



**Gulfsands Petroleum plc
Annual Report and Accounts
for the year ended
31 December 2021**



About Us

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

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

Highlights

The Group's Core Asset and Focus Remains the Block 26 Assets in North East Syria

- Currently in Force Majeure due to UK Sanctions.
- Involvement in Syrian operations remains suspended during continuation of UK Sanctions, with which Gulfsands remains committed to full compliance.
- According to in-country sources, assets appear to be in good order, materially undamaged and operationally fit.
- Production in Block 26, without the participation of Gulfsands, reported to have been approximately 20,000 boepd throughout 2021.
- No revenues have been recognised by Gulfsands and the status of this production under the terms of the PSC is unclear at this time.
- Reported production levels appear to demonstrate the reservoir quality and that the field continues to be operable.
- However, the Board remains concerned about the impact that the ongoing unauthorised production has on its core asset and is determined to protect itself to assert and defend its rights against this and indeed any unlawful activity in respect of Block 26.
- The area surrounding Block 26 remains stable, with no major disruptions during the year.

The Quality of the Block 26 Assets Confirmed by Independent Review, updated in 2021

- Confirmed by Competent Persons Report ("CPR") undertaken by Independent Consulting Firm Oilfield Production Consultants ("OPC"), originally in 2019 and updated annually to ensure no material changes.
- +20 years resource life and potential to produce over 50,000 boepd from existing discoveries.
- Prospective portfolio takes the potential production of the field above 100,000 boepd.
- 2C Contingent Resources in Yousefieh, Khurbet East and Al Khairat fields (2P Reserves if it were not for force majeure) as at 31 December 2021 of 76.4 million boe (net to Gulfsands). This is a decrease in 2C resources compared to 80.1 million boe in the 2020 Annual Report, as a result of production during 2021.
- Combined unrisked, mid-case Prospective Resource of 546 million boe & risked, Prospective Resources of 134 million boe (both net to Gulfsands).
- Economic Evaluations undertaken as part of the OPC reviews indicate a central range of EMV of Block 26 (Prospective and Contingent Resources), of \$1 billion to \$1.5 billion, prior to taking into account above-ground risks.

Re-entry Planning Continues at Pace

- CPR work included preparation, review and validation of Full Field Development Plan of the Yousefieh, Khurbet East and Al Khairat fields, which is ready to implement when circumstances allow.
- CPR confirmed nine drill-ready prospects which could be targeted during an intensive drilling programme when circumstances allow.
- Potential development plans, as reviewed and confirmed by the CPR, illustrate production levels of around 50,000 boepd from existing discoveries and over 100,000 boepd from a full block development incorporating potential exploration upside.
- Regional technical, finance and administrative team remains in place to implement re-entry plan as soon as viable.
- Strategic Advisory Board established to assist Board and Management with complex political, legal and strategic aspects of re-entry.

Rationalisation of Non-Core Portfolio Successfully Complete

- Llanos-50 licence in Colombia was the only remaining legacy non-core asset in the portfolio during 2021.
- Following extensive negotiations with the ANH, subsequent to the year-end, the Company and the ANH agreed to mutually terminate the licence on the grounds of environmental non-viability.
- The remaining \$15.2 million contingent liability has now been successfully removed.
- Previously provided for restricted cash of £1.22 million (~\$1.52 million) was released back to the Company subsequent to the year-end in May 2022.

Business Development

- Management continues its focus on selected business development in the Middle East and broader MENA region.
- This initiative is supported by the experienced technical, finance and administrative team which has been assembled in the region.

Capital Efficiency and Continued Financial Support from Major Shareholders

- The Company continues to be funded by the Major Shareholders under the 2017 Secured Term Financing Facility ("2017 Facility").
- In April 2021, Major Shareholder Waterford Finance and Investment Limited bought the entire debt and equity holding of ME Investments Limited and took on all remaining rights and obligations of ME Investments under the 2017 Facility.
- In December 2021 this 2017 Facility was extended by two years, to 31 December 2023, and expanded by the addition of new drawdown tranches of up to £6.5 million (~\$8.8 million) to cover expected General and Administrative costs for the next two years and some potential business development activity.
- The Facility remains convertible by the Lenders, at any time, into new Ordinary Shares at a price of 5 pence per Ordinary Share.
- The Company also has the ability to convert the Facility into new ordinary shares, absent an event of default, at maturity, at a fixed price of also 5 pence per Ordinary Share.
- The business continues to be successfully managed within budgets and financial targets set by the Board.
- At the date of this Report, the Group had unaudited cash available for operations of \$1.8 million and remains reliant on the Major Shareholders for additional funding, with up to £5.5 million remaining available under the 2017 Facility.

Impact of Covid-19

- The Covid-19 pandemic continued to be a major issue affecting the UK during the year.
- Our priorities have remained the same throughout; protect our people and ensure business continuity.
- The team's resilience and adaptability ensured the team could continue to deliver our strategic objectives effectively.
- While the rollout of vaccines has abated restrictions and guidance, we remain very mindful of the challenges it continues to pose for our business. We are taking all reasonable precautions to manage these risks.

Share Trading Post Delisting

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

Strategic Report

Chairman's Statement

Dear Shareholder,

I am pleased to report that in the last 12 months we have at last been able to complete the final steps of cleaning up our legacy assets with the confirmation of the mutual termination of the Llanos-50 licence in Colombia, which was formally received in March 2022. The elimination of the overhang of this \$15.2 million work program liability means that we can now plan forward with confidence.

The Company retains the support of its Major Shareholders, as illustrated by Waterford Finance and Investment Limited increasing its investment in the Group in March 2021, to become both majority shareholder and majority lender. Together with Blake Holdings Limited, Waterford has supported and financed the Company since 2016 and remains committed to building Gulfsands into a strong, independent exploration and production Company focussed on the Middle East and broader MENA region.

Waterford was also pleased to be able to deliver a liquidity opportunity to all minority shareholders during the Mandatory Offer process in April/May 2021. I was pleased to see some shareholders take advantage of that Offer, while equally pleased to see that many shareholders decided to stay the course and remain as shareholders.

The 2017 Facility, which was again extended and expanded in December 2021, now has a known conversion price, at the option of either the lenders or the Company, and so our balance sheet is clean and provides an excellent platform for us to now build a broader business in the region, with our world class Block 26 assets at its core.

The Covid-19 pandemic continued to be a major challenge for everyone during 2021 and while the rollout of vaccines has abated restrictions and guidance, we remain very mindful of the challenges it continues to pose for our business. We believe that our flexible operating model puts us in a good position to navigate these challenges, and we continue to take all reasonable precautions to manage these risks, with the main objective of ensuring the safety and welfare of our staff and partners.

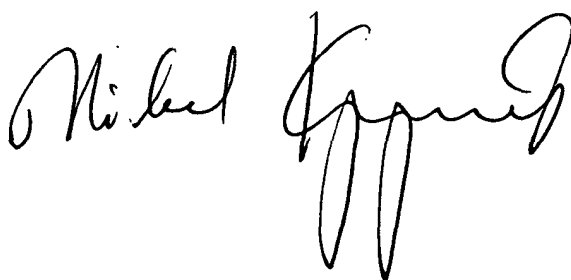
COP 26 in October 2021 helped focus the world's minds on the responsibility we all have to preserve the environment in which we operate. Gulfsands took this opportunity to undertake an assessment of its own approach to the important topic of Sustainability and has committed to further incorporate such considerations into its business model going forward. This includes our new Environmental, Social and Governance (ESG) strategy which has adopted the UN's Sustainable Development Goals ("SDG's") building blocks as core to its framework.

As each year goes by, we are of course reminded that it is another year of devastating Civil War in Syria. We believe that the oil and gas industry in Syria has a vital role to play in helping Syria back onto its feet. We will continue to lobby the international community to find a solution to the situation in Syria which will lead to Early Recovery of the country for the benefit of all Syrian people.

In the meantime, we continue to do all we can to preserve and protect Gulfsands' rights and assets in Syria as well as prepare our readiness for returning to operations as soon as circumstances allow. Sustainability and Environmental, Social and Governance considerations are central to our re-entry planning as is outlined in our Strategic Report. We cannot, of course, navigate these complex issues alone and I would like to place on record my thanks to our team of advisory partners, and in particular those who have contributed to our newly formed Strategic Advisory Board.

I wish you well for the year ahead and thank you for your faith in Gulfsands.

Michael Kroupcev
Non-Executive Chairman
24 May 2022



Strategic Report

Managing Director's Statement

The successful resolution of environmental issues in Colombia, elimination of related liabilities, and clarification of the pathway to equitize the 2017 Facility, mean that we now have a clean, solid platform to press ahead with our ambitions in Syria, when circumstances allow, and in the broader MENA region.

Dear Shareholder

After the turmoil of 2020 caused by the Covid-19 pandemic, 2021 was the year that the world started getting used to the "new normal" that an endemic Covid-19 will bring. The successful development and rollout of vaccines has meant a lifting of certain restrictions and easing of guidance, though we remain very mindful of the challenges that Covid-19 continues to pose for our business. We are taking all reasonable precautions to manage these risks and protect the safety and welfare of our staff and partners.

As reported last year, as a result of the initial Covid-19 outbreak, we implemented various capital efficiency measures to ensure that the Company preserved its capabilities, strengths and resources, for a time post the Covid crisis. The Group moved quickly to implement necessary remote working practices, supported by robust communication systems, and made all reasonable efforts to ensure a safe operating environment and minimise virus transmission risks. Many of these measures remain in place and so make us well positioned to react to developments as and when they occur. That said, the Group remains highly conscious and vigilant in respect of Covid-19-related risks.

As we entered 2021, our clear focus was, of course, to continue to progress our Protect, Preserve and Prepare strategy around our Block 26 assets in Syria, as well as to resolve our ongoing environmental challenges in Colombia with respect to the Llanos-50 licence.

In regard to Llanos-50, I am pleased to report that, after extensive and diligent environmental studies over recent years, in March 2022 we finally received signed confirmation from the Agencia Nacional de Hidrocarburos ("ANH") that the licence had been mutually terminated on the basis of environmental non-viability. We believe that this is the correct decision both for ANH and the Company and in particular for the environmentally sensitive area of Llanos-50.

The licence was terminated without liability to either ANH or Gulfsands and so the requirement to undertake the committed work program is also terminated, and with it the related \$15.2 million Contingent Liability. As a result, we also recovered £1.22 million (~\$1.52 million) of restricted cash that was held against the licence in May 2022. The Group will now focus on completing the orderly administrative exit from Colombia. Further details of the LLA-50 licence process are provided in note 2.4.

Core Strategy

At the core of Gulfsands' strategy remains Block 26 in North-East Syria. Gulfsands remains the operator of this world class asset, holding a 50% working interest in the Block 26 Production Sharing Contract ("PSC"), alongside our joint venture partner Sinochem Group. Block 26 is located in the relatively stable area of North-East Syria and, although Gulfsands is unable, due to UK Sanctions, to be actively involved in operations, the assets appear, according to in-country sources, to be in good order, materially undamaged and operationally fit.

As each year passes, it represents another year of the devastating Civil War in Syria, and while the active warfare may be subsiding, the suffering of the Syrian people goes on. March 2022 represented the eleventh anniversary of the crisis. Political resolution is not something that Gulfsands can directly influence or predict, however we support the UN's initiatives to broker peace and hope that the various stakeholders can find a pathway to political resolution under the established framework of UNSCR 2254. Gulfsands continues to step up its engagement with key stakeholders, including regional and international governments, and stands ready to play its part, to the extent sanctions allow, in any agreed UN-sponsored initiatives that can help resolve the current crisis.

Gulfsands remains committed to full compliance with UK Sanctions and is therefore not involved in any production or exploration activities on Block 26 as Force Majeure was declared in respect of this PSC upon the introduction of UK Sanctions (then EU Sanctions) in respect of Syria in 2011. It should be noted that following the Company's service of its Notice of Force Majeure and various legal steps taken by the state oil company, General Petroleum Corporation ("GPC") in Syria, GPC has assumed operational control and responsibility for the management of Dija Petroleum Company ("DPC"), the legal entity established to undertake the management and control of petroleum production operations and related infrastructure on Block 26.

As previously reported, the Group has been informed by GPC/DPC that the oil fields in Block 26 were returned to regular production in January 2017. We understand that this production is undertaken by the Syrian Democratic Council/Syrian Democratic Forces ("SDC/SDF") and its affiliates. This situation appears to have persisted since then, and the average oil production rate during the period appears to be around 20,000 boepd. This production is unauthorised and is described by GPC/DPC as "stolen". Reports indicate that the total unauthorised production during 2021 was estimated to be around 7.0 million barrels of oil equivalent (2020: 7.4 million). The Company continues to work on verifying this information and the status of this production under the terms of the PSC is unclear at this time. Gulfsands has not recognised or received any revenue for any production under the PSC since the advent of Force Majeure.

Strategic Report

Managing Director's Statement

Since August 2020, press reports have suggested that the Office of Foreign Assets Control ("OFAC") in the US had issued certain dispensations to organisations to assist the self-proclaimed Autonomous Administration of North and East Syria ("AANES") and affiliated entities in developing oil and gas in the North-East of Syria. Most notably, we understand that one such licence was issued to a private US company Delta Crescent Energy. It is unclear at this stage what impact such licences may have had or will have on Block 26, however, the Board remains concerned about the impact that the continued unauthorised production has on the Company and its assets and is determined to protect itself and defend its rights against this, and indeed any unlawful activity.

Gulfsands maintains a key focus on ensuring it is ready to recommence operations when sanctions allow, while remaining sanction compliant in the meantime. We work with independent consulting firm Oilfield Production Consultants ("OPC") to update the Competent Person's Report ("CPR") initially prepared by them in 2019, based on available production information. OPC have also reviewed the Company's Field Development Plan ("FDP") and have confirmed the Board's belief that Block 26 could contain over a billion barrels of recoverable resource with the potential for production levels of around 50,000 boepd from existing discoveries and over 100,000 boepd from a full block development incorporating potential exploration upside.

OPC also undertook an economic evaluation of the Block 26 project, which they have rolled forward at each subsequent year-end. While this evaluation did not, of course, take into account any of the above-ground risks associated with the assets, it did consider a range of possible valuation scenarios which indicated a central range of Expected Monetary Value ("EMV") of the Block 26 assets, including both Contingent and Prospective Resources, of \$1 billion - \$1.5 billion (net to Gulfsands).

Our technical team has continued with its internal analysis during the year, incorporating previously un-analysed re-processed seismic collated prior to the declaration of Force Majeure. We are very encouraged with these internal results in terms of resources and the technical quality of the project, and at the right time, we intend to submit these to our reserves and resources auditor for further independent review and audit.

Details of the current Reserves and Resources are included in the Operations Review on pages 18 – 20.

More broadly, the Company, with the backing of its Major Shareholders, remains focussed on business development and building out the Company's portfolio both organically and inorganically. We continue to explore potential business development and acquisition opportunities in the Middle East and broader MENA region. Should any material developments occur in these areas, the Company will announce as and when any transactions are finalised.

Financing

In March 2021, ME Investments Limited, who have been a long-standing supporter of the Company, made a strategic decision to rationalise its wider portfolio and sold its entire Gulfsands investment (debt and equity) to Waterford Finance and Investments Limited. We are grateful for the support of ME Investments Limited over the last 5 years and we wish them well. We are delighted that Waterford has shown faith in Company, its Board, Management, and strategy, in purchasing ME Investments' interest in the Company, as well as assuming the related remaining funding obligations under the 2017 Facility. As a result of the purchase transaction, Waterford were obliged, under Rule 9 of the Takeover Code, to make a Mandatory Offer to all shareholders, other than Waterford themselves and those acting in concert with Waterford (which included Blake Holdings Limited) (the "Mandatory Offer"). Whilst the Board considered that the price at which the offer was made did not reflect the potential value of the Company, the offer did provide an opportunity for longstanding shareholders to take advantage of liquidity should they have needed or wanted to do so.

Costs for the Group remain at a sustainable level, and we continue to have the support of our Major Shareholders on whom we are heavily reliant for future funding. With no revenue from our current portfolio, we continue to rely on the support of our Major Shareholders for our current and future financing. In December 2021, the remaining Major Shareholders (Blake and Waterford) committed additional funding of up to £6.5 million (~\$8.8 million) through an expansion and extension of the existing 2017 Secured Term Financing Facility ("2017 Facility"), to cover expected General and Administrative costs for the next two years and some potential business development activity. The 2017 Facility now matures in December 2023 and the funding provided gives the Group a solid platform to face the next two years, a period which should be pivotal for the Company and the country of Syria. The 2017 Facility is now convertible at a fixed price of 5 pence per share at the option of either the Lenders (at any time), or, assuming no default exists, the Company (at maturity). This fixed conversion price now gives comforting visibility of the capital structure of the Group going forward.

The additional committed funding of up to £4 million for General and Administrative costs was made available for draw-down in four instalments on, or after, each of 31 December 2021, 30 June 2022, 31 December 2022, and 30 June 2023. Each instalment will be between £0.75 million and £1 million depending on business requirements. The business development activity funding of up to £2.5 million will be assessed, as required, based on opportunities identified. A drawdown request for £0.75 million was made in March 2022 prior to the date of this Report. Of this drawdown request, £0.5 million was received in March 2022 and £0.25 million was waived following the receipt of the LLA-50 restricted cash funds from Colombia in May 2022.

More details on the 2017 Facility can be found on Note 3.6, and further discussion on Going Concern is included in Note 1.3a of this Annual Report.

Strategic Report

Managing Director's Statement

Financial Results for the Year

The Group posted a loss for the year of \$4.2 million (2020: \$4.0 million), of which \$1.3 million related to non-cash finance interest costs and foreign exchange gains/losses (2020: \$1.4 million). In the absence of revenue, the Group remains reliant on its Major Shareholders for funding and continues to focus on controlling costs to an appropriate level given the activities of the Group. As explained on page 23, core General and Administrative costs after partner recoveries across the Group have stabilised in the range of \$2-\$2.5 million per annum, although there are often specific special projects that increase this above that range. General and Administrative costs for the year, including special projects were \$2.9 million (2020: \$2.1 million). See the Financial Review on pages 23 – 26 for more details.

At 31 December 2021 the Group had total unrestricted cash and cash equivalents of \$0.88 million, and at the date of this Report, the Group had unaudited free cash available for operations of \$1.8 million, following the £0.5 million drawdown under the 2017 Facility in March 2022, and the receipt of £1.22 million (~\$1.52 million) of the LLA-50 restricted cash in May 2022.

