,827</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	3.4	1,634	1,531
Loan facility	3.6	—	—
Provisions	2.6	6,137	6,137
		<b>7,771</b>	<b>7,668</b>
<b>Non-current liabilities</b>			
Trade and other payables	3.4	3,563	3,446
Loan facility	3.6	3,445	—
Provisions	2.6	—	—
		<b>7,008</b>	<b>3,446</b>
<b>Total liabilities</b>		<b>14,779</b>	<b>11,114</b>
<b>Net assets</b>		<b>89,858</b>	<b>93,713</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders</b>			
Share capital	6.1	18,803	18,803
Share premium		110,737	110,737
Merger reserve		11,709	11,709
Retained loss		(51,391)	(47,536)
<b>Total equity</b>		<b>89,858</b>	<b>93,713</b>

These Consolidated Financial Statements were approved by the Board of Directors on 21 May 2018 and signed on its behalf by:



**Andrew James Morris**  
Finance Director  
21 May 2018

## Financial Statements

### Consolidated Statement of Changes in Equity for the year ended 31 December 2017

	Share capital \$'000	Share premium \$'000	Merger reserve \$'000	Treasury shares \$'000	Retained (loss)/profit \$'000	Total equity \$'000
At 1 January 2016	13,131	105,926	11,709	(11,502)	(27,940)	91,324
Loss for 2016	—	—	—	—	(19,755)	(19,755)
<b>Transactions with owners</b>						
Shares issued	5,672	4,811	—	11,502	—	21,985
Share-based payment charge	—	—	—	—	(159)	(159)
At 31 December 2016	18,803	110,737	11,709	—	(47,536)	93,713
Loss for 2017	—	—	—	—	(4,015)	(4,015)
<b>Transactions with owners</b>						
Share-based payment charge	—	—	—	—	160	160
At 31 December 2017	18,803	110,737	11,709	—	(51,391)	89,858

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.

**Notes to the Consolidated Financial Statements for the year ended 31 December 2017**

	Notes	2017 \$'000	2016 \$'000
<b>Cash flows from operating activities</b>			
Operating loss from continuing operations		(3,625)	(19,528)
Depreciation and amortisation	2.1 & 2.3	5	89
Loss on disposal of tangible fixed assets	2.1	—	62
Exploration costs written off/impaired/costs accrued	2.3	735	8,055
Decommissioning estimates adjustment	2.6	—	1,139
Restricted cash balances forfeited/provided against	3.3	300	3,191
Inventory impairment	3.5	242	—
Share-based payment charge	5.3	160	159
Decrease in receivables		(212)	391
Increase in payables		220	1,587
Foreign exchange losses		(170)	(37)
Finance expenses paid		(110)	(162)
Interest received		88	23
<b>Net cash used in operating activities</b>		<b>(2,367)</b>	<b>(5,031)</b>
<b>Investing activities</b>			
Exploration and evaluation expenditure		(735)	(1,879)
Proceeds on disposal of inventory		850	—
Increase in restricted cash balances		(300)	—
Other capital expenditures		—	(2)
<b>Net cash used in investing activities</b>		<b>(185)</b>	<b>(1,881)</b>
<b>Financing activities</b>			
Loan (repayment)/draw-down	3.6	3,247	(14,457)
Funds received under Open Offer/share Placing		—	20,427
Share placing		—	1,949
Open Offer finance costs		—	(391)
<b>Net cash provided by financing activities</b>		<b>3,247</b>	<b>7,528</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>695</b>	<b>616</b>
Cash and cash equivalents at beginning of year		1,036	420
<b>Cash and cash equivalents at end of year</b>	3.2	<b>1,731</b>	<b>1,036</b>



## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 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 2017 were authorised for issue by the Board of Directors on 21 May 2018 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 2017 and for the comparative year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and IFRIC (IFRS Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

#### 1.3 Significant accounting policies

##### a) Basis of preparation and accounting standards

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

##### *Going concern*

On 15 February 2017, the Company entered into a Secured Term Financing Facility (the "2017 Facility") of up to £4 million (the "Facility") with its Major Shareholders (the "Lenders"). The 2017 Facility was available for drawdown by the Company in five equal tranches of £0.8 million each, the first three tranches were drawn down during 2017, and the fourth and fifth tranches were drawn down subsequent to 31 December 2017, in early 2018. Further details of the 2017 Facility are outlined in notes 3.6 and 6.7.

As at the date of this Report, the Group has free cash available for operations totalling approximately \$2.2 million.

Ongoing General and Administrative costs during 2018 are expected to be approximately \$0.2 million per month.

The Company remains reliant on the support of its three major shareholders, without whose support, the Company would be seriously financially challenged. Post year end the Company drew down the remaining two tranches under the existing 2017 Facility and in March 2018 agreed an extension to the 2017 Facility which secured an additional £4 million of funding over the next two years. This financing is expected to fund the current G&A until the middle of 2020,

In the absence of any other sources of cash flow, the Group will need to raise additional capital by mid-2020 to fund ongoing operations.

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

Potential liabilities of expired 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 21 May 2018, including the uncertainties described above, the Board has concluded that, with free cash available for operations totalling approximately \$2.2 million, the funds available under the expanded 2017 Facility, the Company and the Group will have sufficient resources to continue in operational existence for the foreseeable future, a period not less than twelve months from the date of approval of this Financial Report. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these Financial Statements.

Notwithstanding the confidence that the Board has in its ability to finance the Group's re-shaped business, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that finance could be procured to fund certain potential capital obligations 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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 1.3 Significant accounting policies (continued)

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

#### b) Standards issued but not yet effective

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2018, as adopted by the EU, and have not been early adopted:

Effective date as adopted by the EU

#### Standard

IFRS 15 'Revenue from Contracts with Customers'  
IFRS 9 'Financial Instruments'  
IFRS 16 'Leases'

1 January 2018  
1 January 2018  
1 January 2019

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 principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The Directors have considered the impact of application of the new standard and do not consider that implementation will have a significant impact.

