



Hurricane

Annual Report and Group Financial Statements 2017



## Introduction

2017 was marked by the significant progress made on the Lancaster EPS.

We completed the required financing, took FID, and received FDP approval.

Hurricane is a new generation of oil company that exists to discover, appraise and develop oil from fractured basement reservoirs.

## Highlights

# A transformational year

## Financial Highlights

|  |  |                          |
|--|--|--------------------------|
| <b>\$547<sub>m</sub></b>   | <b>\$360<sub>m</sub></b>   | <b>\$7.0<sub>m</sub></b> |
| Total capital raised in equity and convertible bonds (before expenses) | Closing cash and liquid investments <sup>1</sup><br>EPS fully funded to first production | Loss after tax in 2017   |

## Operational Highlights

|  |   |  |
|--|---|--|
| <b>265</b>   | <b>H1 2019</b>  | <b>2.6<sub>bn</sub></b>                          |
| Consecutive Days Drilling<br>Concluded with Halifax discovery well | First oil on schedule<br>EPS to deliver Hurricane's first production and revenues | Barrels of 2P Reserves + 2C Contingent Resources |

<sup>1</sup> \$201.9 million of liquid investments is held in term deposits which mature within 12 months. \$33.4 million is held within escrow accounts

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# At a Glance

## Our West of Shetland portfolio of discoveries is now moving towards development with the Lancaster Early Production System as the first phase.

### About us

Hurricane is new generation of oil company that exists to discover, appraise and develop oil from fractured basement reservoirs.

Fractured basements are a global phenomenon which have been produced successfully for extended periods in multiple locations around the world. However, in the UK they represent a new play type for a sector of the oil industry which has historically focused on sandstone reservoirs. Hurricane is the first oil company to target fractured basements in the region.

Unlike sandstone reservoirs, which hold oil in pores in the rock, fractured basement reservoirs are composed of very hard rocks such as granite, with the oil held in the fractures that have formed over the past 2.5 billion years.

### Where we operate

Hurricane has a portfolio of contiguous offshore licences on the UK Continental Shelf, to the west of Shetland.

The area is a proven petroleum basin with a number of large producing oil fields including Clair, Foinaven and Schiehallion. Hurricane's licences are focussed on the Rona Ridge, a major NE-SW trending basement feature. The water depth in the area is around 150 metres. All licences are owned 100%.

Extensive exploration and appraisal work programmes have led to a number of significant discoveries in the Company's acreage, including Lancaster, Whirlwind, Lincoln, and Halifax.

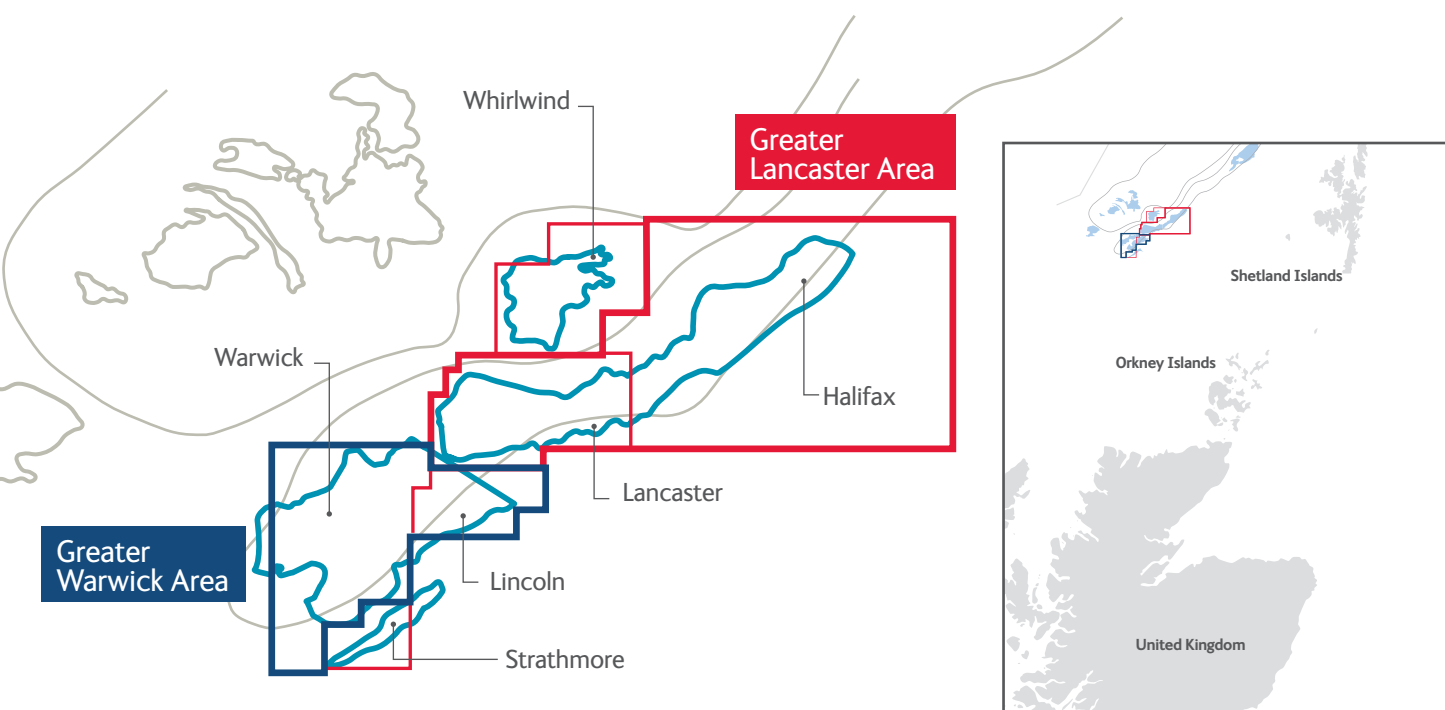
### What we do

Technically led and driven, we use our expertise to find oil where others have looked but not seen. We make and exploit discoveries, working towards realising the value of those discoveries.

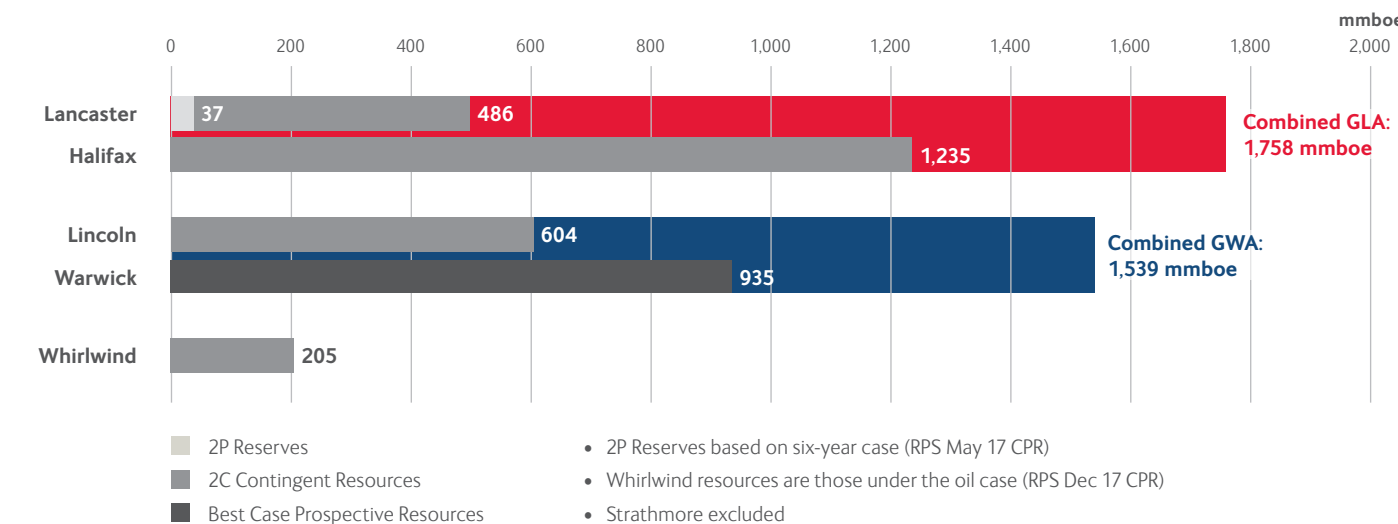
Hurricane has drilled eight wells on its acreage since 2009 including five on the Lancaster field.

Hurricane is now working towards the first phase of development of its Rona Ridge assets, the Lancaster EPS. Extended production will provide data to improve understanding of the reservoir to be applied across the Company's portfolio in further appraisal activity.

### Licence locations



## Group Reserves and Resources



## Early Production System

The first phase of development of Lancaster is an Early Production System (EPS). This involves tying two existing wells back to the Aoka Mizu Floating Production Storage and Offloading (FPSO) vessel. The Bluewater-owned Aoka Mizu previously operated on the Blackbird and Ettrick fields in the North Sea and requires only limited upgrades and life extension to be used on Lancaster.

The EPS is key to delivering the reservoir information required to move to full field development.

It's objectives are to:

- Provide long-term production data to enhance understanding of reservoir characteristics and associated full field development scenarios
- Commence development of resources in phased manner with regard to managing uncertainties over reservoir characteristics and associated development risks
- Deliver an acceptable return on investment

**17,000**<sub>bopd</sub>  
Expected initial average annual production rate

**H1** 2019  
Target first oil date

**100%**  
Hurricane licence equity interest

**6** years  
Initial FDP period. Extension to 10 years would increase Reserves by 25 million barrels



Hurricane's strategy is to create shareholder value through monetising the significant reserves and resources associated with naturally fractured basement reservoirs through exploration, appraisal and development.



Hurricane has focussed on implementing its strategy in the West of Shetland region of the UKCS. As fractured basement reservoirs have not previously been exploited in the UK, Hurricane has determined that it will need to maintain ownership of its assets for longer, and at greater levels, than is typical in more common reservoir types in the region. The Company believes that this approach will allow it to optimise the value it obtains for its discovered resources.

Implementation of Hurricane's strategy has led to a focus on the Company's Lancaster field, which is now the best understood asset in its portfolio, following five wells drilled by Hurricane. The Company plans to bring the Lancaster field to commercial production, in an initial development phase, the EPS. This allows uncertainties associated with the reservoir to be removed whilst commencing a phased development and generating cash flow.

The Company believes that it will achieve the best value for its asset base by progressing the portfolio as a whole. It will therefore explore and appraise its other assets in the surrounding vicinity, alongside the EPS development, to allow a read-across in reservoir properties and to demonstrate the size of the overall resource base.

# Strategic Report

## Strategic Report

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# Interim Chairman's Statement

– Dr David Jenkins

Welcome to Hurricane's 2017 Annual Report. This has been a transformative year for the Company.



Following the successful \$530 million fund raise required to take the Final Investment Decision (FID) on the Lancaster Early Production System (EPS), we were given approval by the Oil & Gas Authority (OGA) of the Field Development Plan (FDP), such that we could then proceed with the execution of the project. Given the challenging oil price environment in mid-2017, this was a great achievement by management. The data generated by the EPS will allow us to progressively evaluate the performance of the Lancaster reservoir system and gain increasing confidence in the volume of oil that we can expect to recover from our Rona Ridge assets. At the time of writing, I am delighted to report that first oil remains on schedule for H1 2019.

Throughout 2017 we continued to engage with industry in line with our stated aim of achieving a farm-out or sale in advance of a full field development. As we have progressed our asset base, we have seen interest build in the West of Shetland region and also in basement reservoirs in northwest

**“At the time of writing, I am delighted to report that first oil remains on schedule for H1 2019”**

Europe. The rapidity with which Hurricane has advanced Lancaster, from the drilling and testing of the -7 and -7Z wells in late 2016, to a funded and approved FDP with target first oil approaching, is unusual in the industry. Moving at this pace has allowed us to remain at 100% in our licences, as we approach first cash generation.

Following first oil, with data from the EPS being generated and no imminent funding hurdles, we will be in a strong position to move towards establishing the value that can be ascribed to our overall acreage holdings.

The positive working relationship between Hurricane and its Tier 1 contractors is a reflection of the Company's contracting strategy. We chose our Tier 1 contractors on the basis of demonstrable industry reputation, technical expertise, health, safety and environmental track record, and supportive contractual structures. We believe that they are best placed, and appropriately incentivised, to take us through engineering and installation, to first oil and into the operations phase. The progress on the upgrade to the Aoka Mizu in Dubai and the excellent working relationship with the Bluewater Energy Services (Bluewater) team, is the most visible reflection of that strategy. We are aligned in wanting to see the vessel sail away on schedule and remain on track to do so. As for the well completion and subsea installation aspects of the development; with both Xmas trees delivered and flowlines, umbilical and manifold in the final stages of fabrication, we now look forward to the start of offshore operations. We secured our major contracts at an opportune moment in the industry cycle, and will continue to strive to minimise finding and development costs as we further explore, appraise and develop our Rona Ridge assets.

Successful delivery of the EPS is a core component of the Group's remuneration strategy, including the Value Creation Plan (VCP). 2017 was the first full year of this five-year long-term scheme introduced in late 2016, concurrent with the November

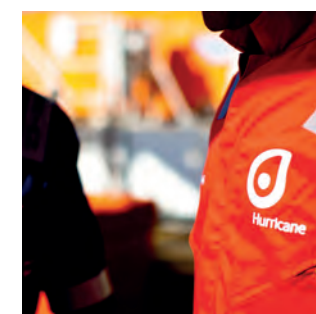
**\$547m** Total funds raised  
**H1 2019** Target EPS first oil

## “Successful delivery of the EPS is a core component of the Group's remuneration strategy”

2016 fundraise. The VCP incentivises management to achieve the Company's strategy of de-risking and monetising its resource base. As operational hurdles are achieved it is increasingly important for management to ensure that this progress is translated into returns for shareholders. The management team personally invested into the plan, yet there is no pay-out until measurable value has been delivered to

shareholders. Management are fully aligned with our shareholders as the Company transitions to becoming cash generative, and in ultimately monetising the Company's assets. The details of the VCP are set out in the Remuneration Report.

At the beginning of 2016, Hurricane was an exploration and appraisal company, with processes and procedures that were fit for purpose at that time. The completion of our 2016/17 drilling campaign and obtaining FDP approval for the EPS means that Hurricane has evolved as a company. Our focus has extended beyond drilling additional exploration and appraisal wells, when funding allows, to transitioning towards organic cash generation. This evolution has required an upgrade to our organisational structure, processes and procedures. Initial work on gap analysis commenced following the July 2017 fund raise and the Listing and Governance Committee (LGC) of the board was formed to coordinate the work streams that will prepare the Company for the next phase of its development. The appointment of a new Chairman, following Dr Robert Arnott's resignation, and subsequently one or more additional non-executive directors, will ensure that the composition of the board of directors of the Company (Board) and its committees are fully compliant with the Financial Reporting Council's UK Corporate Governance Code (the Code), a standard not required of AIM-quoted companies. The newly constituted Board will evaluate the appropriateness and timing of an application for admission of the Company's ordinary shares to a premium segment of a recognised stock exchange (Premium Listing). Notwithstanding those decisions, it is the Board's view that the Company should act as if it were Premium Listed.



As John van der Welle sets out in his report as Chairman of the LGC, we have taken a number of those steps already and will continue to ensure that your Company becomes and thereafter remains Code compliant.

2017 was indeed a fabulous year for progressing Hurricane's operations and my thanks go to all those who helped make it happen, regulators who supported our drilling and early development activities, our contractors, who have been working collaboratively with us, and of course all the Hurricane staff, who have worked tirelessly throughout.

I expect to be able to pass on the role of Chairman very shortly and then return to my non-executive role as Senior Independent director.

**“2017 was indeed a fabulous year for progressing Hurricane's operations and my thanks go to all those who helped make it happen”**

It has been an honour to be your Interim Chairman. My interest in the Rona Ridge and its basement reservoirs started many years ago. Hurricane is now poised to demonstrate the potential of the Lancaster reservoir, a key step to providing the understanding which will underpin the development and monetisation of its assets.

**Dr David Jenkins**  
Interim Chairman



# Our Business Model

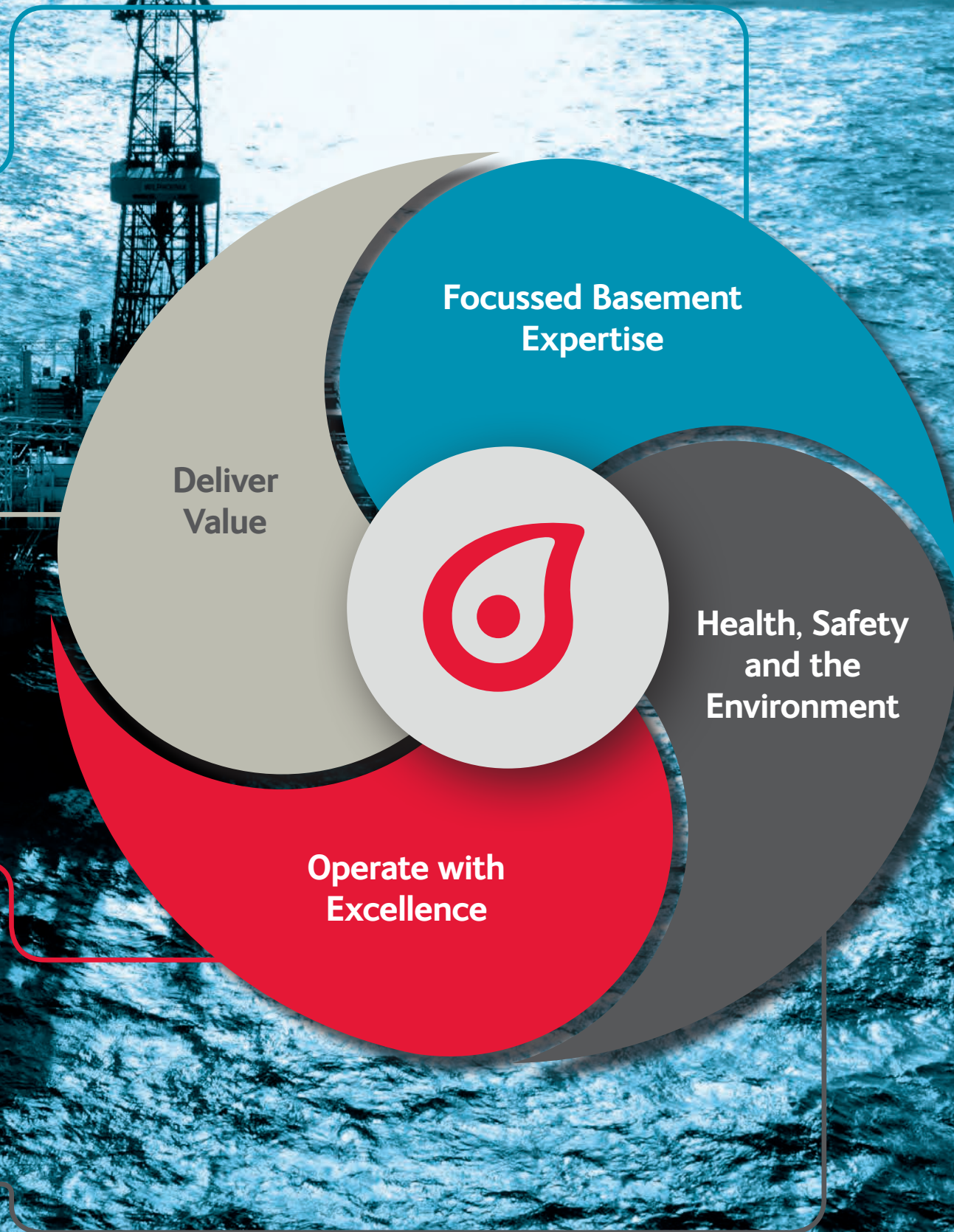
**Hurricane's expertise lies in identifying and appraising fractured basement reservoirs.**

- Technically driven
- Explore, develop and produce our Rona Ridge assets
- Lancaster EPS provides reservoir knowledge to materially derisk the producibility of our Rona Ridge assets

- Focus on minimising finding and development costs to progress assets to a stage where significant uncertainties are removed
- Accept that maintaining higher licence interests than typical for more common reservoir types may be optimal for basement assets

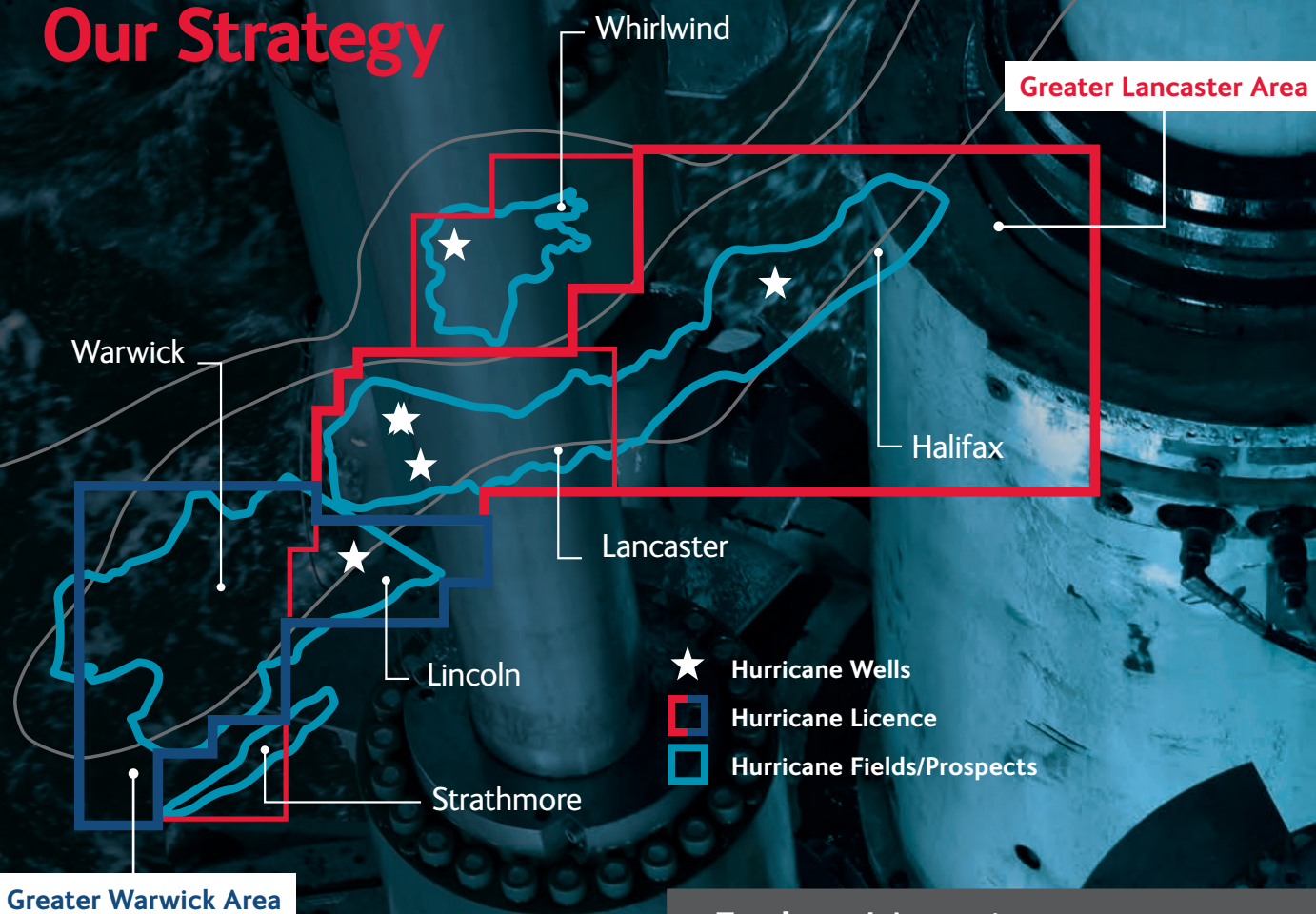
- Limited number of appropriately incentivised Tier 1 contractors, to minimise operating costs without compromising delivery
- Engage with the regulator to ensure licence to operate never becomes a bottleneck

- Prioritise health, safety and the environment at all times
- Do things the right way, never compromising safety or quality and implementing measures to protect the environment





# Our Strategy



Hurricane's strategy is to create shareholder value through monetising the significant reserves and resources associated with the naturally fractured basement reservoirs within its portfolio through exploration, appraisal and development.

## Lancaster EPS – the key to delivering our strategy

### Overview

- 2-well tieback to FPSO
- First step in a phased development of Lancaster to de-risk Rona Ridge assets
- First oil targeted for H1 2019

### Purpose

- Provide data to refine reserve/resource estimates
- Commence development in a phased manner
- Generate cash flow and an acceptable return

### Progress in 2017

- Completion of FEED
- Signing of project contracts
- Financing, FID, FDP approval
- Start of project execution

## Explore / Appraise

## Develop

## Produce

## Priorities

### Strategic Goals

- Explore and appraise fractured basement assets within Hurricane's Rona Ridge portfolio

### Past Achievements

- Five successful exploration/appraisal wells

- 🏠 Lancaster -4      🏠 Lancaster -7
- 🏠 Lancaster -4Z      🏠 Lincoln
- 🏠 Whirlwind

### 2017 Achievements

- 🏠 Halifax Discovery well
  - Encountered a hydrocarbon column of ~1km TVT
  - OWC indicates Lancaster and Halifax could be a single accumulation

### Future Plans

- Narrow range of reserves and contingent resources on Hurricane's Rona Ridge assets through the acquisition and interpretation of EPS data and through additional exploration and appraisal drilling

### VCP Milestones

Refer to page 16 for further detail

- Lancaster -7 and -7Z wells

### Risks

Refer to pages 18 to 21 for further detail

- Progress assets to a stage where value is expected to be maximised

- Two horizontal wells on Lancaster suspended as future producers

- 🏠 Lancaster -6
- 🏠 Lancaster -7Z

- EPS Financing – Funded to first production
- FID Taken – Development launched
- FDP Approval – First major standalone UK FDP since Culzean, 2015
- EPCI Contracts – Executed

- Gas export/ disposal strategy
- Farm-out /sale
- Next phase of field development

- Reserve target
- EPS financing

- Extended production intended to generate sufficient data to allow for planning of the next phase of development

- Technip EPC contract executed
- Bluewater operating contracts executed
- Bluewater Bareboat Charter executed
- Rig contract executed

- Maximise use of Aoka Mizu capacity
- Further phase(s) of development

- First oil H1 2019
- Sustained production
- Enhance production through incremental infrastructure

HEALTH, SAFETY & THE ENVIRONMENT  
SHAREHOLDER VALUE THROUGH MONETISATION

The Principal Risks facing the Group and how they relate to the Explore/Appraise, Develop and Produce elements of our strategy are outlined on pages 18 to 21.



# Chief Executive Officer's Review

– Dr Robert Trice

The year was marked by the significant progress made on the EPS, the first stage of development of our Rona Ridge assets.



We completed the required financing, took FID, and received FDP approval. The scale of this achievement cannot be overstated, Lancaster is the first standalone FDP approval in the UK sector since Culzean in 2015 and involved the largest ever AIM capital raise for an oil exploration and production (E&P) company. These achievements were made against a back-drop of volatile and low oil prices, and a resultant low level of investor interest in the E&P sector.

The Group's loss after tax for the year was \$7.0 million (2016: profit after tax \$0.9 million). This loss was driven by increased operating expenses, predominantly related to increased corporate activity, and write-offs/impairments connected with our non-core assets (the relinquished Typhoon and Tempest assets and the Strathmore asset). The loss was offset by a fair value gain on derivative financial instruments related to the Convertible Bond issued during the year and foreign exchange gains. The Group ended the year with cash, cash equivalents and liquid investments of \$360.0 million, on a firm footing for the remaining costs expected in the run up to first oil on the EPS.

**“Our extensive exploration, appraisal and development drilling campaign in 2016/2017 resulted in two Competent Persons' Reports being published”**

The purpose of the EPS is to provide the necessary reservoir understanding to progress to a phased development of our Rona Ridge assets, whilst generating significant cash flow to commence the next phase of appraisal and development. At the time of writing, the EPS remains on track and on budget.

FID and FDP approval bisected the year. Prior to these events, the Company was focused on the numerous work streams that culminated in being able to pass these milestones; exploration, appraisal and development drilling, front end engineering and design (FEED) studies, detailed engineering, contracting and funding. Following FID and FDP approval, Hurricane is now very much in project execution mode. This mode includes upgrade and life extension work on the Floating, Production, Storage and Offloading vessel (FPSO), the Aoka Mizu, which commenced in earnest in Dubai, following the vessel's arrival in September. TechnipFMC's fabrication facilities have been equally busy fabricating the Xmas trees and the subsea umbilical, risers, and flexibles (SURF). I have been able to witness personally the excellent progress of the construction phase of the EPS by visiting these facilities, and look forward to well completion and installation activities commencing shortly.

Our extensive exploration, appraisal and development drilling campaign in 2016/2017 resulted in two Competent Persons Reports (CPRs) being published during the year in review. The Lancaster field CPR, published in May 2017, assigned the Company proved plus probable (2P) reserves of 37.3 million stock tank barrels of oil, based on just a six-year EPS duration (this would increase to

37<sub>m</sub>

Stock tank barrels of 2P Reserves at Lancaster

486<sub>m</sub>

Stock tank barrels of 2C Contingent Resources at Lancaster

**“The success of the Halifax exploration well in Q1 delivered another leg of our Rona Ridge exploration, appraisal and development strategy”**

62.1 million stock tank barrels of oil in the event Hurricane extended the EPS duration to 10 years, the maximum duration of the Aoka Mizu contract). In addition, a further 486.1 million stock tank barrels of oil were assigned as 2C Contingent Resources.

In December 2017, we published a further CPR, incorporating the results of our Lincoln and Halifax exploration wells. This attributed 2C Contingent Resources of 604 million barrels of oil equivalent to Lincoln and 1,235 million barrels of oil equivalent to Halifax. The sum of our Rona Ridge 2C Contingent Resources is in excess of 2.5 billion barrels of oil equivalent. The challenge to the Company is clear; demonstrate that the reservoir information obtained during the EPS, and any additional appraisal drilling, de-risks the Company's significant resources such that they are appropriately valued.



The 2016/17 wells on Lincoln and Halifax were a very successful first step. As clarity around the timing of first oil becomes apparent in H2 2018, and we complete the necessary studies on the data obtained from our drilling campaign, we will set-out plans for further appraisal and future development phases utilising projected organic cash flow. Efficient development of a resource base as large as ours will necessarily involve significantly greater surface infrastructure than included for the EPS, and associated investment that exceeds the funding capacity currently available to Hurricane on a sole basis. Whilst plans for such broader development phases are being formulated, we will be working towards getting the most out of our existing facility, the Aoka Mizu. To make use of the full throughput capacity of 30,000 barrels of oil per day, and vessel life of 10 years, a key next step is FPSO debottlenecking and implementing a gas export or disposal solution.

Whilst the focus of the Company during the year has been on the EPS, the success of the Halifax exploration well in Q1 delivered another leg of our Rona Ridge exploration, appraisal and development strategy. The Halifax well was the last of the four wells drilled through 2016/2017 with the Transocean Spitsbergen drilling rig. As with our other exploration wells, the Halifax well was drilled in close proximity to a previous well which had indicated the presence of hydrocarbons in the basement, in this case, a well drilled by Arco in 1998. For this reason, its success was not a surprise but this does not reduce its significance. The well encountered an oil column of approximately 1,000m true vertical thickness (TVT) with a similar oil-down-to (ODT) to Lancaster, indicating that the Rona Ridge between the Brynhild and Westray fault zones could be a single hydrocarbon

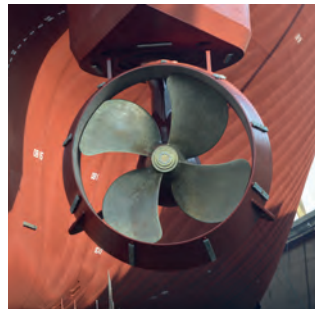
**“Fractured basements are a global phenomenon which have been produced successfully for extended periods in a number of locations around the world”**

accumulation (a distance of approximately 35km). In aggregate, 2C Contingent Resources across Lancaster and Halifax are in excess of 1.7 billion barrels of oil equivalent; a world-class prize. As we describe in the Operations Report, our inability to bring hydrocarbons to surface was a result of formation damage caused by drilling operations. This occurred because of a combination of over-pressured drilling mud and chemical additives in the mud. As we learn from the Halifax data and focus on the next phase of exploration, appraisal and development we will determine the most appropriate method of revisiting the Halifax well.

Fractured basements are a global phenomenon which have been produced successfully for extended periods in multiple locations around the world. However, in the UK they represent a new play type for a sector of the oil industry which has historically focused on sandstone reservoirs. Accordingly, Hurricane has maintained licence and field operatorship and ownership for longer, and at greater levels, than would be typical with more traditional reservoir types. We believe that this strategy has preserved shareholder value. As we move into subsequent phases of appraisal and development, Hurricane expects to bring in a partner to share in future appraisal and development campaigns, and the funding of these.



## Chief Executive Officer's Review continued



The low oil price environment since 2014, and its effect on a cyclical industry, proved to be a blessing which allowed us to complete 265 days of consecutive drilling operations in 2016/2017 and to progress the EPS with engineering 'A teams', at prices which would have been unachievable only a few years previously. Leasing an FPSO to operate West of Shetland was, until this recent oil price reversal, restricted to the majors. Hurricane has shown that, using appropriate contract structures, a sufficiently attractive project can take advantage of these conditions and proceed to development on an independent basis.

Whilst the Halifax well was being drilled and logged in Q1 2017, the EPS project and commercial teams were being resourced and the key contracts for the EPS negotiated. At its core, the EPS is a straightforward development comprising two previously drilled and tested wells, tied back to an existing FPSO whose processing facilities require little in the way of changes to be able to accommodate Lancaster's crude. The Company's strategy was to lock-in the costs of the engineering, procurement, construction, installation and commissioning (EPCIC) phase via lump sum contracts with our Tier 1 contractors wherever possible; 75% of pre-first oil capital expenditure is locked-in in this way. With the installation phase of the EPS contract to come we are comfortable that the EPS is both on time and on budget for first oil in H1 2019. Our contracts with Bluewater reflects the need for risk sharing between the service sector and producers. We are delighted with the working relationship with them – they make money when we make money. There is no better incentive to be on time and on budget. We are not surprised to see this approach being replicated elsewhere.

Bluewater's delivery performance has been excellent to date, as has the performance of their selected yard, Dubai Drydocks World. We have long flagged the arrival of the buoy and mooring as being a key deliverable to allow TechnipFMC to complete the installation of the SURF and buoy and mooring installation in Q3 2018. Following a successful 'dry' trial of the buoy in February 2018, Bluewater is on track to deliver the buoy to TechnipFMC in Lerwick, Shetland Isles, to allow installation activities to commence on schedule.

Furthermore, the Xmas tree systems are ready for loading onto the rig for the EPS well completions. The Group has contracted Transocean's Paul B. Loyd Jr., a harsh environment semi-submersible rig for this work. Loading of the rig, transit to field and commencement of well completion operations is expected to take place in Q2 2018. We committed to the Xmas trees in December 2016, the longest of our long lead items; their timely delivery marks a step towards the start of 2018 SURF and mooring installation operations, allowing TechnipFMC to continue to work to the schedule of completing these operations in Q3 2018.

Much has been written on the new price and value discipline within the industry. Suffice to say that Hurricane's view on future prices does not assume that things will be different this time. The first indications of price inflation are visible, for example in the harsh environment rig market where forecast rates are double that which Hurricane achieved in its 2016/2017 drilling campaign. As we look beyond the EPS, our challenge is to ensure that appraisal and development costs reflect ongoing oil price uncertainty and strive to deliver value throughout the cycle as either sellers or holders of our Rona Ridge assets.

# 1.8bn

Barrels of oil equivalent in the Greater Lancaster Area

# 1.5bn

Barrels of oil equivalent in the Greater Warwick Area

### “At its core, the EPS is a straightforward development comprising two previously drilled and tested wells”

The Company implemented a new long-term incentive scheme in November 2016, the VCP. This scheme incentivises management to monetise the Company's reserves and resources against clearly defined milestones of financing, exploration, appraisal, development, production and potential sale. Management has delivered on a number of these milestones, including drilling the Lancaster -7 and -7Z wells, and raising funding for the EPS. Timely first oil and successful and safe operations should position the Company well to begin to monetise its assets, and management are incentivised to bring this about. Further details are provided in the Remuneration Report.