As at 31 December 2021, the Group had \$15.0 million (£11.1 million) (2020: \$12.4 million) of debt outstanding including accrued interest and fees under the 2017 Facility. Under applicable accounting standards (IFRS 9) this debt is represented in the balance sheet as \$12.0 million debt liability and \$3.0 million equity, totalling \$15.0 million, to reflect the split between the discounted value of the debt and the value of the conversion option as a result of the extension in December 2021. Although there is no interest payable under the new terms of the 2017 Facility, a non-cash effective interest rate of 12% is accrued on the discounted debt liability over the life of the facility, to reflect the Directors' view of the arm's length cost of funding of the business.

Since the Company's delisting from AIM in April 2018, the Company continues to be a Public Limited Company (a "PLC") and the Group has maintained strong Corporate Governance standards during the year including having a Board of Directors that is independent of both the Major Shareholders and Executive Management. Gulfsands' shares continue to trade through the secondary trading auction facility provided by Asset Match. Anyone wishing to trade Gulfsands' shares should contact Asset Match directly at www.assetmatch.com.

Outlook for 2022 and beyond

As we look forward, Gulfsands continues to commit itself to being a responsible and reliable partner with all its stakeholders. As a sign of this commitment, we have introduced a new Sustainability Committee, led by myself, to ensure that Sustainability considerations are taken into account in everything we do, including our re-entry planning in Syria and any new business development initiatives that we undertake. You can read more about this in our Strategic Report where we describe our new Environmental, Social and Governance (ESG) strategy which has adopted the UN's Sustainable Development Goals ("SDG's") building blocks as core to its framework.

Gulfsands' strategic focus remains clear – to become a strong, independent exploration and production company focussed on the Middle East and broader MENA region. At the core is our world class Block 26 which we will seek to preserve and protect against all challenges. We also seek to develop that asset further when we get the opportunity and to also expand our portfolio in the region.

The successful resolution of remaining legacy licences in Colombia now gives Gulfsands a clean, solid foundation on which to build that business and clarity on the conversion of the 2017 Facility at 5 pence, gives further clarity on capital structure.

Gulfsands will continue to do all it can to preserve and protect its rights and assets in Syria as well as prepare its readiness for returning to operations as soon as circumstances allow. We continue to be very concerned about the situation in Syria and while the macro situation is, of course, beyond our control, we continue to lobby the international community to find a solution to the situation in Syria for the benefit of all Syrian people. Gulfsands stands ready to play its part, to the extent sanctions allow, in any agreed UN-sponsored initiatives that can help resolve the current crisis.

I would like to close by thanking our shareholders for their continued support and express our gratitude to the entire Gulfsands team, who continue with incredible dedication to deliver on our strategic objectives.

Yours sincerely,



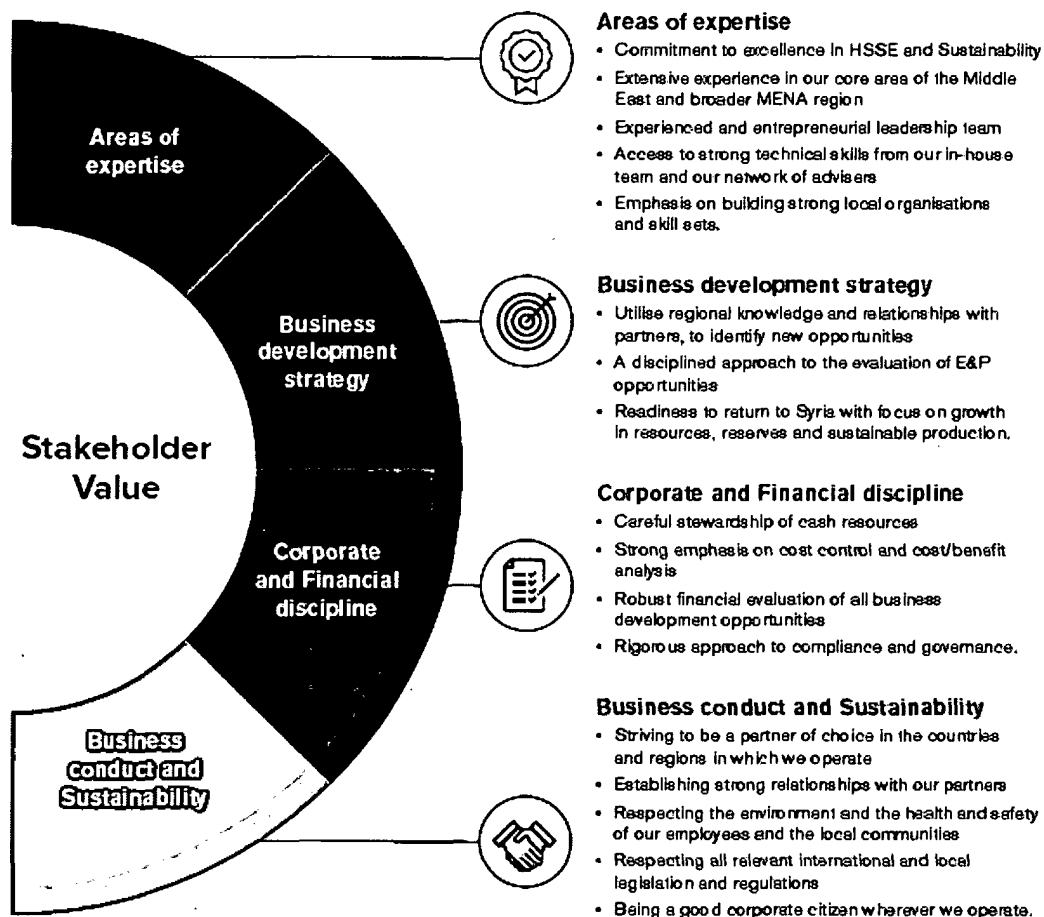
Managing Director
24 May 2022

Strategic Report

Our Business Model

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

Our business model remains based on the following building blocks:



Strategic Report

Strategic Priorities and Monitoring Performance

It is imperative that Gulfsands maintains its "Licence to Operate" and therefore, throughout everything we do we seek to maintain strong relationships with all the stakeholders with whom we interact. This is the only way to build a truly sustainable business model. Balancing the requirement of all constituents is critical to our success and central to our decision making.

Gulfsands seeks to maintain its "licence to operate" by being a responsible and reliable partner with all stakeholders.



Gulfsands is focussed on building a sustainable business model that considers the social, environmental and governance impacts of all its projects. Although Gulfsands does not currently operate any active projects, its focus on Environmental, Social and Governance ("ESG") permeates all business development activities, as well as its Re-Entry Planning Strategy for Block 26 in Syria. Gulfsands has a proven track record of implementing extensive sustainability initiatives when it was able to operate within Syria. We are guided throughout by the principles outlined by the UN Global Compact and the UN's Sustainable Development Goals ("SDG's").

Underpinning our development work is compliance with specific applicable legislation and guidance including but not limited to:

- All applicable Sanctions including those imposed by UK Government (OFSI) and the US Government (OFAC); and
- All applicable Anti-bribery, corruption and money laundering rules; and
- Appropriate Corporate Governance Standards; and
- Best in class Health and Safety standards.

Strategic Report

Strategic Priorities and Monitoring Performance

Environmental: Protecting the environment

E Producing hydrocarbons in an environmentally responsible way.

AMBITION	ACTION	SUSTAINABLE DEVELOPMENT GOALS	POLICIES / PROCEDURES
Minimise the impact of its operations on the local environment	- No spills or pollution to the local area of its facilities - Minimise impact to air quality, biodiversity and water around its facilities - Any future seismic, drilling or facilities operations continue to be preceded by Socio - Environmental Impact Assessment ("SEIA") studies - Focus on efficiency of operations and sustainable practices	  	- Re-entry Planning Strategy - Field Development Plans
Minimise its greenhouse gas emissions	- Reduce emissions from power and fuel consumption at its offices and facilities through increasing the use of low or zero carbon electricity - Reduce routine flaring, aspire to Zero Routine Flaring - Use the best available technology to improve energy efficiency at its facilities - Seek usage of associated gas for power generation - Prioritise gas for further power generation where appropriate - Study CCS options on its current and future operations to reduce carbon footprint and move towards net zero	  	- Field Development Plans - Gas prioritisation
Explore its next steps in the energy transition	- Evaluate renewable energy projects that could tie in with its current operations - Prioritise gas for further power generation where appropriate	 	- Renewable technologies - Gas prioritisation

Social: Sharing the benefits

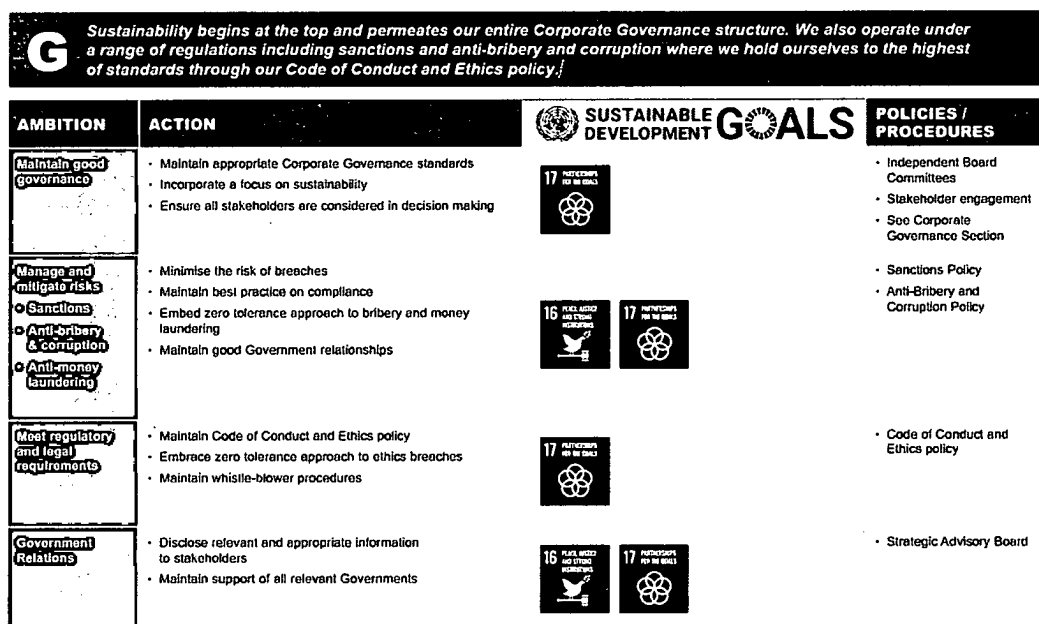
S Ensure our projects make a difference to local communities and make a positive impact on the socio-economic development of the country, alleviating poverty, improving quality of life while also building, training, developing a cohesive and strong local workforce.

AMBITION	ACTION	SUSTAINABLE DEVELOPMENT GOALS	POLICIES / PROCEDURES
Provide positive impact on the local community	- Run community outreach programmes - Support educational, medical/healthcare, archaeological, social objectives when Gulfsands resumes as operator of Block 26 - Look to supply local industrial and domestic consumption directly to meet local energy needs	   	- Integrated into Re-entry Planning - Humanitarian Initiatives as part of re-entry planning
Provide local economic opportunity	- Build local workforce with related education - Fulfill operations with local companies, contractors and employees - Ensure equal opportunities for all - Fair wages and rewarding careers	   	Humanitarian Initiatives as part of re-entry planning
Build a rewarding and fair workplace	- Ensure equal opportunities for all - Adhere to labour rights and safe/secure working environments - Invest to provide for employees: - Rewarding careers - Fair pay and conditions - Training - Well-being - Adherence to Code of Conduct and Ethics	   	- Training Programs - Well-being - Code of Conduct and Ethics
Deliver a zero-harm workplace	- Ensure no injuries, lost workdays or work-related illnesses for our staff and communities - Incorporate Health and safety into all management choices, plans and operations - Apply best industry practice policies and procedures in these areas and seek to manage its business and its contractors in accordance therewith	 	- Health and Safety Policy - Incorporation into Development Plans

Strategic Report

Strategic Priorities and Monitoring Performance

Governance: Setting high standards and being transparent



Gulf sands' progress and performance in respect of sustainability and ESG is overseen and driven by the **Sustainability Committee**, chaired by the Managing Director. By adopting the UN's Sustainable Development Goals (SDGs) and applying a consultative mapping process specific to Gulf sands business and culture, we have selected the SDGs that apply to the three sustainability pillars, Environmental, Social and Governance. As Gulf sands is in Force Majeure and currently unable to operate its Block 26 assets, the implementation of its sustainability plan captures the key elements of the go-forward strategy, including Syria Re-Entry Strategy and Plans and Asset Field Development Plans.

Gulf sands' track record in sustainability

Prior to sanctions/force majeure, between 2009 – 2011, Gulf sands supported a number of initiatives with a level of financial assistance, activities and logistical support in Syria, including local communities and social and charitable organisations. Efforts were focused towards supporting programmes aimed to improve the health, welfare and prospects of children, women and the disadvantaged members of society, especially for people living in the north-east Syria, and central Damascus. These initiatives included:

Education:

- Schools in villages local to the Khurbet East and Yousefieh oil fields: Including provision of internet access, computers, peripherals and supplies, as well as the refurbishment of dedicated classrooms and programmes to train teaching staff;
- Financial and logistical support for organisations (such as FIRDOS, BIDAYA, SHABAB, AWRD and the Syrian Young Scholars), which provide access to education and educational infrastructure such as mobile libraries, micro finance and assistance for the development of micro-businesses.

Healthcare:

- Providing funding to BASMA (Children with Cancer) at the Al Buruni University Hospital in Damascus, and the Children's Hospital in Damascus;
- BANA (the Syrian institute for the Blind), where Gulf sands assisted to complete the construction of a facility and equipment for a computer-based Braille teaching programme and the construction and population of a digital audio library at BANA's Damascus headquarters;
- Support to AAMAL, the Syrian Organisation for the Disabled, the Syrian Association for Autistic Children which provides teaching and support facilities for children with learning difficulties, and the Light and Flowers Centre for Cerebral Palsy.

Culture:

- Funding for carbon dating and forensic work on discoveries made during the archaeological excavation of an ancient Urkesh Palace at the Tell Mozan site near to Block 26 in north-east Syria. Further details about this important work and the Gulf sands Urkesh Exploration Fund can be viewed at www.urkesh.org.

When the situation permits, Gulf sands will reactivate societal and charitable programmes to improve the health, welfare and prospects of people living in north-east Syria, and central Damascus, specifically children, women and disadvantaged members of society.

Strategic Report

Strategic Priorities and Monitoring Performance

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

Strategic Imperatives	Commentary
Protection, Preservation and Preparation for Re-entry of our Syrian interests	- We continue to seek to preserve all contractual rights and manage business relationships in a manner consistent with all relevant sanctions and Force Majeure status. - We seek the political support of the international community to help enable a controlled and coordinated return to operations, when the time is right. - Our local management team in Syria ensures strong local expertise and presence. - Technical readiness to return continues to be fine-tuned and has been independently validated by OPC. - Rigorous re-entry planning process in progress to maintain readiness to return to conducting operations as soon as circumstances permit (see page 22).
Comprehensive evaluation of new business opportunities	- As the Group increases its focus on business development, effective evaluation and risk assessment will become critical to success. - Strong technical team is in place to identify and scrutinise opportunities as they arise.
Rationalisation of the portfolio to fit the Company's financial and risk appetite	- This exercise is now complete with the confirmation of the mutual termination of the Llanos-50 licence (in early 2022). - This resulted in the elimination of a potential \$15.2 million work program liability and the recovery of £1.22 million (~\$1.52 million) of previously provided-against restricted cash, in May 2022. - The Group will now focus on completing the orderly administrative exit from Colombia.
To build a sustainable business model including maintaining HSES and community relations	- Increased focus on Sustainability and ESG in all business activities. - Continued community, security and environmental assessment processes incorporated into all our operations planning, including: all new business initiatives and Syria Re-entry Planning. - No recordable HSES incidents during the year. - Group wide response to Covid-19 to ensure safety of our team.
Ensure the Group is efficiently run and well financed	- Maintained control over costs. - Maintained support of the Major Shareholders while also exploring potential additional sources of finance. - Consolidation of Major Shareholders in March 2021 results in further concentration of sources of funding. The remaining Major Shareholders reaffirmed their intention to continue to fund the Company at current levels in December 2021 via an extension and expansion of the amended 2017 Facility. £2 million was drawn down under the 2017 Facility during the year. - A drawdown notice for £0.75 million was issued post year-end in March 2022, of which £0.5 million was paid in March 2022 and £0.25 million was waived following the receipt of £1.22 million (~\$1.52 million) of LLA-50 restricted cash funds from Colombia in May 2022. - Up to £5.5 million under the 2017 Facility remains available (up to £3.0 million for General and Administrative costs, up to £2.5 million for potential business development). - Operating costs now expected to be funded into 2024.

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. Further sustainability related KPI's will be developed as operations increase.