IFRS 9 replaces IAS 39 (Financial instruments: Recognition and Measurement). The Directors have looked into the standard and are reviewing the impact on the valuation of the Block 26 Syria assets.

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. The Directors have considered the impact of application of the new standard on the Group's lease commitments (see Note 6.4) and do not consider that implementation will have a significant impact.

#### c) 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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 1.3 Significant accounting policies (continued)

#### d) 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 2017 was £1: \$1.35 (2016: £1: \$1.26).

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

### 1.4 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

## Section 2 – Oil and Gas Assets

### 2.1 Property, plant and equipment

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

#### **Recognition and measurement**

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

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

#### **Depletion of producing assets**

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 2.1 Property, plant and equipment (continued)

#### Impairment

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

	Oil and gas properties \$'000	Other fixed assets \$'000	Total \$'000
<b>Cost:</b>			
At 1 January 2016	—	2,797	2,797
Additions	—	1	1
Disposals	—	(1,259)	(1,259)
At 31 December 2016	—	1,539	1,539
Additions	—	—	—
Disposals	—	—	—
At 31 December 2017	—	1,539	1,539
<b>Accumulated depreciation and depletion:</b>			
At 1 January 2016	—	(2,638)	(2,638)
Charge for 2016	—	(71)	(71)
Disposals	—	1,198	1,198
At 31 December 2016	—	(1,511)	(1,511)
Charge for 2017	—	(5)	(5)
Disposals	—	—	—
At 31 December 2017	—	(1,516)	(1,516)
Net book value at 31 December 2016	—	28	28
Net book value at 31 December 2017	—	23	23

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

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

### 2.3 Intangible assets

#### Key accounting judgements, estimates and assumptions

##### Recoverability of intangible oil and gas exploration and evaluation assets

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

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

#### Recognition and measurement

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

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

#### Impairment

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 2.3 Intangible assets (continued)

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.

#### Exploration and evaluation assets

	Syria \$'000	Morocco \$'000	Tunisia \$'000	Colombia \$'000	Computer software \$'000	Total \$'000
<b>Cost:</b>						
At 1 January 2016	10,505	2,792	5,270	1,879	2,372	22,818
Additions	—	528	44	334	—	906
Exploration expenditure written off	—	—	(5,314)	—	—	(5,314)
At 31 December 2016	10,505	3,320	—	2,213	2,372	18,410
Additions	—	58	—	677	—	735
Exploration expenditure written off	—	(3,378)	—	—	—	(3,378)
At 31 December 2017	10,505	—	—	2,890	2,372	15,767
<b>Accumulated amortisation:</b>						
At 1 January 2016	—	—	—	—	(1,878)	(1,878)
Charge for 2016	—	—	—	—	(19)	(19)
At 31 December 2016	—	—	—	—	(1,897)	(1,897)
Charge for 2017	—	—	—	—	—	—
At 31 December 2017	—	—	—	—	(1,897)	(1,897)
<b>Accumulated impairment:</b>						
At 1 January 2016	(10,505)	(2,792)	—	—	(475)	(13,772)
Exploration expenditure impaired	—	(528)	—	(2,213)	—	(2,741)
At 31 December 2016	(10,505)	(3,320)	—	(2,213)	(475)	(16,513)
Exploration expenditure impaired	—	—	—	(677)	—	(677)
Exploration expenditure written off	—	3,320	—	—	—	3,320
At 31 December 2017	(10,505)	—	—	(2,890)	(475)	(13,870)
<b>Net book value at 31 December 2016</b>	—	—	—	—	—	—
<b>Net book value at 31 December 2017</b>	—	—	—	—	—	—

#### Syria

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

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

#### Morocco

On 21 June 2017 the Moulay Bouchta Petroleum Agreement expired, with \$0.05 million of exploration costs in 1H 2017 being written off. All E&E expenditure related to the Moulay Bouchta licence was impaired in 2016, totalling \$3.3 million (2016: \$0.5 million, 2015: \$2.8 million). This was written off during 2017. In addition, a provision of \$0.75 million was set up for penalties for unfulfilled minimum work programme in respect of Moulay Bouchta (see note 2.6).

The Fes and Rharb Petroleum Agreements both expired in 2015 and were fully written off.

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 2.3 Intangible assets (continued)

#### Tunisia

At 31 December 2017 the Tunisian E&E assets represent expenditures under the Chorbane contract including amounts paid during 2013 and 2015 to increase participation in the contract. A two year extension to the PSC was granted on 22 December 2015, extending the contract date to 12 July 2017 but the Group was unable to agree an appropriate work programme with Entreprise Tunisienne d'Activités Pétrolières ("ETAP") since then, and with the licence expiring in the year, in accordance with the Group's policy, the expenditure attributed to Chorbane Contract was fully written-off as at 2016 year-end. The total write-off was \$5.3 million. As at 31 December 2017 \$3.8 million (31 December 2016: \$3.8 million) has been accrued as potential penalties of the minimum work programme (see note 2.6).

In November 2016, the Group's subsidiary, Gulfsands Petroleum Tunisia Limited informed the Tunisian authorities that, if it could not find a partner for its projects, it intended to cease all Tunisian operations at the year-end. In early 2017, the Group has initiated the close down of its Tunisian activities, which is ongoing.

#### Colombia

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

The Putumayo-14 licence was due to expire in November 2017, when an application for an extension was made by the Group to the Agencia Nacional de Hidrocarburos in Colombia ("ANH"). In October 2017, the Company secured a significant "reset" such that the time to complete Phase 1 of the exploration will run to at least mid-2021. The licence reset to "phase 0" allows time to continue and complete indigenous community consultation work ("Consulta Previa") before a full 3-year phase 1 exploration period commences.

No provision has been recognised as at 31 December 2017 for the minimum work obligation commitments for the Putumayo-14 licence, subsequent to the reset of the licence to phase 0, with management in active marketing discussions with potential funding partners.

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 \$1.45 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.

