Hurricane

Annual Report and Group Financial Statements 2014

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Hurricane Highlights

Highly successful drilling and testing operation carried out on the Lancaster discovery

Hurricane is the first company to drill a 1km horizontal well in basement on the UKCS

Completed an IPO on 4 February 2014, admitting the Company's shares to AIM

Hurricane has 470* MMboe of 2C Contingent Resources and a further 442* MMboe P50 Prospective Resources that it owns 100%

Hurricane has discovered more oil on the UKCS than any other UK oil company in the past ten years

Agreed licence extensions with DECC

* Whirlwind oil case. Hurricane's Competent Person's Report (CPR) produced in 2013 recognises 2C Contingent Resources of 444-470 MMboe and P50 Prospective Resources of a further 432-442 MMboe.

Introduction

Hurricane was established to discover, appraise and develop hydrocarbon resources associated with naturally fractured basement reservoirs, thereby creating value for Shareholders.

Hurricane's acreage is on the United Kingdom Continental Shelf, West of Shetland on which the Group has made two basement reservoir discoveries, each containing approximately 200 MMboe 2C Contingent Resources. The Group also has approximately 440 MMboe of P50 Prospective Resources in its portfolio of exploration opportunities. To date the Group has retained 100% ownership of the licences containing all its discoveries and prospects.

Hurricane's most advanced asset is the Lancaster discovery. In 2014 a highly successful operation was carried out on Lancaster to drill and test a 1km horizontal appraisal well. The Lancaster drilling operation is covered in more detail in the Group Strategic Report.

Hurricane's headquarters is in Lower Eashing, Surrey with a satellite office in Aberdeen.

During 2014 the Group:

- Admitted the Company's shares to AIM on 4 February 2014
- Raised £18 million by issuing new equity at IPO
- Entered into a rig contract to drill a Lancaster appraisal well
- Successfully drilled the UK's first ever 1km horizontal well targeting basement
- Achieved a sustainable natural flow rate of 5,300 STB/d and a flow rate using artificial lift of 9,800 STB/d from the Lancaster well production test, exceeding the target of 4,000 STB/d. The flow rates were constrained by surface equipment
- Committed a total of £36.7 million of capital expenditure on the 2014 Lancaster drilling and testing campaign. The operation was delivered £5.0 million under budget
- Extended the term for licences P1485 and P1835

Chairman's Statement

Welcome to Hurricane Energy's 2014 Annual Report.

2014 was marked by two important events for the Group. Firstly the IPO and fund raising that was completed in February and secondly the successful drilling and testing of the horizontal appraisal well on the Group's 100% owned Lancaster oil discovery, carried out over the summer.

The IPO

On 4 February 2014 all of the Company's issued share capital was admitted to AIM, a market operated by the London Stock Exchange, as part of its Initial Public Offering (IPO). At the same time a total of 41,860,465 new Ordinary Shares were issued at a price of 43p per share, raising £18 million (gross). Admission of the Company's shares to trading on AIM triggered the conversion of all outstanding loan notes and the warrant that had been issued in 2013 into Ordinary Shares of the Company resulting in the issuance, at the time of IPO, of a further 106,733,642 new Ordinary Shares combined.

The funds raised both prior to, and at the time of the IPO, added over £47 million in cash, after expenses, to the Group's balance sheet and enabled the Group to proceed with appraisal drilling on its Lancaster oil discovery West of Shetland.

2014 operation

We announced on 28 April 2014 the spudding of the Lancaster horizontal appraisal well 205/21a-6. This well was designed to test for commercially sustainable oil flow rates from the fractured basement reservoir and was seen as key to demonstrating the viability of the Lancaster oil discovery and the Group's other basement assets. The drilling and testing of this key appraisal well over the summer was a great success and will be described in some detail in the Group Strategic Report.

The well was completed ahead of schedule and under budget. A 1km horizontal well section was drilled through fractured basement – a first in the North Sea - and the well was successfully tested and flowed oil at significant rates. A maximum sustainable flow rate of 9,800 STB/d using artificial lift was recorded. This flow rate was constrained by the capacity of the surface testing equipment and so higher flow rates could be expected when long term production is established through appropriately sized facilities. Your Board believes that the successful results from this well are a clear demonstration that the Group's plans for progressing to a Lancaster field development are technically viable.

The industry

The fall in the oil price during the second half of 2014 was dramatic and deep and continued into 2015. At the close of 2014 the Brent crude oil price was $55 per barrel having touched highs of $115 per barrel around the middle of the year. This sharp fall in the oil price is clearly affecting the entire industry. Despite positive drilling results in 2014 the impact of low oil prices has affected Hurricane as much as any other company in the sector and we have seen a decline in the share price along with most others. Whilst this is disappointing, the Board is firmly of the opinion that the success of the summer's appraisal drilling operation, together with the significant volumes of oil resources in place, demonstrates that the Group remains attractive in the long term.

The industry is already responding to a lower oil price environment by cutting capital investments and also by cutting costs. We are already seeing rig, seismic and contractor service costs falling, with further cost reductions expected. This will provide some mitigation against lower oil prices.

The UK Government is well aware of the pressure on the industry. Hurricane has played an active part in the fiscal review instigated by HM Treasury with regard to the UK's oil and gas fiscal regime. The Group was pleased to note that the Chancellor eased the tax burden in the 2014 Autumn Statement by reducing the supplementary charge (SCT) by 2%. This was followed by an announcement in the March 2015 Budget of a further reduction in the SCT from 30% to 20% and a reduction in Petroleum Revenue Tax from 50% to 35%. These are much needed changes reflecting the maturity of the UK North Sea and lower oil prices. Further support will still be required to revive exploration activity and to encourage new field developments.

Hurricane welcomes the creation of the Oil and Gas Authority and trusts that it will be influential in leading the way in further fiscal reform of the UK's oil and gas sector.

Looking forward

This year's drilling and testing result is a major step in further de-risking the Group's 2C Contingent Resources (444-470 MMboe) in Lancaster and Whirlwind and its P50 Prospective Resources (432-442 MMboe) in its prospect inventory. This successful outcome reinforces the potential importance of oil and gas in fractured basement reservoirs as a new and strategic resource for the UK.

Following the successful completion of the Lancaster horizontal appraisal well, a farm-out process of some or all of the Group's assets was commenced with the assistance of Jefferies International. Having a large contingent resource in the Lancaster oil discovery and a highly productive reservoir, as proven by the 205/21a-6 well, means that the Lancaster discovery can remain commercially viable in a lower oil price environment, not least as the industry cost base continues to fall. As a consequence of this there has been considerable industry interest in both the Lancaster field and the Group's other assets. At the time of writing the Company is in discussions with a number of potential partners.

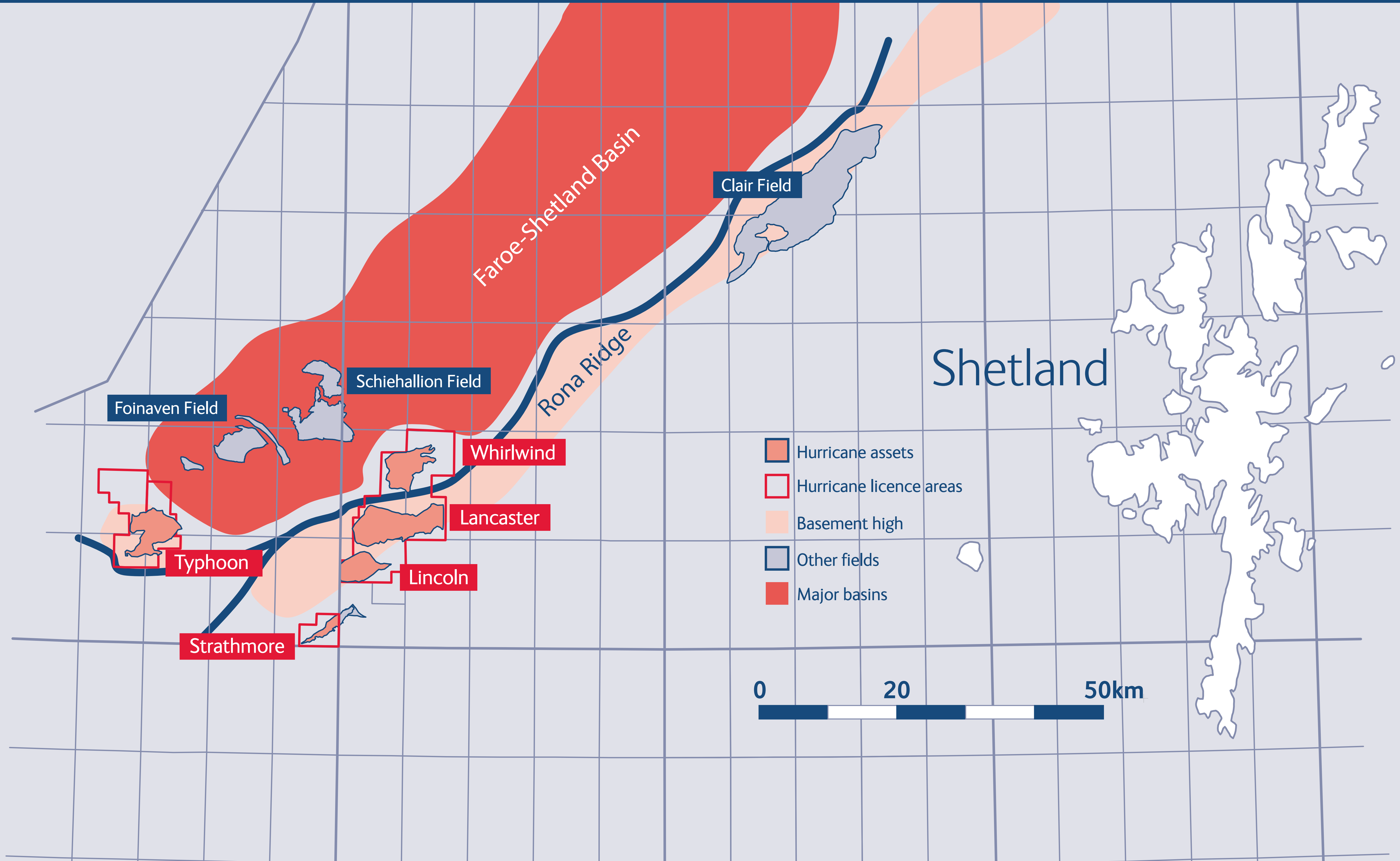
The Company has also continued to ensure the market recognises the scale of the opportunity Hurricane represents. An ongoing programme of meetings with brokers, analysts and industry commentators, alongside presentations at special investor events has been undertaken throughout the year to tell the Hurricane story.

The industry is facing a challenging period. Amongst the smaller Exploration & Production companies, Hurricane is better placed than most, having a significant resource base with large volumes of discovered and prospective resources in one of the principal areas of industry interest in the UKCS. With 100% ownership in all our assets, the Group has scope to bring in partners to progress the development of these assets whilst still retaining material value for Shareholders.

I would like to take this opportunity to thank all the Hurricane team for their contribution towards the successful appraisal of the Lancaster discovery and for their continuing efforts.

John Hogan
Chairman
30 April 2015

Hurricane's Asset Locations



Group Strategic Report

Business model

Hurricane acquires acreage in proven petroleum systems and uses pre-existing well and seismic data to assess the potential of basement reservoirs which have been bypassed by the oil industry's earlier exploration campaigns. By using pre-existing data we are able to plan exploration and appraisal wells with a high level of confidence. Once a well is drilled we use newly acquired geotechnical information to refine our geological understanding of our assets and subsequently assess the commercial potential of any discoveries. Once commercial viability of our assets is established, we examine development scenarios to take them into production.

Oil exploration, appraisal and development is by its nature capital intensive and typically takes several years to get a discovery through to development and production. Early capital is provided either through equity investment or through a farm-out of licence assets in exchange for a financial contribution to wells and, or, a level of financial carry on field development. It has always been part of our strategy to introduce a development partner at the right time to enable field development and also to bring expertise and manpower in skill sets that Hurricane does not intend to develop in-house for the development and production phase. Hurricane is focused on bringing its existing discoveries to field development and will continue to acquire new acreage as it is able to do so, subject to financial capability.

Strategy

Our strategy is to create Shareholder value through the exploration, appraisal and development of fractured basement reservoirs and in the process, to move our resources through the value chain from prospects to discoveries and contingent resources, culminating in reserves and ultimately production.

We use our business model to create opportunities that we believe will lead to the development of significant resources. We believe that fractured basement reservoirs can be associated with oil outside of structural closure that is of material commercial value. Part of Hurricane's strategy is to demonstrate the potential of this oil through exploration and appraisal drilling.

To date we have maintained 100% ownership and operatorship of all of our discoveries. A farm-out process is underway to help move our discoveries into development. Discussions with potential partners are ongoing at the time of this report.

Key Performance Indicators

The Group uses Key Performance Indicators (KPIs) for the assessment of the performance of individuals for remuneration purposes. However, given the early stage nature of the Group's development activities, the Group's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the nature of development, performance or position of the business.

Hurricane Energy has discovered more oil on the UKCS than any other UK oil company in the past ten years.

Group Strategic Report: Review of 2014

As we entered 2014 the Group had been able to agree a contract for the Transocean Sedco 712 drilling rig. The IPO plan was well advanced and the process culminated in floating Hurricane's shares on AIM, a market operated by the London Stock Exchange, on 4 February 2014.

As part of the IPO Hurricane issued new shares at a price of 43p per share, adding a further £17 million to the balance sheet, after expenses. The pre-IPO and IPO fundraisings together added over £47 million to the balance sheet after expenses, thereby allowing the Group to sign the contract for the Sedco 712 and undertake the planned drilling and testing of the Lancaster 205/21a-6 appraisal well.

The Lancaster operation

Hurricane is the first company ever to drill a 1km horizontal well targeted at a basement reservoir on the UKCS. Although horizontal wells have been drilled in many other regions of the world, it took firm direction and commitment from a multidisciplinary team to deliver a successful operation. Meticulously planned by the Hurricane team and working closely with our key technical advisers, the operation was designed for early season drilling, aiming to take advantage of the good weather period.

Hurricane's CEO and a small Hurricane technical team spent crucial time offshore, overseeing the operation. The Management believes that having the right people offshore directing key elements of the technical work creates an efficient streamlined operation. Hurricane's structure and approach enables work to be done in an agile and dynamic way delivering positive results.

The Board is pleased to report that the Transocean Sedco 712 was under contract to Hurricane for 73.5 days, less than the budgeted AFE of 75.9 days. This, coupled with other operational efficiencies, resulted in spend of £34.4 million against a budgeted AFE cost of £39.4 million. £2.3 million was spent in 2014 on costs relating to the well outside of the AFE.

The first stage of the drilling operation involved building the angle of the well until the drillbit was moving horizontally as it entered the basement structure (see Lancaster well section diagram on page 14). Once the granitic basement had been encountered, drilling progressed at a rate of approximately 190 metres per day. Nine key seismically mapped faults were targeted in the preplanning and were crossed during the drilling operation (see Location map on page 15). At conclusion of drilling the data acquired indicated that all the mapped target fault zones were present and that the entire encountered section was both fractured and oil bearing. Evidence of fractures and oil bearing rock were established from drilling data including high resolution gas chromatography and image logs acquired through logging while drilling (LWD).

On 9 June 2014 Hurricane announced that the drilling phase of the reservoir section had been successfully completed as planned and that the well testing phase was to commence.

The testing programme was designed to establish whether commercial hydrocarbon flow rates could be delivered from a 1km horizontal well drilled through faulted and fractured basement rock (granite) under both natural flow and artificial lift conditions. Artificial lift was achieved through the installation of a down-hole electrical submersible pump (ESP), the inclusion of which was to investigate potential flow rates that could be expected under production conditions. The type of oil was confirmed as 38° API, the same as established in previous operations on the Lancaster discovery.

