Hurricane

Annual Report and Group Financial Statements 2018

Hurricane was established to discover, appraise and develop hydrocarbon resources from naturally fractured basement reservoirs.

2018 was another transformational year, with significant progress on the Lancaster EPS and Spirit Energy's farm-in to Lincoln and Warwick.

Highlights

- Lancaster EPS first oil target of H1 2019 maintained
- Successful completion of FPSO upgrade, offshore installation works, and FPSO buoy hook-up
- Funded to first production and first revenues from Lancaster EPS
- Spirit Energy farm-in to the Greater Warwick Area (GWA) opens up a significant new work programme across Hurricane's assets
- Committed to an active work programme for 2019, including three wells, with minimal net cost to Hurricane
- Now targeting first oil from GWA tie-back, gas export and FPSO debottlenecking in 2020

Loss for the year
Including loss on embedded derivative of $42.4m

$60.9m

Closing unrestricted cash and cash equivalents
Lancaster EPS fully funded to first production

$83.0m

First oil on schedule
Lancaster EPS to deliver Hurricane's first production

H1 2019

Spirit Energy farm-in
Maximum carry under phased transaction

$387m

Strategic Report

Governance

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At a Glance

The largest undeveloped resource base on the UK Continental Shelf

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

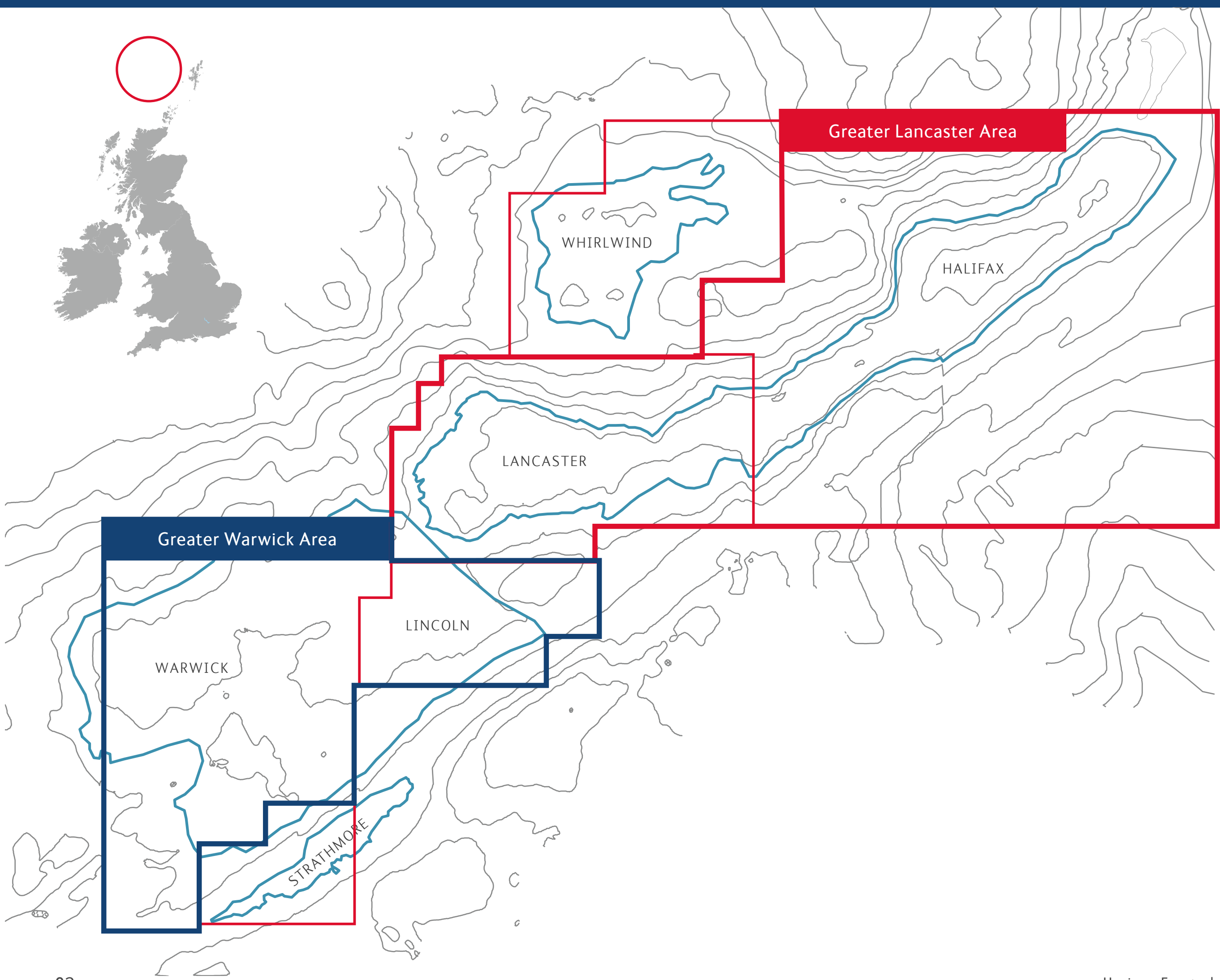
Where we operate

Hurricane has a portfolio of contiguous offshore licences on the UK Continental Shelf, 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 150m.

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