Extensive environmental work recently performed has identified relevant environmental issues and restrictions which would impact the ability to execute the seismic programme over areas of interest. The Company continues to discuss with ANH a potential resolution to the current issues, but 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. It is unclear how long the suspension will last and what the outcome will be to these discussions, but 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 2017 the Group had the following capital commitments in respect of its exploration activities:

#### Colombia

##### **Putumayo 14 - licence expiry date and deadline for fulfilment of capital commitments; at least mid-2021**

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

\$1.7 million (31 December 2016: \$1.7 million) of deposits have been lodged to support guarantees given to the Agencia Nacional de Hidrocarburos in respect of completion of the minimum work commitments on Putumayo 14. These have been fully provided against as at 31 December 2017.

##### **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 2016: \$1.5 million) of deposits have been lodged to support guarantees given to the Agencia Nacional de Hidrocarburos in respect of completion of the minimum work commitments on Llanos 50. These have been fully provided against as at 31 December 2017.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 2.4 Work obligation commitments (continued)

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 straight-line basis over their useful lives of between two and five years. Amortisation is included with depreciation and classified as cost of sales or administrative expenses as appropriate. No intangible assets have indefinite lives. See note 2.3 for movements in intangible assets – computer software in the year.

### 2.6 Provisions

	Decommissioning Note 2.6 (i)	Licence penalties Note 2.6 (ii)	Total
	\$'000	\$'000	\$'000
At 1 January 2016	448	1,750	2,198
Changes to decommissioning estimates	1,139	—	1,139
Change to licence penalties	—	2,800	2,800
<b>At 31 December 2016</b>	<b>1,587</b>	<b>4,550</b>	<b>6,137</b>
Changes to decommissioning estimates	—	—	—
Change to licence penalties	—	—	—
<b>At 31 December 2017</b>	<b>1,587</b>	<b>4,550</b>	<b>6,137</b>

#### Key accounting judgements, estimates and assumptions:

(i) **Decommissioning:** At 31 December 2017 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 2017 (and as at 31 December 2016) all of the decommissioning provisions are disclosed as current liabilities and no discount rate has been applied to the estimated cost of decommissioning works.

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

The movement in the provision for decommissioning was as follows:

	\$'000
At 1 January 2016	448
Changes in estimates	1,139
<b>At 31 December 2016</b>	<b>1,587</b>
Current portion	1,587
Non-current portion	—
<b>At 1 January 2017</b>	<b>1,587</b>
Changes in estimates	—
<b>At 31 December 2017</b>	<b>1,587</b>
Current portion	1,587
Non-current portion	—

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 2.6 Provisions (continued)

The decommissioning provision of \$1.6 million at 31 December 2017 (2016: \$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.

(ii) **Licence penalties:** The provision of \$4.55 million at 31 December 2017 (2016: \$4.55 million) includes an accrual of \$0.75 million in respect to minimum work obligation of the Moulay Bouchta licence (2016: \$0.75 million), and \$3.8 million in respect to the minimum work obligation of the Chorbane licence (2016: \$3.8 million). See note 2.3 for further details.

## Section 3 – Working Capital

### 3.1 Trade and other receivables

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

	2017 \$'000	2016 \$'000
Trade receivables	—	—
Other receivables	148	78
Prepayments and accrued income	235	93
	<b>383</b>	<b>171</b>

At 31 December 2017 and 2016 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.

	2017 \$'000	2016 \$'000
Cash at bank and in hand	1,731	1,036
Restricted cash balances	500	500
Total cash and bank resources	<b>2,231</b>	<b>1,536</b>
Included in long-term financial assets (note 3.3)	<b>(500)</b>	<b>(500)</b>
Total cash and cash equivalents	<b>1,731</b>	<b>1,036</b>

Of the \$1.731 million (2016: \$1.036 million), \$1.079 million (2016: \$0.003 million) is held in joint venture accounts and a payable for 50% (\$0.54 million) is set up to reflect the joint venture partners share. Therefore, the Directors consider free cash attributable to the Company totals \$1.192 million (2016: \$1.033 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 2017 include \$3.49 million (31 December 2016: \$3.19 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) and the Putumayo 14 licence (\$1.71 million), which have all been fully provided against at 31 December 2017. Further details of the minimum work obligations to which these guarantees relate are set out in note 2.4.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 3.3 Long-term financial assets (continued)

During the year \$1.75 million of deposits collateralising guarantees in Morocco (which were written-off in 2016) were called by ONHYM on expiry of the Moulay Bouchta Petroleum Agreement, in respect of unfulfilled work commitments.

	2017 \$'000	2016 \$'000
Restricted cash balances	3,991	5,441
Provision against recovery of restricted cash balances	(3,491)	(4,941)
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 Rhab 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.

### 3.4 Trade and other payables

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

	2017 \$'000	2016 \$'000
<b>Current liabilities</b>		
Trade payables	233	315
Accruals and other payables	684	868
Amounts due to oil and gas partnerships	717	348
	<b>1,634</b>	<b>1,531</b>
<b>Non-current liabilities</b>		
Trade payables	1,904	1,893
Accruals and other payables	1,659	1,553
	<b>3,563</b>	<b>3,446</b>

Included within non-current liabilities is \$3.6 million (2016: \$3.4 million) owed to parties subject to asset freezing regulations under the EU sanctions regime. These amounts relate to goods and services acquired before those entities were designated as sanctioned parties. The Group is not in a position to make payments for these goods or services until such time as sanctions are lifted against the named parties. These liabilities are therefore classified as non-current liabilities as payment of these balances is not expected to be permissible within the next year.

### 3.5 Inventory

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

	2017 \$'000	2016 \$'000
Drilling and production inventory	2,203	4,412
Provisions	(2,203)	(3,320)
	-	1,092

Drilling and production inventory relates to Syrian \$2.2 million (2016: \$2.2 million) and Moroccan \$nil (2016: \$2.2 million) operations.