We are very aware that the environment West of Shetland is precious. Hurricane is dedicated to safe, environmentally responsible and sound operations. As CEO, I take personal responsibility for all environmental matters. Neil Platt, COO, takes the lead on all operational safety issues. We do not need to be financially incentivised to focus on these issues, however, any failures would have a significant negative impact on our annual and long-term remuneration.

Hurricane went through a step change in 2017; we booked our first reserves, increased our 2C Contingent Resources by 450% and obtained FDP approval on the

first phase of development of our assets. We also added to our team, by filling in gaps across the Company as we move rapidly towards first oil and upgrading our systems and procedures to reflect our size and stage of development. The decision whether to move to a Premium Listing and the timing of such a move has yet to be made. As this Annual Report reflects, the Board decided, following the mid-year capital raise, that the Company needed to adopt the standards required of a Premium Listed business. We are on our way, and once our Chairman and non-executive director recruitment has been completed, the Company will be Code compliant. From a day-to-day business point of view, we have spent the time since the capital raise updating our systems and procedures across the Company. We are now ready for the next stage in our development.

Finally, my thanks go to the Hurricane team, both employees and contractors. 2017 was another extraordinary year – everyone was pushed hard and I am delighted to say that all stepped up to the mark and delivered.

I look forward to first oil.

**Dr Robert Trice**  
Chief Executive Officer



# Key Performance Indicators

The Board monitors the Group's performance in delivery of strategy by measuring progress against Key Performance Indicators (KPIs). These KPIs comprise a number of operational, financial and non-financial metrics, categorised as either 'Milestones' or 'Performance Measures':

- i. Milestones are long-term development goals linked to successful delivery of the EPS and monetisation of the Group's assets over a five-year period; and
- ii. Performance Measures are inter-year progress measures, ensuring continued progress towards delivery of the Company's strategy on an annual basis.

Underpinning all of the KPIs is the Group's commitment to operating in a safe and environmentally sound manner.

## Milestones

The purpose of Milestones is to ensure that the EPS delivers the long-term reservoir data needed to plan for further stages of development and allow the Company to monetise its Rona Ridge assets. They are the core assessment criteria under the Value Creation Plan, a five-year long-term incentive plan implemented in November 2016. As described more fully in the Remuneration Report, the Milestones determine the eventual awards under the Value Creation Plan at maturity of the scheme, provided a share price hurdle is met at that time, and subject to adjustment for Total Shareholder Return and health, safety, security, environmental and quality (HSSEQ) performance.

|                            | Lancaster field appraisal   | Secure financing for the EPS   | Achieve first oil in H1 2019   | Demonstrate long-term sustainable production from the EPS  | Demonstrate technical Lancaster reserves   | Enhance production through incremental infrastructure  | Monetise assets   |
|----------------------------|---|--|--|--|--|--|---|
| <b>Previously achieved</b> | Successful Lancaster -7 & -7Z well programme in 2016.<br>The -7 well identified an oil column in excess of 670m TVT and the -7Z well tested at sustained rates of 15,350 stb/d. | November 2016 raise funded FEED studies and initial long lead item payments. |  |  |  |  |   |
| <b>Achieved in 2017</b>    |   | \$547 million raised so that the EPS is fully-funded – see Financial Review. |  |  |  |  |   |
| <b>In process</b>          |   |  | On track to deliver first oil in H1 2019 – See Review of Operations. | The purpose of the EPS is to deliver the long-term reservoir data needed to plan for future stages of development.<br>Analysis to date suggests target production rates are well within capacity of two EPS wells. | Data from the EPS and further appraisal work will narrow ranges of uncertainty and is expected to demonstrate technical recoverability of increased Lancaster volumes. | Initial planning work for future stages of development through infrastructure investment and potentially tying back appraisal wells has commenced – See 2018 KPIs. | Sale of Hurricane's Rona Ridge assets and / or the Company. |
|                            | Share price hurdles   |  |  |  |  |  |   |
|                            | Total Shareholder Return  |  |  |  |  |  |   |
|                            | HSSEQ   |  |  |  |  |  |   |

Further details of the Milestones are set out in the Remuneration Report on page 55.

## Performance Measures

Performance Measures are used for inter-year assessment of the Group's performance towards implementing the strategy and to ensure continual assessment and accountability of the executive directors to the rest of the Board. Performance targets are separate and distinct from VCP Milestones, which represent longer term hurdles in delivering the Group's strategy. The measures include health, safety and environmental performance.

A scorecard is agreed amongst the executive directors and the Remuneration Committee at the start of the year and the Remuneration Committee then determines the degree to which the measures have been achieved after year-end. The maximum payable to executive directors for full achievement of Performance Measures is 50% of salary. The same cap applies to all employees.















|                                  | HSSEQ  | Operations   |   | Subsurface  | Corporate / investor relations  | Finance  | Corporate promotion                             |
|----------------------------------|--|--|---|---|---|--|---|
|                                  |  | Drilling   | EPS   |   |   |  |   |
| <b>2017 Performance Measures</b> | Proactively manage operations to have zero fatalities, major or long-term injuries.<br>Minimise environmental impact.<br>Obtain all required permits and develop appropriate internal processes to support operations. | Deliver prognosed Halifax well to meet objectives on time and on budget.   | Maintain EPS progress on schedule and budget to achieve first oil in H1 2019, including obtaining required permits. | Deliver CPRs for Lancaster and other Rona Ridge assets.   | Restructure corporate structure to support capital raising goals.   | Upgrade finance function and reporting to reflect increase size and activity in the Company.   | Promote the Company amongst industry and peers. |
| <b>Achievement</b>               | Achieved   | Partially Achieved   | Achieved  | Achieved  | Achieved  | Achieved   | Achieved  |
| <b>2018 Expectation</b>          | Proactively manage operations to have zero fatalities, major or long-term injuries.<br>Minimise environmental impact.<br>Obtain all required permits and develop appropriate internal processes to support operations. | Maintain progress to deliver first oil in H1 2019, on schedule and budget. |   | Propose forward strategy for Rona Ridge assets, with appropriate data planning work, such that a board approved strategy is in place. | Prepare the Company for Premium Listing, ensuring that it is Code compliant and has appropriate processes and procedures.<br>Enhance the Company's IR coverage commensurate with a Premium Listed business. | Ensure the Company has sufficient liquidity as it approaches first oil.<br>Install processes and procedures as if it were a Premium Listed business. | Promote the Company amongst industry and peers. |

Details of the scoring for 2017 Performance Measures, and their weightings for 2018, are set out in the Remuneration Report on page 60. For the risks to achieving these Performance Measures, please refer to the Principal Risks table on pages 18 to 21.

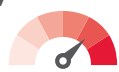


# Principal Risks, Going Concern and Long-Term Viability Statement

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 are a wide variety of risks associated with the oil and gas exploration and production 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 activities or operations. Listed in the following table are the principal risks facing the Group and the actions taken to minimise the likelihood and mitigate the impact. The directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

| Key risk factor   | Risk detail / change in the period  | How is it managed  | How it has changed during the period  |
|---|---|--|---|
| <b>Substantial capital requirements</b><br>                           | <p>The Group's business plan to exploit and commercialise its assets requires significant capital expenditure. Future plans may be curtailed if the Group is unable to generate sufficient funds from operational cashflow and/or raise further funds.</p> <p>During the year in review, Hurricane raised a total of \$547 million in two fund raises (before expenses) which is expected to be sufficient to reach first organic cash generation. These cash flows will fund some of the Group's ongoing capital requirements, reducing the impact of risks associated with the availability of external capital.</p>   | <p>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, other financial institutions and potential farm-in partners to understand the range of options available to the Group. The start of production from the Group's EPS is also expected to generate significant positive cashflow over the coming years.</p>  |    |
| <b>Exploration, appraisal and development operational risks</b><br> | <p>There are a range of operational risks during offshore operations whether for exploration, appraisal or development. These include, but are not limited to, failure of offshore vessels/rigs or other crucial equipment, unforeseen problems occurring during drilling or completion works, and delays to offshore operations due to unfavourable weather.</p>   | <p>The Group invests significant time and resources to plan all of its exploration, appraisal and development operations and focuses on minimising the various operational risks. The Group uses a range of third party experts to co-ordinate, plan and deliver exploration, appraisal and development projects. Contractors are selected based on their demonstrable industry track record and care is taken in nominating an approved well operator to manage well operations. Contingency is built into all project plans to allow for unexpected delays and cost overruns.</p>  |   |
| <b>Production operational risks</b><br>                             | <p>There are many production related operational risks. These mainly relate to, but are not limited to, the risk of unplanned downtime of production facilities. This may be the result of mechanical issues, unfavourable weather leading to delays in operations, and/or other issues.</p>  | <p>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 service providers and experts to co-ordinate, plan and deliver its production operations. Contractors are selected based on their demonstrable industry track record and care is taken in nominating an approved installation and pipeline operator to manage the host facilities. Contingency is built into operational budgets to allow for unexpected delays and operating cost overruns.</p>  |  |
| <b>Geological and reservoir risk</b><br>                            | <p>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, such as earlier water production than predicted, reserves/resources being less than expected, or oil having different properties than expected.</p>   | <p>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.</p> <p>Hurricane uses data obtained from drilling and well testing to populate numeric reservoir models. The recent and planned updates of these models enable Hurricane to better understand the reservoirs and build predictive cases that address the uncertainty envelope and thereby mitigate risk in future well planning or production strategy.</p> <p>Once oil production begins, production data will be closely monitored. Modifications will be made to the production strategy (e.g. varying flow rates) in order to maximize the overall production from the reservoir. As production data is gathered the reservoir models will be updated to better reflect the actual reservoir characteristics.</p> |  |
| <b>Regulatory</b><br>   | <p>There is a risk that the Group and/or its primary contractors are in breach of their regulatory obligations with one of their principal regulators in connection with the Group's activities. This could restrict the Group and/or its primary contractors' capacity to obtain permits and to carry out the Group's activities on the UK Continental Shelf. There is also a risk that a change in the regulatory environment affects the returns expected to be achieved from the Group's assets.</p> <p>As the Group transitions towards first oil, the number of regulatory obligations that apply to its operations has increased, thereby increasing the risk of a breach.</p>  | <p>The Group actively monitors the regulatory environment in the UK and seeks to anticipate and impact potential changes through engagement with regulatory authorities, both directly and via industry groups. The Group maintains active engagement with its primary contractors, and with relevant stakeholders, governmental and regulatory authorities. The Group regularly monitors its and its primary contractors' obligations in connection with Group activities and ensures that there are sufficient resources and competent personnel in place to satisfy such obligations.</p>   |  |

## Key



Risk has increased



Risk has decreased



Risk level is unchanged



New principal risk



Risk wording has been amended from prior year














Link to Strategy (see pages 10 and 11)



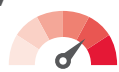
Explicitly considered in LTV analysis (see page 23)



# Principal Risks, Going Concern and Long-Term Viability Statement continued

| Key risk factor   | Risk detail / change in the period  | How is it managed   | How it has changed during the period  |
|---|---|---|---|
| <b>Oil price fluctuations</b><br>                   | <p>Oil prices can be volatile and subject to fluctuation in response to relatively minor changes in the supply of, and demand for, oil, market uncertainty and a variety of additional factors that are beyond the control of the Group such as the impact of a greater market shift to renewable energy sources. It is impossible to predict accurately future oil price movements. Accordingly, oil prices may not remain at their current levels. Declines in oil prices may adversely affect the cashflows generated from the EPS and may also affect market sentiment and consequently, the market price of the Company's ordinary shares and the ability of the Group to raise finance.</p>    | <p>The viability of the Group's assets is assessed on a regular basis. Economic models of development cases are stress tested using varying oil price forecasts. Investments have and will only be made if development cases are robust to downside price sensitivity scenarios. For Hurricane's producing assets the Group will consider the use of oil price hedging to manage any potential exposure.</p>  |    |
| <b>Third party infrastructure</b><br>               | <p>Any field development, including gas export, is likely to be dependent upon the availability of third party infrastructure. If this fails, or is not available on reasonable commercial terms, it may result in delays to field development, production and cash generation. This would have a material adverse effect on the Group's business, prospects, financial condition and operations.</p>   | <p>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. The Group minimises the use of third party infrastructure where appropriate. Where third party infrastructure is used the Group seeks to align the third party with the Group's success on the project via its commercial agreements.</p>  |    |
| <b>Development project delivery</b><br>             | <p>Development projects are subject to various risks including availability of third party services and manufacturing slots, solvency of major contractors, correct fabrication of key components to specification, incident-free installation operations, installation windows, permits, consents and weather. Problems with any of the above can cause project delays that would impact both the timing for completion of the project, as well as the cost. This can have a material impact on the projected cashflow from the project and the funding required. Delays to target first oil or cost overruns in the case of the EPS could have a particularly significant impact on the Group given that it currently has no alternative source of revenue.</p> <p>As the Group gets closer to first oil on the EPS, the importance of successful development delivery has increased.</p> | <p>The Group invests significant time and resources to plan its development projects and focuses on minimising the various development risks. The Group uses a range of third party service providers and experts to co-ordinate, plan and deliver development projects. Contingency is built into all project plans to allow for unexpected delays and cost overruns. A large portion of capital expenditure for the EPS was fixed under lump sum contracts which has reduced the Group's exposure to cost overruns.</p>   |    |
| <b>Health, Safety and Environmental (HSE)</b><br> | <p>In performing offshore exploration, development or production activities and onshore fabrication activities there is a risk of harm to the workforce, to the environment (e.g. from fabrication processes, hydrocarbon releases and/or oil spills, damage to seabed ecosystems or disturbance to marine mammal populations from noise pollution), to the assets during construction or in use, and to the Company's reputation as a result of some or all of the above.</p>  | <p>The Group adopts its procedures in relation to HSE to assess, manage and control the risk faced by the workforce and mitigate against accidental damage to the environment and its assets and in doing so seeks to protect its reputation. HSE risks are minimised by the Group's corporate processes which ensure the employment of competent individuals, the procurement of appropriate equipment and the selection and monitoring of operational activities. In addition, the Group uses external consultants and specialists to plan and prepare for various emergency scenarios, including but not limited to oil spills. As part of its preparedness, the Group undertakes training and exercises to assess the effectiveness of its procedures, processes and specialist service providers. The Group also carries various insurances.</p> |  |
| <b>Compliance</b><br>                             | <p>There is a risk of a major breach of the Group's business or ethical conduct standards due to unethical behaviour or breaches of anti-corruption laws, resulting in investigations, fines, loss of reputation and loss of assets.</p>  | <p>Top-down leadership of the Group's values supported by Group-wide corporate compliance training, including implementation of the Group's anti-corruption and bribery procedures across the Group's organisation and contracting arrangements.</p>  |  |

Key



Risk has increased



Risk has decreased



Risk level is unchanged



New principal risk



Risk wording has been amended from prior year



Link to Strategy (see pages 10 and 11)



Explicitly considered in LTV analysis (see page 23)



## Principal Risks, Going Concern and Long-Term Viability Statement continued



### 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 Strategic Report. The financial position of the Group, its cash flows and liquidity position are described in the Financial Review. Further details of the Group's commitments are set out in notes 25 and 26 of the Group Financial Statements. In addition, note 24 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 prior to first oil from the EPS (currently anticipated to occur in H1 2019) and currently obtains working capital primarily through equity and debt financing. During the year, the Group raised gross funds of \$547 million (before expenses), split between \$317 million from the issue of ordinary shares in the Company of £0.001 each (Ordinary Shares) and \$230 million from the issue of Convertible Bonds.

The directors have performed a robust assessment, including a review of the budget for the year ending December 2019 and longer-term strategic forecasts and plans, including consideration of the Principal Risks faced by the Company, as detailed on pages 18 to 21. In particular, the directors considered a number of scenarios which included the impact of a delay in first oil from the EPS, cost and schedule overruns during the installation period and, following first oil, downside sensitivities in relation to production rates, operational uptime, oil price, opex and foreign exchange rates. Following this review, the directors are satisfied that, taking into consideration reasonably foreseeable downside sensitivities, the Company and the Group have adequate resources to continue to operate and meet their liabilities as they fall due for the foreseeable future, a period considered to be at least twelve months from the date of signing these Financial Statements. For this reason, they continue to adopt the Going Concern Basis for preparing the Financial Statements.

### Long-term viability statement

In accordance with provision C.2.2. of the Code, the Board confirms that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due for the three-year period ended 31 December 2020 (the Lookout Period).

#### The Lookout Period:

The directors have determined that the appropriate period to assess the long-term viability of the business is three years. This period incorporates the engineering, procurement, construction, installation and commissioning of the EPS and between approximately 18 months and two subsequent years of production. At the end of the second year of production the Company has to elect whether to extend its contract on the Aoka Mizu; a decision which will be informed by the first two years of production. During the three-year period over which the directors have reviewed the long-term viability of the business there are two distinct phases.

- Phase 1 includes the period to first oil. The risks and analysis for this period are included within the going concern analysis outlined above.
- Phase 2 is a period of two years of production until the directors must decide whether to extend the contract on the Aoka Mizu. During this phase the Company will also seek to undertake further development, exploration and appraisal activity from its own cash-flow and, potentially, from farminees across its Rona Ridge licences.

- During Phase 1, the directors principally reviewed the development project delivery risk for the EPS.
- During Phase 2, the directors reviewed each of the principal risks related to the EPS, with particular reference to geological and reservoir risk, production operational performance risk and oil price fluctuations risk.

#### Analysis Performed:

Whilst each of the risks outlined on pages 18 to 21 has a potential impact on the business, in Phase 2 the directors focussed on geological and reservoir risk, production operational performance risks, and the impact of oil price on the business, by running sensitivities including lower production rates and different oil price scenarios. The risks have been assessed for their potential impact on the Group's business model, future trading and funding structure. The range of downside scenarios tested was carefully considered by the directors, factoring in the potential impact, probability of occurrence and effectiveness of the mitigating actions, where appropriate. A combined sensitivity containing an aggregation of all scenarios considered was performed and, whilst considered unlikely to occur, it demonstrated the Group's ability to take mitigating actions, within management's control, to maintain liquidity.

- The review was conducted with sensitivities including a scenario delivering production in line with the 1P production case in the Lancaster CPR.
- The review assumed that further development, exploration and appraisal activity would only be undertaken if fully-funded and therefore such incremental activity was not included in either scenario planning or sensitivity analysis. The Group's ability to develop its assets beyond the EPS is dependent on performance of the EPS being sufficient to provide cash flow that is surplus to the Group's other requirements, or on future fundraising activity.



Risks explicitly considered in the LTV analysis are highlighted on the Principal Risks table on pages 18 to 21.



# Review of Operations

– Neil Platt

The year in review commenced with both offshore drilling operations, West of Shetland, and front-end engineering and design (FEED) studies for the EPS ongoing.



The Lincoln well was completed at the end of 2016, with results being analysed as the rig relocated to Halifax to drill the fourth and final well in a campaign that lasted 265 days. In parallel, the development and operations teams were focused on delivering the EPS. Transitioning this project from a planning and contracting phase, to project execution is a landmark achievement for Hurricane. At the same time, the Company's organisation was supplemented by a number of new positions as we move from being an exploration and appraisal (E&A) company to being an exploration and production (E&P) company.

The achievements below represent some of the highlights for the year. Of particular importance from Hurricane's perspective, is that these were achieved with no major HSE incidents, despite expending more than half a million man-hours between Hurricane and its primary contractors both on and offshore.

**“Transitioning this project from a planning and contracting phase to project execution is a landmark achievement”**

## Subsurface

### Lincoln well

Hurricane's exploration model was that Lincoln represented a similar reservoir to Lancaster and would contain a hydrocarbon column height of at least 455m, based on the ODT from offset well data. To evaluate Lincoln's potential, an exploration well was planned to drill to a depth of 2,135m true vertical depth subsea (TVDSS) and detect the presence of hydrocarbons through a detailed mudlogging and wireline programme.

The well was drilled to the target depth of 2,135m TVDSS. On evaluating the available data, it was concluded that the wellbore had not encountered a water leg and so the well was deepened to 2,325m TVDSS. Drilling was terminated before an oil water contact had been identified due to time constraints and the requirement to undertake Halifax operations.

A hydrocarbon column has been detected in the range of 2,109 to 2,325m TVDSS, indicating a minimum hydrocarbon column height of between 444m and 660m TVT. The depth of the penetrated hydrocarbon column is indicative that Lancaster and Lincoln are not in pressure communication and therefore the two assets exist as separate hydrocarbon accumulations.

Analysis of gas isotope data indicated that the encountered hydrocarbon is sourced from the same 'kitchen' area as Lancaster and is therefore most likely to be a light oil of a similar API gravity to Lancaster.

This interpretation is corroborated by gas chromatography, wireline and core data, all of which indicate that the encountered hydrocarbon is a light oil.

Lincoln has the potential to be similar to Lancaster in productivity. The first step in realising this potential is for an appraisal well to be drilled to confirm hydrocarbon type and the ability for the reservoir to deliver a flow rate commensurate with commercial productivity. Depending on distance from the FPSO, an appraisal well has the potential to be tied back to the EPS infrastructure.

### Halifax well

Hurricane's exploration model was that Halifax and Lancaster form part of the same accumulation, the Greater Lancaster Area (GLA) and that the Halifax well would encounter a hydrocarbon column with a height of at least 980m TVT (based on the Lancaster maximum ODT). To evaluate the Halifax potential, an exploration well was planned to drill to a depth of 1,800m TVDSS and the presence of hydrocarbons detected by drill stem testing and a detailed mudlogging and wireline programme. The specific objectives of the well were to:

- i. Demonstrate the presence of mobile oil and an oil water contact below structural closure as mapped
- ii. Bring an oil sample to surface

**“The well was a discovery, encountering a hydrocarbon column of approximately 1km TVT”**

162%

Increase in Lancaster 2C Resources (inclusive of 2P Reserves)

22.5%

Recovery factor assumed by RPS Energy in its 2C case

The reservoir section was drilled to 1,801m TVDSS and then tested, after which additional drilling deepened the well to 2,004m TVDSS. The well was a discovery, encountering a hydrocarbon column of approximately 1 kilometre TVT. Testing was unable to acquire a representative reservoir fluid sample to surface and consequently the oil type cannot be verified. Despite the challenges in testing the formation, the analysis of gas chromatography, wireline and core data indicated that the encountered hydrocarbon is most likely a light oil.

The inability to flow the well during testing was due to near-wellbore formation damage caused by the use of over-weighted drilling mud and chemical additives in the drilling brine during well operations. The near-wellbore formation damage was further compounded by a bullheading operation (forcibly pumping fluids into the well bore) applied during testing in an attempt to clean up the formation. In fact, the bullheading forced drill cutting material (a combination of rock cuttings, rock flour, and chemically enhanced drilling brine) further into the formation, thus drastically reducing near-wellbore permeability.

The well has been suspended and therefore has the potential to be re-entered for the purpose of further drill stem testing and/or deepening. A decision to re-enter the well will be based on ongoing technical work and the Group's Rona Ridge asset appraisal strategy.

The Halifax discovery has the potential to be similar to Lancaster in productivity potential. The first step in realising this potential is for an appraisal well to be drilled to confirm hydrocarbon type and the ability for the reservoir to deliver a flow rate commensurate with commercial productivity. Further appraisal work will also be required to test the Company's exploration model that Halifax and Lancaster are part of a single hydrocarbon accumulation.

### Lancaster CPR findings

A CPR was issued for Lancaster in 2017 as an update to the previous CPR released in 2013. The 2017 CPR supports the Company's view of an extensive oil column on Lancaster and the basement reservoir being productive. The range of oil water contacts has narrowed on Lancaster since 2013 as a result of the 2016 Lancaster drilling campaign. The previous 2C depth of 1,597m TVDSS has become the new 1C depth, and the 3C contact is now 103m shallower compared to 2013 at 1,678m TVDSS.

RPS assigns 2P Reserves of 37.3 million stock tank barrels of oil attributed to the initial six-year period of the planned EPS. An additional 486 million stock tank barrels of 2C Contingent Resources are based on a recovery factor of 22.5%. Combined, this is an increase of 162% compared to the 2013 estimate of 200 million stock tank barrels of oil. Should Hurricane extend the EPS to 10 years, 2P Reserves volume would rise to 62.1 million barrels. The expectation is that within the six-year base case duration of the EPS, full field planning and development will be undertaken. However, should it be commercially attractive, the Company has the ability to extend the contract duration with Bluewater for the Aoka Mizu for a further four years.



## Review of Operations continued

### Halifax CPR findings

A second CPR was issued by RPS in 2017 covering the Halifax and Lincoln discoveries, as well as including the Whirlwind and Strathmore discoveries as reported in 2013.

RPS has agreed with Hurricane's view that Halifax has comparable reservoir properties to Lancaster. RPS states that the drill stem test carried out on the Halifax well was compromised by induced formation damage, as discussed above, rather than limited flow being a function of reservoir quality. RPS is supportive of the observation that no data so far acquired indicates that there are any significant differences in oil type between Lancaster and Halifax. Halifax water properties are also comparable to Lancaster, indicating the potential for a common aquifer. RPS also recognise that the difference in oil water contact depths between Lancaster and Halifax does not preclude them from being part of the same structure. However, as an alternative model to a single accumulation at Lancaster and Halifax, a major fault that bisects the Rona Ridge to the east of Lancaster and southwest of Halifax could act as a boundary between the two accumulations.

Halifax has been assigned 2C Contingent Resources of 1,235 million barrels of oil equivalent.

### Lincoln CPR findings

As with Halifax, RPS is supportive of Hurricane's interpretation of basement reservoir properties at Lincoln being comparable with Lancaster. Oil properties are also recognised as being likely to be the same as Lancaster. Due to the presence of deep oil on the Lincoln structure, RPS recognises that a seal must exist between Lancaster and Lincoln and agree that Hurricane's interpretation that the Brynhild Fault Zone is the most likely candidate for the seal is robust. Although RPS believes there is the potential for Warwick and Lincoln to be part of the same accumulation, it has conservatively assigned them as two separate accumulations constrained by regional faulting. A successful exploration well on Warwick followed up by appraisal drilling will ultimately be required to determine if Lincoln and Warwick are connected.

Lincoln has been assigned 2C Contingent Resources of 604 mmbob, and Warwick has been assigned Prospective Resources of 935 mmbob.

## Project Development

### FEED and long lead items

During 2017, the Group completed Front End Engineering and Design (FEED) work in relation to the key elements of the EPS development. This included FEED work in relation to:

- upgrade and life extension of the Aoka Mizu FPSO, and fabrication of a new turret mooring system buoy, with Bluewater;
- SURF, and Subsea Production System (SPS) with TechnipFMC; and
- well completions with Petrofac Facilities Management Limited (PFML).

The results of these studies allowed detailed budgeting to take place, which informed our mid-year capital raise and formed the basis for the Board to be able to take FID in mid-2017.

To maintain the target first oil date of H1 2019, whilst taking advantage of the market conditions at the time, Hurricane had identified and placed orders for certain schedule-critical long lead items using the results of initial FEED work in 2016. During 2017, in parallel with ongoing FEED studies, the Group continued to place orders, carry out surveys and make milestone payments on these pre-sanction items. In particular, we placed orders for the TechnipFMC Xmas trees and subsea control modules in late 2016. This enabled both Xmas trees and their respective control modules to be delivered ex-works in time for the commencement of the planned completion campaign in Q2 2018.

### Contracting

The Group had chosen three Tier 1 contractors for the EPS, with each having primary responsibility for a specific key area of operations.

Bluewater is responsible for provision of the project's FPSO upgrade scope of work and associated turret mooring system under an engineering, procurement and construction (EPC) Contract. Under the agreement, Bluewater Energy Services is contracted to fabricate and deliver a new mooring system and buoy and the upgrade, hook up and testing of the FPSO. Following first oil, the Bluewater group entities will be responsible for the operation, maintenance

and decommissioning of the FPSO, and the operation and maintenance of the subsea pipeline, pursuant to the terms of a Production Operating Services Agreement (POSA). A Bluewater group entity, Bluewater Lancaster Production (U.K.) Limited, has also been approved as installation operator and pipeline operator.

### “We chose our Tier 1 contractors on the basis of demonstrable industry reputation, technical expertise, health safety and environmental track record, and supportive contractual structures”

TechnipFMC is responsible for the fabrication, installation, testing and commissioning of the subsea equipment, including the SURF and SPS under the terms of the TechnipFMC Integrated engineering, procurement, construction and installation (EPCI) Contract and the installation of the mooring system and buoy.

Responsibility for Hurricane's well integrity, future drilling activities and EPS well completions and a number of well control packages, including variable speed drives, subsea control modules lies with PFML. The Group has a longstanding relationship with PFML, which in this role has been nominated as Hurricane's well operator and well management services provider in relation to the EPS, as well as our broader appraisal and exploration programme.

Hurricane believes that its approach to contracting has helped to reduce schedule and budget risk to the project, thereby maximising chance of success. The Group focussed on a small number of highly competent contractors, reducing interfaces and giving each a meaningful stake in the project. In the case of Bluewater and TechnipFMC, large lump sum components were included, thereby passing back a large portion of the cost risk and meaning that Hurricane's contingency within the budget is applicable to only the remaining costs, which represent less than 25% of the total.

In another example of innovative contracting, Bluewater is incentivised to reach first oil and deliver stable production through an incentive tariff. This is based on a percentage of the sale price of each barrel of oil, after deducting certain costs and is higher for the first two years (in exchange for a reduced day rate), encouraging prompt commissioning.

In addition to external contracting, Hurricane has also expanded its internal organisation structure to suit its role as licence operator and expanded the operations team to satisfy the roles required by the EPS development. These enhancements have been made in a targeted manner, to avoid potential inefficiency from overlapping with our Tier 1 contractors, whilst also enabling Hurricane to effectively coordinate the development.

### Regulatory approval

The Group's regulatory approvals passed a critical juncture with the approval of the Group's FDP in September 2017. This was the culmination of a period of extensive engagement both directly with regulators and with other stakeholders, including via a public consultation on the Environmental Statement.

### “Hurricane believes that its approach to contracting has helped to reduce schedule and budget risk to the project, thereby maximising chance of success”



The FDP approval for the EPS was the first approval for a standalone development in the UKCS since Culzean in 2015. It is also the first ever approval of a basement development in the UK. The ability of the project to reach sanction whilst so few other developments are doing so illustrates the attractiveness of the Lancaster field and of fractured basement on the Rona Ridge as a whole.

We would like to extend our thanks to the Oil and Gas Authority, the Department for Business, Energy, Industrial Strategy, and the Health and Safety Executive and all other consultees for their support in Hurricane progressing to this stage.

### Development progress

Hurricane's progress towards first oil on the EPS is unmistakably evident at Dubai Drydocks World, the yard selected by Bluewater for the upgrade and life extension of the Aoka Mizu and the fabrication of the buoy for the turret mooring system. The Aoka Mizu FPSO arrived at the facility on 30 September 2017 and has already undergone its two planned drydock phases and a significant portion of additional work. The buoy has been fabricated in parallel and following the success of trial fit operations in February, is expected to depart Dubai for Lerwick on the Shetland Isles in order to arrive by the end of H1 2018.

Hurricane has permanent representatives onsite in Dubai and has been pleased with the standard of safety and operations at the facility. Together with Bluewater, Hurricane has operated an HSSEQ incentive programme and is pleased with the number of awards and overall HSSEQ performance to date. Further details on this programme are outlined in the Sustainability Report section on pages 31 to 33. The vessel remains on track for sail away to the field by the end of Q3 2018.

Progress towards subsea installation by TechnipFMC and its subcontractors has also been substantial. The second of the two horizontal Xmas trees and associated structures were delivered ex-works in March 2018 and fabrication of the umbilical, risers and flowlines remains on schedule. Following a programme of boulder relocation during 2017, ahead of schedule, everything remains on track for summer 2018 installation.

Hurricane has shown that it has an effective working relationship with Petrofac Facilities Management Limited and Transocean on previous drilling campaigns, and is looking forward to using the Paul B. Loyd Jr. rig for well completions later this year.

### Future operations

In parallel with the focus on delivering first oil from the EPS, Hurricane's well operations teams continue to work closely with Hurricane's subsurface team to study future well opportunities, whilst the facilities engineering team are engaged in looking at future gas export and tie-back options, FPSO debottlenecking opportunities and performance improvements from the existing EPS design.

### Neil Platt Chief Operations Officer



# Financial Review

– Alistair Stobie

**In 2017, Hurricane transitioned from being a pure exploration and appraisal company to one that is undertaking a significant development project and fast approaching first oil.**



Having raised the required funding and taken FID on the EPS, the Group is now looking forward to organic cash generation.

The first half of the year was focussed on positioning the Group to be able to take FID. To this end the Group raised a total of \$547 million in two fund raises (before expenses). The first of which, occurring in May 2017, raised \$17 million enabling the Group to maintain the existing schedule for the EPS and continue to drive towards FID. The more significant raise, in July 2017, raised a total of \$530 million, split between \$300 million of equity and \$230 million of convertible bonds. This was one of the key requirements allowing the Group to take FID in the second half of the year. The raise was an outstanding achievement for a company of Hurricane's size, particularly in the prevailing oil price environment.

As the Group worked through the EPS contracting strategy in 2017, we were able to agree lump sum prices for the majority of the capital expenditure. Over 75% of the total EPS capital costs are fixed, with the risk of overruns lying with the contractor. This has enabled Hurricane to manage the risk of cost overruns, limiting it mainly to the subsea and mooring installation phase of the project. The project remains on budget and on schedule with first oil, and the related cash inflows, expected in H1 2019.

Throughout the year, and into early 2018, the foreign exchange rate between the Pound Sterling (GBP) and the US Dollar (USD) has fluctuated significantly. The contracting strategy adopted for the EPS has allowed us to reliably forecast the project expenditure in both GBP and USD.

Therefore, the Group purchased the required USD at the time of the July capital raise in order to match our currency exposures and thereby mitigate the foreign currency risk on the project.

The Group's loss after tax for the year was \$7.0 million (2016: profit after tax \$0.9 million). This loss was driven by increased operating expenses, predominantly related to increased corporate activity, and write-offs/ impairments connected with our non-core assets. These charges were partially offset by a fair value gain on derivative financial instruments related to the Convertible Bond and foreign exchange gains.

At the beginning of 2017, the functional currency for each entity and the presentation currency for the Group as a whole was reviewed. Due to the increase in the Group's level of expenditure in USD and the upcoming start of production on the EPS, the revenues for which will be denominated in USD, the functional currency of many of the entities within the Group was changed to be USD. The presentation currency for the consolidated accounts has also been changed to USD which will also improve the ability to compare the Group's financial results with other companies within the oil and gas industry. This has led to a restatement of prior period comparatives and a \$(92.7) million foreign exchange reserve being recognised within equity on the Balance Sheet.

Our principal financial goals are to manage the existing funds held by the Group to deliver the EPS on schedule and on budget. This will bring us to the point where the EPS begins to generate free cash which can be directed to deliver the Group's long-term strategy.

**\$7.0m**

Loss after tax in 2017

**\$360m**

Cash and liquid investments at year end (including escrows)

## Use of funds

In 2017 the Group's primary use of funds were:

- Halifax exploration well, \$30.9 million – drilled in Q1, discovering oil in the Halifax prospect;
- Development expenditure on the EPS, \$234.8 million – this includes the pre- and post-FID expenditure incurred in the year;
- Operating cash outflow, \$8.1 million (2016: \$5.6 million) – this increase on the prior year reflects the increase in the level of activity through the year, including the preparation for the fund raising and the additional work undertaken as the Group evolves into a larger entity; and
- Convertible Bond coupon payments, \$4.3 million.

**“We were able to agree lump sum prices for the majority of our capital expenditure”**



## Income Statement

The Group's loss after tax for the year is \$7.0 million (2016: profit after tax \$0.9 million). The loss for the year was partly driven by increased operating expenses, but also impacted by foreign exchange gains of \$8.0 million due to the strengthening of Sterling against the US Dollar, a fair value gain on derivative financial instruments related to the Convertible Bond and the write-off of the relinquished Typhoon and Tempest exploration and evaluation assets and the full impairment of the Strathmore asset.

The increase in other operating expenses from \$8.9 million in 2016 to \$14.6 million in 2017 reflects the increased level of corporate activity in the year and the work done in preparation for the fund raising. Whilst the average headcount has increased from 15 to 21 since the prior year, the overall cash staff cost (excluding share based payment expense) is largely unchanged (2017: \$5.2 million, 2016 \$5.6 million, both before amounts capitalised).