We have focussed on making discoveries in naturally fractured basement reservoirs and are now working towards realising the value of the reserves and resources of these discoveries.

Fractured basement reservoirs are prolific producers globally but represent a new play on the UK Continental Shelf.

Hurricane is technically led and driven, pioneering this play in the UK with a focus on the Atlantic margin, West of Shetland.

Our key strengths

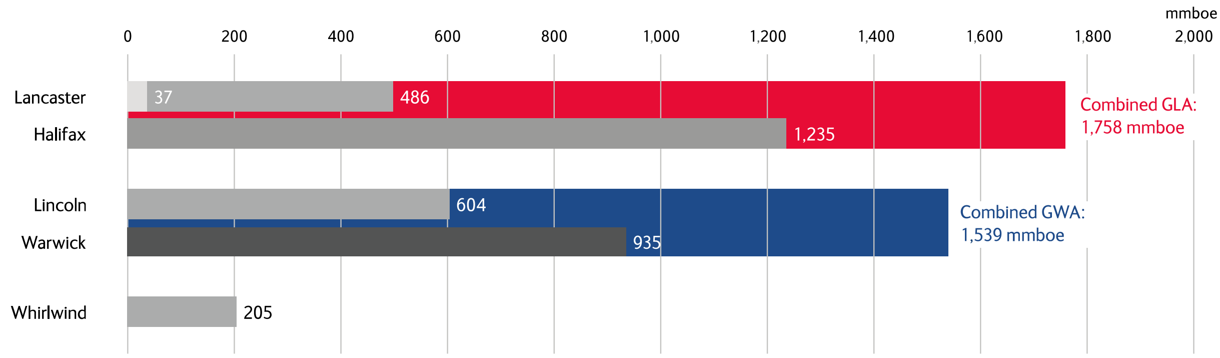
Basement reservoir expertise

Operational excellence

Value focus

Commitment to responsibility

Gross portfolio reserves and resources



- 2P reserves
- 2C contingent resources
- Best case prospective resources

- 2P reserves based on six-year case (RPS May 17 CPR)
- Whirlwind resources are those under the oil case (RPS Dec 17 CPR)
- Strathmore excluded
- Shows gross reserves and resources
- Assets are owned 100% except for Lincoln and Warwick (50%)

Gross reserves and contingent resources

2.6bnboe

Expected Lancaster EPS Production

17,000bopd

Chairman's Statement

Focus turning to production

The Lancaster EPS is the cornerstone of Hurricane's strategy to create shareholder value. Production in 2019 will start to deliver the reservoir data needed to clarify the ultimate potential of our extensive reserves and resources on the Rona Ridge.

Steven McTiernan

Dear Shareholders,

I am pleased to report that Hurricane remains on schedule for first oil from the Lancaster Early Production System (EPS) in the first half of 2019. The Aoka Mizu FPSO was successfully hooked-up to the turret mooring buoy on 19 March 2019 and commissioning is now underway.