During 2017 the Moroccan inventory held at an impaired valuation of \$1.092 million was disposed, for \$0.85 million, with a further impairment of \$0.242 million being recognised in 2017.

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 2017 a provision of \$2.2 million (2016: \$2.2 million) has been carried forward against the value of the remaining Syrian stock. Management believe this is appropriate in light of the theft in 2013 and the lack of Management's control over, and access to, the warehouse at this present time due to the security situation in Syria.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 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. Subsequent to the year-end, in January 2018 the remaining fourth and fifth tranches of the 2017 Facility were drawn down.

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.

Subsequent to the 2017 year-end, in March 2018 an extension to the 2017 Facility was agreed with the Major Shareholders, giving a further £4 million of committed funding, 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 the middle of 2020.

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) 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 2017	£ -
Loan draw-downs	3,011
Interest expense	198
Foreign exchange losses	236
At 31 December 2017	3,445

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 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:

Proportion of voting shares at 31 December		Nature of business	Country of incorporation
Name of company	2017		
<b>Directly held by the Company:</b>			
Gulfsands Petroleum Ltd. <sup>(1)</sup>	99.99% <sup>(a)</sup>	Holding company	Cayman Islands
<b>Indirectly held by the Company:</b>			
Gulfsands Petroleum Holdings Ltd <sup>(1)</sup>	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd <sup>(1)</sup>	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd <sup>(1)</sup>	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Tunisia Ltd <sup>(1)</sup>	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd <sup>(1)</sup>	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Morocco Ltd <sup>(2)</sup>	100%	Oil and gas exploration	Cyprus
Gulfsands Petroleum (MENA) Ltd <sup>(1)</sup>	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Sud America Ltd <sup>(1)</sup>	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.

#### Company registered addresses:

- 31 The Strand, 46 Canal Point Drive, Grand Cayman KY1-1105, Cayman Islands.
- 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 subject to material change and uncertainty. Management have reviewed their internal valuation methodology and believe that as a result of the further passage of time and the high degree of judgement required, it is 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 for impairment and any impairment losses recognised through the Income Statement.

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

The Group is party to a PSC for the exploitation of hydrocarbon production in Block 26 in Syria. Pursuant to the PSC the Group operates its Syrian oil and gas production assets through a joint venture administered by DPC in which the Group has a 25% equity interest. The Group lost joint control of DPC on 1 December 2011 following the publication of European Union Council Decision 2011/782/CFSP. For the purposes of EU sanctions, DPC is considered to be controlled by General Petroleum Corporation. Since the Group has neither joint control nor significant influence over the financial and operating policy decisions of the entity, it carries its investment in DPC and the associated rights under the Block 26 PSC as an available-for-sale financial asset. The carrying value of the available-for-sale investment at 31 December 2017 is \$102 million (2016: \$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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 4.2 Available-for-sale financial assets (continued)

#### 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 2017 Management has used the Brent forward curve 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 focused on resolving the situation in Syria. Management has decided to use commencement of production in five years as the estimate 'base case' comparative valuation for the impairment review.

#### Other model assumptions

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

The valuation model calculates:

- a Gross Contractor undiscounted NPV(0) of \$1.61 billion;
- Gulfsands 50% interest NPV(0) of \$0.78 billion; and
- Gulfsands discounted NPV(15) of \$148.5 million.

The Group has used the NPV(15) of \$148.5 million (2016: \$150.7 million) to conclude that no impairment is necessary but the following table sets out the NPV(15) calculated when adjusting the two key drivers: oil price and time delay to resumption of production. All figures are presented in \$'000:

Oil price	Delay to first production		
	Three year delay	Five year delay	Seven year delay
20% decrease	136,691	101,280	77,050
10% decrease	167,228	124,874	95,583
Brent forward curve	197,734	<b>148,471</b>	113,914
10% increase	228,118	171,947	132,317
20% increase	258,369	195,319	150,640

The following table sets out the impact that changes in the key variables would have on the comparative valuation of the asset, \$148.5 million, for the impairment review.

	Change in comparative valuation of investment from \$148.5 million \$'000
Delay until first production	
7 years	(34,557)
3 years	49,263
Oil price	
20% decrease	(47,191)
10% decrease	(23,597)
10% increase	23,476
20% increase	46,848
Change in discount rate to	
20%	(52,284)
10%	92,433
Change in forecast capex	
5% increase	(1,374)
5% decrease	1,374
Change in forecast opex	
5% increase	(789)
5% decrease	789

The Directors have reviewed the carrying value of this available-for-sale financial asset at 31 December 2017 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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### Section 5 – Results for the Year

#### 5.1 Segmental analysis of continuing operations

For management purposes, at 31 December 2017 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 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

#### Year ended 31 December 2016

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

#### 5.2 Operating loss

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

	2017 \$'000	2016 \$'000
Share-based payment charges (note 5.3)	160	159
Depreciation and amortisation of other assets (notes 2.1 and 2.3)	5	78
Exploration expenditure written-off/impaired (note 2.3)	735	8,055
Restricted cash balances forfeited/provided against (note 3.3)	300	3,191
Staff costs excluding share-based payments (note 5.5)	1,824	2,474
Operating lease rentals:		
Buildings	214	399
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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 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 and restricted share options granted was calculated using a Black-Scholes option pricing model. The expected average life of options and restricted share options was assumed to be four years.

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

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 \$160,000 (2016: \$159,000) 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' will vest quarterly over a two - year period from July 2016 dependent in part on continued service during that period and in part on performance criteria related to the achievement of strategic objectives. The vesting schedule of the additional 4 million and 2 million options respectively have yet to be determined. Once vested, the options are exercisable for a period of 10 years.

Share options were also granted to the Chairman and two new Non-Executive Directors 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 will vest after one year in mid-2017.

During 2017, 1,900,000 restricted stock options were issued to key members of staff, which options are not subject to performance criteria and vest after one year.