KPI	Performance		Commentary and target
Contingent and Prospective working interest Resources (mmboe):		Contingent Resources	In 2015 the Reserves held for Block 26 in Syria were re-classified as Contingent Resources as there was no certainty over when the development of the assets would resume (in particular the fact that there was no guarantee that it would be within five years). This classification has been maintained since then. The Group remains ready to return to production and reclassify these Contingent Resources back to Reserves as soon as circumstances allow.
	2019	83.7	
	2020	80.1	
2C Contingent Resources and best estimate Prospective Resources are both stated on an unrisksed, pre-royalty, working interest basis	2021	76.4	
All Contingent and Prospective Resources relate to Block 26 in Syria which is currently in Force Majeure (see pages 18 – 20 for further details).		Prospective Resources	During 2019 Gulfsands' technical work was reviewed by Oilfield Production Consultants ("OPC") who produced a Competent Person's Report ("CPR"). OPC's CPR, which has been rolled forward to each subsequent year-end including 31 December 2021, resulted in 2C Contingent Resources of 76.4 million boe as at 31 December 2021. All the Contingent Resources numbers take into account unauthorised production taken from the Block 26 assets during the period (Gross: 2021: 7.0 million boe, 2020: 7.4 million boe, 2019: 7.1 million boe). The 2019 CPR performed by OPC also confirmed additional mid-case unrisksed Prospective Resources, relating to nine identified prospects within Block 26, of 546 million boe, which has been reviewed each year remained unchanged since then.
	2019	546	
	2020	546	
	2021	546	
The Group's business development initiatives will include the potential acquisition of further Reserves and/or Resources in the Middle East and broader MENA region, as well as the identification of additional Resources within Block 26.			
Capital expenditure (\$ million)			
Accrued expenditure on exploration for, and appraisal and development of, oil and gas assets.	2019	0.1	Focussed cost-effective expenditure on exploration, appraisal and reserve development activity is an appropriate measure of success of the Group. In recent years financial discipline has reduced the amount of capital expenditure significantly from historic levels but when the circumstances allow, a significant capital programme in Syria is to be expected.
	2020	0.45	
	2021	0	
Expenditures include capitalised internal costs on operated assets (pages 42 - 44 for further details).			No costs were capitalized during the year, as the company anticipated the mutual termination of Llanos-50 in Colombia.
Safety – lost time incidents			
The number of incidents during the year which resulted in loss of working time.	2019	0	Since 2016 operations have been more limited compared to historical levels, though the Group continues to have staff in Colombia and Syria, as well as the UK. Management remains absolutely committed to HSES.
	2020	0	
	2021	0	
Total cash and cash equivalents (\$ million)			
Cash and cash equivalents are funds immediately available to the Group (page 45 for further details).	2019	2.2	Ensuring the Group has sufficient cash resources is critical.
	2020	1.0	At year-end £3-£4 million remained undrawn under the 2017 Facility. In March 2022, a drawdown request for £0.75 million was made under the terms of the 2017 Facility, of which £0.5 million was received in March 2022. The remaining £0.25 million was waived in May 2022, following the receipt of the restricted cash funds from Colombia.
	2021	0.9	
This leaves three more £0.75 million - £1 million tranches to be drawn down in H2 2022 / H1 2023 / H2 2023. These funds are expected to fund the Company into 2024.			

Strategic Report

Strategic Priorities and Monitoring Performance

General and Administrative costs (\$ million) Total General and Administrative costs (page 23 for further details).	2019	3.1	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. Management's focus on cost has continued, though costs increased during the year (although remained lower than 2019) due to a return of activity to pre-Covid levels and specific corporate finance and business development initiatives. Go forward, core General and Administrative costs are expected to be around \$2.0-\$2.5 million per annum.
	2020	2.1	
	2021	2.9	

Strategic Report

Principal Risks and Uncertainties

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

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

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

Geopolitical Risks	
Nature of Risk	Mitigation
The Group's core assets are based in Syria. This country continues to be subject to political uncertainty and its society and infrastructure have been damaged significantly by civil war. The Group's interests in Syria are in Force Majeure as a consequence of UK Sanctions being imposed. There is no indication that these sanctions will be relaxed in the immediate future. It is not possible at this stage to predict how the Syrian authorities will interpret the contractual position relating to the Company's interests once sanctions are lifted and activity resumes, including the extension of the licence period to take account of the period of Force Majeure. This inability to operate also means that Gulfsands has no control over the day-to-day operations of Block 26, including the control of any unauthorised production.	The Group's ability to mitigate these risks is limited. However, the Group liaises closely with the UK authorities, and other available resources, to monitor and assess the geopolitical situation. The Group has declared Force Majeure and believes that its legal rights should be preserved upon its return to operations when circumstances allow. The Group is undertaking extensive work to prepare itself for the time when sanctions are lifted, and it can resume operation of the assets with our partners. The Group is not affiliated to any government, political party, religion, ethnic grouping or similar organisation, but seeks to maintain good relationships with communities and important local stakeholders. Where possible, and within the constraints of UK Sanctions, the Group continues to monitor information available in respect of field and geopolitical activity in respect of Block 26 and seeks to defend its rights against any unauthorised or unlawful activity. Gulfsands continues to step up its engagement with key stakeholders, including regional and international governments, and stands ready to play its part, to the extent sanctions allow, in any agreed UN-sponsored initiatives that can help resolve the current crisis.

Financing	
Nature of Risk	Mitigation
The Group currently has no revenue, with its only producing assets being in Syria and subject to UK Sanctions. The Group is dependant entirely upon external financing to support any activity but its ability to attract and support such financing is constrained severely by the uncertainty surrounding the future of its principal assets. The Group is therefore particularly reliant on the continued support of its Major Shareholders who have been the only sources of significant funding over the past 5 years. Further discussion regarding the current funding situation is contained in the going concern note 1.3a to the Consolidated Financial Statements.	The cost base and funding requirements of the business are continually being assessed to ensure ongoing efficiency and to minimise the requirements for cash injections. General & Administrative costs remain a key focus and current committed financing from the Major Shareholders is expected to fund the Group into 2024. The Board maintains a close relationship with its Major Shareholders and seeks to confirm regularly their willingness to continue to support the Group. The Board has undertaken additional capital preservation measures to ensure this continued support. The Board continues to assess additional potential sources of financing although this is challenging in the current market and political environment.

Strategic Report

Principal Risks and Uncertainties

Shareholder Concentration	
Nature of Risk	Mitigation
As a result of the financing constraints referred to above, and the recent Mandatory Offer, a large proportion of the shares in the Company are held by two shareholders holding approximately 57.75% and 30.89% respectively (the "Major Shareholders"). While access to sources of finance is an absolute priority, concentrated share ownership can enable those shareholders to exert influence on the Board and management which may reflect their interests to the detriment of the minority shareholders. In particular, following the Mandatory Offer, Waterford is unilaterally able to propose and pass, or block an ordinary resolution of the Company, and Waterford and Blake can together propose and pass, or block a special resolution of the Company.	Even post delisting, the Board has sought to continue to maintain high levels of corporate governance. Following delisting from AIM in April 2018, a secondary market trading facility (off-market dealing facility, www.assetmatch.com) has been secured to enable existing shareholders and new investors to trade Ordinary Shares by matching buyers and sellers through periodic auctions.

Health, safety, environment and security	
Nature of Risk	Mitigation
The Group's licence to operate is critically dependent on: - the protection of the health and safety of its staff, its contractors and members of the community in which it operates; - the protection of the environment in which it operates; and - the security of its interests and assets. Failure in respect of these matters could severely impact on the Group's ability to work and obtain further business in its areas of operation as well as putting it at risk of legal and financial liabilities.	The Group maintains best practice policies and procedures in these areas and seeks to manage its business and its contractors in accordance therewith. During the Covid-19 crisis Gulfsands has put the health and safety of its staff as a priority and has sought to follow all applicable government guidance in areas where it operates. The Group has reviewed its internal policies and adopted provisions to allow employees to work effectively remotely and adhere to all government guidelines regarding Covid-19. The implementation of the Company's new Sustainability framework and Sustainability Committee have increased the focus on this important area.

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

Reliance on key staff	
Nature of Risk	Mitigation
The Group has a small staff of experienced people and relies heavily on their knowledge and experience in developing and delivering the Group's strategic objectives.	The Group undertakes internal succession planning where possible together with maintaining contact with a network of experienced people in the industry, including consultants on whom it may call if required. Contracts with key personnel have notice periods that allow sufficient time to source replacements.

Strategic Report

Principal Risks and Uncertainties

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

Global pandemic risk (Coronavirus: Covid-19)	
Nature of Risk	Mitigation
Covid-19 has had an impact on the global economy as a whole and the oil and gas industry, particularly in terms of the availability of capital and demand for hydrocarbon-based products as a result of the global slowdown. The Group is also exposed to investor sentiment both from its Major Shareholders and other potential investors. The Covid-19 crisis has been damaging to investor sentiment generally and in particular in the oil and gas industry. Staff health and safety.	Although there is no immediate direct impact on the Company with respect to revenue, the Board has nonetheless implemented both permanent and temporary capital efficiency measures to ensure that the Company preserves its capabilities, strengths and resources to ensure the Company can survive and thrive when the Covid-19 crisis is over. Covid-19 has reinforced the reliance the Group has on its Major Shareholders and the capital preservation measures the board has implemented during the Covid-19 crisis are in part designed to ensure the ongoing support of those Major Shareholders and partners. Our primary concern is, of course, the welfare of our staff, and partners. In doing so the Board is ensuring compliance with local regulations and guidance in each location in which we operate. The Company is also reducing travel where possible and make greater use of technology to minimise exposure for its staff.

Strategic Report

Operations 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 UK Sanctions in respect of 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 2021

- Continued compliance with applicable sanctions.
- According to in-country sources, Block 26 facilities, wells and infrastructure are understood to remain secure and predominantly functional.
- It is reported that unauthorised production, undertaken by the SDC/SDF and its affiliates, has continued during the year at a rate of approximately 20,000 boepd.
- Office presence maintained in Damascus.
- Increased focus on readiness to re-enter when permitted, including continued internal technical re-work of existing data, as recommended in the 2021 Competent Persons Report ("CPR") by OPC.

Block 26 is located in North-East Syria. The PSC grants to the joint venture (i.e. Gulfsands and Sinochem) the exclusive right for the exploration, development and production in an area designated as "Block 26". This includes the rights to the benefits of production from discovered fields for a minimum of 25 years from the date of initial commercial production from such development area, 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/UK 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 Dolomite and Butmah 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, although an application has been prepared and will be submitted as soon as sanctions allow.

Operation of the Khurbet East and Yousefieh fields during the production phase has been undertaken by Dijla Petroleum Company ("DPC"), a joint operating company formed between Gulfsands, Sinochem and Syrian state oil company, General Petroleum Corporation ("GPC") for the purpose of undertaking the management and control of petroleum production operations and related infrastructure on Block 26. Staff of both Gulfsands and GPC were previously seconded to DPC. 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 and the Syrian Ministry of Petroleum and Mineral Resources. The imposition of these sanctions 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 (now UK Sanctions, post Brexit) 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.

It should be noted that following the Company's service of its Notice of Force Majeure and various legal steps taken by GPC, GPC has assumed operational control and responsibility for the management of DPC. Since the introduction of EU (now UK) Sanctions in early December 2011 and the subsequent declaration of Force Majeure under the PSC, Gulfsands has had no involvement with the operations of DPC, and Gulfsands staff seconded to DPC have been withdrawn, leaving DPC under the management of GPC secondees.

The 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.

Exploration

The final exploration period of the PSC legally expired in August 2012, nine months after the declaration of Force Majeure. The Company believes it is well positioned to progress a significant exploration work programme and will make its case for the reinstatement of this lost time period to undertake such a programme at the time of re-entry. This exploration work programme and related prospects were reviewed by OPC as part of the CPR process.

Strategic Report

Operations review

Production

Since December 2011, Gulfsands has received periodic updates from DPC on oil volumes produced from the Group's Syrian fields under DPC's operation. These updates have often been received on an infrequent and irregular basis and it has not been possible for Gulfsands to verify the content of the information provided.

In early 2017 the Company was informed by DPC that the Group's Syrian fields had returned to significant and regular production. We understand that this production is undertaken by the Syrian Democratic Council/Syrian Democratic Forces ("SDC/SDF") and its affiliates and covers all three fields of Khurbet East, Yousefieh, and now Al Khairat. The average oil production rate from the three fields combined between January 2017 and 31 December 2021 appears to be around 18-20,000 boepd, with a cumulative gross oil volume of approximately 34.8 million barrels of oil having been produced during that period (2017: 6.4 million barrels, 2018: 6.9 million barrels, 2019: 7.1 million barrels, 2020: 7.4 million barrels, 2021: 7.0 million barrels [being 6.4 million barrels of oil and 3.8 Bcf of gas]).

The Group is unable to independently verify this production information from DPC, and whilst remaining sanctions compliant, continually seeks to gain additional information regarding the ongoing status of production operations at its Syrian fields. The status of this production under the terms of the PSC is unclear at this time and the Group has not recognised or received any revenue for this or indeed any production, post the imposition of UK Sanctions. It has however, updated its remaining recoverable resource volumes for these fields, based on this new production information.

Since August 2020, press reports suggested that a private US company Delta Crescent Petroleum had been granted certain dispensations by the Office of Foreign Assets Control ("OFAC") in the US to assist the self-proclaimed Autonomous Administration of North and East Syria ("AANES") and affiliated entities in developing oil and gas in the North East of Syria. It is unclear at this stage the impact that this development has had or may have in Block 26, however the Board remains concerned about the impact that the continued unauthorised production may have, is determined to protect itself and defend its rights against this, and indeed any unlawful activity.

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 60.4 million barrels by year end 2021 (End of 2020: 53.4 million barrels), of which around 41.7 million barrels (2020: 34.7 million barrels), have been produced since Force Majeure was declared, and without the involvement of Gulfsands.

Reserves and Resources

Up until 2015, hydrocarbons related to the known discoveries of Yousefieh and Khurbet East were classified as Reserves. During 2015 these Reserves were reclassified to Contingent Resources as a result of the continuing UK Sanctions in Syria. The Company recognises that it cannot give a definite timeline for the resumption of the development of the discovered fields within Block 26 that was suspended following the declaration of Force Majeure in 2011. In such a circumstance the SPE PRMS Guidelines suggest that if the (re)commencement of development cannot be guaranteed to be within five years from the date of evaluation then the volumes of hydrocarbons should be classified as Contingent Resources rather than Reserves. The Company concluded in December 2015 that the uncertainty in any timeline over which UK Sanctions in Syria may be lifted required that the volumes of oil, gas and condensate previously reported as Syrian Reserves be reclassified by the Company as Contingent Resources.

Since 2015 this classification as Contingent Resources has continued, even though, as at 31 December 2021, the Board believes that UK Sanctions will be lifted well within five years (its base case assumption for the impairment review is three years). The Board will continue to monitor all activity focussed on resolving the situation in Syria and will reconsider the basis for reversing this reclassification in line with any future developments.

Over recent years, the Gulfsands team has undertaken significant internal technical work to review estimated resources as part of the preparation for its return to Syria when circumstances allow. During 2019, independent consultants, Oilfield Production Consultants ("OPC") were commissioned to review, audit and validate this work, and prepare a Competent Persons Report ("CPR") for the Board. This exercise included a comprehensive review of the Block 26 exploration and production interests (Contingent Resources and Prospective Resources) in accordance with the definitions and guidelines set forth in the 2018 Petroleum Resources Management System ("PRMS") approved by the Society of Petroleum Engineers ("SPE").

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 Exploration Period and Production Concession Periods, though there can be no guarantee that this extension will be granted.

Contingent Resources

The Group has evaluated, and was supported in its view by the CPR, that it holds within the Massive, Butmah and Kurrachine reservoirs of Khurbet East field, and the Massive of the Yousefieh field, working interest basis 2C Contingent Resources of 61.0 mmbbls of oil and condensate, and 30.4 bcf of gas (equals 5.1 boe). The Group has also evaluated, and was supported in its view by the CPR, that the oil discovery at Al Khairat contains 2C Contingent Resources of 10.3 mmbbls of oil (working interest basis).

Strategic Report

Operations review

The CPR was originally undertaken effective 1 January 2019 but has been rolled forward, updated and reconfirmed as of 31 December 2021, taking into account, amongst other things the production that has occurred during 2019, 2020 and 2021.

Unrisked working interest basis As at 1 January 2022

	Constituent	1C	2C	3C
Syria Block 26				
(Working interest 50%)				
Khurbet East and Yousefieh	Oil, Condensate and Gas, mmboe	41.1	66.1	94.4
Al Khairat discovery	Oil and Gas, mmboe	5.0	10.3	16.2
Total	mmboe	46.1	76.4	110.6

Please note, certain figures may not add up due to rounding.

"Oil" includes condensate and NGLs.

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

Prospective Resources

OPC reviewed the portfolio of nine identified prospects within Block 26, and in doing so, validated them as Prospects under PRMS definitions and also estimated associated Prospective Resources, on a risked and un-risked, pre-royalty basis. This work was rolled forward, updated and reconfirmed as of 31 December 2021, and is summarised below:

Prospective Resources (Unrisked)

The following table is a summary of OPC's estimate of the oil and gas Prospective Resources (Unrisked) attributable to Block 26 as of 1 January 2022. The figures are based on Gulfsands net 50% working interest ownership:

	Constituent	Low	Mid	High
Total Oil	mmstb	154	320	542
Total Gas	Bscf	878	1,356	1,947
Total Resources	mmboe	300	546	867

Prospective Resources (Risked)

The following table is a summary of OPC's estimate of the oil and gas Prospective Resources (Risked) attributable to Block 26 as of 1 January 2022. The figures are based on Gulfsands net 50% working interest ownership:

	Risked HCIP (mmboe)	Risked Prospective Resources (mmboe)
Total	419	134

Economic Evaluation

OPC also undertook an economic evaluation of the Block 26 project and have updated such evaluation periodically since, though of course these evaluations did not take into account any of the above-ground risks associated with the assets.

Any valuation is sensitive to input assumptions including discount rates used, preservation of current PSC terms, oil price assumptions, timing of resumption of operations, and anticipated capex and opex costs including cost inflation. The OPC Economic Evaluations considered these factors, including related sensitivities. This sensitivity analysis indicates, a central range of Expected Monetary Value ("EMV") of the Block 26 assets, including both Contingent and Prospective Resources, of \$1 billion - \$1.5 billion (net to Gulfsands).

Note that this economic evaluation was independent of the impairment review undertaken for the valuation of the Investment in Dijla Petroleum Company, which is explained in more detail in note 4.2.

Sanction compliance

Gulfsands has taken extensive legal advice with respect to its obligations under the sanctions in place and has liaised regularly with relevant regulators and advisers and has 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 and advisers to ensure this objective is achieved.

Strategic Report

Operations review

Plans For 2022

Gulfsands will continue to do all it can to preserve and protect its rights and assets in Syria as well as prepare its readiness for returning to operations as soon as circumstances allow.

While the macro situation is, of course, beyond the control of Gulfsands alone, management will continue to lobby the international community to find a solution to the situation in Syria for the benefit of all, especially the Syrian people. Gulfsands stands ready to play its part, to the extent sanctions allow, in any agreed UN-sponsored initiatives that can help resolve the current crisis. We intend to continue this dialogue with all stakeholders throughout the year.