The accounting for the Convertible Bond (issued in July 2017) required the recognition of an embedded derivative related to the deemed equity conversion option. The fair value of this embedded derivative was calculated on the date of issue of the bonds and at the 31 December 2017. The movement of \$10.4 million in this fair value has been recognised as a gain in the Income Statement in the year. Transaction costs relating to the Convertible Bond have been apportioned between the host debt contract and the embedded derivative. Those transactions costs apportioned to the embedded derivative have been recognised in the Income Statement (\$1.2 million). Interest costs of \$10.4 million for the Convertible Bond during the year have been capitalised.

In December 2017, the Group took the decision to relinquish the Typhoon and Tempest licences to focus both time and funds on its Rona Ridge assets. As a direct consequence the related capitalised assets (within intangible exploration and evaluation assets) have been written off. In addition to this, the Group has also fully impaired the carrying value of its Strathmore asset as there are no plans to undertake any significant activity on this prospect in the near future. The \$10.4 million write off / impairment is not a cash cost in the year but is included as an expense in the Income Statement.

Due to the nature of the Group's business, it has accumulated significant tax losses since incorporation. Upon receipt of FDP approval in September 2017, for tax purposes, the Group is considered to have commenced trading. This has crystallised the pre-trading revenue expenses of \$21.6 million (2016: \$23.9 million), covering the period from 2011 onwards, and pre-trading capital expenditure of \$191.1 million (2016: \$257.1 million) which was available for tax relief on commencement of trade for UK tax purposes. Additional pre-trading capital expenditure of \$83.5 million is carried forward at 31 December 2017 and tax relief will be available once the FDP approval is received on the remaining licences. The Group has trading losses of \$393.6 million at 31 December 2017, which would be available for offset against future trading profits. A potential Ring Fence Expenditure Supplement claim could also be made which would result in additional trading losses of \$65.0 million.



## Financial Review continued

### Income Statement continued

No asset has been recognised in the Financial Statements for a potential deferred tax asset, at the UK ring-fence tax rate of 40%, of \$16.1 million (2016: \$12.4 million) resulting from the effect of carried forward trading losses, after offsetting \$141.2 million (2016: \$11.2 million) against a deferred tax liability. The directors have concluded it is not appropriate to recognise any of the potential deferred tax asset until the EPS has begun production and hence demonstrated an ability to generate taxable profits. The directors have concluded it not appropriate to recognise any of the potential deferred tax asset until the Lancaster EPS has begun production and hence demonstrated an ability to generate taxable profits.

### Exploration and evaluation assets and property, plant and equipment

In September 2017 the Group obtained FDP approval from the Oil and Gas Authority and as such reclassified \$335.9 million, being all intangible exploration and evaluation assets that related to the Lancaster Field, to property, plant and equipment. Following this reclassification, a further \$109.4 million was included in property, plant and equipment relating to the EPS.

In total, additional expenditure of \$169.1 million was included in intangible exploration and evaluation assets in the year relating to the drilling of the Halifax well and pre-FDP expenditure on the EPS. Taking into account the reclassification of Lancaster assets to property, plant and equipment and the write off / impairment of Typhoon/Tempest and Strathmore has resulted in an overall decrease in the Group's intangible exploration and evaluation assets of \$176.1 million.

### Cash and debt

The Group finished the year with a closing cash position of \$326.6 million in usable funds (including cash and cash equivalents and liquid investments, but excluding cash held in escrow accounts). The mid-year capital raise included the issue of \$230 million in convertible bonds with a coupon of 7.5% per annum. Under the terms of the Convertible Bond, the first two years of coupon payments have been placed in escrow, of which \$4.3 million was paid out by the year-end. The maturity date of the Convertible Bond is July 2022, although bond holders have the option to convert the bonds to Ordinary Shares before that time. The initial conversion price on the bonds was set at \$0.52, representing a 25% premium to the share price fixed at the time of issue (being £0.32 converted into USD at a rate of \$1.30).

The Convertible Bond is recorded on the Balance Sheet, and is split between the host debt contract and the embedded derivative related to the equity conversion option. At the Balance Sheet date the fair value of the embedded derivative was \$28.6 million and the carrying value of the host debt contract at amortised cost was \$191.1 million. The Group recognised a \$10.4 million gain on derivative financial instruments from the Convertible Bond's issue to the Balance Sheet date.

### Cash flow

Net cash outflow from operating activities of \$8.1 million is an increase from \$5.6 million in 2016, largely due to the increase in the level of activity through the year. This included the preparation for the fund raising and the additional work undertaken as the Group evolves into a larger entity. The combined expenditure on intangible exploration and evaluation assets and property, plant and

equipment in the year of \$265.7 million (2016: \$63.5 million) was primarily the expenditure on the EPS and the Halifax well.

The net cash provided by financing activities was \$524.4 million. This was from the capital raises in May and July and the Convertible Bond issue in July. This was partly offset by the first quarterly coupon payment on the Convertible Bond of \$4.3 million.

The net increase in cash, cash equivalents, and liquid investments in the year was \$258.5 million (including the effects of foreign exchange rate changes).

### Going concern and long-term viability

The directors have considered both the going concern of the Group and its long-term viability (LTV). Based on their assessment (see details of going concern and the LTV on page 23), the directors have a reasonable expectation that the Group will be able to continue and meet its liabilities as they fall due for the periods shown.

### Alistair Stobie Chief Financial Officer

# Sustainability Report

## At Hurricane, we focus on the health and safety, environmental, social, and governance issues that are of significance to our business and our stakeholders.

### Our approach to sustainability

Our work in sustainability is integral to successful execution of our business strategy and is underpinned by our commitment to work in accordance with the Hurricane values.

### Our Values are:

- Straightforward – we keep it simple
- Ingenious – we see what others miss
- Tenacious – we never give up
- Collaborative – the whole is greater than the sum of parts
- Logical – it all adds up

As an oil and gas company, our most important issues are long-term and we consider these on an annual basis, at a minimum. We recognise the importance of health and safety, environmental stewardship, our employees, ethical conduct, stakeholder relations and leaving a positive legacy in the communities where we operate. Our daily operations prioritise protecting the environment and health and safety.

Working effectively with others is essential to us. Our main stakeholders include: investors; governments; employees; contractors; suppliers and regulators. We aim to work in a transparent and accessible way and tailor our engagement processes to suit each group. Feedback and open dialogue allows us to consider a wide perspective of views, which inform our work on our sustainability issues.

### Oversight and accountability at Hurricane

The Board has significant experience in the sustainability issues that face the oil industry and our business in particular. Our board members bring with them high standards and clear vision across sustainability related areas. The directors take a close interest in the management of issues across the cycle, from impact assessments and feasibility studies through early stage drilling campaigns, to final stages of project development.

The Board assesses and monitors sustainability related risks within its oversight of principal risks. Ethical conduct and anti-fraud practices are also monitored in this forum, in accordance with the whistleblowing policy and other business standards. The Health and Safety Environmental Management (HSEM) Committee is responsible for recommending policies on health and safety, and environmental issues to the Board, chaired by the Chief Executive Officer. The Technical Advisory Committee is chaired by a non-executive director. The committee has no formal decision-making powers but makes recommendations and provides assistance to the Board with respect to technical and operating matters.

### Working in partnership

Engagement and collaboration with others is essential to how we work to identify and reduce the impacts of our activities. Our employees are selected, trained and developed to carry out their duties safely, competently and with due care. We provide a clear feedback structure, establish appropriate operating practices and implement training programmes to ensure effective delivery on our policies.

Suppliers and contractors, relevant third parties and other companies are also aware of our policies, standards and commitment to good practices. We continually work with them, sharing best practice and seeking out synergies to improve performance.

Sharing ideas is important to us. Hurricane is a member of many international, national and industry associations and groups. Our work in collaboration with others gives us a wide perspective and the opportunity to be both a contributor and learner in addressing sustainability challenges. Finding workable solutions both for our business, and the oil industry as a whole, is important to us.

### Ethical conduct

Our commitment to acting with integrity, fairness and transparency is the cornerstone to the way we do business. Our anti-corruption and bribery policy and our work to impart our values and standards on all who work with us is testimony to that. We believe this approach is essential for delivering our business strategy.

Bribery and corruption risk is considered in our overall approach to risk management at Hurricane. We have policies and procedures in place to manage ethical conduct risks. We also work on the detection and prevention of fraud and monitor and report any findings. Our framework covers our work with third parties as well as our own workforce. Ethical conduct standards give guidance in many areas including the procurement of goods and services and everyday production and operational activities.



## Sustainability Report continued

### Ethical conduct continued

Hurricane provides training on the management of ethical conduct risks and encourages everyone to be alert to the nature of fraud, bribery and corruption and the situations in which they can arise. Training is mandatory for all employees and independent contractors.

We operate a whistleblowing policy which encourages all employees and contractors to report any situation where they have reasonable belief that there has been a breach, or potential breach, in Hurricane's policies or standards.

Hurricane respects human rights, information management, local values and the rights of our local communities.

### Our people

Our people are the heart of Hurricane, without whom we would not have been able to achieve anything. We aim to attract the best people and Hurricane employs and engages people who are competent, have the skills, experience and attitude necessary to fulfil the responsibilities associated with their position and capacity to grow as individuals.

We aim to create an inclusive culture where employees of any background can be themselves and fulfil their potential. It is our policy to ensure there is no discrimination in employment, including in relation to gender, race, age, disability, marital status, sexual orientation or religious belief. As at 31 December 2017, throughout the Group, women represented 48% of our workforce. We do not currently have any female directors.

Learning and self-development are encouraged at Hurricane. We invest in our people's progression so that together we can build a strong and effective business able to deliver for our stakeholders. We prioritise employee engagement. We want Hurricane to be a rewarding place to work where employees feel included and supported. We provide opportunities both formally and informally for people to share their views with senior management.

### Health and safety

At Hurricane, our approach to health and safety is based on leadership and culture, risk management, capacity and capability building, training and learning. We encourage open and honest dialogue and work to foster a safe and healthy working environment 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 and recognised standards in pursuit of improving our business results.

In our approach, we consider:

- the occupational health and safety of our workforce and our local communities; and
- the safety and integrity of our asset base.

### Leadership, culture and people

At Hurricane, we are committed to building a solid safety culture from the grassroots level. We believe leadership is fundamental to good safety performance.

Hurricane encourages a workplace where:

- we plan and prepare for the unexpected;
- we work on a "lessons learned" basis, investigating events where our safeguards may have failed; and
- we will stop work rather than conduct activities that are in conflict with our policy and business standards.

Our focus is on making accountabilities and responsibilities clear so that everyone can contribute positively to the safety culture we are building at Hurricane.

### Health and safety management

Our approach is to promote a healthy environment and prevent injury and ill health. Health and safety risks are assessed and managed through the health and safety framework which is based on a continual cycle of improvement. Risks are monitored through a hierarchy of control where safety performance is reviewed in accordance with the Incident Reporting Procedure.

Safety performance across the business is measured against a range of internal targets which are continually monitored and revised. Hurricane's Group HSSEQ Manager is responsible for monitoring progress and ensuring continual improvement is always sought.

Hurricane's emergency response procedures are in place and are repeatedly tested to minimise the impact of any potential incidents and emergencies. Hurricane takes account of compliance with the relevant laws, regulations and other obligations as a minimum standard, and goes beyond this where possible. We consider the context of the Company and relevant interested parties to ensure our obligations and other management issues are comprehensively identified.

### The environment

Hurricane recognises its responsibility to the environment and will take positive steps to address the environmental impacts associated with all our operations.

We are committed to achieving continual improvement in our Environmental Management System to enhance environmental performance, and regard compliance with the relevant laws, regulations and other obligations as a minimum standard. We will consider the context of the Group and relevant interested parties to ensure our obligations and other management issues are comprehensively identified.

### Environmental management

We continually review all our business operations to identify and minimise environmental impacts and risks. Environmental impact assessments are regularly conducted and mitigation measures are taken, to protect the environment and prevent pollution where reasonably practicable.

Hurricane requires that our offshore contractors' operations (well, pipeline and installation operators) are fully certified under ISO 14001 Environmental Management System or equivalent. As part of our processes, Hurricane undertakes audits of our well and installation operators' environmental management systems.

### Oversight and accountability framework

The Health, Safety and Environmental Management (HSEM) Committee, reporting to the Board, is responsible for formulating and recommending policies on health, safety and environmental issues to the Board. The constituents of this committee are the Chief Executive Officer (committee Chairman), the Chief Financial Officer, the Chief Operations Officer and the Group HSSEQ Manager. The HSEM Committee ensures that an effective system of standards, policies, procedures and practices are in place. In addition, the committee evaluates the effectiveness of the Group's policies and meets formally at least twice a year. The committee engages external and internal specialists with the appropriate technical expertise to advise on new situations as they occur. It is also responsible for reviewing management's investigation of incidents and accidents on behalf of the Board. Health, safety and environmental performance across the business is measured against a range of internal targets which are continually monitored and revised. The Chief Executive Officer is responsible for ensuring that continual improvement to the Company's health, safety and environmental performance is always sought.

### Stewardship of resources

In managing our use of resources, we are always looking for opportunities to be more efficient. We aim to minimise resource usage, as well as aiming to reduce the volume and hazardous nature of any waste.

### Biodiversity

Recognising that Hurricane's assets are located offshore West of Shetland, a recognised environmentally sensitive area, which is designated a 'Special Protection Area'. We aim to reduce disturbance to sensitive seabed communities and limit any adverse effects of our operations to protected biological communities, such as cetaceans (whales and dolphins), as far as reasonably practicable.

Hurricane participates in the SERPENT (Scientific and Environmental ROV Partnership) project along with other oil industry participants and the National Oceanography Centre in Southampton. This aims to gain an industry wide understanding of the effects of drilling on seabed communities, using existing industrial technology, observations of the seabed, and the recording of the associated biological communities. SERPENT gathers imagery of the seabed environment and monitors any disturbance to local habitats. See the website for more information [www.serpentproject.com](http://www.serpentproject.com).

As part of our preparedness for major hazard situations, Hurricane is involved in ongoing oil spill prevention and response programmes in conjunction with external parties. In response to the impact of any uncontrolled oil spills, we are one of the core participants in the ownership of, the Oil Spill Prevention and Response Advisory Group (OSPRAG) capping device, an emergency system designed for rapid deployment and deep water. See the website for more information [www.oilspillresponse.com](http://www.oilspillresponse.com).

During the year, we did not have any significant environmental incidents and we were not subject to any fines arising out of our activities.

### Policies

Hurricane's comprehensive Business Management System, is supported by:

- Environmental Policy
- Health and Safety Policy
- People Policy
- Assurance Policy
- Ethics Policy

These can be found on the website [www.hurricaneenergy.com](http://www.hurricaneenergy.com).

### Board approval

This Strategic Report was approved by the Board on 9 April 2018 and signed on its behalf by:

**Dr Robert Trice**  
Chief Executive Officer



The Board continues to be committed to applying standards of corporate governance commensurate with its size, stage of growth and the nature of its activities.



The size and scale of the Company's operations is increasing as it moves towards first oil. Throughout the year the Board has given consideration to a range of options to take the Company forward. In the second half of the year the Board began its work of exploring a potential move to a Premium Listing, carried out an evaluation of the Company's organisational and governance protocols commensurate with such a listing and also reviewed its board composition, balance of skills, independence, size and structure.

# Governance

## Governance

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# Governance Report

Board of Directors



**Dr David Jenkins**  
Interim Chairman



**Dr Robert Trice**  
Chief Executive Officer



**Alistair Stobie**  
Chief Financial Officer



**Neil Platt**  
Chief Operations Officer



**John van der Welle**  
Independent non-executive director



**Roy Kelly**  
Non-executive director

## Key to membership of board committees

AC

Audit & Risk Committee

RC

Remuneration Committee

NC

Nominations Committee

LGC

Listing & Governance Committee

## Committee memberships

AC RC NC  
Chair Chair

LGC

AC RC NC LGC NC  
Chair Chair

**Interim Chairman** Age 79. David joined the Board on 8 March 2013 and became Interim Chairman on 8 November 2017. He is Chairman of the Remuneration Committee and a member of the Audit and Risk Committee and chairs the Nominations Committee whilst Interim Chairman. David was also the Senior Independent director until assuming the role of Interim Chairman.

**Skills and experience** – 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 and until recently was a member of the advisory board of Riverstone Holdings.

**Chief Executive Officer** Age 57. Robert co-founded the Company in late 2004 and has been a director 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.

**Skills and experience** – Robert has over 30 years' oil industry experience, having specialist technical experience of fractured reservoir 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.

**Chief Financial Officer** Age 51. Alistair was appointed to the Board on 16 March 2016 and his key responsibilities as CFO are the financial and commercial activities of the business.

**Skills and experience** – Alistair has significant capital markets and oil and gas industry experience. Alistair was previously Director of Finance at AIM-quoted Zoltav Resources and Chief Financial Officer (CFO) at Oando Exploration & Production. Prior to this, Alistair founded Volga Gas, where he was CFO and led its IPO to raise US\$135 million, and was CFO at Pan-Petroleum, which acquired an interest in the multi-billion barrel oil in place Mengo-Kundji-Bindi licence in Congo-Brazzaville. During his career Alistair has been actively involved in numerous corporate transactions including fundraisings, M&A and the acquisition and disposal of licence interests.

**Chief Operations Officer** Age 54. 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).

**Skills and experience** – Neil has more than 25 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.

**Independent non-executive director** Age 62. John joined the Board on 8 March 2013, is Chairman of the Audit and Risk Committee and is also a member of the Remuneration and Nominations Committees. John is also Chairman of the newly created Board committee – the Listing and Governance Committee.

**Skills and experience** – John has over 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 spent 11 years at Enterprise Oil, where he was Business Development Manager and subsequently Group Treasurer. In addition, 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, and non-executive director of a number of listed and private E&P companies.

**Other appointments** – John is currently a non-executive director of Lekoil Limited, and Chairman of Global Petroleum Limited, both of which are quoted on AIM.

**Non-executive director** (Shareholder Nominee director) Age 58. Roy joined the Board on 10 May 2016, on completion of the fundraising in May 2016, in accordance with the terms of the Kerogen Relationship, Roy Kelly appointed Jason Cheng or, in his absence, Leonard Tao as his Alternate Director on the Board. Roy is a member of the Nominations Committee.

**Skills and experience** – Roy is Managing Director and Head of Technical at Kerogen Capital. He has over 35 years of technical, commercial and managerial experience in the upstream oil and gas industry, obtained through both operating and service company roles on projects throughout the world. Previously he was Managing Director of consulting at RPS Energy Ltd, a leading upstream technical consultancy and reserve auditor. Prior to RPS, Roy held senior positions at PGS Reservoir, Ranger Oil and Sovereign Exploration, and spent around 10 years at BP where he trained as a petroleum reservoir engineer.

**Other appointments** – Roy currently holds a number of appointments of limited companies in his capacity as Managing Director of Kerogen Capital.



## Governance Report continued



### Introduction from the Interim Chairman on the Governance Report

#### – Dr David Jenkins

The Board has achieved a number of key milestones this year, as outlined in the Strategic Report, not least taking FID for the EPS and receiving regulatory approval, having secured the US\$530 million of capital needed to proceed with the project. We now have a larger institutional shareholder base. As the size and scale of the Company's operations increase as we move towards target first oil, the Board has, throughout the year, given consideration to a range of governance options to take the Company forward. In the second half of the year, the Board began its work of exploring a potential move to a Premium Listing, carried out an evaluation of the Company's organisational and governance protocols commensurate with such a listing and also reviewed its board composition, balance of skills, independence, size and structure.

On 9 November 2017, the Company announced the resignation, with immediate effect, of its non-executive chairman, Dr Robert Arnott. As the Senior Independent director, I assumed the role of Interim Chairman and also took the chair of the Nominations Committee until a suitable candidate for Chairman could be appointed. To help move these key governance issues forward, a committee of the Board was established, the Listing and Governance Committee (LGC), chaired by John van der Welle. Further information on the work of this committee is outlined on page 39.

I believe the Company has made significant progress in transitioning its governance towards best practice and Hurricane is presenting the 2017 Annual Report and Accounts, reporting in line with the key principles and provisions of the UK Corporate Governance Code (the Code), a higher standard that is not required of companies quoted on AIM.

As our institutional shareholder base increased, the Company's engagement and consultation with its shareholders have both been strengthened. More recently, John van der Welle and I undertook an investor roadshow aimed at updating the Company's shareholders, Convertible Bond holders and proxy advisers on the governance changes we have made and our progress as we transition the business. Furthermore, the achievements this year could not have been made without the invaluable contribution of

all of our stakeholders, not least our team of dedicated employees, the work of our Tier 1 contractors and all of our shareholders and Convertible Bond holders.

Looking ahead, we will continue to keep our governance framework under review to ensure it enhances the board's ability to exercise proper oversight. I am confident that the new Chairman will inherit a board and procedures well placed for the future.

### Corporate governance statement

The Board continues to be committed to applying standards of corporate governance commensurate with its size, stage of growth and the nature of its activities and recognises its responsibility to serve the interests of its shareholders in managing the Company. Previously Hurricane, as a member of the Quoted Companies Alliance (QCA, the membership organisation which represents the interests of small and mid-size quoted companies), published its annual reports in line with the Corporate Governance Code for Small and Mid-Size Quoted Companies (QCA Code). For 2017, the Board has enhanced its corporate reporting and made a significant number of corporate governance improvements so as to align the Company with best practice and report on a voluntary basis against the provisions of the UK Corporate Governance Code 2016, commensurate with the standards expected by stakeholders of Premium Listed companies. The Code and associated guidance are available on the Financial Reporting Council website at [www.frc.org.uk](http://www.frc.org.uk).

This Governance Report incorporates the reports from the Audit and Risk Committee on page 45, the Nominations Committee on page 49, the Directors' Remuneration Report on page 50 and the Directors' Report on page 66. These reports together describe how the Company has applied the relevant principles of the Code and we provide details in each section of any current exceptions to compliance with the provisions of the Code. The Board therefore concludes that, during the 2017 reporting year, the Company has complied with the provisions of the Code with the following exceptions, (relevant Code provisions shown in brackets) the majority of which are inter-related, due to the holding of share options by two non-executive directors – Dr David Jenkins and John van der Welle:

- The Company has an Interim non-executive chairman who on appointment to that temporary role was not deemed to be fully independent (A.3.1.) (B.1.1.).

- The Senior Independent director for part of the year was not deemed to be fully independent (A.4.1.).
- The independent non-executive directors were not deemed to be fully independent until 18 December (B.1.1.).
- Board Balance/Independence Code provisions were not met, whereby at least half the board should be independent, or for smaller companies being those below the FTSE 350 size threshold there should be at least two independent non-executive directors (B.1.2.).
- Composition of the Board committees did not meet Code provisions (B.2.1., C.3.1. and D.2.1.) as there are insufficient independent director members.

These exceptions are all inter-linked being due to the participation by the non-executive directors in a company share option scheme, in 2013 before the Company's IPO, which under the Code results in them being deemed not independent. The Board has always considered its non-executive directors independent in judgement and character by their actions. However, in order to rectify this Code non-compliance, on 18 December 2017 the two non-executive directors concerned forfeited their share options for nil consideration, so as to be deemed fully independent under the Code. Furthermore, the appointment of a new Chairman (who will be independent on appointment), allowing the Interim Chairman to return to his role of Senior Independent director, together with the subsequent appointment of additional independent non-executive directors, will see the independent board composition required for Code compliance achieved. It is anticipated that full compliance with these Code provisions will be attained later in the 2018 financial year.

In addition, the Company does not yet comply with Code Provision B.7.1. – the re-election by shareholders of directors under an annual re-election process – as the Company offers its directors for re-election by rotation in accordance with its Articles of Association every three years, on the basis of one third being re-elected every year. The Board believes that this is in the best interests of the Company and shareholders at this critical stage of the Company's strategy to provide an element of stability and continuity. Going forward this re-election process will be kept under review and should the Company move to a Premium Listing it will be reviewed again in light of the Company's new obligations.

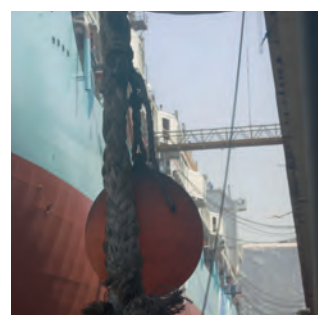
### Corporate governance framework The Listing and Governance Committee

In light of the Company's increased institutional shareholder base since the recent US\$530 million capital raise, and the increased size and complexity of its business, the Company announced the formation of the Listing and Governance Committee to bring together a number of options and workstreams that it had been exploring, including an application for a Premium Listing. As part of that decision, the Board recognised the increased size and scale of the Company's operations as it moves towards target first oil. Given these considerations, the Board believed it timely to review its current organisational and governance structure, and accordingly established the LGC as a committee of the Board.

The purpose of the LGC includes evaluating the merits of a Premium Listing, and making recommendations on the Company's organisational structure and processes, for changes that will better suit the ongoing requirements of a company of Hurricane's scale and growth profile. The LGC is chaired by John van der Welle (independent non-executive director). Other committee members are Alistair Stobie (CFO), Leonard Tao (Alternate director) and Daniel Janke (Company Secretary). David Jenkins (Interim Chairman) also attends LGC meetings. Evercore Partners were appointed to provide independent advice to the committee and attend its meetings; in addition, the Company's Nominated Adviser and broker Stifel, is invited when appropriate to attend meetings of the committee. The committee also appointed Boudicca Proxy Ltd which is a specialist shareholder engagement and corporate governance adviser.

The LGC's scope includes: evaluation of the merits of a potential move to a Premium Listing; recommendations on board size, composition and structure including governance protocols and the formation of additional sub-committees; recommendations on any changes to organisational structure, and internal processes and procedures; recommendations on enhanced reporting and disclosure associated with a Premium Listing; assessment of regulatory or other changes that may impact on the Company's activities. The committee's terms of reference are available on the Company's website: [www.hurricaneenergy.com](http://www.hurricaneenergy.com).

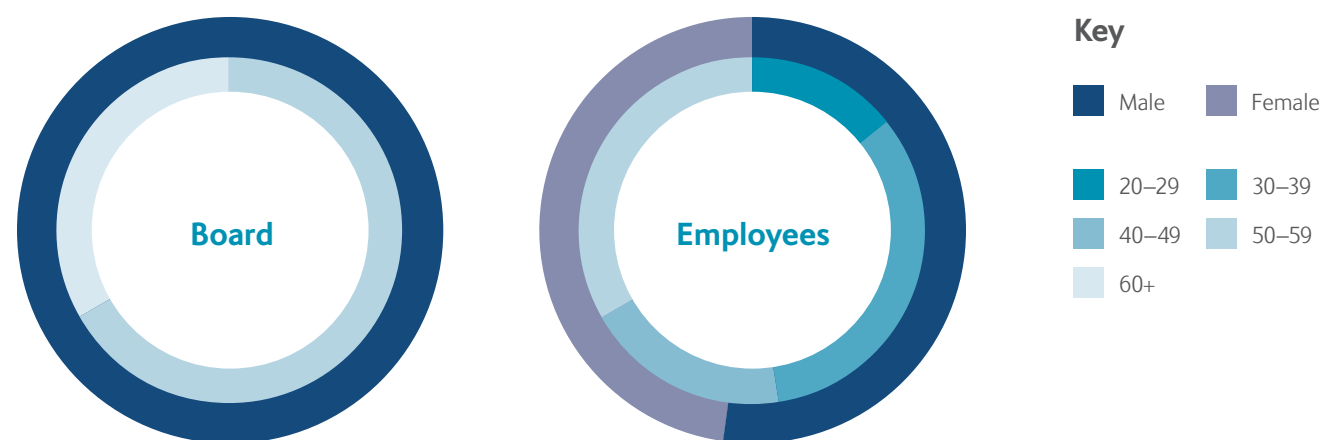
The work and recommendations of the LGC have been released via the Regulatory News Service (RNS), copies of which can also be found on the Company website. More recently, following the progress on these transitional workstreams recommended by the committee, a Corporate Governance Roadshow was held with major shareholders, Convertible Bond holders and proxy advisers to update them on the corporate reporting, disclosure and governance enhancements being established. This roadshow provided a welcome opportunity to consult with our stakeholders on the developments taking place. Further details of the LGC recommendations and development work are provided in each of the relevant sections of the Governance Report, including each of the committee reports.





## Governance Report continued

### Diversity



#### Role of the Board

Overall, the Board is collectively responsible for the long-term success of the Company. The Board provides leadership as it sets the Group's strategic objectives and ensures that they are properly pursued and that major business risks are actively monitored and managed, which goes beyond regulatory compliance and puts the interests of Hurricane's shareholders at the centre of the Board's decision making so as to be accountable to the Company's stakeholders.

Specifically, the Board's responsibilities include: the development of strategy including exploration, appraisal and development activity; acquisition and divestment policy; the approval of major capital expenditure; the Group's capital structure; and consideration of significant financing matters. The Board has always had an adopted set of Matters Reserved for the Board, however it has recently undertaken a review of these to ensure that they were enhanced to reflect the growth and development of the Company in the last year and so remain fit for purpose to deal with future growth in line with its aspirations.

#### Board composition

Currently, the Board is comprised of three executive directors (the CEO, COO and CFO) and has three non-executive directors (the Interim Chairman (not independent), an independent non-executive and a Shareholder Nominee non-executive director (not independent)). As outlined earlier in this Annual Report, 2017 has been a year of change. On 8 November 2017, the Chairman Dr Robert Arnott resigned with immediate effect and the Senior Independent director, Dr David Jenkins, assumed the role of Interim Chairman. This is a temporary situation but a necessary step believed by the Board to be in the best interests of the Company until the search and selection process for a new Chairman concludes with the appointment of a new Chairman (Further detail on this process is outlined in the Nominations Committee Report on page 49. On appointment as Interim Chairman, Dr David Jenkins was not deemed under the Code to be independent due to his holding of share options awarded to him before the Company's IPO on AIM under the Hurricane 2013 Performance Share Plan (NED Plan). However, the Board has always considered its non-executive

directors independent in judgement and character by their actions. On 18 December 2017, after his appointment as Interim Chairman, Dr David Jenkins relinquished these options for nil consideration. Upon the appointment of a new Chairman, Dr David Jenkins will step down from being Interim Chairman and will be deemed independent under the provisions of the Code, reverting to his role of Senior Independent director.

In late 2017, following discussions with its shareholders, the Company undertook a review of its Board, structure, size, balance of skills and composition and has made a number of enhancements since then. This work was carried out by the Company's new committee, the Listing and Governance Committee. The table on page 41 outlines the composition of the Board during the year and shows each director's length of service and independence together with a statement on Code compliance.

**Hurricane's Chairman's role** is to: lead the Board and create a culture of openness characterised by debate and appropriate challenge; ensure that the Board determines the nature and extent of the significant risks the Company is willing to take to implement its strategy; make sure that the Board receives accurate, timely and clear information, and is consulted on all relevant matters and in so doing promote the appropriate standards of corporate governance; monitor the contribution and performance of Board members; make sure that the Company communicates clearly with shareholders, and discusses their views and concerns with the Board; and acts as a key contact for all significant stakeholders, as well as working with the CEO and Senior Independent director to represent the Company in key strategic and stakeholder relationships.

**Hurricane's Chief Executive Officer's role** is to: lead the Group's performance, executive directors and senior management, whilst maintaining a dialogue with the Chairman on the important and strategic issues facing the Company; propose strategies, business plans and policies to the Board; implement Board decisions,

policies and strategies; lead in the day-to-day running of every part of the business; lead, motivate and monitor the performance of the Company's executive and senior management team, as well as overseeing succession planning for roles of the executives; and ensure effective leadership of all communication with shareholders and all key stakeholders.

**Hurricane's independent non-executive directors** bring experience and independent judgement to the Board and develop and constructively challenge strategy proposals. Each non-executive director is appointed for an initial three-year term and is presently subject to re-election by rotation by shareholders in Annual General Meeting (AGM). As mentioned previously, the Company upon the appointment of a new Chairman will be looking to increase the number of independent non-executive directors.

**Hurricane's Senior Independent director** is a non-executive director whose role is to: meet with major institutional shareholders and shareholder representative bodies, to discuss matters that would not

be appropriate for discussion with the Chairman or Chief Executive Officer; act as a sounding board for the Chairman and as an intermediary between the Chairman and other directors; and review the Chairman's performance during the year, taking account of feedback from other Board members. Dr David Jenkins will return to this role once a new Chairman is appointed.

**Shareholder Nominee director** After the fundraising campaign in 2016, the Company appointed a shareholder nominated director, Roy Kelly, to the Board. Roy owes the same fiduciary duty and responsibilities to the Company as the other directors. Any potential or actual conflicted matters are identified and acted upon accordingly, via a conflict of interest policy. In accordance with the Kerogen Relationship Agreement, Roy Kelly appointed Jason Cheng or in his absence Leonard Tao, as his Alternate director (further details of these Alternate directors can be found in the Directors' Report on page 66).

#### Board composition during the year

| Name                  | Role   | Independent                            | Length of service (years months) | Date of appointment | Date of resignation |
|-----------------------|--|--|----------------------------------|---------------------|---------------------|
| <b>Non-executives</b> |  |  |                                  |                     |                     |
| Dr David Jenkins      | Interim Chairman*                              | Deemed not independent on appointment* | 4 yrs 9 mths                     | 8 March 2013        |                     |
| John van der Welle    | Independent non-executive director             | Yes*                                   | 4 yrs 9 mths                     | 8 March 2013        |                     |
| Roy Kelly             | Shareholder Nominee director (Kerogen nominee) | No                                     | 1 yr 7 mths                      | 10 May 2016         |                     |
| Dr Robert Arnott      | Chairman                                       | On appointment                         | 1 yr 8 mths                      | 1 March 2016        | 8 November 2017     |
| <b>Executives</b>     |  |  |                                  |                     |                     |
| Dr Robert Trice       | CEO  | No                                     | 13 yrs                           | 29 December 2004    |                     |
| Neil Platt            | COO  | No                                     | 4 yrs 9 mths                     | 8 March 2013        |                     |
| Alistair Stobie       | CFO  | No                                     | 1 yr 9 mths                      | 16 March 2016       |                     |

\* Dr David Jenkins was appointed to the role of Interim Chairman on 8 November 2017. He and John van der Welle for the majority of the year were not deemed to be independent under provision B.1.1. of the Code due to the holding of share options awarded to them under the Hurricane 2013 Performance Share Plan (NED Plan). The Board has always considered its non-executive directors independent in judgement and character by their actions, however, on 18 December 2017 both directors relinquished, for nil consideration these options in order to be deemed independent under the Code. Upon the appointment of a new Chairman, Dr David Jenkins will step down from being Interim Chairman and will be deemed an independent non-executive director under the provisions of the Code and he will revert to his role of Senior Independent director.



## Governance Report continued

### Board process and activities during the year

The Board is responsible for deciding the strategy and overseeing its performance, while passing the responsibility for day-to-day operations to its executive directors and senior management team. The Board is directly involved in approving all major decisions, providing oversight and control, growing shareholder value and promoting corporate governance. The Board's annual programme ensures that key strategic areas are addressed.

During the early part of 2017, the Board's main focus was on the fundraising campaign required to take FID for the Lancaster Early Production System. Before the project could proceed, we also needed regulatory approval from the Oil & Gas Authority for the FDP which we secured in September. Having secured our funding for the project as outlined in the Strategic Report, the Board then embarked upon a transformation of the business in preparation for future growth. We continued to scrutinise performance against agreed objectives and progressed our business operations plan to secure delivery of the EPS so as to achieve an acceptable return on capital invested.

The Board's routine programme included: receiving reports from the CEO, COO and CFO, monitoring financial reports and operating budgets, approving corporate reporting, monitoring risk management, receiving reports on health and safety, succession planning, investor relations, regulatory affairs, governance and compliance. The Board also received regular updates from the respective chairs on key matters discussed at the Board committees.

The Company Secretary ensures that all Board papers and presentation materials are circulated in advance of each Board meeting and that the minutes of meetings and Board resolutions are circulated to all Board members following each meeting.

### Meetings attendance

The Board held nine formal meetings in 2017. In addition, 16 further meetings were called at short notice in order to consider specific items of business relating to the EPS. The table below shows the attendance by all directors who served during the year at all of the meetings in 2017.