#### Fair value of share options granted

The fair value of options granted under the share options scheme is estimated as at the date of grant using a variant of the Black Scholes model, taking into account the terms and conditions upon which the options are granted, which includes the performance conditions. The following table lists the inputs to the model used for the options granted in the years ended 31 December 2017 and 31 December 2016. The expected future volatility has been determined by reference to the historical volatility.

Year Issued:	2017	2016
Dividend yield	n/a	n/a
Expected share price volatility	50.0%	50.0%
Risk free interest rate	2.0%	2.0%
Exercise price	4.25p	1p – 3.375p
Expected life of option (years)	10	10

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 5.4 Auditor's remuneration

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

	2017 \$'000	2016 \$'000
<b>Fees payable to the Company's principal auditor for the audit of:</b>		
Company's accounts	62	78
Company's subsidiaries	—	1
<b>Total audit fees</b>	<b>62</b>	<b>79</b>
Audit related assurance services	8	8
Taxation compliance services	—	—
Other services	—	—
<b>Total non-audit fees</b>	<b>8</b>	<b>8</b>
<b>Fees payable to other auditors for the audit of:</b>		
Company's subsidiaries	25	33
<b>Total audit fees</b>	<b>25</b>	<b>33</b>
Taxation compliance services	6	6
Other taxation advisory services	2	2
<b>Total non-audit fees</b>	<b>8</b>	<b>8</b>

### 5.5 Staff costs

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

	2017 \$'000	2016 \$'000
Wages and salaries	1,669	2,235
Social security costs	115	191
Share-based payment charges	160	159
Other benefits in kind	40	48
	<b>1,984</b>	<b>2,633</b>

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

	2017	2016
Operational and technical	2	4
Administrative	16	21
	<b>18</b>	<b>25</b>

### 5.6 Directors' emoluments

Details of the remuneration of Directors are included in the Directors' Corporate Governance Report on page 24.

In addition, the aggregate amount paid to former directors as compensation for loss of office was \$nil (2016: \$819,000).

### 5.7 Net interest receivable

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

	2017 \$'000	2016 \$'000
Short-term bank deposit interest	88	23

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 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.

	2017 \$'000	2016 \$'000
Current Corporation Tax:		
UK Corporation Tax	—	—
Overseas Corporation Tax	—	—
<b>Total credit</b>	<b>—</b>	<b>—</b>

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

	2017 \$'000	2016 \$'000
<b>Total loss before tax from continuing operations</b>	<b>(4,015)</b>	<b>(19,755)</b>
Tax calculated at domestic rate of 19.25% (2016: 20%)	(773)	(3,951)
Effects of:		
Expenses not deductible for tax purposes	704	3,254
PSC expenses not subject to corporation tax <sup>(1)</sup>	(49)	145
Tax losses utilised	—	—
Tax losses for which no deferred tax asset was recognised	124	590
<b>Impact of local tax rates</b>	<b>(6)</b>	<b>(38)</b>

(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:

	2017 \$'000	2016 \$'000
DD&A and impairment in excess of tax allowances	149	247
Other short-term temporary differences	—	—
Tax losses carried forward	7,794	8,125
<b>Unprovided deferred tax asset</b>	<b>(7,943)</b>	<b>(8,371)</b>
<b>Deferred tax asset/(liability) at 31 December</b>	<b>—</b>	<b>—</b>

\$0.1 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 2017 of \$4.0 million (2016: \$19.8 million) for continuing operations and \$4.0 million (2016: \$19.8 million) for the loss attributable to the owners of the parent company. The basic loss per share was calculated using a weighted average number of ordinary shares in issue of 519,995,785 (2016: 473,428,648). 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 537,917,155 (2016: 480,880,703), 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.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 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

	2017 \$'000	2016 \$'000
<b>Allotted, called up and fully paid:</b>		
519,995,785 Ord Shares (2016: 519,995,785 Ord Shares)	18,803	18,803

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 2016	519,995,785	121,989,500	17,117,628	0.0156
Restricted share options lapsing	—	—	(117,628)	0.0574
unexercised	—	—	—	—
Share options granted	—	—	1,900,000	0.0425
<b>At 31 December 2017</b>	<b>519,995,785</b>	<b>121,989,500</b>	<b>18,900,000</b>	<b>0.0183</b>

Of the share options outstanding, 13,000,000 options have an exercise price of 1 pence per share, 4,000,000 options have an exercise price of 3.375 pence per share, and 1,900,000 have an exercise price of 4.25 pence.

The detail of the share options outstanding at 31 December 2017 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	6,000,000
5 July 2017 – 5 July 2018	2018	4.25	1,900,000
		1.83	18,900,000

No options were granted to Directors in office at that time during 2017 (31 December 2016: 17,000,000). 1,900,000 options were granted to Employees at that time in 2017 (31 December 2016: nil).

The average share price during 2017 was £0.06 (2016: £0.05). The highest share price during the year was £0.13 and the lowest price was £0.03 (2016: £0.14 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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 6.2 Financial instruments, derivatives and capital management (continued)

	Less than three months \$'000	Three months to one year \$'000	One to three years \$'000	More than three years \$'000	Total \$'000
<b>31 December 2017</b>					
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)
<b>31 December 2016</b>					
Current trade and other payables	(1,183)	—	—	—	(1,183)
Non-current trade and other payables	—	—	—	(3,446)	(3,446)
Loan facility	—	—	—	—	—
	(1,183)	—	—	(3,446)	(4,629)

During 2017, the loan facility bears a weighted average effective interest rate of 7.5%. 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
<b>2017</b>	(+ or -) 5%	<b>+/- 263</b>
<b>2016</b>	(+ or -) 5%	<b>+/- 33</b>

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
<b>2017</b>	(+ or -) 5%	<b>+/- 175</b>
<b>2016</b>	(+ or -) 5%	<b>+/- 234</b>

#### 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).

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 6.2 Financial instruments, derivatives and capital management (continued)