On 26 June 2014 Hurricane announced the preliminary results from the testing phase of the operation. The natural flow rate was established at 5,300 stock tank barrels of oil per day (STB/d). Using artificial lift provided by the ESP a sustainable flow rate of 9,800 STB/d was established. Both the natural and artificial established oil flow rates were constrained by the capacity of the surface test equipment. A well productivity index of 160 STB/d/psi was achieved demonstrating a very good quality reservoir pressure capable of delivering sustained commercial flow under production conditions.

The well flowed for a total of 78 hours and was shut in for a maximum of 74 hours. Shut-in periods are an important part of the testing programme to allow assessment of the pressure response of the reservoir after the initial flow, providing reservoir understanding as well as input for future development planning. Shut-in periods indicated a rapid pressure response, no observable pressure decline and a large connected volume, another positive outcome of the operation.

The post-well analysis carried out through the summer was also encouraging. The work provided more data indicating that under production conditions and a moderate 120psi drawdown the basement reservoir could deliver 20,000 STB/d from a single well. This was significantly better than initial expectations of well productivity.

Other information gleaned from the testing and post-well analysis supports the interpretation from previous drilling on the Lancaster structure that the intervening fractured basement rock, as well as the seismic scale fault zones, contributed to flow. It also corroborates the pre-drill geological model and provided new analysis demonstrating a highly permeable, well connected fracture network.

Additional potential upside was encountered from an interval of previously undrilled Jurassic-Cretaceous sandstone. The sandstone is oil bearing, and has an average porosity of 17%. Further subsurface work is required to quantify the materiality of this sandstone reservoir.

The success of the Lancaster operation brings the discovery closer to development and consequently the well has been suspended. Hurricane plans to incorporate this well into a future development of Lancaster.

Farm-out process

Jefferies International is assisting Hurricane in conducting a formal farm-out process to attract an industry partner into some or all of the Group's assets. Since the Lancaster operation a comprehensive data room has been made available to interested parties. An announcement will be made in due course as appropriate.

Licence extensions

In order to protect the Group's assets, Management held discussions with the Department of Energy & Climate Change (DECC) regarding extending the expiry dates on certain licences held by the Group. Hurricane was granted an extension to licences P1485 and P1835 which contain the Group's Typhoon and Tempest prospects.

Licence P1485, the licence covering Typhoon, has been extended by DECC to 31 December 2016. The Group will need to demonstrate it has committed to a rig contract prior to 30 June 2016. Should Hurricane be unable to meet this requirement, licence P1485 and licence P1835 will automatically expire unless a further extension is granted by DECC.

Licence P1835: before 9 January 2017, the Group has a contingent commitment to drill one well to 1,800m or the top basement (whichever is shallower). This well need not be drilled (and the licence expires) if the Secretary of State confirms that it would not be appropriate to do so in the circumstances, in particular in light of the evaluation of the results of the firm committed well drilled in respect of licence P1485. By 10 January 2017, the Group is obliged to relinquish at least 50 per cent of the initial licensed area. There is no requirement to relinquish during the second term but the Group must give notice to the Secretary of State of the area it wishes to retain.

Board

Keith Kirby resigned from the Board on 22 June 2014. See page 24 for profiles of the Directors.

Government and regulatory authorities

Hurricane was one of many companies interviewed as part of the Wood Review: UKCS Maximising Recovery Review, focusing on stronger and better stewardship rather than more regulation of the sector, published in February 2014.

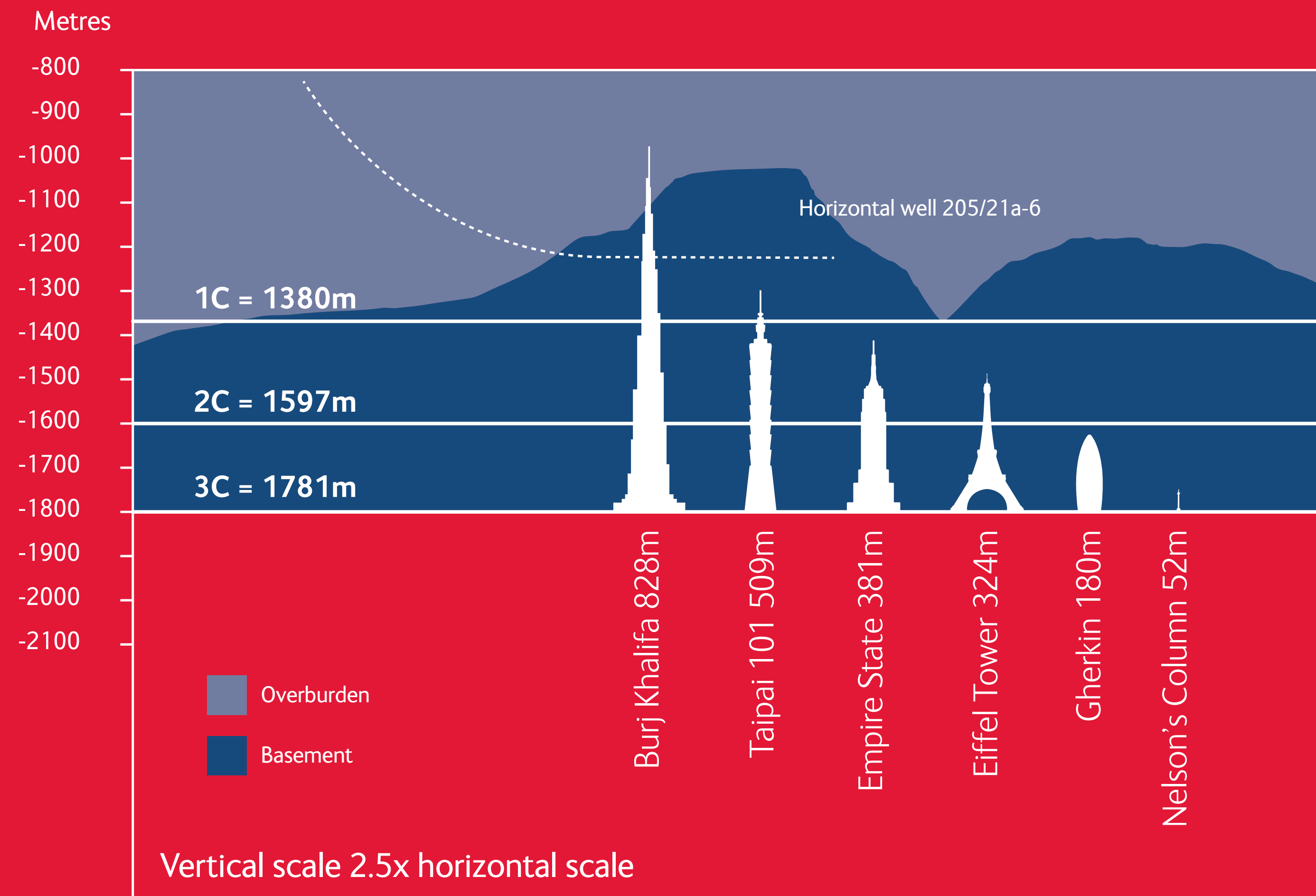
Hurricane has also been actively involved with HM Treasury over the Government's fiscal review of the UK's oil and gas industry, highlighting the need for reform to stimulate growth in the sector.

The Group successfully completed an official audit for renewal of our ISO 14001 Environmental Management System accreditation, essential to enable Hurricane to carry out drilling operations.

"I consider this year's operational result to be a major step in further de-risking the Company's 2C Contingent and P50 Prospective Resources and very important as we seek to enhance Shareholder value. This successful outcome reinforces the potential importance of basement resources as a strategic resource for the UK."

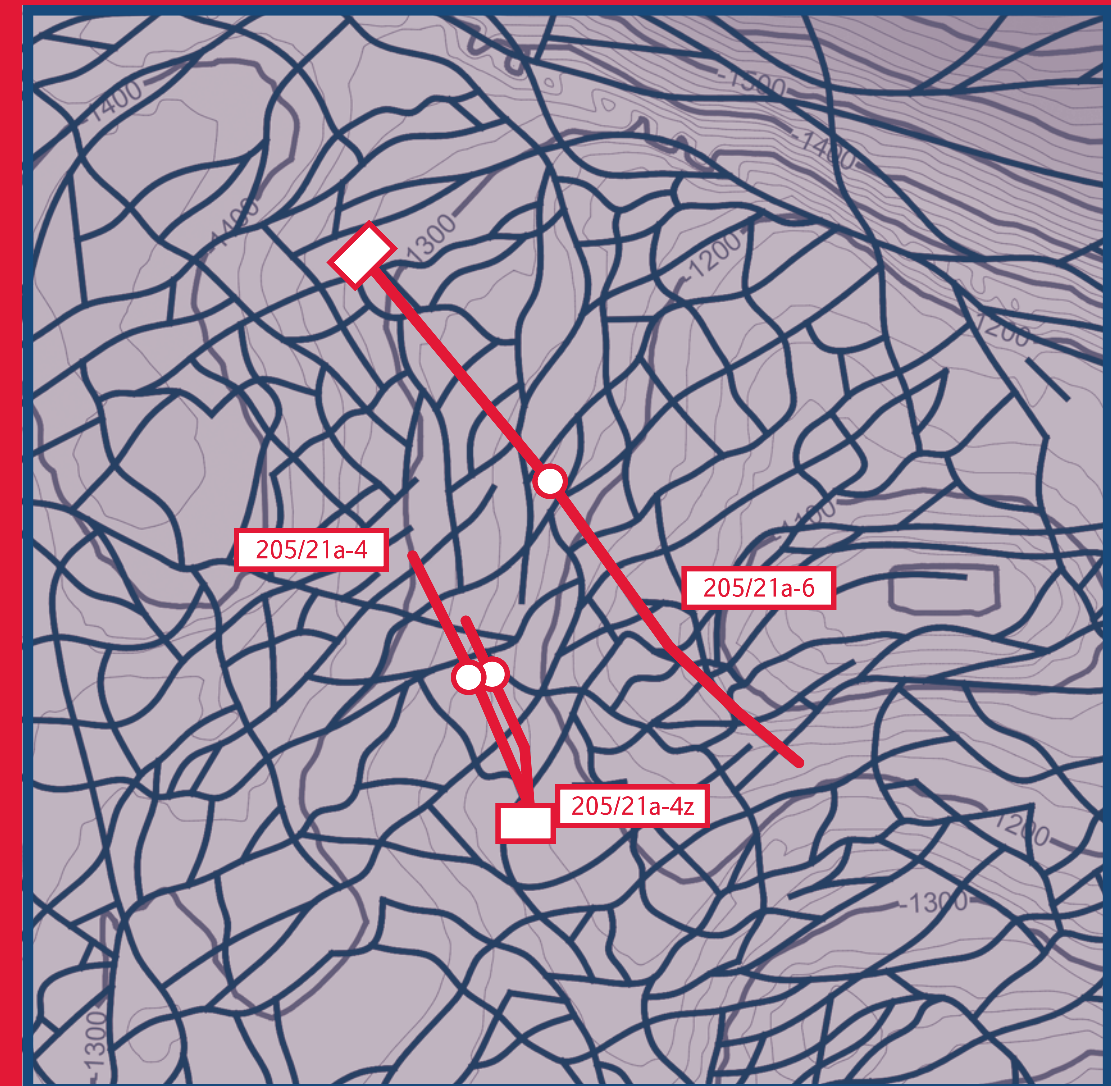
Dr Robert Trice, CEO

Lancaster well section



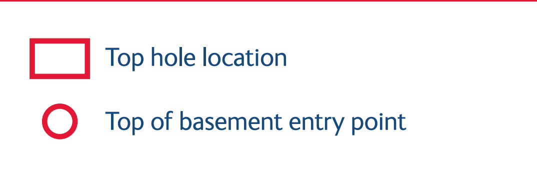
The figure above shows the 1C, 2C and 3C 'oil down to' cases as described in the CPR, demonstrating the potential height of the oil column compared with well known landmarks. The 205/21a-6 well penetrated the basement structure well above the shallowest 'oil down to' (the 1C case) and was drilled horizontally for approximately 1km.

Location map



Lancaster horizontal well shown in relation to seismically mapped faults and other wells on the Lancaster field.

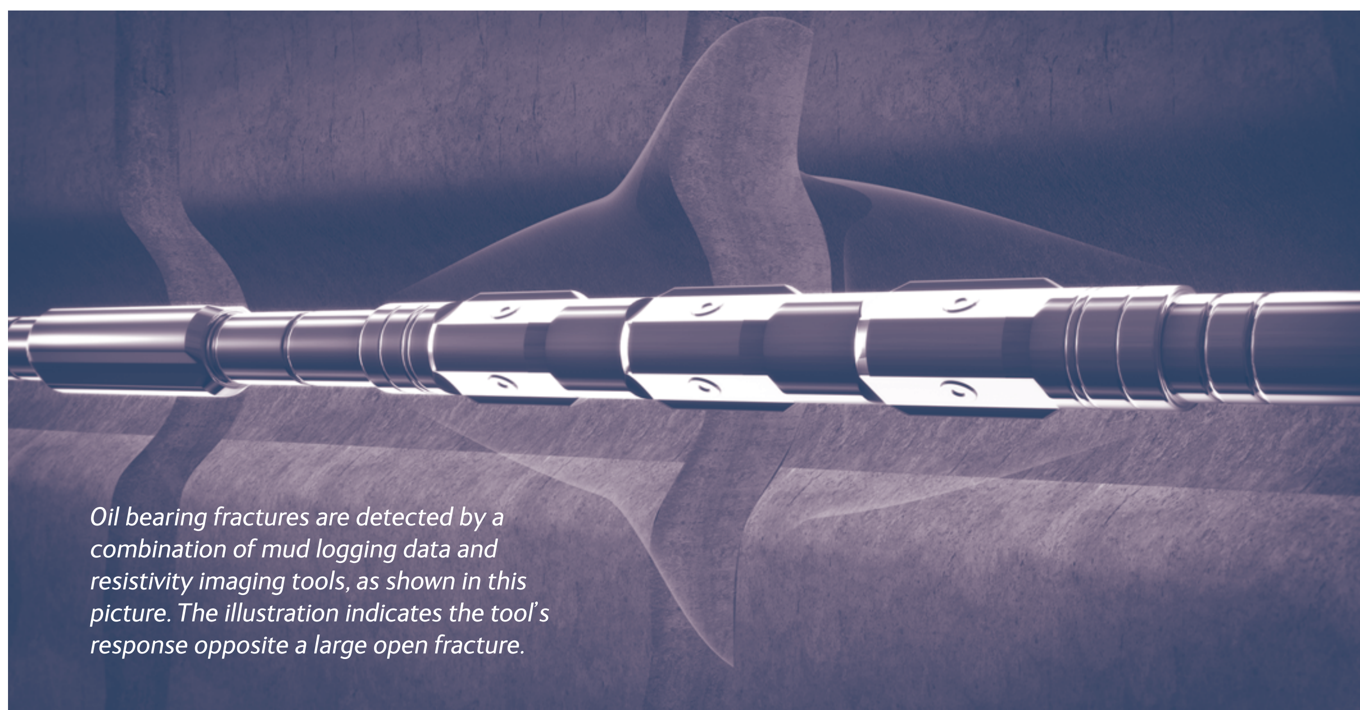
The horizontal well targeted seismically mapped faults as the primary drilling target as previous drilling results indicated that seismically mapped faults are associated with the best quality reservoir.