In addition to the formal meetings outlined in the table, the non-executive directors met without the executive directors present, and the non-executive directors also met without the Chairman present, led by the Senior Independent director at that time.

### Board evaluation

As part of the governance enhancements recommended by the LGC and agreed by the Board, the Interim Chairman undertook an internal board evaluation process, facilitated by an external consultant Company Secretary. The Chairman has presented and discussed the resulting report with the Board. The process has identified some key areas that the Board will address and focus on going forward in 2018. This is the first time the Board has carried out such an exercise in line with the provisions of the Code, whereby it is recommended that an external evaluation be carried out at least every three years, and it is recognised that board evaluation is a procedure for the new Chairman to develop further. The process was questionnaire based and covered an assessment of the Board, completed by

all directors, and an assessment of the Chairman and Interim Chairman by fellow directors together with an assessment of the principal Board committees completed by relevant committee members as appropriate. The External Auditor completed a questionnaire on the Audit and Risk Committee. The focus for 2018 includes: Succession Planning (to appoint and induct a new Chairman and further non-executive directors); continue to enhance internal governance and board procedures to transition to a potential Premium Listing; broaden and deepen strategic debate amongst the Board to deliver the next phase of the strategy; and continue to focus on increased shareholder engagement..

### Board induction and training

The Board had in place policies for induction and on-going training commensurate with the Company's size and development as an AIM-quoted company, however in line with its aspirations to become a potential Premium Listed company and following its governance enhancements (including the board evaluation exercise), the Board wishes to enhance its induction and training programme for the non-executive directors who felt that they could benefit from additional structured third-party briefings on external factors that impact the work of the Board committees and the business. We plan to incorporate training sessions into the 2018 board and committee corporate calendar.

All members of the Board have access to appropriate professional development courses to support them in meeting their obligations and duties. They also receive ongoing briefings on current developments, including updates on governance and regulatory issues.

### Independent advice

The Board has adopted a policy whereby directors have access to independent advice as well as the services of the General Counsel and Company Secretary. The procedure allows any director to take independent professional advice at the Company's expense on any matter in the furtherance of their duties.

### Directors' and officers' liability insurance

The Company provides its directors and officers with the benefit of appropriate insurance, which is reviewed annually. In addition, directors and officers have received an indemnity from the Company against (a) any liability incurred by or attaching to the director or officer in connection with any negligence, default, breach of duty, or breach of trust by them in relation to the Company or any associated company; and (b) any other liability incurred by or attaching to the director or officer in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to/or in connection with their duties, powers or office; other than certain excluded liabilities including to the extent that such an indemnity is not permitted by law.

### The Company Secretary

The General Counsel and Company Secretary is Daniel Jankes. He is responsible for ensuring compliance with all board procedures and company secretarial matters and for providing advice to directors when required. The Company Secretary acts as secretary to the Board, Audit and Risk Committee, and Nominations and Remuneration Committees when required and has direct access to the Chairman and to the committee Chairs.

### Conflict of interests

Every director has a duty to avoid a conflict between their personal interests and those of the Company. The provisions of Section 175 of the Companies Act 2006 and the Company's Articles of Association permit the Board to authorise situations identified by a director in which he or she has, or may have, a direct or indirect interest that conflicts, or may conflict, with the interests of the Company. Each director is aware of their duty to notify the Board should there be any material change to their positions or interests during the year. Directors do not participate in board discussions or decisions which relate to any matter in which they have or may have a conflict of interest.

### Re-election of directors

The Company does not yet comply with Code provision B.7.1. – the re-election by shareholders of directors under an annual re-election process – as the Company offers its directors for re-election by rotation in accordance with its Articles of Association every three years, on the basis of one third being re-elected every year. In 2018, the Board believes that this is in the best interests of the Company and shareholders at this critical stage of the Company's strategy to provide an element of stability and continuity. Going forward this re-election process will be kept under review and should the Company move to a Premium Listing it will be reviewed again in light of the Company's new compliance obligations.

At each AGM, at least one-third of the directors eligible for rotation must retire from office and be subject to re-appointment by shareholders. Each director must retire at the third AGM following their last appointment or re-appointment in a general meeting. The directors due to retire by rotation, pursuant to Article 62 of the Articles of Association, at the AGM in 2018 are Roy Kelly and Dr David Jenkins.

### Election of directors

In accordance with the Articles of Association, each director appointed by the Board during the year shall retire at the next AGM following their appointment and offer themselves for election.

### Other external directorships

In line with the directors' Service Contracts, executive directors must seek permission to take on any external directorships. Likewise, in order to ensure that the time constraints are not over stretched and to avoid "overboarding", the non-executive directors raise with the Board any matters relating to them taking up other external appointments before committing to such appointments.

### Political donations

Our policy is that neither Hurricane Energy plc nor any company in the Group will make contributions in cash or kind to any political party, whether by gift or loan.

### Communication with shareholders

The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. It believes that shareholder dialogue is key to developing an understanding of the views of shareholders and encourages two-way communication, providing prompt responses to queries received orally or in writing. The Board also remains informed by monitoring the main movements in shareholdings and reviewing brokers' reports.

In the normal course of business, the CEO and CFO are available to shareholders in investor meetings and at public events. The Chairman and Senior Independent director are also available to shareholders, if communication through the normal channels fails to resolve a matter, or if it is felt inappropriate to discuss the matter involved with the CEO and/or CFO. Currently the Interim Chairman, who was previously Senior Independent director, takes the lead on these matters and ensures that the views of shareholders are communicated to the Board as a whole.

### Meetings attendance

| Name                         | Scheduled Board meetings | Additional unscheduled meetings held at short notice |
|------------------------------|--------------------------|--|
| Dr David Jenkins             | 9/9                      | 16/16  |
| John van der Welle           | 9/9                      | 15/16  |
| Roy Kelly (or his alternate) | 9/9                      | 16/16  |
| Dr Robert Trice              | 9/9                      | 13/16  |
| Neil Platt                   | 9/9                      | 15/16  |
| Alistair Stobie              | 9/9                      | 13/16  |
| <b>Former director</b>       |                          |  |
| Dr Robert Arnott             | 8/8                      | 14/14  |



## Governance Report continued

### Communication with shareholders continued

Meetings with shareholders took place throughout the 2017 reporting year. These included forums such as the Capital Markets Day in April and the AGM in June. There were also a large number of direct meetings with major shareholders leading up to the fundraising announced in June, and towards the end of the year, following the departure of the Chairman. Another key event was a site visit to Dubai Drydocks World for a group of analysts, shareholders, and Convertible Bond holders in December 2017, to provide the investor community with transparency on these EPS-critical operations. As part of the corporate governance enhancement programme, a governance roadshow was undertaken in January and February 2018.

Shareholders are kept informed of the progress and performance of the Group through its corporate reporting. This information and other significant announcements of the Group are released to the London Stock Exchange and are also made available on the Company website. The Group is conscious of the need to ensure that smaller shareholders are not disadvantaged, so video webcasts or speaker notes are made available after key events for those shareholders not present. Links to publicly available broker research are also provided on the website. Shareholders also have the opportunity to engage with the Board at its AGM.

### Annual General Meeting (AGM)

The AGM will take place on 6 June 2018 at 11:00am in The Science Suite, Royal Society of Chemistry, Burlington House, Piccadilly, London, W1J 0BA.

The Notice of the AGM is sent to shareholders at least 20 working days before the meeting. The Chairmen of the Audit and Risk, Remuneration and Nominations Committees will be available at the AGM to answer any queries. In addition, all directors are encouraged to attend the AGM so that shareholders will have an opportunity to meet them. Voting on resolutions will generally be conducted by polls at general meetings and the voting results will be announced through the London Stock Exchange and are also available on the Company's website. In line with Companies Act 2006 and best practice, the Company now supplies information such as notices of meetings, forms of proxy and the Annual Report and Accounts via its website. Registered shareholders are notified by email or post when new information is available on the website. The Company will continue to send hard copy communications to those shareholders who request it. Shareholders may at any time revoke a previous instruction to receive hard copies or electronic copies of shareholder information.



## Audit and Risk Committee Chairman's Report

### Introduction by the Audit and Risk Committee Chairman

#### – John van der Welle

I am pleased to present the report of the Audit and Risk Committee for the year ended 31 December 2017, including the committee's activities since that date. As outlined earlier in the Annual Report, this has been a year of change for Hurricane, with processes commenced in the year continuing to progress into 2018. In late 2017, we began work on reviewing and revising the terms of reference of the committee. The Listing and Governance Committee led the review process for this work. In mid-January 2018, the Board agreed the new terms of reference, a copy of which can be found on Hurricane's website [www.hurricaneenergy.com](http://www.hurricaneenergy.com). The Audit Committee was also renamed the Audit and Risk Committee, to reflect one of the committee's key

roles in monitoring the Company's risk management systems. Whilst Hurricane currently remains an AIM-quoted company, my report this year has been enhanced with reporting and disclosures commensurate with those expected of a Premium Listed company, as Hurricane transitions its corporate governance towards best practice including compliance with the UK Corporate Governance Code.

#### Committee composition

The Audit and Risk Committee has been chaired by John van der Welle since March 2013, who has recent and relevant financial experience (as a FTSE and AIM E&P company director) as required by the Code. Other committee members in the 2017 reporting year, all of whom possess the required competence relevant to the sector in which Hurricane operates, were Dr David Jenkins, and Dr Robert Arnott until his resignation on

8 November 2017. During the year, Roy Kelly (Kerogen Shareholder Nominee director) was also a committee member, in line with the Kerogen Relationship Deed, dated 18 April 2016. (Kerogen being the Company's largest shareholder). As the Company prepares for a possible future transition to a Premium Listing, and as part of the governance enhancements, Kerogen agreed to amend its Relationship Deed and Roy Kelly stepped down as a member of the Audit and Risk Committee on 17 December 2017. The Company Secretary acts as Secretary of the committee.

| Director           | Independence   | Relevant and recent financial experience   |
|--------------------|--|--|
| John van der Welle | Yes (from 18 December 2017)  | Yes<br>Chartered Accountant (ACA), Member of the Institute of Taxation and Chartered Taxation Adviser (CTA) and Fellow of the Association of Corporate Treasurers (FCT). |
| Dr David Jenkins   | No (will revert to being independent upon appointment of new Chairman) |  |
| Dr Robert Arnott*  | Independent on appointment   |  |
| Roy Kelly**        | No   |  |

\* Resigned 8 November 2017.

\*\* On 17 December 2017 stepped down as a member but will be invited to attend meetings as per the amended Kerogen Relationship Deed.

For a company outside the FTSE 350, the committee should consist of at least two independent directors. Currently the composition of the committee does not conform to the provisions of the Code. Dr David Jenkins stepped up to be Interim Chairman on 8 November 2017 and was not considered independent following appointment to this temporary role, therefore leaving at present only one independent director on the committee in John van der Welle. As announced on 17 January 2018, this situation will be resolved as soon as practicable in 2018 upon the appointment of a new independent Company Chairman, and the subsequent appointment of new independent non-executive directors, some or all of whom will join the committee as appropriate. Upon the appointment of the new Chairman Dr David Jenkins will revert to being an independent non-executive director and the committee at that point will be made up of two fully independent directors (compliant with the Code for a company outside the FTSE 350.) Furthermore it is intended that the committee will become Code compliant for a FTSE 350 company comprising of at least three independent non-executive directors with the appointment of new independent non-executive directors as soon as practicable in 2018.



## Audit and Risk Committee Chairman's Report continued

### Meetings

The committee met three times during the year under review, and once to date in 2018. Attendance of the committee members is shown below. Only members of the committee have the right to attend the meetings of the committee. However, the committee has the right to request other executive directors, senior management and the external auditors to attend its meetings. The external auditor has direct access to the Chairman of the committee and has met and conversed with the Chairman on a number of occasions during the year without the presence of the executive directors. Following each meeting the Chairman of the committee, reports formally to the Board on the main issues discussed by the committee.

### Role

The revised terms of reference of the committee reflect best practice and the requirements of the Code, as well as the FRC 2016 Guidance on Audit Committees, the FRC 2014 Guidance on Risk Management and Internal Control, the FRC 2016 Ethical Standards. The principal responsibilities of the committee are as follows:

- Monitor the integrity of the Financial Statements of the Company including results and other announcements of financial performance; review significant financial reporting issues and judgements.
- Review and, where necessary, challenge the consistency of accounting policies and whether appropriate accounting standards have been used.
- Review the contents of the Annual Report and Accounts and advise the Board on whether it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

- Review the effectiveness of the Company's internal controls and risk management systems.
- Consider the need for an internal audit function and make a recommendation to the Board.
- Review the Company's "whistle-blowing" system, and procedures for detecting fraud.
- Review the Company's procedures for the prevention of bribery and receive reports on non-compliance.
- Oversee the relationship with the external auditor, including assessing their independence and objectivity, and approval of auditor remuneration including the level of audit and non-audit fees.
- Review and approve the annual audit plan, and review the effectiveness and findings of the audit.
- Report to the Board on the proceedings of the committee and make recommendations to the Board on any area within the committee's remit.

### Key matters considered by the committee

During the reporting year, and the period to date in 2018, the committee has discharged its responsibilities and the following describes the main aspects of work completed by the committee:

### Annual Report and financial reporting

The committee has considered the significant issues in relation to the preparation of the 2016 and 2017 Annual Reports and Group Financial Statements, along with the 2017 Interim Report. The areas of focus for the 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 disclosures in the Financial Statements.

Overall, the committee focuses on whether, taken as a whole, the Annual Report and Group Financial Statements, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy. The committee and the Board believe this to be the case.

The committee considered in particular the following major Financial Statement items that require significant judgement and estimation in the preparation of the 2017 Financial Statements. A number of these have also been identified by Deloitte as key audit matters in their 2017 year-end audit:

### Recoverability of exploration and evaluation (E&E) Assets

The Group follows the successful efforts method of accounting for E&E expenditure in accordance with IFRS 6. There is a recurring risk that the balance at period end will not be recovered if such activities do not ultimately lead to commercially viable production. Accordingly, impairment reviews are undertaken bi-annually by management and reviewed by the committee and the external auditors. As part of this process, a report is prepared by management for committee and auditor review and challenge on the status of each E&E asset, including future plans for drilling and other technical work, and the availability of funding for these activities, so that indicators of impairment can be identified, and the impairments are recognised as appropriate. The committee satisfied itself with the carrying values of E&E assets, the write-off at 2017 year-end of the Typhoon and Tempest assets and the full impairment of the Strathmore asset.

### Full recoverability of Lancaster assets

Following FDP approval for the EPS, the Lancaster field element of E&E has been reclassified in the year-end 2017 Financial Statements from E&E expenditure to Property, Plant and Equipment (PP&E). Prior to the reclassification, management was required to carry out an impairment test relating to the assets being reclassified to support their carrying value. The committee has reviewed and challenged the report prepared by management detailing the basis for the amount of expenditure transferred to PP&E, and also the impairment test undertaken immediately prior to the reclassification.

### Convertible bond accounting

The funding of the EPS includes the issuance of \$230 million in 7.5% convertible bonds repayable at par in mid-2022. The committee reviewed the basis of accounting for this new liability and the associated conversion rights in the 2017 Financial Statements, and satisfied itself that it has been recorded in accordance with IFRS.

### Change in functional and presentation currencies

During 2017 the Group reviewed its functional and presentational currencies, and concluded that a change from Pounds Sterling to US Dollars was appropriate for both with effect from 1 January 2017. The change in presentational currency represents a change in accounting policy. As part of considering the 2017 Interim Report, the committee and auditors reviewed the basis of this change, noting the majority of EPS costs are denominated in US Dollars, the EPS is part funded by the US Dollar denominated Convertible Bond issued in the year, and that revenues from the sale of oil production will be received in US Dollars, and accordingly concurred with the change.

### Going Concern and Long-term Viability

The assessment of whether the Group can continue as a going concern is a recurring matter which forms the basis of preparation of the Group's Financial Statements. Management prepare a detailed report for consideration and challenge by the committee and auditors, including forecast cashflows for the business, including a variety of potential scenarios alongside a range of sensitivity assumptions. Of particular importance to the 2017 year-end cashflow forecasts supporting the going concern

basis are the cost and timing of completion of the EPS development leading to first oil, and subsequent production performance. The committee also reviewed longer-term forecasts and their basis, prepared by management in support of the Long-term Viability Statement in the 2017 Annual Report. The committee was satisfied with the forecast financial position of the Group and the underlying assumptions made, with appropriateness of the going concern basis of preparation of the Financial Statements, and with the long-term viability of the Group.

### Internal control and risk management

The Board (through its delegation to the committee) recognises that it has ultimate responsibility for the Group's system of internal control and ensures that it maintains a sound system of internal control to safeguard shareholders' investment and the Group's assets. No system of internal control can provide absolute assurance against material misstatement or loss. Instead, the Company operates a system which is designed to manage rather than to eliminate the risk of failure to achieve business objectives and to provide the Board with reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

The Company follows a process of identifying, assessing and managing the significant risks faced by the Group as a whole. The key aspects of this process are summarised as follows:

### The Board and management

The Company carries out a comprehensive budgeting and planning process whereby detailed operating budgets for the following financial year are prepared by management for approval by the Board. The day-to-day management is undertaken by the senior management of the Group who have the responsibility for providing visible leadership and ensuring that risk management is integrated into all operations and functions.

### Organisational structure and authorisation procedure

The Company has an established organisation structure with clearly stated delegated responsibility and reporting. Authorisation procedures in respect of matters such as capital expenditure, acquisitions, investments and treasury transactions are clearly defined and communicated.

### Risk assessment

In reviewing the effectiveness of the system of internal control, the Board first considers the risk management system and all aspects of risks which include strategic, financial, operational and compliance risks. It then considers whether the key controls designed to mitigate these risks are working as intended.

The Corporate Risk Register (the "Register") provides a consistent method for managing and reporting risks across the Group and ensures that significant risks are understood and visible to senior management, as well as to the Board. The Register sets out the top risks as defined by management. The Board prioritises the top risks against the likelihood of occurrence and impact on achievement of the Group's objectives. The Register, which also sets out mitigating controls and actions, has been reviewed and assessed by the committee and the Board. A summary of the Principal Risks and uncertainties facing the Group is provided on pages 18 to 21.

The process put in place by the Group to address financial and liquidity risk are described in the Principal Risks, Going Concern and Long-Term Viability Statement section of the Strategic Report. In line with best practice, the process for identifying, monitoring and reporting risks is reviewed regularly by the Board based on the recommendations of the committee. The process described has been in place for the year under review and up to the date of the approval of this Annual Report and Financial Statements.

### Financial and management reporting

The financial results of the business are reported to the Board on a regular basis and monitored against budget and latest forecasts. The controls that support the Group's financial reporting procedures are considered as part of the Group's on-going risk assessment process and are reviewed for effectiveness by the committee.

### Reviewing and monitoring the effectiveness of internal controls

The internal control framework is based on the Board's assessment of risk. The effectiveness of the internal control system is monitored by executive management. All exceptions are reported and reviewed by the committee.

### Table of 2017 meetings attendance

| Name               | Meetings attended |
|--------------------|-------------------|
| John van der Welle | 3/3               |
| Dr David Jenkins   | 3/3               |
| Dr Robert Arnott*  | 2/2               |
| Roy Kelly**        | 3/3               |

\* Resigned 8 November 2017.

\*\* On 17 December 2017 stepped down as a member but will be invited to attend meetings as per the amended Kerogen Relationship Deed.



## Audit and Risk Committee Chairman's Report continued

### Internal audit

Due to the relative simplicity of the Company's business to date – as a pre-revenue, single country, pure exploration/appraisal business – it has not historically been considered necessary to have a separate internal audit function in order to provide the Board with assurance on controls and risks. The committee has recently considered the need for an internal audit function taking into account the increased scale and complexity of the Company's operations with the EPS development currently underway, and plans to review the issue again later in 2018 as revenue from first oil approaches.

### External auditors

The committee regularly monitors and approves the services provided to the Group by its external auditors (Deloitte LLP). During the year, the fees for non-audit related services were \$82,000. These services related to the interim half year review and the preparation of certain reports to assist the Company as it prepares for a potential Premium Listing. Regarding the latter, the committee believed that it was in the best interests of the Company and shareholders for Deloitte LLP to undertake this work due to their extensive knowledge of the Company and the fact that the work was closely linked to the audit. Further details of the fees for audit and non-audit services provided by the external auditors are disclosed in note 6 to the consolidated Financial Statements.

The 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 committee must be consulted before the assignment of any non-audit work can be awarded to the external auditor. The 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.

An evaluation of the effectiveness of the external audit process was carried out for each of the financial years ended 31 December 2016 and 31 December 2017, taking into account the views of the relevant senior management and the committee members. The conclusion of the evaluations was that the process was effective and areas for improvement were discussed with the external auditors to continually enhance the effectiveness of the audit process in future years.

The committee maintains an on-going oversight of the external audit appointment. At the AGM 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. The original audit partner was Bevan Whitehead, and in 2015 David Paterson assumed this role. A formal tender process should be considered at least every five years and the committee will keep this under review. To date, due to the size and scope of Hurricane, the committee has not considered it to be appropriate for the Company nor in the best interests of shareholders to have undertaken a formal tender process. Going forward, as the Company transitions to a potential Premium Listing and approaches first oil in 2019, the committee will at this time agree the timing of any formal tender process. In accordance with the Companies Act 2006, a resolution to re-appoint Deloitte LLP will be proposed at the next AGM. The committee believes the independence and objectivity of the external auditor and the effectiveness of the audit process remain strong.

### Whistle-blowing and anti-bribery

The Company operates a whistle-blowing procedure to allow staff to raise in confidence any concerns about business practices. This procedure complements established internal reporting processes. The whistle-blowing policy is included in the Employee Handbook which is available to all staff in electronic form. The committee considers the whistle-blowing procedures to be appropriate for the size and scale of the Group.

It is the Company's policy to conduct all of our business in an honest and ethical manner, and we adopt a zero-tolerance approach to bribery and corruption. The Company is committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate and implementing and enforcing effective systems to counter bribery and corruption. The Group's anti-bribery and corruption procedures incorporate appropriate provisions to meet our obligations under the UK Bribery Act 2010. A training and communication programme for all employees is in place to ensure that employees understand the requirements of the Act and the reporting procedures. Arrangements with contractors and suppliers have been and will continue to be reviewed and updated to reflect the requirements of the UK Bribery Act 2010.

### Effectiveness

An evaluation of the effectiveness of the committee for the review year of 2017 was recently conducted via an internal evaluation process, with the results reported to the Board. This process concluded that the committee was effective in terms of its expertise and use of time and that it had been provided with sufficient resources to carry out its duties.

### John van der Welle

**Audit and Risk Committee Chairman**  
9 April 2018

## Nominations Committee Chairman's Report

### Introduction by the Nominations Committee Chairman

#### – Dr David Jenkins

I am pleased to present the Report of the Nominations Committee for the year ended 31 December 2017. This year has been a significant year of change for Hurricane. The focus for the committee towards the end of 2017 has been the search for a new non-executive chairman to steer Hurricane forward, assisted by Spencer Stuart, a leading executive search and selection firm. The terms of reference of the committee were also reviewed, this work being led by the Listing and Governance Committee, chaired by John van der Welle. In early January 2018, the Board agreed the new terms of reference, a copy of which can be found on Hurricane's website [www.hurricaneenergy.com](http://www.hurricaneenergy.com). In line with the Company's ambitions to transition Hurricane to a potential Premium Listing, my report this year has been enhanced with reporting and disclosures commensurate with those expected of a Premium Listed company.

### Committee composition

During the year the Nominations Committee was chaired by Dr Robert Arnott until his resignation as Chairman on 8 November 2017. Dr David Jenkins, having assumed the role of Interim Chairman, has chaired the committee since then. Additional members during the year included John van der Welle (Independent director) and Roy Kelly (Kerogen Shareholder Nominee director, who was appointed to the committee in line with the Kerogen Relationship Deed, dated 18 April 2016 (Kerogen being the Company's largest shareholder)). The committee has full access to the General Counsel and Company Secretary.

Under provisions (B.2.1.) of the Code the committee should consist of a majority of independent directors. Currently the composition of the committee does not fully conform to this provision. Dr David Jenkins assumed the role of Interim Chairman on 8 November 2017 and was not considered independent on appointment, therefore leaving at present only one independent director on the committee (John van der Welle). As announced on 17 January 2018, this situation will be resolved upon the appointment of a new independent Company Chairman and the subsequent appointment of new independent non-executive directors who will join the Nominations Committee as appropriate.

| Name               | Independence  |
|--------------------|---|
| Dr David Jenkins   | No<br>(will revert to being independent upon appointment of new Chairman) |
| John van der Welle | Yes   |
| Dr Robert Arnott*  | Independent on appointment  |
| Roy Kelly          | No  |

\* Resigned 8 November 2017.

### Meetings

The committee met once during the year under review. Attendance during the year of all members who served on the committee is shown below. Between 31 December 2017 and the date of this Report, the committee has met a number of times as it carries out its succession planning to appoint a new Chairman.

| Name               | Meetings attended |
|--------------------|-------------------|
| Dr David Jenkins   | 1/1               |
| John van der Welle | 1/1               |
| Dr Robert Arnott*  | Nil               |
| Roy Kelly          | 1/1               |

\* Resigned 8 November 2017.

### Role

The Nominations Committee's role is to keep under review the structure and composition of the Board and its committees, consider Board member succession and identify and make recommendations for any changes to the Board. All decisions relating to the appointment of directors are made by the entire Board based on the recommendations of the committee who take into account the merits of the candidates and the relevance of their background and experience, measured against objective criteria. Hurricane is committed to appointing, retaining and developing an expert team which can effectively manage the Company's objectives and deliver its strategy. The Board recognises the benefits of diversity and the Nominations Committee has regard to this when considering succession planning.

### Activities during the year

The committee's primary focus from late 2017, upon the resignation of the Chairman, was to commence a full and rigorous selection process of a new independent non-executive chairman. A formal tender process was undertaken to appoint a search and selection specialist, following which

Spencer Stuart was appointed (Spencer Stuart is a leading search firm which has no connection with the Company other than its appointment for this process). The committee, having discussed the process used to compile the candidate list, then agreed that the methodology and rationale adopted by Spencer Stuart were appropriate. As part of the agreed selection process, Spencer Stuart provided a thorough profile on each candidate and an opportunity for all other Board members to meet with any potential candidates. The committee believe that following such a thorough and rigorous process is critical to being able to make a clear recommendation with which the Board can agree.

The selection process is now well advanced and it is anticipated that a new Chairman will be appointed in Q2 2018. In addition, as part of the work of the committee and the enhancements recommended by the LGC, further non-executive directors will be sought to strengthen the Company and ensure Code compliance. These appointments will be made with input from the new Chairman, therefore it is anticipated that these will be in place by the end of the 2018 financial year.

The Board and the work of the Nominations Committee supports the principles of diversity in its widest sense and in relation to the aspirations set out in the Davies Report, "Women on Boards". As Hurricane develops in scope and size, the committee will continue to monitor and review its diversity in relation to its leadership team.

### Dr David Jenkins

**Nominations Committee Chairman**  
9 April 2018



# Directors' Remuneration Report

## Annual statement on remuneration

I am pleased to present Hurricane's Remuneration Report for the year ended 31 December 2017. As an AIM-quoted company, Hurricane is not required to produce a formal remuneration report. This year, however, in line with our enhanced disclosure and corporate reporting, we have prepared this report on a voluntary basis in accordance with the main reporting requirements of a Premium Listed company. The sections of the Annual Report on Remuneration that are subject to audit are indicated accordingly. The Chairman's Annual Statement on Remuneration and the directors' Remuneration Policy are not subject to audit. The Board is committed to transparency and this new style report is designed to provide more information to shareholders about the details of Hurricane's remuneration policies and how they underpin the Group's strategy.

This Annual Statement gives an outline of our Remuneration Policy, how it was implemented in the year under review (2017), how we plan to implement our Remuneration Policy in 2018 and a summary of the key activities of the Remuneration Committee during the reporting year.

### Remuneration policy underpinning Group strategy in 2017

Hurricane's Remuneration Policy is closely linked to delivery of its strategy. In addition to offering competitive base levels of salary and benefits to attract and retain employees, all employees participate in an annual bonus scheme, to drive delivery of inter-year performance, and in longer term share based incentive plans connected to our strategy of progressing and monetising our Rona Ridge assets.

The year under review was the first full year of performance under the Group's new long-term incentive plan, the Value Creation Plan (VCP), a one-off five-year scheme implemented by the Board in late 2016, concurrent with the November 2016 capital raise. The VCP was introduced as a replacement to the original 2013 Performance Share Plan (PSP), following advice from specialist remuneration consultant, Kepler. The plan incentivises management to achieve the Company's strategy of de-risking and monetising its resource base. As operational hurdles are achieved, management is increasingly incentivised to ensure that this progress is translated into returns for shareholders.

The introduction of the VCP was accompanied by the introduction of an annual bonus cap at 50% of base salary for all employees, including executive directors. The previous cap was 100%. This change increases emphasis on overall delivery of strategy and shareholder-return linked remuneration. In 2017, a new Performance Share Plan was introduced to award long-term share incentives to certain key employees (below Board level) joining the Company since the introduction of the VCP. As a new plan designed to operate in parallel with the VCP, it has performance conditions in line with those of the VCP. Its aim being to attract and incentivise key senior personnel as Hurricane moves closer to first oil, ensuring that executive directors and other employees are aligned. Full details of the VCP and PSPs are set out on pages 54 and 55 respectively.

### Performance in 2017

2017 was a transformative year for Hurricane, with significant progress made towards our long-term strategy of progressing and monetising our Rona Ridge assets. The Group made progress towards first oil on the EPS including financing, FID and FDP approval, whilst delivering a number of other corporate objectives including a good health and safety record. Based on the committee's assessment of achievement against the Performance Measures in the 2017 Annual bonus scorecard (outlined on page 60), cash bonus payments of 41.25% of base salary were awarded to each executive director (against the maximum of 50%).

There was no increase in base salaries for executive directors in 2017 (base salaries having been held at the same level since 2013). There were also no share based awards under share schemes (other than the Share Incentive Plan) granted to any executive director during the year, nor were any due to vest.

The Company operated the Share Incentive Plan (SIP) in January 2017 and made annual awards under this HMRC approved scheme to all of its participants, including executive directors. Further details are outlined on page 55.

### Committee focus during the year

The committee's main focus in 2017 was the annual review of the Group's Remuneration Policy, including the review of directors' salaries, approval of the annual bonus awards for the previous year and the setting of the annual bonus scheme Performance Measure scorecard metrics for the year ahead. In addition, the committee reviewed and approved certain Milestones of the VCP. Towards the end of the year, the committee also recommended to the Board implementation of the new 2017 PSP for new employees not participating in the VCP, which was duly approved.

### Implementation of our Remuneration Policy in 2018

The committee has determined that the Remuneration Policy (as outlined on pages 51 and 52) will remain unchanged for 2018. The committee has therefore determined: that executive directors' base salaries will remain unchanged; that there will be no change to their benefits packages or pension arrangements; that the annual bonus for each executive director will remain capped at a maximum of 50% of base salary; and that any events which trigger achievement of the Milestones of the VCP will be assessed by the committee thereafter to determine the appropriate vesting percentage to be applied in line with this category at maturity of the scheme.

### Shareholder engagement

The Board has always sought to ensure that incentive structures help deliver shareholder objectives and has been committed to open and constructive dialogue with shareholders on appropriate mechanisms to achieve this. In particular, the introduction of the VCP came alongside the November 2016 equity placing, with major participating shareholders consulted on the structure during the marketing phase. The Board and committee remains committed to dialogue with its new broader shareholder base on all matters, including remuneration, and will continue to engage in appropriate dialogue going forward.

### Dr David Jenkins

#### Remuneration Committee Chairman

9 April 2018

## Directors' Remuneration Policy

### Directors' Remuneration Policy framework.

Following industry practice, Hurricane's executive directors' Remuneration Policy is comprised of fixed and variable annual compensation to drive delivery of near-term targets, with an additional overarching long-term incentive plan to maintain a longer-term focus on generating value for shareholders. A significant proportion of each director's total remuneration package is structured to link rewards to the attainment of performance targets, both short-term (Performance Measures) and long-term (Milestones). The current Remuneration Policy last underwent a significant revision in 2016, with the replacement of the original 2013 PSP with the VCP.

As an AIM-quoted company, Hurricane's Remuneration Policy does not require formal shareholder approval. However, the Company has voluntarily opted to prepare a Remuneration Policy which follows the requirements applicable to UK Premium Listed companies.

The components of the policy are described in more detail in our policy framework below.

| Element             | Link to strategy   | Operation  | Maximum limit  | Performance assessment   |
|---------------------|--|--|--|--|
| <b>Base Salary</b>  | Supports recruitment, retention and motivation of key executives.  | Intended to provide market competitive levels of reward for the respective role.<br><br>Reviewed annually or upon changes in role. A review may not necessarily result in an increase. Salaries are paid monthly in cash.<br><br>Elements considered include: <ul style="list-style-type: none"> <li>Salaries for similar roles in relevant comparator companies.</li> <li>Individual specifics (e.g. personal performance, experience and the individual's role within the Group).</li> <li>Enhanced/reduced scope of responsibility compared with the norm for a given role.</li> <li>Pay and conditions for all employees.</li> </ul> | No formal limit on annual increases, though the committee would be unlikely to make significant changes except in cases where an individual's responsibility or role had changed, or if it became evident that a realignment with market rates was required. | No formal process.<br><br>The committee is of the view that base salary levels for executive directors reflect the competitive market level for the individual's skill set and contribution.   |
| <b>Annual bonus</b> | Incentivises and rewards executives for the achievement of annual performance targets linked to delivery of the Group's strategy.<br><br>Ensures continual assessment and accountability of executives to the rest of the Board.<br><br>Performance Measures are separate and distinct from VCP Milestones which represent longer term hurdles in delivering the Group's strategy.<br><br>Includes link to health, safety and environmental performance. | At the start of the year, Executives and the committee agree on a set of performance measures which are relevant to the Group's progress towards its strategy over the forthcoming period.   | Following incorporation of the 2016 VCP, the maximum annual cash bonus for all employees was limited to 50% of base salary.  | The Performance Measures are set by the committee, who also determine the level of achievement against these targets.<br><br>The Performance Measures are ambitious and not expected to be fully achieved in every year. No specific on-target level of performance is formally communicated below the maximum amounts for full achievement. |



## Directors' Remuneration Report continued

### Directors' Remuneration Policy continued

| Element  | Link to strategy  | Operation  | Maximum limit  | Performance assessment  |
|--|---|--|--|---|
| <b>Long-term share based Incentive Plans – VCP</b> | <p>Incentivises management to achieve the Company's strategy of de-risking and monetising its resource base.</p> <p>Participants had to invest in and risk personal funds, to participate in the scheme.</p> <p>A long-term scheme, only paying out after five years or earlier upon a maturity event (successful disposal or production target that would require additional infrastructure beyond the EPS).</p> | <p>Certain operational Milestones, linked to long-term strategy, determine the level of vesting of portions of a pool of Growth Shares at maturity of the scheme (see tables of Milestones on page 55).</p> <p>Upon a vesting, the vested portion of Growth Shares may be exchanged for Ordinary Shares, provided the share price is above a hurdle price of £0.55.</p> <p>A maturity event in the case of a successful sale or disposal would be subject to a higher hurdle price of £0.65.</p> <p>Total Shareholder Return (TSR) performance relative to FTSE AIM Oil &amp; Gas benchmark and health and safety and environmental performance may, at the committee's discretion, lead to reductions in vesting levels.</p> <p>The scheme is subject to leaver provisions, and malus and clawback provisions. See page 53.</p> | <p>The maximum potential award to all participants in the plan equates to 8.4% of the growth in market capitalisation of Hurricane Energy plc above a threshold value linked to £0.34 per share.</p> | <p>No awards vest if share price hurdles are not met.</p> <p>The committee has discretion over the vesting associated with Milestones and can reduce overall vesting with reference to TSR performance relative to FTSE AIM Oil &amp; Gas benchmark and health, safety and environmental performance.</p> |
| <b>Share Incentive Plan</b>                        | <p>Encourages and deepens share ownership by employees.</p> <p>Encourages retention of employees since Free and Matching shares must be held for three years or are surrendered upon end of employment (except in relation to good leavers).</p>  | <p>Operates on an annual basis (usually in January).</p> <p>SIP awards are partly satisfied by the issue of new Ordinary Shares to the SIP Trustee (Global Shares Trustee Company Limited) at the nominal value of the shares.</p> <p>Participating employees receive an allocation of Partnership Shares at market value purchased using deductions from employees' pre-tax salaries.</p> <p>Matching Shares (twice the number of Partnership Shares acquired by an employee) and Free Shares (being Ordinary Shares to a value not exceeding £3,600) are correspondingly allocated to employees, paid for by the Company.</p> <p>The scheme is subject to standard leaver provisions.</p>  | <p>The current scheme operates at the HMRC-approved maximum level.</p>   | <p>None.</p>  |
| <b>Pension</b>                                     | <p>Helps recruitment and retention of key personnel.</p>  | <p>With effect from 1 January 2018 Hurricane operates an auto-enrolled workplace pension scheme for all employees.</p> <p>Executive directors currently receive a cash allowance in lieu of pension.</p>   | <p>Hurricane contributes up to 10% of employees' salaries, provided that they make a 4% contribution.</p>  | <p>Not applicable.</p>  |
| <b>Benefits</b>                                    | <p>Helps recruitment and retention of key personnel.</p>  | <p>Hurricane offers a typical voluntary package of benefits to directors and employees including optional enrolment in healthcare, dental and travel insurance, death in service and critical illness plans.</p>   | <p>No variation across employees.</p>  | <p>Not applicable.</p>  |

### Directors' service contracts

The executive directors have rolling-term Service Agreements with the Group. The notice period for Dr Robert Trice and Neil Platt is 12 months if given by the Group and six months if given by the individual. Alistair Stobie's notice period has been set at six months in either case. The Group's policy is to set notice periods of up to 12 months.

