Hurricane

Annual Report and Consolidated Financial Statements 2011

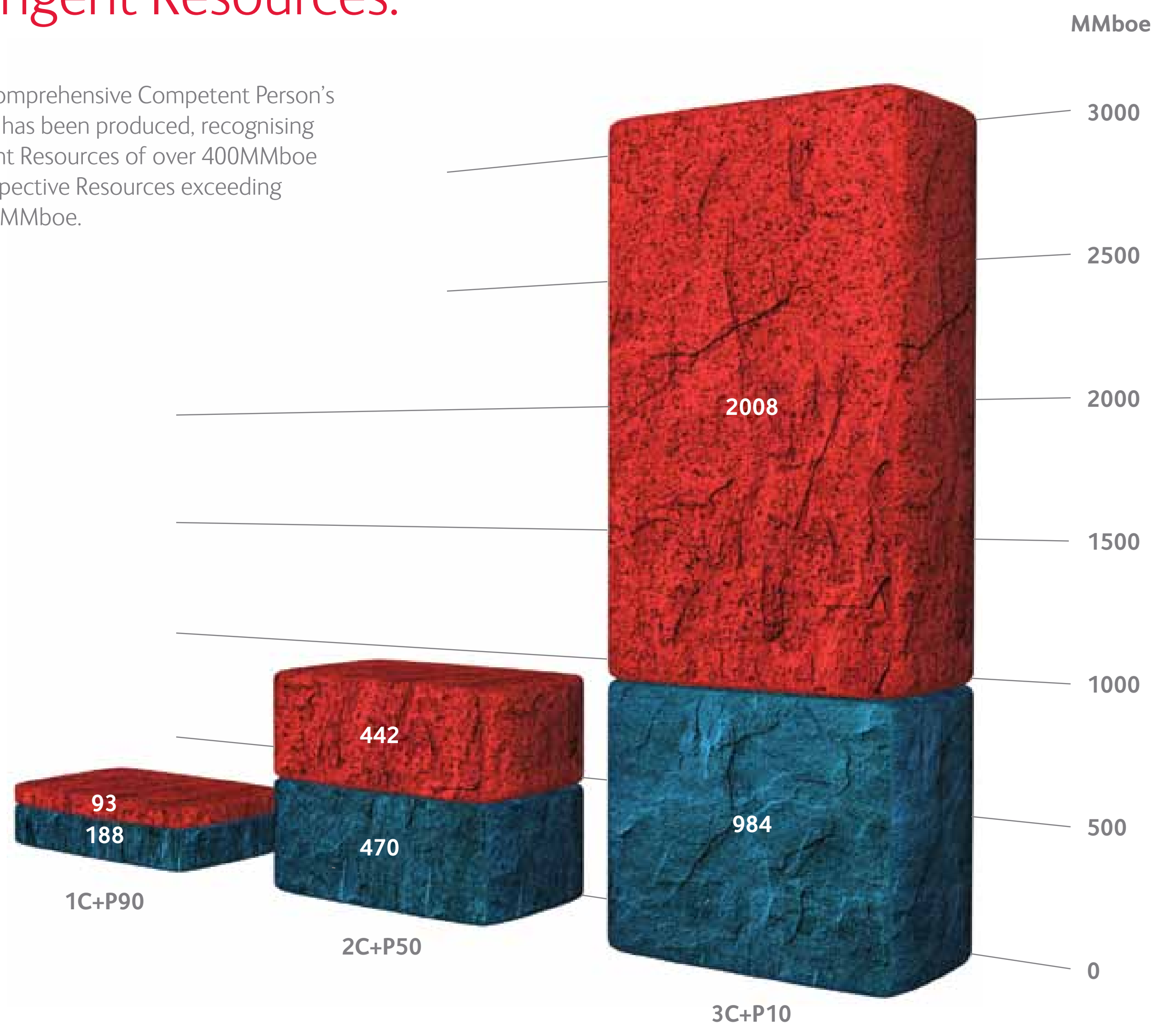
Hurricane

Contents

2011 - Potential Discovered

2011 has been a year of progress for Hurricane:
We brought hydrocarbons to surface at Whirlwind
We moved to new corporate offices
We strengthened the Board
We commissioned a new CPR revealing significant Contingent Resources.

This year a comprehensive Competent Person's Report (CPR) has been produced, recognising 2C Contingent Resources of over 400MMboe and P50 Prospective Resources exceeding a further 400MMboe.



Prospective Resources
Contingent Resources

Hurricane's assets:
Contingent and Prospective Resources
Source: CPR 18 November 2011

Prospective Resources (MMboe, Source: CPR November 2011)		**Gross (100% basis) and Net Attributable Resources**				**GPoS (%)**
		P90 MMboe	P50 MMboe	P10 MMboe	Mean MMboe	
P1368	Lancaster	14	53	142	62	4.5%
	Whirlwind*	17-19	80-90	215-261	101-119	25.0%
	Lincoln	44	150	339	164	13.2%
P1485, P1835	Typhoon	16	149	1266	383	16.0%
Total (Unrisked) if all successful					**710-728**	
Total (Risked)					**111-115**	

*Whirlwind, range between light oil case and gas condensate case

Contingent Resources (MMboe, Source: CPR November 2011)				**Gross (100% basis) and Net Attributable Resources**		
				1C	**2C**	**3C**
P1368	Lancaster	Development pending	Total (MMboe)	62	207	456
	Whirlwind*	Development unclarified	Total (MMboe)	91-98	179-205	301-373
	Strathmore	Development on hold	Total (MMboe)	20	32	57
P1485, P1835	Tempest/Typhoon	Development unclarified	Total (MMboe)	8	26	98
Total			**Total (MMboe)**	**181-188**	**444-470**	**912-984**

*Whirlwind, range between light oil case and gas condensate case

Chairman's Introduction

The UK's strategic need for domestic energy resources is well documented. UK oil production from existing fields has peaked and imports of oil are steadily increasing as a proportion of the oil we consume. In every aspect of our every day life, the nation remains reliant on oil as a fundamental resource. So it is an exciting challenge to be developing Hurricane, focused on the discovery and development of new oil resources for the UK.

Hurricane's vision remains focused on searching for, discovering and appraising oil reserves in fractured basement rock and it is our belief that volumes of oil held within basement reservoirs could represent a strategic resource for the UK.

Today, Hurricane is coming of age. It has a strong culture and a close-knit executive team led by founder and CEO, Robert Trice. This year saw the introduction of a fresh corporate identity, reflecting the energy and promise of the business.

The underlying strength of the Company is in its creativity and innovation, both in the visualisation of fractured basement reservoirs, and in the analysis of results from successful drilling operations. Hurricane's core capabilities and leadership position the Group well to take advantage of the opportunities it is unearthing.

The unprecedented volatility in the financial markets during 2011 has been a challenge for any business. Carefully expanding, Hurricane has taken advice on how to achieve future financing needs for the Group's aggressive future work programme. The strength of the Hurricane story shines through, demonstrating the rigorous, straightforward and thoughtful approach the team takes. Given the current nature of the capital markets, the Board is considering a range of options to meet the Group's financing requirements into 2012 and beyond.

It is still only a few months since I stepped into the role of Chairman. I would like to take this opportunity to thank my predecessor, Charles Good, for his commitment to Hurricane and for nurturing a Board to be proud of and that I am pleased to take forward.

Adrian Montague

Sir Adrian Montague CBE
Chairman

Executive Directors

We have spent time assembling a strong team throughout Hurricane. This includes an experienced Board with a wealth of experience in the industry and robust corporate governance principles.

Dr Robert Trice CEO

As Hurricane's founder and Chief Executive Officer, Robert has over 25 years' oil industry experience. He has combined specialist technical expertise in petrophysics and fractured reservoir characterisation and evaluation. He has a PhD in Geology from Birkbeck College, University of London and gained the bulk of his geoscience experience with Enterprise Oil and Shell. He has worked in field development, exploration, well-site operations and geological consultancy. Robert has held the position of Visiting Professor at Trondheim University (Norway) and has published and presented on subjects related to fractured reservoirs and exploration for stratigraphic traps.

It is Robert's vision that lies behind Hurricane, providing clear strategic direction as the Company develops and he takes the lead in all aspects of the scientific and technical heart of the Group.

Keith Kirby CCO

Keith has worked in communications for over 20 years. He was part of the team that created the Orange brand, initially in the UK, then introducing the brand internationally. Keith has advised on major corporate identity programmes for organisations including Q8 for Kuwait Petroleum International and Emarat for the national oil company in Dubai. For more than ten years Keith was with the Hutchison Whampoa Group as CEO of a business unit, advising Group companies around the World. Keith has an MBA with distinction from London Business School and he has been an external adviser to the MA in Communications Design at Central St Martins.

As Hurricane's Chief Communications Officer, Keith is responsible for all internal and external communications, company systems, facilities, HR, company culture and the other administrative aspects of running the business.

Nicholas Briggs CFO

Nicholas has worked for over 15 years in the oil and gas industry and has significant experience in finance, commercial negotiations and business operations. A graduate engineer from Exeter University, he qualified as a Chartered Accountant with PwC and then moved to Paris where he was responsible for the financial management of Technip's operations in the Middle East. Nicholas has also been the head of finance for the UK operations of Perenco and co-founded Ethos Petroleum, a company investing in Georgia, where he held the position of Chief Financial Officer.

As Chief Financial Officer, Nicholas plays a crucial role in ensuring there are robust financial and accounting practices in place. He also leads both Hurricane's fund-raising activities and negotiations on key operating and financial contracts.

Non-Executive Directors

Hurricane has a strong code of corporate governance and an outstanding group of Non-Executive Directors.

Sir Adrian Montague CBE

Sir Adrian joined the Board as Chairman in July 2011. He is also Chairman of 3i Group Plc and is Non-Executive Chairman of CellMark AB and Anglian Water Group, as well as a Director of Skanska AB. Recently he has also been appointed to chair the Advisory Board of the Green Investment Bank.

Sir Adrian is a member of the Nominations Committee.

Bill Guest

Bill graduated in geology from Leicester University and has over 35 years' international exploration and production experience in technical, business development and senior management functions. He spent his formative years as a geologist and petroleum engineer with Shell International before moving to the UK independent oil sector, initially with Saxon Oil and then with Monument Oil and Gas where Bill held the position of Technical Director and Business Development Director. More recently, Bill was Managing Director of Endeavour North Sea and subsequently President of Gulf Keystone Petroleum. Bill is a founding partner of Guest & Associates, an international business development consultancy service for the upstream oil and gas industry, and a Non-Executive Director of Matra Petroleum.

Bill is Chairman of the Nominations Committee, and a member of the Remuneration Committee and Audit Committee.

Jon Murphy

Jon has over 30 years' experience in mid-cap oil exploration and production companies. After graduating from the University of London with a degree in geology and then gaining experience in junior technical roles within the industry, he joined LASMO in 1989 where he held various positions in geology, planning and new business, based in the UK and Asia. In 1999, Jon joined Venture Production Plc as Chief Operating Officer and played a key role in its growth from a small private equity-backed company, through flotation in 2002 to become one of the leading oil and gas companies active in the North Sea, and ultimately to its successful sale to Centrica in 2009.