Delivery of Lancaster EPS

Delivery of the Lancaster EPS was the Company's strategic priority throughout 2018. Your Company raised $547 million in 2017 to fund vessel upgrades for operation in the harsh environment West of Shetland, complete two wells for production, install the turret mooring system and install other subsea equipment.

It is a huge tribute to Hurricane's management team that this ambitious work programme has so far been completed on budget, and first production continues to be expected within the time frame advised to shareholders.

The Lancaster EPS is the cornerstone of Hurricane's strategy to create shareholder value. Production in 2019 will start to deliver the reservoir data needed to clarify the ultimate potential of our extensive reserves and resources on the Rona Ridge. The results from the Lancaster EPS will have a 'read-across' for the whole of the Company's fractured basement play. Cash flow generated from the Lancaster EPS will also provide funding for further activity to continue value uplift.

Spirit farm-in

Whilst prioritising successful execution of the Lancaster EPS project during 2018, in September Hurricane also entered into a transformational farm-in agreement with Spirit Energy (Spirit). The Spirit farm-in provides up to $387 million for a phased work programme leading towards an initial full field development of the Greater Warwick Area (GWA). This starts with a committed three-well appraisal drilling campaign in 2019.

The deal enables the accelerated appraisal and development of the GWA, bringing forward a potential Final Investment Decision (FID) on a full field development on these assets by a number of years.

I welcome this co-operation with Spirit, a first class and compatible partner, which shares our enthusiasm for the basement play.

Step-up in scope of activity

Management responsibilities in 2019 and beyond include satisfying the considerably increased demands of production operations at the Lancaster EPS and, in addition, the drilling operations on behalf of the GWA joint venture with Spirit. In aggregate, this has resulted in a significant step-up in the scope of activities and the Group's organisational structure has been carefully expanded in Eashing and Aberdeen to the extent necessary to deal with these increased demands.

> "Developments over the next year could be game changing not only for Hurricane and its shareholders but also for the wider UK oil industry."

This expansion in staffing has been accomplished without dilution of Hurricane's unique entrepreneurial corporate culture, which has seen it pioneer the basement play on the UK Continental Shelf, while delivering the additional skills, resources and depth required.

Corporate governance and the Board

I was pleased to be asked to become Chairman of the Board, effective 1 May 2018. Dr David Jenkins, who had acted as Interim Chairman from November 2017, returned to his previous role as Senior Independent Director on this date. David's stewardship of the Company was exemplary during that period, and I have been most grateful for his continued guidance during my transition into the Company.

John van der Welle has also been a huge support as an independent non-executive director, acting as Chair of the Audit and Risk Committee and also Chair of the Listing and Governance Committee (LGC).

As mentioned in last year's Annual Report, despite Hurricane being an AIM-quoted company, the Board decided to take steps over time to meet or exceed the principal provisions of the UK Corporate Governance Code (the Code) commensurate with standards expected for Premium Listed companies. John van der Welle, as Chair of the LGC, oversaw the initial gap analysis and the formulation of the plan towards meeting these goals.

To make further progress towards meeting the highest standards of governance, levels of disclosure in this year's Annual Report have been further enhanced. The Nominations Committee also began to take the steps required to achieve a more appropriate balance to the Board, starting with the appointment of an additional independent non-executive director. Sandy Shaw was appointed to the Board in January 2019, and we are fortunate to benefit from her extensive and highly relevant legal, commercial and transactional experience in the oil and gas industry, especially in the UK.

Although the Company is now well placed to meet the requirements of a Premium Listing, the Board continues to evaluate the benefits and timing of a Premium Listing whilst focussing its efforts on commissioning the Lancaster EPS and successful delivery of the 2019 drilling campaign on the GWA.

Acknowledgements

I would like to commend our Tier 1 contractors on the Lancaster EPS development for their critical assistance towards achieving project completion with an exemplary health and safety record.

I must also thank our new partners at Spirit, for the belief they have demonstrated in the basement play and Hurricane as operator, and their highly collaborative approach to our partnership. Our regulators have also been supportive and especially helpful in facilitating our partnership with Spirit at short notice.