The executive directors' Service Agreements each include the ability for the Group, at its discretion, to pay basic salary only in lieu of any unexpired period of notice. Payments may be made as either a lump sum or in equal monthly installments until the end of the notice period at the discretion of the Group. The executive director's entitlement to pay in lieu ceases immediately on the date on which the executive director accepts an offer of alternative employment or engagement.

The Service Agreements contain provisions enabling the Group to place the executive director on gardening leave during the period of notice.

Where an executive director's appointment is terminated by reason of the executive's death, redundancy, injury, ill health or disability, the executive director shall be entitled to a pro-rated bonus based on 50% of his/her base salary in respect of the period of service (including any period for which the executive is paid in lieu of service) in the relevant financial year.

The executive directors have agreed to become employee shareholders in accordance with the provisions of section 205A(1) of the Employment Rights Act 1996 and have relinquished certain statutory rights in relation to statutory redundancy, unfair dismissal, flexible working, and the right to return to work on eight weeks' notice during adoption leave. The Service Agreements incorporate provisions reinstating such rights by way of contract.

| Name            | Date of continuous employment | Date of Service Agreement | Notice by Company/individual |
|-----------------|-------------------------------|---------------------------|------------------------------|
| Dr Robert Trice | 1 March 2005                  | 7 November 2016           | 12/6 months                  |
| Neil Platt      | 18 July 2011                  | 7 November 2016           | 12/6 months                  |
| Alistair Stobie | 16 March 2016                 | 7 November 2016           | 6/6 months                   |

Copies of the Service Agreements for current executive directors are available for inspection during normal business hours at the Company's registered office.

### Non-executive directors' fees and letters of appointment

The fees payable to the non-executive directors are determined by the Board, taking into account the time commitment required, the responsibilities assumed and comparative market rates. No director plays a part in any discussion about their own remuneration. At the end of 2017, as part of the governance enhancements work commenced by the Listing and Governance Committee, the Company updated its Letters of Appointment to non-executive directors in line with best practice. The fee arrangements were also reviewed at this time. Details of these fees are outlined on page 60.

Each non-executive director is appointed for a term of three years. This term may be extended by the Board upon recommendation of the Nominations Committee, and the appointment can be terminated by either party on three months' notice. non-executive directors are typically expected to serve two three-year terms, however the Board may invite the individual to serve an additional period. The non-executive directors are subject to re-election by rotation by shareholders at least once every three years.

Copies of the Letters of Appointment for current non-executive directors are available for inspection during normal business hours at the Company's registered office.

### External appointments

The executive directors are restricted under the terms of their Service Agreements from assuming any responsibilities or duties in any person without the written Board consent. The Board may agree to such external appointments at its discretion, provided that any such external appointments do not and are unlikely to interfere with the executive director's duties to the Group.

### Malus/clawback provisions

In line with best practice, the committee has the discretion to apply malus/clawback provisions to unvested awards under the VCP and PSP in the event an employee is at fault for material misstatement of the financial accounts or is guilty of gross misconduct.



## Directors' Remuneration Report continued

Further information on our share based incentive plans and Remuneration Policy

Long-term share-based incentives, like the VCP adopted by the Company in 2016, are designed to incentivise, retain, reward and align the interests of executive directors and employees with the longer-term interests of the Company's shareholders. The long-term incentive plan arrangements for Hurricane were reviewed in 2016 using the specialist remuneration adviser, Kepler. The Group had previously used the 2013 PSP, whereby the award of Ordinary Shares to directors and staff was conditional on achieving certain performance targets linked to the long-term success of the business. Following Kepler's advice, in late 2016 the Group introduced the VCP, an all employee one-off five-year performance period scheme aiming to align the interests of all employees with the delivery of value to shareholders. The year in review was the first full year of the plan.

### Value Creation Plan

VCP awards are dependent on share price growth, along with the Group achieving Milestones, being various key non-market based performance conditions consistent with the Group's strategy of progression and development of the EPS, each of which has a percentage weighting, as set out below. The Milestones are one element of the Key Performance Indicators used to incentivise management and are distinct from within-year Performance Measures, linked to annual bonuses (as explained in the Strategic Report on pages 16 and 17).

The scheme only has value to participants if the price of Ordinary Shares in Hurricane Energy plc exceeds a hurdle price of at least £0.55 per share. Furthermore, performance of the Group in relation to health, safety and the environment, satisfactory total shareholder return with reference to the FTSE AIM Oil and Gas index, and reputational considerations, can modify amounts vesting. The operation of the plan is a one-off. It was implemented in November 2016 when the Group awarded 840 Growth Shares in Hurricane Group Limited (a Group subsidiary) to executive directors and certain employees.

On the completion of each Milestone, the committee confirms the degree to which the relevant Milestone has been achieved and the relevant percentage weighting will be banked (but not released), until vesting of the scheme. Subject to the conditions outlined below, which include achievement of certain hurdle prices, vesting will occur at the fifth anniversary of the grant (Expiry) or earlier, under certain maturity event scenarios. These are where there is a change of control of Hurricane Energy plc or some other significant sale/disposal (Transaction Maturity), or achievement of a production target which would require additional infrastructure beyond the EPS (Production Maturity).

At the end of the vesting period, the value of the Growth Shares will be driven by the amount by which the price of Ordinary Shares has increased above £0.34 per share (the price on date of issue of the Growth Shares), as adjusted (Threshold Value). The Threshold Value is adjusted for capital raises that have occurred during the vesting period. The adjustment calculation is based on the weighted average price of Ordinary Shares issued and is subject always to a floor of £0.34 per Ordinary Share. The adjustment does not protect participants in the VCP from dilution.

The Growth Shares cannot vest at Expiry or upon achievement of Production Maturity unless the price of the Ordinary Shares exceeds a hurdle of £0.55 per share average price for a three-month period beforehand. This hurdle was determined by the price that would equate to a 10% compound annual growth rate in the price of Ordinary Shares over the five years of the scheme. In the case of a Transaction Maturity event, vesting would be subject to a higher hurdle price of £0.65 per share.

If the hurdle is met and a vesting occurs, the portion of Growth Shares that relate to achieved Milestones may be exchanged for Ordinary Shares of an amount linked to the growth in the price of the issued Ordinary Shares above the Threshold Value, multiplied

by the number of Ordinary Shares in issue at the time. The maximum total number of Ordinary Shares that could be issued in exchange for the 840 Growth Shares awarded in 2016 would be broadly equivalent to 8.4% of the growth in Hurricane Energy plc's market capitalisation above the market capitalisation calculated at the Threshold Value. The proportion of Growth Shares that vest to participants is dependent on the committee certifying, at its discretion, the Group having met the Milestones. Regardless of Milestone certifications made during the term of the VCP, the committee has discretion to reduce the value of awards made having regard to an assessment of satisfactory performance of the Group in relation to health, safety, and the environment, satisfactory total shareholder return performance of the Group with reference to the FTSE AIM Oil and Gas index, and any other reputational considerations. This discretion could be used to reduce the awards made down to zero.

The participants in the scheme had to invest into the scheme to participate, risking personal funds. If the Milestones and share price hurdles are not met, the funds invested will be lost in their entirety. 420 VCP Growth Shares were granted to executive directors of Hurricane, 140 to each of Dr Robert Trice, Alistair Stobie and Neil Platt. Further details of directors' awards and share options at the beginning and end of the year are outlined in the table on page 62.

### VCP Milestones vesting at Expiry

| Milestones                         | Lancaster field appraisal                                       | Secure financing for the EPS | Successful EPS               |   |   |
|------------------------------------|---|------------------------------|------------------------------|---|---|
|                                    |   |                              | Achieve first oil in H1 2019 | Demonstrate long-term sustainable production from the EPS | Demonstrate Lancaster Board approved reserves |
| Maximum vesting                    | 30%   | 20%                          | 20%                          |   |   |
| Score to date                      | 30%   | 15%                          | n/a                          |   |   |
| Share price hurdle                 | £0.55 (zero value below this)                                   |                              |                              |   |   |
| Other conditions determining value | Total Shareholder Return with reference to FTSE AIM oil and gas |                              |                              |   |   |
|                                    | HSSEQ   |                              |                              |   |   |

The maximum vesting of Growth Shares at Expiry, based on the scoring to date, subject to achieving the hurdle price of £0.55 per share, and assuming achievement of the 'Successful EPS' Milestone (in practice not achievable until 2019 at the earliest), would be 65% of the Growth Shares.

### VCP Milestones vesting on maturity event

|                                    | Production Maturity   |   | Transaction Maturity          |  |
|------------------------------------|---|---|-------------------------------|--|
|                                    | Enhance production through incremental infrastructure           | Hurricane Energy plc change of control, or a significant sale or disposal |                               |  |
| Maximum vesting                    | 100%  |   | 100%                          |  |
| Share price hurdle                 | £0.55 (zero value below this)                                   |   | £0.65 (zero value below this) |  |
| Other conditions determining value | Total Shareholder Return with reference to FTSE AIM oil and gas |   |                               |  |
|                                    | HSSEQ   |   |                               |  |

Where the VCP vests on a Production Maturity or Transaction Maturity event, participants are entitled to a maximum award of 100%, subject to the other conditions determining value and share price hurdles as set out in the table above.

The plan is subject to leaver and malus/clawback provisions.

### Performance Share Plan 2017 (2017 PSP)

In December 2017, the Company introduced a new 2017 PSP to award share incentives in the form of conditional share awards to certain employees (not to those executive directors currently participating in the VCP). The plan's purpose is to incentivise, attract and retain key new employees crucial to the delivery of the Group's strategy. The PSP has performance conditions in line with those of the VCP so as to align the interests of these new employees to the delivery of value to shareholders. The performance conditions are linked to key strategic Milestones and each has a percentage weighting. The committee has discretion to deem that performance conditions have been achieved, fully or in part, and apply a reduced percentage success figure, as with the VCP.

The number of conditional share awards granted to an employee under the new PSP is based on the employee's salary and the date of commencement of employment. The level of awards granted are calibrated to ensure participants do not benefit from milestones achieved prior to their commencement of employment.

The plan is subject to leaver and malus/clawback provisions.

### Share Incentive Plan (SIP)

The Company operates an HMRC-approved Share Incentive Plan to encourage and deepen share ownership in the Company. The plan operates on an annual basis (usually in January) whereby it purchases partnership shares and grants matching and free shares to employees. Global Shares Trustee Company Limited are the trustee of the Hurricane Energy plc Share Incentive Plan. SIP awards are partly satisfied by the issue of new Ordinary Shares to the SIP Trustee at a subscription price of £0.001 per share, being the nominal value of the shares. Each participating employee receives an allocation of Partnership Shares (being shares acquired at market value using contributions deducted from employees' pre-tax salaries), together with Matching Shares (being Ordinary Shares of twice the number of Partnership Shares acquired by an employee which are paid for by the Company;) and Free Shares (being Ordinary Shares to a value not exceeding £3,600 in the tax year, which are paid for by the Company). Matching Shares and Free Shares awarded within the preceding three years will be forfeited by employees upon termination of their employment with Hurricane, unless the employee is a good leaver. Details of SIP share awards to directors can be found in the table on page 62.

### Performance Share Plan 2013 (2013 PSP)

In April 2013, all awards under a previous legacy long-term incentive plan were surrendered and replaced with awards under a new PSP, entitled the 2013 PSP. When the Company introduced the VCP in 2016 all employees and directors who entered into the VCP were required to forfeit any 2013 PSP awards. Lapsed awards of directors are shown in the directors share awards table on page 62.

A mirror image plan (the Hurricane Energy 2013 Nominal Cost Option Plan, referred to as the "NED Plan") was also introduced at the same time as the 2013 PSP for the purpose of enabling conditional awards of nil cost options to the Group's non-executive directors. This NED Plan operated on materially the same terms and conditions as the 2013 PSP. However, as the Company transitions to a potential Premium Listing and is preparing its governance processes for such an event, it was believed that these awards might hinder the independence of the current non-executive directors. On 18 December both Dr David Jenkins and John van der Welle forfeited their awards for nil consideration, in order that they could be deemed independent under the Code.

The plan is subject to leaver and malus/clawback provisions.



## Directors' Remuneration Report continued

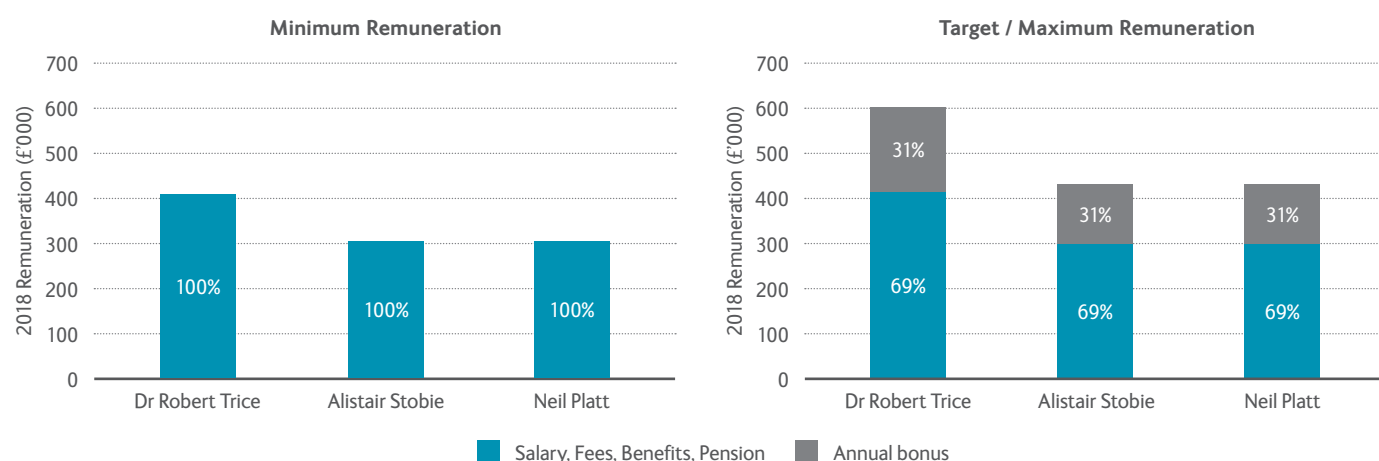
Further information on our share based incentive plans and Remuneration Policy continued

### Share Option Plan 2011

There remains one legacy share option plan from the pre-IPO period of the Company which was a scheme implemented in 2011. There are no intentions to operate this scheme further. Dr Robert Trice participated in this plan and has 225,000 options outstanding at an exercise price of £1.00. These options are exercisable from 25 January 2014 to 31 December 2020 although currently they have no intrinsic value. Details of these share awards are shown in the directors' share awards table on page 62.

### Amounts executive directors could earn under the Remuneration Policy

The charts above outline how much the CEO, COO and CFO could earn under the Company's Remuneration Policy based on their salaries as at 1 January 2018.



#### Notes to executive director remuneration charts:

- Minimum Performance includes only base salary, benefits and cash in lieu of pension.
- Bonus cap of 50% is paid under the case where all of the Performance Measures are achieved. Although Performance Measures are set at an ambitious level as a whole, there is no level of performance deemed to be on-target for individual measures below the maximum, and there is therefore no 'on-target' performance target below the maximum case.
- No long-term incentive plan schemes are expected to vest based on performance criteria achievable in 2018. The VCP requires a maturity event, in the form of a Production Maturity, Transaction Maturity or Expiry (as described on pages 54 and 55) in order to vest. As at the date of this report the price of Ordinary Shares is also below the hurdle price for any vesting to take place. Therefore, the value that would have been included in the chart would be zero. Instead of including a portion of the potential value of the scheme to each executive director on this chart, two potential VCP vesting scenarios are laid out below.

### Example share based payments under the Group's Remuneration Policy

The Group's VCP and PSP (2013 and 2017) schemes are all subject to the same share price hurdles and have no value to employees below a hurdle price of £0.55 per share (or £0.65 per share in the case of an early vesting from a Transaction Maturity Event). The maximum value to executive directors and employees is therefore zero at current share prices or using any recent average, as required under Companies Act illustrations. To demonstrate the potential impact to investors of these schemes under a scenario where the VCP does have value, the directors have chosen to consider two hypothetical scenarios where the hurdle price is achieved and a vesting therefore takes place.

The first hypothetical scenario assumes that the scheme reaches the end of its vesting period (in November 2021) with the hurdle price of £0.55 per share having been achieved for the required period (Expiry). Assuming prior exercise of in-the-money options and outstanding warrants but no exercise of the 2017 Convertible Bond (since it matures in July 2022), the total number of Ordinary Shares outstanding in issue would be 1,990,015,948. At £0.55 per share, the Company's market capitalisation would be £1,095 million, or £418 million over the market capitalisation calculated at the Threshold Value for the VCP (which is linked to £0.34 per share). Without a Maturity Event, the maximum vesting based on Milestone scoring to date would be 65%. Subject to committee discretion on Total Shareholder Return, health, safety and environment performance, and reputational considerations, in this scenario a maximum of 41 million Ordinary Shares would be issuable under the VCP and 17 million would be issuable under the PSPs. This would result in total Ordinary Shares outstanding being 2,048,964,926. Total shares issued under the VCP and PSP would represent around 2.9% of the total Ordinary Shares outstanding in issue. The value of the Ordinary Shares issued to each executive director in this hypothetical scenario would be £4 million.

The second hypothetical scenario assumes a Transaction Maturity event, such as a change of control transaction, were to take place on 10 April 2018 (the date of release of our annual results), at precisely the hurdle price of 65p. To demonstrate a maximum possible pay-out in this scenario, we have assumed prior exercise of all in-the-money options, outstanding warrants, and have assumed conversion of the Convertible Bond at the adjusted change of control conversion price. Under these circumstances, the total number of Ordinary Shares outstanding in issue would be 2,527,155,766. A transaction as described above at £0.65 per share would therefore value the Company's ordinary shares at £1,643 million, or £783 million over the threshold value for the VCP. Subject to Remuneration Committee discretion on Total Shareholder Return, health, safety and environmental performance, and reputational considerations, in this scenario a maximum of 101 million Ordinary Shares would be issuable under the VCP and 30 million would be issuable under the PSPs. This would result in total Ordinary Shares outstanding being 2,658,068,617. Total shares issued under the VCP and PSP would represent around 4.9% of the total Ordinary Shares outstanding in issue. The value of the Ordinary Shares issued to each executive director in this hypothetical scenario would be £11 million.

### Consideration of employment conditions elsewhere in the Company

The Company does not consult with employees on executive remuneration. The size and scope of Hurricane's operations at this stage in its development would make any consultation process ineffective. As Hurricane develops and should it attain a potential Premium Listing, the committee will continue to keep this matter under review and consider adopting appropriate policies to address this matter.

### Differences in Remuneration Policy for executive directors compared to other employees

The Company has developed a remuneration policy for all employees which incentivises everyone to deliver on the key strategic milestones and create value for all

shareholders. The level of reward and variable pay that can be achieved by the executive directors and certain key senior managers is commensurate with their roles and responsibilities as this group has the greatest potential to influence the Milestones of the VCP. Furthermore, all employees are invited to participate in the SIP

### Recruitment Policy including executive directors

Due to the size and scope of Hurricane, the committee to date does not operate a formal recruitment policy, instead it addresses the recruitment of key personnel to fulfil key roles, including those at Board-level, on a case by case basis. The Remuneration Policy for executive directors, as outlined in this report, is the basis upon which future Board-level recruitment will be considered. As the Company matures and develops, such a policy will be further developed and implemented as appropriate.

### Dilution

The Company has, at all times, complied with the dilution limit contained within the rules of each share plan (principally an aggregate limit of 10% of the issued share capital of the Company in any 10-year period), and the committee reviews the position before any proposed grant to ensure this limit is not breached. Existing share options and PSP awards granted under the Company's share option and PSP schemes to date equated to less than 0.4% of the current issued Ordinary Shares of the Company at the end of the year in review (2016: 0.8%). As outlined above, the VCP is structured so that it cannot lead to dilution of greater than 8.4% upon successful vesting. Therefore, taken together, all of the Company's share schemes remain within the 10% limit.

### Shareholder views

The Company has not, to date, sought formal shareholder approval for its Remuneration Policy. However, the committee is committed to shareholder dialogue and will endeavour to meet with shareholders as appropriate to address any issues that may arise. During the year, the Chairman of the committee spoke with a number of major shareholders in relation to the Remuneration Policy.



## Directors' Remuneration Report continued

### Annual Report on Remuneration

This section of the report has been prepared on a voluntary basis to be consistent with the Remuneration Reports prepared by Premium Listed companies. The sections of the Annual Report on Remuneration that are subject to audit are indicated accordingly.

#### Remuneration Committee composition

The Remuneration Committee is chaired by Dr David Jenkins. During the year, the committee was also comprised of John van der Welle, Dr Robert Arnott and Roy Kelly. Dr Robert Arnott ceased to be a member upon his resignation on 8 November 2017. Roy Kelly stepped down as a committee member on 17 December 2017. Roy Kelly, Kerogen's shareholder nominee director, was a committee member in accordance with the Kerogen Relationship Deed, dated 18 April 2016 (Kerogen being the Company's largest shareholder). As the Company is looking to potentially transition to a Premium Listing and as part of the governance enhancements, Kerogen agreed to amend its Relationship Deed during the year and this was the reason for the change in composition of the committee.

The Company Secretary services the committee as required by the Chairman of the committee.

Currently the composition of the committee does not conform to the provisions of the Code. This is a temporary situation. When Dr David Jenkins stepped up to be Interim Chairman on 8 November 2017, he was not considered independent on appointment under the Code, therefore leaving at present only one independent director on the committee (John van der Welle). As announced on 17 January 2018, this situation will be resolved upon the appointment of a new independent Company Chairman and the subsequent appointment of new independent non-executive directors who will join the committee as appropriate. Upon the appointment of the new Chairman, Dr David Jenkins will revert to his role of Senior Independent director and be deemed fully independent under the Code, therefore, the committee will be made up of fully independent directors.

#### Independence of committee members

| Name               | Independence   |
|--------------------|--|
| Dr David Jenkins   | No (will revert to being independent upon appointment of the new Chairman) |
| John van der Welle | Yes  |
| Dr Robert Arnott*  | Deemed independent on appointment as Company Chairman                      |
| Roy Kelly**        | No   |

\* Resigned 8 November 2017.

\*\* On 17 December 2017 stepped down as a member but will be invited to attend meetings as per the amended Kerogen Relationship Deed.

#### Meetings

The committee had four scheduled and four unscheduled meetings during the year under review. The attendance of the committee members is shown below. Members of the committee, during the year under review, consulted with all relevant parties internally, and the relevant executive directors were invited to attend committee meetings as appropriate. No individual was present during discussions relating to his or her own remuneration.

| Name               | Meetings attended |
|--------------------|-------------------|
| Dr David Jenkins   | 8/8               |
| John van der Welle | 8/8               |
| Dr Robert Arnott*  | 5/6               |
| Roy Kelly**        | 6/8               |

\* Resigned 8 November 2017.

\*\* On 17 December 2017 stepped down as a member but will be invited to attend meetings as per the amended Kerogen Relationship Deed.

#### Role

The committee's primary objective is to ensure that reward packages for executive directors and key senior management are competitive in order to attract and retain the best talents to deliver the Group's strategic priorities and ensure that these reward packages are directly linked to the achievement of performance targets in pursuit of the strategy and align the interests of the directors with those of shareholders. The committee determines the framework and policy for the remuneration of the executive directors and is responsible for reviewing them annually for appropriateness and relevance. It is also responsible for determining the specific elements of the executive directors' remuneration, their contractual terms and their compensation arrangements. The committee's terms of reference are available on the website at [www.hurricaneenergy.com](http://www.hurricaneenergy.com). Under the work of the Listing and Governance Committee these terms of reference were reviewed at the end of 2017 to ensure that they continue to be fit for purpose for the Company, meet best practice and aid the transition of the Company to a possible Premium Listing.

#### Independent advisers

The committee in the past has been advised by external advisors, Kepler – specialist remuneration consultants (now part of Mercer), Dentons, and Grant Thornton. During the year, advice was given on the introduction of the SIP and on the VCP and 2017 PSP by Kepler and by Dentons. Of these advisers only Dentons provide other services, being the Solicitors to the Company.

#### Payments for remuneration advice

| Entity  | Amounts paid 2017<br>£'000 | Amounts paid 2016<br>£'000 |
|---------|----------------------------|----------------------------|
| Kepler  | 19                         | 65                         |
| Dentons | 15                         | 92                         |
| Total   | 34                         | 157                        |

#### How the Remuneration Policy was implemented in 2017

During 2017, the remuneration packages for the executive directors consisted of a basic competitive salary, benefits, an annual bonus scheme and participation in a long-term incentive plan, being the VCP and the Company's SIP.

#### Salary

Basic annual salaries are reviewed annually by the committee and for the year in review (2017) were: Dr Robert Trice (£375,000), Neil Platt (£275,000) and Alistair Stobie (£275,000).

The committee is of the view that in each case basic salary levels reflect the competitive market level for the role and the specialist skillset and individual's contribution. A detailed table of remuneration for all directors (single figure remuneration) is outlined on page 61.

#### Benefits and pension

Hurricane offers a typical voluntary package of benefits to directors and employees including optional enrolment in healthcare, dental and travel insurance, death in service and critical illness plans. There is no variation across employees.

In 2017, Hurricane contributed to personal pension schemes for all employees. Executive directors currently receive a cash allowance in lieu of pension. Hurricane contributes up to 10% of employees' salaries, provided that they make a 4% contribution.

#### Annual bonus

The maximum 2017 annual cash bonus that could be earned by executive directors was 50% of basic salary. The committee, having considered the 2017 Corporate Scorecard and KPI targets, awarded 41.25% of basic salary as a cash bonus to each executive director for 2017. The extent of achievement for all executive directors against their performance scorecard is detailed below.

#### Performance Measures for the annual bonus award

The committee agrees an annual balanced Corporate Scorecard of Performance Measures and target weightings. The scorecard is designed so as not to overlap with the Milestones of the VCP which represent longer-term strategic value-generating events. The metrics chosen aim to underpin the Company's operational success in the chosen year and include performance measures in the following key areas: HSSE&Q; Operations; Subsurface Drilling Strategy; Financial, Investor Relations; and Corporate. The relative weightings outlined below apply to all executive directors and there are no individual ratings. A maximum score of 100% equates to a bonus of 50% of salary. The committee has discretion to over-ride the rating in its entirety, in the event of a significant HSSE incident such as a fatality.



# Directors' Remuneration Report continued

Annual Report on Remuneration continued

## Performance Measures

|                  | HSSEQ | Operations |     |            | Corporate / IR | Finance |
|------------------|-------|------------|-----|------------|----------------|---------|
|                  |       | Drilling   | EPS | Subsurface |                |         |
| 2017 Weighting   | 20%   | 25%        | 35% | 10%        | 10%            |         |
| 2017 Achievement | 20%   | 10%        | 35% | 7.5%       | 10%            |         |
| 2018 Weighting   | 25%   | 50%        |     | 10%        | 5%             | 10%     |

Further details of the Key Performance Indicators and Performance Measures are found on pages 16 and 17 of the Strategic Report.

Further details of the bonus payment made to the executive directors in respect of the year ended 31 December 2017 are disclosed in the directors' remuneration table on page 61.

## Payments for loss of office

There were no payments for loss of office in 2017. Dr Robert Arnott who resigned on 8 November 2017 received pay in lieu of notice in accordance with his Letter of Appointment.

## Non-executive directors' remuneration

The fees payable to the non-executive directors are determined by the Board, taking into account the time commitment required, the responsibilities assumed and comparative market rates. No director plays a part in any discussion about their own remuneration. At the end of 2017, as part of the work on Corporate Governance enhancements commenced by the Listing and Governance Committee, the Company updated its Letters of Appointment to the non-executive directors, in line with best practice. The fee arrangements were also reviewed at this time. The new fees effective from 1 January 2018 paid to non-executive directors are presented in the table below. Details of the fees paid to non-executive directors in 2017 are set out in the directors' remuneration table on page 61.

| Current fees payable to non-executive directors                         |          |
|---|----------|
| Annual Fee (Interim Chairman) <sup>1</sup>                              | £150,000 |
| Annual Fee (non-executive director)                                     | £60,000  |
| Additional Annual Fee (Senior Independent director)                     | £10,000  |
| Additional Annual Fee (Audit and Risk Committee Chairman)               | £10,000  |
| Additional Annual Fee (Remuneration Committee Chairman)                 | £10,000  |
| Additional Annual Fee (Nominations Committee Chairman) <sup>3</sup>     | £10,000  |
| Additional Fee (Listing and Governance Committee Chairman) <sup>2</sup> | £20,000  |

1. In the case of Dr David Jenkins, who was appointed on 8 November as the Interim Chairman, the committee agreed that he would be entitled to an annual fee of £150,000 paid in equal instalments monthly in arrears with effect from 1 January 2018, until such time as a permanent Chairman has been appointed. The fee includes the fee for his appointments as the Chairman of the Nominations Committee during his tenure as Interim Chairman and his Remuneration Committee Chairmanship during this interim period.

2. In the case of John van der Welle, who was appointed as Chairman of the Listing and Governance Committee, a temporary Board committee, it was agreed that he would be entitled to an additional fixed fee of £20,000, paid in equal instalments monthly in arrears for the period 1 November 2017 to 30 June 2018.

3. Where the Nominations Committee Chairman's role is fulfilled by the Company's Chairman, there is no additional fee included in the Chairman's remuneration.

## Directors' single figure remuneration for the year ended 31 December 2017 (audited information)

|                                    | Salary/fee<br>£'000 | Taxable<br>benefits <sup>8</sup><br>£'000 | Cash<br>bonus<br>£'000 | SIP<br>£'000 | Deferred<br>shares<br>bonus <sup>7</sup><br>£'000 | LTIP<br>£'000 | Pension<br>contributions<br>& payments in<br>lieu of pensions<br>£'000 | Total<br>£'000 |
|------------------------------------|---------------------|---|------------------------|--------------|---|---------------|--|----------------|
| <b>Year Ended 31 December 2017</b> |                     |   |                        |              |   |               |  |                |
| Dr Robert Trice                    | 375                 | 2   | 155                    | 7            | –   | –             | 33   | 572            |
| Alistair Stobie                    | 275                 | –   | 113                    | 7            | –   | –             | 24   | 419            |
| Neil Platt                         | 275                 | 2   | 113                    | 7            | –   | –             | 24   | 421            |
| Dr Robert Arnott <sup>1</sup>      | 223                 | –   | –                      | –            | –   | –             | –  | 223            |
| Dr David Jenkins                   | 55                  | –   | –                      | –            | –   | –             | –  | 55             |
| John van der Welle <sup>2</sup>    | 60                  | –   | –                      | –            | –   | –             | –  | 60             |
| Roy Kelly <sup>3</sup>             | 55                  | –   | –                      | –            | –   | –             | –  | 55             |
|                                    | <b>1,318</b>        | <b>4</b>                                  | <b>381</b>             | <b>22</b>    | <b>–</b>  | <b>–</b>      | <b>81</b>  | <b>1,805</b>   |

## Year Ended 31 December 2016

|                                     |              |          |            |           |            |          |           |              |
|-------------------------------------|--------------|----------|------------|-----------|------------|----------|-----------|--------------|
| Dr Robert Trice                     | 375          | 2        | 313        | 7         | 187        | –        | 34        | 918          |
| Nicholas Mardon Taylor <sup>4</sup> | 23           | –        | –          | 7         | 138        | –        | 2         | 170          |
| Alistair Stobie <sup>5</sup>        | 215          | –        | 229        | –         | –          | –        | 24        | 468          |
| Neil Platt                          | 269          | 2        | 229        | 7         | 138        | –        | 31        | 676          |
| John Hogan <sup>6</sup>             | 55           | –        | –          | –         | –          | –        | –         | 55           |
| Dr Robert Arnott <sup>1</sup>       | 75           | –        | –          | –         | –          | –        | –         | 75           |
| Dr David Jenkins                    | 55           | –        | –          | –         | –          | –        | –         | 55           |
| John van der Welle <sup>2</sup>     | 55           | –        | –          | –         | –          | –        | –         | 55           |
| Roy Kelly <sup>3</sup>              | 35           | –        | –          | –         | –          | –        | –         | 35           |
|                                     | <b>1,157</b> | <b>4</b> | <b>771</b> | <b>21</b> | <b>463</b> | <b>–</b> | <b>99</b> | <b>2,507</b> |

1. Joined 1 March 2016. Resigned 8 November 2017. During the year due to a period of intense and increased workload as the Company sought to secure its fundraising and achieve the FDP, the demand on the Chairman's time also increased. An additional daily fee of £2,000 (excluding VAT) was agreed. The total amount paid to Dr Robert Arnott under this additional arrangement, up to the date of his resignation, was £123,000. The amount paid as his fee as Chairman up to the 8 November 2017 was £77,000 and upon resignation he was paid £23,000 for pay in lieu of notice (PILON).

2. £28,000 of fees in 2017 and £27,500 of fees in 2016 were paid to Northlands Advisory Services Limited, a company controlled by John van der Welle for consultancy services, under a contract terminated with effect from 17 December 2017.

3. Joined 10 May 2016; 100% of non-executive director fees were paid to Kerogen Capital.

4. Retired 31 January 2016.

5. Joined 16 March 2016.

6. Resigned 1 March 2016.

7. Deferred bonus shares issued in 2016 with respect to services provided in 2014.

8. Taxable benefits include a voluntary package of benefits to directors including optional enrolment in healthcare, dental and travel insurance.

## Directors' Remuneration Report continued

Annual Report on Remuneration continued

### Share awards held under long-term incentive plans as at 31 December 2017 (audited information)

| Grant date                         | Award                             | As at<br>1 Jan 17 | Granted  | Exercised | Lapsed /<br>forfeited | As at<br>31 Dec 17 | Exercise<br>price | Date<br>from which<br>exercisable | Expiry<br>date |
|------------------------------------|-----------------------------------|-------------------|----------|-----------|-----------------------|--------------------|-------------------|-----------------------------------|----------------|
| <b>Dr Robert Trice<sup>2</sup></b> |                                   |                   |          |           |                       |                    |                   |                                   |                |
| 25/01/2011                         | Share option                      | 225,000           | –        | –         | –                     | 225,000            | £1.00             | 25/01/2014                        | 31/12/2020     |
| 17/04/2013                         | 2013 PSP <sup>1</sup>             | –                 | –        | –         | –                     | –                  | £nil              | n/a                               | n/a            |
| <b>Neil Platt<sup>2</sup></b>      |                                   |                   |          |           |                       |                    |                   |                                   |                |
| 17/04/2013                         | 2013 PSP <sup>1</sup>             | –                 | –        | –         | –                     | –                  | £nil              | n/a                               | n/a            |
| <b>Alistair Stobie<sup>2</sup></b> |                                   |                   |          |           |                       |                    |                   |                                   |                |
| 16/03/2016                         | 2013 PSP <sup>1</sup>             | –                 | –        | –         | –                     | –                  | £nil              | n/a                               | n/a            |
| <b>Dr David Jenkins</b>            |                                   |                   |          |           |                       |                    |                   |                                   |                |
| 17/04/2013                         | 2013 PSP<br>Ned Plan <sup>1</sup> | 333,333           | –        | –         | (333,333)             | –                  | £nil              | n/a                               | 07/11/2021     |
| <b>John van der Welle</b>          |                                   |                   |          |           |                       |                    |                   |                                   |                |
| 17/04/2013                         | 2013 PSP<br>Ned Plan <sup>1</sup> | 333,333           | –        | –         | (333,333)             | –                  | £nil              | n/a                               | 07/11/2021     |
| <b>Total</b>                       |                                   | <b>891,666</b>    | <b>–</b> | <b>–</b>  | <b>(666,666)</b>      | <b>225,000</b>     |                   |                                   |                |

1. On 17 January 2017 the expiry date of the 2013 PSP and NED Plan awards were amended to align them with the expiry date of the Value Creation Plan (VCP).