Jon is Chairman of the Remuneration Committee, and a member of the Nominations Committee and Audit Committee.

Philip Dayer

Philip has over 30 years' public market and corporate finance experience, gained with a number of prominent City institutions. During this time he advised a wide range of public companies including UK and international groups active in the oil and gas sector. After graduating in law from King's College, London, Philip qualified as a Chartered Accountant and went on to gain extensive experience as Director or Head of Corporate Finance with various investment banks in London. Philip is a Non-Executive Director of KazMunaiGas Exploration Production and was a Non-Executive Director of Dana Petroleum Plc from 2006 until its takeover by KNOC in 2010. He is also a Non-Executive Director of a number of other companies.

Philip is Chairman of the Audit Committee, and a member of the Nominations Committee and Remuneration Committee.

Hurricane's operations during 2011 focused on the Whirlwind discovery, using the recently refitted WilPhoenix rig.

CEO's review

During the past year we have created a step change in the organisation as the business matures to become a serious player in the UK oil exploration and development industry.

The Board has been bolstered with the appointment of two new Non-Executive Directors, Jon Murphy and Philip Dayer. Jon and Philip bring tremendous experience from the oil industry and corporate finance respectively and help us provide the robust corporate governance shareholders expect. In the summer Sir Adrian Montague CBE joined the Board as Non-Executive Chairman and his wisdom and experience are already having an extremely positive impact on both the Board and the business. I would like to add my thanks and appreciation to Adrian's, recognising Charles Good's insightful Chairmanship of the Board from the early days of Hurricane until stepping down as Chairman in July.

The Board's intention is to bring Hurricane to the stock market when conditions are right and to support that strategy we strengthened the Executive with the appointment of Keith Kirby as Chief Communications Officer in July. Keith holds an MBA with distinction from London Business School where he was winner of the Alumni prize for Academic Achievement. Keith has a strong background in marketing, communications and branding as well as general management. You will have noticed that he has already made his mark in redefining the Hurricane corporate identity and key message, bringing a thoroughly professional persona to the Company as we look forward. The new website was launched in October. Keith's wider responsibilities ensure the smooth running of the organisation. He works closely with the other members of the Executive developing Hurricane's business strategy.

The other notable change in the Board was Nicholas Mardon Taylor stepping down in July. Nicholas has worked as a member of the Executive from Hurricane's humble beginnings in 2005 in my garden shed. In his early role as Finance Director, Nicholas was instrumental in Hurricane securing our acreage, now encompassing our Lancaster and Whirlwind discoveries. I would like to take this opportunity to thank Nicholas for his influential contribution and sage advice. I would also like to express my gratitude that he remains on the Hurricane team, being responsible for our robust and crucial environmental policy and specifically for Hurricane's provision for oil spill response contingencies.

The strategic strength of Hurricane resides in the technical team. Its ability to visualise what's going on thousands of feet beneath the seabed demonstrates the combination of creativity and rigour that is a cornerstone of the business. In the operational review below, you will see that the results of the team's diligence and commitment are bearing fruit. As we move forward we are taking on new specialists to enable Hurricane to successfully develop and ultimately produce from our discoveries.

Dr Robert Trice
Chief Executive Officer

The slip joint below the deck of the Wilphoenix, the rig commissioned for testing Hurricane's Whirlwind discovery, September 2011.

Operational review

Perhaps the most significant events this year have been third party recognition for Lancaster's potential for commercial development and the completion of a scoping engineering study that will act as the template for taking Lancaster to first oil.

RPS Energy Limited (RPS) has evaluated Hurricane's assets through the formal process of preparing a Competent Person's Report (CPR). The report provides an independent review of Hurricane's assets and is an essential part of establishing their value and the basis for fundraising. There are a number of significant observations arising from RPS's work:

- RPS is supportive of the Hurricane geological model for basement reservoirs
- RPS is able to replicate our work for evaluating basement reservoirs and consequently they support Hurricane's evaluation of resource volumes and the material potential upside that is present in our basement prospects
- RPS is supportive of Hurricane's forward work programme and specifically our plans to take Lancaster to field development

Arising from the CPR work and our own ongoing evaluation of our basement assets, the technical team made a recommendation to the Board to drop Hurricane's onshore acreage and to focus our resources on our offshore opportunities. This recommendation was based on geotechnical grounds and taking account of environmental and planning constraints associated with drilling operations onshore in the UK. The Board accepted the technical recommendation and Hurricane has written to DECC relinquishing the onshore licences. Consequently Hurricane is now focused on operating West of Shetland.

Summary of Seaward Production Licence P1368 (23rd Round Award)

Our work on this acreage has continued:

- technical evaluation of Lancaster and Whirlwind discoveries
- testing operations on Whirlwind
- further technical work on the Lincoln prospect

Lancaster Discovery

"in place" volume over 1 billion barrels

We completed a thorough evaluation of the original Lancaster pilot well, drilled in 2009 and its subsequent sidetrack drilled in 2010. The detailed comparison of these two wells has meant that Hurricane has been able to revise its understanding of hydrocarbon distribution and improve its understanding of the basement fractures. This revised understanding has led to the "in-place" volume being over 1 billion stock tank barrels. This is a very exciting development.

The proposed development plan assessed by RPS indicates that 200 million stock tank barrels (MMstb) of oil should be recoverable using a recovery factor based on the proposed development well placement. In advance of 2012's proposed Lancaster drilling operations, Hurricane has secured a site survey and we are now planning for future Lancaster appraisal and development wells. Such wells will be targeted at improving our understanding of the Lancaster upside and confirming delivery rates from a basement horizontal well.

In parallel with the geoscience evaluation we are working with EPC Offshore to explore the potential for Lancaster field development.

Currently the proposed way forward is that of a staged development starting with a base case of a number of subsea wells tied into an FPSO (floating production, storage and offloading vessel) with oil shuttled to the mainland refinery by tanker. This solution to field development is similar to that already deployed at Foinaven and Schiehallion. Having drilled only two wells on Lancaster we are still at an early stage of development. However it is clear that the resource volumes and facilities' solutions suggest a feasible project and our proposed work programme at Lancaster is committed to bringing the vision of Lancaster oil to an early reality.

Lincoln Lead

A third basement prospect on Licence P1368, Lincoln, has been defined to the south west of Lancaster. Lincoln shares many geological characteristics with Lancaster, including proven oil on structure and a well defined basement fault system. Technical work undertaken during the latter half of 2010 and first half of 2011 resulted in a prospective well location being identified and subsequently a site survey has been acquired. Prospective recoverable resources, P50, for Lincoln are 150MMstb and well planning for a Lincoln exploration well is now ongoing with the objective of drilling in 2014.

Strathmore

Strathmore is a traditional sandstone reservoir and consequently does not fall into our core focus of fractured basement reservoirs. That stated, Strathmore is a proven oil resource with estimated recoverable reserves of 32 million barrels and consequently represents a potential tie back opportunity to a Lancaster development. Strathmore is geographically close to the as yet undeveloped Solan field and therefore has potential latent value.

Summary of Seaward Production Licence P1485 (24th Round) and P1835 (26th Round)

At the beginning of 2010, DECC offered Block 204/23b as part of the 26th Offshore Licensing round. This block is next to Hurricane's Typhoon acreage and contains a significant part of the mapped basement structure that forms the Typhoon prospect. A successful application was made for this block and the addition of this acreage to our portfolio puts Hurricane in a much improved position to optimise its drilling plans on Typhoon. We acquired a site survey over Typhoon during summer 2011 and now we are working on well plans with the objective of drilling Typhoon in 2012, subject to rig availability. Prospective Resources, P50, for the Typhoon basement are estimated at 149MMstb, and P10 an enticing 1,266MMstb.

New Blocks

As part of the 26th Licensing Round, Hurricane has been offered ten offshore blocks, located on the West Shetland Platform immediately to the southwest of the Shetland Isles and northwest of the Orkneys. We will have a 100% operated interest in the Licence. The acreage fits with Hurricane's strategy of exploring niche plays. Whilst focused on the Devonian, the location also offers potential within the underlying basement.

Whirlwind Discovery

Since drilling Whirlwind in 2010 Hurricane has undertaken a detailed analysis of the well results confirming our original interpretation that hydrocarbon is present in the basement and in the overlying limestones. Both the limestone and basement intervals are fractured and potentially permeable. As a result of this work Hurricane raised sufficient funding in early 2011 with the intention of re-entering and testing Whirlwind in the spring. After significant shipyard delays the WilPhoenix drilling rig became available to Hurricane for its operation in September and a revised operation was initiated to accommodate the onset of winter weather.

The well test has proven Whirlwind's discovery status, with light oil or condensate being brought to surface. RPS Energy Limited's independent estimates of 2C Contingent Resources for Whirlwind are 205MMboe for an oil case and 179MMboe for a condensate case. Whirlwind's proximity to Lancaster and the potential for shared development facilities further underpins the possible value of Whirlwind as another basement reservoir success. Further geotechnical work on Whirlwind's hydrocarbon samples, testing and drilling data is needed before the true value of this resource can be established. Clearly the results of this operation have made a substantial contribution to the increase in the Group's overall 2C Contingent Resources.

Light oil or condensate brought to surface

Environmental Review

Hurricane's first priority is safety and protection of the environment. We have a well documented Environmental Management System (EMS) and it is operated to National Quality Assurance standards (NQA 16O 14001). At any time we have live offshore operations, a critical factor is to ensure the offshore application of our EMS.

We take regulatory compliance as a starting point and constantly strive to take environmental performance beyond that standard. We try to reduce the Company's impact on the environment through implementing new initiatives, promoting energy efficiency and waste reduction. We are constantly looking for ways to make further improvements. This is important during offshore operations, but equally important in daily work in the office. We take care to recycle as much as possible and to use good practice to minimise energy usage.

This year's operations have benefited both from on-site Company personnel and the development of good working practices with third party consultants and contractors, and also from independent environmental audits undertaken by DECC and NQA.

The SERPENT project (www.serpentproject.com)

Hurricane is a partner in the SERPENT (Scientific and Environmental ROV Partnership using Existing Industrial Technology) project. This is a collaboration between the oil industry and the National Oceanography Centre in Southampton to make observations of the seabed and associated communities immediately around well locations. Utilising a drilling rig's remote operated vehicle ("ROV") during downtime, SERPENT gathers detailed observations and imagery of the seabed environment. By taking images immediately before and after drilling operations, we have been able to closely monitor the extent of any disturbance to local seabed habitats and communities.

In response to the increasing awareness of the impact of any uncontrolled oil spill following the Macondo incident in the Gulf of Mexico in 2010, Hurricane became one of the core participants in the ownership of the OSPRAG capping device. This device was built as a UK industry response to the Macondo incident and is available for use by operators in an emergency in the UKCS. The capping device, which is now located in Aberdeen, was designed and built with the benefit of the lessons learned by BP during the Gulf incident. The device weighs around 40 tons and is capable of rapid deployment in water depths up to 10,000 feet which is of particular importance to operators with interests West of Shetlands where water depths can be greater than in the North Sea.