#### Financial assets

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

	Financial assets on which interest is earned \$'000	Financial assets on which no interest is earned \$'000	Total \$'000
<b>2017</b>			
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
	<b>1,183</b>	<b>102,850</b>	<b>104,033</b>
	Financial assets on which interest is earned \$'000	Financial assets on which no interest is earned \$'000	Total \$'000
<b>2016</b>			
US Dollar	89	102,637	102,726
Pound Sterling	33	4	37
Euro	27	94	121
Syrian Pound	14	—	14
Moroccan Dirham	2	—	2
Other currencies	20	11	31
	<b>185</b>	<b>102,746</b>	<b>102,931</b>

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

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

Included in financial assets on which no interest is earned at 31 December 2017 and 2016 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
<b>2017</b>			
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
	<b>3,445</b>	<b>8,926</b>	<b>12,371</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 6.2 Financial instruments, derivatives and capital management (continued)

	Financial liabilities on which interest is charged \$'000	Financial liabilities on which no interest is charged \$'000	Total \$'000
<b>2016</b>			
US Dollar	—	8,836	8,836
Pound Sterling	—	331	331
Euro	—	166	166
Syrian Pound	—	54	54
Moroccan Dirham	—	106	106
Other currencies	—	17	17
	—	9,510	9,510

#### 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 2017 and 2016 the Group did not enter into any derivative contracts in respect of its exposure to fluctuations in the price of oil and gas.

#### Fair values

The Group's investment in DPC, the entity established in Syria, pursuant to the PSC, to administer the Group's Syrian oil and gas development and production assets (and which is considered to also include the related rights to production under the PSC), is recorded as an available-for-sale investment. Due to the unknown duration of EU sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and subject to material change and uncertainty. Management believes that as a result of the further passage of time and the high degree of judgement required, it is 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 for impairment and any impairment losses recognised through the Income Statement, this is described further in note 4.2.

At 31 December 2017 and 2016, 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 page 24. The remuneration of Directors is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2017 \$'000	2016 \$'000
Short-term employee benefits	692	677
Share-based payments	160	159
	852	836

The 2017 Facility is deemed a related party transaction as a result of the affiliation of Directors', Mr. Kroupeeve 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 2017 or 2016.

### 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:

	2017		2016	
	Land and buildings \$'000	Other \$'000	Land and buildings \$'000	Other \$'000
Amounts payable on leases:				
Within one year	84	—	109	—
In two to five years	—	—	—	—
	84	—	109	—

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 6.4 Obligations under operating leases (continued)

There are no future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period (31 December 2016: \$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.

The Court of Appeal of Damascus has issued an order of provisional attachment on GPLL's moveable and immovable assets, including GPLL's share of Block 26, to secure Al Mashrek's claim of an amount of Syrian pounds equivalent to \$2.0 million. While Gulfsands continues to investigate the alleged claim, it is determined to protect its rights in Syria. Gulfsands are seeking legal advice on this matter. Management believe the outflow of funds in relation to this claim to be possible but not probable and therefore no provision has been made as at 31 December 2017.

#### Penalties sought by ONHYM under the Rharb Petroleum Agreement

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

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

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

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

In these 2017 year-end Financial Statements the \$1.0 million restricted cash balance has been fully provided against and decommissioning and restoration provisions of \$1.6 million covering all Gulfsands drilled wells and legacy wells have been provided for, although the Company considers that this decommissioning obligation should be fully satisfied by part of the performance guarantees inappropriately taken by ONHYM on the Rharb and Fes licences, as described in note 6.6.

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

### 6.6 Contingent assets

#### Recovery of guarantee amounts under the Rharb Petroleum Agreement

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

Gulfsands 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.

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

## Notes to the Consolidated Financial Statements for the year ended 31 December 2017

### 6.6 Contingent assets (continued)

#### Recovery of guarantee amounts under the Fes Petroleum Agreement

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

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

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

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

### 6.7 Post balance sheet events

#### Secured Term Financing Extension

Subsequent to the year-end, on 21 March 2018, the Company finalised a £4 million extension to its existing £4 million Secured Term Financing Facility ("2017 Facility") from its Major Shareholders, being ME Investments Ltd, Waterford Finance & Investment Limited and Blake Holdings Limited. The Company 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 lender re-confirmations required). 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 (meaning 5.09 pence per share) rather than the 90-day average closing price prior to repayment. All other terms are unchanged.

#### Delisting

Subsequent to the year-end, at the Company's General Meeting held on 10 April 2018 the resolution to cancel the admission of the Company's Ordinary shares to trading on AIM (the "Delisting") was passed. The Delisting took effect from 7.00 a.m. on 23 April 2018, with the last day of trading of the Company's ordinary shares on AIM being Friday 20 April 2018.

#### Llanos-50 licence

The LLA-50 Licence was due to expire in May 2018. For the last 6 months, the Company has been diligently completing Medidas de Manejo Ambiental ("MMA") and Environmental Impact Assessment ("EIA") environmental work. Seismic reprocessing work in H2 2017 reconfirmed the leads which had been previously identified, but this subsequent environmental work has identified relevant environmental issues and restrictions which would impact the ability to execute the seismic programme over the areas of interest. The Company continues to discuss with ANH a potential resolution to the current issues. In order to provide sufficient time to explore potential ways forward for the LLA-50 licence which satisfy all stakeholders, it was agreed with ANH that the licence should put into suspension prior to expiry. It is unclear how long the suspension will last and what the outcome of the discussions will be. The Company's rights and obligations with respect to the LLA-50 licence are outlined in more detail in note 2.4.