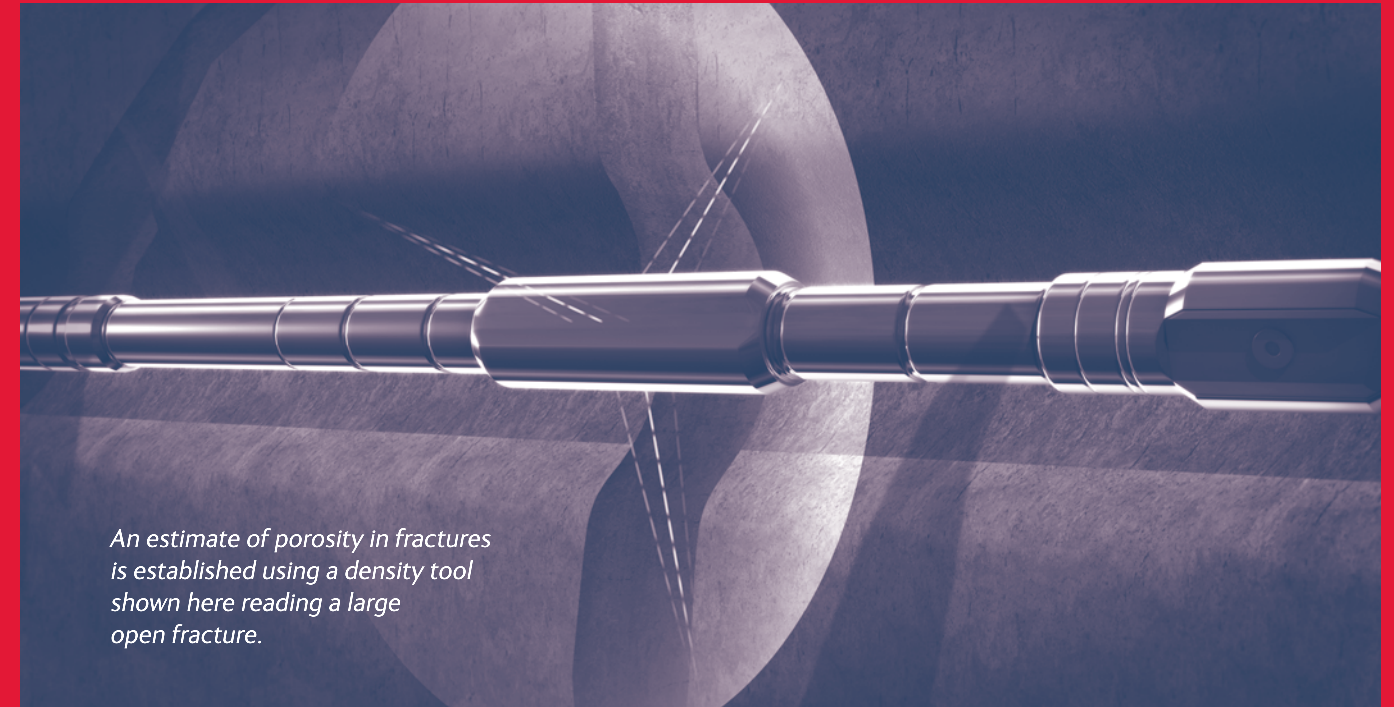
As well as penetrating the seismically mapped faults, the horizontal well cuts across numerous fractures which are detected by logging while drilling (LWD) measurements.

LWD tools are located behind the drill bit and form part of the drill string. Examples of LWD measurements include the density resistivity and caliper tools. Hurricane's geoscientists use this information along with seismic data to construct fracture models and establish how much oil is present within the Lancaster field.

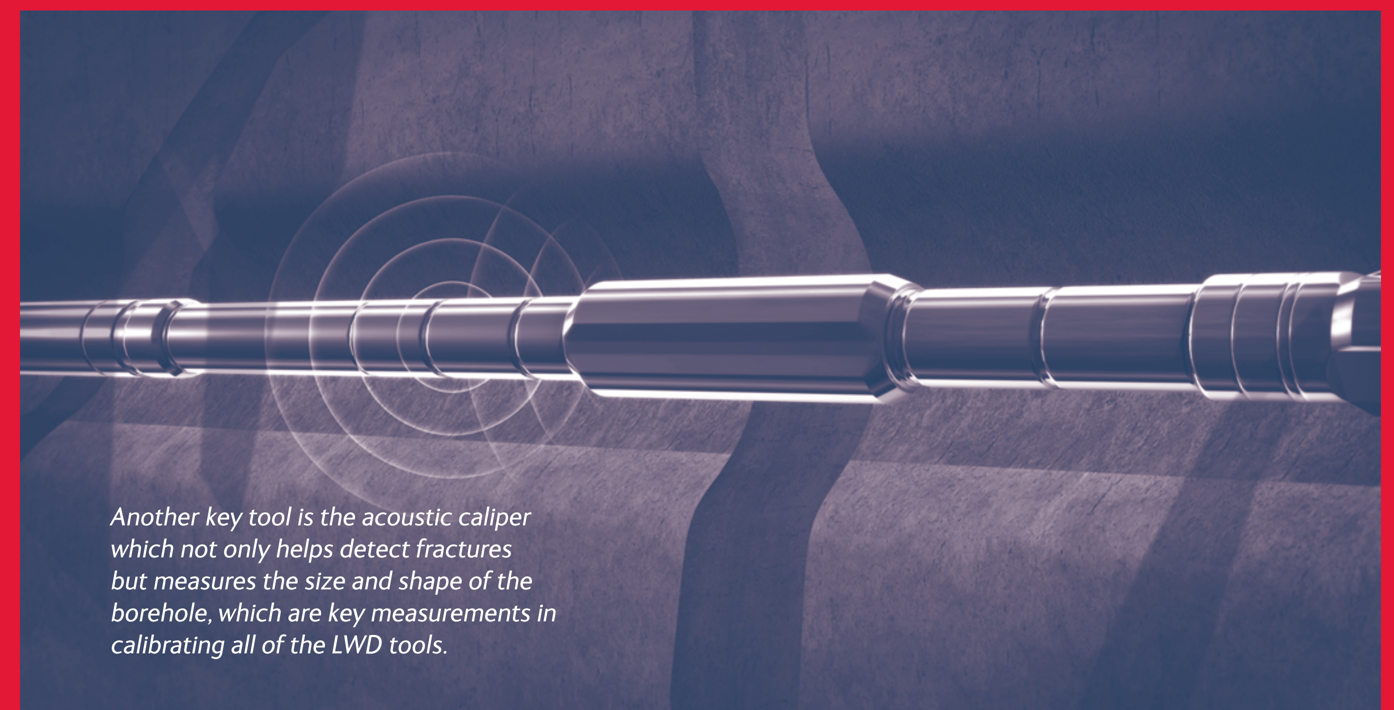
The Lancaster well was drilled horizontally using a geo steering device, enabling Hurricane to drill across numerous faults and fractures.



Oil bearing fractures are detected by a combination of mud logging data and resistivity imaging tools, as shown in this picture. The illustration indicates the tool's response opposite a large open fracture.



An estimate of porosity in fractures is established using a density tool shown here reading a large open fracture.



Another key tool is the acoustic caliper which not only helps detect fractures but measures the size and shape of the borehole, which are key measurements in calibrating all of the LWD tools.

Group Strategic Report: Future outlook

This has been a very important and productive period for Hurricane and the Group is now considering the positive outcome of 2014's operation with a view to bringing Lancaster to field development.

Lancaster

The Lancaster asset is held under Licence P1368 and is in a water depth of 155m. The key corporate objective for 2014 was to drill a successful horizontal well on Lancaster which could demonstrate that the reservoir can produce a commercially sustainable flow of 4,000 barrels of oil per day. As covered earlier in this report the operation was a great success, exceeding the target flow rate.

The potential size of the Lancaster resource means that any field development is expected to be executed through a phased approach. Development scenarios under review for the Lancaster asset include the Phase 1 Full Field Development as outlined in the Group's Competent Person's Report (CPR) or an Early Production System (EPS) using either a standalone vessel or existing infrastructure. The EPS is an incremental plan towards the Full Field Development, but benefits from the potential of accelerating oil production at a minimum cost.

Given the positive results of the Lancaster well in 2014 and the associated de-risking of key elements related to field development, Management is working to establish a preferred way forward to field development prior to commissioning a revised CPR.

The Group has 100% control of over 400 MMboe of 2C Contingent Resources. The Group also benefits from a Lancaster well stock that includes two wells which are suspended in preparation for use as production wells. Jefferies International is assisting Hurricane in conducting a formal farm-out process to attract an industry partner into some or all of the Group's assets.

Lincoln

Also controlled by Hurricane under Licence P1368, the Lincoln prospect lies to the south west of Lancaster. Through Hurricane's technical analysis, we believe that Lincoln shares many geological characteristics with Lancaster, including proven oil on structure and a well defined basement fault system. As with our basement discoveries, the Lincoln prospect benefits from data obtained from previous drilling and seismic data obtained from previous operators. We plan to drill on Lincoln in the future, subject to funding.

Lincoln's proximity to Lancaster leads us to believe that once we can prove the resource and, subject to funding, it could be developed jointly with Lancaster as a single large development that we refer to as the Greater Lancaster Area, or GLA.

Whirlwind

Whirlwind is located about 10km north of Lancaster and in a water depth of approximately 185m. In 2010 we drilled on the structure and found indications of oil in both a Lower Cretaceous limestone (Valhall) and underlying fractured basement within structural closure.

In 2011 Hurricane re-entered the well for testing. The well test results were ambiguous and it is not clear whether the hydrocarbons at reservoir conditions are volatile oil or gas condensate. Despite this ambiguity, it is clear that Whirlwind's hydrocarbon type is different from that of Lancaster and as a consequence the current plan is that the Whirlwind discovery would be appraised and developed on a standalone basis or as a future addition to the Greater Lancaster Area development. The well has been suspended for future operations.

Subject to future funding, Hurricane intends to re-enter the 2011 well to drill and test a deviated sidetrack well targeting a faulted section of basement to the south east of the existing well track.

Typhoon and Tempest

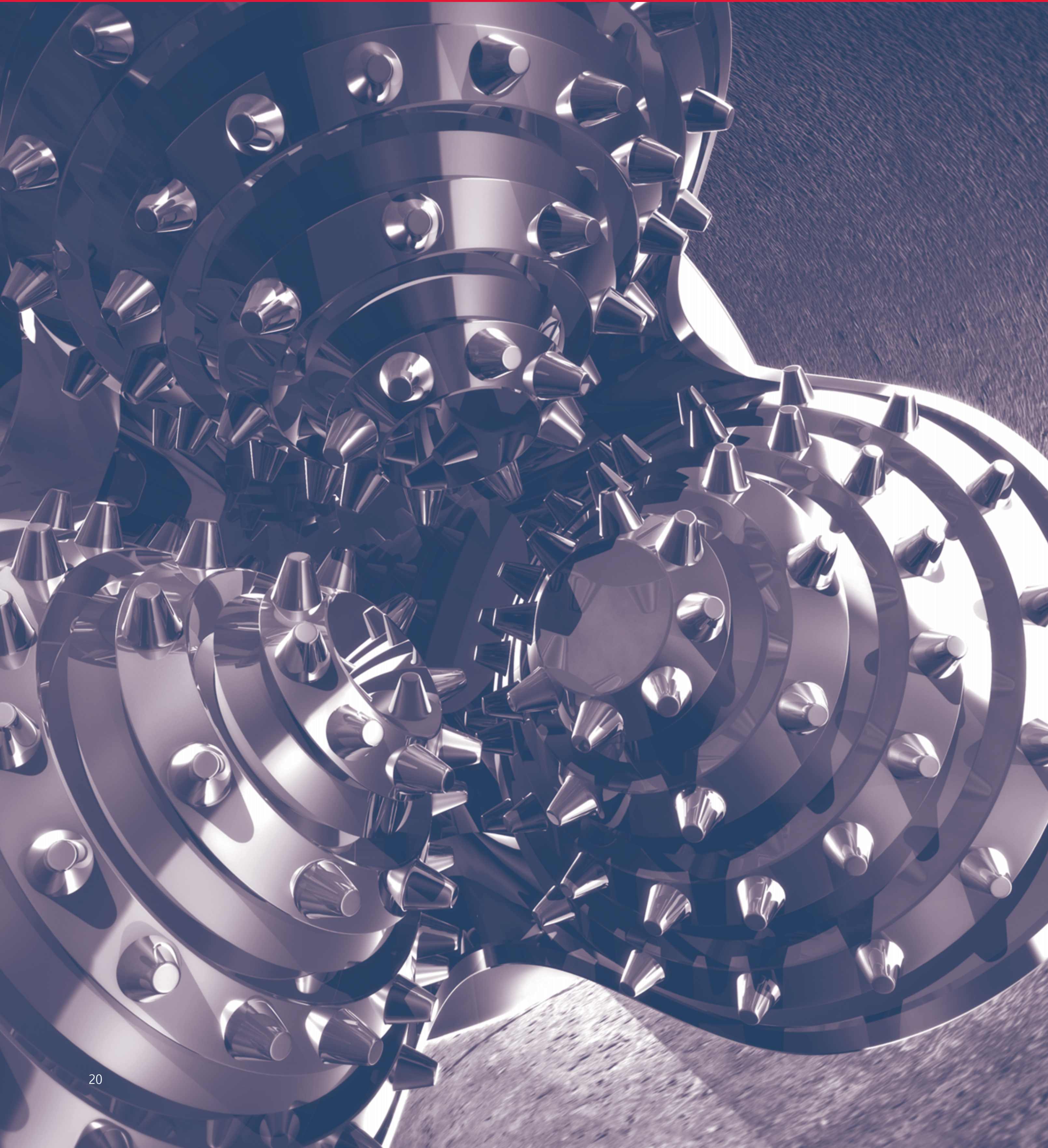
Typhoon and Tempest are controlled by Hurricane under Licences P1485 and P1835. A site survey was commissioned over Typhoon during summer 2011. Typhoon is primarily a basement prospect but also offers potential in overlying Jurassic sandstones (Tempest). The CPR has assigned unrisked P50 Prospective Resources of 149 MMboe to Typhoon and 1,266 MMboe for the P10 volume acknowledging the material flank potential of this asset.

Typhoon and Tempest are located in deeper water than Hurricane's other assets at approximately 490m water depth and therefore requires a rig or drill-ship capable of operating in these conditions which is subject to funding.

As noted earlier in this report, Hurricane was granted an extension to licences P1485 and P1835 through to 31 December 2016 and 9 January 2017 respectively.

Strathmore

Hurricane's focus is mainly on fractured basement reservoirs. However, Strathmore is a traditional sandstone reservoir with a proven oil resource and estimated recoverable oil of 32 MMboe in the 2C Contingent Resource case. We believe that Strathmore could potentially tie back to a future Lancaster development.



Group Strategic Report: Risk

Internal controls and risk management

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. The Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives and therefore provides reasonable, rather than absolute, assurance against material misstatement or loss. The Group operates a series of controls to meet its needs. The Board considers that there is no necessity at the present time to establish an independent internal audit function given the current size and complexity of the business.

Existing processes and practices are monitored and reviewed to ensure that risks are effectively managed around a sound internal control structure. A fundamental element of the internal control structure involves the identification and documentation of significant risks, the likelihood of those risks occurring, their potential impact and the plans for managing and mitigating each of those risks. These assessments are monitored and reviewed by the Board.

Principal risks

All companies carry with them certain risks and Hurricane is no exception. The future outlook for the Group and therefore opportunities for growth in Shareholder value should be understood in the context of the associated risks. There is a wide variety of risks associated with the oil and gas industry which may impact Hurricane's business. According to the risk, Hurricane may elect to take or tolerate risk, treat risk with controls and mitigating actions, transfer the risk to third parties or terminate risk by ceasing particular activates or operations. Listed in the following table are some of the principal risks facing the Group and the actions taken to minimise the likelihood and mitigate the impact.