In addition, by employing SERPENT over consecutive drilling and testing operations at Whirlwind, Hurricane has been able to monitor the dispersal of cuttings caused by drilling and the recovery of local seabed communities over time. The monitoring data acquired through the SERPENT collaboration helps facilitate a clearer, industry wide understanding of the effects of drilling on seabed communities, and helps guide the development of effective mitigation measures.

Offshore operational improvement

During this year's drilling and testing operations on Whirlwind, Hurricane again focused on promoting waste reduction, ensuring that contractors and suppliers for offshore operations were taking appropriate steps to improve environmental performance. Hurricane also benefited from offshore audits carried out by both DECC and an independent NQA inspector during the Whirlwind testing programme. These audits were extremely beneficial and highlighted the importance of ensuring sub-contractors are working to the guidelines established by Hurricane. During the course of the testing operations Hurricane personnel provided an environmental briefing to all contracted and sub-contracted staff on arrival aboard the rig.

Oil spill response training

Several people at Hurricane have undertaken comprehensive oil spill response training, in accordance with DECC guidelines. In addition training is provided to ensure all employees have received oil spill response awareness training as a minimum. Training exercises to test the effectiveness of the Company's operation specific oil pollution emergency plans are also conducted on a regular basis, the results of which are recorded to allow for future improvements in the plans and to any required response. Hurricane also maintains insurance against the risk associated with its drilling and testing activities, in line with legislation and standard industry practice.

Environmental Statement

Hurricane recognises its responsibility to the environment and we take positive steps to address the environmental impacts of our business operations.

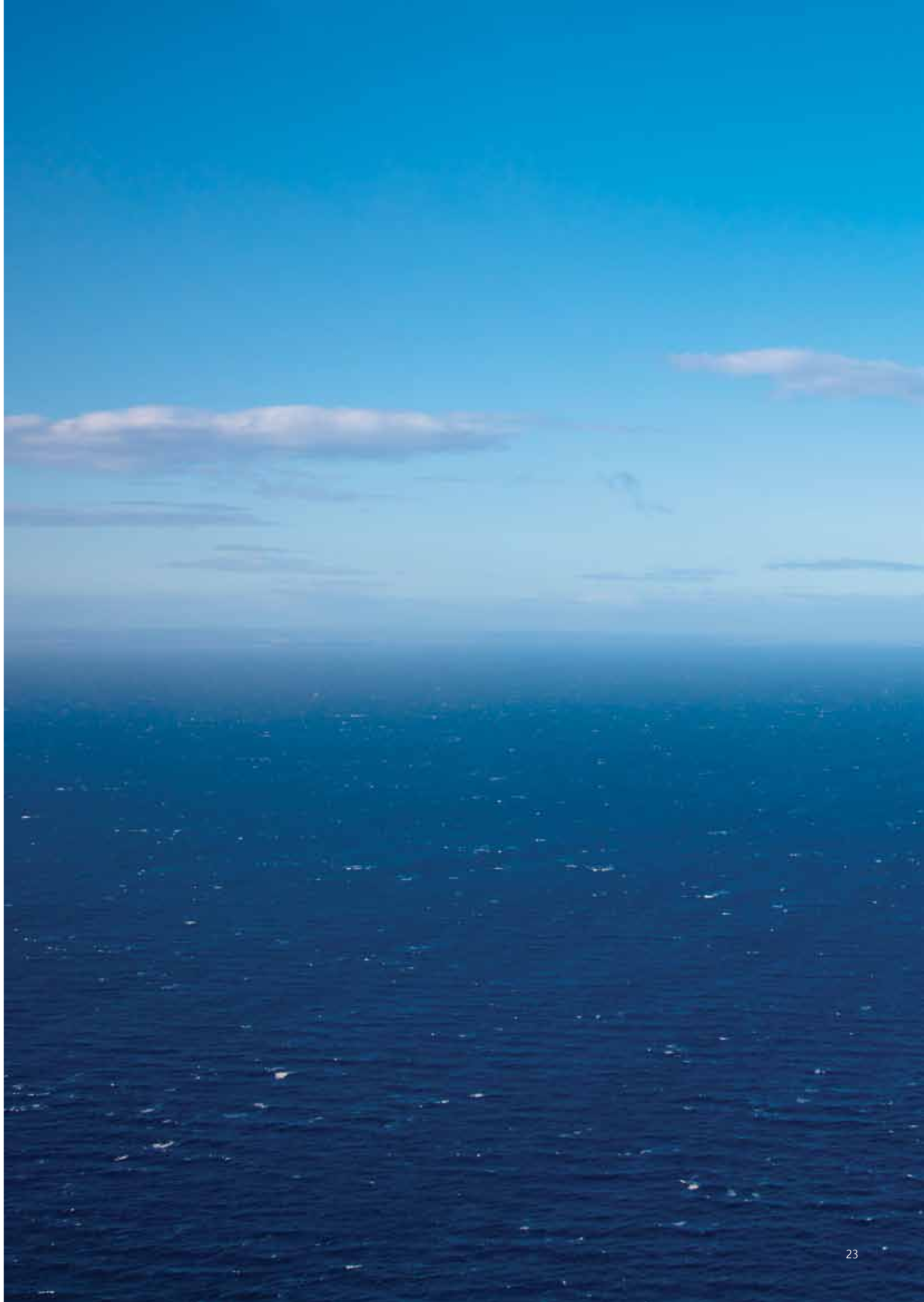
We are committed to achieving continuous improvement in our environmental performance and regard compliance with the relevant laws and regulations as a minimum standard.

We will work with customers, employees, contractors and suppliers to identify and reduce the environmental impacts of our activities.

Our objectives

- All our land based and offshore operations shall be managed under our BS EN ISO 14001:2004 Standard Certified Environmental Management System
- We will involve our employees in maintaining the Environmental Management System, provide a clear feedback structure and establish appropriate operating practices and training programmes
- All our employees will be selected, trained and developed to carry out their duties safely, competently and with due care for the environment
- We will implement measures to prevent pollution to the environment, where reasonably practicable
- We will continuously review all our business operations, in order to identify and, where practicable, minimise our environmental impacts
- We will set appropriate environmental targets, monitor progress in achieving them and report the results to the Board on a regular basis
- We will take environmental considerations into account in all our operations, ensure that our suppliers and contractors are aware of our policy and encourage them to commit to good environmental practices

These objectives will be regularly reviewed and specifically prior to any major operational activity either onshore or offshore. Their achievement will be measured and reported to the Board of Directors. They form the basis from which internal targets for achievement are set and those in turn will be monitored, reported and revised.



Business Strategy

Hurricane remains committed to achieving its goals and objectives within the regulatory and legislative framework of the UK. We will do this to the highest environmental, health and safety levels possible whilst delivering the business and progress shareholders expect.

Since the Company was founded in 2005, Hurricane has acquired attractive acreage in the West of Shetlands region.

Since inception, we have held to a clear strategy. Our business plan has the following objectives:

- Increase shareholder value through the exploration, appraisal and development of fractured basement reservoirs
- Focus on proven petroleum systems, on basement structures with proven oil
- Evaluate potential of basement upside (oil outside of structural closure)
- Continue an active exploration and appraisal programme West of Shetland including satisfactory delivery of all existing commitments
- Maintain 100% ownership of basement prospects associated with proven oil on structure at least until Field Development Plan (FDP) approval
- Gain Lancaster Field Development Plan approval by Q1 2014
- Deliver Lancaster first oil Q4 2016
- Participate in the UK Licence Rounds
- Investigate new venture opportunities outside of the UKCS

The plan is to remain focussed towards exploitation of basement reservoirs, as this is the Company's niche expertise. The forward work programme is targeted at further basement exploration and appraisal with a clear commitment to progressing Lancaster towards development.

Passionate
the love of it

Straightforward
spade's a spade

Ingenious
seeing what everyone has seen, thinking what nobody has thought

Rigorous
no stone left unturned

Collaborative
synergy in action

Tenacious
dog with a bone

Logical
it all adds up

CCO's Review
Essence and communications

In Hurricane the Chief Communications Officer has the privilege of being responsible for all aspects of communications, internally and externally. In Hurricane it is a role also encompassing HSE, HR, facilities and systems, ensuring the smooth running of the business.

In September 2011 we launched our refreshed corporate identity. The purpose was to clarify what Hurricane does and what it offers, to reflect a contemporary professional company and to provide a robust platform for communications.

It's important to ensure that the professional presentation of the Company does justice to the technical excellence exhibited daily. Before the design emerged, we clarified what Hurricane stands for, the elements that make up the corporate essence and the Hurricane way. The Hurricane team are pioneers, opening up new areas of thought and bringing creativity and logic to the fore.

The red of the symbol sits over the blue of the lettering, paying homage to the original corporate mark seeing flame over water.

Also in September 2011 we launched our refreshed website. The first iteration slimmed down the content and presented it in the new identity. Looking forward, we will use the website to provide more information about our work and progress, and to communicate with investors and other interested parties. We have an alert service that anyone can sign up to and we use that to communicate about press releases, annual accounts and occasionally other communications.

"Discovery consists of seeing what everybody has seen and thinking what nobody has thought"

Albert Szent-Gyorgyi
(Hungarian physiologist, discoverer of Vitamin C)

The visual identity represents the essence of Hurricane. The symbol itself is an iconic mark. The concept is about seeing differently, seeing things others can't see or have simply missed.

The logo represents a pioneering spirit and simplicity that places it confidently outside of the crowd. The design of the mark allows it to be seen differently by different individuals – to some it's an eye, to others a flame, a drop of oil, or a target. All are relevant, each bringing a sense of pleasure on discovery, the precision and essence of what Hurricane stands for.

It reflects precisely what makes Hurricane special.

Basement Day

In October 2011 we held a presentation in an open forum to present about fractured basement reservoirs, positioning Hurricane as experts in the field. We presented about the basement concept, explaining what it is and how it works. We also presented a series of examples of basement reservoir plays from around the World and showed how exploration of basement reservoirs is not only successful but also handled using conventional technology.

The purpose of the session was educational, so that more people, analysts, potential investors and others, will have a better appreciation of what the core of Hurricane is all about.

CCO's Review
Culture, places and people

Culture

Hurricane has always minimised the bureaucracy required and runs a tight ship. We have a focused team, small staff numbers covering management, technical specialisms and corporate functions. We also follow a philosophy of working with a network of external consultants. We believe that this enables us to work with the best specialists in particular areas from around the World and avoids building an unnecessarily large team. We use this network of high quality consultants and contracting alliances to:

- verify internal work
- expose in-house technical resources to alternate concepts and methods
- provide external insight into current specialist technology

The Hurricane business insists on having regard for its people and to build a culture that encourages the growth of the Company and themselves. We encourage:

- regard for and fair treatment of each employee
- respect for each individual's contribution to the Company
- employee pride and enthusiasm for Hurricane and their daily work
- equal opportunity for each employee to realise their full potential within the Company
- strong communication with all employees regarding policies and Company issues
- strong Company leaders with a good sense of direction and purpose
- investment in learning, training, and employee knowledge

Places

In September 2011 we moved to new offices located at a small business park in Lower Eashing in Surrey, UK. The offices were fitted out over the summer months. This is the first time the Company has occupied a purpose built office. I am pleased to report that the move from the former offices in Alton was made seamlessly and with no material down time. The new offices provide a good working environment and positive atmosphere, and also plenty of scope for future expansion of staff numbers as and when required. Now Hurricane benefits from high speed communications allowing not only speedy internet access but also state of the art video conferencing and presentation facilities.