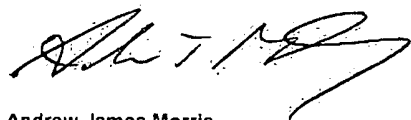
## Parent Company Financial Statements

### Company Balance Sheet as at 31 December 2017

	Notes	2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2.1	1	2
Investments in and loans to subsidiaries	3.1	7,307	7,307
Amounts due from subsidiaries	4.1	36,364	36,084
		<b>43,672</b>	<b>43,393</b>
<b>Current assets</b>			
Trade and other receivables	4.1	328	80
Cash and cash equivalents	4.2	419	555
		<b>747</b>	<b>635</b>
<b>Total assets</b>		<b>44,419</b>	<b>44,028</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	4.4	237	537
		<b>237</b>	<b>537</b>
<b>Non-current liabilities</b>			
Loan facility	4.5	3,445	—
<b>Total liabilities</b>		<b>3,682</b>	<b>537</b>
<b>Net Assets</b>		<b>40,737</b>	<b>43,491</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders</b>			
Share capital	6.1	18,803	18,803
Share premium		110,737	110,737
Retained loss		(88,803)	(86,049)
<b>Total equity</b>		<b>40,737</b>	<b>43,491</b>

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 \$2.9 million (2016: \$15.4 million).

The Financial Statements of Gulfsands Petroleum plc (registered number: 05302880) were approved by the Board of Directors on 21 May 2018 and signed on its behalf by:



Andrew James Morris  
Finance Director  
21 May 2018

## Parent Company Financial Statements

### Company Statement of Changes in Equity for the year ended 31 December 2017

	Share capital \$'000	Share premium \$'000	Retained (loss)/profit \$'000	Total equity \$'000
At 1 January 2016	13,131	105,926	(70,773)	36,782
Loss for 2016	—	—	(15,435)	(15,435)
Transactions with owners:				
Equity raise – Open				
Offer/Placing	5,672	4,811	—	21,985
Share-based payment charge	—	—	159	159
At 31 December 2016	18,803	110,737	(86,049)	43,491
Loss for 2017	—	—	(2,914)	(2,914)
Transactions with owners:				
Share-based payment charge	—	—	160	160
At 31 December 2017	18,803	110,737	(88,803)	40,737



## Parent Company Financial Statements

### Company Cash Flow Statement for the year ended 31 December 2017

	Notes	2017 \$'000	2016 \$'000
<b>Cash flows from operating activities</b>			
Operating loss		(2,614)	(2,202)
Share-based payment charge		160	159
Exploration costs written off/impaired/costs accrued		677	325
Profit on disposal of assets		(3)	—
(Increase)/decrease in receivables		(227)	275
Decrease in payables		(317)	(1,229)
<b>Net cash used in operations</b>		<b>(2,324)</b>	<b>(2,672)</b>
Interest received		83	14
Bank fees		(61)	(124)
Foreign exchange losses		(124)	(100)
<b>Net cash used in operating activities</b>		<b>(2,426)</b>	<b>(2,882)</b>
<b>Investing activities</b>			
Exploration and evaluation expenditure		(677)	(325)
Funds transferred to/(from) subsidiaries		(280)	3,677
<b>Net cash used in investing activities</b>		<b>(957)</b>	<b>3,352</b>
<b>Financing activities</b>			
Secured financing		3,247	—
<b>Net cash used in financing activities</b>		<b>3,247</b>	<b>—</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>(136)</b>	<b>470</b>
Cash and cash equivalents at beginning of year		555	85
Cash and cash equivalents at end of year	4.2	419	555

## 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 2017 were authorised for issue by the Board of Directors on 21 May 2018 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 2017 and for the comparative year ended 31 December 2016 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 2017 was £1: \$1.35 (2016: £1: \$1.26).

#### 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.

### 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
<b>Cost:</b>	
At 1 January 2016	948
Disposals	(887)
At 1 January 2017	61
<b>At 31 December 2017</b>	<b>61</b>
<b>Accumulated depreciation:</b>	
At 1 January 2016	(933)
Disposals	887
Charge for 2016	(13)
At 1 January 2017	(59)
Charge for 2017	(1)
<b>At 31 December 2017</b>	<b>(59)</b>
<b>Net book value at 31 December 2017</b>	<b>1</b>
<b>Net book value at 31 December 2016</b>	<b>2</b>

## Notes to the Parent Company Financial Statements

### 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
<b>Cost:</b>	
At 1 January 2017	1,234
Additions	676
<b>At 31 December 2017</b>	<b>1,910</b>
<b>Accumulated amortisation:</b>	
At 1 January 2017	(1,234)
Amortisation charge for 2017	—
Exploration expenditure impaired in 2017	(676)
<b>At 31 December 2017</b>	<b>(1,910)</b>
<b>Net book value at 31 December 2017</b>	<b>—</b>
Net book value at 31 December 2016	—

Additions during the year relate to oil and gas activities in Colombia.

## 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.

	2017 \$'000	2016 \$'000
<b>Current</b>		
Other receivables	100	25
Prepayments and accrued income	228	55
	<b>328</b>	<b>80</b>
<b>Non-current</b>		
Amounts due from subsidiaries	36,364	36,084

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.

	2017 \$'000	2016 \$'000
Cash at bank and in hand	419	555
Restricted cash balances	—	—
Total cash and bank resources	419	555
Included in long-term financial assets	—	—
<b>Total cash and cash equivalents</b>	<b>419</b>	<b>555</b>

## Notes to the Parent Company Financial Statements

### 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.

	2017 \$'000	2016 \$'000
Restricted cash balances	1,702	4,941
Provision against recovery of restricted cash balances	(1,702)	(4,941)
Total cash and cash equivalents	—	—

Restricted cash balances at 31 December 2017 related to \$1.7 million of amounts held in escrow to guarantee minimum work obligations on PUT-14 in Colombia. All amounts have been fully provided against at 31 December 2017.

During 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. During the year \$1.75 million of deposits collateralising guarantees in Morocco (which were written-off in 2016) were called by ONHYM on expiry of the Moulay Bouchta Petroleum Agreement, in respect of unfulfilled work commitments.

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.

	2017 \$'000	2016 \$'000
Current		
Trade payables	164	223
Accruals and other payables	73	314
	237	537

### 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. Subsequent to the year-end, in January 2018 the remaining fourth and fifth tranches of the 2017 Facility were drawn down.

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.