2. In addition to the PSP award shown above, during 2016, 420 VCP Growth Shares were granted to executive directors of the Company, 140 to each of Dr Robert Trice, Alistair Stobie and Neil Platt. Further details of the VCP are found on pages 54 and 55. When the Company introduced the VCP in 2016, the directors who entered into the VCP were required to forfeit any 2013 PSP awards.

### Share Incentive Plan awards during the year (audited information)

The Company operates a SIP annually to encourage and deepen share ownership in the Company. The awards on 13 January 2017 to the executive directors are outlined in the table below:

#### 2017 executive director SIP awards

| Executive director | Partnership Shares<br>(purchased) | Matching Shares<br>awarded | Free Shares<br>awarded |
|--------------------|-----------------------------------|----------------------------|------------------------|
| Dr Robert Trice    | 3,673                             | 7,346                      | 7,346                  |
| Alistair Stobie    | 3,673                             | 7,346                      | 7,346                  |
| Neil Platt         | 3,673                             | 7,346                      | 7,346                  |

Global Shares Trustee Company Limited (SIP Trustee), trustee of the Hurricane Energy plc SIP, awarded 227,726 Ordinary Shares to participants in the SIP at a price of 49 pence per share, being the closing mid-market price on 12 January 2017.

SIP share awards are included in the table of directors' interests in shares which can be found in the table on page 63.

### Total SIP holding

#### Executive director SIP holdings

|                 | Total SIP holding<br>as at 31 Dec 2017 | Total SIP holding<br>as at 31 Dec 2016 |
|-----------------|--|--|
| Dr Robert Trice | 215,138                                | 196,773                                |
| Neil Platt      | 207,638                                | 189,273                                |
| Alistair Stobie | 18,365                                 | Nil                                    |

### Directors' interests in Ordinary Shares (audited information)

At 31 December 2017, the directors' interests, all of which were beneficial interests, in the Ordinary Shares of the Company were as follows (including all SIP shares held and those of connected persons):

| Beneficial holdings | Number of shares held<br>as at 31 Dec 2017 | Number of shares held<br>as at 31 Dec 2016 |
|---------------------|--|--|
| Dr Robert Trice     | 26,260,024                                 | 26,241,659                                 |
| Neil Platt          | 621,116                                    | 602,751                                    |
| Alistair Stobie     | 18,365                                     | Nil  |
| Dr David Jenkins    | 205,000                                    | 203,338                                    |
| John van der Welle  | 154,159                                    | 154,159                                    |
| Roy Kelly*          | Nil  | Nil  |

All directors are encouraged to hold shares in the Company but are not subject to any formal shareholding requirements.

\* Roy Kelly's direct holding is nil but he is Kerogen Investments' nominated director – Kerogen Investments hold 428,531,211 shares.

### Total interests of directors

| Beneficial holdings<br>at 31 Dec 2017 | Shares in Hurricane Energy plc | SIP Shares in Hurricane Energy<br>plc, Held by SIP Trustee | VCP Growth Shares<br>in Hurricane Group Limited |
|---------------------------------------|--------------------------------|--|---|
| Dr Robert Trice                       | 26,044,886                     | 215,138  | 140   |
| Neil Platt                            | 413,478                        | 207,638  | 140   |
| Alistair Stobie                       | Nil                            | 18,365   | 140   |
| Dr David Jenkins                      | 205,000                        | Nil  | Nil   |
| John van der Welle                    | 154,159                        | Nil  | Nil   |
| Roy Kelly*                            | Nil                            | Nil  | Nil   |

Since the end of the financial year in review (2017) and the date of the signing of the Annual Report and Accounts there were SIP share awards granted to participants in the SIP at a price of 38.86 pence per share, being the closing mid-market price on 24 January 2018. The executive directors were awarded the following shares:

\* Roy Kelly's direct holding is nil but he is Kerogen Investments' nominated director – Kerogen Investments hold 428,531,211 shares.

#### 2018 executive director SIP awards

| Executive director | Partnership Shares<br>(purchased) | Matching Shares | Free Shares<br>Awarded |
|--------------------|-----------------------------------|-----------------|------------------------|
| Dr Robert Trice    | 4,632                             | 9,264           | 9,264                  |
| Alistair Stobie    | 4,632                             | 9,264           | 9,264                  |
| Neil Platt         | 4,632                             | 9,264           | 9,264                  |

### Vesting of long-term incentive plans

There were no long-term incentive plan awards vesting in 2017. The Group had previously operated the 2013 PSP however, following the review in 2016, the Group introduced the VCP. Employees and executive directors receiving awards under the VCP were required to forfeit any 2013 PSP plan awards. Although certain VCP Milestones have been passed, there will be no vesting until a maturity event or the end of the scheme, in November 2021.

There were no long-term incentive plan awards granted to the executive directors during the year 2017.

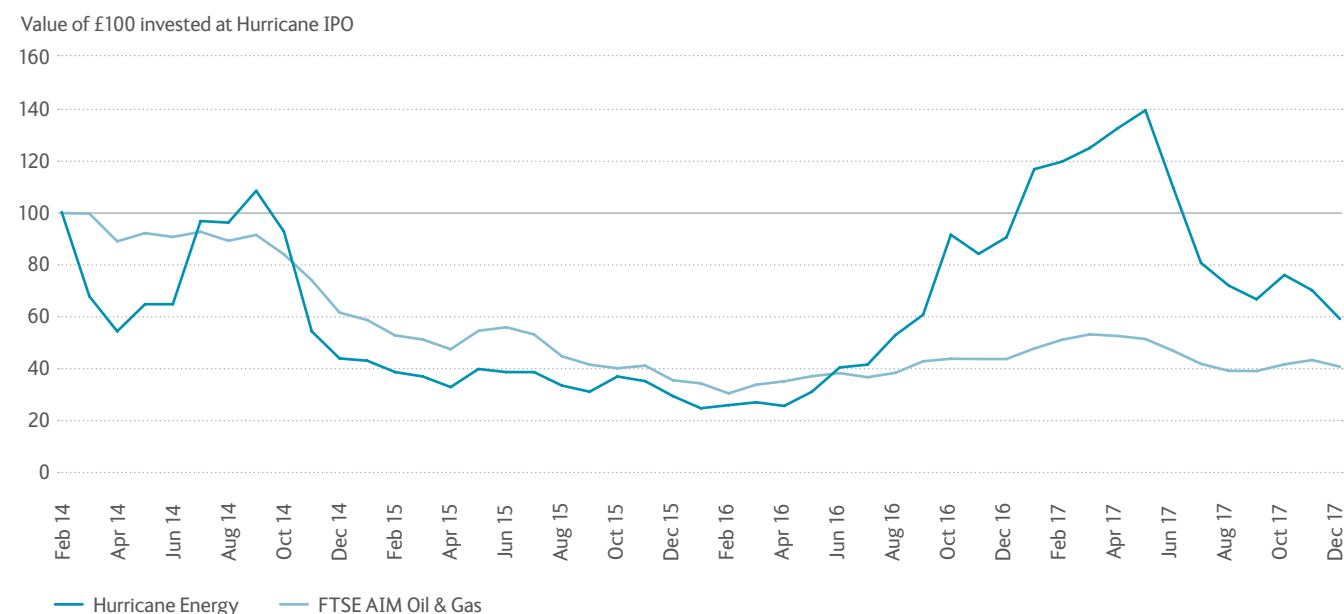


## Directors' Remuneration Report continued

Annual Report on Remuneration continued

### Performance graph

The graph below illustrates the Company's Total Shareholder Return (TSR) performance compared with the FTSE AIM Oil & Gas index, since IPO. The index was selected because it is considered to be an appropriate index for relevant sectoral comparison and is the basis of the TSR performance component of the VCP.



### CEO's remuneration

The single total remuneration figure earned by the Chief Executive Officer in the past five years is shown below. Total remuneration has been calculated to be consistent with the figures disclosed in this report on page 61 and the table also details the proportion of annual bonus and LTIP awards payable and/or vesting in the relevant year.

### Historical pay of CEO

|      | Salary<br>£'000 | Total<br>remuneration<br>£'000 | Portion of<br>bonus awarded<br>% | Percentage of multi-<br>year awards vested<br>which could have vested<br>from achievement of<br>performance targets<br>% |
|------|-----------------|--------------------------------|----------------------------------|--|
| 2017 | 375             | 572                            | 83% <sup>1</sup>                 | -%   |
| 2016 | 375             | 926                            | 84%                              | -%   |
| 2015 | 375             | 413                            | -%                               | -%   |
| 2014 | 375             | 788                            | 50%                              | -%   |
| 2013 | 375             | 533                            | 32%                              | -%   |

1. This equates to 41.25% of base salary. Maximum annual cash bonus that could be earned by executive directors in 2017 was 50% of base salary. Further details are provided on pages 59 and 60.

### Relative Importance of CEO's pay

The relative change in the Chief Executive Officer's pay, relative to employees as a whole, is outlined in the table below:

#### Change in Pay 2016-17

|           | Salary & fees | Taxable benefits | Annual bonus |
|-----------|---------------|------------------|--------------|
| CEO       | -%            | (19%)            | (50%)        |
| Employees | 29%           | 1%               | (38%)        |

Note: The salary of the CEO was unchanged 2016-17, though his taxable benefits changed due to a change in policy options and his annual bonus was reduced in line with the new 50% cap being applied.

### Relative importance of employee pay

|      | Total remuneration paid to employees |          | Distributions to shareholders |          |
|------|--------------------------------------|----------|-------------------------------|----------|
|      | \$'000                               | % change | \$'000                        | % change |
| 2017 | 9,093                                | 7.7%     | Nil                           | -%       |
| 2016 | 8,440                                |          | Nil                           |          |

The Group did not make any distributions to shareholders during the period under review.

### Implementation of Remuneration Policy for 2018

The committee has reviewed the base salary levels for the executive directors and determined that for 2018 (the forthcoming year) no increases will be made. The maximum annual bonus award will remain at 50% of base salary and there will be no changes to other benefits nor pension arrangements. For 2018, the committee will operate a similar scorecard for executive directors' bonuses to that used for 2017, with slightly different weighting across categories. There are no specific on-target levels. See page 60 for the relevant weightings.

### Other Remuneration Report matters

The closing mid-market price for an Ordinary Share in the Company on 31 December 2017 was £0.31/share, and during the year the share price ranged from £0.24/share to £0.67/share.

### Statement of voting

As an AIM quoted company, Hurricane has not to date put its Remuneration Report nor Remuneration Policy to a shareholder vote in general meeting. The Company does not plan to do so at its forthcoming AGM in 2018, whilst it continues to transition and enhance its corporate governance. The committee believes that these governance enhancements should be achieved by the end of 2018 and the Company will be able to review this matter in 2019, as it seeks to achieve compliance.

This Remuneration Report was approved by the Board on 9 April 2018 and signed on its behalf by:

**Dr David Jenkins**

Remuneration Committee Chairman

## Directors' Report

### Company registration

Hurricane Energy plc is a public company limited by shares registered in England and Wales with the registered number 05245689.

### Directors

The directors who held office during the 2017 financial year and up to the date of this report are listed on pages 36 and 37. In addition to the directors listed there, in accordance with the terms of the Kerogen Subscription, in 2016 Roy Kelly appointed Jason Cheng or, in his absence, Leonard Tao as his Alternate director on the Board.

### Jason Cheng Alternate director

Jason is the Managing Partner and Co-Founder of Kerogen Capital, where he serves on its Investment Committee and is responsible for its daily operations. Jason has over 20 years' commercial experience across investing, operations and investment banking. He was previously the Managing Partner of Ancora Capital and, prior to this, he was a managing director of Jade International Capital Partners Limited in Beijing where he was involved in Sino-foreign investments and advisory assignments. He previously worked in investment banking at JP Morgan in the Energy and Natural Resources Group and, prior to this, at Schroders in the energy and Asian M&A teams. Jason is regulated by the FCA in the UK and the Securities and Futures Commission in Hong Kong.

### Leonard Tao Alternate director

Leonard Tao is a managing director of Kerogen Capital, having joined the firm in 2011. Prior to this he spent around nine years in the Energy and Natural Resources Group at J.P. Morgan, in both Australia and Hong Kong, where he managed a wide range of M&A and capital markets transactions in the natural resources sector across numerous geographies, including Asia, Central Asia, Latin America and Africa. Leonard is regulated by the Securities and Futures Commission in Hong Kong.

### Results for the year and dividend

The loss of the Group for the year was \$7,004,000 (2016: profit \$901,000). The directors do not recommend the payment of a dividend.

### Going concern

The directors have a reasonable expectation that, taking into account reasonably possible changes in trading performance, the Group has 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. Further details are provided in the Group Strategic Report on page 22.

### Certain information in the Strategic Report

The following items are set out in the Strategic Report on pages 4 to 33: particulars of important events affecting the Group which have occurred since 31 December 2017; an indication of likely future developments in the business of the Group; policies relevant to greenhouse gas emissions. Financial risk management and objectives and the use of financial instruments are outlined in note 24 of the Group Financial Statements.

### Subsequent events

The key events which have occurred since the end of the Group's financial year are detailed in note 28 of the Group Financial Statements.

### Annual General Meeting (AGM)

The Company's AGM will be held on 6 June 2018. The Notice of AGM is enclosed with this Annual Report and details the resolutions to be proposed at the meeting.

### Rights and obligations of Ordinary Shares

On a show of hands at a general meeting every holder of Ordinary Shares present in person and entitled to vote shall have one vote, and every proxy entitled to vote shall have one vote (unless the proxy is appointed by more than one member in which case the

proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution; or if the proxy has been instructed by one or more shareholders to vote either for or against a resolution and by one or more of those shareholders to use his discretion how to vote). On a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. Subject to the relevant statutory provisions and the Company's Articles of Association, holders of Ordinary Shares are entitled to a dividend where declared or paid out of profits available for such purposes. Subject to the relevant statutory provisions and the Company's Articles of Association, on a return of capital on a winding-up, holders of Ordinary Shares are entitled to participate in such a return. There are no redemption rights in relation to the Ordinary Shares.

### Significant direct and indirect holders of securities

As at 31 December 2017 (and unchanged as at 5 April 2018), the Company had been advised of the following significant direct and indirect interests in the issued ordinary share capital of the Company:

| Name of shareholder                | Percentage notified as at 31 Dec 17 | % Change at 5 Apr 18 |
|------------------------------------|-------------------------------------|----------------------|
| Kerogen Investments No. 18 Limited | 21.9%                               | Nil                  |
| Crystal Amber Fund Limited         | 8.0%                                | Nil                  |
| Pelham Capital Limited             | 6.2%                                | Nil                  |
| The Capital Group Companies, Inc   | 3.9%                                | Nil                  |

### Exercise of rights of shares in employee share schemes

The trustees of the employee trusts do not seek to exercise voting rights on shares held in the employee trusts other than on the direction of the underlying beneficiaries. No voting rights are exercised in relation to shares unallocated to individual beneficiaries.

### Restrictions on voting deadlines

The notice of any general meeting shall specify the deadline for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be proposed at the general meeting. The number of proxy votes for, against or withheld in respect of each resolution will be, from 2018 onwards, publicised on the Company's website after the meeting.

### Political donations

No political donations were made in 2017.

### Auditors

Deloitte LLP have indicated their willingness to be re-appointed as the auditors for the Company and a resolution proposing their re-appointment will be put to the 2018 AGM.

### 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' responsibilities

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 and Article 4 of the IAS Regulation 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 the Group Financial Statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

- make an assessment of the Company's ability to continue as a going concern.

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

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

### Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, 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 position and performance, business model and strategy.

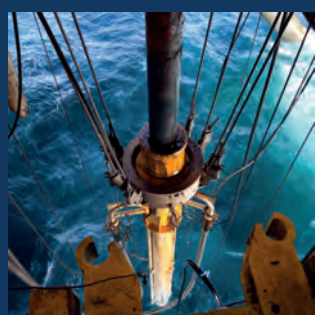
This Directors' Report and Responsibility Statement was approved by the Board on 9 April 2018 and signed on its behalf by:

**Dr Robert Trice**  
Chief Executive Officer

**Alistair Stobie**  
Chief Financial Officer



Our principal financial goals are to manage the existing funds held by the Group to deliver the EPS on schedule and on budget. This will bring us to the point where the EPS begins to generate free cash which can be directed to deliver the Group's long-term strategy.



# Financial Statements

## Financials

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# Independent Auditor's Report

## Opinion

### 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 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

We have audited the financial statements of Hurricane Energy plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the group statement of comprehensive income;
- the group and parent company balance sheets;
- the group and parent company statements of changes in equity;
- the group and parent company cash flow statements; and
- the related notes 1 to 28 in respect of the group and 1 to 11 in respect of the parent company.

The financial reporting framework that has been applied in their preparation is applicable law and 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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard as applied to listed entities were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

|                          |  |
|--------------------------|--|
| <b>Key audit matters</b> | The key audit matters that we identified in the current year were: <ul style="list-style-type: none"> <li>Recoverability of the Lancaster field;</li> <li>Recoverability of Exploration &amp; Evaluation (E&amp;E) assets; and</li> <li>Convertible bond accounting</li> </ul> |
| <b>Materiality</b>       | The materiality that we used for the group financial statements was \$10 million which was determined on the basis of 1.5% of group net assets.  |
| <b>Scoping</b>           | We have performed a full scope audit of all material balances within the group. All the work was performed by the Deloitte London group audit team.  |

### Conclusions relating to going concern, principal risks and viability statement

#### Going concern

We have reviewed the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

#### Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 18 to 21 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 18 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 23 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.



## Independent Auditor's Report continued

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Recoverability of the Lancaster field

**Key audit matter description** During the year, the Lancaster field was reclassified from Exploration & Evaluation (E&E) assets to Property, Plant & Equipment (PP&E), following the approval of the Field Development Plan 'FDP' in September 2017. Under IFRS 6 "Exploration for and evaluation of mineral resources", an impairment test is required, using the principles of IAS 36 "Impairment of Assets", at the point an E&E asset is reclassified to PP&E.

The carrying value of the Lancaster field at the point it was reclassified to PP&E was \$336 million. This is considered a key audit matter due to the significant judgements and estimates involved in the impairment calculation. Due to the importance of the Lancaster field to the group and the judgemental nature of the impairment assessment, we have determined that there was a potential for fraud through possible manipulation of this balance.

In order to assess whether an impairment was required, management calculated the carrying value per barrel of oil equivalent (boe) of the Lancaster field, based on 2P and 2C reserves and resources. This figure was then compared with the prices paid per boe for what management considered to be relevant deals in the offshore European upstream oil & gas market during the last 10 years, again based on both 2P and 2C reserves and resources. The deal data for this analysis was provided by an independent data provider. This "comparable market transactions" approach indicated that the average value paid for the selected deals was in excess of the carrying value per boe of Lancaster. On this basis, management concluded that the fair value of the Lancaster field was in excess of its carrying value and hence that no impairment charge was required.

Further details of the approach adopted by management in this area are provided in note 3 and 11 of the financial statements and in the Audit and Risk Committee Chairman's Report on pages 45 to 48.

### How the scope of our audit responded to the key audit matter

Our procedures included :

- re-performance of management's "comparable market transactions" fair value assessment, including testing of the input data used by management from the independent data provider;
- confirmation that this test indicated an average deal value in excess of the carrying value per boe of the Lancaster field; and
- assessment of the independence and objectivity of the independent data provider.

As a further challenge of management's impairment assessment we estimated the value in use of the Lancaster field as at September 2017 based solely on the 2P reserves associated with the Early Production System (EPS). In order to do this, we obtained management's discounted cash flow model for the Greater Lancaster Area and adjusted it to exclude all cash inflows and outflows that are not directly associated with the assumed six-year term of the EPS. We also performed the following procedures on the resulting cash flow model :

- compared the assumed oil price in the model with third party forecasts and publicly available forward curves;
- compared the total forecast production with the report of the company's independent reservoir engineer;
- communicated directly with the independent reservoir engineer to discuss and assess their scope of work, expertise and objectivity;
- benchmarked the post tax nominal discount rate of 10% utilised in management's model with the discount rate adopted by a selection of the company's peer group;
- assessed management's other assumptions by reference to third party information and our knowledge of the group and the industry; and
- tested the cash flow model for mechanical accuracy.

**Key observations** We are satisfied that no impairment was required upon the reclassification of the Lancaster field to PP&E in September 2017.

### Recoverability of Exploration and Evaluation assets

**Key audit matter description** The total value of the group's E&E assets at 31 December 2017 was \$126.4 million. In accordance with relevant accounting standards, E&E assets are assessed for impairment at least annually. This is considered a key audit matter due to the significant judgements that are required, which include the effect of the significant and prolonged fall in oil prices on the viability of these E&E projects.

Management assessed whether there are any indicators of impairment of the group's E&E assets by reference to IFRS 6 "Exploration for and evaluation of mineral resources". Such indicators include

- The period for which the entity has the right to explore in the specific area has expired;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

As disclosed in note 12 of the financial statements, during the year an impairment charge of \$8.4 million was recorded in respect of the Typhoon and Tempest licences following a decision to relinquish the licence at the end of its term. Management has also recorded a charge of \$2.0 million to fully impair the Strathmore asset as substantive expenditure on this asset is neither budgeted nor planned.

Further details of the approach adopted by management in this area are provided in note 3 and 12 of the financial statements and in the Audit and Risk Committee Chairman's Report on pages 45 to 48.

### How the scope of our audit responded to the key audit matter

Our procedures included :

- Participating in meetings with key operational and finance staff to understand the current status and future intentions for each asset;
- Assessing whether all assets which remain capitalised are included in future budgets and, if they are not, understanding the basis by which management anticipate being able to recover the amounts that have been capitalised; and
- Identifying any fields where the Group's licences are at or close to expiry and challenging management's intention and ability to renew any such license.

**Key observations** We are satisfied that it is appropriate to fully impair the Tempest / Typhoon and Strathmore assets. We are also satisfied that there are no impairment indicators for the remainder of the group's E&E assets. We highlight however that successful development of these assets is dependent on additional (currently uncommitted) funding being received.

## Independent Auditor's Report continued

### Convertible bond accounting

**Key audit matter description** In July 2017, the parent company raised \$230 million (before expenses) from the successful placement of convertible bonds. The conversion feature of the bonds has been classified as an embedded derivative and measured at fair value through profit and loss. The difference between the fair value of the proceeds received and the fair value of the embedded derivative has been recognised as a debt component which is recognised at amortised cost.

The accounting for the convertible bonds, including the associated valuation of the embedded derivative, is considered a key audit matter due to the complexity of the accounting rules in this area and the judgements that need to be applied in assessing the appropriate valuation of the conversion feature. The valuation was based on a simulation model with a number of input assumptions, of which the most judgemental was share price volatility.

Further details of the approach adopted by management in this area are provided in notes 3, 18 and 24 of the financial statements and in the Audit and Risk Committee Chairman's Report on pages 45 to 48.

**How the scope of our audit responded to the key audit matter** Our procedures included:

- tracing the bond receipts and related transaction costs to bank statements;
- reading the convertible bond terms and confirming that it is appropriate to account for the conversion feature as an embedded derivative at fair value through profit and loss, with the residual balance accounted for as a host debt contract at amortised cost;
- using our internal valuation specialists to test the valuation of the embedded derivative, including confirming the appropriateness of the simulation model and the reasonableness of volatility and other key input assumptions; and
- testing the calculation of the residual host debt component.

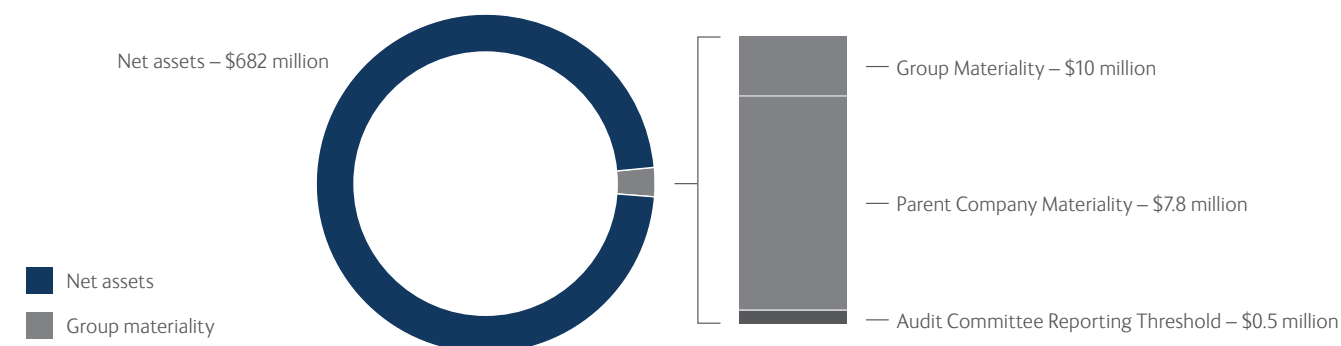
**Key observations** We are satisfied that the accounting treatment of the convertible bond is in accordance with the relevant accounting rules and that the valuation of the associated embedded derivative due to the conversion feature is reasonable.

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

|  | Group financial statements  | Parent company financial statements  |
|--|---|--|
| <b>Materiality</b>                         | \$10 million  | \$7.8 million  |
| <b>Basis for determining materiality</b>   | 1.5% of net assets  | 1.5% of net assets   |
| <b>Rationale for the benchmark applied</b> | The nature of Hurricane as a pre-production upstream business means that the group is not revenue generating. We have therefore concluded that net assets represents the most appropriate benchmark which reflects the long-term value of the group through its portfolio of exploration and development stage assets and their associated reserves and contingent resources. | As the primary nature of the parent company is to hold investments in subsidiaries as well as to raise debt and equity financing, we have concluded that net assets is the most appropriate benchmark. |



We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of \$0.5 million as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. All significant elements of the group's finance and accounting function are situated and managed centrally in the UK, and operate under one common internal control environment; all operations of the group are also managed from this location. Accordingly, we concluded that the group's business represented a single component and therefore all operations of the group were subject to a full scope audit.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

**Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

**Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

**Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.



## Independent Auditor's Report continued

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

This report is made solely to the 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.

### Report on other legal and regulatory requirements

#### Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

#### Opinions on other matters prescribed by our engagement letter

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006 that would have applied were the company a quoted company.

#### Matters on which we are required to report by exception

##### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

##### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### Deloitte LLP

#### David Paterson ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP  
Statutory Auditor  
Deloitte UK

9 April 2018

## Group Statement of Comprehensive Income

for the Year Ended 31 December 2017

|  | Notes | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|--|-------|-------------------------------------|--|
| Write off / impairment of intangible exploration and evaluation assets | 12    | (10,412)                            | –  |
| Other operating expenses   |       | (14,586)                            | (8,865)  |
| <b>Operating loss</b>  | 6     | <b>(24,998)</b>                     | (8,865)  |
| Interest income  | 7     | 880                                 | 89   |
| Foreign exchange gains   |       | 8,020                               | 2,493  |
| Finance costs  | 7     | (1,322)                             | (88)   |
| Fair value gain on derivative financial instruments                    | 24    | 10,416                              | –  |
| <b>Loss before tax</b>   |       | <b>(7,004)</b>                      | (6,371)  |
| Tax  | 9     | –                                   | 7,272  |
| <b>(Loss) / profit for the year</b>                                    |       | <b>(7,004)</b>                      | 901  |
| Exchange difference on translation                                     |       | –                                   | (56,330)   |
| <b>Total comprehensive loss</b>  |       | <b>(7,004)</b>                      | (55,429)   |
| (Loss) / Earnings per share, basic and diluted                         | 10    | (0.46 cents)                        | 0.10 cents                                       |

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

1. Balances have been restated to US Dollars. See note 2.2 for details.

## Group Balance Sheet

as at 31 December 2017

|  | Notes | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 | 1 Jan 2016 <sup>1</sup><br>\$'000 |
|--|-------|-----------------------|------------------------------------|-----------------------------------|
| <b>Non-current assets</b>                    |       |                       |                                    |                                   |
| Property, plant and equipment                | 11    | 445,291               | 18                                 | 133                               |
| Intangible exploration and evaluation assets | 12    | 126,365               | 302,539                            | 260,555                           |
| Other receivables                            | 13    | 202                   | 161                                | 193                               |
| Other non-current assets                     | 16    | 16,089                | 2,875                              | 3,431                             |
|  |       | <b>587,947</b>        | 305,593                            | 264,312                           |
| <b>Current assets</b>                        |       |                       |                                    |                                   |
| Inventory                                    | 14    | 1,434                 | 443                                | 607                               |
| Trade and other receivables                  | 15    | 4,737                 | 7,273                              | 622                               |
| Liquid investments                           | 16    | 201,973               | –                                  | –                                 |
| Cash and cash equivalents                    | 16    | 141,956               | 98,607                             | 11,284                            |
|  |       | <b>350,100</b>        | 106,323                            | 12,513                            |
| <b>Total assets</b>                          |       | <b>938,047</b>        | 411,916                            | 276,825                           |
| <b>Current liabilities</b>                   |       |                       |                                    |                                   |
| Trade and other payables                     | 17    | (28,833)              | (26,338)                           | (401)                             |
| Derivative financial instruments             | 24    | (11)                  | –                                  | –                                 |
|  |       | <b>(28,844)</b>       | (26,338)                           | (401)                             |
| <b>Non-current liabilities</b>               |       |                       |                                    |                                   |
| Convertible loan liability                   | 18    | (191,102)             | –                                  | –                                 |
| Derivative financial instruments             | 24    | (28,622)              | –                                  | –                                 |
| Decommissioning provisions                   | 19    | (7,023)               | (5,959)                            | (4,768)                           |
| <b>Total liabilities</b>                     |       | <b>(255,591)</b>      | (32,297)                           | (5,169)                           |
| <b>Net assets</b>                            |       | <b>682,456</b>        | 379,619                            | 271,656                           |
| <b>Equity</b>                                |       |                       |                                    |                                   |
| Share capital                                | 20    | 2,843                 | 1,860                              | 1,082                             |
| Share premium                                |       | 813,496               | 508,510                            | 347,815                           |
| Share option reserve                         |       | 19,477                | 15,648                             | 12,876                            |
| Own shares held by SIP Trust                 | 22    | (323)                 | (366)                              | (314)                             |
| Equity shares to be issued                   |       | –                     | –                                  | 801                               |
| Foreign exchange reserve                     |       | (92,659)              | (92,659)                           | (36,329)                          |
| Accumulated deficit                          |       | (60,378)              | (53,374)                           | (54,275)                          |
| <b>Total equity</b>                          |       | <b>682,456</b>        | 379,619                            | 271,656                           |

The Financial Statements of Hurricane Energy plc were approved by the Board and authorised for issue on 9 April 2018. They were signed on its behalf by:

**Dr Robert Trice**  
Chief Executive Officer

**Alistair Stobie**  
Chief Financial Officer

1. Balances have been restated to US Dollars. See note 2.2 for details.

## Group Statement of Changes in Equity

for the Year Ended 31 December 2017

|                                       | Share capital<br>\$'000 | Share premium<br>\$'000 | Share option reserve<br>\$'000 | Own shares held by SIP Trust<br>\$'000 | Equity Shares to be issued<br>\$'000 | Foreign exchange reserve<br>\$'000 | Accumulated deficit<br>\$'000 | Total<br>\$'000 |
|---------------------------------------|-------------------------|-------------------------|--------------------------------|--|--------------------------------------|------------------------------------|-------------------------------|-----------------|
| At 1 January 2016                     | 1,082                   | 347,815                 | 12,876                         | (314)                                  | 801                                  | (36,329)                           | (54,275)                      | 271,656         |
| Shares allotted                       | 778                     | 160,695                 | –                              | –                                      | –                                    | –                                  | –                             | 161,473         |
| Share options charge                  | –                       | –                       | 2,772                          | –                                      | –                                    | –                                  | –                             | 2,772           |
| Own shares held by SIP Trust          | –                       | –                       | –                              | (52)                                   | –                                    | –                                  | –                             | (52)            |
| Equity shares to be issued            | –                       | –                       | –                              | –                                      | (801)                                | –                                  | –                             | (801)           |
| Profit for the year                   | –                       | –                       | –                              | –                                      | –                                    | –                                  | 901                           | 901             |
| Other comprehensive loss for the year | –                       | –                       | –                              | –                                      | –                                    | (56,330)                           | –                             | (56,330)        |
| At 31 December 2016 <sup>1</sup>      | 1,860                   | 508,510                 | 15,648                         | (366)                                  | –                                    | (92,659)                           | (53,374)                      | 379,619         |
| Shares allotted                       | 983                     | 319,873                 | –                              | –                                      | –                                    | –                                  | –                             | 320,856         |
| Transaction costs                     | –                       | (14,887)                | –                              | –                                      | –                                    | –                                  | –                             | (14,887)        |
| Share option charge                   | –                       | –                       | 3,829                          | –                                      | –                                    | –                                  | –                             | 3,829           |
| Own shares held by SIP Trust          | –                       | –                       | –                              | 43                                     | –                                    | –                                  | –                             | 43              |
| Loss for the year                     | –                       | –                       | –                              | –                                      | –                                    | –                                  | (7,004)                       | (7,004)         |
| <b>At 31 December 2017</b>            | <b>2,843</b>            | <b>813,496</b>          | <b>19,477</b>                  | <b>(323)</b>                           | <b>–</b>                             | <b>(92,659)</b>                    | <b>(60,378)</b>               | <b>682,456</b>  |

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

1. Balances have been restated to US Dollars. See note 2.2 for details.



## Group Cash Flow Statement

for the Year Ended 31 December 2017

|   | Notes | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|---|-------|-------------------------------------|--|
| Net cash inflow / (outflow) from operating activities                       | 23    | (8,088)                             | (5,577)  |
| <b>Investing activities</b>   |       |                                     |  |
| Interest received   |       | 885                                 | 78   |
| Increase in liquid investments <sup>2</sup>                                 |       | (201,973)                           | –  |
| Expenditure on property, plant and equipment                                |       | (85,062)                            | (17)   |
| Expenditure on intangible exploration and evaluation assets                 |       | (180,612)                           | (63,459)   |
| Expenditure on inventory  |       | (991)                               | –  |
| <b>Net cash used in investing activities</b>                                |       | (467,753)                           | (63,398)   |
| <b>Financing activities</b>   |       |                                     |  |
| Interest paid / bank charges  |       | (15)                                | (5)  |
| Net proceeds from borrowings <sup>3</sup>                                   |       | 223,095                             | –  |
| Additional borrowing transaction costs <sup>3</sup>                         |       | (303)                               | –  |
| Interest payments (Convertible Bond)  |       | (4,313)                             | –  |
| Net proceeds from issue of share capital and warrants <sup>4</sup>          |       | 313,895                             | 162,474  |
| Additional equity issue transaction costs <sup>4</sup>                      |       | (7,976)                             | (1,739)  |
| Deferred bonus arrangements settled in cash                                 |       | –                                   | (253)  |
| <b>Net cash provided by financing activities</b>                            |       | 524,383                             | 160,477  |
| <b>Net increase in cash and cash equivalents</b>                            |       | 48,542                              | 91,502   |
| <b>Cash and cash equivalents at the beginning of the period<sup>5</sup></b> |       | 101,482                             | 14,715   |
| Net increase in cash and cash equivalents                                   |       | 48,542                              | 91,502   |
| Effects of foreign exchange rate changes                                    |       | 8,021                               | (4,735)  |
| <b>Cash and cash equivalents at the end of the period<sup>5</sup></b>       | 16    | 158,045                             | 101,482  |

1. Balances have been restated to US Dollars. See note 2.2 for details.

2. Liquid investments comprise short-term liquid investments of between 3 and 12 months maturity while cash and cash equivalents comprise cash at bank and other short-term highly liquid investments of less than three months maturity. The combined cash and cash equivalents and liquid investments balance at 31 December 2017 was \$360,018,000 (2016: \$101,482,000).