A key motivation in building in the communications set-up has been to maintain strong connections with the team in Aberdeen and to be able to communicate easily with consultants and others, particularly during drilling operations.

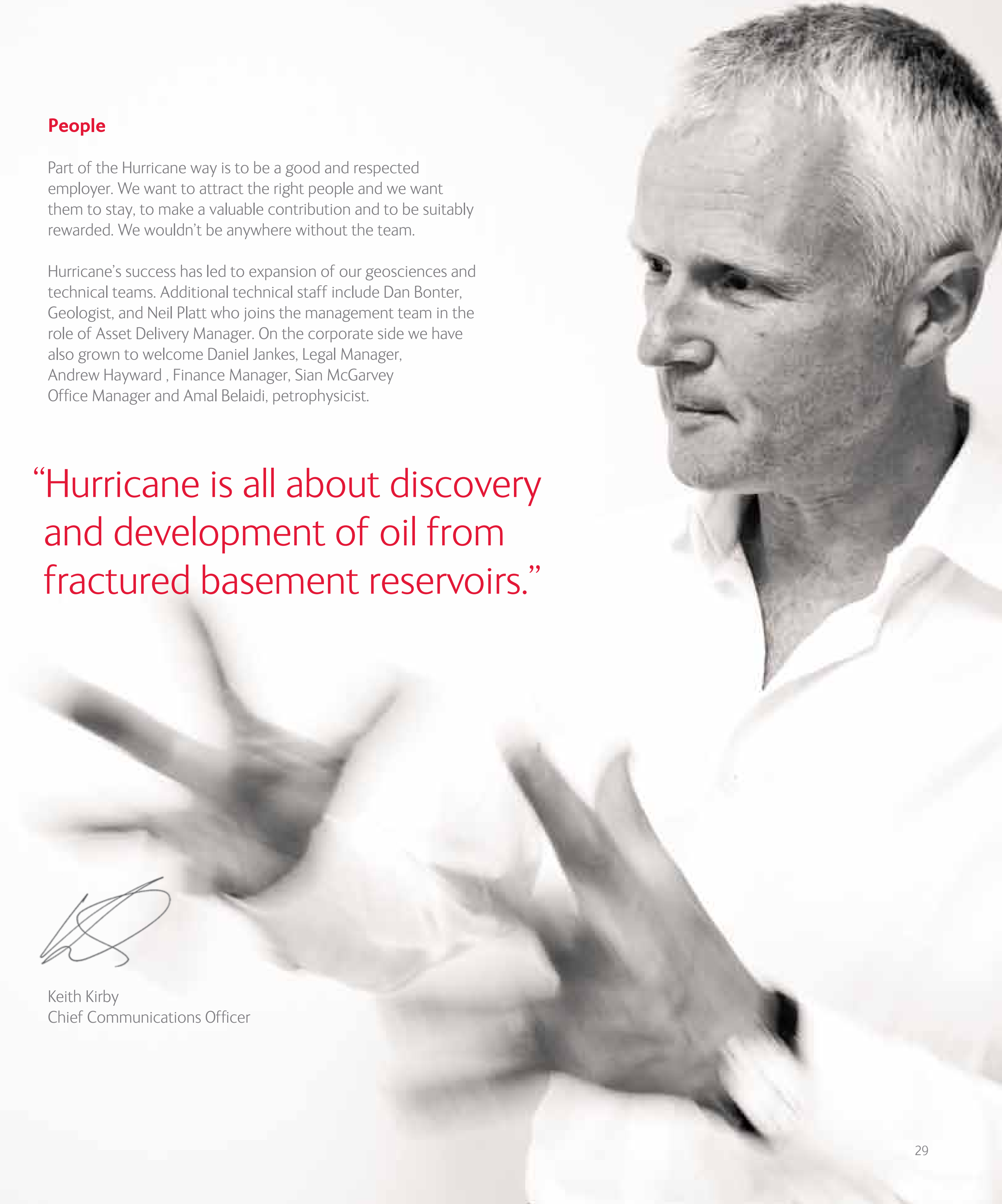
Hurricane's operational team in Aberdeen is led by Richard Beaton, who gained extensive basement drilling experience in Vietnam. Richard works with John Sutherland our drilling engineer who has been responsible for the planning and execution of this year's successful Whirlwind operation. In December the Aberdeen team moved offices within the city.

People

Part of the Hurricane way is to be a good and respected employer. We want to attract the right people and we want them to stay, to make a valuable contribution and to be suitably rewarded. We wouldn't be anywhere without the team.

Hurricane's success has led to expansion of our geosciences and technical teams. Additional technical staff include Dan Bonter, Geologist, and Neil Platt who joins the management team in the role of Asset Delivery Manager. On the corporate side we have also grown to welcome Daniel Jankes, Legal Manager, Andrew Hayward , Finance Manager, Sian McGarvey Office Manager and Amal Belaidi, petrophysicist.

"Hurricane is all about discovery and development of oil from fractured basement reservoirs."



Keith Kirby
Chief Communications Officer

CFO's Review

The Group commenced the financial year (1 September 2010) with cash and cash equivalents of £50.4m and spent £34.3m during the financial year to further explore and appraise its Lancaster and Whirlwind oil discoveries. £33.0m of this expenditure related to payments for the Lancaster sidetrack and Whirlwind exploration wells drilled in 2010.

As at 28 February 2011, the Group had a cash balance of approximately £17m, and the decision was made to undertake a further fundraising prior to re-entering the Whirlwind well. Consequently, the Group raised net proceeds of £19.9m in March 2011 from the issue of share capital at £11.10, having previously raised funds at a share price of £6.00 per share in February 2010.

As a consequence of the increased share price to £11.10 per share, the implied market capitalisation of the Group amounted to £497m. This market value exceeds by an approximate factor of five the costs incurred by the Group since incorporation, reflecting the substantial value that has been added to the Group through the drill bit.

The Group finished the year (31 August 2011) with cash and cash equivalents of £32.9m. The Whirlwind testing commenced on 1 September and was successfully completed at a cost £25.4m post year end.

The Group has no debt and is currently financed solely through equity financing. Its fixed costs, including employment costs, are relatively low at approximately £2.5m per year. As a consequence of the low fixed-cost burn rate, the Group has significant flexibility in operational and technical decisions.

On 24 March 2011, the Government announced that it was raising Supplementary Corporation Tax from 20% to 32% in respect of profits from oil and gas production in the UKCS, resulting in an effective tax rate for the Group of 62%.

As at 31 August 2011, the Group also has pre-trading revenue expenses of £16.0m and £80.5m of capital allowances available for carry forward against future trading profits.

In addition, the total pre-trading expenditure of £96.5m may attract Ring Fenced Expenditure Supplement on commencement of trade, which would result in a further uplift of £13.7m of tax relief available at that time.

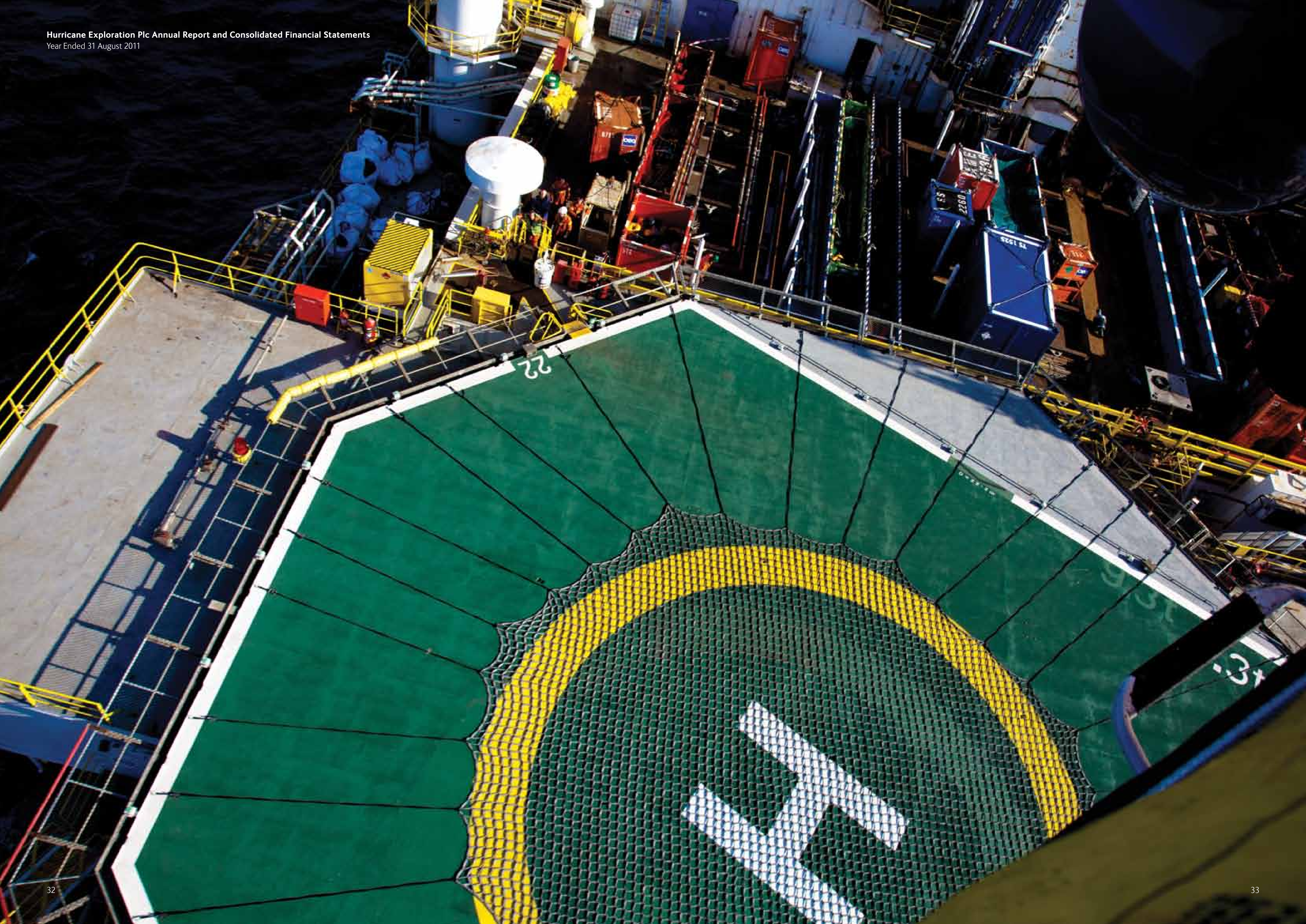
The Group announced at its Annual General Meeting in January 2011 that it would seek a further fundraising and listing on a stock exchange (within the next 9-12 months), subject to market conditions. At a General Meeting on 15 November, authority was provided by shareholders to:

1. subdivide the number of shares in issue in order to reduce the price of each share by a factor of ten. The resolution had no impact on the market value of the Company but each shareholder was reissued ten ordinary shares with a nominal value of £0.001 each for every one ordinary share previously held with a nominal value of £0.01.