Subsequent to the 2017 year-end, in March 2018 an extension to the 2017 Facility was agreed with the Major Shareholders, giving a further £4 million of committed funding, 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 the middle of 2020.

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) 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.

## Notes to the Parent Company Financial Statements

### 4.5 Secured Term Financing Facility (continued)

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 2017	—
Loan draw-downs	3,011
Interest expense	198
Foreign exchange losses	236
At 31 December 2017	3,445

## 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 \$2.9 million (2016: \$15.4 million). There was no revenue during 2017, as defined by IAS 18 Revenue' (2016: 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 2016: \$0.1 million) within one year and \$nil (31 December 2016: \$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)

	2017 \$'000	2016 \$'000
Tax losses carried forward	7,794	7,974
Depreciation in advance of capital allowances	149	247
Unprovided deferred tax asset	(7,943)	(8,221)
Deferred tax asset/(liability) at 31 December	—	—

## Notes to the Parent Company Financial Statements

### 5.4 Taxation (continued)

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
<b>2017</b>			
US Dollar	—	36,364	36,364
Pound Sterling	48	159	207
Euro	5	50	55
Other currencies	—	—	—
	<b>53</b>	<b>36,573</b>	<b>36,626</b>
<b>2016</b>			
US Dollar	34	36,450	36,484
Pound Sterling	37	137	174
Euro	7	45	52
Other currencies	—	—	—
	<b>78</b>	<b>36,632</b>	<b>36,710</b>

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

	Financial liabilities on which no interest is charged :\$'000
<b>2017</b>	
US Dollar	28
Pound Sterling	3,648
Other currencies	10
	<b>3,686</b>
<b>2016</b>	
US Dollar	39
Pound Sterling	1,014
Other currencies	12
	<b>1,065</b>

During the year ended 31 December 2017, the Company impaired balances owed from subsidiary undertakings totalling \$2.1 million (2016: \$8.0 million).

## Notes to the Parent Company Financial Statements

### 6.3 Assets held by the Company

Assets held by the Company of \$nil (2016: \$nil) represent exploration expenditures relating to the Colombian Putumayo 14 and Llanos 50 E&P contracts. As detailed in note 2.3 of the Consolidated Financial Statements it was decided to fully impair the exploration expenditure of \$0.7 million in 2017 attributed to these licences (2016: \$2.2 million). These contracts were granted to the Colombian branch of the Company, however it remains Management's intention to transfer these contracts to the Colombian branch of a subsidiary company, Gulfsands Petroleum Sud America Limited.

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

#### Colombia

##### **Putumayo 14 - licence expiry date and deadline for fulfilment of capital commitments; at least mid-2021**

- Drilling of one exploration well.
- 2D seismic minimum 98 km.
- Total commitments outstanding estimated at \$16.1 million.

##### **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.

\$3.5 million (31 December 2016: \$3.2 million) of deposits have been lodged to support guarantees given to the Agencia Nacional de Hidrocarburos in respect of completion of these minimum work commitments on Putumayo 14 and Llanos 50.

### 6.4 Foreign currency

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

### 6.5 Employees

The average monthly number of persons employed by the Company, including Executive Directors was six (2016: 7).

### 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 page 24.

The Company traded with various undertakings within the same Group during the years ended 31 December 2017 and 2016. 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	2017	2016
			\$'000	\$'000
Gulfsands Petroleum Tunisia Ltd	Subsidiary	Non-interest bearing	30,740	30,735
		Provision	(30,809)	(30,735)
Gulfsands Petroleum Levant Ltd	Subsidiary	Non-interest bearing	19,016	18,735
		Provision	(16,038)	(16,038)
Gulfsands Petroleum Ltd.	Subsidiary	Non-interest bearing	2,633	2,630
Gulfsands Petroleum Sud America Ltd	Subsidiary	Non-interest bearing	2,730	319
		Provision	(2,365)	(319)
Gulfsands Petroleum (MENA) Ltd	Subsidiary	Non-interest bearing	2,279	2,193
		Provision	(1,546)	(1,463)
Gulfsands Petroleum Morocco Ltd	Subsidiary	Non-interest bearing	45,286	45,681
		Provision	(45,681)	(45,681)
Gulfsands Petroleum Holdings Ltd	Subsidiary	Non-interest bearing	30,015	29,926
Gulfsands Petroleum Iraq Ltd	Subsidiary	Non-interest bearing	5,908	5,905
		Provision	(5,804)	(5,804)

## Notes to the Parent Company Financial Statements

### 6.6 Related party transactions (continued)

Services recharged to related parties

Name of related party	2017		2016	
	Time writing	Indirect overhead	Time writing	Indirect overhead
	\$'000	\$'000	\$'000	\$'000
Gulfsands Petroleum Levant Ltd	300	12	279	5
Gulfsands Petroleum Morocco Ltd	110	—	474	9
Gulfsands Petroleum Sud America Ltd	241	—	161	—
Gulfsands Petroleum Tunisia Ltd	10	—	114	—

### 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
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
Code	UK Corporate Governance Code
CSR	Corporate social responsibility
DD&A	Depletion, depreciation and amortisation
DOB-1	Douar Ouled Balkhair location
DPC	Dijla Petroleum Company
DRC-1	Dardara South East location
E&E	Exploration and evaluation
E&P	Exploration and production
FRC	Financial Reporting Council
G&A	General and administrative expenses
GPC	General Petroleum Corporation
Gulfsands Levant	Gulfsands Petroleum Levant Limited
Gulfsands (MENA)	Gulfsands Petroleum (MENA) Limited
Gulfsands Morocco	Gulfsands Morocco Limited
HSES	Health, safety, environment and security
IFRS	International Financial Reporting Standards
km	Kilometres
km <sup>2</sup>	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

## **Corporate Information**

### **Corporate headquarters**

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### **Secretary and registered office**

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### **Regional offices**

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### **Solicitors**

#### **Pinsent Masons LLP**

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### **Registrars**

#### **Link Asset Services**

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### **Company number**

05302880