And, of course, I would like to acknowledge and applaud the immense efforts of our Chief Executive, Dr Robert Trice, the other executive directors, and all of Hurricane's staff. Their unstinting efforts have delivered a very successful 2018, and they have set an exciting course for 2019, not only with first production expected from the Lancaster EPS but also a full drilling campaign on the GWA.

On a personal note, it has been a privilege to join the Company at such a critical moment in its journey, as developments over the next year could be game changing not only for Hurricane and its shareholders, but also for the wider UK oil industry.

Steven McTiernan
Chairman

Q&A

How has Hurricane managed its transition from explorer to producer?

This has been a time of growth for the Company with a significant expansion in the workforce and additional office space to accommodate our transition. This has been possible without significant increase in G&A or impact to corporate culture by maintaining a flat management structure and focusing on conversion of existing contractors to employees.

How has the Spirit transaction impacted the business?

The Spirit farm-in has materially accelerated the pace of evaluation of Hurricane's wider portfolio. Spirit has brought commitment to the basement play and a highly collaborative approach to a fast track partnership. Hurricane has scaled up available professional resource to add the capacity required to progress both the Greater Lancaster Area (GLA) and GWA in parallel.

Corporate governance enhancements were a big focus last year; how have these been carried forward?

Having voluntarily stepped up our corporate governance standards to target those commensurate with a Premium Listed company last year, we have been focussed on maintaining those enhanced standards and filling outstanding gaps. Sandy Shaw's appointment as an additional independent non-executive director at the start of 2019 is one such example.

Chief Executive Officer's Review

Accelerating our development

The Company remains on track to announce first oil from the Lancaster EPS during the first half of 2019.

Dr Robert Trice

Introduction

On 19 March 2019, we announced that the Aoka Mizu had successfully hooked-up to the turret mooring buoy. FPSO commissioning work is ongoing and the Company is on track for first oil from the Lancaster EPS during the first half of 2019.

The Group's loss after tax for the year was $60.9 million (2017: $7.0 million), $42.4 million of which relates to the non-cash fair value loss on the embedded derivative associated with Hurricane's convertible bonds. The financial statements presented in this Annual Report will be Hurricane's last with no revenue.

The primary purpose of the Lancaster EPS is to obtain reservoir data to enable the Company to plan for full field development, principally on the Greater Lancaster Area (GLA), but the data gathered will also inform our GWA development. Having spent 2017 and 2018 raising capital and executing the workstreams for the Lancaster EPS, the balance of 2019 will be spent gathering dynamic reservoir data to benchmark our reservoir model and validate the substantial resources across the GLA, while generating cash.

Coupled with our three well, fully carried appraisal drilling campaign on the GWA, 2019 should prove to be another exciting year for Hurricane.

Both the Lancaster EPS and the GWA appraisal drilling campaign advance our strategy of de-risking and monetising the substantial resources in our Rona Ridge portfolio. The planned single well tie-back from the GWA to the Aoka Mizu is intended to provide further reservoir information ahead of an initial stage of full field development on the GWA.

We have commenced planning for further drilling and testing across the GLA to confirm our exploration model that the Lancaster and Halifax licences may contain a single supergiant field. We are also beginning to evaluate the optimum approach for the next phase of development of the GLA. This evaluation will review how funding could be achieved through our own resources to expand our current development and increase production, thereby putting Hurricane in a position to achieve maximum optionality and greatest value for shareholders.

The Spirit farm-in to the GWA partially addressed the capital availability issue in 2019 and will, in the longer term, address our constrained human resources as we hand over operatorship to Spirit for full field development of the GWA. This farm-in has significantly accelerated appraisal activity. We expect the first of a fully carried three well campaign to spud in April 2019. The three well drilling and testing programme is planned to be completed by the end of the year, ahead of tying a single well back to the Aoka Mizu. With the installation and completion phase scheduled for the summer of 2020, we expect first oil from the GWA in the fourth quarter.