2. issue for fundraising purposes a further 150 million shares with nominal value of £0.001 to enable the Company to progress its 2012 and 2013 work programme.

At the end of 2011, it was clear that market conditions were not appropriate for a public listing of the Company and as such a private fundraising was launched in January 2012. This fundraising closes on 24 February 2012 and the outcome will be announced at the AGM scheduled for 27 February 2012. We look forward to welcoming our shareholders to the meeting.

Nicholas Briggs
Chief Financial Officer

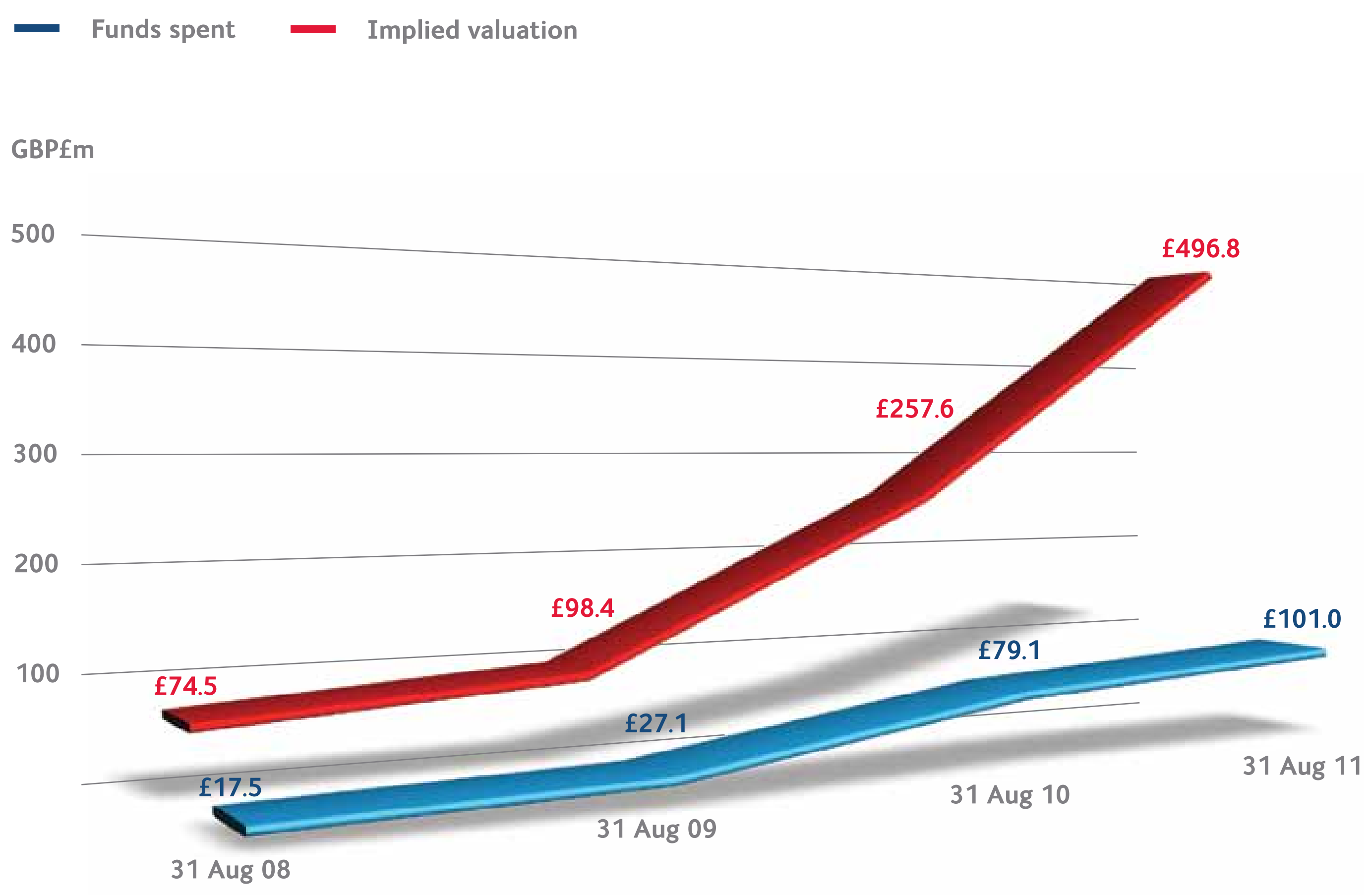


Financial Statements

Since incorporation and up to 31 August 2011 Hurricane has invested £101 million. Taking the share price of £11.10, set at the previous fundraising in March, the implied valuation of the Company at the financial year end was almost £500 million.

So for every £1 invested, Hurricane has generated a further £4 in value, an impressive return on capital employed.

On the following pages we present our Financial Statements for the year ended 31 August 2011.



Directors' Report

The directors present their annual report and audited consolidated financial statements of Hurricane Exploration Plc and its wholly-owned subsidiaries for the year ended 31 August 2011 (collectively, the "Group"). Hurricane Exploration Plc (the "Company") is a company incorporated in Great Britain and registered in England and Wales and is the parent company of the Group.

During the year, three further subsidiary companies were incorporated which are currently dormant. These companies are Hurricane Petroleum Limited, Hurricane Energy Limited and Hurricane Group Limited.

Principal Activity

The principal activity of the Group is oil and gas exploration. There have not been any significant changes in the Group's principal activity during the year under review.

The Group's head office is in Lower Eashing, Surrey with a regional office in Aberdeen.

Post Balance Sheet Events

Following the year end, the Group completed testing operations on the Whirlwind exploration well (205/21a-5) offshore UK, West of Shetland. The well has been suspended for future operations. The testing resulted in the recovery to surface of light volatile oil / gas condensate. Drilling fluid losses and the recovery of hydrocarbons to surface indicate that the reservoir penetrated by the well is permeable and downhole pressure testing confirms the overpressured nature of the fractured reservoir. The total drilling cost of the Whirlwind well re-entry was £25.4 million, all incurred post year end.

In addition, as at 15 November 2011, a resolution was passed to subdivide each ordinary share with a nominal value of £0.01 each into ten ordinary shares with a nominal value of £0.001 each.

The subdivision of the shares also impacts the warrants that are in place. Each existing warrant held is subdivided into the right for each warrant holder to subscribe for 10 new ordinary £0.001 shares at an exercise price of £0.30 per share.

1,904,640 warrants were exercised between 30 November 2011 and 1 February 2012 at a price of £0.30 for each new ordinary £0.001 share in the Company.

A private fundraising was launched in January 2012 which is due to close on 24 February 2012, under which additional funding has already been committed.

Results for the year and dividends

The loss of the Group for the year was £4,021k (2010: loss of £1,011k). The directors do not recommend the payment of a dividend.

Directors

The following directors held office during the year ended 31 August 2011.

Robert Trice
Nicholas Briggs
Bill Guest
Philip Dayer (Appointed 1 January 2011)
Jon Murphy (Appointed 1 January 2011)
Sir Adrian Montague CBE (Appointed 1 July 2011)
Keith Kirby (Appointed 28 July 2011)
Nicholas Mardon Taylor (Resigned 28 July 2011)
Charles Good (Resigned 12 October 2011)

Health and Safety

The Group has a Health and Safety Management policy to ensure that it conducts its business in a manner that protects the safety of the employees, others involved in its operations, customers and public. The Group will strive to prevent all accidents, injuries and occupational illness through the active participation of every employee.

The Group is committed to continuous efforts to identify and eliminate or manage health and safety risks associated with its activities.

Supplier payment policy

The Group's policy and practice is to agree the terms of payment with suppliers at the time of contract and to make payment in accordance with those terms subject to satisfactory performance. The Group does not follow any code or standard on payment practice. However, where payment terms have not been specifically agreed, it is the Group's policy to settle invoices close to the end of the month following the month of invoicing.

Financial risk

The Group's policies are to fund its activities from cash resources derived from shareholder subscriptions, to minimise its exposure to risks derived from financial instruments, not use complex financial instruments and to ensure that its cash resources are available to meet anticipated business needs.

The most significant financial risks to which the Group is exposed are movements in foreign exchange and default from financial institutions. The Group considers that volatility in foreign exchange is a regular part of its business environment, so the Group does not systematically hedge through financial instruments to mitigate this risk. The Group will however hold foreign currencies, primarily US Dollars, where it feels such an action helps mitigate foreign exchange risk.

To mitigate the risk of default from financial institutions, deposits are predominately held with institutions that have as a minimum an AA rating.

Key performance indicators

Given the early stage nature of the Group's development activities, the Group's directors are of the opinion that analysis using Key Performance Indicators is not necessary for an understanding of the nature of development, performance or position of the business.

Disclosure of information to the auditor

In the case of each person who was a director at the time this report was approved:

- so far as that director was aware there was no relevant information of which the Company's auditor was unaware; and
- that director had taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor was aware of that information.

Deloitte LLP was first appointed as auditor to the Group for the year ended 31 August 2010. In accordance with the Companies Act 2006, a resolution to re-appoint Deloitte LLP will be proposed at the next Annual General Meeting.

Going Concern

The Group has no source of operating revenue and currently obtains working capital through equity financing. It is therefore dependent on future fundraising, capital receipts or other forms of finance in order to continue in operation and the proposed work programme is dependent on this future fundraising activity.

After making appropriate enquiries, the directors have formed an opinion at the time of approving the financial statements that there is a reasonable expectation that the Group can secure adequate resources to continue in operational existence for the foreseeable future. This is based on the current bank balances, proposed funding income, the underlying value of the licences and the spread of the Group's prospective resources.

Approved by the Board of Directors and signed on behalf of the Board:

Nicholas Briggs
Chief Financial Officer

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Governance Statement

The Combined Code on Corporate Governance as issued by the Financial Reporting Council is not mandatory for unlisted companies. However, the directors support the principles of the Combined Code and are applying the requirements where they are considered appropriate to the size, nature and unlisted status of the Group.

The Board
At the balance sheet date and subsequently, the Board consists of three executive directors, one independent non-executive chairman and three independent non-executive directors.

The Board is responsible to the shareholders of the Company for all significant financial and operational issues which include strategy, reviewing and approving budgets, ensuring adequate cash resources, approval of capital expenditure and acquisition and divestment opportunities. A record is kept of proceedings and any decisions taken.

Each director retires and stands for re-election by shareholders at least every three years. All directors are subject to re-election by shareholders at the first opportunity following their appointment.

