

**Malcy interview with John Bell- Managing Director Gulfsands Petroleum
29 July 2022**

Question: *First let's start with the Annual Report which I must say is a very impressive document, particularly given that you are no longer listed. What are the highlights of the Annual Report?*

Answer: Thanks Malcy. As you say, despite delisting in 2018 we have continued to act as a listed company where possible, through our Annual Report, our Corporate Governance structures and of course the fact that our shares continue to trade periodically on the Asset Match platform.

From a corporate perspective, the major milestone of the year was our final exit from Columbia. After several years of diligent work alongside Colombian regulator ANH, we came to the conclusion that environmental concerns should be prioritised over contractual obligations in respect of our Llanos-50 licence and so that licence was mutually terminated. Not only was this a good result for the environment, but it also meant that a potential obligation of up to \$15 million was alleviated and the Company received \$1.5 million of cash from the release of the CDT supporting the licence. This was a ground-breaking result and utilised the new Hydrocarbon Accords.

This completes our clean-up of the historical, non-core portfolio and the removal of all related potential liabilities. In late 2021, when we extended our funding runway to the end of 2023, we also formalised the conversion option on our debt facility which means the pathway for that facility to be converted into equity is now clear and in fact we are likely to convert that debt in the coming months.

These two factors mean that we now have a clean, solid platform to press ahead with our ambitions in Syria, when circumstances allow, and business development activities in the broader MENA region.

Question: *We'll discuss Syria shortly but where else are you focussing for Business Development opportunities?*

Answer: Our main area of focus is the Middle East and North Africa region. We have been looking at opportunities within Syria as well as in neighbouring countries such as Iraq and Jordan. I cannot discuss any of the specific details at this time for obvious reasons, but we are looking at both opportunities that Gulfsands and its existing shareholders can fund themselves, as well as larger opportunities where we would partner with other companies with whom we have relationships. This is a key focus for us, and we are spending a significant portion of our time on business development at the moment.

Question: *And what is going on with your core assets in Syria?*

Answer: Syria continues to be our core focus. Block 26, which remains under force majeure, continues to be a world class asset. We understand it very well from a technical perspective, and we have prepared a comprehensive Full Field Development Plan and Exploration Programme which we are ready to implement when legal, political and security circumstances allow.

Question: *What is the legal situation with respect to the Block 26 PSC?*

Answer: We, and the other IOCs we speak to who also have Syrian PSCs, believe that we continue to be party to legitimate Production Sharing Contracts, under Syrian and International law. Force majeure was appropriately declared in 2011 when the crisis escalated and sanctions were imposed, and we intend to return to operations when the situation allows. At this stage, we understand that at the appropriate time, the terms of force majeure will be honoured, and IOCs enabled – indeed, expected – to return to operations when circumstances allow. We also understand that lost time will be added back onto the contracts.

Question: *Who is currently operating the field?*

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Answer: This is a matter of great frustration to us. Oil from Block 26, the field contracted to us under Syrian and international law, is being produced illegally by other actors. Since early 2017, around 37 million barrels (i.e. at a rate of approximately 20,000 boepd) have been unlawfully taken from Block 26, with a market value of around \$2.5 billion. The Syrian General Petroleum Corporation (“GPC”) describes this as “stolen”.

It is now widely reported, and our internal sources confirm, that the Block 26 assets are managed & controlled by the SDC/SDF and its affiliates, and that the oil is produced and sold through an opaque process. The majority of this oil therefore benefits illicit actors, not the Syrian people. This also leads to unsafe, unregulated, and hugely environmentally damaging oil field practices which also have a catastrophic effect on the health of local communities.



'It used to be green, now it is hell': How oil is poisoning northern Syria, Bel Trew, The Independent, 08 November, 2021
<https://www.independent.co.uk/news/world/middle-east/syria-oil-pollution-isis-civil-war-b1953587.html>

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In addition, the severe lack of maintenance and investment risks permanently damaging the reservoirs, further diminishing the long-term value of these important resources for all the Syrian people.



In Syria, the Environmental Toll of War Beginning to Emerge *This article was first published by [Fanack.com](https://www.fanack.com) on December 3rd, 2019.* Wim Zwijnenburg.
<https://www.planetarysecurityinitiative.org/news/syria-environmental-toll-war-beginning-emerge>

It is reported that that approximately 70kbpd-80kbpd is currently being produced in North East Syria, and we understand that a significant proportion of this stolen oil is transported to the KRG and possibly on to international markets via Turkey. These illegal sales take place on a black market, away from regulation and oversight, meaning that prices are depressed and the potential for corruption is high. It is unclear to us how all of this complies with applicable sanctions, including the Caesar Act.



Source: Al Ghad media (believed to be an image of the Fysh Khabour/Semalka crossing between Syria and Iraq)

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<https://www.youtube.com/watch?v=jG5IEbeokCY>

It is particularly frustrating that the US government – as the main instigator of sanctions, particularly the Caesar Act – is not taking action against this theft. The granting of the OFAC license to little-known US entity Delta Crescent Energy was also an unexpected blow, although we understand its license has not been renewed.

The current process is not legal, safe or sustainable, and it is causing atrocious pollution with environmental and health repercussions. There has to be better way. That is where our Humanitarian/Economic Stimulus initiative comes in.

Question: *I have read a lot recently about a humanitarian initiative which appears to be spearheaded by Gulfsands. Can you tell us a little bit about that?*

Answer: Our basic premise is that all Syrian people should benefit from their country’s national resource endowment. However, given the challenges of sanctions and the current ongoing opaque situation, this is not possible without a structure in place to control production, sales and revenue distribution.