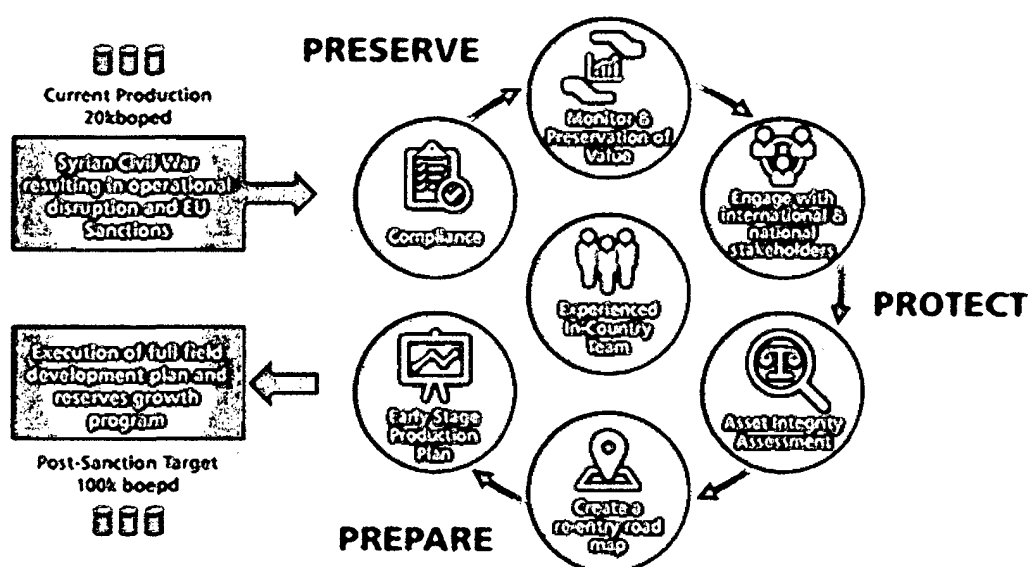
Strategic Report

Operations review

Syria Re-Entry Planning

Gulfands' core Syria strategy is to **Protect** and **Preserve** its rights related to Block 26 and to **Prepare** for re-entry into Syria and a return to operations. While the Block 26 PSC remains in force majeure due to applicable sanctions, Gulfands undertakes its re-entry planning in a strict observance of applicable sanctions and laws.

Gulfands builds ESG and sustainability considerations into all its re-entry planning, as well as respecting the UN Security Council Resolution 2254, which appears to be the accepted blueprint for a Future Syria. It also maintains compliance with all local laws to protect its rights under its PSC while it remains in force majeure.



Gulfands has undertaken a significant amount of internal technical work, formalising and analysing existing data, which has also been subject to a Competent Persons Report review by OPC as part of this re-entry preparation. The OPC review covered a Comprehensive Field Development Plan of the Contingent Resources (formerly Reserves) as well as a Comprehensive Exploration Plan for Prospective Resources within the exploration portfolio of identified prospects.

The Board believes, and the CPR has confirmed that upon re-entry, on a gross basis, Block 26 could be proven to contain over a billion barrels of recoverable resource with the potential for production levels of around 50,000 boepd from existing discoveries in the near term, and over 100,000 boepd from a full block development incorporating the potential exploration upside.

In addition to the technical aspects of the Company's projects, Gulfands' re-entry plan also incorporates the following key objectives:

1. Support the **safety and security** of our in-country team and national staff.
2. **Stay Legal** – understand and ensure compliance with local and international laws & all applicable sanctions.
3. **Protect and preserve our existing asset value** in Syria by continuing to meet our PSC and other contractual obligations where possible under sanctions and mitigate value erosion and damage by non-state actors.
4. Protect the **reputation of Gulfands and partners and maintain support for Gulfands and its partners** with stakeholders globally and in-country.
5. **Protect the environment:** ensuring clean-up of current operations in Block 26 and implementation of leading sustainable oil field practices.
6. **Sharing the benefits:** Gulfands will ensure immediate benefits flow to the Syrian people, through the generation of employment and training and community outreach programs, as well as specific Humanitarian initiatives.
7. **Implement Gulfands Re-Entry and Re-Engagement Strategy** which allows us to actively and safely recommence Syrian Operations when force majeure and sanctions are lifted. This includes:
 - Stakeholder Engagement
 - ESG Plan Implementation
 - Adopt HSSE & Operational Management System
 - Journey to 100,000 barrels per day FDP Execution
 - Implementation of Legal and Financial frameworks and processes
 - IT and Digitisation roll out

Strategic Report

Financial review

Selected operational and financial data

	Year ended 31 December 2021	Year ended 31 December 2020
	\$'000	\$'000
General and Administrative costs	(2,866)	(2,112)
Loss before taxation	(4,191)	(3,963)
E&E cash expenditure	—	(450)
Cash and cash equivalents	884	990
Restricted cash balances	500	500

Financial highlights for the year ended 31 December 2021

- The loss for the year from continuing operations was \$4.2 million (2020: \$4.0 million).
- General and Administrative costs increased by \$0.8 million in the year due to a return of activity to pre-Covid levels and specific corporate finance and business development initiatives.
- The Group continues to hold its investment in its Syrian interest at a carrying value of \$102.0 million.
- Two tranches of £1 million were drawn down during the year under the 2017 Secured Term Financing Facility ("2017 Facility").
- The extension by two years, and expansion of the 2017 Facility in December 2021 created four additional tranches of up to £1 million each, available to be drawn down in 2022 and 2023, and up to £2.5 million for some potential business development activity.
- In March 2022, a drawdown request for £0.75 million was made under the terms of the 2017 Facility, of which £0.5 million was received in March 2022 and the remaining £0.25 million was waived in May 2022, following the receipt of the restricted cash funds from Colombia.
- Cash and cash equivalents were \$0.88 million at 31 December 2021 (31 December 2020: \$0.99 million).

INCOME STATEMENT

The Group reported a loss before tax for the year ended 31 December 2021 of \$4.2 million (2020: \$4.0 million).

General and administrative expenses	Year ended 31 December 2021	Year ended 31 December 2020
	\$'000	\$'000
Gross General and Administrative Expenses	3,442	2,660
Partner recoveries	(576)	(548)
General and Administrative Expenses	2,866	2,112

General and Administrative Expenses for the year ended 31 December 2021 totalled \$2.9 million (2020: \$2.1 million). This increase was due to a return of activity to pre-Covid levels and specific corporate finance projects such as the Mandatory Offer and increased business development initiatives.

Because, during the last two years no office costs have been capitalised, or depreciation charged - the previously used metric of Gross Office Costs After Partner Recoveries and General and Administrative Costs have converged.

The Company's Llanos-50 licence was officially terminated by mutual consent with the ANH after the year end. In anticipation of this, during 2021, no costs relating to Colombia were capitalised and all were expensed (2020: \$0.45 million of cost relating to Llanos-50 were capitalised and immediately impaired). Because the termination was only confirmed post year end, as at 31 December 2021, an intangible exploration and evaluation ("E&E") asset relating to Llanos-50 was maintained at \$2.29 million representing capitalised expenditures from inception to-date, albeit fully impaired. Alongside this, the recovery of restricted cash balance of \$1.8 million held as a performance guarantee in relation to the minimum work obligation under this contract was also fully provided against as it was in prior years. In May 2022, £1.22 million (~\$1.52 million) of this restricted cash was released back to the Company by the ANH. The accounting for the elimination of the E&E asset and the recovery of the performance guarantee will occur in 2022.

Further details of the Llanos 50 and its termination are explained in note 2.4 to the Consolidated Financial Statements.

Foreign exchange gains totalled \$0.18 million (2020: \$0.24 million losses). Non-cash Interest on the 2017 Facility was \$1.4 million (2020: \$1.1 million).

Strategic Report

Financial review

BALANCE SHEET

Exploration and Evaluation Assets

The Group's E&E assets are held at a net book value of \$nil at 31 December 2021 (31 December 2020: \$nil million). All licences have been written off other than the Llanos-50 licence in Colombia and certain exploration assets in Syria which are in force majeure, which have been fully impaired. Llanos-50 will be written off in 2022 as a result of the mutual termination of that contract.

Syria Investment

The Group's investment in Dijla Petroleum Company ("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 for valuation purposes is considered to also include the related rights to production under the PSC), is recorded as a "Financial asset held at fair value through other comprehensive income". Due to the unknown duration of UK Sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and there are a wide range of possible fair value measurements. Management reviewed its internal valuation methodology and continues to believe that as a result of the passage of time and the high degree of judgement required, it is not possible to reliably estimate the investment's fair value. Management continues to consider that the historical cost figure of \$102 million, represents an appropriate estimate of fair value, given there is a wide range of possible fair value measurements, being the last valuation which could be reliably determined. This value is reviewed at least annually for impairment and any impairment losses recognised through the Income Statement.

At 31 December 2021, 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 (Contingent Resources) in Block 26 (see note 4.2 for details). This model was reviewed and updated as part of the Competent Person Report update review by OPC. The Board continues to consider that its position in respect of its Block 26 interests remains strong, and expects Gulfsands and its partner's rights will be honoured and that it will be able to return to operational control of its interests in accordance with the terms of the PSC, as soon as circumstances permit. 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 UK Sanctions will be lifted, or waivers and/or licences received, within at least five years and, based on the current situation in Syria, the Board has concluded, as it did last year, that its "base case" assumption for impairment calculation purposes to be a resumption of operations in three years.

The 'base case' economic model calculates, as at 31 December 2021, a gross contractor undiscounted NPV(0) of \$2.48 billion, meaning a Gulfsands 50% interest undiscounted NPV(0) of \$1.24 billion, as well as Gulfsands 50% interest discounted NPV(10) of \$444.5 million and Gulfsands 50% interest discounted NPV(15) of \$301 million. Therefore, management believes no impairment is necessary and has maintained the \$102 million carrying value on the Balance Sheet at year end. Following consideration, management conclude that it is premature to revalue the carrying value upwards to reflect the potential NPV values, given the ongoing risks and uncertainties associated with the Syrian assets.

In a separate exercise, initially as part of the 2019 CPR, OPC undertook an economic evaluation of the Company's entire Block 26 assets including both Contingent and Prospective Resources. This evaluation is updated each year-end and while it does not take into account any of the above-ground risks associated with the assets, it does consider a range of possible valuation scenarios and continues to indicate a central range of risked Expected Monetary Value ("EMV") of the Block 26 assets, including both Contingent and Prospective Resources, of \$1 billion - \$1.5 billion (net share to Gulfsands).

The Directors have reviewed the carrying value of this Financial Asset held at fair value through other comprehensive income, at 31 December 2021 and are of the opinion that the carrying value, although subject to significant uncertainty, remains appropriate in the circumstances.

Financing

During the year, the eleventh and twelfth tranches of £1 million (~\$1.3 million) each of the 2017 Facility were drawn down in February and September respectively, which provided funds to March 2022.

During 2H 2021, as part of its regular review of funding needs, which usually has a two-year horizon, the Directors considered and assessed requirements and sources of funding for the Company through to the end of 2023. They estimated the requirement to be up to £4 million (~\$5.4 million) for general and administrative costs, and up to £2.5 million for some potential business development activity.

After negotiations, the Company and Major Shareholders agreed in December 2021 to extend and expand the 2017 Facility, structured as follows:

1. An amendment to the 2017 Secured Financing Facility to provide for four additional tranches of between £0.75 million - £1 million each (~\$1.0-\$1.3 million) to be made available for drawdown on, or after, 31 December 2021, 30 June 2022, 31 December 2022 and 30 June 2023 respectively;
2. Up to £2.5 million for some potential business development activity;
3. The maturity was extended to 31 December 2023, so as to align with the timeframe for which the Group is funded; and
4. The price of the Company's option to convert into Equity at maturity was fixed at 5 pence per share.

Strategic Report

Financial review

All other terms are unchanged. Further details of the 2017 Facility are outlined in note 3.6.

In March 2022, a drawdown request for £0.75 million was made under the terms of the 2017 Facility, of which £0.5 million received in March 2022. The remaining £0.25 million was waived in May 2022, following the receipt of the restricted cash funds from Colombia.

The Directors concluded that as a package, the changes made to the 2017 Facility were both in the best interests of the Company and were a fair package and therefore no gain or loss was generated by the amendment. As at 31 December 2021, the Group had \$15.0 million (2020: \$12.4 million) debt outstanding including accrued interest and fees under this 2017 Facility, with this presented in the balance sheet as \$12.0 million as a debt liability and \$3.0 million through equity to reflect the split between the discounted value of the debt and the value of the conversion option. Although there is no interest payable under the new terms of the 2017 Facility, a non-cash effective interest rate of 12% is accrued on the discounted debt liability over the life of the facility, to reflect the Directors' view of the arm's length cost of funding of the business.

Available financing is now expected to fund the Company into 2024, beyond the 2017 Facility maturity date of 31 December 2023. Further details of the 2017 Facility are outlined in note 3.6.

Cash flow

The total change in cash and cash equivalents during the year was an out-flow of \$0.1 million (2020: \$1.2 million net out-flow). Net cash outflow from operating activities during the period totalled \$3.0 million (2020: \$2.0 million) and net cash received from financing activities totalled \$2.9 million (2020: \$1.3 million), made up of cash from the drawdowns under the 2017 Facility and some small share issuances following option exercises. Investing cash outflow from operations during the period totalled \$nil (2020: \$0.45 million).

Cash position

At 31 December 2021 the Group had total cash and cash equivalents of \$0.88 million (31 December 2020: \$0.99 million).

Restricted cash balances at the end of the year (which are presented as long-term financial assets in the Balance Sheet) represent funds held as collateral in respect of future work obligations. The net amount, not provided against, totalled \$0.5 million (31 December 2020: \$0.5 million), and relates the Group's Syrian Block 26 interest. Despite confirmation of the mutual termination of Llanos 50 being received after the year-end, as at 31 December 2021, a full provision remained as at 31 December 2021 against the \$1.8 million restricted cash balances securitised as collateral in respect of future work obligations on the Llanos-50 licence. In May 2022, £1.22 million (~\$1.52 million) of this restricted cash was released back to the Company by the ANH. This will be accounted for in the 2022 financial year.

Going concern

As at the date of this Report, the Group has free cash available for operations totalling approximately \$1.8 million and ongoing general and administrative costs are expected to be approximately \$0.2 million per month. Three further tranches of between £750,000 and £1 million each are available under the 2017 Facility on, or after, each of 30 June 2022, 31 December 2022 and 30 June 2023. The precise amounts of these drawdowns are at the discretion of the Board but after consultation with the Lenders based on the prevailing activity of the business at the time. These funds are expected to fund the Company's general and administrative costs through 2022 and 2023. In addition, up to £2.5 million is available for some potential business development activity.

The Directors note that the Company remains reliant on the support of its two Major Shareholders, without whose support, the Company would be seriously financially challenged.

The Board is also conscious that the current challenging environment and market turmoil including factors relating to Covid-19, means that there is an increased risk inherent in all financing, both from our Major Shareholders and also in respect of the Group's ability to source funds outside of the Major Shareholders, should that be required. Having said that, the Board maintains a good relationship with the Major Shareholders and has no reason to believe that they do not have the willingness and ability to honour their commitments under the 2017 Facility and to continue supporting the Group.

The Directors have also considered the impact of the Coronavirus pandemic on the Group's current operations. Given the Group's limited active operations (it has no involvement in Syrian field operations due to UK Sanctions), the pandemic is not expected to significantly impact the Group in terms of activities. However, the Group has remote-working capabilities and cloud-based systems which will allow it to continue to manage the business as seamlessly as possible. Overall, the directors are satisfied that the Group will maintain its current operations without any significant disruption from the pandemic in the foreseeable future.

Following completion of a review of the going concern position of the Company and Group at the meeting of the Board of Directors on 24 May 2022, including the uncertainties described above, the Board has concluded that, with free cash available for operations totalling \$1.8 million, and the funds available to be drawn down under the 2017 Facility, the Company and the Group is likely to have sufficient resources to continue in operational existence for the foreseeable future, for 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.

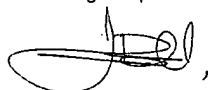
Strategic Report

Financial review

Notwithstanding the confidence that the Board has in its ability to finance the Group's business, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that finance could be procured to fund ongoing costs and liabilities, 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 24 May 2022.



John Bell
Managing Director
24 May 2022

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

Michael Kroupeeov, aged 55

Non-Executive Chairman

Mr Kroupeeov has 27 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 Kroupeeov founded Waterford Finance and Investment Limited ("Waterford"). Waterford is an oil and gas focussed vehicle, specialising in the financing of oil, gas and other energy related projects. He has been directly involved in the capital raising for natural resource projects and in acquiring, restructuring, developing and divesting such assets. Waterford has a number of substantial shareholdings in oil and gas companies with operations in Europe, Africa, Australasia and Former Soviet Union countries, and is a substantial shareholder of Gulfsands, holding a 57.75 percent interest in the Company. He was appointed a Non-Executive Director of Gulfsands in October 2016, and became Non-Executive Chairman in December 2020.

John Bell, aged 56

Managing Director

Mr Bell is a Chartered Engineer with over 30 years of experience in the energy sector having worked at Vice President or Managing Director level at BP plc, Equinor and Suncor Energy (Syria). He has spent a large part of his career in the Middle East, as well as time in North Africa, the Americas, the UK North Sea, Scandinavia and the Caribbean, where he has successfully been involved in developments, operations, corporate restructuring, refinancing and growing businesses to provide enhanced shareholder returns. He has a First-Class Honours Degree in Engineering from Strathclyde University in Scotland and studied Executive Leadership at Haas School of Business, University of California, Berkeley. Previous public company directorships include Gulf Keystone Petroleum, Tethys Petroleum where he was Executive Chairman and Aminex where he was Non-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 53

Finance Director

Mr Morris has extensive international business experience and has advised and sat 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 73

Senior Independent Non-Executive Director

Mr Darby has over 45 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 is currently also a Non-Executive Director at Orcadian Energy Ltd. He was appointed a Non-Executive Director of Gulfsands in November 2012.

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 2021.

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 2 to 26.

Dividends

The Directors do not recommend payment of a dividend in respect of 2021 (2020: \$nil).

Capital structure

Equity

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 outstanding number of Issued Ordinary Shares as at 31 December 2021 is 572,495,785. The Company has both Ordinary and Deferred Shares outstanding as explained in note 6.1. 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 and are not entitled to dividends.

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 2021 all issued shares were fully paid.

Debt

The Outstanding Amount ("Outstanding Amount") under the 2017 Facility as at 31 December 2021 was \$15.0 million (£11.1 million) (2020: \$12.4 million) of debt outstanding including accrued interest and fees. The debt (under accounting standards) is represented in the balance sheet as \$12.0 million debt liability and \$3.0 million equity, totalling \$15.0 million, to reflect the split between the discounted value of the debt and the value of the conversion option. The Outstanding Amount is, at the Lenders' option, convertible into Ordinary Shares at a price of 5 pence per share. The Company also has an option to extinguish the Outstanding Amount at maturity of the 2017 Facility (provided no default exists), at 5 pence. Further details of the 2017 Facility are set out in note 3.6.