All directors have full access to management and employees, the Company Secretary and independent professional advice in order to execute their duties.

During the year, the Board appointed a non-executive chairman, two independent non-executive directors and created a fully-mandated Remuneration Committee, Nomination Committee and Audit Committee. The Remuneration Committee and Audit Committee each consist of three independent non-executive directors. The Nominations Committee consists of a majority of independent non-executive directors.

It is intended that the three Committees comply with the Combined Code to the extent appropriate for the size, nature and unlisted status of the Group.

Internal control
The directors are responsible for the process and system of internal controls and reviewing their effectiveness. The process and system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year the Board considered the need for an internal audit function. Given the nature and current size of the Group, it is not considered appropriate to have a dedicated internal audit function.

Communication with shareholders
The Company provides information about the Group's activity through its website (www.hex-plc.com) and shareholders and other interested parties may register on the website to receive news releases issued by the Group directly to their e-mail.

Independent auditor's report to the members of Hurricane Exploration Plc

We have audited the financial statements of Hurricane Exploration Plc for the year ended 31 August 2011 which comprise of the Consolidated and Company Balance Sheets, the Consolidated Income Statement, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes 1 to 23 and 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on 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 August 2011 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Bevan Whitehead (Senior Statutory Auditor) for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor London, UK
3 February 2012

Consolidated Income Statement

for the Year Ended 31 August 2011

	Notes	2011 £'000	2010 £'000
Operating expenses		**(2,512)**	(1,031)
Write-off of Intangible Assets		**(782)**	-
Operating loss	5	**(3,294)**	(1,031)
Investment revenue		**112**	169
Exchange gains and losses		**(811)**	(114)
Finance costs		**(2)**	(2)
Loss before tax		**(3,995)**	(978)
Tax	8	**(26)**	(33)
Loss for the year		**(4,021)**	(1,011)

All of the Group's operations are classed as continuing.

The loss for the financial year of the parent company was £4,014k (2010: loss of £1,000k). The Company has taken advantage of the exemption provided by Section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

There was no income or expense in the period other than that disclosed above. Accordingly a Consolidated Statement of Comprehensive Income is not presented.

Consolidated Balance Sheet

as at 31 August 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Intangible assets	9	**96,237**	76,767
Other receivables	10	**130**	-
		96,367	76,767
Current assets			
Trade and other receivables	11	**1,131**	619
Cash and cash equivalents	12	**32,888**	50,389
Total current assets		**34,019**	51,008
Total assets		**130,386**	127,775
Current liabilities			
Trade and other payables	13	**(3,238)**	(17,132)
Current tax liabilities		**(26)**	(37)
		(3,264)	(17,169)
Non-current liabilities			
Decommissioning provision	14	**(800)**	(400)
Total liabilities		**(4,064)**	(17,569)
Net assets		**126,322**	110,206
Equity			
Share capital	15	**448**	429
Share premium		**135,436**	115,465
Share option reserve		**451**	237
Warrant reserve		**795**	795
Own shares held by Employee Benefit Trust	17	**(67)**	-
Accumulated deficit		**(10,741)**	(6,720)
Total equity		**126,322**	110,206

The financial statements were approved and authorised for issue by the Board of Directors on 3 February 2012 and were signed on its behalf by:

Robert Trice
Director

Nicholas Briggs
Director

Consolidated Statement of Changes in Equity

for the Year Ended 31 August 2011

	Share capital £'000	Share premium account £'000	Share option reserve £'000	Own shares held by EBT £'000	Warrant reserve £'000	Accumulated deficit £'000	Total £'000
Balance at 1 September 2010	429	115,465	237	-	795	(6,720)	110,206
Shares allotted	19	20,231	-	-	-	-	20,250
Transaction costs	-	(260)	-	-	-	-	(260)
Share option charge	-	-	214	-	-	-	214
Own shares held by EBT	-	-	-	(67)	-	-	(67)
Loss for the year	-	-	-	-	-	(4,021)	(4,021)
Balance at 31 August 2011	**448**	**135,436**	**451**	**(67)**	**795**	**(10,741)**	**126,322**
Balance at 1 September 2009	328	57,834	130	-	822	(5,709)	53,405
Shares allotted	101	60,244	-	-	-	-	60,345
Transaction costs	-	(2,640)	-	-	-	-	(2,640)
Warrant exercise	-	27	-	-	(27)	-	-
Share option charge	-	-	107	-	-	-	107
Loss for the year	-	-	-	-	-	(1,011)	(1,011)
Balance at 31 August 2010	429	115,465	237	-	795	(6,720)	110,206

The share option reserve arises as a result of the expense recognised in the income statement account for the cost of share-based employee compensation arrangements.

The warrant reserve represents the proceeds from the issue of warrants.

Consolidated Cash Flow

for the Year Ended 31 August 2011

	Notes	**2011 £'000**	2010 £'000
Net cash flow from operating activities	18	**(2,338)**	(1,160)
Investing activities			
Interest received		**126**	156
Expenditure on intangible assets		**(34,335)**	(40,698)
Net cash used in investing activities		**(34,209)**	(40,542)
Financing activities			
Interest paid		**(2)**	(2)
Net proceeds from issue of share capital		**19,859**	57,555
Net proceeds from issue of warrants		**-**	-
Net cash used in financing activities		**19,857**	57,553
Net (decrease) / increase in cash and cash equivalents		**(16,690)**	15,851
Cash and cash equivalents at the beginning of the year		**50,389**	34,651
Net (decrease) / increase in cash and cash equivalents		**(16,690)**	15,851
Effects of foreign exchange rate changes		**(811)**	(113)
Cash and cash equivalents at the end of the year	12	**32,888**	50,389

Notes to the Financial Statements

for the Year Ended 31 August 2011

1. General information

Hurricane Exploration Plc is a company incorporated in Great Britain and registered in England and Wales under the Companies Act 2006. The nature of the Group's operations and its principal activity is exploration of oil and gas reserves principally in the UK Continental Shelf.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective.

Amendments to IAS 1 (June 2011) Presentation of Items of Other Comprehensive Income
IAS 19 (revised June 2011) Employee Benefits
IFRS 13 Fair Value Measurement
IFRS 12 Disclosure of Interests in Other Entities
IFRS 10 Consolidated Financial Statements
IAS 27 (revised May 2011) Separate Financial Statements
IFRS 9 Financial Instruments
IFRS 11 Joint Arrangements

These standards are yet to be endorsed by the European Union. The directors do not expect the adoption of the standards and interpretations listed above to have a material impact on the financial statements of the Group in future periods.

2. Significant accounting policies

(a) Basis of accounting
The consolidated financial statements have been prepared under the historical cost convention, except for share-based payments, and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements have been prepared on a going concern basis as set out in the Directors' Report. The use of this basis of accounting takes into consideration the Group's current and forecast financial position, additional detail of which is included in notes 20, 21 and 23.

(b) Basis of consolidation
The consolidated financial statements consist of the financial statements of the Company and its subsidiaries drawn up to 31 August each year. The results of subsidiaries acquired or sold are consolidated for periods from or to the date on which control passes. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to gain benefit from its activities.

On an acquisition that qualifies as a business combination, the assets and liabilities of the subsidiary are measured at their fair value as at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is capitalised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the income statement in the period of acquisition.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Revenue recognition
Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the enterprise and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

(d) Oil and gas exploration and evaluation activity
The Group follows the successful efforts method of accounting for oil and gas exploration and evaluation activities ("Intangible Assets") as defined in IFRS 6 Exploration for and Evaluation of Mineral Resources.

Pre-licence costs, which relate to costs incurred prior to having obtained the legal right to explore an area, are charged as operating expenses directly to the income statement as they are incurred.

Once a licence has been awarded, all licence fees, exploration and appraisal costs relating to that licence are initially capitalised in well, field or specific exploration cost centres as appropriate pending determination. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

When commercial reserves have been found, the net capitalised costs incurred to date in respect of those reserves are transferred into a single field cost centre and reclassified as development and production assets. Subsequent development costs in respect of the reserves are capitalised within development and production assets.

If there are indications of impairment, an impairment test is performed comparing the carrying value with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs. Costs which are initially capitalised and subsequently written off are classified as operating expenses.

(e) Decommissioning provision
Provision for decommissioning is recognised in full when wells have been suspended or facilities have been installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the asset. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to the decommissioning asset. The unwinding of the discount on the decommissioning provision is included as a finance cost.

(f) Foreign currencies
Transactions in foreign currencies are recorded at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated into sterling at the exchange rate ruling at the balance sheet date, with a corresponding charge or credit to the income statement.

(g) Taxation
Current and deferred tax, including UK corporation tax and overseas corporation tax, are provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax assets and liabilities are calculated in respect of temporary differences using a balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except in relation to goodwill or the initial recognition of an asset as a transaction other than a business contribution. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

(h) Share-based payments
The cost of share-based employee compensation arrangements, whereby employees receive remuneration in the form of share options, is recognised as an employee benefit expense in the income statement. The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value (excluding the effect of non market-based vesting conditions) at the date of grant.

Notes to the Financial Statements

for the Year Ended 31 August 2011

2. Significant accounting policies (continued)

The assumptions underlying the number of awards expected to vest are subsequently adjusted for the effects of non market-based vesting to reflect the conditions prevailing at the balance sheet date. Fair value is measured by the use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of the non-transferability, exercise restrictions and behavioural considerations.

(i) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument. The Group has not entered into any derivative financial instruments during any of the years presented.

Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash with three months or less remaining to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

Investments

Fixed asset investments in subsidiaries are stated at cost in the Company only balance sheet and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. Where warrants are granted in conjunction with other equity instruments, they are recorded at their fair value, which is measured by the use of a binomial model.

(j) Operating leases

Rentals under operating leases are charged to the income statement on a straight line basis over the lease term, even if the payments are not made on such a basis.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial information.

Recoverability of exploration and evaluation assets

Intangible assets are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality may be determined, and (ii) future revenues and costs pertaining to the asset in question, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value.

Recoverability of carrying value of investments

Management is required to assess the carrying value of investments in subsidiaries in the Company balance sheet for impairment by reference to the recoverable amount. This amount is highly dependent on the assessments discussed above in respect of the recoverability of intangible assets.

4. Revenue

The Group has no revenue in the current or comparative period other than interest income.

5. Operating loss

	2011 £'000	2010 £'000
Operating loss is stated after charging:		
Operating lease rentals – land and buildings	**92**	22
Audit services	**30**	30
Non-audit services provided by the auditor	**15**	7

The following is an analysis of the gross fees paid to the Company's auditor, Deloitte LLP, in 2011 and 2010:

	2011 £'000	2010 £'000
Audit services		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**25**	25
The audit of the Company's subsidiary pursuant to legislation	**5**	5
Total audit fees	**30**	30
Non audit services		
Taxation services	**10**	7
Accounting services	**5**	-
Total non audit fees	**15**	7

As at 31 August 2011, £135k (2010: £Nil) has been accrued within prepayments in respect of ongoing Corporate Finance services, performed by the Company's auditor.