Key risk factor	Risk detail	How it is managed
Substantial capital requirements	The Group's business plan to exploit and commercialise its assets will require significant capital expenditure. Future plans may be curtailed if the Group is unable to raise further funds.	The Group continually monitors its funding requirements to progress its asset portfolio. The Group actively engages with many providers of finance including current and potential Shareholders, brokers, banks and other financial institutions to understand the range of options available to the Group. Jefferies International is assisting Hurricane in conducting a formal farm-out process to attract an industry partner into some or all of the Group's assets.
Operational risks	There are many operational risks. These include, but are not limited to, failure of the rig or other crucial equipment and unfavourable weather leading to delays in operations.	The Group invests significant time and resources to plan all of its operations and focuses on minimising the various operational risks. The Group uses a range of third party experts to co-ordinate, plan and deliver drilling and development projects. Contingency is built into all project plans to allow for unexpected delays and cost overruns.
Geological and reservoir risk	The geology of the Group's licence areas and the behaviour of the associated reservoirs rely on various assumptions and interpretation techniques. There is a risk that the reservoirs do not behave as expected.	All appraisal programmes are designed to de-risk the assets in the most cost effective manner while gaining the maximum understanding of the geology and reservoir as possible. Hurricane uses data obtained from drilling and well testing to populate extensive reservoir models which have been structurally defined from seismic data. Continual updating of these models enable Hurricane to better understand the reservoirs and build predictive cases that address the uncertainty envelope and mitigate risk.
Licences	The ability of the Group to develop and exploit oil and gas resources depends on the Group's continued compliance with the obligations of its current licences. The Group depends on its licences whose grant and renewal is subject to the discretion of the relevant governmental authorities.	The Group monitors its tenure and obligations of the licences that it holds. The Group maintains active engagement with the relevant governmental authorities and seeks extensions and amendments to its obligations as required.

Key risk factor	Risk detail	How it is managed
Oil price fluctuations	Both oil and gas prices can be volatile and subject to fluctuation in response to relatively minor changes in the supply of, and demand for, oil and gas, market uncertainty and a variety of additional factors that are beyond the control of the Group. It is impossible to predict accurately future oil and gas price movements. Accordingly, oil and gas prices may not remain at their current levels. Although the Group is not yet an active producer of oil and gas, declines in oil and gas prices may adversely affect market sentiment and as a consequence the market price of the Ordinary Shares and furthermore affect the Group's cash flow, liquidity and profitability, and limit the amount of oil and gas that the Group could potentially market in the future.	The viability of the Group's assets are assessed on a regular basis. Economic models of development cases are stress tested using varying oil price forecasts. Investment will only be made if the development case is robust to downside sensitivity price scenarios.
Joint venture partners	Operations in the oil and gas industry are often conducted in a joint venture environment. There is a risk that joint venture partners are not aligned in their objectives and drivers, which may lead to inefficiencies and delays. After a farm-out, the Group may not act as operator on certain licence interests. The Group will generally have limited control over the day to day management of operations of those assets and will therefore be dependent upon a third party operator.	Due diligence will be used to review and assess any third parties that the Group enters into a joint venture with in both operated and non-operated projects. The Group will have continuous and regular engagement with partners to ensure that all partners interests are aligned and the Group is not exposed to risks that it believes are unacceptable.
Third party infrastructure	Any future field development is likely to be dependent upon the availability of third party infrastructure which if it fails, or is not, or ceases to be, available on reasonable commercial terms, or at all, may result in delays to field development, production and cash generated. This would have a material adverse effect on the Group's business, prospects, financial condition and operations.	In planning the development scenarios for the Group's assets, the use of third party infrastructure is assessed. Consideration is given to the extent, nature and commercial arrangements of potential use of third party infrastructure and attempts to not rely on this type of infrastructure if a practical alternative exists.

Dr Robert Trice, CEO
30 April 2015

The Board

John Hogan Non-executive Chairman

John has over 40 years' experience in the oil and gas industry. He spent almost 20 years with LASMO plc where he was Managing Director of LASMO North Sea 1989 -1993 followed by seven years on the main board as Chief Operating Officer. Since 2000 he has held a number of Chairman and non-executive roles in the energy sector. John is currently Managing Director of Argos Resources Limited, non-executive Chairman of Celtique Energie Limited and a non-executive Director of Chrysaor Holdings Limited.

John joined the Board on 8 March 2013 and is Chairman of the nominations committee and is also a member of the remuneration and audit committees. John's key responsibility as Chairman is the leadership of the Board, ensuring the integrity and effectiveness of the Board/Executive relationship.

Dr Robert Trice Chief Executive Officer

Robert co-founded the Company in late 2004 and has 30 years' oil industry experience, having specialist technical experience of fractured reservoirs' characterisation and evaluation. Robert has a PhD in Geology from Birkbeck College, University of London and gained the majority of his geoscience experience with Enterprise Oil and Shell, having worked in field development, exploration, wellsite operations and geological consultancy.

In addition, 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. Robert is a Fellow of the Geological Society and a member of the Petroleum Exploration Society of Great Britain and the Society of Petroleum Engineers. Robert has been a Director of Hurricane since 29 December 2004. As CEO, Robert is responsible for the operational management of the business, developing strategy in consultation with the Board and then executing it.

Nicholas Mardon Taylor Chief Financial Officer

Nicholas has worked in the oil industry for over 35 years, his first involvement in the North Sea being in the early licensing rounds. He has been with Hurricane since 2005 when he was the Group's first CFO and was subsequently responsible for the Group's Environmental Management System. He was re-appointed as CFO in May 2012. Nicholas is a Chartered Accountant and has held senior finance roles with Total operating in the UKCS and was Finance Director of Carless operating in the UK and US. Nicholas has served as a Director of the Company from 10 May 2005 until 28 July 2011 and now again since 11 May 2012.

Nicholas has extensive experience with start-up companies, including Saxon Oil and was a founder director of Alkane, a methane extraction company. Nicholas' key responsibilities as CFO are the financial and commercial activities of the business.

Neil Platt Chief Operations Officer

Neil has more than 20 years' experience in the oil industry and has worked for Amoco, BG and Petrofac. He has completed assignments both in the UK and internationally working in a variety of engineering, commercial and management roles including Production Asset Manager (NSW) for BG and Vice President for Project Delivery in Petrofac Production Solutions. Neil joined Hurricane in 2011 and was appointed to the Board on 8 March 2013. As COO, Neil is responsible for daily operations and asset delivery (drilling and projects).

Dr David Jenkins Non-executive Director

David is currently an Industry Advisor to Riverstone Holdings and a Corporate Advisor to Temasek Holdings and Cuadrilla Resources. He is also on the boards of President Energy and Black Platinum Energy.

David spent 37 years at BP, where he was Chief Geologist in 1979, General Manager Exploration in 1984 and then Chief Executive Technology for BP Exploration for 10 years from 1987. He retired at the end of 1998 with the position of Chief Technology Advisor for BP Group. Following retirement from BP he held a variety of advisory and board positions including nine years on the board of BHP Billiton.

David joined the Board on 8 March 2013 and is Chairman of the remuneration committee and is also a member of the nominations and audit committees.

John van der Welle Non-executive Director

John has 30 years' oil industry experience, having qualified as a Chartered Accountant with Arthur Andersen in 1981. He is a member of the Association of Corporate Treasurers and the Institute of Taxation. John is currently a non-executive Director of Lekoil Limited, and Chairman of Global Petroleum Limited.

After 11 years at Enterprise Oil, where he was Business Development Manager and subsequently Group Treasurer, John has been Finance Director of a number of listed E&P companies, including Premier Oil 1999-2005. He was Managing Director, Head of Oil and Gas, at the Royal Bank of Scotland 2007-2008, and since 2010 has worked as a consultant to, and non-executive Director of, a number of listed and private E&P companies.

John joined the Board on 8 March 2013 and is Chairman of the audit committee and is also a member of the remuneration and nomination committees.

Corporate Governance

The Board recognises its responsibility to serve the interests of Shareholders in managing the Group by applying high standards of corporate governance commensurate with its size, stage of growth and the nature of its activities.

The Group is a member of the Quoted Companies Alliance (QCA), the membership organisation which represents the interests of small and mid-size quoted companies. The QCA publishes and maintains the Corporate Governance Code for Small and Mid-Size Quoted Companies (the QCA Code), which seeks to help companies apply key principles from the UK Code and other themes of governance best practice to their particular needs and circumstances in a manner which is proportionate for growing enterprises. The QCA Code sets out twelve broad principles of behaviour and a set of minimum disclosures intended to reflect governance best practice and ensure that this is reported to Shareholders.

The Board considers the principles and recommendations contained in the QCA Code in the context of its business and implements these in a manner which is appropriate for the size and current stage of development of the Group, reflective of the expectations of Hurricane's Shareholders.

The role of the Board

The Board sets the Group's strategic objectives and ensures that they are properly pursued and that major business risks are actively monitored and managed. This goes beyond regulatory compliance and puts the interests of the Hurricane Shareholders at the centre of the Board's decision making.

The Board is responsible for overall Group strategy, including exploration, appraisal and development activity; acquisition and divestment policy; approval of major capital expenditure, the overall Group capital structure and consideration of significant financing matters. The Board continued to focus its efforts in 2014 on the strategic issues which will create Shareholder value, monitoring performance against agreed objectives and planning future business operations.

The Board will continue to assess its governance arrangements in conjunction with the performance of its operations and the assessment of the effectiveness of its Board.

Board composition

The Board currently comprises three executive Directors and three non-executive Directors. The non-executive Directors bring independent judgement on the issues of Hurricane's strategy and resource. The non-executive Directors constructively challenge the performance of the executive Directors and monitor the performance in the delivery of the Group's key objectives and targets.

Hurricane requires the Group's non-executive Directors to be free from any relationship or circumstance that could materially interfere with the exercise of their independent judgement. The Board considers each of the non-executive Directors to be independent in both character and judgement.

None of the Directors have any potential conflicts of interest between their duties to the Group and their private interests or duties owed to third parties.

The Company complies with Rule 21 of the AIM Rules for Companies regarding dealings in the Company's shares and has adopted a code on dealing in securities to ensure compliance by Directors.

The composition of the Board will be reviewed regularly and strengthened as appropriate in response to the Group's changing requirements. Appropriate training and an induction programme will be undertaken in respect of all Directors on appointment and subsequently as necessary, taking into account existing qualifications and experience. One third of all Directors are subject to election by Shareholders each year.

How the Board operates

The Board intends to meet at least five times each year, including an annual strategy day. At these meetings, the Board reviews the Group's long-term strategic direction and financial plans. All necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively.

Certain matters are reserved for consideration by the Board whilst other matters are delegated to Board committees.

The Board has established the following committees (committee terms of reference are available on the Hurricane website).

Audit Committee

The role of the audit committee is to assist the Board in discharging its responsibilities with regard to monitoring the integrity of the Group's financial reporting, to review the Group's internal control and risk management systems, to monitor the effectiveness of the Group's external and internal audit function and to oversee the relationship with the Group's external auditor.

The audit committee is chaired by John van der Welle and the other members are John Hogan and Dr David Jenkins. The audit committee meets at least three times a year with further meetings as required. The other Directors and representatives from the finance function may also attend and speak at meetings of the audit committee.

The audit committee makes recommendations to the Board regarding the appointment, reappointment and removal of external auditors. At the Annual General Meeting (AGM) the Shareholders are requested to authorise the Directors to appoint and agree the remuneration of the external auditors. Deloitte LLP was first appointed as external auditor to the Group for the year ended 31 August 2010 and the audit has not been put to tender since that date. In accordance with the Companies Act 2006, a resolution to re-appoint Deloitte LLP will be proposed at the next AGM.

The audit committee recognises that, for smaller companies, it is cost effective to procure certain non audit services from the external auditor but there is a need to ensure that provision of such services does not impair, or appear to impair, the auditor's independence or objectivity. The audit committee must be consulted before the assignment of any non audit work can be awarded to the external auditor. The audit committee was satisfied throughout the year that Deloitte LLP's objectivity and independence were in no way impaired by the nature of the non audit work undertaken or other factors including the level of non audit fees charged.

The audit committee has considered the significant issues in relation to the preparation of the 2014 Annual Report and Group Financial Statements. The areas of focus for the audit committee included consistency of application of accounting policies; compliance with financial reporting standards, AIM and legal requirements; the appropriateness of assumptions and judgements for items subject to estimates and the clarity and completeness of discloses in the Financial Statements. Overall the audit committee focus on whether, taken as a whole, the Annual Report and Group Financial Statements are fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy.

The Committee considered in particular the following major Financial Statement items that require significant judgement and estimation:

Recoverability of intangible exploration and evaluation assets
The audit committee satisfied itself by reference to the Group's business plan and discussions with Management that, in respect of all intangible exploration and evaluation assets, either commercially viable resources have been discovered or substantive expenditure on further exploration and evaluation activities in the specific area is budgeted or planned.

Presumption of going concern
Having considered the Group's funding position, cashflow forecasts and the reasonable possible sensitivities provided by Management, the audit committee has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus the going concern basis of accounting has been used in the preparation of the Financial Statements.

Remuneration Committee

The role of the remuneration committee is to determine and agree with the Board the broad policy for executive and senior employee remuneration, as well as for setting the specific remuneration packages (including pension rights and any compensation payments of all executive Directors and the Chairman) and recommending and monitoring the remuneration of the senior employees. In accordance with the remuneration committee's terms of reference, no Director shall participate in discussions relating to or vote on their own terms and conditions of remuneration. Non-executive Directors' fees are determined by the Board as are the Chairman's fees.

The remuneration committee meets at least twice a year and as otherwise required. The remuneration committee is chaired by Dr David Jenkins and the other members are John Hogan and John van der Welle. The other Directors may also attend and speak at meetings of the remuneration committee.

Nominations Committee

The nominations committee assists the Board in discharging its responsibilities relating to the composition of the Board. The nominations committee is responsible for evaluating the balance of skills, knowledge and experience on the Board, and the size, structure and composition of the Board (including identifying and nominating candidates to fill Board vacancies with the approval of the Board). The nominations committee is also responsible for retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters.

The nominations committee will meet at least twice a year. The nominations committee is chaired by John Hogan and the other members are Dr David Jenkins and John van der Welle. The other Directors may also attend and speak at meetings of the nominations committee.

The Environmental Management Committee (EM Committee)

The EM Committee is chaired by Nicholas Mardon Taylor and the other members are Dr Robert Trice and Neil Platt. The EM Committee is responsible for formulating and recommending to the Board a policy on environmental issues related to the Group's operations, and meets at least twice a year. In particular, the EM Committee focuses on compliance with applicable standards to ensure that an effective system of environmental standards, procedures and practices are in place at each of the Group's operations and its responsibilities include evaluating the effectiveness of the Group's environmental policy. The Group intends to engage specialists with appropriate technical expertise to be members of, or advise, the EM Committee. The EM Committee is also responsible for reviewing Management's investigation of incidents or accidents that occur to assess whether policy improvements are required. While the EM Committee is expected to make recommendations, the ultimate responsibility for establishing the Group's environmental policy remains with the Board.

The Group's environmental policy is on page 34.

Communication with Shareholders

Communication with current and potential Shareholders is a key focus point for Hurricane. Information about the Group's activities is provided in the Annual Report and Financial Statements, the Interim Report and Financial Statements, press releases and via the Regulatory News Service (RNS).

There is regular dialogue with Shareholders and potential Shareholders. These meetings include formal roadshows and presentations, analyst briefings and media interviews. The Chairman, CEO and CFO, who are the Directors primarily responsible for dealing with Shareholders, ensure that other members of the Board receive full reports of these discussions as well as analysts' and brokers' briefings. Hurricane's website also provides detailed information on the Group's activities.

John Hogan
Chairman
30 April 2015

Remuneration Report

As a company trading on AIM, Hurricane is not required to produce a formal remuneration report. However the Directors believe that in the interest of transparency a brief commentary should be included. It is designed to provide Shareholders with information that demonstrates the link between the Group's strategy, performance and senior executive remuneration policy.

Linking overall reward to company performance is fundamental to the remit of the remuneration committee, and the committee provides an independent oversight of remuneration policy. The Group's remuneration strategy is designed to attract and retain a strong team which is focused on delivering its strategic priorities and which is aligned with Shareholder interests.

The Group follows standard industry practice with respect to executive remuneration, with a competitive salary and benefits, complemented by an at risk component comprising an annual bonus and a long term incentive share plan, the Performance Share Plan (PSP). Annual bonus is payable to the extent annual corporate and individual key performance indicators (KPIs) are met, as determined by the remuneration committee. Challenging KPIs are established each year by agreement between Management and the remuneration committee.