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 24 May 2022:

Name	Number of shares	% of shares in issue
Waterford Finance and Investment Limited ⁽¹⁾	330,605,444	57.75%
Blake Holdings Limited	176,847,169	30.89%

(1) Company associated with Michael Kroupeev.

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 2021		At 31 December 2020	
	Number of ordinary shares	Number of share options	Number of ordinary shares	Number of share options
A Morris ^{(1), (2)}	—	5,500,000	320,800	10,000,000
J Darby	100,250	—	100,250	—
J Bell ⁽³⁾	—	10,000,000	—	16,000,000
M Kroupeev ⁽⁴⁾	330,605,444	1,000,000	209,702,618	1,000,000
R Milne ^{(5), (6)}	—	1,000,000	400,000	1,000,000

(1) In May 2021, Mr. Morris' spouse accepted the Mandatory Offer in respect of 320,800 shares.

(2) In May 2021, Mr. Morris exercised and sold 4,500,000 options/shares into the Mandatory Offer.

(3) In May 2021, Mr. Bell exercised and sold 6,000,000 options/shares into the Mandatory Offer.

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

(5) Resigned 9 July 2021.

(6) In May 2021, Mr. Milne accepted the Mandatory Offer in respect of 400,000 shares.

Directors' interests in transactions

Details of transactions with Directors for the year ended 31 December 2021 are set out in note 6.4 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 regulations, and International Financial Reporting Standards ("IFRS") as adopted by the United Kingdom of Great Britain and Northern Ireland.

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 UK and IFRIC (IFRS Interpretations Committee) interpretations.. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the UK and IFRIC (IFRS Interpretations Committee) interpretations, 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:

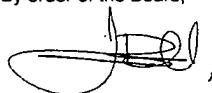
- there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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,



Managing Director
24 May 2022

Governance

Directors' Corporate Governance Report for the year ended 31 December 2021

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 Board has sought to continue to maintain appropriate standards of corporate governance, as it considers practicable for the size, stage of development and operations of the Group.

In order to communicate the Group's business conduct standards to employees, contract staff and contractor personnel across the Group, the Board has established a Code of Business Conduct and Ethics which is 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 four Directors; the Non-Executive Chairman, the Managing Director, the Finance Director, and one Non-Executive Director. The Board's one independent Non-Executive Director is Joe Darby, who is also Senior Independent Director. A brief description of each of the Directors' backgrounds and experience can be found on page 27. The Board continues to review its composition.

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

How the Board operates

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

- the Group's overall strategy and objectives;
- material acquisitions and disposals and major expenditure commitments;
- borrowing and hedging of oil and gas sales;
- the issuance of equity and options;
- annual work programme and budget;
- the Group's annual and, if prepared, half-yearly Financial Statements;
- Board appointments, remuneration and roles;
- corporate policies and corporate governance arrangements; and
- any transactions with related parties such as Major Shareholders.

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

The Board of Directors expects to hold face to face Board Meetings approximately six times per year. During 2021 a regular meeting schedule was maintained although Covid-19 social distancing protocols meant that most meetings were held virtually. In addition, further meetings are convened by conference call to resolve urgent business matters.

Committees of the Board

The Company has established two sub-committees of the Board, an Audit Committee, and a Remuneration Committee; the purpose of which are to review areas of the business mandated by the Board and to present findings and recommendations to the Board for its decision. While the Board delegates certain of its duties, responsibilities and powers to the Committees, so that these can receive suitably focussed attention, they both act on behalf of the full Board, and the matters reviewed and managed by the Committees remain the responsibility of the Board of Directors as a whole.

Each of the Committees has its own written terms of reference; copies of which are available on the Company's website.

Governance

Directors' Corporate Governance Report for the year ended 31 December 2021

1. Audit Committee

The Audit Committee is chaired by Joe Darby 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 2021, and individual attendance by Directors, is shown below:

	Board	Audit	Remuneration
Number of meetings 2021	11	2	7
Attendance:			
Andrew Morris	11	2	n/a
Joe Darby	10	2	7
John Bell	11	2	n/a
Michael Kroupeev	7	1	6
Richard Milne	6	2	1

In addition to the formal Committees of the Board, during the period the Company has established two additional Committees to help with the Governance of the Group:

Strategic Advisory Board

Given the complex nature of managing the Group's Syrian assets and the goal of an ultimate return to production when circumstances allow, the Company has sought significant political, legal and strategic advice. While some of this support has come from lawyers and advisers, the Company has found great value in creating a Board of advisors made up of individuals with deep experience in the fields of diplomacy, international politics, military matters and post conflict rehabilitation.

Sustainability Committee

As explained on pages 9 to 11 in the Strategic Report, Gulfsands is focussed on building a sustainable business model that considers the social, environmental and governance impacts of all its projects. This is guided throughout by the principles outlined by the UN Global Compact and the UN's Sustainable Development Goals ("SDG's"). Gulfsands' progress and performance on its strategic approach to Sustainability is overseen and driven by the Sustainability Committee, chaired by the Managing Director and comprises a combination of line managers and members of the Board and Strategic Advisory Board.

Governance

Directors' Corporate Governance Report for the year ended 31 December 2021

Remuneration of Directors

The remuneration of the Directors for the year ended 31 December 2021 was as follows:

	Annual Remuneration (£'000)							
	Salary and fees		Bonuses		Benefits in kind		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
A Morris ⁽¹⁾	180	168	27	—	2	2	209	170
J Darby ⁽²⁾	34	32	—	—	—	—	34	32
J Bell ⁽³⁾	240	224	36	—	2	2	278	226
M Kroupeevev ⁽⁴⁾	45	28	—	—	—	—	45	28
R Milne ^{(2) (5)}	16	28	—	—	—	—	16	28
	515	480	63	—	4	4	582	484

(1) Finance Director.

(2) Non-Executive Director.

(3) Managing Director.

(4) Non-Executive Chairman.

(5) Resigned 9 July 2021.

Share options

The interests of the Directors, who held office during 2021, in options over the Company's shares are set out in the table below:

	Number of options			Exercise price (£)	Exercisable at 31 December 2021	Grant date	Expiry date
	At 1 January 2021	Exercised	At 31 December 2021				
J Bell ⁽¹⁾	8,000,000	(6,000,000) ⁽¹⁾	2,000,000	0.01	-	11/11/2016	11/11/2026
	8,000,000	—	8,000,000	0.05	-	28/06/2018	26/06/2028
A Morris ⁽²⁾	6,000,000	(4,500,000) ⁽²⁾	1,500,000	0.01	-	11/11/2016	11/11/2026
	4,000,000	—	4,000,000	0.05	-	28/06/2018	28/06/2028
M Kroupeevev	1,000,000	—	1,000,000	0.03375	1,000,000	11/11/2016	11/11/2026
R Milne ⁽³⁾	1,000,000	—	1,000,000	0.03375	1,000,000	11/11/2016	11/11/2026

(1) In May 2021, Mr Bell exercised and sold these 6,000,000 options/shares into the Mandatory Offer.

(2) In May 2021, Mr Morris exercised and sold these 4,500,000 options/shares into the Mandatory Offer.

(3) Resigned 9 July 2021.

All other Director held share options at 31 December 2020 or 2021.

This Report was approved by the Board of Directors on 24 May 2022.

Primary Statements

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

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Gulfsands Petroleum Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet, Company Statement of Changes in Equity, Company Cash Flow Statement and 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 UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Parent 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.

Material Uncertainty related to going concern

We draw attention to note 1.3a to the financial statements, which indicates the Group may need to raise additional finance from its shareholders to fund future obligations and there is no guarantee that the required funding will be available. As noted in note 1.3a, these events or conditions, along with other matters as set out in note 1.3a, indicate that a material uncertainty exists that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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

We draw attention to note 4.2 of 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 UK 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 asset is unknown. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Primary Statements

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

Other Companies Act 2006 reporting

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

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

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Holding discussions with management to obtain and understanding of the laws and regulations relevant to the Group and Parent company. We considered the significant laws and regulations to be those relating to elements of financial reporting framework, tax legislation and environmental regulations;
- Holding discussions with management and the audit committee and considering any known or suspected instances of non-compliance with laws and regulations or fraud;
- Testing the appropriateness of journal entries made through the year by applying specific criteria to detect possible irregularities and fraud;
- Performing a detailed review of the Group's year-end adjusting entries and investigating any that appear unusual as to nature or amount;
- Assessing the judgements made by management when making key accounting estimates and judgements, and challenging management on the appropriateness of these judgements;
- Extending inquiries to individuals outside of management and the accounting department to corroborate management's ability and intent to carry out plans that are relevant to developing the estimate set out in the Emphasis of matter section above;
- Reviewing minutes from board meetings of those charged with governance to identify any instances of non-compliance with laws and regulations; and
- Communicating relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

Primary Statements

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

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:


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Jack Draycott (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
24 May 2022

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 2021

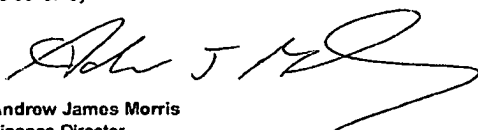
	Notes	2021 \$'000	2020 \$'000
Continuing operations			
General administrative expenses		(2,866)	(2,112)
Share-based payments	5.3	(1)	(10)
Exploration costs written-off/impaired	2.3	—	(450)
Operating loss	5.2	(2,867)	(2,572)
Foreign exchange gains/(losses)		176	(239)
Loan facility finance cost	3.6	(1,437)	(1,065)
Other finance expenses		(63)	(87)
Other finance income		—	—
Loss before taxation		(4,191)	(3,963)
Taxation	5.7	—	—
Loss for the year		(4,191)	(3,963)
Loss per share attributable to the owners of the parent company (cents)			
Basic and Diluted	5.8	(0.74)	(0.71)

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

Financial Statements
Consolidated Balance Sheet as at 31 December 2021

	Notes	2021 \$'000	2020 \$'000
Assets			
Non-current assets			
Property, plant and equipment	2.1, 2.2	—	—
Intangible assets	2.3	—	—
Long-term financial assets	3.3	500	500
Investments	4.2	102,000	102,000
		102,500	102,500
Current assets			
Inventory	3.5	—	—
Trade and other receivables	3.1	212	286
Cash and cash equivalents	3.2	884	990
		1,096	1,276
Total assets		103,596	103,776
Liabilities			
Current liabilities			
Trade and other payables	3.4	367	1,259
Loan facility	3.6	—	11,118
		367	12,377
Non-current liabilities			
Trade and other payables	3.4	3,972	3,218
Loan facility	3.6	11,982	—
		15,954	3,218
Total liabilities		16,321	15,595
Net assets		87,276	88,181
Equity			
Capital and reserves attributable to equity holders			
Share capital	6.1	19,491	19,346
Share premium		112,909	112,909
Merger reserve		11,709	11,709
Convertible loan note reserve	6.2, 3.6	2,994	2,367
Retained loss		(59,827)	(58,150)
Total equity		87,276	88,181

These Consolidated Financial Statements were approved by the Board of Directors on 24 May 2022 and signed on its behalf by:



Andrew James Morris
Finance Director
24 May 2022

Financial Statements

Consolidated Statement of Changes in Equity for the year ended 31 December 2021

	Share capital \$'000	Share premium \$'000	Merger reserve \$'000	Convertible loan note reserve \$'000	Retained (loss)/profit \$'000	Total equity \$'000
At 1 January 2020	19,346	112,909	11,709	2,197	(54,197)	91,963
Loss for 2020	—	—	—	—	(3,963)	(3,963)
Share-based payment charge	—	—	—	—	10	10
Transactions with owners						
Share placing/conversion	—	—	—	—	—	—
Equity element of convertible loan note	—	—	—	170	—	170
At 31 December 2020	19,346	112,909	11,709	2,367	(58,150)	88,181
Loss for 2021	—	—	—	—	(4,191)	(4,191)
Share-based payment charge	—	—	—	—	1	1
Transactions with owners						
Shares issued	145	—	—	—	—	145
Equity element of convertible loan note	—	—	—	146	—	146
Recycling of convertible loan note through retained earnings	—	—	—	(2,513)	2,513	—
Extension of secured loan from 31.12.2021, to 31.12.2023	—	—	—	2,994	—	2,994
At 31 December 2021	19,491	112,909	11,709	2,994	(59,827)	87,276

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

Financial Statements

Consolidated Cash Flow Statement

	Notes	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Operating loss from continuing operations		(2,867)	(2,572)
Depreciation and amortisation	2.2	—	—
Exploration costs written off/impaired	2.3	—	450
Share-based payment charge	5.3	1	10
Decrease/(increase) in receivables	3.1	74	(52)
(Decrease)/increase in payables	3.4	(138)	252
Foreign exchange losses		(27)	(78)
Finance expenses paid		(63)	(87)
Interest received		—	—
Net cash used in operating activities		(3,020)	(2,076)
Investing activities			
Exploration and evaluation expenditure		—	(450)
Net cash used in investing activities		—	(450)
Financing activities			
Loan draw-down	3.6	2,769	1,305
Share issue		145	—
Net cash provided by financing activities		2,914	1,305
Decrease in cash and cash equivalents		(106)	(1,221)
Cash and cash equivalents at beginning of year		990	2,211
Cash and cash equivalents at end of year	3.2	884	990

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

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 2021 were authorised for issue by the Board of Directors on 24 May 2022 and the Balance Sheets were signed on the Board's behalf by Andrew James Morris, Finance Director.

The Consolidated Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 2021 and for the comparative year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards as adopted by the UK 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, measurement and accounting standards

The Consolidated Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The consolidated financial statements have been prepared on a historical cost basis. The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 1.4.

Going concern

As at the date of this Report, the Group has free cash available for operations totalling approximately \$1.8 million and ongoing general and administrative costs are expected to be approximately \$0.2 million per month. Three further tranches of between £0.75 million and £1 million each are available under the 2017 Facility on, or after, each of 30 June 2022, 31 December 2022 and 30 June 2023. The precise amounts of these drawdowns are at the discretion of the Board but after consultation with the Lenders based on the prevailing activity of the business at the time. These funds are expected to fund the Company's general and administrative costs through 2022 and 2023. In addition, up to £2.5 million is available for some potential business development activity.

The Directors note that the Company remains reliant on the support of its two Major Shareholders, without whose support, the Company would be seriously financially challenged.

The Board is also conscious that the current challenging environment and market turmoil including factors relating to Covid-19, means that there is an increased risk inherent in all financing, both from our Major Shareholders and also in respect of the Group's ability to source funds outside of the Major Shareholders, should that be required. Having said that, the Board maintains a good relationship with the Major Shareholders and has no reason to believe that they do not have the willingness and ability to honour their commitments under the 2017 Facility and to continue supporting the Group.

The Directors have also considered the impact of the Coronavirus pandemic on the Group's current operations. Given the Group's limited active operations (it has no involvement in Syrian field operations due to UK Sanctions), the pandemic is not expected to significantly impact the Group in terms of activities. However, the Group has remote-working capabilities and cloud-based systems which will allow it to continue to manage the business as seamlessly as possible. Overall, the directors are satisfied that the Group will maintain its current operations without any significant disruption from the pandemic in the foreseeable future.

Following completion of a review of the going concern position of the Company and Group at the meeting of the Board of Directors on 24 May 2022, including the uncertainties described above, the Board has concluded that, with free cash available for operations totalling \$1.8 million, and the funds available to be drawn down under the 2017 Facility, the Company and the Group is likely to have sufficient resources to continue in operational existence for the foreseeable future, for a period not less than twelve months from the date of approval of this Financial Report. Accordingly, the Directors consider it appropriate to continue to adopt the going concern basis in preparing these Financial Statements.

Notwithstanding the confidence that the Board has in its ability to finance the Group's business, the Directors, in accordance with Financial Reporting Council guidance in this area, conclude that at this time there is material uncertainty that finance could be procured to fund ongoing costs and liabilities, 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 2021

1.3 Significant accounting policies

b) Accounting standards, amendments and interpretations effective in 2021

Other Accounting standards that have come into effect as of 1 January 2021 have been:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, subsequent to the second part of a two-phase project under Interest Rate Benchmark Reform "IBOR", which finalises the IBOR and other interest rate benchmarks reform.

The adoption of these standards has had no effect on the financial results of the Group.

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

There are a number of standards, amendments to standards, and interpretations which have been issued that are effective in future periods and which the Group has chosen not to adopt early, in particular:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 9);
- Reference to the Conceptual Framework – Amendments (IFRS 3);
- Definition of accounting estimate – Amendments (IAS 8); and
- Deferred tax on leases and decommissioning obligations – Amendments (IAS 12).

None of these are expected to have a significant effect on the Group.

d) Basis of consolidation

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

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

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

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

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

e) Foreign and reporting currency

These Consolidated Financial Statements are presented in US Dollars. The majority of all costs associated with foreign operations are denominated in US Dollars and not the local currency of the operations. Therefore, the presentational and functional currency of the Company, and the functional currency of all subsidiaries, is the US Dollar. Gains and losses from foreign currency transactions, if any, are recognised in the Income Statement for the year. The effective exchange rate to the Pound Sterling for the year ended 31 December 2021 was £1: \$1.37 (2020: £1: \$1.29). The exchange rate to the Pound Sterling as at 31 December 2021 was £1: \$1.35 (2020: £1: \$1.37).

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

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 restricted cash balances – for further details see notes 2.4 and 3.3;
- work obligation commitments – for further details see note 2.4 and 6.7;
- 2017 Facility equity conversion option – for further details see notes 3.6 and 6.2; and
- carrying value of the Group's Syrian Assets (i.e. 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.