The Spirit farm-in means that over 90% of our 2019 committed capital programme is carried. This allows us to build our capital reserves during 2019 and to plan to undertake appraisal and development activities concurrently on the GLA, the GWA and Whirlwind over the next few years.

Q4 2020

Scheduled first oil from GWA tie-back

Greater Lancaster Area

Our focus in 2018 was the upgrade of the Aoka Mizu in the Drydocks World Dubai facility, fabrication and installation of the turret mooring system buoy and Subsea Umbilical, Risers and Flowlines (SURF), and completion of the two production wells. The year was marked by progressing a series of project milestones which culminated in the completion of the offshore installation programme in September and sail-away of the Aoka Mizu from Dubai in October. The long hot summer experienced across the UK stretched as far north as Shetland and meant that we were able to carry out the well completions and offshore installation programme with limited downtime.

Our contracting strategy sought to transfer timing risk to our Tier 1 contractors, which were incentivised to deliver on schedule without compromising operational efficiency. Bluewater, TechnipFMC and Petrofac Facilities Management Limited all successfully managed their scopes taking responsibility towards delivering the Lancaster EPS on time and on budget. We look forward to working with them all as we further de-risk our Rona Ridge assets.

To facilitate the Spirit farm-in, we have already commenced work on reinstating the gas compression system on the Aoka Mizu and tie-in to the West of Shetland Pipeline System (WOSPS) to evacuate the GLA and GWA associated gas. Subject to regulatory approval, this will allow us to utilise all of the 30,000 barrel a day throughput capacity of the Aoka Mizu. Debottlenecking studies are ongoing to potentially increase the throughput to 40,000 bopd.

Spirit farm-in to GWA

Spirit's acquisition of a 50% interest in the GWA was as unexpected as it was beneficial. A clear meeting of minds on how to effectively advance the GWA led to a deal being concluded quickly. The transaction clearly sets out a phased appraisal and development programme leading to a final investment decision (FID) in 2021 on the first phase of full field development of the GWA.

Milestones

March 2019
Aoka Mizu FPSO hooked up to turret mooring system buoy

October 2018
Sail-away of the Aoka Mizu FPSO from Dubai

September 2018
Spirit farm-in to GWA licences and signing of Transocean Leader rig contract for 2019

Completion of Lancaster EPS subsea installation

August 2018
Turret mooring system for Lancaster EPS installation complete

June–July 2018
Well completion operations for Lancaster EPS using the Paul B. Loyd Jr rig

May 2018
Sail-away of turret mooring system buoy for Lancaster EPS from Dubai

Commencement of Lancaster EPS offshore installation phase with installation of enhanced horizontal Xmas trees using the Far Superior offshore construction vessel

September 2017
Aoka Mizu FPSO arrived in Drydocks World Dubai dockyard to begin refurbishment, upgrade and life extension works

Chief Executive Officer's Review continued

Spirit farm-in to GWA continued

The Spirit farm-in has significantly accelerated activity on the GWA, with the added benefit that with limited calls on our capital investment across the licences in 2019, it is expected that we will be able to fund the next phase of appraisal drilling on the GLA and Whirlwind from our own resources.

The first of the GWA appraisal wells, Warwick Deep, is expected to spud in April 2019 once the Transocean Leader rig has been released by EnQuest. The Warwick Deep well will be the first horizontal producer we will have drilled outside local structural closure. It is anticipated that the Warwick Deep well test will provide a unique insight into the productivity potential of the deeper fracture network, providing more evidence of the mobility of oil within the basement reservoir.

Hurricane's geological model for the GWA has been informed by the drilling and testing results from the GLA, Whirlwind and Lincoln wells. As a consequence, Hurricane believes that the seismically mapped faults that subdivide the GWA into the Lincoln and Warwick volumes represent high permeability features rather than reservoir barriers. It is therefore anticipated that the GWA will be proven to be a single supergiant field rather than a number of separate hydrocarbon accumulations.

In order to test this geological model, all three of the wells in the 2019 programme are planned to be suspended with downhole gauges which should provide a means of 'seeing' subsequent GWA well tests. Furthermore, the planned single well tie-back will provide the option to undertake interference testing which, when combined with a further three horizontal production wells, will inform the GWA joint venture's planning for the initial stage of GWA full field development.