3. Total transaction costs relating to borrowings were \$7,208,000 (2016: \$nil) of which \$6,905,000 (2016: \$nil) were netted off against gross proceeds of \$230,000,000 (2016: \$nil).

4. Total transaction costs relating to equity raises were \$14,887,000 (2016: \$6,691,000) of which \$6,911,000 (2016: \$4,952,000) were netted off against gross proceeds of \$320,806,000 (2016: \$167,426,000).

5. Cash and cash equivalents includes \$16,089,000 (2016: \$2,875,000) of cash held in escrow which has been included in the Balance Sheet in other non-current assets.

## Notes to the Group Financial Statements

### 1. General information

Hurricane Energy plc is a public company, limited by shares, incorporated and domiciled 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 IAS 7: Disclosure Initiative  
 Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses  
 Annual improvements to IFRS: 2014–2016 cycle

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 17 Insurance Contracts  
 Annual improvements to IFRS: 2014-2016 cycle  
 Annual improvements to IFRS: 2015-2017 cycle  
 Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions  
 Amendments to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'  
 Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures  
 Amendments to IAS 40: Transfers of Investment Property  
 Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The above are not expected to have a material impact upon adoption.

The following additional standards and revisions will be effective for future periods:

- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from contracts with customers'
- IFRS 16 'Leases'

These standards have been considered in turn below:

#### 1.1.1 IFRS 9 'Financial Instruments'

IFRS 9 will supersede IAS 39 in its entirety and is effective for accounting periods commencing on or after 1 January 2018. For Hurricane Energy plc, the effective date is the year commencing 1 January 2018. Any changes to recognition and measurement will be applied retrospectively by adjusting the opening balance sheet at that time. There is no requirement to restate comparative amounts.

The core areas addressed within IFRS 9 are as follows:

- Classification and measurement of financial assets and liabilities
- Impairment of financial assets
- Hedge accounting

The Group does not expect any material changes in relation to the classification and measurement of financial assets and liabilities, impairment of financial assets or for hedge accounting other than additional disclosure requirements (as at the transition date the Group does not have any hedge accounting in place).

## Notes to the Group Financial Statements continued

### 1. General information continued

#### 1.1. New and revised standards: International Financial Reporting Standards continued

##### 1.1.2 IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue' will replace IAS 18 'Revenue' and IAS 11 'Construction Contracts' for accounting periods commencing on or after 1 January 2018. For Hurricane Energy plc, the effective date is the year commencing 1 January 2018. Any changes to recognition and measurement will be applied retrospectively by adjusting the opening balance sheet at that time. There is no requirement to restate comparative amounts. The core principle of the standard is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to a customer.

To apply this principle, entities must follow the five-step model below:

1. Identify the contract(s) with a customer – written, oral or implied by an entity's customary business practices.
2. Identify the performance obligations in the contract(s) – evaluate the terms in the contract to identify all the promised goods or services and then determine which of these will be treated as separate performance obligations. They are separate if the customer can benefit from the good or service on its own (i.e. it is distinct).
3. Determine the transaction price – the amount that an entity expects to be entitled to in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties.
4. Allocate the transaction price to the performance obligations – generally in proportion to their stand-alone selling prices.
5. Recognise revenue when (or as) the entity satisfies each performance – when control of a promised good or service transfers to the customer.

The Group has performed an impact assessment during the year regarding the accounting requirements of IFRS 15. As the Group has not previously had any revenue there will no impact on adoption of the standard.

##### 1.1.3 IFRS 16 'Leases'

IFRS 16 'Leases' will replace IAS 17 'Leases' for accounting periods commencing on or after 1 January 2019. For Hurricane Energy plc the effective date is the year commencing 1 January 2019. The core principal of the standard is to provide a single lessee accounting model, requiring lessees to recognise a right-of-use asset and lease liability for all leases unless the term is less than 12 months or the underlying asset has a low value. IFRS 16's approach to lessor accounting is mostly unchanged from IAS 17.

The transition to IFRS 16 will have a material impact on the Balance Sheet as all operating leases will need to be recognised on the balance sheet. Furthermore, operating lease expense in the income statement will be replaced with depreciation and interest expense. The Group has performed an impact assessment to determine which current leases and which anticipated future leases would be affected by this transition.

The primary objectives of this assessment are to: define accounting policies in compliance with the standard; identify all existing leases within the Group; identify anticipated future leases within the Group; capture the necessary data for each lease, including discount rates; determine a transition approach; and understand and implement necessary system and operational changes.

The Group is currently in the process of developing updated accounting policies and is assessing the information requirements for each lease. The Group currently plans to adopt the cumulative catch-up transition approach. As such, the value of the asset and liability recognised will be determined by the present value of the future lease payments on the existing leases at the date of transition (1 January 2019). The Group currently anticipates that the impact at the point of adoption of the standard is likely to be material as it will bring a Right of Use asset and liability for the Aoka Mizu FPSO and office properties onto the Balance Sheet. Further quantitative information cannot be provided at this time as the Group is continuing with its detailed assessment.

### 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 and certain financial instruments, 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. Change in functional and presentation currency

These consolidated Financial Statements are presented in US Dollars. On 1 January 2017, the functional currency of Hurricane Energy plc and Hurricane Exploration (UK) Limited changed from Pounds Sterling to US Dollars. This change was triggered by the intention to proceed with the Early Production System in 2017 which would lead to an increased level of expenditure being incurred in US Dollars and ultimately the receipt of revenues which are expected to be almost exclusively in US Dollars.

On 1 January 2017, the presentation currency of Hurricane Energy plc and Hurricane Exploration (UK) Limited was also changed from Pounds Sterling to US Dollars.

The change in presentation currency is to better reflect the Group's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the oil and gas industry. In making this change to the US Dollar presentation currency, the Company followed the guidance in IAS 21 The Effects of Changes in Foreign Exchange Rates and have applied the change retrospectively. For the 2016 comparative balances, assets and liabilities have been restated into the presentation currency (US Dollars) at the rate of exchange prevailing at the respective Balance Sheet date, with equity balances restated at historical rates on the date of issue of said equity instrument. The comparative income statements and cash flow statements were restated at the average exchange rates for the reporting period. The average rates for the reporting period approximated the exchange rates as at the date of the transactions. Exchange differences arising on translation were taken to the foreign exchange reserve in shareholders' equity. The Company has presented a third statement of financial position as at 1 January 2016 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The resulting effect of the change in presentation currency of \$92,659,000 on the comparative figures is reflected in the foreign exchange reserve.

| Exchange rates used                       | USD / GBP |
|---|-----------|
| Year ending 31 December 2016 average rate | 1.355     |
| Spot rate at 1 January 2016               | 1.480     |
| Spot rate at 31 December 2016             | 1.234     |

#### 2.3. 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 and within the Group's Strategic Report on page 22.

#### 2.4. Basis of consolidation

The consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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.



## Notes to the Group Financial Statements continued

### 2. Significant accounting policies continued

#### 2.5. 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 recognised on an accrual basis, by reference to the principal outstanding and the effective interest rate applicable.

#### 2.6. Commercial reserves

Commercial reserves are proved and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered to be economically viable. Proved and probable reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50% statistical probability that it will be less. However, the amount of reserves that will be ultimately recovered from any field cannot be known with certainty until the end of the field's life.

#### 2.7. Intangible exploration and evaluation expenditure

The Group follows the successful efforts method of accounting for oil and gas exploration and evaluation activities (intangible exploration and evaluation assets) as permitted by IFRS 6 'Exploration for and Evaluation of Mineral Resources'.

Pre licence costs, which relate to costs incurred prior to having obtained the legal right to explore an area, are charged directly to the Income Statement within operating expenses 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 oil and gas properties within Property, plant and equipment (subject to an impairment assessment before reclassification). Subsequent development costs in respect of the reserves are capitalised within oil and gas properties.

If there are indications of impairment, an impairment test is performed comparing the carrying value with its recoverable amount, being the higher of value-in-use (calculated as the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs) and its estimated fair value less costs to sell. Costs which are initially capitalised and subsequently written off are classified as operating expenses.

#### 2.8. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment.

##### 2.8.1. Oil and gas properties – cost

Oil and gas properties are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the intangible exploration and evaluation asset expenditures incurred in finding commercial reserves transferred from intangible exploration and evaluation assets.

The cost of oil and gas properties also includes the cost of directly attributable overheads, finance costs capitalised, and the cost of recognising provision for, future restoration and decommissioning.

##### 2.8.2. Oil and gas properties – depreciation

Oil and gas properties are depreciated from the commencement of production on a unit of production basis. This is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period, plus the production in the period, on a field by field basis. Costs used in the unit of production calculation comprise the net carrying amount of capitalised costs, taking into account future development expenditures necessary to bring the reserves into production.

##### 2.8.3. Other fixed assets

Property, plant and equipment other than oil and gas properties is depreciated so as to write off the cost, less estimated residual value, of the asset on a straight line basis over their useful lives of between two and five years.

#### 2.8.4. Impairment

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of an oil and gas property may exceed its recoverable amount.

The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash-generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash-generating unit where the cash inflows of each field are interdependent.

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

#### 2.9. Inventory

Inventory is comprised of materials and equipment that are acquired for future use. Inventories are stated at the lower of cost and net realisable value, cost being determined on an average cost basis.

#### 2.10. Decommissioning provisions

Provisions for decommissioning are 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 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. 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.

#### 2.11. 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 US Dollars at the exchange rate ruling at the Balance Sheet date, with a corresponding charge or credit to the Income Statement. All operating entities within the Group have a US Dollar functional currency. The dormant or holding entities have a Pound Sterling functional currency.

#### 2.12. 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.

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.

#### 2.13. Share-based payments

The cost of equity settled share-based employee compensation arrangements 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 statistical models. The expected vesting period 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.

## Notes to the Group Financial Statements continued

### 2. Significant accounting policies continued

#### 2.14. 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.

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

##### 2.14.1 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 operations. Cash is also held in escrow as part of the terms of the Convertible Bond. The escrow contains sufficient funds to cover the first two years of coupon payments.

##### 2.14.2 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.

##### 2.14.3 Financial liabilities

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

##### 2.14.4 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 re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

##### 2.14.5 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.

##### 2.14.6 Derecognition of financial liabilities

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

##### 2.14.7 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.

##### 2.14.8 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.

##### 2.14.9 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.

##### 2.14.10 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.

##### 2.15. 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.

##### 2.16. 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 application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

#### Critical judgements in applying the Group's accounting policies

The following are critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

##### 3.1. Convertible Bond accounting treatment

In July 2017 the Group issued \$230 million in convertible bonds. In accounting for the Convertible Bond, management were required to make a judgement relating as to whether the Convertible Bond contained an embedded derivative and whether there was a requirement to split that embedded derivative out and recognise it separately.

Management determined that the Convertible Bond contained an embedded derivative, being the conversion feature that was not closely related to the host debt and therefore should be considered separately. The host debt has been accounted for at amortised cost with the embedded derivative being valued at fair value through the profit and loss account (FVTPL). Details of the Convertible Bond and the embedded derivative can be seen in notes 18 and 24 respectively.

##### 3.2. Lancaster impairment testing

In September 2017 the Group received field development plan approval for the EPS. At this point the Lancaster assets were reclassified from Intangible exploration and evaluation assets to Property, plant and equipment. As per IFRS 6, it was necessary to carry out an impairment test of the assets being reclassified to determine whether an impairment was required. This required management making a judgement as to the fair value of the assets at that point in time. This assessment was carried out by calculating the carrying value per barrel of oil equivalent (boe) of the Lancaster Field, based on 2P Reserves and 2C Contingent Resources. This figure was then compared with the prices paid per boe for relevant deals in the offshore European upstream oil & gas market during the last 10 years, again based on both 2P Reserves and 2C Contingent Resources. Based on this assessment, management determined that the fair value significantly exceeded the carrying value and therefore no impairment was required.

#### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the Balance Sheet date that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.



## Notes to the Group Financial Statements continued

### 3. Critical accounting judgements and key sources of estimation uncertainty continued

#### 3.3. 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. The variety of judgements involved make it impractical to provide sensitivity analysis on one single measure and its potential impact on the recoverable amount.

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

#### 3.4. Valuation of Convertible Bond embedded derivative

Valuation of the embedded derivative that is contained with the Convertible Bond requires a number of estimates, the most significant of which is the assumed volatility of the Hurricane Energy plc share price over the expected life of the Convertible Bond. Details of the fair value calculations and related sensitivities for the embedded derivative can be seen in note 24.

### 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 Officer 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 development together with related activities in only one geographical area, the UK Continental Shelf.

### 5. Revenue

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

### 6. Operating loss

|   | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|---|-------------------------------------|--|
| <b>Operating loss is stated after charging:</b>   |                                     |  |
| Staff costs (note 8)  | 6,167                               | 5,771  |
| Operating lease rentals – land and buildings  | 226                                 | 248  |
| Depreciation of property, plant and equipment (note 11)                                   | 22                                  | 54   |
| Impairment / write off of intangible exploration & evaluation assets (note 12)            | 10,412                              | –  |
| Auditor's remuneration (see below)  | 224                                 | 108  |
| The following is an analysis of the gross fees paid to the Group's auditor, Deloitte LLP. |                                     |  |
| <b>Audit services</b>   |                                     |  |
| Fees payable to the Company's auditor for:  |                                     |  |
| The audit of the Company's annual accounts  | 118                                 | 73   |
| The audit of the Company's subsidiaries   | 24                                  | 8  |
|   | 142                                 | 81   |
| <b>Non audit services</b>   |                                     |  |
| Other services pursuant to legislation – interim review                                   | 21                                  | 20   |
| Taxation compliance services  | –                                   | 7  |
| Corporate finance   | 61                                  | –  |
|   | 82                                  | 27   |
| <b>Total</b>  | <b>224</b>                          | <b>108</b>                                       |

The Group made no charitable or political donations in either year presented.

1. Balances have been restated to US Dollars. See note 2.2 for details.

## Notes to the Group Financial Statements continued

### 7. Interest revenue and finance costs

|  | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|--|-------------------------------------|--|
| Interest revenue   | (880)                               | (89)   |
| Bank charges   | 15                                  | 5  |
| Unwinding of discount on decommissioning provisions (note 19)                | 83                                  | 83   |
| Convertible Bond transaction costs charged to the Income Statement (note 18) | 1,224                               | –  |
|  | <b>442</b>                          | <b>(1)</b>                                       |

### 8. Staff costs

|   | Year Ended<br>31 Dec 2017<br>Number | Year Ended<br>31 Dec 2016 <sup>1</sup><br>Number |
|---|-------------------------------------|--|
| <b>The average number of persons employed by the Group during the year was:</b> |                                     |  |
| Operations  | 21                                  | 15   |
|   | <b>\$'000</b>                       | <b>\$'000</b>                                    |
| Staff costs for the above persons were:   |                                     |  |
| Wages and salaries  | 4,502                               | 4,607  |
| Social security costs   | 532                                 | 901  |
| Share-based payment expense   | 3,922                               | 2,828  |
| Pension costs   | 137                                 | 104  |
| Total employment costs  | 9,093                               | 8,440  |
| Less amounts capitalised  | (2,926)                             | (2,669)  |
| Staff costs recognised in the income statement                                  | <b>6,167</b>                        | <b>5,771</b>                                     |

The Group does not currently operate a pension scheme but undertakes to make contributions to employees' existing pension schemes. A company workplace pension scheme took effect in January 2018.

Details of directors' remuneration are provided in the Remuneration Report on pages 50 to 65.

For further detail on the Group's PSP awards, share options and VCP see note 21.

1. Balances have been restated to US Dollars. See note 2.2 for details.

### 9. Tax on loss on ordinary activities

|   | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|---|-------------------------------------|--|
| <b>UK corporation tax</b>   |                                     |  |
| Current tax – current year  | –                                   | (7,272)  |
| Total current tax   | –                                   | (7,272)  |
| Deferred tax – current year   |                                     | (313)  |
| Adjustment in respect of previous periods   | –                                   | 392  |
| Effect of changes in tax rates  | –                                   | (79)   |
| Total deferred tax  | –                                   | –  |
| Tax credit per income statement   | –                                   | (7,272)  |
|   | <b>(7,004)</b>                      | <b>(6,371)</b>                                   |
| <b>Loss on ordinary activities before tax</b>   |                                     |  |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK applicable to oil and gas companies of 40% (2016: 40%) | <b>(2,802)</b>                      | <b>(2,548)</b>                                   |
| Effects of:   |                                     |  |
| Adjustment to prior years   | –                                   | 392  |
| Expenses not deductible for tax purposes  | <b>1,576</b>                        | 1,153  |
| Effect of changes in tax rates  | <b>(2,395)</b>                      | (79)   |
| Research & development tax credit   | –                                   | (7,272)  |
| Unrecognised pre-trade revenue expenditure carried forward  | –                                   | 1,082  |
| Losses not recognised   | <b>3,621</b>                        | –  |
| Total tax credit for the year   | –                                   | (7,272)  |

In 2016 the Company made a claim under the SME Research & Development tax relief scheme and has surrendered the resulting losses for a payable tax credit. \$0.9 million of the research and development tax credit was received in cash during that year, relating to the 2013 claim. The remaining \$5.8 million relating to the 2014 claim was received in February 2017.

#### 9.1. Factors which may affect future tax charges

Following receipt of FDP approval in respect of the EPS in September 2017, for tax purposes, the Group is considered to have commenced trading. This has crystallised the pre-trading revenue expenses of \$21.6 million (2016: \$23.9 million), covering the period from 2011 onwards, and pre-trading capital expenditure of \$191.1 million (2016: \$257.1 million) which was available for tax relief on commencement of a petroliferous trade for UK tax purposes. Additional pre-trading capital expenditure of \$83.5 million is carried forward at 31 December 2017 and tax relief will be available once the FDP approval is received on the remaining licences.

The Group has trading losses of \$393.6 million at 31 December 2017, which have no expiry date and would be available for offset against future trading profits. A potential Ring Fence Expenditure Supplement claim could also be made for this period which would result in additional trading losses of \$65 million.

1. Balances have been restated to US Dollars. See note 2.2 for details.



## Notes to the Group Financial Statements continued

### 9.2. Deferred tax asset / liability

|                                   | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|-----------------------------------|-------------------------------------|--|
| Accelerated capital allowances    | 139,520                             | 11,172   |
| Other timing differences          | 4                                   | 4  |
| Fair value movement on derivative | 1,771                               | –  |
| Tax losses carried forward        | (141,295)                           | (11,176)   |
| Deferred tax liability            | –                                   | –  |

Tax losses of \$353.2 million have been offset against deferred tax liabilities primarily related to fixed assets. A potential deferred tax asset of \$16.1 million (2016: \$12.4 million) on remaining losses of \$40.4 million has not been recognised. It has been concluded that it is not appropriate to recognise any of this unrecognised potential deferred tax asset until the EPS has begun production and hence demonstrated an ability to generate taxable profits. The potential deferred tax asset is calculated at the UK ring-fence tax rate of 40% (2016: 40%).

Changes to the UK corporation tax rates were announced in the Chancellor's budget on 8 July 2015. These include reduction to the main rate to reduce the corporate tax rate to 19% from 1 April 2017 and 18% from 1 April 2020. At budget 2016, the government announced a further reduction to the Corporation tax main rate for the year starting 1 April 2020, setting the rate at 17%. The rate was substantively enacted on 6 September 2016. Accordingly, the effect of this change has been reflected in the Financial Statements and the deferred tax liability in relation to the fair value movement on the derivative is being recognised at 17%.

### 10. Earnings per share

The basic and diluted (loss) / earnings per share has been calculated using the loss for the year ended 31 December 2017 of \$7004,000 (2016: profit for the year of \$901,000). The loss per share is calculated using a weighted average number of Ordinary Shares in issue less treasury shares.

|   | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|---|-------------------------------------|--|
| (Loss) / profit after tax                       | (7,004)                             | 901  |
|   | Number of shares                    | Number of shares                                 |
| Weighted average shares in issue (basic)        | 1,583,803,716                       | 889,529,040                                      |
| Effect of dilutive potential Ordinary Shares:   |                                     |  |
| Warrants  | –                                   | 15,022,831                                       |
| Weighted average shares in issue (diluted)      | 1,583,803,716                       | 904,551,871                                      |
|   | Cents                               | Cents  |
| (Loss) / earnings per share (basic and diluted) | (0.46)                              | 0.10   |

The effective of the warrants, options and Convertible Bond outstanding in 2017 was anti-dilutive as the Group incurred a loss and all interest on the Convertible Bond was capitalised.

1. Balances have been restated to US Dollars. See note 2.2 for details.

### 11. Property, plant and equipment

|  | Oil and gas<br>properties<br>\$'000 | Other fixed<br>assets<br>\$'000 | Total<br>\$'000 |
|--|-------------------------------------|---------------------------------|-----------------|
| Cost   |                                     |                                 |                 |
| At 1 January 2016 <sup>1</sup>                   | –                                   | 979                             | 979             |
| Additions  | –                                   | 16                              | 16              |
| At 31 December 2016 <sup>1</sup>                 | –                                   | 995                             | 995             |
| Additions  | 109,381                             | 58                              | 109,439         |
| Transfer from intangible assets                  | 335,856                             | –                               | 335,856         |
| <b>At 31 December 2017</b>                       | <b>445,237</b>                      | <b>1,053</b>                    | <b>446,290</b>  |
| Depreciation                                     |                                     |                                 |                 |
| At 1 January 2016 <sup>1</sup>                   | –                                   | (869)                           | (869)           |
| Charge for the year                              | –                                   | (108)                           | (108)           |
| At 31 December 2016 <sup>1</sup>                 | –                                   | (977)                           | (977)           |
| Charge for the year                              | –                                   | (22)                            | (22)            |
| <b>At 31 December 2017</b>                       | <b>–</b>                            | <b>(999)</b>                    | <b>(999)</b>    |
| Carrying amount at 31 December 2016 <sup>1</sup> | –                                   | 18                              | 18              |
| <b>Carrying amount at 31 December 2017</b>       | <b>445,237</b>                      | <b>54</b>                       | <b>445,291</b>  |

Property, plant and equipment (other fixed assets) comprises the Group's investment in leasehold improvements, fixtures, office equipment and computer hardware. In 2017 \$nil (2016: \$58,000) of depreciation has been capitalised into the Group's intangible exploration and evaluation expenditure in accordance with the Group's overhead allocation policy.

On 24 September 2017 approval was granted for the EPS field development. As a result, \$335,856,000 of intangible exploration and evaluation assets were reclassified as property, plant and equipment.

Depreciation of the oil and gas properties will commence once production begins and will be on a unit of production (UOP) basis.

Included within additions is \$6,039,000 of borrowing costs that have been capitalised in the year (see note 18).

Included within transfer from intangible assets is \$4,409,000 of borrowing costs that were previously capitalised within intangible exploration and evaluation assets.

1. Balances have been restated to US Dollars. See note 2.2 for details.

## Notes to the Group Financial Statements continued

### 12. Intangible exploration and evaluation assets

|   | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|---|-------------------------------------|--|
| At 1 January  | 302,539                             | 260,555  |
| Effects of translation of currency                                    | –                                   | (43,336)   |
| Additions   | 169,113                             | 83,411   |
| Effects of additions / changes to decommissioning estimates (note 19) | 981                                 | 1,909  |
| Impairment of intangible exploration and evaluation assets            | (1,971)                             | –  |
| Write off of intangible exploration and evaluation assets             | (8,441)                             | –  |
| Transfer to property, plant and equipment                             | (335,856)                           | –  |
| <b>At 31 December</b>   | <b>126,365</b>                      | <b>302,539</b>                                   |

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 Shetland.

On 24 September 2017 approval was granted for the EPS field development. As a result, \$335,856,000 of intangible assets were reclassified as Oil and Gas properties in property, plant and equipment.

Included within additions, and also within the transfer to property, plant and equipment, is \$4,409,000 of borrowing costs that have been capitalised in the year (see note 18).

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. Given the Group's focus on its Rona Ridge assets, and the fact that it has no current plans to drill on its Strathmore prospect in the near future, the directors have fully impaired the intangible exploration and evaluation assets relating to Strathmore, being \$1,971,000.

On the 8 December 2017 the Group relinquished its P1485 and P1835 licences (Typhoon and Tempest). As such the intangible exploration and evaluation assets relating to those licences of \$8,441,000 have been fully written off.

### 13. Other non-current receivables

The other non-current receivables of \$202,000 (2016: \$161,000) represents the deposit for the office leases. Further details are given in note 26.

### 14. Inventory

|           | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 | 1 Jan 2016 <sup>1</sup><br>\$'000 |
|-----------|-----------------------|------------------------------------|-----------------------------------|
| Inventory | 1,434                 | 443                                | 607                               |
|           | <b>1,434</b>          | <b>443</b>                         | <b>607</b>                        |

Inventory is comprised of materials and equipment that are to be used in future exploration and appraisal activity.

### 15. Trade and other receivables

|                                   | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 | 1 Jan 2016 <sup>1</sup><br>\$'000 |
|-----------------------------------|-----------------------|------------------------------------|-----------------------------------|
| Research & development tax credit | –                     | 5,792                              | –                                 |
| Other receivables                 | 4,179                 | 1,002                              | 209                               |
| Prepayments and accrued income    | 558                   | 479                                | 413                               |
|                                   | <b>4,737</b>          | <b>7,273</b>                       | <b>622</b>                        |

No amounts were past due at either Balance Sheet date. The carrying amounts of trade and other receivables are considered to be materially equivalent to their fair values.

The Other receivables include a deposit of \$3.8 million (2016: \$nil) paid to the Department for Business, Energy and Industrial Strategy in relation to decommissioning security for the EPS. This deposit will be repaid in 2018 at the point the Group funds a decommissioning security escrow, prior to infrastructure being installed on the Lancaster Field.

### 16. Cash and cash equivalents and liquid investments

|  | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 | 1 Jan 2016 <sup>1</sup><br>\$'000 |
|--|-----------------------|------------------------------------|-----------------------------------|
| Unrestricted funds                                     | 124,629               | 89,275                             | 11,284                            |
| Current restricted funds                               | 17,327                | 9,332                              | –                                 |
| Current cash and cash equivalents                      | 141,956               | 98,607                             | 11,284                            |
| Non-current restricted funds                           | 16,089                | 2,875                              | 3,431                             |
| Total cash and cash equivalents                        | 158,045               | 101,482                            | 14,715                            |
| Liquid investments                                     | 201,973               | –                                  | –                                 |
| Total cash and cash equivalents and liquid investments | 360,018               | 101,482                            | 14,715                            |

At 31 December 2017 \$17,327,000 (2016: \$9,332,000) of the current restricted funds are held in escrow relating to coupon payments under the terms of the Convertible Bond and for future expected costs related to the current Lancaster EPS project. The amounts held in escrow can only be withdrawn on the consent of both the relevant third party and the Company.

At 31 December 2017 \$3,151,000 (2016: \$2,875,000) of the non-current restricted funds are held in escrow for future expected costs associated with the Group's decommissioning obligations. \$12,938,000 (2016: \$nil) of the non-current restricted funds are held in escrow relating to coupon payments under the terms of the Convertible Bond. The amounts held in escrow can only be withdrawn on the consent of both the relevant third party and the Company. These funds have been included in the Balance Sheet in other non-current assets.

Liquid investments comprise short-term liquid investments of between 3 and 12 months maturity (fixed term deposit accounts) to take advantage of higher interest rates. Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments of less than three months maturity.

### 17. Trade and other payables

|                | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 | 1 Jan 2016 <sup>1</sup><br>\$'000 |
|----------------|-----------------------|------------------------------------|-----------------------------------|
| Trade payables | 1,030                 | 8,329                              | 105                               |
| Other payables | 159                   | 973                                | 116                               |
| Accruals       | 27,644                | 17,036                             | 180                               |
|                | <b>28,833</b>         | <b>26,338</b>                      | <b>401</b>                        |

The carrying amounts of trade and other payables are considered to be materially equivalent to their fair values. All payables are due within 30 days at year-end.

The accruals at 31 December 2017 includes significant expenditure in relation to the EPS that has not yet been invoiced.

1. Balances have been restated to US Dollars. See note 2.2 for details.

1. Balances have been restated to US Dollars. See note 2.2 for details.



## Notes to the Group Financial Statements continued

### 18. Borrowings

In July 2017 the Group raised \$230 million (gross) from the successful placement of the Convertible Bond. The Convertible Bond was issued at par and carries a coupon of 7.5% payable quarterly in arrears. The Convertible Bond is convertible into fully paid Ordinary Shares with the initial conversion price set at \$0.52, representing a 25% premium above the placing price of the concurrent equity placement, being £0.32 (converted into US dollars at USD/GBP 1.30). Unless previously converted, redeemed or purchased and cancelled, the Convertible Bond will be redeemed at par on 24 July 2022.

The Convertible Bond contains a covenant relating to a restriction on incurrence of indebtedness. This restriction shall not apply in respect of:

- any indebtedness in respect of the Convertible Bond (Bond Debt);
- any other indebtedness where the aggregate principal amount of such other indebtedness, when combined with the aggregate principal amount of all other indebtedness of the Group from time to time (excluding the Bond Debt), would not cause the total indebtedness of the Group on a consolidated basis to exceed US\$45 million (or the equivalent thereof in other currencies at then current rates of exchange); and
- any permitted indebtedness, being:
  - any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease, with respect to the bareboat charter of the Aoka Mizu FPSO;
  - amounts borrowed, or any guarantee or indemnity given with respect to any security, where required by The Oil and Gas Authority or any other applicable regulator, in relation to suspended wells, decommissioning or other related regulatory obligations of the Group; and
  - any amount raised under any transaction, having the commercial effect of borrowing, in respect of the deferral of payment of invoices due to Technip UK Limited (or any of its affiliated companies) in connection with the agreement for the provision of subsea umbilical risers and flowlines and subsea production systems for the Company's operations in the Lancaster Field.

The conversion feature of the Bonds is classified as an embedded derivative liability as the Bonds can be settled by the Group in cash and hence does not meet the 'fixed for fixed' criteria for a compound instrument outlined in IAS 39 (see note 24.7). It has therefore been measured at fair value through profit and loss. The amount recognised at inception in respect of the host debt contract was determined by deducting the fair value of the conversion option at inception (the embedded derivative) from the fair value of the consideration received for the Convertible Bonds. The debt component is then recognised at amortised cost, using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

|   | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016<br>\$'000 |
|---|-------------------------------------|-------------------------------------|
| Proceeds of issue of Convertible Bond                           | 230,000                             | –                                   |
| Transaction costs   | (7,208)                             | –                                   |
| Net proceeds on issue of convertible loan notes                 | 222,792                             | –                                   |
| Transaction costs relating to liability component               | 5,984                               | –                                   |
| Transaction costs relating to derivative liability              | 1,224                               | –                                   |
| Total transaction costs   | 7,208                               | –                                   |
| Liability component at date of issue (net of transaction costs) | (184,967)                           | –                                   |
| Interest charged  | (10,448)                            | –                                   |
| Interest paid   | 4,313                               | –                                   |
| <b>Liability at 31 December</b>                                 | <b>(191,102)</b>                    | –                                   |
| Derivative liability at date of issue                           | (39,049)                            | –                                   |
| Change in fair value recognised in the income statement         | 10,427                              | –                                   |
| <b>Derivative liability at 31 December (see note 24.7)</b>      | <b>(28,622)</b>                     | –                                   |

The interest expensed in the year is calculated by applying an effective interest rate of 13.5% to the liability component from 24 July to 31 December. The liability component is measured at amortised cost. The difference between the carrying amount of the liability component at the date of issue and the amount reported in the balance sheet at 31 December 2017 represents the interest charged at the effective interest rate less interest paid to that date. All of the interest charge has been capitalised within property, plant and equipment as it is considered to relate to the development of the Lancaster Field, a qualifying asset.

## Notes to the Group Financial Statements continued

### 19. Decommissioning provisions

|                                     | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|-------------------------------------|-------------------------------------|--|
| At 1 January                        | 5,959                               | 4,768  |
| Effects of translation of currency  | –                                   | (801)  |
| Unwinding of discount rate          | 83                                  | 83   |
| Additions                           | 981                                 | 1,694  |
| Changes to decommissioning estimate | –                                   | 215  |
| At 31 December                      | 7,023                               | 5,959  |

The provision for decommissioning relates to the costs required to decommission the suspended wells previously drilled on the Lancaster and Whirlwind assets. The additions in the year relate to the well on the Halifax licence that was suspended in March 2017. The inflation rate and discount rate used in the calculation of the provision are 2.0% and 1.31% (2016: 2.0% and 1.31%).

### 20. Called up share capital

|   | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|---|-------------------------------------|--|
| <b>Allotted, called up and fully paid</b>   |                                     |  |
| 31 December 2017: 1,959,210,336; (31 December 2016: 1,202,860,397 ordinary shares in Hurricane Energy plc of £0.001 each) | 2,843                               | 1,860  |

The Company does not have an authorised share capital.

On 21 January 2017 127,726 new Ordinary Shares were issued to the Hurricane Energy plc Share Incentive Plan (SIP) at a subscription price of £0.49 per share.

On 12 May 2017 the Group issued warrants to Stifel Nicolaus Europe Limited (Stifel) to subscribe for up to 25,000,000 new Ordinary Shares at a price equal to 95% of the volume weighted average price of the Ordinary Shares, calculated over the trading day prior to exercise (the "Warrants"). Fees for the placing of Ordinary Shares issued on exercise of the Warrants were paid to the Group's (then) joint brokers. An amount of £141,000 was paid to Stifel and £413,000 was paid to Cenkos Securities plc.

Between 12 May 2017 and 17 May 2017 all of the above Warrants were exercised and new Ordinary Shares were issued at an average price of £0.52.

On 24 July 2017 the Company raised US\$300 million (at a USD/GBP exchange rate of 1.2821) by way of a non-pre-emptive placing of 731,222,213 new Ordinary Shares at an issue price of £0.32 per share. Concurrently, the Company raised US\$220 million from the successful placement of the Convertible Bond. An over allotment option in respect of US\$10 million of bonds was exercised in full on the same date. Following exercise of the option, the aggregate principal amount of the Convertible Bond was US\$230 million. See note 18 for further details.

1. Balances have been restated to US Dollars. See note 2.2 for details.

### 21. Equity settled compensation agreements

The Group recognised total expenses of \$3,922,000 in respect of share-based payments in 2017 (2016: \$2,828,000).

#### 21.1. PSP awards

|                                   | Year Ended 31 Dec 2017 |                                    | Year Ended 31 Dec 2016 <sup>1</sup> |                                    |
|-----------------------------------|------------------------|------------------------------------|-------------------------------------|------------------------------------|
|                                   | Number of awards       | Weighted average exercise price \$ | Number of awards                    | Weighted average exercise price \$ |
| Outstanding at 1 January          | 8,930,354              | –                                  | 32,339,405                          | –                                  |
| Granted                           | –                      | –                                  | 4,533,333                           | –                                  |
| Forfeited / lapsed                | (2,697,001)            | –                                  | (27,942,384)                        | –                                  |
| <b>Outstanding at 31 December</b> | <b>6,233,353</b>       | <b>–</b>                           | <b>8,930,354</b>                    | <b>–</b>                           |

Under the Hurricane Energy 2013 Performance Share Plan (PSP) certain employees, including executive directors, were granted conditional rights to receive Ordinary Shares at nil cost. The share awards vest based on the Group meeting certain milestones across the next four 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 Ordinary Shares at nil cost. The share awards vest based on the same conditions as the PSP.

In November 2016 certain employees and executive directors forfeited their PSPs as part of the terms of participating in the Value Creation Plan (VCP). The transfer of employees and executive directors to the VCP has been accounted for as a modification to the PSP. See section 21.3 below.

On 18 January 2017, the performance criteria of PSPs and the NED Plan were amended to align with the criteria under the VCP.

On 18 December 2017 two non-executive directors surrendered their PSPs held under the NED Plan.