Given the outstanding result from the Lancaster operation, the remuneration committee recommended that a 100% bonus to the executive Directors for the 2014 performance period be made. It was recommended that the bonus be awarded by a cash payment equivalent to 50% of base salary and a grant of deferred shares to the value of 50% of base salary. However, due to the Company being in a close period at the time of the cash bonus, the Company was unable to grant the deferred share element of the bonus. Once the Company is out of the close period, the Board will review the recommendations of the remuneration committee in relation to the deferred share element of the 2014 bonus.

The PSP involves the award of shares to executives and staff and vesting is conditional on achieving a challenging performance target that if met, will underpin the long term success of the business. This ensures alignment with the delivery of value to Shareholders. For the initial awards made prior to the Group's IPO to vest, the Group must have in place a solution to finance the full field development of Lancaster or the Greater Lancaster Area, no later than the fifth anniversary of the 4 February 2014 date of Admission to AIM. The focus of the performance condition is to incentivise the progression and development of Lancaster which aligns with the delivery of value to Shareholders.

The committee has reviewed the base salary levels for the executive Directors and determined that no increases would be made for 2015.

The Group contributes to personal pension schemes. Under current legislation, from 2017 Hurricane will be required to provide a workplace pension scheme for all employees.

During the year the committee took independent advice from two remuneration specialists, MM&K and Kepler Associates. In the light of this advice the committee considers that the current remuneration policy is in line with industry practice, is competitive and appropriate for the current strategic priorities of the business.

Directors' emoluments

The following is an analysis of the emoluments received by the Group's Directors:

Year Ended 31 Dec 2014	Emoluments £'000	Cash bonus[5] £'000	Deferred share bonus[5] £'000	Pension contributions £'000	Total £'000
Dr Robert Trice	375	188	187	38	788
Nicholas Mardon Taylor	275	138	137	28	578
Keith Kirby[1]	620	-	-	14	634
Neil Platt	275	138	137	28	578
John Hogan[2]	150	-	-	-	150
Dr David Jenkins[3]	55	-	-	-	55
John van der Welle[4]	55	-	-	-	55
	1,805	**464**	**461**	**108**	**2,838**

[1] Resigned 22 June 2014. Emoluments includes £482,500 consisting of payment in lieu of notice period, bonus entitlement and ex-gratia payments.
[2] Emoluments includes £30,000 that is required to be used to acquire Ordinary Shares in the Company.
[3] 50% of emoluments were consulting fees paid to Chartwood Resources Ltd, a company controlled by Dr David Jenkins.
[4] 50% of emoluments were consulting fees paid to Northlands Advisory Services Limited, a company controlled by John van der Welle.
[5] Bonus in respect of services provided in 2014 was awarded 50% in cash and 50% in deferred shares which are yet to be issued.

Year Ended 31 Dec 2013	Emoluments £'000	Cash bonus[6] £'000	Deferred share bonus[6] £'000	Pension contributions £'000	Total £'000
Dr Robert Trice	375	120	-	38	533
Nicholas Mardon Taylor	275	78	-	28	381
Keith Kirby	275	98	-	28	401
Neil Platt[1]	229	131	-	23	383
John Hogan[1,2]	123	-	-	-	123
Dr David Jenkins[1,3]	45	-	-	-	45
John van der Welle[1,4]	45	-	-	-	45
Other Directors[5]	85	-	-	-	85
	1,452	**427**	**-**	**117**	**1,996**

[1] Appointed 8 March 2013.
[2] Emoluments includes £25,000 that is required to be used to acquire Ordinary Shares in the Company.
[3] 50% of emoluments were consulting fees paid to Chartwood Resources Ltd, a company controlled by Dr David Jenkins.
[4] 50% of emoluments were consulting fees paid to Northlands Advisory Services Limited, a company controlled by John van der Welle.
[5] Other Directors emoluments include payments made to previous Directors who were no longer employed by the Group.
[6] Cash bonus payment made in March 2013 in respect of services provided in 2012. No bonus was awarded for service in 2013.

Remuneration Report

Directors' PSP share awards and share options

In April 2013, all awards under the Group's Long Term Incentive Plan were surrendered together with all unvested share options (other than those that vest at IPO) and replaced with awards under the Hurricane Energy 2013 Performance Share Plan (PSP). A mirror image plan (the Hurricane Energy 2013 Nominal Cost Option Plan (NED Plan)) was also introduced for the purpose of enabling conditional awards of nil cost options to the Group's non-executive Directors. The NED Plan operates on materially the same terms and conditions as the PSP. Further information about both plans is included within note 19 of the Group Financial Statements.

Details of Directors' PSP awards and share options at the beginning and end of the year are as follows:

Grant date	As at 1 Jan 2014	Granted	Exercised	Lapsed	As at 31 Dec 2014	Exercise price	Date from which exercisable	Expiry date
Dr Robert Trice								
25/01/11	225,000	-	-	-	225,000	£1.00	25/01/14	31/12/20
17/04/13	4,533,333	-	-	-	4,533,333	£nil	n/a	04/02/19
Keith Kirby[1]								
17/04/13	4,533,333	-	-	(4,533,333)	-	£nil	n/a	04/02/19
Nicholas Mardon Taylor								
25/01/11	68,000	-	-	-	68,000	£1.00	25/01/14	31/12/20
17/04/13	4,533,333	-	-	-	4,533,333	£nil	n/a	04/02/19
Neil Platt								
17/04/13	4,533,333	-	-	-	4,533,333	£nil	n/a	04/02/19
John Hogan								
17/04/13	666,667	-	-	-	666,667	£nil	n/a	04/02/19
Dr David Jenkins								
17/04/13	333,333	-	-	-	333,333	£nil	n/a	04/02/19
John van der Welle								
17/04/13	333,333	-	-	-	333,333	£nil	n/a	04/02/19
Total	**19,759,665**	**-**	**-**	**(4,533,333)**	**15,226,332**			

[1] Resigned 22 June 2014. All PSP awards lapsed on resignation.

Details of Directors' PSP awards and share options and at the beginning and end of the previous year are as follows:

Grant date	As at 1 Jan 2013	Granted	Exercised	Lapsed	As at 31 Dec 2013	Exercise price	Date from which exercisable	Expiry date
Dr Robert Trice								
22/02/06	1,000,000	-	(1,000,000)	-	-	£0.10	01/02/10	22/02/16
25/01/11	225,000	-	-	-	225,000	£1.00	25/01/14	31/12/20
14/06/11	550,450	-	-	(550,450)	-	£1.11	14/06/14	13/06/21
28/07/11	237,840	-	-	(237,840)	-	£1.11	28/07/16	27/07/21
20/07/12	333,333	-	-	(333,333)	-	£nil	31/12/14	20/07/22
17/04/13	-	6,800,000	-	(2,266,667)	4,533,333	£nil	n/a	04/02/19
Keith Kirby								
28/07/11	756,760	-	-	(756,760)	-	£1.11	28/07/14	27/07/21
28/07/11	126,120	-	-	(126,120)	-	£1.11	28/07/16	27/07/21
20/07/12	272,222	-	-	(272,222)	-	£nil	31/12/14	20/07/22
17/04/13	-	6,800,000	-	(2,266,667)	4,533,333	£nil	n/a	04/02/19
Nicholas Mardon Taylor								
22/02/06	1,000,000	-	(1,000,000)	-	-	£0.10	01/02/10	22/02/16
25/01/11	68,000	-	-	-	68,000	£1.00	25/01/14	31/12/20
14/06/11	103,500	-	-	(103,500)	-	£1.11	14/06/14	13/06/21
28/07/11	98,300	-	-	(98,300)	-	£1.11	28/06/16	27/07/21
20/07/12	217,778	-	-	(217,778)	-	£nil	31/12/14	20/07/22
17/04/13	-	6,800,000	-	(2,266,667)	4,533,333	£nil	n/a	04/02/19
Neil Platt[1]								
28/07/11	612,610	-	-	(612,610)	-	£1.11	28/07/14	27/07/21
20/07/12	129,630	-	-	(129,630)	-	£nil	31/12/14	20/07/22
17/04/13	-	6,800,000	-	(2,266,667)	4,533,333	£nil	n/a	04/02/19
John Hogan[1]								
17/04/13	-	1,000,000	-	(333,333)	666,667	£nil	n/a	04/02/19
Dr David Jenkins[1]								
17/04/13	-	500,000	-	(166,667)	333,333	£nil	n/a	04/02/19
John van der Welle[1]								
17/04/13	-	500,000	-	(166,667)	333,333	£nil	n/a	04/02/19
Total	**5,731,543**	**29,200,000**	**(2,000,000)**	**(13,171,878)**	**19,759,665**			

[1] Appointed 8 March 2013.

Environmental Policy

The operations of the Group are subject to a variety of laws and regulations governing the discharge of materials into the environment or otherwise relating to environment protection. Hurricane is committed to minimising our impact on the environment in which we work and achieves this through the implementation of its Environmental Policy.

The policy

Hurricane recognises its responsibility to the environment and takes positive steps to address the environmental impacts associated with our offshore operations.

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

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

Our objectives

- All of our offshore operations shall be managed under our ISO 14001:2004 certified Environmental Management System
- We will involve our employees in maintaining the Environmental Management System, provide a clear feedback structure, establish appropriate operating practices and implement 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 continually review all our business operations, in order to identify and minimise our environmental impacts
- We will consider the sustainability of required resources during the planning and execution of our offshore operations
- We will set appropriate environmental objectives, monitor progress in achieving these 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 commitments will be reviewed regularly and specifically prior to major operational activities. As a measure of Hurricane's environmental performance, the fulfilment of these commitments will be monitored continually and communicated to both the Board and employees.

For further information including our work as part of the SERPENT project and commitment to the emergency capping device through OSPRAG, please refer to Hurricane's website.

Health and Safety Policy

Hurricane conducts its business responsibly, with respect for the people and communities within the areas in which we work. We safeguard our activities to ensure that we never knowingly compromise our health and safety obligations or recognised standards in pursuit of improving our business results.

Our objectives

We provide leadership which fosters a safe and healthy working environment, enabling us to conduct business in a manner that:

- Engages and involves competent people in our business
- Makes accountabilities and responsibilities clear
- Promotes open and honest communication
- Assesses and manages risk
- Creates a culture of continual improvement
- Plans and prepares for the unexpected: we investigate and learn from events where our safeguards may have failed
- Ensures our third party service providers, as a minimum, conform to our core standards
- Monitors and manages safety performance in accordance with our Incident Reporting Procedure
- Complies with all our statutory requirements

We will stop work rather than conduct activities that are in conflict with our policy.

These objectives form the basis from which internal targets for achievement are monitored, reported and revised.

Other core policies

As part of Hurricane's comprehensive Business Management System, we have three other core policies in addition to the Environmental and Health and Safety Policies, covering People, Assurance and Ethics. These can be found on Hurricane's website.

Chief Financial Officer's Review

Overview

In 2014 the Group completed its IPO, raising enough funds to successfully deliver the Lancaster 205/21a-6 horizontal appraisal well. The Group commenced 2014 with £40.2 million of cash and cash equivalents and added a further £16.8 million of funding through the IPO. This allowed the Group to fully fund the 2014 operation.

Fundraising

On 4 February 2014, all of the Company's issued share capital was admitted to AIM, a market operated by the London Stock Exchange, as part of its IPO. At the same time a total of 41,860,465 new Ordinary Shares were issued at a price of 43p per share, raising £18.0 million (gross before expenses).

Admission of the Company's shares to trading on AIM (Admission) triggered the conversion of all outstanding loan notes into Ordinary Shares of the Company to give the holders a conversion price at a 30% discount to the placing price. This resulted in 99,070,189 new Ordinary Shares being issued to loan note holders.

Also on Admission the warrant attached to the shares issued as part of the Group's pre-IPO fundraising in April 2013 was exercised. This resulted in the issue of Ordinary Shares at a price that gave the holder an average subscription price, across the Ordinary Shares already subscribed for and those subscribed on exercise of the warrant, which equated to a discount of 30% to the placing price and resulted in a further 7,663,453 new Ordinary Shares being issued.

Therefore as a result of the IPO, all outstanding loan notes were converted and the warrant exercised, thereby extinguishing all liabilities to the holders. The convertible loan note liability and derivative liabilities were both derecognised from the Group's balance sheet. Further details on accounting for the Group's pre-IPO funding are included in note 22 of the Group Financial Statements.

Lancaster drilling and testing

In the first half of the year the Group successfully drilled and tested the Lancaster 205/21a-6 horizontal appraisal well. The Transocean Sedco 712 was under contract to Hurricane for 73.5 days, less than the budgeted AFE of 75.9 days. This, coupled with other operational efficiencies, resulted in the well being delivered at a cost of £36.7 million, £5.0 million under budget.

At the end of the drilling and testing campaign, the well was suspended in preparation for use as a potential production well in a future development. The Group's decommissioning provisions were increased by £2.4 million to take into account the expected future costs to plug and abandon the well. After the suspension of the well, the Group placed £2.3 million into escrow to cover the expected future costs associated with Group's decommissioning obligations.

Income statement

The Group's loss after tax for 2014 is £9.0 million (2013: £21.4 million). The significant decrease in the loss recorded for the Group is due to the reduction in the interest costs associated with the convertible loan notes and no further losses on the Group's derivative financial instruments in 2014. The convertible loan notes were converted on IPO of the Company in early February 2014 and therefore only incurred £0.5 million of interest (2013: £5.6 million). The Group's derivative financial instruments were associated with the convertible loan notes and the warrant issued in the pre-IPO funding round in April 2013. During 2013, changes in the assumptions underlying their fair value caused a loss in the income statement of £8.8 million. However in 2014 no changes were recorded to the fair value of these derivatives until they were extinguished on IPO at which point the amounts recognised on the balance sheet were removed and taken directly to equity. In both 2014 and 2013, the losses associated with the Group's financing arrangements were non cash losses and have not affected the Group's funding position. Further details on accounting for the Group's pre-IPO funding are included in note 22 of the Group Financial Statements.

The operating expenses for the year were £8.6 million (2013: £5.3 million). The increase is primarily driven by the rise in the share based payment expense for 2014. The current version of the Group's Performance Share Plan (PSP) was introduced in November 2013 and as such the associated accounting charge was minimal for 2013. In 2014, the share based payment expense was £3.5 million (2013: £0.8 million), which is representative of the PSP being in place for a full year. Further details on accounting for the Group's share based payment arrangements are included in note 19 of the Group Financial Statements.

Due to the nature of the Group's business, it has accumulated significant tax attributes since incorporation. At 31 December 2014, the Group has pre trading revenue expenses of £23.7 million (2013: £23.1 million) and has incurred £155.8 million (2013: £119.4 million) of capital expenditure on which tax relief should be available to carry forward against future trading profits.

In addition, the total pre-trading expenditure of £179.5 million (2013: £142.5 million) may attract Ring Fenced Expenditure Supplement on the commencement of trade, which would result in a further uplift of £59.3 million (2013: £42.6 million) of tax relief being available at that time.

Balance sheet

The majority of the £37.2 million of additions to the Group's intangible exploration and evaluation assets are costs associated with the Lancaster drilling and testing campaign, which includes both the AFE costs and capitalised G&A costs. The additions in 2014 are a significant increase from the £6.4 million in 2013, when the Group focused its efforts on fundraising, the IPO and planning for the Lancaster operation.

The Group ended the period with £13.5 million of cash and cash equivalents (excluding amounts held in escrow), available to meet its outstanding trade and other payables of £1.5 million at 31 December 2014 and prospective general and administration (G&A) costs for at least the next twelve months based on the Group's cash flow forecasts. The liabilities associated with the Group's convertible loan notes and derivative liabilities (together £41.8 million at 31 December 2013) were extinguished at IPO. The Group is now fully funded for all remaining liabilities associated with the 2014 Lancaster appraisal campaign. However further funding will be required for future exploration and appraisal activities on the Group's licences.

The main movement in the Group's equity relates to the IPO of the Company. As noted above, the Group raised further funds through the issue of new Ordinary Shares at the time of IPO. The conversion of the convertible loan notes and the exercise of the warrant were settled in further issues of Ordinary Shares. The associated liabilities (including the derivative liability) were derecognised via the Group's equity reserve.