Corporate growth

We commenced the 2016–2017 drilling campaign with ten full time employees. To facilitate the Lancaster EPS and GWA joint venture with Spirit, we will have reached a total of 51 full time employees at the end of the first quarter of 2019. Notwithstanding the significant growth in personnel, we recognise our ability to operate is as much defined by human capital as it is by cash. In achieving this growth, we have been mindful to ensure that the new joiners are willing to embrace Hurricane's corporate culture.

Implicit in this growth, and sympathetic to the culture that has delivered on our promises, we have updated our policies and procedures to reflect the size of the Company and our aspirations for continued growth. With this preparation in place we have the foundations to be ready, when the Board determines that it is the right time, to pursue a Premium Listing.

Basement plays

2018 was the year in which basement plays across the North Sea began to be promoted by companies other than Hurricane. Basement opportunities have been presented at international geoscience conferences in the UK, Norway and Oman. Discoveries, prospects and leads have been identified West of Shetland, in the Norwegian North Sea, and in the Southern North Sea Danish sector.

Most notable of these was Lundin Petroleum's Rolvsnes well 16/1-28S which drilled a thick and aerially extensive interval of porous and fractured basement. We were delighted with the initial success of the Rolvsnes well, which not only flowed at a constrained rate of 7,000 bopd but reinforced Lundin's pre-drill geological model. We will watch with interest as this successful well is tied back to the Edvard Grieg platform and generates extended well test results.

The increased basement awareness resulting from this recent industry promotion and co-operation has demonstrated that understanding the differences between basement reservoirs is as important as understanding the numerous similarities.

Spirit Energy farm-in

The Spirit farm-in opens up a significant new work programme across Hurricane's assets, widening strategic options and accelerating their potential monetisation by targeting reserve growth. The partners are committing to a work programme which envisages first oil on the GWA by 2020 and final investment decision on the first phase of a full field development by 2021. This is intended to unlock initial reserves of half a billion barrels (gross) from current GWA resources.

Hurricane operatorship

FID

Three E&A wells and GWA tie-back preparation

- Drilling surveys, LLIs, engineering for wells
- Drill, log and test three wells
- LLIs, surveys, FEED, PMT for tie-back and FPSO modifications

GWA tie-back

- SURF
- Well completion
- FPSO modifications and WOSPS tie-in

	Three E&A wells and GWA tie-back preparation	GWA tie-back
Gross cost	$180.6m	$187.5m
Net cost	–	$46.9m
Carry	$90.3m	$46.9m
Cumulative carry	$90.3m	$137.2m

Note: Each phase is contingent on success and agreement of the GWA partners.
* $150–$250 million contingent commitment on FID, dependent on reserves being developed, $150 million for reserves up to 300mmboe and $0.5/boe for each additional barrel of oil equivalent of reserves thereafter up to 500mmboe, payable as carry over three years.

Of central importance is that the basement play typically comprises large easily mapped structures within which the natural fracture network has been enhanced through tectonics and sub-aerial weathering processes. The presence of basement opportunities within otherwise well-known petroleum systems represents a significant under-exploited play, and offers the oil industry an as-yet unquantified material upside close to established infrastructure.

Regional environment

While Hurricane has been progressing delivery of the Lancaster EPS and the GWA joint venture with Spirit, the ownership of UKCS acreage and assets has been changing around us. Given our reservoir focus and absence of legacy assets, we are less concerned by the change of ownership in the traditional North Sea. However, the forces driving this change in ownership is now manifesting itself West of Shetland, with Equinor, BP and Shell making acquisitions.

The recent stability of the UK tax regime and the relative stability (at its mid-point at least) of the oil price has helped encourage this M&A activity. A number of participants believe that there is a lot more to come.

This commercial backdrop offers a potentially fertile environment for Hurricane to pursue its strategy of attracting a field development partner for its Lancaster field.