The Group made no charitable or political donation during 2011 (2010: £Nil).

6. Directors' emoluments

	2011 £'000	2010 £'000
All directors:		
Aggregate emoluments	**808**	752
Pension contributions	**35**	-
	843	752
Highest paid director:		
Aggregate emoluments	**304**	305
Pension contributions	**16**	-
	320	305

Notes to the Financial Statements

for the Year Ended 31 August 2011

6. Directors' emoluments (continued)

Directors share options

Details of directors' share options at the beginning and end of the year are as follows:

Tranche	As at 1 September 2010	Granted	Exercised	Lapsed	As at 31 August 2011	Exercise price
Robert Trice						
22/02/06	130,000	-	-	-	130,000	£1.00
25/01/11	-	22,500	-	-	22,500	£10.00
14/06/11	-	55,045	-	-	55,045	£11.10
28/07/11	-	23,784	-	-	23,784	£11.10
Keith Kirby (Appointed 28 July 2011)						
28/07/11	-	88,288	-	-	88,288	£11.10
Nicholas Briggs						
06/07/09	200,000	-	-	-	200,000	£3.00
25/01/11	-	17,000	-	-	17,000	£10.00
28/07/11	-	18,919	-	-	18,919	£11.10
Nicholas Mardon Taylor (Resigned as a director 28 July 2011)						
22/02/06	100,000	-	-	-	100,000	£1.00
25/01/11	-	6,800	-	-	6,800	£10.00
14/06/11	-	10,350	-	-	10,350	£11.10
28/07/11	-	9,830	-	-	9,830	£11.10

The share options of Robert Trice include options over 30,000 shares held by Julie Trice, his spouse.

7. Employee information

The average number of persons, including directors, employed by the Group during the year was:

	2011 Number	2010 Number
Operations	**14**	10
	£'000	£'000
Staff costs for the above persons were:		
Wages and salaries	**1,356**	1,182
Social security costs	**157**	125
Share-based payment expense	**214**	108
Pension costs	**70**	-
	1,797	1,415

The employment cost for the directors employed by the Group during the year was £1,045k (2010: £859k). These costs include social security costs of £93k (2010: £79k) and share-based payment expense of £109k (2010: £27k).

The Group does not currently operate a pension scheme but undertakes to make contributions to employees existing pension schemes.

8. Tax on loss on ordinary activities

	2011 £'000	2010 £'000
(a) UK corporation tax		
Current tax		
Current tax – current year	**23**	33
Current tax – prior year	**3**	-
Deferred tax	**-**	-
	26	33
(b) Loss on ordinary activities before tax	**(3,995)**	(978)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK applicable to oil companies of 50% (2010: 50%)	**(1,998)**	(489)
Effects of:		
Adjustment to prior years	**3**	-
Expenses not deductible for tax purposes	**-**	-
Unrecognised pre-trade revenue expenditure carried forward	**2,054**	544
Profits subject to tax at lower rate	**(33)**	(22)
Current tax charge for period	**26**	33

(c) Factors which may affect future tax charges

Future profits may be subject to ring fence taxation at a combined rate of 62% on taxable oil extraction profits (ring fence corporation tax at 30% and a supplementary charge at 32% with no deduction for financing costs).

The Group has pre-trading revenue expenses of £16.0 million (2010: £11.9 million) and pre-trading capital expenditure (£80.5m as at 31 August 2011) which will be available for tax relief on commencement of a petroliferous trade for UK tax purposes.

The total pre-trading expenditure of £96.5m (referred to above) may attract Ring Fence Expenditure Supplement on the commencement of trade, which would result in a further uplift of £13.7m of tax relief being available at that time.

No provision has been made in these financial statements for a potential deferred tax asset of £10.0 million (2010: £6.0 million) resulting from the effect of carried forward pre-trading revenue expenses. A deferred tax asset would only be recognised where there is reasonable certainty that the Group will generate suitable taxable profits in the foreseeable future. The potential deferred tax asset is calculated at a rate of 62% (2010: 50%).

Notes to the Financial Statements

for the Year Ended 31 August 2011

9. Intangible assets

	2011 £'000	2010 £'000
Exploration and evaluation expenditure b/f	**76,767**	25,839
Additions	**20,252**	50,928
Write-off	**(782)**	-
Exploration and evaluation expenditure c/f	**96,237**	76,767

Exploration and evaluation expenditure comprises the book cost of licence interests and exploration and evaluation expenditure within the Company's licensed acreage in the West of Shetlands and onshore UK locations.

The amount written off in the year relates to the onshore UK licences of Perthshire and Wiltshire, which were relinquished in the year.

The Directors have fully considered and reviewed the potential value of licence interests, including carried forward exploration and evaluation expenditure. The Directors have considered the likely opportunities for realising the value of the Group's licences, either by farm out or by development of the assets and have concluded that there are no indications of impairment.

10. Other non-current receivables

The other non-current receivables represent the deposit for the office lease. Further details are given in note 21.

11. Trade and other receivables

	2011 £'000	2010 £'000
Other receivables	**380**	550
Prepayments and accrued income	**751**	69
	1,131	619

12. Cash and cash equivalents

	2011 £'000	2010 £'000
Unrestricted funds	**17,357**	27,720
Restricted funds	**-**	9,669
Escrow funds	**15,531**	13,000
	32,888	50,389

Independent third parties had been granted charges over the restricted funds to secure payment as part of the drilling operations. Generally speaking, these funds could only be dispersed to the benefit of these third parties.

The Company holds the beneficial interest in the funds held in the escrow account. Generally speaking, these funds can only be dispersed to the benefit of an independent third party for work undertaken as part of the drilling operations.

13. Trade and other payables

	2011 £'000	2010 £'000
Trade payables	**1,258**	7,507
Other payables	**90**	38
Accruals	**1,890**	9,587
	3,238	17,132

14. Decommissioning provision

Provisions for decommissioning and restoration of oil and gas assets are:

	2011 £'000	2010 £'000
At 1 September 2010	**400**	-
Additions	**400**	400
At 31 August 2011	**800**	400

The provision for decommissioning as at 1 September 2010 relates to the Lancaster exploration asset. The additions seen in the year represent the present value of decommissioning costs for Whirlwind following exploration activity that has taken place during the period. The expected decommissioning cost for both assets is based on the cost of decommissioning as part of an integrated testing campaign. If the Group were required to undertake a specific campaign to plug and abandon the wells, the cost on a stand alone basis would be approximately £2,000k per well.

15. Called up share capital

	2011 £	2010 £
Allotted, called up and fully paid		
44,757,105 (2010 : 42,931,971) ordinary shares of 1p each	**447,571**	429,320

During the year, the Company issued 1,825,134 ordinary 1p shares for a gross cash consideration of £20,250,138.

During the prior year, the Company issued 10,121,076 ordinary 1p for a gross cash consideration of £60,344,511.

As at 31 August 2011 and 2010, 2,338,167 warrants were in issue providing the right for each warrant holder to subscribe for one new ordinary 1p share per warrant held at an exercise price of £3 per share. These warrants will lapse on 17 July 2012 if unexercised.

Notes to the Financial Statements
for the Year Ended 31 August 2011

16. Share options

On 22 February 2006, the Company granted share options, under an EMI scheme, over 360,000 ordinary 1p shares to employees of the Company at an exercise price of £1.00 per share. The options have now vested and lapse on the earlier of 10 years after the date of grant or 3 months after the sale, restructuring or listing of the Company.

On 14 April 2009, the Company granted unapproved share options over 260,000 ordinary 1p shares to employees of the Company at an exercise price of £3.00 per share. On 19 January 2010, the Company granted further unapproved share options over 110,000 ordinary 1p shares to an employee of the Company at an exercise price of £6.00 per share.

On 25 January 2011, the Company granted approved share options over 19,400 ordinary 1p shares and unapproved share options over 128,300 ordinary 1p shares to employees of the Company at an exercise price of £10.00 per share. On 14 June 2011, the Company granted further approved share options over 8,871 ordinary 1p shares and unapproved share options over 157,902 ordinary 1p shares to employees of the Company at an exercise price of £11.10 per share.

On 28 July 2011, the Company granted further approved share options over 8,106 ordinary 1p shares and unapproved share options over 145,047 ordinary 1p shares to employees of the Company at an exercise price of £11.10 per share.

On 28 July 2011, the Company granted approved share options over 1,801 ordinary 1p shares and unapproved share options over 63,344 ordinary 1p shares to employees of the Company at an exercise price of £11.10 per share. These options have a 5 year vesting period.

The options normally vest 3 or 5 years after the date of the grant and are due to lapse 10 years after the date of the grant. The options vest early upon either sale, restructuring or listing of the Company and, except for a listing, the options must be exercised at the time of the vesting event. For options granted after January 2011, listing does not constitute an early vesting event.

The options outstanding at 31 August 2011 had a weighted average remaining contractual life of 7.7 years (2010: 7.5 years). The aggregate of the estimated fair value of the options granted was £3,261,967 (2010: £229,000).

	2011		2010	
	Number of options	**Weighted average exercise price £**	Number of options	Weighted average exercise price £
Outstanding at start of year	**730,000**	**2.47**	620,000	1.84
Granted in the year	**532,771**	**10.80**	110,000	6.00
Forfeited in the year	**(110,000)**	**6.00**	-	-
Exercised in the year	**-**	**-**	-	-
Outstanding at the end of the year	**1,152,771**	**5.98**	730,000	2.47

The Group recognised total expenses of £214k in respect of share-based payments in 2011 (2010: £107k).

17. Own shares held by Employee Benefit Trust

	Own Shares
Balance at 1 September 2010	-
Acquired in the period	76
Shares disposed of to employees	(9)
Balance at 31 August 2011	67

The own shares reserve represents the cost of shares in Hurricane Exploration Plc purchased and held by the Group's Employee Benefit Trust to satisfy the Group's Share Incentive Plan administered by MM&K Share Plan Trustees Limited.

The number of ordinary shares held by the Employee Benefit Trust at 31 August 2011 was 6,683 (2010: Nil).

18. Reconciliation of operating loss to net cash flow from operating activities

	2011 £'000	2010 £'000
Operating loss	**(3,294)**	(1,031)
Non cash exploration write-offs	**782**	-
Non cash share-based payment charge	**278**	258
Increase in receivables	**(656)**	(207)
Increase / (Decrease) in payables	**589**	(119)
Cash utilised by operating activities	**(2,301)**	(1,099)
Corporation tax paid	**(37)**	(61)
Net cash outflow from operating activities	**(2,338)**	(1,160)

Notes to the Financial Statements

for the Year Ended 31 August 2011

19. Financial instruments

Financial risk management
The Group monitors and manages the financial risks relating to its operations on a continuous basis. These include foreign exchange, credit, liquidity and interest rate risks. The Group's financial instruments are cash and cash equivalents and trade payables.