Depletion of producing assets

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

Impairment

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

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

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

Property, plant and equipment other than oil and gas assets, which comprise predominantly computer hardware and software, 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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

2.2 Property, plant and equipment other than oil and gas assets (continued)

	Property Plant & Equipment Total \$'000
Cost:	
At 1 January 2020	1,514
Additions	—
Disposals	—
At 31 December 2020	1,514
Additions	—
Disposals	—
At 31 December 2021	1,514
Accumulated depreciation and depletion:	
At 1 January 2020	(1,514)
Charge for 2020	—
Disposals	—
At 31 December 2020	(1,514)
Charge for 2021	—
Disposals	—
At 31 December 2021	(1,514)
Net book value at 31 December 2020	—
Net book value at 31 December 2021	—

2.3 Intangible assets

Key accounting judgements, estimates and assumptions

Recoverability of intangible oil and gas exploration and evaluation assets

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

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

Recognition and measurement

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

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

Impairment

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

2.3 Intangible assets (continued)

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

	Syria \$'000	Colombia \$'000	Total \$'000
Cost:			
At 1 January 2020	10,505	1,841	12,346
Additions	—	450	450
At 31 December 2020	10,505	2,291	12,796
Additions	—	—	—
At 31 December 2021	10,505	2,291	12,796
Accumulated impairment:			
At 1 January 2020	(10,505)	(1,841)	(12,346)
Exploration expenditure impaired	—	(450)	(450)
At 31 December 2020	(10,505)	(2,291)	(12,796)
Exploration expenditure impaired	—	—	—
At 31 December 2021	(10,505)	(2,291)	(12,796)
Net book value at 31 December 2020	—	—	—
Net book value at 31 December 2021	—	—	—

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 although commercial development approval is yet to be granted by the government of the Syrian Arab Republic since force majeure was declared prior to application for a Production Licence. An application has been prepared and will be submitted as soon as circumstances allow, and Contingent Resources have been allocated to this discovery. The Twaiba and Wardieh wells are still under evaluation. Following the imposition of UK Sanctions against the oil industry in Syria, an impairment test was conducted and the carrying value of all E&E assets in Syria was impaired to nil as a result of the uncertainty arising at that time. The E&E assets remain impaired as at the date of this Report.

Colombia

During the year the Group had an interest in one E&P contract in Colombia, Llanos-50 ("LLA-50").

An environmental study, Medidas de Manejo Ambiental ("MMA"), over the planned seismic area and an Environmental Impact Assessment ("EIA") over the entire LLA-50 block, performed in 2017 and 2018, identified various environmental issues and restrictions which impacted the ability to execute the seismic and drilling programme on the block. It was agreed at the time with Agencia Nacional de Hidrocarburos ("ANH") that the licence should be put into suspension to allow time for further environmental studies and a review by Corporinoquia, the local environmental agency, who, in 2019, declared the planned seismic programme non-viable. At this time the Company submitted a formal request to terminate the licence by mutual agreement the licence to the ANH.

During 2020, the ANH formally denied that existing evidence was sufficient to terminate the licence and therefore requested that Gulfsands commission an additional MMA environmental review covering the remainder of the block (the "MMA-2020") and obtain a further pronouncement from Corporinoquia, over this. The Company agreed to do so. The MMA-2020 was completed in H2 2020 and was submitted to Corporinoquia for review who in March 2021 concluded its review and confirmed once more that the entire block is non-viable. Gulfsands then re-submitted its request for mutual termination to the ANH.

Subsequent to the year-end, in March 2022, confirmation was received from ANH that the Llanos-50 licence was officially terminated by mutual consent without liability to either party.

In anticipation of this, during 2021, no costs relating to Colombia were capitalised and all were expensed (2020: \$0.45 million of cost relating to Llanos-50 were capitalised and immediately impaired). Because the termination was only confirmed post year end, as at 31 December 2021, an intangible exploration and evaluation ("E&E") asset relating to Llanos-50 was maintained at \$2.29 million representing capitalised expenditures from inception to-date, albeit fully impaired. Alongside this, the recovery of restricted cash balance of \$1.8 million held as a performance guarantee in relation to the minimum work obligation under this contract was also fully provided against as it was in prior years. In May 2022, £1.22 million (~\$1.52 million) of this restricted cash was released back to the Company by the ANH.

The accounting for the elimination of the E&E asset and the recovery of the performance guarantee will occur in 2022.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

2.4 Work obligation commitments

Given that technically the Llanos-50 licence in Colombia was still active at the year-end, as at 31 December 2021 the Group had the following capital commitments in respect of that licence.

Llanos 50 - first exploration phase expiry date and deadline for fulfilment of capital commitments; originally May 2018 (licence officially expired August 2020).

- Drilling of one exploration well.
- 2D seismic minimum 108 km.
- Total minimum work commitments outstanding estimated at \$15.2 million.

These commitments were eliminated in March 2022, following confirmation of the mutual termination of the Llanos-50 licence (see note 2.3).

\$1.78 million (31 December 2020: \$1.78 million) of deposits have been lodged to support guarantees given to the ANH in respect of completion of the minimum work commitments on Llanos-50. These have been fully provided against as at 31 December 2021. This amount is described in note 3.3, restricted cash. Following the mutual termination of the Llanos-50 licence, in May 2022, £1.22 million (~\$1.52 million) of these deposits was released back to the Company by the ANH.

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

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.

	2021 \$'000	2020 \$'000
Other receivables	21	32
Prepayments and accrued income	191	254
	212	286

At 31 December 2021 and 2020 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.

	2021 \$'000	2020 \$'000
Cash at bank and in hand	884	990
Restricted cash balances	500	500
Total cash and bank resources	1,384	1,490
Included in long-term financial assets (note 3.3)	(500)	(500)
Total cash and cash equivalents	884	990

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 2021 include \$1.78 million (31 December 2020: \$1.78 million) of deposits collateralising guarantees given to ANH, the state regulator, to secure minimum exploration work commitments in Colombia under the Llanos-50 licence ("LLA-50") (\$1.78 million). Given the uncertainty over the LLA-50 licence in recent years, as explained in note 2.3, this restricted cash has been fully provided against since 2016, and as at 31 December 2021. Following the mutual termination of the Llanos-50 licence, which occurred post year-end, in May 2022, £1.22 million (~\$1.52 million) of this restricted cash was released back to the Company by the ANH. This will be accounted for in 2022.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

3.3 Long-term financial assets (continued)

	2021 \$'000	2020 \$'000
Restricted cash balances	2,281	2,281
Provision against recovery of restricted cash balances	(1,781)	(1,781)
Total cash and cash equivalents	500	500

The net amount of \$0.5 million (31 December 2020: \$0.5 million) relates the Group's Syrian Block 26 interest. If returned, half of this amount would be due to Gulfsands joint venture partner, Sinochem Group, and so a payable of \$0.25 million has been included for this in non-current liabilities (note 3.4).

3.4 Trade and other payables

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

	2021 \$'000	2020 \$'000
Current liabilities		
Trade payables	56	103
Accruals and other payables	311	1,156
	367	1,259

Non-current liabilities		
Trade payables, accruals and other payables	3,972	3,218
	3,972	3,218

Non-current liabilities includes predominantly legacy items relating to the Syria business prior to the declaration of force majeure in 2011 due to UK Sanctions. This includes certain amounts that were in dispute at the time and certain amounts relating to parties subject to asset freezing regulations under the UK Sanctions regime. It is unclear if and when these amounts may become payable. These amounts will be re-assessed when the situation in Syria normalises.

Following a review during 2021, \$0.8 million of accruals and other payables have been reclassified from current liabilities to non-current liabilities.

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.

	2021 \$'000	2020 \$'000
Drilling and production inventory	750	750
Provisions	(750)	(750)
	-	-

Drilling and production inventory of \$0.75 million (2020: \$0.75 million) relates to Syrian operations. In 2020, the Company concluded that due to the security situation in Syria, significant amounts of inventory had either been stolen or were otherwise no longer under the control of the Group. Management therefore wrote down the gross value of inventory to \$0.75 million but maintained a provision of \$0.75 million (2020: \$0.75 million) against its value, given the uncertainties that remain around access to the inventory and ability to use it in the near term as a result of current UK Sanctions. This treatment remains as at 31 December 2021.

3.6 Loans and borrowings

Group and Company

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 (~\$5 million) (the "2017 Facility") with its Major Shareholders, Waterford, Blake and ME Investments Limited.

The 2017 Facility had a maturity of February 2020 and was available for drawdown by the Company in five equal tranches of £0.8 million (~\$1 million). The first three tranches were drawn down in 2017 and the remaining two tranches in early 2018.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

3.6 Loans and borrowings (continued)

Secured Term Financing Facility (continued)

In March 2018 an extension to the 2017 Facility was agreed with the Major Shareholders, giving a further £4 million (~\$5 million) of committed funding in four new tranches. As part of 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 would be repayable in cash unless the Company has exercised an equity conversion right. Under this equity conversion right, the 2017 Facility (as amended) was extinguishable with equity at maturity, at the Company's option, into shares of the Company at a price equal to the lower of (i) 5.09 pence (being the 90-day average closing price prior to 19 March 2018 - the date immediately prior to the announcement of the delisting proposal) and (ii) the lowest price at which the Company has raised equity capital during the life of the 2017 Facility (the "Extinguishment Option").

Two of the new tranches were drawn down in 2018. In 2019, the remaining two tranches were drawn down as scheduled.

In November 2019, the Company's Major Shareholders committed a further £4.1 million (~\$5.13 million) of funding for the Group. £1.1 million (~\$1.4 million) of the funding was provided through an underwritten equity offering (which completed in December 2019), and a further £3 million (~\$3.75 million) of funding was added to the 2017 Facility to be available for draw-down in three instalments of £1 million (~\$1.3 million) on each of 30 June 2020, 31 December 2020 and 30 June 2021. As part of this agreement, the lenders also agreed to convert £1 million (~\$1.3 million) of principal of the 2017 Facility to coincide with the equity offering.

In return for the Major Shareholders' funding commitments in November 2019, the Major Shareholders requested that the terms of the 2017 Facility be amended such that the pathway to conversion to Ordinary Shares be clarified and formalised. The Company and Major Shareholders agreed that this clearly was best achieved by amending the existing Offset Right which the Lenders had to participate in any subsequent Equity Raise at an effective discount of 10%. This Offset Right was therefore amended to become a formal conversion option for the Lenders at a price of 5 pence per Ordinary Share (the "Lenders' Conversion Option"). Consequently, the 2017 Facility was amended, not only to incorporate the new tranches and an extension of its maturity date to 31 December 2021, but also to remove the Offset Right, incorporate the Lenders' Conversion Option and eliminate interest and other fees going forward. The Group retained the Extinguishment Option at maturity, which ratcheted down to 5 pence per share following the December 2019 equity offering.

Until the November 2019 amendment, interest on loans made (together with accrued fees and interest) ran at 7% per annum and a commitment fee of 1% per annum ran on any undrawn proportion of the Facility, with all fees and interest accruing quarterly. These were eliminated on a go-forward basis from November 2019.

The amendment to the conversion feature in November 2019 necessitated a change in accounting treatment under IFRS 9. The Directors concluded that as a package, the changes made to the 2017 Facility were both in the best interests of the Company and were a fair package. The changes represented a significant modification under IFRS 9. However, the fair value of the loan, under the new terms were determined to be equivalent to the carrying value. Hence, no gain or loss was recognised by the amendment.

During 2021, the eleventh tranche of £1 million (~\$1.3 million) and the twelfth tranche of £1 million (~\$1.3 million) were drawn down.

In December 2021, the remaining Major Shareholders (Blake and Watford) committed additional funding of up to £6.5 million (~\$8.8 million) through an expansion and extension of 2017 Facility, to cover expected General and Administrative costs for the next two years and some potential business development activity. The 2017 Facility was also extended for two years to now mature on 31 December 2023 and the strike price of the Extinguishment Option was fixed at 5 pence per share. The funding of up to £4 million of committed funding for general and administrative costs was made available for draw-down in four instalments on each of 31 December 2021, 30 June 2022, 31 December 2022, and 30 June 2023. Each instalment will be between £0.75 million and £1 million depending on business requirements. The business development activity funding of up to £2.5 million of committed funding will be assessed, as required, based on opportunities identified.

These amendments in December 2021, again represented a significant modification under IFRS 9. As a result of this, the existing Equity reserve held for the 2017 Facility was released through retained Earnings and a new Equity portion established in accordance with IFRS 9. The fair value of the loan, under the new terms were determined to be equivalent to the existing carrying value and hence no gain or loss was recognised by the amendment.

In March 2022, a drawdown request for £0.75 million was made under the terms of the 2017 Facility, of which £0.5 million was received in March 2022. The remaining £0.25 million was waived in May 2022, following the receipt of the restricted cash funds from Colombia.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

3.6 Loans and borrowings (continued)

Secured Term Financing Facility (continued)

All, or part, of the undrawn portion of the 2017 Facility may be cancelled at any time by the Company. The Company may prepay the whole or any part (if at least £0.8 million) of the outstanding amounts at any time subject to paying a 10% premium on the amount pre-paid. The proceeds are being used for general and administrative expenses of the Group and for working capital purposes. The entire 2017 Facility (as amended) 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 Fides Trust Limited. The articles of association of Gulfsands Petroleum Limited were also 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.

As at 31 December 2021, the Group had \$15.0 million (£11.1 million) (2020: \$12.4 million) of debt outstanding including accrued interest and fees under the 2017 Facility. The debt (under accounting standards), is represented in the balance sheet as \$12.0 million debt liability and \$3.0 million equity, totalling \$15.0 million, to reflect the split between the discounted value of the debt and the value of the conversion option as a result of the December 2021 amendment. Although there is no interest payable under the new terms of the 2017 Facility, a non-cash effective interest rate of 12% is accrued on the discounted debt liability over the life of the facility, to reflect the Directors' view of the arm's length cost of funding of the business. The 2017 Facility now matures on 31 December 2023.

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

	2021 \$'000	2020 \$'000
At 1 January	11,118	8,587
Loan draw-downs	2,769	1,305
Interest expense	1,437	1,065
Foreign exchange (gain)/loss	(202)	331
Conversion into equity	—	—
Transfer to convertible debt reserve (note 6.2)	(146)	(170)
Equity element of Facility resulting from December 2021 Amendment	(2,994)	—
At 31 December	11,982	11,118

Subsequent to the year-end, in March 2022, a drawdown request for £0.75 million was made under the terms of the 2017 Facility, of which £0.5 million received in March 2022. The remaining £0.25 million was waived in May 2022, following the receipt of the restricted cash funds from Colombia.

Section 4 – Other Assets and Liabilities

4.1 Investments

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

Name of company	Proportion of voting shares at 31 December 2021	Nature of business	Country of incorporation
Directly held by the Company:			
Gulfsands Petroleum Ltd. ^(b)	99.99% ^(a)	Holding company	Cayman Islands
Indirectly held by the Company:			
Gulfsands Petroleum Holdings Ltd ^(b)	100%	Holding company	Cayman Islands
Gulfsands Petroleum Levant Ltd ^(b)	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Iraq Ltd ^(b)	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum (MENA) Ltd ^(b)	100%	Oil and gas exploration	Cayman Islands
Gulfsands Petroleum Sud America Ltd ^{(b)(c)}	n/a	Oil and gas exploration	Cayman Islands

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

(b) Company registered addresses: 30 The Strand, 46 Canal Point Drive, Grand Cayman KY1-1105, Cayman Islands.

(c) Struck-off (with consent) from the Cayman Islands Register of Companies, effective 31 March 2021.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

4.2 Financial asset held at fair value through other comprehensive income

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 for this purpose is considered to also include the related rights to production under the PSC), is recorded as a "Financial asset held at fair value through other comprehensive income" investment.

Due to the unknown duration of UK Sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and there are a wide range of possible fair value measurements. Management have reviewed their internal valuation methodology in 2021 (as well as prior years) and continues to believe that as a result of the further passage of time and the high degree of judgement required, it is not possible to reliably estimate the investment's fair value. Management continues to consider that the historical cost figure of \$102 million, represents an appropriate estimate of fair value, given there is a wide range of possible fair value measurements, being the last valuation which could be reliably determined, as previously disclosed. This value will be reviewed periodically for impairment and any impairment losses recognised through the Income Statement.

Financial assets held at fair value through other comprehensive income should be stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses which are recognised directly to the Income Statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss. Management assess the recoverability of the carrying value of the Financial asset held at fair value through other comprehensive income 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.

Impairment review of the Group's investment in DPC

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 UK Sanctions, DPC is considered to be controlled by General Petroleum Corporation ("GPC"). 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 Financial asset held at fair value through other comprehensive income. The carrying value of the Financial asset held at fair value through other comprehensive income investment at 31 December 2021 is \$102 million (2020: \$102 million).

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

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

1. Oil price

For the year ended 31 December 2021 Management have used ERC Equipose Ltd's (Independent Energy Experts) Q1 2022 "base oil price deck" for the period from 2022 (\$75 /bbl) to 2025 (\$70 /bbl), 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 an appropriate approach. In accordance with applicable accounting standards the post year-end increase in the oil price in early 2022 is not relevant to the impairment calculation at year-end. However, sensitivities are provided below showing the impact that a 25% and 50% rise and fall in oil price would have on the impairment calculation.

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 UK Sanctions will be lifted within at least five years and will continue to monitor all activity focussed on resolving the situation in Syria. Based on the current situation in Syria, and acknowledging the inherent uncertainty in any assumption regarding a return date, the Board has concluded, as it did last year, that an appropriate estimate for the resumption of operations is three years. Therefore, the Board has decided to use commencement of production in three years as the estimate 'base case' comparative valuation for the impairment review.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

4.2 Financial asset held at fair value through other comprehensive income (continued)

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

Other model assumptions

The model uses the production profiles based upon 2C contingent resources at Khurbet East (Massive, Butmah and Kurrachine Dolomite), Yousefieh (Massive) and Al Khairat (Massive). As part of the CPR and FDP work undertaken by OPC, production profiles were reanalysed and reconfirmed. The model has been amended accordingly. Receivables are included in relation to oil produced and invoiced but not yet received, and oil produced and not yet invoiced, on the expectation that these amounts will be recovered once UK Sanctions are lifted. The table below is based on using a 15% discount rate to give a net present value ("NPV").

The economic model calculates:

- a Gross Contractor undiscounted NPV(0) of \$2.47 billion;
- Gulfsands 50% interest, undiscounted NPV(0) of \$1.24 billion; and
- Gulfsands 50% interest discounted NPV(10) of \$444.5 million
- Gulfsands 50% interest discounted NPV(15) of \$301.0 million.

The Group has used the NPV(15) of \$301.0 million (2020: \$271.5 million) to conclude that no impairment is necessary but the following table sets out the NPV(15) calculated when adjusting the two key drivers: oil price and time delay to resumption of production. All figures are presented in \$ million:

Oil price	Delay to first production		
	One-year delay	Three-year delay	Five-year delay
50% decrease	205.5	125.0	67.5
25% decrease	337.5	213.5	127.0
ERCE's Q1 2022 base oil price deck	470.0	301.0	183.0
25% increase	602.0	388.5	239.0
50% increase	734.5	475.5	295.0

The following table sets out the impact that changes in the key variables would have on the comparative valuation of the asset, \$301 million, for the impairment review.