#### 21.2. Share Options

There are two tranches of share options that remain outstanding at 31 December 2017. Both tranches vested either on or before IPO. All other share options and LTIP awards were replaced by the PSP. As at 31 December 2017 the number of options that remained outstanding was 780,000 (2016: 901,500). The weighted average exercise price for these options was £0.55 (2016: £0.53). All outstanding options are exercisable.

The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 1.1 years (2016: 2.1 years).

The first tranche of 600,000 share options were granted in April 2009 with an exercise price of £0.30. 100,000 of these share options lapsed in 2017. 500,000 lapse in June 2019. The second tranche of 301,500 share options was granted in January 2011 at an exercise price of £1.00. 21,500 of these share options lapsed in 2017. 280,000 lapse in December 2020.

#### 21.3. Value Creation Plan

In November 2016 the Group introduced a Value Creation Plan ("VCP") for employees and executive directors, involving the issue of 840 growth shares in Hurricane Group Limited (a Group subsidiary).

The fair value of the VCP as at the grant date was calculated as \$24.5 million, of which \$9.3 million had been charged to the grant date under the terms of the PSP awards which it replaced. The fair value was calculated using a simulation model with the following key assumptions: (i) volatility of 68%; (ii) risk free rate of 0.62%; (iii) dividend yield of 0%; (iv) life of five years; and (v) share price at grant date of £0.34. The Group has currently assumed a vesting period which runs to early 2021, based on their assessment of the various non-market based performance conditions. If the assumed vesting period was shortened by one year or two years, the additional charge per year would be approximately \$1.3 million and \$3.9 million respectively.

Those employees or directors who entered the VCP were required to forfeit any PSPs held at that time.

Details of the VCP can be found in the Remuneration Report on pages 54 and 55 of the Governance Report.

1. Balances have been restated to US Dollars. See note 2.2 for details.



## Notes to the Group Financial Statements continued

### 22. Own shares held by SIP Trust

|                                 | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|---------------------------------|-------------------------------------|--|
| At 1 January                    | 366                                 | 314  |
| Acquired in the period          | 50                                  | 111  |
| Shares disposed of to employees | (93)                                | (59)   |
| At 31 December                  | 323                                 | 366  |

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 SIP administered by Global Shares Trustee Company Limited (formerly MM&K Share Plan Trustees Limited).

During January 2017 the SIP acquired 127,726 new ordinary shares in the Company of £0.001 nominal value (2016: 1,016,976) at a subscription price of £0.49 per share (2016: £0.09 per share), all of which were allocated to participants. At 31 December 2017 there were 1,512,778 Ordinary Shares held in the SIP Trust (2016: 1,694,821). All of these shares were allocated to participants (2016: 100,000 unallocated).

### 23. Reconciliation of operating costs to net cash outflow from operating activities

|  | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|--|-------------------------------------|--|
| Operating loss   | (24,998)                            | (8,865)  |
| Adjustments for:   |                                     |  |
| Depreciation of property, plant and equipment                          | 22                                  | 54   |
| Impairment / write off of intangible exploration and evaluation assets | 10,412                              | –  |
| Share based payment charge   | 3,922                               | 2,827  |
| Operating cash outflow before working capital movements                | (10,642)                            | (5,984)  |
| Increase in receivables  | (3,370)                             | (1,046)  |
| Increase in payables   | 64                                  | 542  |
| Cash used in operating activities                                      | (13,948)                            | (6,488)  |
| Corporation tax received <sup>2</sup>                                  | 5,860                               | 911  |
| Net cash outflow from operating activities                             | (8,088)                             | (5,577)  |

Changes in liabilities arising from financing activities during the year were as follows:

|                                     | 1 Jan 2017<br>\$'000 | Cash flows<br>\$'000 | Fair value<br>gains<br>\$'000 | Interest<br>charges<br>\$'000 | Transaction<br>costs expensed<br>\$'000 | 31 Dec 2017<br>\$'000 |
|-------------------------------------|----------------------|----------------------|-------------------------------|-------------------------------|---|-----------------------|
| Convertible loan liability          | –                    | 180,654              | –                             | 10,448                        | –                                       | 191,102               |
| Derivative financial instruments    | –                    | 37,825               | (10,416)                      | –                             | 1,224                                   | 28,633                |
| Total financing related liabilities | –                    | 218,479              | (10,416)                      | 10,448                        | 1,224                                   | 219,735               |

### 24. Financial instruments

#### 24.1. 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. Other than the financial instruments referred to in section 24.7, the Group's significant financial instruments are cash and cash equivalents (note 16), trade payables (note 17) and borrowings (note 18). The Group considers the carrying value of all its financial assets and liabilities to be materially the same as their fair value with the exception of the Convertible Bond. The Convertible Bond's carrying value at the Balance Sheet date was split between the host debt contract at amortised cost with a carrying value of \$191.1 million and the embedded derivative with a fair value of \$28.6 million. The fair value of the instrument as a whole, based on the exchange traded value at the Balance Sheet date was \$251.3 million. The Group has no material financial assets that are past due.

1. Balances have been restated to US Dollars. See note 2.2 for details.

2. Corporation tax received is a research and development tax credit claimed under the SME Research & Development tax relief scheme.

#### 24.2. 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 2017 consists of cash and cash equivalents, borrowings 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 2017 equity attributable to equity holders of the parent is \$682.5 million (2016: \$379.6 million), whilst cash and cash equivalents amount to \$360.0 million (2016: \$101.5 million).

#### 24.3. Foreign exchange risk management

The Group undertakes certain transactions denominated in foreign currencies; hence exposures to exchange rate fluctuations arise. The Group's cash and cash equivalents are held in both US Dollars and Pounds Sterling. At 31 December 2017, 42% of the Group's cash and cash equivalents were held in Pounds Sterling.

A 10% increase in the strength of the Sterling against US Dollar would cause a decrease of \$15.1 million (2016: \$0.1 million) on the profit after tax of the Group for the year ended 31 December 2017. A 10% weakening in the strength of Sterling against the US Dollar, would cause an increase of \$15.1 million (2016: \$0.1 million) on the profit after tax of the Group for the year ended 31 December 2017.

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 Pounds Sterling against actual or expected commitments in Pounds Sterling is an economic hedge against exchange rate movements.

#### 24.4. Credit risk

The Group is only exposed to significant 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.

#### 24.5. 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 30 days of the Balance Sheet date, and the Convertible Bonds referred to in note 18. Consideration of the Group's current and forecast financing position are provided in more detail in the going concern section of the Directors' Report.

#### 24.6. 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 profit after tax for the year ended 31 December 2017 would have increased by \$3.6 million (2016: \$0.9 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.

#### 24.7. Financial instruments held by the Group

The derivative financial instruments held by the Group are the embedded derivative associated with the issue of the Convertible Bond, and the forward foreign exchange contracts the Group entered into during 2017.

IFRS 7 'Financial Instruments: Disclosures' requires entities to disclose the fair value of each class of financial assets and financial liabilities in a way that permits it to be compared with its carrying value. IFRS 7 also requires financial instruments to be classified into a fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## Notes to the Group Financial Statements continued

### 24. Financial instruments continued

#### (a) Embedded derivative

At inception and at the Balance Sheet date, the fair value of the embedded derivative contained within the Convertible Bond was calculated based on the conversion option contained within. In determining the fair value of the embedded derivative, the likelihood of the early redemption option being exercised and the likelihood of a change of control of the Group within the life of the bonds were considered. The likelihood of each was considered to be nil for the purposes of the valuation.

|   | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016<br>\$'000 |
|---|-------------------------------------|-------------------------------------|
| Derivative liability at date of issue                   | (39,049)                            | –                                   |
| Change in fair value recognised in the income statement | 10,427                              | –                                   |
| Derivative liability at 31 December                     | (28,622)                            | –                                   |

The derivatives that are a part of the Convertible Bond issue have been assessed to be a Level 3 financial liability. This is because the derivatives themselves are not traded on an active market and their fair values are determined by a valuation technique that uses one key input that is not based on observable market data, being share price volatility.

Volatility is a key input in the valuation of the Convertible Bond embedded derivative. Volatility is a measure of the variability or uncertainty in return for a given underlying derivative. It represents an estimate of how much a particular instrument, parameter or index (in this case share price) will change in value over time. The valuation technique was based on a simulation model and the volatility was calculated as a blended average of the trading history of the Group's own shares and shares in a relevant peer group, for a period of six months prior to the measurement date.

The fair value calculation at 31 December 2017 used a share price volatility assumption of 23.6%. A 5% increase to 28.6% would cause a \$7.4 million increase in the fair value recognised at 31 December 2017. A 5% decrease in the share price volatility to 18.6% would cause a decrease of \$7.2 million in the fair value. As movements in the fair value are recognised directly in the income statement these changes would directly affect the profit after tax by the same amount.

#### (b) Foreign exchange swaps

During the year the Group has entered into several foreign exchange swaps to cover specific foreign currency payments in the Group's future. At reporting date the Group had entered into three separate foreign exchange swaps for the purposes of settling three known Euro payments to occur in 2018.

These foreign exchange swaps are accounted for using the spot rate on the date the swap was entered into, and subsequently revalued at each reporting date for movements in the foreign exchange rate. Any change in the forward spot rate at period end is accounted for by taking the fair value changes to the income statement and recognising either a derivative asset or derivative liability in the statement of financial position.

The following table details the foreign currency swaps outstanding at year-end:

| EUR                | Forward Rate<br>(inception) | Forward Rate<br>(31 Dec 2017) | Foreign Currency<br>€'000 | Notional Value<br>\$'000 | Fair Value<br>\$'000 | Derivative Liability<br>\$'000 |
|--------------------|-----------------------------|-------------------------------|---------------------------|--------------------------|----------------------|--------------------------------|
| Less than 3 months | 0.8922                      | 0.8903                        | 500                       | 587                      | 586                  | (1)                            |
| 3–6 months         | 0.8949                      | 0.8927                        | 1,000                     | 1,175                    | 1,172                | (3)                            |
| 6–12 months        | 0.8988                      | 0.8959                        | 1,700                     | 1,998                    | 1,991                | (7)                            |
|                    |                             |                               |                           |                          |                      | (11)                           |

|  | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016<br>\$'000 |
|--|-------------------------------------|-------------------------------------|
| Derivative liability at date of issue                    | –                                   | –                                   |
| Change in fair value recognised in the income statements | (11)                                | –                                   |
| Derivative liability at 31 December                      | (11)                                | –                                   |

The derivatives that are a part of the foreign exchange swaps have been assessed to be a Level 2 financial liability. This is because the foreign currency swaps themselves are not traded on an active market. However, their fair values are determined by valuation techniques that use observable market data, e.g. foreign exchange rates.

### 25. Capital commitments

As at 31 December 2017 the Group had capital commitments of \$199.7 million (2016: \$7.4 million).

### 26. Financial commitments

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

|                                       | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 |
|---------------------------------------|-----------------------|------------------------------------|
| Within one year                       | 293                   | 163                                |
| In the second to fifth year inclusive | 820                   | 521                                |
| After five years                      | –                     | –                                  |
| At 31 December                        | 1,113                 | 684                                |

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

### 27. Related parties

During 2017, the only related party transactions are those with the directors who are considered the Group's key management personnel which are summarised in the table below.

|   | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 |
|---|-----------------------|------------------------------------|
| Salaries, fees bonuses and benefits in kind | 2,331                 | 3,343                              |
| Share based payment expense                 | 2,099                 | 1,698                              |
|   | 4,430                 | 5,041                              |

The above transactions include \$72,000 paid to Kerogen Capital (2016: \$48,000), who are a related party of the Company due to the size of their shareholding. All transactions with the directors are detailed in the Remuneration Report on pages 61 to 63.

### 28. Subsequent events

#### 28.1. Share incentive plan

On 24 January 2018, Global Shares Trustee Company Limited (formally MM&K Plan Trustees Limited), trustee of the HMRC approved Hurricane Energy plc SIP, awarded 474,006 Ordinary Shares to participants in the SIP at a price of £0.39 per share. The SIP award has been satisfied by the issue of 341,301 new Ordinary Shares issued to the SIP at a subscription price of £0.39 per share plus 132,705 Ordinary Shares already held in the plan.

1. Balances have been restated to US Dollars. See note 2.2 for details.



# Company Balance Sheet

as at 31 December 2017

|  | Notes | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 | 1 Jan 2016 <sup>1</sup><br>\$'000 |
|--|-------|-----------------------|------------------------------------|-----------------------------------|
| <b>Non-current assets</b>                    |       |                       |                                    |                                   |
| Property, plant and equipment                | 1     | 54                    | 18                                 | 132                               |
| Intangible exploration and evaluation assets | 2     | –                     | 144,178                            | 118,795                           |
| Investments                                  | 3     | 159,204               | 19,048                             | 14,723                            |
| Amounts due from subsidiary undertakings     |       | 219,600               | 147,676                            | 127,450                           |
| Other receivables                            | 4     | 202                   | 161                                | 193                               |
| Other non-current assets                     | 7     | 16,089                | 2,875                              | 3,431                             |
|  |       | <b>395,149</b>        | 313,956                            | 264,724                           |
| <b>Current assets</b>                        |       |                       |                                    |                                   |
| Inventory                                    | 5     | 1,434                 | 443                                | 607                               |
| Trade and other receivables                  | 6     | 4,569                 | 7,256                              | 622                               |
| Liquid investments                           | 7     | 201,973               | –                                  | –                                 |
| Cash and cash equivalents                    | 7     | 141,956               | 98,607                             | 11,284                            |
|  |       | <b>349,932</b>        | 106,306                            | 12,513                            |
| <b>Total assets</b>                          |       | <b>745,081</b>        | 420,262                            | 277,237                           |
| <b>Current liabilities</b>                   |       |                       |                                    |                                   |
| Trade and other payables                     | 8     | (3,067)               | (26,338)                           | (401)                             |
| Derivative financial instruments             | 11    | (11)                  | –                                  | –                                 |
|  |       | <b>(3,078)</b>        | (26,338)                           | (401)                             |
| <b>Non-current liabilities</b>               |       |                       |                                    |                                   |
| Convertible loan liability                   |       | (191,102)             | –                                  | –                                 |
| Derivative financial instruments             |       | (28,622)              | –                                  | –                                 |
| Decommissioning provisions                   | 9     | –                     | (2,980)                            | (2,383)                           |
| <b>Total liabilities</b>                     |       | <b>(222,802)</b>      | (29,318)                           | (2,784)                           |
| <b>Net assets</b>                            |       | <b>522,279</b>        | 390,944                            | 274,453                           |
| <b>Equity</b>                                |       |                       |                                    |                                   |
| Share capital                                | 11    | 2,843                 | 1,860                              | 1,082                             |
| Share premium                                |       | 813,496               | 508,510                            | 347,815                           |
| Share option reserve                         |       | 19,477                | 15,648                             | 12,876                            |
| Own shares held by SIP Trust                 |       | (323)                 | (366)                              | (314)                             |
| Equity shares to be issued                   |       | –                     | –                                  | 801                               |
| Foreign exchange reserve                     |       | (79,591)              | (79,591)                           | (31,545)                          |
| Accumulated deficit                          | 11    | (233,623)             | (55,117)                           | (56,262)                          |
| <b>Total equity</b>                          |       | <b>522,279</b>        | 390,944                            | 274,453                           |

The loss of the Company for 2017 was \$178,506,000 (2016: profit of \$1,145,000). 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.

The Financial Statements of Hurricane Energy plc were approved by the Board and authorised for issue on 9 April 2018. They were signed on its behalf by:

**Dr Robert Trice**  
Chief Executive Officer

**Alistair Stobie**  
Chief Financial Officer

1. Balances have been restated to US Dollars. See note 2.2 in the Group accounts for details.

# Company Statement of Changes in Equity

for the Year Ended 31 December 2017

|   | Share capital<br>\$'000 | Share premium<br>\$'000 | Share option reserve<br>\$'000 | Own shares held by SIP Trust<br>\$'000 | Equity Shares to be issued<br>\$'000 | Foreign exchange reserve<br>\$'000 | Accumulated deficit<br>\$'000 | Total<br>\$'000 |
|---|-------------------------|-------------------------|--------------------------------|--|--------------------------------------|------------------------------------|-------------------------------|-----------------|
| <b>At 1 January 2016<sup>1</sup></b>    | 1,082                   | 347,815                 | 12,876                         | (314)                                  | 801                                  | (31,545)                           | (56,262)                      | 274,453         |
| Shares allotted                         | 778                     | 160,695                 | –                              | –                                      | –                                    | –                                  | –                             | 161,473         |
| Share options charge                    | –                       | –                       | 2,772                          | –                                      | –                                    | –                                  | –                             | 2,772           |
| Own shares held by SIP Trust            | –                       | –                       | –                              | (52)                                   | –                                    | –                                  | –                             | (52)            |
| Equity shares to be issued              | –                       | –                       | –                              | –                                      | (801)                                | –                                  | –                             | (801)           |
| Profit for the period                   | –                       | –                       | –                              | –                                      | –                                    | –                                  | 1,145                         | 1,145           |
| Other comprehensive loss for the period | –                       | –                       | –                              | –                                      | –                                    | (48,046)                           | –                             | (48,046)        |
| At 31 December 2016 <sup>1</sup>        | 1,860                   | 508,510                 | 15,648                         | (366)                                  | –                                    | (79,591)                           | (55,117)                      | 390,944         |
| Shares allotted                         | 983                     | 319,873                 | –                              | –                                      | –                                    | –                                  | –                             | 320,856         |
| Transaction costs                       | –                       | (14,887)                | –                              | –                                      | –                                    | –                                  | –                             | (14,887)        |
| Share option charge                     | –                       | –                       | 3,829                          | –                                      | –                                    | –                                  | –                             | 3,829           |
| Own shares held by SIP Trust            | –                       | –                       | –                              | 43                                     | –                                    | –                                  | –                             | 43              |
| Loss for the period                     | –                       | –                       | –                              | –                                      | –                                    | –                                  | (178,506)                     | (178,506)       |
| <b>At 31 December 2017</b>              | <b>2,843</b>            | <b>813,496</b>          | <b>19,477</b>                  | <b>(323)</b>                           | –                                    | <b>(79,591)</b>                    | <b>(233,623)</b>              | <b>522,279</b>  |

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

1. Balances have been restated to US Dollars. See note 2.2 in the Group accounts for details.

# Company Cash Flow Statement

for the Year Ended 31 December 2017

|   | Notes | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|---|-------|-------------------------------------|--|
| <b>Net cash outflow from operating activities</b>                           | 10    | <b>(4,323)</b>                      | (5,357)  |
| <b>Investing activities</b>   |       |                                     |  |
| Interest received   |       | 893                                 | 78   |
| Increase in liquid investments <sup>2</sup>                                 |       | (201,973)                           | –  |
| Expenditure on property, plant and equipment                                |       | (58)                                | (17)   |
| Expenditure on intangible exploration and evaluation assets                 |       | (36,855)                            | (32,926)   |
| Expenditure on inventory  |       | –                                   | –  |
| Working capital provided to subsidiaries                                    |       | (242,412)                           | (30,753)   |
| <b>Net cash used in investing activities</b>                                |       | <b>(480,405)</b>                    | (63,618)   |
| <b>Financing activities</b>   |       |                                     |  |
| Interest paid / bank charges  |       | (15)                                | (5)  |
| Net proceeds from borrowings <sup>3</sup>                                   |       | 223,095                             | –  |
| Additional borrowing transaction costs <sup>3</sup>                         |       | (303)                               | –  |
| Interest payments (Convertible Bond)  |       | (4,313)                             | –  |
| Net proceeds from issue of share capital and warrants <sup>4</sup>          |       | 313,895                             | 162,474  |
| Additional equity issue transaction costs <sup>4</sup>                      |       | (7,976)                             | (1,739)  |
| Deferred bonus arrangements settled in cash                                 |       | –                                   | (253)  |
| <b>Net cash provided by financing activities</b>                            |       | <b>524,383</b>                      | 160,477  |
| <b>Net increase in cash and cash equivalents</b>                            |       | <b>39,655</b>                       | 91,502   |
| <b>Cash and cash equivalents at the beginning of the period<sup>5</sup></b> |       | <b>101,482</b>                      | 14,715   |
| Net increase in cash and cash equivalents                                   |       | 39,655                              | 91,502   |
| Effects of foreign exchange rate changes                                    |       | 16,908                              | (4,735)  |
| <b>Cash and cash equivalents at the end of the period<sup>5</sup></b>       | 7     | <b>158,045</b>                      | 101,482  |

- Balances have been restated to US Dollars. See note 2.2 in the Group accounts for details.
- Liquid investments comprise short-term liquid investments of between 3 and 12 months maturity while cash and cash equivalents comprise cash at bank and other short-term highly liquid investments of less than three months maturity. The combined cash and cash equivalents and liquid investments balance at 31 December 2017 was \$360,018,000 (2016: \$101,482,000).
- Total transaction costs relating to borrowings were \$7,208,000 (2016: \$nil) of which \$6,905,000 (2016: \$nil) were netted off against gross proceeds of \$230,000,000 (2016: \$nil).
- Total transaction costs relating to equity raises were \$14,887,000 (2016: \$6,691,000) of which \$6,911,000 (2016: \$4,952,000) were netted off against gross proceeds of \$320,806,000 (2016: \$167,426,000).
- Cash and cash equivalents includes \$16,089,000 (2016: \$2,875,000) of cash held in escrow which has been included in the balance sheet in other non-current assets.

# Notes to the Company Financial Statements

## 1. Property, plant and equipment

| Cost                           | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|--------------------------------|-------------------------------------|--|
| At 1 January                   | 995                                 | 979  |
| Additions                      | 58                                  | 16   |
| At 31 December                 | 1,053                               | 995  |
| Depreciation                   |                                     |  |
| At 1 January                   | (977)                               | (869)  |
| Charge for the year            | (22)                                | (108)  |
| At 31 December                 | (999)                               | (977)  |
| Carrying amount at 31 December | 54                                  | 18   |

Property, plant and equipment (other fixed assets) comprises the Group's investment in leasehold improvements, fixtures, office equipment and computer hardware. In 2017 \$nil (2016: \$58,000) of depreciation has been capitalised into the Group's intangible exploration and evaluation expenditure in accordance with the Group's overhead allocation policy.

## 2. Intangible exploration and evaluation assets

|  | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|--|-------------------------------------|--|
| At 1 January   | 144,178                             | 118,795  |
| Effects of translation of currency                                   | –                                   | (19,759)   |
| Additions  | 20,785                              | 44,188   |
| Disposals  | (164,755)                           | –  |
| Effects of additions / changes to decommissioning estimates (note 9) | (208)                               | 954  |
| <b>At 31 December</b>  | <b>–</b>                            | <b>144,178</b>                                   |

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

In March 2017, the Company disposed of all its intangible exploration and evaluation assets to other group companies. The disposal was made at cost in exchange for equity in the other Group companies.

- Balances have been restated to US Dollars. See note 2.2 in the Group accounts for details.



## Notes to the Company Financial Statements continued

### 3. Investments in subsidiaries

|  | Investments in<br>subsidiaries<br>\$'000 | Loans to<br>subsidiaries<br>\$'000 |
|--|--|------------------------------------|
| Cost   |  |                                    |
| At 1 January 2017 <sup>1</sup>                   | 19,048                                   | 10,431                             |
| Additions  | 161,769                                  | –                                  |
| <b>At 31 December 2017</b>                       | <b>180,817</b>                           | <b>10,431</b>                      |
| Provisions for impairment                        |  |                                    |
| At 1 January 2017                                | –  | –                                  |
| Write off loan to subsidiary                     | –  | (10,431)                           |
| Impairment in investments                        | (21,613)                                 | –                                  |
| <b>At 31 December 2017</b>                       | <b>(21,613)</b>                          | <b>(10,431)</b>                    |
| Carrying amount at 31 December 2016 <sup>1</sup> | 19,048                                   | 10,431                             |
| <b>Carrying amount at 31 December 2017</b>       | <b>159,204</b>                           | <b>–</b>                           |

In March 2017 the Company disposed of its intangible exploration and evaluation assets to its subsidiaries at cost in exchange for equity in those subsidiaries. In December 2017 the Company wrote off the loan to one of its subsidiaries and recognised an impairment in two of its investments. In December 2017 the Company relinquished its licences in Typhoon and Tempest and recognised an additional impairment.

Details of investments in which the Company holds shares are as follows:

| Company                             | Country of<br>Registration | Company<br>Number | Nature of<br>business   |
|-------------------------------------|----------------------------|-------------------|-------------------------|
| Hurricane Exploration (UK) Limited  | UK                         | 05458508          | Oil and gas exploration |
| Hurricane Group Limited             | UK                         | 07700755          | Holding company         |
| Hurricane Petroleum Limited         | UK                         | 07700415          | Dormant company         |
| Hurricane Basement Limited          | UK                         | 07700492          | Dormant company         |
| Hurricane Holdings Limited          | UK                         | 10654801          | Holding company         |
| Hurricane (Typhoon Tempest) Limited | UK                         | 10654818          | Oil and gas exploration |
| Hurricane (Whirlwind) Limited       | UK                         | 10654845          | Oil and gas exploration |
| Hurricane (Strathmore) Limited      | UK                         | 10654846          | Oil and gas exploration |
| Hurricane GLA Limited               | UK                         | 10656211          | Oil and gas development |
| Hurricane GWA Limited               | UK                         | 10656130          | Oil and gas exploration |

The Company holds the entire ordinary share capital of each of the subsidiaries, either directly or indirectly. Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. The registered office for each of the subsidiaries is the same as that for the Hurricane Energy plc, being The Wharf, Abbey Mill Business Park, Lower Eashing, Godalming, Surrey GU7 2QN.

The dormant companies have taken advantage of the s394A exemption from preparing individual accounts, and the s479A exemption from audit.

### 4. Other non-current receivables

The other non-current receivables of \$202,000 (2016:\$161,000) represents the deposit for the office leases. Further details are given in note 26 of the Group Financial Statements.

1. Balances have been restated to US Dollars. See note 2.2 in the Group accounts for details.

### 5. Inventory

|           | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 | 1 Jan 2016 <sup>1</sup><br>\$'000 |
|-----------|-----------------------|------------------------------------|-----------------------------------|
| Inventory | 1,434                 | 443                                | 607                               |
|           | 1,434                 | 443                                | 607                               |

Inventory is comprised of materials and equipment that are to be used in future exploration and appraisal activity.

### 6. Trade and other receivables

|                                   | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 | 1 Jan 2016 <sup>1</sup><br>\$'000 |
|-----------------------------------|-----------------------|------------------------------------|-----------------------------------|
| Research & development tax credit | –                     | 5,792                              | –                                 |
| Other receivables                 | 4,179                 | 1,002                              | 209                               |
| Prepayments and accrued income    | 390                   | 462                                | 413                               |
|                                   | 4,569                 | 7,256                              | 622                               |

No amounts were past due at either Balance Sheet date. The carrying amounts of trade and other receivables are considered to be materially equivalent to their fair values.

### 7. Cash and cash equivalents

|  | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 | 1 Jan 2016 <sup>1</sup><br>\$'000 |
|--|-----------------------|------------------------------------|-----------------------------------|
| Unrestricted funds                                     | 124,629               | 89,275                             | 11,284                            |
| Current restricted funds                               | 17,327                | 9,332                              | –                                 |
| Current cash and cash equivalents                      | 141,956               | 98,607                             | 11,284                            |
| Non-current restricted funds                           | 16,089                | 2,875                              | 3,431                             |
| Total cash and cash equivalents                        | 158,045               | 101,482                            | 14,715                            |
| Liquid investments                                     | 201,973               | –                                  | –                                 |
| Total cash and cash equivalents and liquid investments | 360,018               | 101,482                            | 14,715                            |

At 31 December 2017 the current restricted funds of \$17,327,000 (2016: \$9,332,000) are held in escrow relating to coupon payments under the terms of the Convertible Bond and for future expected costs related to the current EPS project. The amounts held in escrow can only be withdrawn on the consent of both the relevant third party and the Company.

At 31 December 2017 \$3,151,000 (2016: \$2,875,000) of the non-current restricted funds are held in escrow for future expected costs associated with the Group's decommissioning obligations. \$12,938,000 (2016: \$nil) of the non-current restricted funds are held in escrow relating to coupon payments under the terms of the Convertible Bond. The amounts held in escrow can only be withdrawn on the consent of both the relevant third party and the Company. These funds have been included in the Balance Sheet in other non-current assets.

Liquid investments comprise short-term liquid investments of between 3 and 12 months maturity (fixed term deposit accounts) to take advantage of higher interest rates. Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments of less than three months maturity.

### 8. Trade and other payables

|                | 31 Dec 2017<br>\$'000 | 31 Dec 2016 <sup>1</sup><br>\$'000 | 1 Jan 2016 <sup>1</sup><br>\$'000 |
|----------------|-----------------------|------------------------------------|-----------------------------------|
| Trade payables | 1,029                 | 8,329                              | 105                               |
| Other payables | 159                   | 973                                | 116                               |
| Accruals       | 1,879                 | 17,036                             | 180                               |
|                | 3,067                 | 26,338                             | 401                               |

The carrying amounts of trade and other payables are considered to be materially equivalent to their fair values. All payables are due within 30 days at year-end.

1. Balances have been restated to US Dollars. See note 2.2 in the Group accounts for details.

## Notes to the Company Financial Statements continued

### 9. Decommissioning provisions

|                                     | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016 <sup>1</sup><br>\$'000 |
|-------------------------------------|-------------------------------------|--|
| At 1 January                        | 2,980                               | 2,383  |
| Effects of translation of currency  | –                                   | (397)  |
| Unwinding of discount rate          | 6                                   | 38   |
| Changes to decommissioning estimate | –                                   | 108  |
| Disposals                           | (2,986)                             | 848  |
| <b>At 31 December</b>               | <b>–</b>                            | <b>2,980</b>                                     |

The provision for decommissioning relates to the costs required to decommission the suspended wells previously drilled on the Lancaster and Whirlwind assets. The inflation rate and discount rate used in the calculation of the provision are 2.0% and 1.31% (2016: 2.0% and 1.31%).

In March 2017 the Company transferred its licence interests to other Group subsidiaries. This transfer included the related decommissioning liabilities. The liabilities were transferred at their carrying value.

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

|   | Year Ended<br>31 Dec 2017<br>\$'000 | Year Ended<br>31 Dec 2016<br>\$'000 |
|---|-------------------------------------|-------------------------------------|
| Operating loss  | (14,587)                            | (8,662)                             |
| Adjustments for:  |                                     |                                     |
| Depreciation of property, plant and equipment           | 22                                  | 56                                  |
| Share based payment charge                              | 3,922                               | 2,828                               |
| Operating cash outflow before working capital movements | (10,643)                            | (5,778)                             |
| Increase in receivables                                 | (3,228)                             | (1,027)                             |
| Increase in payables                                    | 3,688                               | 537                                 |
| Cash used in operating activities                       | (10,183)                            | (6,268)                             |
| Corporation tax received <sup>2</sup>                   | 5,860                               | 911                                 |
| Net cash outflow from operating activities              | (4,323)                             | (5,357)                             |

### 11. Other disclosures

Details of the Company's share capital, share options, share based awards, own shares held by the SIP Trust, financial instruments are provided in notes 20, 21, 22 and 24 to the Group Financial Statements.

Certain other disclosures in notes 26, 27 and 28 to the Group Financial statements also apply to the Company in respect of its share of the Group's operations.

The Company's accounting policies are aligned with the Group accounting policies with the addition of the following:

#### 11.1. Investments

Investments are stated at cost less any provision for impairment.

## Advisers

### Nominated Adviser and Broker

Stifel Nicolaus Europe Limited  
150 Cheapside London EC2V 6ET  
www.stifel.com

### Solicitors to Company

Dentons UKMEA LLP  
One Fleet Place London EC4M 7WS  
www.dentons.com

### Auditor

Deloitte LLP  
2 New Street Square London EC4A 3BZ  
www.deloitte.com

### Independent Competent Person

RPS Energy Limited  
14 Cornhill London EC3V 3ND  
www.rpsgroup.com

### Registrar and Receiving Agent

Computershare Investor Services Plc  
The Pavilions Bridgwater Road Bristol BS99 6ZZ  
www.computershare.co.uk

### PR and Communications Advisers

Vigo Communications Limited  
180 Piccadilly London W1J 9HF  
www.vigocomms.com

1. Balances have been restated to US Dollar. See note 2.2 in the Group accounts for details.  
2. Corporation tax received is a research and development tax credit claimed under the SME Research & Development tax relief scheme.



## Glossary of Terms

|                         |  |                       |   |
|-------------------------|--|-----------------------|---|
| 2P Reserves             | Proved plus probable reserves under the Society of Petroleum Engineers' Petroleum Resources Management System  | LTV                   | Long-Term Viability   |
| 2C Contingent Resources | Best case contingent resources under the Society of Petroleum Engineers' Petroleum Resources Management System | Milestones            | Those KPIs that relate to the VCP – long-term development goals linked to successful delivery of the EPS and monetisation of the Group's assets over a five-year period |
| AGM                     | Annual General Meeting   | mmboe                 | Million barrels of oil equivalent   |
| Board                   | Board of Directors of the Company  | NED Plan              | Mirror of the Hurricane 2013 Performance Share Plan for non-executive directors   |
| bopd                    | Barrels of oil per day   | ODT                   | Oil-Down-To   |
| Bluewater               | Bluewater Energy Services  | OGA                   | Oil and Gas Authority   |
| Code                    | Financial Reporting Council's UK Corporate Governance Code (2016)  | Ordinary Shares       | Ordinary shares in the Company of £0.001 each   |
| Convertible Bond        | \$230million of 7.5% convertible bonds issued by the Company in July 2017                                      | OSPRAG                | Oil Spill Prevention and Response Advisory Group  |
| Company                 | Hurricane Energy plc   | Performance Measures  | Those KPIs that relate to annual bonuses – inter-year progress measures, ensuring continued progress towards delivery of the Company's strategy on an annual basis      |
| CPR                     | Competent Persons Report   | PFML                  | Petrofac Facilities Management Limited  |
| E&A                     | Exploration and Appraisal  | PILON                 | Pay in Lieu of Notice   |
| E&E                     | Exploration and Evaluation   | POSA                  | Production Operating Services Agreement   |
| E&P                     | Exploration and Production   | PP&E                  | Property, Plant and Equipment   |
| EPC                     | Engineering, Procurement and Construction  | Premium Listing       | Listing on the premium segment of a recognised stock exchange   |
| EPCI                    | Engineering, Procurement, Construction and Installation  | Prospective Resources | Best case prospective resources under the Society of Petroleum Engineers' Petroleum Resources Management System   |
| EPCIC                   | Engineering, Procurement, Construction, Installation and Commissioning   | PSP                   | Performance Share Plan  |
| EPS                     | Lancaster Early Production System  | QCA                   | Quoted Companies Alliance   |
| FDP                     | Field Development Plan   | QCA Code              | Corporate Governance Code for Small and Mid-Size Quoted Companies   |
| FEED                    | Front End Engineering and Design   | RNS                   | Regulatory News Service   |
| FID                     | Final Investment Decision  | ROV                   | Remotely Operated Vehicle   |
| FPSO                    | Floating, Production, Storage and Offloading   | RPS                   | RPS Energy Consultants Ltd  |
| FVTPL                   | Fair Value Through Profit and Loss   | SERPENT               | Scientific and Environmental ROV Partnership  |
| GBP                     | British Pounds Sterling  | SIP                   | Share Incentive Plan  |
| GLA                     | Greater Lancaster Area   | SPS                   | Subsea Protection System  |
| Group                   | Hurricane Energy plc, together with its subsidiaries   | SURF                  | Subsea, Umbilical, Risers, Flexibles  |
| GWA                     | Greater Warwick Area   | TSR                   | Total Shareholder Return  |
| HSE                     | Health, Safety and Environmental   | TVDSS                 | True Vertical Depth Subsea  |
| HSEM                    | Health, Safety and Environmental Management  | TVT                   | True Vertical Thickness   |
| HSSEQ                   | Health, Safety, Security, Environmental and Quality  | UOP                   | Unit of Production  |
| Hurricane               | Hurricane Energy plc, together with its subsidiaries   | USD                   | United States Dollars   |
| IFRS                    | International Financial Reporting Standards  | VCP                   | Value Creation Plan   |
| KPI                     | Key Performance Indicators   | Xmas trees            | An assembly of valves, spools, and fittings used at the head of an oil and gas well   |
| LGC                     | Listing and Governance Committee   |                       |   |
| Lookout Period          | The three-year period assessed under the LTV assessment  |                       |   |





**Hurricane**

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