Cash flow

Net cash outflow from operating activities of £4.6 million remained at a similar level to 2013 of £4.4 million, as G&A cash costs for running the business remained stable. Expenditure on the intangible exploration and evaluation assets in the year was £36.6 million (2013: £7.0 million) primarily on the planning, management and operation of the Lancaster operation.

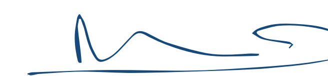
The net cash provided by financing activities was £16.8 million, which is primarily the cash received from the placing of Ordinary Shares at the time of IPO. In 2013, the cash from financing activities of £30.2 million consisted mostly of the pre-IPO funding from the convertible loan notes and shares issued with a warrant. Both the convertible loan notes and the warrant were extinguished at IPO with the issues of further Ordinary Shares, with no effect on the Group's cash flow for 2014.

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 A rating. For further detail on the financial risks see note 22 of the Group Financial Statements.



Nicholas Mardon Taylor
Chief Financial Officer
30 April 2015

Financial Statements

Directors' Report

Directors

The following Directors held office during the year ended 31 December 2014 and up to the date of this report.

Dr Robert Trice
Nicholas Mardon Taylor
Neil Platt
Keith Kirby (resigned 22 June 2014)
John Hogan
John van der Welle
Dr David Jenkins

Results for the year and dividends

The loss of the Group for the year was £9,006,000 (2013: loss of £21,353,000). The Directors do not recommend the payment of a dividend.

Financial risk management and objectives

The Group's financial risk management and objective are detailed in note 22 of the Group Financial Statements.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this report. The financial position of the Group, its cash flows, and liquidity position are described in the Chief Financial Officer's review and set out in the Group Financial Statements. Further details of the Group's commitments are set out in notes 23 and 24 of the Group Financial Statements. In addition, note 22 to the Group Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has no source of operating revenue and currently obtains working capital primarily through equity financing. The Group is therefore dependent on future fundraising, capital receipts or other forms of finance in order to continue in operation and the Group's work programme is dependent on this future fundraising activity. The Group ended the year with £13.5 million of cash and cash equivalents (excluding amounts held in escrow) available to meet its outstanding trade and other payables of £1.5 million at 31 December 2014, and prospective general and administration (G&A) costs for at least the next twelve months based on the Group's cash flow forecasts. The Directors have considered sensitivities to the Group's forecasts, including the effect of identified uncertain expenditures which could crystallise in the next twelve months, and are satisfied that these could be accommodated through the curtailment of discretionary G&A if necessary. The Group has no external borrowings.

Therefore, having considered reasonable possible sensitivities the Directors believe that the Group will be able to operate within its existing funding and to meet all commitments as they fall due. The Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

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 Group'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 Group's auditor was aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Directors' Responsibility 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 are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. 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 Group'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 Hurricane's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

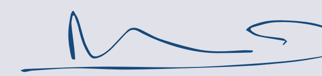
Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

This Directors Report and Responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Dr Robert Trice
Chief Executive Officer
30 April 2015



Nicholas Mardon Taylor
Chief Financial Officer
30 April 2015

Independent auditor's report to the members of Hurricane Energy plc

We have audited the Financial Statements of Hurricane Energy plc for the year ended 31 December 2014 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Changes in Equity and the related notes 1 to 27 and 1 to 11. 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 December 2014 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 matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

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 ACA (Senior Statutory Auditor) for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
30 April 2015

Group Income Statement
for the Year Ended 31 December 2014

	Notes	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
Operating expenses		**(8,584)**	(5,333)
Intangible exploration and evaluation costs written off	12	**-**	(534)
Operating loss	6	**(8,584)**	(5,867)
Investment revenue	5	**67**	125
Foreign exchange gains/(losses)		**125**	(1,101)
Finance costs	7	**(633)**	(5,695)
Fair value loss on derivative financial instruments	22.9	**-**	(8,792)
Loss before tax		**(9,025)**	(21,330)
Tax	9	**19**	(23)
Loss for the year		**(9,006)**	(21,353)
Loss per share, basic and diluted	10	(1.45) pence	(4.45) pence

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

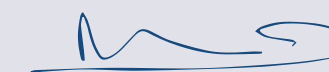
There was no income or expense in the period other than that disclosed above. Accordingly a Consolidated Statement of Comprehensive Income is not presented.

Group Balance Sheet
as at 31 December 2014

	Notes	31 Dec 2014 £'000	31 Dec 2013 £'000
Non-current assets			
Property, plant and equipment	11	**215**	330
Intangible exploration and evaluation assets	12	**177,308**	137,681
Other receivables	13	**130**	130
		177,653	138,141
Current assets			
Trade and other receivables	14	**1,553**	1,098
Cash and cash equivalents	15	**15,856**	40,167
		17,409	41,265
Total assets		**195,062**	179,406
Current liabilities			
Trade and other payables	16	**(1,481)**	(847)
Current tax liabilities		**(6)**	(25)
Borrowings	22.7	**-**	(26,145)
Derivative financial instruments	22.9	**-**	(15,692)
		(1,487)	(42,709)
Non-current liabilities			
Decommissioning provisions	17	**(7,281)**	(4,764)
Total liabilities		**(8,768)**	(47,473)
Net assets		**186,294**	131,933
Equity			
Share capital	18	**632**	483
Share premium		**210,697**	167,328
Share option reserve		**5,420**	1,901
Own shares held by SIP Trust	20	**(194)**	(136)
Equity shares to be issued	26	**696**	-
Accumulated deficit		**(30,957)**	(37,643)
Total equity		**186,294**	131,933

The Financial Statements of Hurricane Energy plc were approved by the Board of Directors and authorised for issue on 30 April 2015. They were signed on its behalf by:

Dr Robert Trice
Chief Executive Officer
30 April 2015



Nicholas Mardon Taylor
Chief Financial Officer
30 April 2015

Registered company number 05245689

Group Statement of Changes in Equity

for the Year Ended 31 December 2014

	Share capital £'000	Share premium £'000	Share option reserve £'000	Own shares held by SIP Trust £'000	Equity Shares to be issued £'000	Accumulated deficit £'000	Total £'000
At 1 January 2013	475	163,910	1,343	(67)	-	(16,484)	149,177
Shares allotted	8	3,514	-	-	-	-	3,522
Transaction costs	-	(165)	-	-	-	-	(165)
Share option charge	-	-	752	-	-	-	752
Share options exercised	-	-	(194)	-	-	194	-
Own shares held by SIP Trust	-	69	-	(69)	-	-	-
Loss for the year	-	-	-	-	-	(21,353)	(21,353)
At 31 December 2013	483	167,328	1,901	(136)	-	(37,643)	131,933
Shares allotted	42	18,077	-	-	-	-	18,119
Transaction costs	-	(1,272)	-	-	-	-	(1,272)
Conversion of convertible loan	99	26,564	-	-	-	14,278	40,941
Exercise of warrant	8	-	-	-	-	1,414	1,422
Share option charge	-	-	3,519	-	-	-	3,519
Own shares held by SIP Trust	-	-	-	(58)	-	-	(58)
Equity shares to be issued	-	-	-	-	696	-	696
Loss for the year	-	-	-	-	-	(9,006)	(9,006)
At 31 December 2014	**632**	**210,697**	**5,420**	**(194)**	**696**	**(30,957)**	**186,294**

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.

Group Cash Flow Statement

for the Year Ended 31 December 2014

	Notes	**Year Ended 31 Dec 2014 £'000**	Year Ended 31 Dec 2013 £'000
Net cash outflow from operating activities	21	**(4,677)**	(4,424)
Investing activities			
Interest received		**67**	125
Expenditure on property, plant and equipment		**(24)**	(25)
Expenditure on intangible exploration and evaluation assets		**(36,585)**	(7,044)
Net cash used in investing activities		**(36,542)**	(6,944)
Financing activities			
Interest paid		**(3)**	(3)
Net proceeds from issue of share capital and warrants		**16,786**	4,065
Net proceeds from issue of convertible loan notes		**-**	26,713
Expenses related to corporate finance activities		**-**	(529)
Net cash provided by financing activities		**16,783**	30,246
Net (decrease) / increase in cash and cash equivalents		**(24,436)**	18,878
Cash and cash equivalents at the beginning of the year		**40,167**	22,390
Net (decrease) / increase in cash and cash equivalents		**(24,436)**	18,878
Effects of foreign exchange rate changes		**125**	(1,101)
Cash and cash equivalents at the end of the year	15	**15,856**	40,167

Notes to the Group Financial Statements

for the Year Ended 31 December 2014

1. General information

Hurricane Energy plc is a company incorporated in the United Kingdom 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 on the UK Continental Shelf.

1.1 New and revised standards International Financial Reporting Standards

In the current year, the following accounting amendments, standards and interpretation became effective and have been adopted in these Financial Statements but have not materially affected the amounts reported in these Financial Statements:

Amendments to IFRS 10, IFRS 12 and IAS 27: Investment entitles
Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting
Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities
IFRIC 21 Levies

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 (and in some cases had not been adopted by the EU):

IFRS 9 Financial Instruments
IFRS 14 Regulatory Deferral Accounts
IFRS 15 Revenue for Contracts with Customers
Annual improvements to IFRS: 2010-2012 cycle, 2011-2013 cycle and 2012-2014 cycle
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between and Investor and its Associate or Joint Venture
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1: Disclosure initiative
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants
Amendments to IAS 19: Defined Benefit Plans: Employee Contributions
Amendments to IAS 27: Equity Method in Separate Financial Statements

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the Financial Statements of the Group or Company.

2. Significant accounting policies

2.1 Basis of accounting

The Financial Statements have been prepared under the historical cost convention, except for share based payments, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), and in accordance with the requirements of the AIM Rules.

2.2 Going concern

The Financial Statements have been prepared in accordance with the going concern basis of accounting. The use of this basis of accounting takes into consideration the Group's current and forecast financing position, additional details of which are provided in the going concern section of the Directors' Report.

2.3 Basis of consolidation

The Group Financial Statements consist of the Financial Statements of the Company and its subsidiaries drawn up to 31 December 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.

2.4 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.

2.5 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 exploration and evaluation assets).

Pre licence costs, which relate to costs incurred prior to having obtained the legal right to explore an area, are charged to 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.

2.6 Property, plant and equipment

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

2.7 Decommissioning provisions

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 related asset. The unwinding of the discount on the decommissioning provision is included as a finance cost.

2.8 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.

2.9 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 substantively 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 combination. 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.

Notes to the Group Financial Statements
for the Year Ended 31 December 2014

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.

2.10 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.

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.

2.11 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.

2.11.1 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. Cash held in escrow is for future expected costs associated with the Group's decommissioning obligations or is held only to be dispersed to the benefit of independent third parties for work undertaken as part of the Group's drilling operations.

2.11.2 Financial liabilities and equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.11.3 Financial liabilities
Financial liabilities are classified as either financial liabilities at fair value through profit and loss (FVTPL) or other financial liabilities.

2.11.4 Financial liabilities at FVTPL
Financial liabilities are classified at FVTPL when the financial liability is either held for trading or it is designated at FVTPL. A financial liability is classified as held for trading if it has been incurred principally for the purpose of repurchasing it in the near term.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

2.11.5 Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2.11.6 Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

2.11.7 Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Where warrants are granted in conjunction with other equity instruments, which themselves meet the definition of equity, they are recorded at their fair value, which is measured by the use of an appropriate valuation model. Warrants which do not meet the definition of equity are classified as derivative financial instruments.

2.11.8 Compound instruments
The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement.

If the conversion feature meets the definition of equity, the fair value of the liability component is estimated at the date of issue using the prevailing market interest rate for a similar non convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

If the conversion feature of a convertible bond issued does not meet the definition of an equity instrument, it is classified as an embedded derivative and measured accordingly. The debt component of the instrument is determined by deducting the fair value of the conversion option at inception from the fair value of the consideration received for the instrument as a whole. This amount (the debt component) is recorded as a liability on an amortised cost basis using the effective interest rate method until extinguished upon conversion or at the instrument's maturity date.

2.11.9 Embedded derivatives
Derivatives embedded in financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

2.11.10 Derivative financial instruments
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each Balance Sheet date. The resulting gain or loss is recognised in the Income Statement immediately.

2.12 Borrowing costs
Borrowing costs directly relating to the construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time as the assets are substantially ready for their intended use, i.e. when they are capable of commercial production. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. All other borrowing costs are recognised in the Income Statement in the period in which they are incurred. The Group's capital projects are not qualifying assets to which interest costs are capitalised. No interest was capitalised in the current year.

2.13 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 Statements.

3.1 Recoverability of intangible exploration and evaluation assets
Intangible exploration and evaluation 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 having regard to licence terms and the Group's plans for further exploration and evaluation activities, (ii) future revenues and costs pertaining to the asset in question to the extent there is sufficient information to estimate these, and (iii) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value.

Note 12 discloses the carrying values and any impairments of the Group's intangible exploration and evaluation assets.

Notes to the Group Financial Statements
for the Year Ended 31 December 2014

3.2 Estimation of decommissioning costs
Provision for decommissioning is recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas exploration and evaluation expenditure. 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.

The provision therefore reflects estimates of the decommissioning cost, timings of decommissioning and the appropriate discount rate which are subject to revisions as better information becomes available.

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 related oil and gas exploration and evaluation expenditure. The unwinding of the discount on the decommissioning is included as a finance cost.

Note 17 discloses the movement in the Group's decommissioning provisions.

3.3 Presumption of going concern
The Group closely monitors and manages its liquidity risk, through review of cash flow forecasts. In calculating cash flow forecasts, Management make a number of judgements and estimates, including forecast capital expenditure and foreign exchange rates. The cash flow forecasts are regularly produced and sensitivities run for different scenarios. In addition to the Group's operating cash flows, portfolio management opportunities are reviewed potentially to enhance the financial capacity and flexibility of the Group.

The Group's forecasts, taking into account reasonably possible changes as described above, show that the Group will be able to operate within its current funding position and have financial headroom for the 12 months from the date of approval of the 2014 Annual Report and Group Financial Statements. Full details of the assessment are provided in the going concern section of the Directors' Report.

3.4 Determining the fair value of derivative financial instruments
Estimating the fair value of the derivative financial instruments that are recognised at fair value through profit and loss requires judgement from Management over the expected timing and likelihood of settlement and the amount of interest payable in the underlying contracts. There are inherent uncertainties in the estimation timing and likelihood of settlement of the derivatives as they rely upon future events which are uncertain at the reporting date.

Note 22.9 provides further detail on the Group's derivative financial instruments, all of which were settled in 2014.

3.5 Accounting for share based payments
Charges relating to the Group's share based payment arrangements requires making a number of judgements and estimates in the calculation of fair value of the awards made and the number and likelihood of the awards vesting. The calculation of the fair value of the awards requires judgements related to the inputs such as share price and volatility. Estimates are also required for the number of shares vesting, based on assumptions of how many options will be forfeited and the likelihood of vesting criteria being met.

Note 19 provides further detail on the Group's share based payment arrangements.

4. Operating segments
The Group complies with IFRS 8 Operating Segments, which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance.

In the opinion of the Directors, the operations of the Group comprise one class of business, being oil and gas exploration and related activities in only one geographical area, the UK Continental Shelf.

5. Revenue
The Group has no revenue in the current or comparative years other than interest income.

6. Operating loss

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
Operating loss is stated after charging:		
Staff cost (note 8)	**6,944**	3,319
Operating lease rentals – land and buildings	**135**	191
Depreciation of property, plant and equipment (note 11)	**95**	182
Intangible exploration and evaluation costs written off (note 12)	**-**	534
Auditor's remuneration (see below)	**259**	305

The following is an analysis of the gross fees paid to the Group's auditor, Deloitte LLP.