Change in comparative valuation of investment from \$301 million (\$ million)	
Delay until first production	
5 years	(118.0)
1 years	169.0
Oil price	
50% decrease	(176.0)
25% decrease	(87.5)
25% increase	87.5
50% increase	174.5
Change in discount rate to	
20%	(108.0)
10%	100.5
Change in forecast capex	
25% increase	(12.5)
25% decrease	12.5
Change in forecast opex	
25% increase	(6.5)
25% decrease	6.5

The Directors have reviewed the carrying value of this Financial asset held at fair value through other comprehensive income at 31 December 2021 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 once re-entry into Syria is completed. 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.

In a separate exercise, as part of the 2019 CPR and subsequently updated each year since, OPC undertook an economic evaluation of the Company's entire Block 26 assets including both Contingent and Prospective Resources. None of these evaluations have taken into account any of the above-ground risks associated with the assets, but they did consider a range of possible valuation scenarios and indicated a central range of risk Expected Monetary Value ("EMV") of the Block 26 assets, including both Contingent and Prospective Resources, of \$1 billion - \$1.5 billion (net share to Gulfsands).

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Section 5 – Results for the Year

5.1 Segmental analysis of continuing operations

For management purposes, during 2020 and 2021 the Group operated in two geographical areas: Colombia and 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 2021	Syria \$'000	Colombia \$'000	Other \$'000	Total \$'000
Total administrative expenditure	(629)	(209)	(2,028)	(2,867)
Exploration costs written off/impaired	—	—	—	—
Operating loss	(629)	(209)	(2,028)	(2,867)
Financing cost				(1,324)
Net loss from continuing operations				(4,191)
Total assets	102,680	15	901	103,596
Total liabilities	(4,172)	—	(12,149)	(16,321)
E&E capital expenditure	—	—	—	—

Year ended 31 December 2020	Syria \$'000	Colombia \$'000	Other \$'000	Total \$'000
Total administrative expenditure	(687)	(153)	(1,282)	(2,122)
Exploration costs written off/impaired	—	(450)	—	(450)
Operating loss	(687)	(603)	(1,282)	(2,572)
Financing cost				(1,391)
Net loss from continuing operations				(3,963)
Total assets	102,759	75	942	103,776
Total liabilities	(4,249)	(125)	(11,221)	(15,595)
E&E capital expenditure	—	450	—	450

5.2 Operating loss

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

	2021 \$'000	2020 \$'000
Share-based payment charges (note 5.3)	1	10
Depreciation and amortisation of other assets (notes 2.2 and 2.3)	—	—
Exploration expenditure written-off/impaired (note 2.3)	—	450
Staff costs excluding share-based payments (note 5.5)	1,763	1,536
Lease rentals:		
Buildings	20	58

Leases

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

5.3 Share-based payments

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

The only share-based plan currently in operation is the Gulfsands Restricted Share Plan which was introduced in 2010 and was due to expire in 2020 but has been extended to 2030. 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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

5.3 Share-based payments (continued)

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 estimated fair value of the share options granted was calculated using a Black-Scholes option pricing model. No dividends were factored into the model and volatility was estimated based on a combination of historic and anticipated price performance. 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 exercisable immediately is expensed at the time of issuance of the award. The charge for the year was \$1,000 (2020: \$10,000) and further details are provided in note 6.1.

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

The vesting schedule of the additional 4 million and 2 million options respectively was not set at the time of issuance but during 2018, the Board confirmed the vesting criteria would be based upon operational targets. In addition, contractual terms were clarified which resulted in Mr. Morris being issued an additional 1 million such options. Once vested, the options are exercisable for a period of 10 years (from 2016). In 2018, half of these remaining, unvested 2016 options vested on the completion of the Putumayo-14 farmout (2 million and 1.5 million options respectively). Post year-end in 2022, following confirmation of the mutual termination of the Llanos-50 licence, the remaining half of these options (2 million and 1.5 million options respectively) vested.

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

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

During 2018, in addition to the clarifications on the 2016 stock options issued to Mr. Bell and Mr. Morris as described above, the Board issued additional options to Mr Bell and Mr Morris to vest based upon strategic goals in relation to Syria. Mr Bell was issued 8 million such options and Mr. Morris was issued 4 million such options ("**2018 Executive Options**"). These 2018 Executive Options are set to accumulate to the holders over a period of 3 years (in 6 equal tranches, each 6 months starting on 1 July 2018) but will only vest upon the achievement of key strategic milestones in respect of Syria. Once vested the 2018 Executive Options are exercisable for a period of 10 years (from July 2018) and have a strike price of 5 pence.

During 2020, all remaining 2018 Executive Options accumulated, but remain unvested. Also, during the year, following negotiations with the Company, Mr Bell and Mr. Morris agreed to surrender 1,200,000 each of their 2018 Executive Options. Therefore, as of 1 January 2021, the number of outstanding 2018 Executive Options is 9,600,000, which have accumulated, but none have vested (Mr. Bell 6,800,000, Mr. Morris 2,800,000). These options have been charged to the profit and loss account based upon their accumulation schedule.

Also, during 2020, a tax advantaged Company Share Option Scheme (CSOP) was introduced for Staff and Executive Directors. During the year 4,400,000 CSOP options (Executive Directors: 2,400,000, Staff: 2,000,000) were issued with a strike price of 5 pence per share. The CSOP options issued to Staff are not subject to performance criteria and vest after three years. The CSOP options issued to Executive Directors will vest upon the earlier of the achievement of key strategic milestones in respect of Syria and a period of three years. These remain unvested. Once vested, the CSOP options are exercisable for a period of 10 years (from grant date in 2020).

As a result of the Mandatory Offer in May 2021, Mr Bell exercised 6 million 2016 options and Mr Morris exercised 4.5 million 2016 options into the Mandatory Offer. All other options were rolled forward to continue to exist under their original terms and the Gulfsands Restricted Share Plan. As a result of the Mandatory Offer the CSOP options continue to exist but have lost their tax advantaged status.

During 2021, 2,000,000 stock options were issued to members of Gulfsands Strategic Advisory Board which options are not subject to performance criteria and vest in four tranches between December 2021 and June 2023 (500,000 options vested in December 2021).

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 year ended 31 December 2021.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

5.3 Share-based payments (continued)

Fair value of share options granted (continued)

Year Issued:	2021
Dividend yield	n/a
Expected share price volatility	50.0%
Risk free interest rate	2.0%
Exercise price	5 pence
Expected/maximum life of option (years)	10

5.4 Auditor's remuneration

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

	2021 \$'000	2020 \$'000
Fees payable to the Company's principal auditor for the audit of:		
Company's accounts	68	59
Company's subsidiaries	—	—
Total audit fees	68	59
Audit related assurance services	—	—
Total non-audit fees	—	—
Fees payable to other auditors for the audit of:		
Company's subsidiaries	20	19
Total audit fees	20	19
Taxation compliance services	8	7
Other taxation advisory services	—	—
Total non-audit fees	8	7

5.5 Staff costs

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

	2021 \$'000	2020 \$'000
Wages and salaries	1,541	1,385
Social security costs	194	123
Share-based payment charges	1	10
Other benefits in kind	28	28
	1,764	1,546

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

	2021	2020
Operational and technical	2	2
Administrative	9	9
	11	11

5.6 Directors' emoluments

Details of the remuneration of Directors are included in the Directors' Corporate Governance Report on page 32.

5.7 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.

	2021 \$'000	2020 \$'000
Current Corporation Tax:		
UK Corporation Tax	—	—
Overseas Corporation Tax	—	—
Total credit	—	—

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

5.7 Taxation (continued)

Current tax (continued)

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

	2021 \$'000	2020 \$'000
Total loss before tax from continuing operations	(4,191)	(3,962)
Tax calculated at domestic rate of 19% (2020: 19%)	(796)	(753)
Effects of:		
Expenses not deductible for tax purposes	42	45
PSC expenses not subject to corporation tax ⁽¹⁾	135	119
Tax losses utilised	(167)	—
Tax losses for which no deferred tax asset was recognised	781	626
Impact of local tax rates	5	(37)
	—	—

(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:

	2021 \$'000	2020 \$'000
DD&A and impairment in excess of tax allowances	144	144
Other short-term temporary differences	—	—
Tax losses carried forward	10,449	10,364
Unprovided deferred tax asset	(10,593)	(10,508)
Deferred tax asset/(liability) at 31 December	—	—

\$0.3 million of the Group's unutilised tax losses expire within one to five years of the Balance Sheet date.

5.8 Loss per share

The basic and diluted loss per share has been calculated using the loss for the year ended 31 December 2021 of \$4.19 million (2020: \$3.96 million) for both continuing operations and 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 567,749,210 (2020: 561,995,785). The weighted average number of ordinary shares, allowing for the exercise of share options and new ordinary shares subject of potential future conversion pursuant to the terms of the Lender's Conversion Option and Company's Extinguishment Option, for the purposes of calculating the diluted loss per share was 812,399,086 (2020: 817,014,154), however, where there is a loss, the impact of share options is not dilutive and hence, basic and diluted loss per share are the same.

Section 6 – Capital Structure and Other Disclosures

Equity instruments

Group and Company

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.

Share premium account

The share premium account represents the amounts received by the Company on the issue of its shares which were in excess of the nominal value of the shares.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

Section 6 – Capital Structure and Other Disclosures (continued)

Retained earnings

Cumulative net gains and losses recognised in the Statement of Comprehensive Income less any amounts reflected directly in other reserves. The share option reserve has been included within the retained deficit and is a non-distributable reserve.

6.1 Share capital

Group and Company

	2021 \$'000	2020 \$'000
Allotted, called up and fully paid:		
572,495,785 Ordinary Shares of 1 pence (2020: 561,995,785 Ordinary Shares of 1 pence)	19,491	19,346

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

The movements in share capital and share options were:

	Number of ordinary shares	Number of deferred shares	Number of 2010 Restricted Share Plan options	Weighted average exercise price of options (£)
At 31 December 2020	561,995,785	121,989,500	33,900,000	0.03
Shares issued from Option	10,500,000	—	(10,500,000)	0.01
Exercise	—	—	—	—
Share options granted	—	—	2,000,000	0.05
At 31 December 2021	572,495,785	121,989,500	25,400,000	0.0400

In May 2021, as a result of the Mandatory Offer, Mr. Bell exercised 6 million, 1 pence options and Mr. Morris exercised 4.5 million, 1 pence options into the Mandatory Offer, meaning that 10.5 million additional shares were allotted as fully paid. The detail of the share options outstanding at 31 December 2021 are as follows:

Maturity date	Year share options vest	Exercise price of options (£ pence)	Number of share options
11 November 2026	See Note 5.3	1.00	3,500,000
11 November 2026	2016 - 2018	3.375	4,000,000
5 July 2028	2018	4.25	1,900,000
28 June 2028	See Note 5.3	5.00	9,600,000
30 June 2030	See Note 5.3	5.00	4,400,000
7 December 2031	See Note 5.3	5.00	2,000,000
		4.00	25,400,000

Of the share options outstanding, 3,500,000 options have an exercise price of 1 pence per share, 4,000,000 options have an exercise price of 3.375 pence per share, 1,900,000 have an exercise price of 4.25 pence and 16,000,000 have an exercise price of 5.00 pence. The weighted average exercise price of stock options is 4.00 pence.

The highest share price during the year was £0.045 and the lowest price was £0.045 (2020: £0.05 and £0.045).

As a result of the amendment to the 2017 Facility in November 2019, the Outstanding amount under the 2017 Facility became convertible into Ordinary Shares at a price of 5 pence per share. As at 31 December 2021, the Outstanding amount under the 2017 Facility was £11,055,918.46 (\$15.0 million) which would be convertible into 221,118,370 Ordinary Shares.

6.2 Convertible loan note reserve

Group and Company

	2021 \$'000	2020 \$'000
As at 1 January	2,367	2,197
Equity element of convertible loan note (see note 3.6)	146	170
Recycling of convertible loan note reserve through retained earnings	(2,513)	—
Extension of secured loan from 31.12.2021 to 31.12.2023	2,994	—
At 31 December	2,994	2,367

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

6.2 Convertible loan note reserve (continued)

As described in note 3.6 the convertible loan note reserve was first established as a result of the 2019 amendment to the 2017 Facility when it became zero-coupon and convertible. It now reflects the value of the conversion option as a result of the November 2021 amendment. All subsequent drawdowns are also split between a Debt and an Equity element in accordance with IFRS 9. The value of the debt is reflected in note 3.6.

6.3 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 \$0.88 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 gross undiscounted cash flows.

	Less than three months \$'000	Three months to one year \$'000	One to three years \$'000	More than three years \$'000	Total \$'000
31 December 2021					
Current trade and other payables	(367)	—	—	—	(367)
Non-current trade and other payables	—	—	—	(3,972)	(3,972)
Loan facility	—	—	(11,982)	—	(11,982)
	(367)	—	(11,982)	(3,972)	(16,321)
31 December 2020					
Current trade and other payables	(1,259)	—	—	—	(1,259)
Non-current trade and other payables	—	—	—	(3,218)	(3,218)
Loan facility	—	(11,118)	—	—	(11,118)
	(1,259)	(11,118)	—	(3,218)	(15,595)

During 2021, the loan facility had a weighted average effective interest rate of 0% (2020: 0%). Although there is no interest payable under the new terms of the 2017 Facility, the non-cash effective interest rate of 12% is accrued on the discounted debt liability over the life of the facility, to reflect the Directors' view of the arm's length cost of funding of the business. No other balances in the table above are interest bearing.

Currency risk

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

Given the 2017 Facility is convertible into equity by the Lenders or the Company, and that the Company's equity and 2017 Facility are denominated in Pounds Sterling, foreign currency exposure of the 2017 Facility is not included in the Group's net assets and loss before tax sensitivity tables below.

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
2021	(+ or -) 5%	+/- 44
2020	(+ or -) 5%	+/- 33

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

6.3 Financial instruments, derivatives and capital management (continued)

Currency risk (continued)

The following table demonstrates the sensitivity to changes in the US Dollar exchange rate, with all other variables held constant, on the Group's (loss) before tax:

	Change in US Dollar rate	Effect on (loss) before tax \$'000
2021	(+ or -) 5%	+/- 101
2020	(+ or -) 5%	+/- 60

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.

In addition, the Company is reliant for funding upon the availability of up to £6.5 million (£5.5 million as at 24 May 2022) under the 2017 Facility, from its Major Shareholders. The Board remains in regular dialogue with Major Shareholders to ensure the Group retains their ongoing support.

To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and aging. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts. The Directors do not consider that any further provision is necessary against any financial assets.

Capital risk management

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

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

Financial assets

The Group's financial assets consist of long-term financial assets, its Financial asset held at fair value through other comprehensive income 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
2021			
US Dollar	5	102,517	102,522
Pound Sterling	—	753	753
Euro	—	303	303
Other currencies	—	18	18
	5	103,591	103,596
	Financial assets on which interest is earned \$'000	Financial assets on which no interest is earned \$'000	Total \$'000
2020			
US Dollar	48	102,500	102,548
Pound Sterling	329	262	591
Euro	533	—	533
Other currencies	80	24	104
	990	102,786	103,776

The Pound Sterling, Euro 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 a Financial asset held at fair value through other comprehensive income financial asset, cash on call accounts, money market accounts, and short-term receivables.

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

6.3 Financial instruments, derivatives and capital management (continued)

Financial assets (continued)

Included in financial assets on which no interest is earned at 31 December 2021 and 2020 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 2017 Facility. None of the short and long-term payables bear interest to external parties. The 2017 Facility interest was 7% per annum until 29 November 2019 when it was reduced to 0%. Note that as at 31 December 2021, the Group had \$15.0 million (2020: \$12.4 million) actual debt outstanding under the 2017 Facility, which, in accordance with accounting standards, is presented in the balance sheet as \$15.0 million being \$12.0 million as a debt liability (shown in the table above) and \$3.0 million through equity.

The Group's short-term liabilities are considered to be payable on demand. Despite the 2017 Facility bearing no interest, under IFRS 9, interest is imputed at 12%, which is reflected in the tables below. 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
2021			
US Dollar	—	3,589	3,589
Pound Sterling	11,982	186	12,168
Other currencies	—	22	22
	11,982	3,797	15,779
	Financial liabilities on which interest is charged \$'000	Financial liabilities on which no interest is charged \$'000	Total \$'000
2020			
US Dollar	—	4,186	4,186
Pound Sterling	11,118	106	11,224
Other currencies	—	186	186
	11,118	4,478	15,596

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 Financial asset held at fair value through other comprehensive income 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 Financial asset held at fair value through other comprehensive income financial assets. In 2021 and 2020 the Group did not enter into any derivative contracts.

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 for these purposes which is considered to also include the related rights to production under the PSC), is recorded as an Financial asset held at fair value through other comprehensive income investment. Due to the unknown duration of UK Sanctions in force against Syria and uncertainty over the eventual outcome of events in the country, any valuation attributed to the investment is highly subjective and subject to material change and uncertainty. Management believes that as a result of the further passage of time and the high degree of judgement required, it is not possible to reliably estimate the investment's fair value. Management will therefore carry forward the last valuation which could be reliably determined, being the \$102 million previously disclosed. This value will be reviewed periodically as described further in note 4.2. At 31 December 2021 and 2020, the Directors considered the fair values and book values of the Group's financial assets and liabilities to be level 3 valuations.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

6.4 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 32. The remuneration of Directors for each of the categories specified in IAS 24 'Related Party Disclosures' is:

	2021 \$'000	2020 \$'000
Short-term employee benefits	797	671
	797	671

The 2017 Facility is deemed a related party transaction as a result of the affiliation of Director' Mr. Kroupeeov 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 2021 or 2020.

6.5 Obligations under leases

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

	2021		2020	
	Land and buildings \$'000	Other \$'000	Land and buildings \$'000	Other \$'000
Amounts payable on leases:				
Within one year	12	—	46	—
In two to five years	—	—	—	—
	12	—	46	—

There are no future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period (31 December 2020: \$nil).

6.6 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 Group's 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 value of the claim is \$2 million, although no justification has yet been provided for this value.