Foreign exchange risk
The Group undertakes certain transactions denominated in foreign currencies; hence exposures to exchange rate fluctuations arise. The Group's cash and cash equivalents are predominately held in Pounds Sterling although the Group will hold cash balances in US Dollars to meet actual or expected commitments in that currency. A 10% increase in the strength of the US Dollar against Sterling would cause a decrease of £1.9m (2010: £2.7m) on the loss after tax of the Group. A 10% weakening in the strength of the US Dollar against Sterling would cause an increase of £1.5m (2010: £2.2m) on the loss after tax of the Group.

This sensitivity analysis includes only foreign currency denominated cash and cash equivalents, and adjusts their translation at the year end for a 10% change in the foreign currency rate. Whilst the effect of any movement in exchange rates is charged or credited to the income statement, the economic effect of holding US dollars against actual or expected commitments in US dollars is as a hedge against exchange rate movements.

Credit risk
The Group is only exposed to credit risk on its cash and cash equivalents. The risk to the Group is deemed to be limited because the cash and cash equivalents are deposited with banks with at least AA credit ratings assigned by an international credit rating agency. The carrying value of cash and cash equivalents represents the Group's maximum exposure to credit risk at year end.

Liquidity risk
The Group manages its liquidity risk by maintaining adequate cash and cash equivalents to cover its liabilities as and when they fall due.
The financial liabilities of the group are currently limited to trade payables which are due to be paid within 60 days of the balance sheet date.

Interest rate risk
The Group is exposed to interest rate movements through its cash and cash equivalents which earn interest at variable interest rates. If interest rates had been 1% higher, the Group's loss after tax for the year ended 31 August 2011 would have decreased by £0.3million (2010: £0.5 million), assuming the cash and cash equivalents at the balance sheet date had been outstanding for the whole year. No sensitivity analysis has been undertaken for a 1% decrease in interest rates because of the low level of prevailing interest rates during the year.

20. Capital commitments

As at 31 August 2011, the Group was in the process of re-visiting the Whirlwind well for testing and had entered into contracts covering the planned drilling activities. Drilling had not commenced at the balance sheet date and as such, no drilling costs had been incurred.
Following the year end, the Group completed testing operations and the total drilling costs were £25.4 million.

21. Financial commitments

The Group and Company had total future commitments under non-cancellable operating leases as follows:

	2011	2010
	£'000	£'000
Land and buildings - lease expiring in the second to fifth years	**548**	-
- lease expiring in less than 1 year	**5**	22

22. Related party transaction

As at 31 August 2011, Charles Good was a partner of Matrix Corporate Capital LLP, the Group's corporate brokers, and a director of Hurricane Exploration Plc. £247k of Corporate Finance and Placing fees were charged by Matrix Corporate Capital LLP in the period (2010: £2,490k).

23. Subsequent events

Following the year end, the Group completed operations on the Whirlwind exploration well. Further details are set out in note 20.

In addition, as at 15 November 2011, a resolution was passed to subdivide each ordinary share with a nominal value of £0.01 each into ten ordinary shares with a nominal value of £0.001 each.

The subdivision of the shares also impacts the warrants that are in place. Each existing warrant held is subdivided into the right for each warrant holder to subscribe for 10 new ordinary £0.001 shares at an exercise price of £0.30 per share.

1,904,640 warrants were exercised between 30 November 2011 and 1 February 2012 at a price of £0.30 for each new ordinary £0.001 share in the Company.

A private fundraising was launched in January 2012 which is due to close on 24 February 2012, under which additional funding has already been committed.

Company Balance Sheet

as at 31 August 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Intangible assets	1	**40,339**	30,972
Investments	2	**15,090**	15,090
Amounts due from subsidiary undertaking		**40,563**	30,518
Other receivables	3	**130**	-
		96,122	76,580
Current assets			
Trade and other receivables	4	**995**	618
Cash and cash equivalents	5	**32,888**	50,389
Total current assets		**33,883**	51,007
Total assets		**130,005**	127,587
Current liabilities			
Trade and other payables	6	**(3,231)**	(17,125)
Current tax liabilities		**(26)**	(37)
		(3,257)	(17,162)
Non-current liabilities			
Decommissioning provision	7	**(400)**	(200)
Total liabilities		**(3,657)**	(17,362)
Net assets		**126,348**	110,225
Equity			
Share capital	8	**448**	429
Share premium		**135,436**	115,465
Share option reserve		**451**	237
Warrant reserve		**795**	795
Own shares held by Employee Benefit Trusts		**(67)**	-
Accumulated deficit		**(10,715)**	(6,701)
Total equity		**126,348**	110,225

The financial statements were approved and authorised for issue by the Board of Directors on 3 February 2012 and were signed on its behalf by:

Robert Trice
Director

Nicholas Briggs
Director

Company Statement of Changes in Equity

for the Year Ended 31 August 2011

	Share capital £'000	Share premium account £'000	Share option reserve £'000	Own shares held by EBT £'000	Warrant reserve £'000	Accumulated deficit £'000	Total £'000
Balance at 1 September 2010	429	115,465	237	-	795	(6,701)	110,225
Shares allotted	19	20,231	-	-	-		20,250
Transaction costs	-	(260)	-	-	-		(260)
Share option charge	-	-	214	-	-	-	214
Own shares held by EBT	-	-	-	(67)	-	-	(67)
Loss for the year	-	-	-	-	-	(4,014)	(4,014)
Balance at 31 August 2011	**448**	**135,436**	**451**	**(67)**	**795**	**(10,715)**	**126,348**
Balance at 1 September 2009	328	57,834	130	-	822	(5,701)	53,413
Shares allotted	101	60,243	-	-	-	-	60,344
Transaction costs	-	(2,639)	-	-	-	-	(2,639)
Warrant exercise	-	27	-	-	(27)	-	-
Share option charge	-	-	107	-	-	-	107
Loss for the year	-	-	-	-	-	(1,000)	(1,000)
Balance at 31 August 2010	429	115,465	237	-	795	(6,701)	110,225

The share option reserve arises as a result of the expense recognised in the profit and loss account for the cost of share-based employee compensation arrangements.

The warrant reserve represents the proceeds from the issue of warrants.

Company Cash Flow Statement

for the Year Ended 31 August 2011

	Notes	2011 £'000	2010 £'000
Net cash flow from operating activities	9	**(2,198)**	(1,153)
Investing activities			
Interest received		**127**	156
Expenditure on intangible assets		**(24,431)**	(15,803)
Net cash used in investing activities		**(24,304)**	(15,647)
Financing activities			
Interest paid		**(2)**	(2)
Net proceeds from issue of share capital		**19,859**	57,555
Net proceeds from issue of warrants		**-**	-
Working capital provided to subsidiary companies		**(10,045)**	(24,902)
Net cash used in financing activities		**9,812**	32,651
Net (decrease) / increase in cash and cash equivalents		**(16,690)**	15,851
Cash and cash equivalents at the beginning of the year		**50,389**	34,651
Net (decrease) / increase in cash and cash equivalents		**(16,690)**	15,851
Effects of foreign exchange rates		**(811)**	(113)
Cash and cash equivalents at the end of the year	5	**32,888**	50,389

Notes to the Financial Statements

for the Year Ended 31 August 2011

1. Intangible assets

	2011 £'000	2010 £'000
Exploration and evaluation expenditure b/f	**30,972**	5,139
Additions	**10,149**	25,833
Write-off	**(782)**	-
Exploration and evaluation expenditure c/f	**40,339**	30,972

Exploration and evaluation expenditure comprises the book cost of licence interests and exploration and evaluation expenditure within the Company's licensed acreage in the West of Shetlands and onshore UK locations.

The amount written off in the year relates to the onshore UK licences of Perthshire and Wiltshire, which were relinquished in the year.

The Directors have fully considered and reviewed the potential value of licence interests, including carried forward exploration and evaluation expenditure. The Directors have considered the likely opportunities for realising the value of the Company's licences, either by farm-out or by development of the assets and have concluded that there are no indications of impairment.

2. Investments

	Investment in subsidiary £'000	Loan to subsidiary £'000	Total £'000
As at 31 August 2011 and 2010	9,751	5,339	15,090

The entire share capital of Hurricane Exploration (UK) Limited was acquired in 2008. Hurricane Exploration (UK) Limited is registered in the UK and its activity is oil and gas exploration. There are three other dormant subsidiaries, namely Hurricane Group Limited, Hurricane Energy Limited and Hurricane Petroleum Limited.

3. Other non-current receivables

The other non-current receivables represent the deposit for the office lease. Further details are given in note 21 of the consolidated financial statements.

4. Trade and other receivables

	2011 £'000	2010 £'000
Other receivables	**550**	549
Prepayments and accrued income	**445**	69
	995	618

Notes to the Financial Statements

for the Year Ended 31 August 2011

5. Cash and cash equivalents

	2011 £'000	2010 £'000
Unrestricted funds	**17,357**	27,720
Restricted funds	**-**	9,669
Escrow funds	**15,531**	13,000
	32,888	50,389

Independent third parties had been granted charges over the restricted funds to secure payment as part of the drilling operations. Generally speaking, these funds could only be dispersed to the benefit of these third parties.

The Company holds the beneficial interest in the funds held in the escrow account. Generally speaking, these can only be dispersed to the benefit of an independent third party for work undertaken as part of the drilling operations.

6. Trade and other payables

	2011 £'000	2010 £'000
Trade payables	**1,258**	7,507
Other payables	**90**	38
Accruals	**1,883**	9,580
	3,231	17,125

As at 31 August 2011, trade creditors and accruals of £939k (2010: £13,516k) in the Company were secured through charges on restricted funds or funds held within the escrow account.

7. Decommissioning provision

	2011 £'000	2010 £'000
Provisions for decommissioning and restoration of oil and gas assets are:		
At 1 September 2010	**200**	-
Additions	**200**	200
At 31 August 2011	**400**	200

The provision for decommissioning as at 1 September 2010 relates to the Lancaster exploration asset. The additions seen in the year represent the present value of decommissioning costs for Whirlwind following exploration activity that has taken place during the period. The expected decommissioning cost for both assets is based on the cost of decommission as part of an integrated testing campaign. If the Company were required to undertake a specific campaign to plug and abandon the well, the cost on a stand alone basis would be approximately £1,000k per well.

8 Called up share capital

Details of the Company's share capital, share options, own shares held by EBT and warrants are provided in notes 15, 16 and 17 of the consolidated financial statements.

9. Reconciliation of operating loss to net cash flow from operating activities

	2011 £'000	2010 £'000
Operating loss	**(3,289)**	(1,020)
Non cash exploration write-offs	**782**	-
Non cash share-based payment charge	**278**	257
Increase in trade and other receivables	**(521)**	(206)
Increase / (Decrease) in trade and other payables	**589**	(123)
Cash generated by operating activities	**(2,161)**	(1,092)
Corporation tax paid	**(37)**	(61)
Net cash flow from operating activities	**(2,198)**	(1,153)

10 Other disclosures

Certain other disclosures in notes 19, 20, 21 and 22 also apply to the Company in respect of its share of the Group's operations.

Hurricane, a creative pioneer, calm and in balance at the centre, is inspired by the innovators and pioneers of the past.