	2014	2013
Audit services		
Fees payable to the Company's auditor for:		
The audit of the Company's annual accounts	**40**	45
The audit of the Company's subsidiaries	**5**	5
	45	50
Non audit services		
Other services pursuant to legislation – interim review	**10**	-
Taxation services	**5**	5
Corporate finance	**199**	250
	214	255
Total	**259**	305

Fees as reported for corporate finance services in 2014 and 2013 are significantly higher than would be expected under the normal course of business as they relate to the Group's admission to AIM. Since the Group's successful admission to AIM, the level of non audit fees relating to corporate finance have reduced significantly. The Group made no charitable or political donation during 2014 (2013: £Nil).

7. Finance costs

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
Bank charges	**3**	3
Interest on convertible loan notes (note 22.7)	**517**	5,625
Unwinding of discount on decommissioning provisions (note 17)	**113**	67
	633	5,695

Notes to the Group Financial Statements
for the Year Ended 31 December 2014

8. Staff costs

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

	Year Ended 31 Dec 2014 Number	Year Ended 31 Dec 2013 Number
Operations	**17**	18
	£'000	£'000
Staff costs for the above persons were:		
Wages and salaries	**4,005**	2,759
Social security costs	**434**	410
Share based payment expense	**3,531**	752
Pension costs	**175**	181
Total employment costs	**8,145**	4,102
Less amounts capitalised	**(1,201)**	(783)
Staff costs recognised in the income statement	**6,944**	3,319

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

The employment cost for the Directors employed by the Group during 2014 was £4,827,000 (2013: £2,665,000). These costs include emoluments of £2,730,000 (2013: £1,879,000), which include £482,500 consisting of payment in lieu of notice period, bonus entitlement and ex-gratia payments for one Director who resigned during 2014 (2013: £nil); social security costs of £282,000 (2013: £237,000); pension contributions of £108,000 (2013: £117,000) and a share based payment expense of £1,707,000 (2013: £478,000).

The highest paid Director received emoluments of £750,000 (2013: £495,000) and pension contributions of £38,000 (2013: £38,000). Included in emoluments are consulting fees of £27,500 (2013: £22,500) paid to Chartwood Resources Ltd, a company controlled by Dr David Jenkins and consulting fees of £27,500 (2013: £22,500) paid to Northlands Advisory Services Limited, a company controlled by John van der Welle.

At 31 December 2014 the Directors held 15,226,332 (2013: 19,759,665) PSP awards and shares options. No PSP awards or share options were granted or exercised during 2014 (2013: 29,200,000 granted, 2,000,000 exercised). 4,533,333 PSP awards lapsed in 2014 (2013: 13,171,878 PSP awards and share options lapsed). For further detail on the Groups PSP awards and share options see note 19.

Further information on the remuneration of the Directors is included in the Remuneration Report.

9. Tax on loss on ordinary activities

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
UK corporation tax		
Current tax – current year	**-**	25
Current tax – prior year	**(19)**	(2)
Deferred tax	**-**	-
	(19)	23
Loss on ordinary activities before tax	**(9,025)**	(21,330)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK applicable to oil and gas companies of 62% (2013: 62%)	**(5,596)**	(13,225)
Effects of:		
Adjustment to prior years	**(19)**	(2)
Expenses not deductible for tax purposes	**3,252**	847
Unrecognised pre-trade revenue expenditure carried forward	**2,339**	12,456
Losses / (profits) subject to tax at lower rate	**5**	(53)
Total tax charge for year	**(19)**	23

9.1 Factors which may affect future tax charges
Future profits may be subject to ring fence taxation at a combined rate of 50% on taxable oil extraction profits (ring fence corporation tax at 30% and a supplementary charge at 20%, with no deduction for financing costs). A 2% reduction of the supplementary charge rate was announced in the Autumn Statement and a further 10% reduction was announced in Budget 2015. These rate reductions were substantively enacted on 26 March 2015 and apply to accounting periods beginning on or after 1 January 2015.

The Group has pre-trading revenue expenses of £23.7 million (2013: £23.1 million) and pre-trading capital expenditure £155.8 million (2013: £119.4 million) which will be available for tax relief on commencement of a petroliferous trade for UK tax purposes.

The total pre-trading expenditure of £179.5 million (2013: £142.5 million) (referred to above) may attract Ring Fence Expenditure Supplement on the commencement of trade, which would result in a further uplift of £59.3 million (2013: £42.6 million) of tax relief being available at that time.

No provision has been made in these Financial Statements for a potential deferred tax asset of £14.7 million (2013: £14.3 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 Group's practice is generally not to recognise potential deferred tax assets during exploration and evaluation stage activities due to the inherent uncertainty of success at this stage. The potential deferred tax asset is calculated at a rate of 62% (2013: 62%).

10. Loss per share

The basic and diluted loss per share has been calculated using the loss for the year ended 31 December 2014 of £9,006,000 (2013: £21,353,000). The loss per share is calculated using a weighted average number of Ordinary Shares in issue less treasury shares. For the year ended 31 December 2014 this amounts to 621,420,531 Ordinary Shares (2013: 480,246,410). The loss per share for the year ended 31 December 2014 was 1.45 pence (2013: 4.45 pence).

As the Group has made losses for both periods, convertible loan notes, warrants and share options detailed in notes 19 and 22 were anti dilutive and have not been included in the fully diluted loss per share calculation.

Notes to the Group Financial Statements
for the Year Ended 31 December 2014

11. Property, plant and equipment

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
Cost		
At 1 January	**766**	-
Adjustment	**-**	741
Additions	**24**	25
At 31 December	**790**	766
Depreciation		
At 1 January	**(436)**	-
Adjustment	**-**	(254)
Charge for the year	**(139)**	(182)
At 31 December	**(575)**	(436)
Carrying amount at 31 December	**215**	330

Property, plant and equipment comprises the Group's investment in leasehold improvements, fixtures, office equipment and computer hardware. In 2014 £44,000 of depreciation has been capitalised into the Group's intangible exploration and evaluation expenditure in accordance with the Group's overhead allocation policy. In 2013 an immaterial adjustment was made to capture the cumulative costs and depreciation of the Group's property, plant and equipment previously expensed. In previous periods these costs had been expensed on acquisition due to their immaterial nature.

12. Intangible exploration and evaluation assets

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
At 1 January	**137,681**	131,077
Additions	**37,223**	6,441
Effect of changes to decommissioning estimates (note 17)	**2,404**	697
Amounts written off	**-**	(534)
At 31 December	**177,308**	137,681

Intangible exploration and evaluation expenditure comprises the book cost of licence interests and exploration and evaluation expenditure within the Group's licensed acreage in the West of Shetlands.

The amounts written off in 2013 relate to the exploration expenditure on licence P1884 which was relinquished in October 2013.

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 Group's tenure to its licence interests, its plans for further exploration and evaluation activities in relation to these and the likely opportunities for realising the value of the Group's licences, either by farm-out or by development of the assets. The Directors have concluded that no impairment is necessary at this time.

13. Other non-current receivables

The other non-current receivables of £130,000 (2013: £130,000) represents the deposit for the office lease. Further details are given in note 24.

14. Trade and other receivables

	31 Dec 2014 £'000	31 Dec 2013 £'000
Other receivables	**222**	1,073
Prepayments and accrued income	**1,331**	25
	1,553	1,098

15. Cash and cash equivalents

	31 Dec 2014 £'000	31 Dec 2013 £'000
Unrestricted funds	**13,470**	37,293
Escrow funds	**2,386**	2,874
	15,856	40,167

At 31 December 2014 £2.3 million (2013: £nil) is held in escrow for future expected costs associated with Group's decommissioning obligations a further £0.1 million (2013: £2.9 million) is held only to be dispersed to the benefit of an independent third party for work undertaken as part of the Lancaster drilling operations.

16. Trade and other payables

	31 Dec 2014 £'000	31 Dec 2013 £'000
Trade payables	**405**	197
Other payables	**80**	125
Accruals	**996**	525
	1,481	847

17. Decommissioning provisions

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
At 1 January	**4,764**	4,000
Unwinding	**113**	67
Additions	**2,404**	697
At 31 December	**7,281**	4,764

The provision for decommissioning relates to the costs required to decommission the Lancaster and Whirlwind exploration assets. The additions in the year represent the expected decommissioning cost for the Lancaster 205/21a-6 horizontal well which was completed in June 2014. Additions in 2013 represent adjustments to reflect an updated estimate of the present value of decommissioning costs for the Group's previously drilled wells. The expected decommissioning cost for both assets is based on the Directors' best estimate of the cost of decommissioning at the end of the current licence term in 2019, discounted at 1.9% (2013: 1.9%).

Notes to the Group Financial Statements

for the Year Ended 31 December 2014

18. Called up share capital

	31 Dec 2014 £'000	31 Dec 2013 £'000
Allotted, called up and fully paid		
2014: 632,267,788 (2013: 483,288,049) Ordinary Shares of £0.001 each	**632**	483

The Company does not have an authorised share capital.

On 4 February 2014 all of the Company's authorised shares were admitted to the AIM market of the London Stock Exchange as part of its IPO. At the same time a total of 41,860,465 new Ordinary Shares were issued at a price of £0.43 per share, raising £18.0 million (gross).

The listing of the Company's shares on AIM triggered the conversion of all outstanding loan notes into Ordinary Shares of the Company to give the holders a conversion price at a 30% discount to the placing price. This resulted in 99,070,189 Ordinary Shares being issued to loan note holders.

The listing of the Company's shares on AIM also triggered the exercise of the warrant attached to the Ordinary Shares issued in April 2013. This resulted in the issue of Ordinary Shares at a price which gave the holder an average subscription price, across the Ordinary Shares already subscribed for and those subscribed on exercise of the warrant, which equated to a discount of 30% to the placing price. This resulted in 7,663,453 new Ordinary Shares being issued at £0.001 per share to the warrant holder.

On 24 February 2014 the Board approved the purchase of 102,903 new Ordinary Shares by the Chairman, John Hogan, at a subscription price of £0.31 per share.

On 25 February 2014 282,729 new Ordinary Shares issued were issued to the Hurricane Energy plc Share Incentive Plan (SIP) at a subscription price of £0.31 per share.

During 2013, 5,300,000 share options were exercised for a gross cash consideration of £930,000. This resulted in the issue of 5,300,000 Ordinary Shares.

In April 2013, 3,299,999 Ordinary Shares and a warrant were issued for a gross cash consideration of £3.3 million.

On 15 April 2013 authority was provided by Shareholders for the Directors to issue a further 200 million Ordinary Shares for the purpose of the Group's IPO plans and other working capital requirements.

19. Share options

	Year Ended 31 Dec 2014 Number of options	Year Ended 31 Dec 2014 Weighted average exercise price £	Year Ended 31 Dec 2013 Number of options	Year Ended 31 Dec 2013 Weighted average exercise price £
Outstanding at 1 January	**38,191,165**	**0.02**	11,283,022	0.50
Granted	**700,000**	-	48,450,000	-
Forfeited	**(4,533,333)**	-	(16,241,857)	0.25
Exercised	-	-	(5,300,000)	0.18
Outstanding at 31 December	**34,357,832**	**0.02**	38,191,165	0.02
Exercisable at 31 December	**1,074,500**	**0.61**	600,000	0.30

The Group recognised total expenses of £3,531,000 in respect of share based payments in 2014 (2013: £752,000). The options outstanding at 31 December 2014 had a weighted average remaining contractual life of 4.1 years (2013: 5.1 years).

19.1 PSP awards

In April 2013, all awards under the Group's Long Term Incentive Plan (LTIP) were surrendered together with all unvested share options (other than those that vested at IPO) and replaced with awards under the Hurricane Energy 2013 Performance Share Plan (PSP). Under the PSP certain employees, including executive Directors, were granted conditional rights to receive in aggregate 45,450,000 Ordinary Shares at nil cost. The share awards vest based on the Group meeting certain operational and funding milestones across the next three years.

A mirror image plan (the Hurricane Energy 2013 Nominal Cost Option Plan (NED Plan)) was also introduced for the purpose of enabling conditional awards of nil cost options to the Group's non-executive Directors. The NED Plan operates on materially the same terms and conditions as the PSP. Under the NED Plan the non-executive Directors, were granted conditional rights to receive in aggregate 2,000,000 Ordinary Shares at nil cost. The share awards vest based on the same conditions as the PSP.

In November 2013, a total of 10,666,668 conditional awards under the PSP were surrendered. The remaining 34,783,332 conditional awards under the PSP had their performance conditions modified so that the share awards vest based on the Group meeting certain funding milestones across the next five years. A further 1,000,000 conditional rights to receive Ordinary Shares at nil cost were granted under the updated PSP. Also, a total of 666,667 conditional awards under the NED Plan were surrendered. The remaining 1,333,333 conditional awards under the NED Plan had their performance conditions modified in line with those modified in the PSP. The changes to the PSP and NED Plan have been accounted for as modifications to the original schemes.

In September 2014 700,000 PSP awards were granted to certain employees under the same performance conditions as the November 2013 awards. The fair vale of these awards at grant was £0.43 per award.

19.2 Share Options

There are two trances of share options that remain outstanding at 31 December 2014. Both tranches vested either on or before IPO. All other share options and LTIP awards were replaced by the PSP. All outstanding options are exercisable at 31 December 2014.

The first tranche of 600,000 share options were granted in April 2009 with an exercise price of £0.30 and lapse in June 2019. The second trance of 474,500 share options were granted in January 2011 at an exercise price of £1.00 and lapse in December 2020.

20. Own shares held by SIP Trust

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
At 1 January	**136**	67
Acquired in the period	**89**	97
Shares disposed of to employees	**(31)**	(28)
At 31 December	**194**	136

The own shares reserve represents the cost of Ordinary Shares in Hurricane Energy plc purchased and held by the Group's SIP Trust to satisfy the Group's Share Incentive Plan administered by MM&K Share Plan Trustees Limited.

At 31 December 2014 there were 389,881 Ordinary Shares held in the SIP Trust, all of which were allocated to participants. At 31 December 2013 93,050 Ordinary Shares in the SIP Trust were allocated to participants and the balance of 43,848 Ordinary Shares were available to meet future awards.

Notes to the Group Financial Statements

for the Year Ended 31 December 2014

21. Reconciliation of operating loss to net cash outflow from operating activities

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
Operating loss	**(8,584)**	(5,867)
Adjustments for:		
Depreciation of property, plant and equipment (note 11)	**95**	182
Non cash property, plant and equipment movements	**-**	(360)
Intangible exploration and evaluation costs written off (note 12)	**-**	534
Equity shares to be issued (note 26)	**486**	-
Share based payment charge (note 19)	**3,531**	752
Operating cash outflow before working capital movements	**(4,472)**	(4,759)
(Increase) / decrease in receivables	**(455)**	55
Increase in payables	**250**	299
Cash used in operating activities	**(4,677)**	(4,405)
Corporation tax paid	**-**	(19)
Net cash outflow from operating activities	**(4,677)**	(4,424)

22. Financial instruments

22.1 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 does not enter into or trade financial instruments, including derivatives, for speculative purposes. Derivatives on the Group's balance sheet at 31 December 2013, relate to certain features of the Group's financing arrangements all of which were settled in 2014. The Group's significant financial instruments are cash and cash equivalents (note 15), trade payables (note 16), convertible loan notes and its associated derivative (note 22.7) and the warrant (note 22.8). The Group considers the carrying value of all its financial assets and liabilities to be materially the same as their fair value. The Group has no material financial assets that are past due.

22.2 Capital risk management
The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders.

Capital managed by the Group at 31 December 2014 consists of cash and cash equivalents and equity attributable to equity holders of the parent. The capital structure is reviewed by Management through regular internal and financial reporting and forecasting. As at 31 December 2014 equity attributable to equity holders of the parent is £186.1 million (2013: £131.9 million), whilst cash and cash equivalents amount to £15.9 million, (2013: £40.2 million).

22.3 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 £0.7 million (2013: £2.1 million) on the loss after tax of the Group for the year ended 31 December 2014. A 10% weakening in the strength of the US Dollar against Sterling, would cause an increase of £0.9 million (2013: £1.7 million) on the loss after tax of the Group for the year ended 31 December 2014.