In 2019 the Courts in Damascus, Syria accepted the request of Al Mashrek to amend the name of the defendant from GPLL and the Syrian registered branch of GPLL, to Gulfsands Petroleum Plc. Consequently, a submission was made to the Court challenging its jurisdiction over a claim against Gulfsands Petroleum Plc, and the branch of GPLL in Syria also submitted a request to the Court to officially remove GPLL from the claim. Neither of these requests have yet been granted.

In connection with the original claim, the Court of Appeal of Damascus issued an order of provisional attachment on Gulfsands' moveable and immovable assets in Syria, including GPLL's share of Block 26. The plaintiff has not been successful in putting this provisional attachment order into effect. The Group therefore believes that there are no assets to which Al Mashrek's claim is attached.

During 2021 there were further hearings in Court. The Court awaits a report from the Ministry of Petroleum and Mineral Resources, following which, the Court's expert will issue a report to the Court, and the Court will then issue a preliminary decision.

Gulfsands continues to obtain legal advice on this matter and is determined to protect its rights in Syria, to resist and ultimately dismiss this claim.

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 2021.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

6.7 Post balance sheet events

Termination of Llanos-50 Licence

In March 2022, the Company received confirmation from ANH that its Llanos-50 licence in Colombia was officially terminated by mutual consent, without liability to either party, on environmental grounds.

This eliminated the obligation for the Company to undertake the Minimum Work Obligations under that contract because they were deemed to be environmentally non-viable. The value of these obligations totalled \$15.2 million and are described in note 2.4. Additional details of the mutual termination process are described in note 2.3.

In recent years the Company has been convinced that the work programme was not viable but nevertheless disclosed the potential obligation as a Contingent Liability. As a result of the mutual termination, this Contingent Liability has been eliminated.

In addition, given that the termination was only confirmed subsequent to the year end, as at 31 December 2021, an intangible exploration and evaluation ("E&E") asset relating to Llanos-50 was maintained at \$2.29 million representing capitalised expenditures from inception to-date, albeit fully impaired. Alongside this, the recovery of restricted cash balance of \$1.78 million held as a performance guarantee in relation to the minimum work obligation under this contract was also fully provided against as it was in prior years (see note 3.3). In May 2022, £1.22 million (~\$1.52 million) of this restricted cash was released back to the Company by the ANH.

The accounting for the elimination of the E&E asset and the recovery of the restricted cash performance guarantee will occur in 2022.

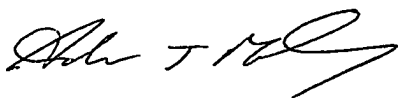
Parent Company Financial Statements

Company Balance Sheet as at 31 December 2021

	Notes	2021 \$'000	2020 \$'000
Assets			
Non-current assets			
Property, plant and equipment	2.1	—	—
Intangible assets	2.2	—	—
Investments in and loans to subsidiaries	3.1	7,307	7,307
Amounts due from subsidiaries	4.1	53,547	52,909
		60,854	60,216
Current assets			
Trade and other receivables	4.1	182	260
Cash and cash equivalents	4.2	722	744
		904	1,004
Total assets		61,758	61,220
Liabilities			
Current liabilities			
Trade and other payables	4.4	191	230
Loans and borrowings	4.5	—	11,119
		191	11,349
Non-current liabilities			
Loans and borrowings	4.5	11,982	—
Total liabilities		12,173	11,349
Net Assets		49,585	49,871
Equity			
Capital and reserves attributable to equity holders			
Share capital	6.1	19,491	19,346
Share premium		112,909	112,909
Convertible loan note reserve		2,994	2,367
Retained loss		(85,809)	(84,751)
Total equity		49,585	49,871

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 \$3.6 million (2020: \$16.5 million profit).

The Financial Statements of Gulfsands Petroleum plc (registered number: 05302880) were approved by the Board of Directors on 24 May 2022 and signed on its behalf by:



Andrew James Morris
Finance Director
24 May 2022

Parent Company Financial Statements

Company Statement of Changes in Equity for the year ended 31 December 2021

	Share capital \$'000	Share premium \$'000	Convertible loan note reserve \$'000	Retained (loss)/profit \$'000	Total equity \$'000
At 1 January 2020	19,346	112,909	2,197	(101,236)	33,216
Profit for 2020	—	—	—	16,475	16,475
Equity element of convertible loan note	—	—	170	—	170
Share-based payment charge	—	—	—	10	10
At 31 December 2020	19,346	112,909	2,367	(84,751)	49,871
Loss for 2021	—	—	—	(3,572)	(3,572)
Equity issued	145	—	—	—	145
Equity element of convertible loan note	—	—	146	—	146
Recycling of convertible loan note through retained earnings	—	—	(2,513)	2,513	—
Extension of secured loan from 31.12.2021, to 31.12.2023	—	—	2,994	—	2,994
Share-based payment charge	—	—	—	1	1
At 31 December 2021	19,491	112,909	2,994	(85,809)	49,585

Parent Company Financial Statements

Company Cash Flow Statement for the year ended 31 December 2021

	Notes	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Operating loss		(2,241)	(1,898)
Share-based payment charge		1	10
Exploration costs written off/impaired		—	450
Decrease/(increase) in receivables	4.1	78	(22)
Decrease in payables	4.4	(40)	(123)
Net cash used in operations		(2,202)	(1,583)
Interest received		—	—
Bank fees		(61)	(87)
Foreign exchange losses		(109)	(190)
Net cash used in operating activities		(2,372)	(1,860)
Investing activities			
Exploration and evaluation expenditure		—	(450)
Funds transferred to subsidiaries		(520)	(165)
Net cash used in investing activities		(520)	(615)
Financing activities			
Loan draw-down		2,769	1,305
Share placing		145	—
Net cash received from financing activities		2,914	1,305
Decrease in cash and cash equivalents		(22)	(1,170)
Cash and cash equivalents at beginning of year		744	1,914
Cash and cash equivalents at end of year	4.2	722	744

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 2021 were authorised for issue by the Board of Directors on 24 May 2022 and the Balance Sheet was signed on the Board's behalf by Andrew James Morris, Finance Director.

The Company Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 2021 and for the comparative year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards as adopted by the UK 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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 are undertaken in Pounds Sterling, Euros and US Dollars. The majority of 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 for the year ended 31 December 2021 was £1: \$1.37 (2020: £1: \$1.29). The exchange rate to the Pound Sterling on 31 December 2021 was £1: \$1.35 (2020: £1: \$1.37).

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.

The Company's operations are undertaken in Pounds Sterling, Euros and US Dollars. The majority of costs associated with foreign operations are paid in US Dollars and all loan balances with subsidiary undertakings are denominated in US Dollars. The most appropriate presentational and functional currency is considered to be the US Dollar. Such judgement is reviewed periodically.

IFRS 9, requires the Company to make assumptions when implementing the forward-looking expected credit loss model. This model is required to be used to assess intercompany loan receivables from the Companies subsidiaries for impairment. Arriving at the expected credit loss allowance involved considering different scenarios for the recovery of the intercompany loan receivables, the possible credit losses that could arise and the probabilities for these scenarios. The following was considered; the exploration project risk, country risk, the expected future oil prices, the value of the potential reserves, the ability to sell the project, and the ability to find a new farm-out partner.

Notes to the Parent Company Financial Statements

Section 2 – Property, Plant and Equipment and Intangible Assets

2.1 Property, plant and equipment

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

	Office equipment, fixtures and fittings \$'000
Cost:	
At 1 January 2020	61
At 1 January 2021	61
At 31 December 2021	61
Accumulated depreciation:	
At 1 January 2020	(61)
Charge for 2020	—
At 1 January 2021	(61)
Charge for 2021	—
At 31 December 2021	(61)
Net book value at 31 December 2021	—
Net book value at 31 December 2020	—

2.2 Intangible assets

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

	\$'000
Cost:	
At 1 January 2021	1,417
Additions	—
At 31 December 2021	1,417
Accumulated impairment / accumulated amortisation:	
At 1 January 2021	(1,417)
Amortisation charge for 2021	—
Exploration expenditure impaired in 2021	—
At 31 December 2020	(1,417)
Net book value at 31 December 2021	—
Net book value at 31 December 2020	—

The Intangible Assets, and all additions during the year relate to oil and gas activities on the LLA-50 licence in Colombia.

See notes 2.3 and 6.7 of the Consolidated Financial Statements regarding the post year-end mutual termination of the LLA-50 licence.

Section 3 – Investments in and Loans to Subsidiaries

3.1 Investments

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

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

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

Section 4 – Working Capital

4.1 Trade and other receivables

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

Notes to the Parent Company Financial Statements

4.1 Trade and other receivables (continued)

	2021 \$'000	2020 \$'000
Current		
Other receivables	21	32
Prepayments and accrued income	161	228
	182	260
Non-current		
Amounts due from subsidiaries	53,547	52,909

Further details on the amounts due from subsidiaries are included in note 6.7.

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.

	2021 \$'000	2020 \$'000
Cash at bank and in hand	722	744
Total cash and cash equivalents	722	744

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.

	2021 \$'000	2020 \$'000
Restricted cash balances	1,781	1,781
Provision against recovery of restricted cash balances	(1,781)	(1,781)
Total cash and cash equivalents	—	—

The restricted cash balances relate to the LLA-50 licence in Colombia. Following confirmation of the mutual termination of the Llanos-50 licence being received post year-end, in May 2022, £1.22 million (~\$1.52 million) of this restricted cash was released back to the Company by the ANH.

4.4 Trade and other payables

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

	2021 \$'000	2020 \$'000
Current		
Trade payables	6	1
Accruals and other payables	185	229
	191	230

4.5 Loans and borrowings

See note 3.6 to the Consolidated Financial Statements.

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 \$3.6 million (2020: profit \$16.5 million). There was no revenue during 2021, as defined by IFRS15 Revenue Recognition (2020: 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 Leases

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

Obligations under leases

At the end of the year the Company had commitments for future minimum lease payments under non-cancellable leases in respect of land and buildings of \$0.002 million (31 December 2020: \$0.02 million) within one year and \$nil (31 December 2020: \$nil) between two and five years.

5.3 Share-based payments

See note 5.3 to the Consolidated Financial Statements.

Notes to the Parent Company 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)

	2021 \$'000	2020 \$'000
Tax losses carried forward	10,449	10,206
Depreciation in advance of capital allowances	144	144
Unprovided deferred tax asset	(10,593)	(10,350)
Deferred tax asset/(liability) at 31 December	—	—

The tax losses of the Company have no expiry date.

5.5 Earnings per share

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

Section 6 – Capital Structure and Other Disclosures

Equity instruments

Equity instruments issued by the Company, being any instruments with a residual interest in the assets of the Company after deducting all its liabilities, are recorded at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Share premium account

The share premium account represents the amounts received by the Company on the issue of its shares which were in excess of the nominal value of the shares.

Retained earnings

Cumulative net gains and losses recognised in the Statement of Comprehensive Income less any amounts reflected directly in other reserves. The share option reserve has been included within the retained deficit and is a non-distributable reserve.

6.1 Share capital

See note 6.1 to the Consolidated Financial Statements.

6.2 Convertible loan note reserve

See note 6.2 to the Consolidated Financial Statements.

6.3 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 6.3 to the Consolidated Financial Statements. The exposure of the Company to interest rate and currency movements is not significant. Given the 2017 Facility is convertible into equity by the Lenders or the Company, and that the Company's equity and 2017 Facility are denominated in Pounds Sterling, foreign currency exposure of the 2017 Facility is not included in this analysis.

Notes to the Parent Company Financial Statements

6.3 Financial instruments, derivatives and capital management (continued)

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
2021			
US Dollar	22	53,547	53,569
Pound Sterling	571	182	753
Euro	102	—	102
Other currencies	25	—	25
	720	53,729	54,449
2020			
US Dollar	39	52,909	52,948
Pound Sterling	330	260	590
Euro	295	—	295
Other currencies	81	—	80
	744	53,169	53,913

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

	Financial liabilities on which interest is earned \$'000	Financial liabilities on which no interest is earned \$'000	Total \$'000
2021			
US Dollar	—	—	—
Pound Sterling	11,982	191	12,173
Other currencies	—	—	—
	11,982	191	12,173
2020			
US Dollar	—	—	—
Pound Sterling	11,118	231	11,349
Other currencies	—	—	—
	11,118	231	11,349

Despite the 2017 Facility bearing no interest, under IFRS 9, interest is imputed at 12%, which is reflected in the table above.

During the year ended 31 December 2020, the Company reversed impaired balances owed from subsidiary undertakings totalling \$19.9 million.

Note that as at 31 December 2021, the Company had \$15.0 million (2020: \$12.4 million) actual debt outstanding under the 2017 Facility, which, in accordance with accounting standards, is presented in the balance sheet as \$15.0 million being \$12.0 million as a debt liability (shown in the table above) and \$3.0 million through equity.

See financial liabilities, note 6.3 of the Consolidated Financial Statements, for further details.

6.4 Assets held by the Company

Assets held by the Company of \$nil (2020: \$nil) represent exploration expenditures relating to the Colombian Llanos 50 E&P contract. As detailed in note 2.3 of the Consolidated Financial Statements it was decided to fully impair the exploration expenditure of \$nil in 2021 attributed to this licence (2020: \$0.45 million). The contract was granted to the Colombian branch of the Company. Given that technically the Llanos-50 licence in Colombia was still active at the year-end, as at 31 December 2021 the Group had the following capital commitments in respect of that licence.

Llanos 50 - first exploration phase expiry date and deadline for fulfilment of capital commitments; originally May 2018 (licence officially expired August 2020).

- Drilling of one exploration well.
- 2D seismic minimum 108 km.
- Total minimum work commitments outstanding estimated at \$15.2 million.

These commitments were eliminated in March 2022, following confirmation of the mutual termination of the Llanos-50 licence.

Notes to the Parent Company Financial Statements

6.4 Assets held by the Company (continued)

\$1.78 million (31 December 2020: \$1.78 million) of deposits have been lodged to support guarantees given to the ANH in respect of completion of the minimum work commitments on Llanos 50. These have been fully provided against as at 31 December 2021. Following the mutual termination of the Llanos-50 licence, in May 2022, £1.22 million (~\$1.52 million) of this restricted cash was released back to the Company by the ANH. 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 in these Financial Statements.

6.5 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.

6.6 Employees

The average monthly number of persons employed by the Company, including Executive Directors was five (2020: 5).

6.7 Related party transactions

(i) **Transactions with Directors:** Transactions with Directors are disclosed in note 6.4 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 32.

(ii) **Transactions with subsidiary Companies:** The Company traded with various undertakings within the same Group during the years ended 31 December 2021 and 2020. IFRS 9 requires the Company to assess expected credit losses on intercompany loan receivables balances which are classified as held at amortised cost, under a forward-looking model approach. The intercompany loans are interest free and repayable on demand.

The Directors have assessed the cash flows associated with a number of different recovery scenarios, which includes consideration of the exploration project risk, country risk, the expected future oil prices, the value of the potential reserves, the ability to sell the project, and the ability to find a new farm-out partner. The credit loss allowance was assessed during 2021 and there was no increase/decrease in the expected credit loss allowance (2020: \$19,897k net decrease). The net increase in 2020 materially followed a restructuring of inter-company balances during the year, to realign the balances 'through the chain'. This realignment followed a detailed analysis, where the restructuring was concluded as appropriate for a number of reasons, including: (i) to align the flow of funds, as any dividends would do, (ii) reduce complexity through the Group, (iii) align creditor protections, (iv) maintain the character and quantity of the secured financing security, and (iv) ensures that each intermediate holding company manages its cashflow of its subsidiary and the chain above/below it.

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	2021	2020
			\$'000	\$'000
Gulfsands Petroleum Ltd	Subsidiary	Non-interest bearing	53,547	52,909
Gulfsands Petroleum MENA Ltd	Subsidiary	Non-interest bearing	2,500	2,500
		Provision	(2,500)	(2,500)
Gulfsands Petroleum Iraq Ltd	Subsidiary	Non-interest bearing	5,943	5,943
		Provision	(5,943)	(5,943)
Total			53,547	52,909

Services recharged to related parties

Name of related party	2021		2020	
	Time writing \$'000	Indirect overhead \$'000	Time writing \$'000	Indirect overhead \$'000
Gulfsands Petroleum Levant Ltd	411	—	369	—

(iii) **Controlling party:** The parent company's immediate controlling party is Waterford, and the ultimate controlling party is Waterford.

6.8 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
ANH	Agencia Nacional De Hidrocarburos
bbbls	Barrels of oil
bcf	Billion cubic feet of gas
boe	Barrels of oil equivalent
boepd	Barrels of oil per day
Blake	Blake Holdings Limited
CPR	Competent Persons Report
CSOP	Company Share Option Plan
DD&A	Depletion, depreciation and amortisation
DPC	Dijla Petroleum Company
E&E	Exploration and evaluation
E&P	Exploration and production
ERCE	ERC Equipoise Limited (Independent Energy Experts)
Fides	Fides Trust Limited
FDP	Field Development Plan
G&A	General and administrative expenses
GPC	General Petroleum Corporation
Gulfsands Levant	Gulfsands Petroleum Levant Limited
HCIIP	Hydrocarbons Initially In Place
HSSE	Health, safety, environment and security
IFRS	International Financial Reporting Standards
km	Kilometres
km ²	Square kilometres
KPI	Key performance indicator
LLA 50	Llanos Block 50
Mandatory Offer	The Offer made by Waterford, in April/May 2021, to all shareholders, other than Waterford themselves and those acting in concert with Waterford, under Rule 9 of the Takeover Code.
Major Shareholders	Waterford, Blake and ME Investments (until March 2021) From March 2021, Waterford and Blake
ME Investments	ME Investments Limited
MENA	Middle East and North Africa
mmbbl	Millions of barrels of oil
mmboe	Millions of barrels of oil equivalent
mmsbt	Million Stock Tank Barrels
NGLs	Natural gas liquids
NPV	Net present value
OPC	Oilfield Production Consultants
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
SDG	Sustainable Development Goals
SPE	Society of Petroleum Engineers
UN	United Nations

Glossary of Terms

UK Sanctions	Sanctions applicable in the UK and to UK persons at any given time: - for the period until and including 31 December 2020, EU sanctions, and the UK regulations relating to them (including Regulation (EU) No 36/2012 and The Syria (European Union Financial Sanctions) Regulations 2012); and - for the period from 1 January 2021 onwards, UK sanctions made under the Sanctions and AML Act 2018, including The Syria (Sanctions)(EU Exit) Regulations 2019.
Waterford	Waterford Finance and Investment Limited

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