Gulfsands is proposing a structure whereby international oil companies (“IOCs”) would return to operations in northeast Syria, with revenues from oil sales contractually entitled to the SAR being deposited into an internationally administered “escrow type” fund and disbursed, by stakeholder agreement, to finance humanitarian, economic and security projects across the country. This will benefit all Syrian people in a transparent and open manner and enable Syrians to build resilience for the future. This would also be conducted in a sanction-compliant manner, in cooperation with the international community and Syrian stakeholders, and in line with UN Resolutions 2285 and 2254.

Ideally such a structure would be designed under the auspices, and supervision, of the UN. Comparable escrow type structures have been devised for other countries under international sanctions and we believe something similar could be implemented here.

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We believe this should be a win-win win for all parties but most importantly the Syrian people.

Question: *Would this make a material difference to ordinary Syrians?*

Answer: We believe it would. The Oil and Gas industry is the only sector that can generate billions of dollars of revenue for all the Syrian people. For example, we believe that the Syrian oil and gas industry as a whole could be rebuilt and developed to produce over 500,000 boepd, generating annual gross revenue of over USD20bn at today's oil prices.

The current set up is simply throwing the Syrian people's money away. Because it is illegitimate, it results in oil being sold on the black market at a massive discount to world market prices. This means that oil is sold at around \$15-\$20 a barrel when it could, if legitimised, generate \$100 per barrel.

This revenue could be used in part to help address the chronic pollution and health crises in Syria.



Environmental Ruin Could Make Postwar Syria Unliveable

Kira Walker Tuesday, March 2, 2021, World Politics Review

<https://www.worldpoliticsreview.com/articles/29462/an-overlooked-casualty-of-the-syria-civil-war-its-environment>

Question: *This whole scheme sounds very adventurous?*

Answer: It is adventurous, but after 12 years, and with 90% of Syrians now living below the poverty line, new ideas are needed to try to break the deadlock. Nothing ventured, nothing gained. We acknowledge that the program can only go ahead with the support of local stakeholders within Syria, regional players such as the GCC countries and Turkey, and of course the major international countries including those who currently have sanctions in place against Syria, namely the US and the UK. We acknowledge the complexity of the situation and are talking to all these constituents to try

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and find a pathway forward that works for all, and though it is early stages we are encouraged by discussions to date.

Question: *Are other IOCs interested in being involved?*

Answer: While we do not purport to represent the other IOCs in any way, we are aware that they share many of our concerns regarding stolen oil, reservoir damage, widespread poverty and environmental pollution etc. The situation is not unique to Gulfsands, but each company must approach it at their own pace. It is often the way that smaller, focused players such as Gulfsands lead the charge on such initiatives. We are in dialogue with many of the other IOCs and we are confident that if a solution can be found and permission is granted, then they would be interested in being part of the solution.

Question: *What will the IOCs such as Gulfsands bring?*

Answer: Not only will the IOCs bring knowledge of the assets, having previously operated them of course, the IOCs will importantly bring world-class oilfield practices and all the efficiency, health, safety and environmental benefits that that will entail. They will also bring critical investment, which is currently sorely lacking. Photographs are widespread, including those included in the PAX “*War, Waste, and Polluted Pastures*” Report issued last year, and other environmental publications, showing an environmental disaster has been underway for some time in Syria and the conflict and illicit production have exacerbated that, as has, obviously, the unregulated and tin pot refinery businesses.

Not only that but the primitive production practices risk causing permanent damage to the reservoirs themselves, meaning that this valuable national resource may simply not be there for the Syrian people if current practices continue for much longer.

Question: *I guess that answers the question: Why now?*

Answer: Partly. We have been concerned about increased production since 2017 but this became of particular concern in 2019 when the new status quo appeared to be legitimised by the US with the introduction Delta Crescent Energy. We are pleased that their licence has been revoked but the ongoing theft by the SDF continues, with little or no response from international governments.

With the world’s attention now focused on Ukraine, we are concerned that Syria will become a forgotten conflict, and this can simply not be allowed to happen for the sake of millions of Syrian people who continue to suffer. A political solution is needed, and urgently, and we believe that our initiative can support this process.

Question: *Some might say that this sounds like the Iraqi Oil-For-Food Initiative which was mired in corruption in the 1990’s. Is that comparison fair?*

Answer: We are acutely conscious of the parallels that might be drawn between the Iraqi Oil for Food programme and our initiative, and we are actively working to design our proposal so that similar pitfalls are avoided. For example, we would look to implement a more robust system of checks and balances over the receipt and distribution of revenues, as well as the physical oil. We are proactively working to ensure that all lessons learned from the Volcker report that followed the investigation into the Iraqi Oil for Food Programme are digested and incorporated where relevant.

Question: *What are you practically doing now?*

Answer: We know that our proposal is not yet “fully baked” and so we want to work with all interested parties to develop the concept. We are actively reaching out to and engaging with governments, beginning with relevant White House, State Department and Foreign, Commonwealth and Development Office officials, in the US and UK respectively. We are trying to increase awareness

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of the initiative and we are pleased that the profile of the initiative has been raised through recent coverage in publications such as MEES and AI Monitor. We are now hoping to reach out to the think-tank community for their ideas through a series of roundtables and discussions.

It is still early stages, but we are pleased with our progress so far.

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