This sensitivity analysis includes only foreign currency denominated cash and cash equivalents, and adjusts their translation at the period 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 an economic hedge against exchange rate movements.

22.4 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 A 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.

22.5 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. Consideration of the Group's current and forecast financing position are provided in more detail in the going concern section of the Directors' Report.

22.6 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 December 2014 would have decreased by £0.2 million (2013: £0.4 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.

Notes to the Group Financial Statements
for the Year Ended 31 December 2014

22.7 Convertible loan notes
In April 2013 the Group raised £28.1 million (gross) by issuing convertible loan notes at an issue price of £1.00 per note, with a maturity date of 1 year from issue. The maturity date of the loan notes was extended by a further year in October 2013. The convertible loan notes accrued interest at a rate of 5% per annum for the first seven months and at a rate of 15% thereafter.

The admission of the Company's shares to trading on AIM (Admission) triggered the conversion of all outstanding loan notes into Ordinary Shares of the Company to give the holders a conversion price at a 30% discount to the placing price. This resulted in 99,070,189 Ordinary Shares being issued to loan note holders.

The conversion feature of the convertible loan notes was classified as an embedded derivative liability and measured at fair value through profit and loss. The amount recognised on inception in respect of the host debt contract was determined by deducting the fair value of the conversion option at inception from the fair value of the consideration received for the convertible loan notes. The debt component was then recognised at amortised cost, using the effective interest rate method until extinguished upon conversion or at the instrument's maturity date.

On 4 February 2014, Admission occurred. On this date the loan notes converted which extinguished the loan note liability and associated derivative liability with the balance being recognised within Retained earnings.

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
Net proceeds on issue of convertible loan notes	**-**	26,713
Liability component at 1 January / date of issue	**26,145**	20,520
Interest charged	**517**	5,625
Conversion of loan notes	**(26,662)**	-
Liability at 31 December	**-**	26,145
Derivative liability at date of issue	**14,278**	6,193
Change in fair value recognised in the income statement	**-**	8,085
Derecognition on conversion of loan notes	**(14,278)**	-
Derivative liability at 31 December	**-**	14,278

The interest expense was calculated by applying an effective interest rate of 41% to the liability component to October 2013. After the extension of the repayment date, the interest was calculated by applying an effective interest rate of 23.7%.

22.8 Warrant
In April 2013 the Group raised £3.3 million (gross) by issuing Ordinary Shares together with a warrant to subscribe for additional Ordinary Shares. The holder of the warrant could elect to subscribe for Ordinary Shares on Admission. The warrant was exercisable on Admission and lapsed if not exercised. On initial issue of the warrant, if Admission did not occur, the warrant would lapse 12 months after issue, however this was extended to 24 months after initial issue in November 2013.

On Admission the warrant was exercised. This resulted in the issue of Ordinary Shares at a price which gave the holder an average subscription price, across the Ordinary Shares already subscribed for and those subscribed on exercise of the warrant, which equated to a discount of 30% to the placing price. This resulted in 7,663,453 new Ordinary Shares being issued at £0.001 per share to the warrant holder.

The warrant has been recognised as a derivative financial liability and measured at fair value through profit and loss. The value attributed to the equity shares issued in April 2013 was determined by deducting the fair value of the warrant from the fair value of the consideration received for the share and warrant issue as a whole.

On 4 February 2014, Admission occurred. On this date the warrant was exercised and the associated derivative liability was extinguished.

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
Net proceeds on issue of shares and warrant	**-**	3,135
Equity component	**-**	2,428
Derivative liability at 1 January / date of issue	**1,414**	707
Change in fair value recognised in the income statement	**-**	707
Derecognition on exercise of warrant	**(1,414)**	-
Derivative liability at 31 December	**-**	1,414

22.9 Valuation of derivative financial instruments
The only derivative financial instruments held by the Group were associated with the issue of the convertible loan notes and the warrant in April 2013 described previously and their aggregate fair values are summarised in the table below:

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
Derivative liability at 1 January / date of issue	**15,692**	6,900
Change in fair value recognised in the income statement	**-**	8,792
Derecognition on conversion of loan notes / exercise of warrant	**(15,692)**	-
Derivative liability at 31 December	**-**	15,692

The fair value of the derivatives was calculated based on the 30% discount to the placing price that the holders of the loan notes and the warrant would receive on Admission of the Company, the amount of accrued interest the holders would be entitled to (only relevant for the derivatives associated with the loan notes) and an assessment of the date and likelihood of Admission occurring. The change in the fair value in 2013 relates to the changes in the assumptions related to the date and likelihood of Admission occurring between inception and derecognition. The Group's financial instruments measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 which are observable for the asset or liability, either directly or indirectly; and

Level 3: fair value measurements are those derived from valuation techniques which include inputs for the asset or liability that are not based on observable market data.

Both of the Group's derivatives were Level 3. There were no transfers between fair value levels during the year. For financial instruments which are recognised on a recurring basis, the Group determines whether transfers have occurred between levels by reassessing categorisation (based on the lowest level input which is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to the Group Financial Statements
for the Year Ended 31 December 2014

23. Capital commitments
As at 31 December 2014 and 2013 the Group had no capital commitments.

24. Financial commitments
The Group had outstanding commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows:

	31 Dec 2014 £'000	31 Dec 2013 £'000
Within one year	**136**	160
In the second to fifth years inclusive	**520**	520
After five years	**163**	293
	819	973

Operating lease payments represent rentals payable by the Group for certain of its office properties.

25. Related parties
During 2014, the only related party transactions are those with the Directors who are considered as the Group's key management personnel. All transactions with the Directors are detailed in note 8.

26. Equity shares to be issued
The balance of £696,000 at 31 December 2014 in equity shares to be issued reserve, represents the value of deferred Ordinary Shares that have been assigned for future awards to employees in respect of the 2014 bonus scheme. The Company was in a close period at the time when the awards were intended to be made. As such the Company was unable to grant the deferred shares to employees. Once the Company is out of the close period, the Board will review the recommendations of the remuneration committee in relation to the deferred share element of the 2014 bonus.

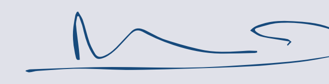
27. Subsequent events
27.1 Share incentive plan
On 23 January 2015, MM&K Plan Trustees Limited, trustee of the HMRC approved Hurricane Energy plc Share Incentive Plan (SIP), awarded 844,745 Ordinary Shares in the Company to participants in the SIP at a price of £0.14 per share. The SIP award has been satisfied by the issue of 844,745 new Ordinary Shares issued to the SIP at a subscription price of £0.14 per share.

Company Balance Sheet
as at 31 December 2014

	Notes	31 Dec 2014 £'000	31 Dec 2013 £'000
Non-current assets			
Property, plant and equipment	1	**215**	330
Intangible exploration and evaluation assets	2	**80,875**	61,062
Investments	3	**15,090**	15,090
Amounts due from subsidiary undertakings		**77,832**	59,213
Other receivables	4	**130**	130
		174,142	135,825
Current assets			
Trade and other receivables	5	**1,553**	1,098
Cash and cash equivalents	6	**15,856**	40,167
Total current assets		**17,409**	41,265
Total assets		**191,551**	177,090
Current liabilities			
Trade and other payables	7	**(1,481)**	(839)
Current tax liabilities		**(6)**	(25)
Borrowings	9	**-**	(26,145)
Derivative financial instruments	9	**-**	(15,692)
		(1,487)	(42,701)
Non-current liabilities			
Decommissioning provision	8	**(3,641)**	(2,382)
Total liabilities		**(5,128)**	(45,083)
Net assets		**186,423**	132,007
Equity			
Share capital	9	**632**	483
Share premium		**210,697**	167,328
Share option reserve		**5,420**	1,901
Own shares held by SIP Trust	9	**(194)**	(136)
Equity shares to be isued	9	**696**	-
Accumulated deficit		**(30,828)**	(37,569)
Total equity		**186,423**	132,007

The Financial Statements of Hurricane Energy plc were approved by the Board of Directors and authorised for issue on 30 April 2015.
They were signed on its behalf by:

Dr Robert Trice
Chief Executive Officer
30 April 2015



Nicholas Mardon Taylor
Chief Financial Officer
30 April 2015

Registered company number 05245689

Company Statement of Changes in Equity

for the Year Ended 31 December 2014

	Share capital £'000	Share premium £'000	Share option reserve £'000	Own shares held by SIP Trust £'000	Equity shares to be issued £'000	Accumulated deficit £'000	Total £'000
At 1 January 2013	475	163,910	1,343	(67)	-	(16,448)	149,213
Shares allotted	8	3,514	-	-	-	-	3,522
Transaction costs	-	(165)	-	-	-	-	(165)
Share option charge	-	-	752	-	-	-	752
Share options exercised	-	-	(194)	-	-	194	-
Own shares held by SIP Trust	-	69	-	(69)	-	-	-
Loss for the year	-	-	-	-	-	(21,315)	(21,315)
At 31 December 2013	483	167,328	1,901	(136)	-	(37,569)	132,007
Shares allotted	42	18,077	-	-	-	-	18,119
Transaction costs	-	(1,272)	-	-	-	-	(1,272)
Conversion of convertible loan	99	26,564	-	-	-	14,278	40,941
Exercise of warrant	8	-	-	-	-	1,414	1,422
Share option charge	-	-	3,519	-	-	-	3,519
Own shares held by SIP Trust	-	-	-	(58)	-	-	(58)
Equity shares to be issued	-	-	-	-	696	-	696
Loss for the year	-	-	-	-	-	(8,951)	(8,951)
At 31 December 2014	**632**	**210,697**	**5,420**	**(194)**	**696**	**(30,828)**	**186,423**

The share option reserve arises as a result of the expense recognised in the Income Statement for the cost of share based employee compensation arrangements.

The loss of the parent company for 2014 was £8,951,000 (2013: loss of £21,315,000). 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.

Company Cash Flow Statement

for the Year Ended 31 December 2014

	Notes	**Year Ended 31 Dec 2014 £'000**	Year Ended 31 Dec 2013 Restated[1] £'000
Net cash outflow from operating activities	10	**(4,669)**	(4,419)
Investing activities			
Interest received		**67**	125
Expenditure on property, plant and equipment		**(24)**	(25)
Expenditure on intangible exploration and evaluation assets		**(18,079)**	(3,847)
Working capital provided to subsidiary companies		**(18,514)**	(3,202)
Net cash used in investing activities		**(36,550)**	(6,949)
Financing activities			
Interest paid		**(3)**	(3)
Net proceeds from issue of share capital and warrants		**16,786**	4,065
Net proceeds from issue of convertible loan notes		**-**	26,713
Expenses related to corporate finance activities		**-**	(529)
Net cash provided by financing activities		**16,783**	30,246
Net (decrease) / increase in cash and cash equivalents		**(24,436)**	18,878
Cash and cash equivalents at the beginning of the year		**40,167**	22,390
Net (decrease) / increase in cash and cash equivalents		**(24,436)**	18,878
Effects of foreign exchange rates		**125**	(1,101)
Cash and cash equivalents at the end of the year	6	**15,856**	40,167

[1] Working capital provided to subsidiary companies has been reclassified from financing activities to investing activities in the current year.

Notes to the Company Financial Statements

for the Year Ended 31 December 2014

1. Property, plant and equipment

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
Cost		
At 1 January	**766**	-
Adjustment	**-**	741
Additions	**24**	25
At 31 December	**790**	766
Depreciation		
At 1 January	**(436)**	-
Adjustment	**-**	(254)
Charge for the year	**(139)**	(182)
At 31 December	**(575)**	(436)
Carrying amount at 31 December	**215**	330

Property, plant and equipment comprises the Company's investment in leasehold improvements, fixtures, office equipment and computer hardware. In 2014 £22,000 of depreciation has been capitalised into the Company's intangible exploration and evaluation expenditure in accordance with the Company's overhead allocation policy. In 2013 an immaterial adjustment was made to capture the cumulative costs and depreciation of the Company's property, plant and equipment previously expensed. In previous periods these costs had been expensed on acquisition due to their immaterial nature.

2. Intangible exploration and evaluation assets

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
At 1 January	**61,062**	57,938
Additions	**18,611**	3,309
Effect of changes to decommissioning estimates (note 8)	**1,202**	349
Amounts written off	**-**	(534)
At 31 December	**80,875**	61,062

Intangible 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.

The amounts written off in 2013 relate to the exploration expenditure on licence P1884 which was relinquished in October 2013.

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 Company's tenure to its licence interests, its plans for further exploration and evaluation activities in relation to these and the likely opportunities for realising the value of the Company's licences, either by farm-out or by development of the assets. The Directors have concluded that no impairment is necessary at this time.

3. Investments

	31 Dec 2014 £'000	31 Dec 2013 £'000
Investment in subsidiaries	**9,751**	9,751
Loan to subsidiary	**5,339**	5,339
	15,090	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 principal activity is oil and gas exploration. There are three other dormant subsidiaries; Hurricane Group Limited, Hurricane Basement Limited and Hurricane Petroleum Limited.

4. Other non-current receivables

The other non current receivables of £130,000 (2013: £130,000) represent the deposit for the office lease. Further details are given in note 24 of the Group Financial Statements.

Notes to the Company Financial Statements

for the Year Ended 31 December 2014

5. Trade and other receivables

	31 Dec 2014 £'000	31 Dec 2013 £'000
Other receivables	**222**	1,073
Prepayments and accrued income	**1,331**	25
	1,553	1,098

6. Cash and cash equivalents

	31 Dec 2014 £'000	31 Dec 2013 £'000
Unrestricted funds	**13,470**	37,293
Escrow funds	**2,386**	2,874
	15,856	40,167

At 31 December 2014 £2.3 million (2013: £nil) is held in escrow for future expected costs associated with Company's decommissioning obligations a further £0.1 million (2013: £2.9 million) is held only to be dispersed to the benefit of an independent third party for work undertaken as part of the Lancaster drilling operations.

7. Trade and other payables

	31 Dec 2014 £'000	31 Dec 2013 £'000
Trade payables	**405**	197
Other payables	**80**	125
Accruals	**996**	517
	1,481	839

8. Decommissioning provisions

	31 Dec 2014 £'000	31 Dec 2013 £'000
At 1 January	**2,382**	2,000
Unwinding	**57**	33
Additions	**1,202**	349
At 31 December	**3,641**	2,382

The provision for decommissioning relates to the costs required to decommission the Lancaster and Whirlwind exploration assets. The additions in the year represent the expected decommissioning cost for the Lancaster 205/21a-6 horizontal well which was completed in June 2014. Additions in 2013 represent adjustments to reflect an updated estimate of the present value of decommissioning costs for the Company's previously drilled wells. The expected decommissioning cost for both assets is based on the Directors' best estimate of the cost of decommissioning at the end of the current licence term in 2019, discounted at 1.9% (2013: 1.9%).

9. Other balance sheet disclosures

Details of the Company's share capital, share options, own shares held by the SIP Trust, equity shares to be issued and financial instruments are provided in notes 18, 19, 20, 22 and 26 of the Group Financial Statements.

10. Reconciliation of operating loss to net cash outflow from operating activities

	Year Ended 31 Dec 2014 £'000	Year Ended 31 Dec 2013 £'000
Operating loss	**(8,584)**	(5,863)
Adjustments for:		
Depreciation of property, plant and equipment (note 1)	**95**	182
Non cash property, plant and equipment movements	**-**	(360)
Intangible exploration and evaluation costs written off (note 2)	**-**	534
Equity shares to be issued	**486**	-
Share based payment charge	**3,531**	752
Operating cash out flow before working capital movements	**(4,472)**	(4,755)
(Increase) / decrease in receivables	**(455)**	55
Increase in payables	**258**	300
Cash used in operating activities	**(4,669)**	(4,400)
Corporate tax paid	**-**	(19)
Net cash outflow from operating activities	**(4,669)**	(4,419)

11 Other disclosures

Certain other disclosures in notes 23, 24, 25 and 27 to the Group Financial Statements also apply to the Company in respect of its share of the Group's operations.

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