People

2018 was an extraordinary year in Hurricane's history and another is well underway. None of this would be possible without the dedication, initiative and hard work of our expanding team. I would like to sincerely thank them all for taking Hurricane another step closer to demonstrating the productivity and considerable size of our Rona Ridge assets.

Dr Robert Trice
Chief Executive Officer

Spirit Energy operatorship

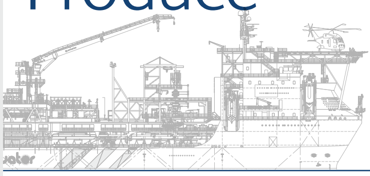
FID	FID	FID
Three additional wells	**GWA FFD FEED**	**GWA FFD**
• Additional appraisal and development drilling at GWA	• FEED for GWA full field development	• GWA full field development
TBD	**TBD**	**TBD**
TBD	**TBD**	**TBD**
–	–	**Up to $250m***
$137.2m	**$137.2m**	**Up to $387m***

Our Business Model and 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, development and production.

What we do	Strategy	Latest progress and outlook

1. Produce



Strategy

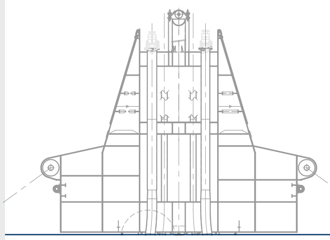
Generate data needed to plan future development phases whilst producing cash flow to maintain portfolio progress.

Full field development stages require production data for efficient planning. Early production systems deliver this whilst generating cash flow to fund future stages and broader work programmes.

Latest progress and outlook

- Lancaster EPS first oil target of H1 2019 maintained following completion of FPSO upgrade and offshore installation works
- Targeting first oil from GWA tie-back and gas export in Q4 2020
- Debottlenecking Aoka Mizu to raise throughput capacity from 30,000 bopd to 40,000 bopd by the end of 2020

2. Develop



Strategy

Convert resources to reserves to maximise value ascribed by the market and industry.

Hurricane's discoveries have been assigned significant contingent resources by third party reserve consultant, RPS Energy. Contingent resources describe the potential recoverable volume of a discovery, being converted to reserves with an associated development plan. Hurricane is therefore maximising near-term reserve growth with early production systems to be followed by phased full field developments.

Latest progress and outlook

- Focussed on execution of the Lancaster EPS development throughout 2018
- Delivered Lancaster EPS development to schedule, as first laid out in 2016
- Now pursuing a path to development of the GWA, following the Spirit deal which aims to unlock initial reserves of half a billion barrels (gross) from current resources
- Building on the Lancaster EPS, Hurricane intends to submit a plan to the regulator addressing a full field development for the Lancaster field by 2024

3. Appraise & explore

Strategy

Narrow range of reserves and resources using unparalleled knowledge of UKCS basement reservoirs.

Hurricane was the first company to target fractured basement in the UK and has discovered over 2.6 billion barrels of oil equivalent within its Rona Ridge portfolio. Maintaining momentum across the portfolio will help to achieve value for the maximum number of barrels of resources, whether through analysis of production data or drilling further wells to explore or appraise other areas.

Latest progress and outlook

- Drill-ready philosophy allowed 2019 well timing to be locked in with signing of Transocean Leader contract on closing of Spirit farm-in
- 2019 wells to evaluate 935 mmboe prospective resource on the Warwick structure and further de-risk 604 mmboe contingent resources at Lincoln
- Spirit deal includes full carry of 2019 wells and potential additional GWA wells in 2020; planning is underway
- Lancaster EPS start-up sequence designed to maximise early generation of data

HSE

Our approach to health, safety and the environment underpins our strategy.

Our key strengths

Basement reservoir expertise

- Technically driven
- Uniquely basement reservoir focussed

CEO's Review page 06 >

Operational excellence

- Appropriate contractor structures
- Experienced knowledge base
- Positive engagement with regulators

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Value focus

- Progress assets to a stage where value is unlocked
- Maximise net obtainable reserves by maintaining meaningful licence interests
- Remain deal-ready at both operational and corporate levels

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Commitment to responsibility

- Prioritise health, safety and the environment
- Do things the right way without compromise

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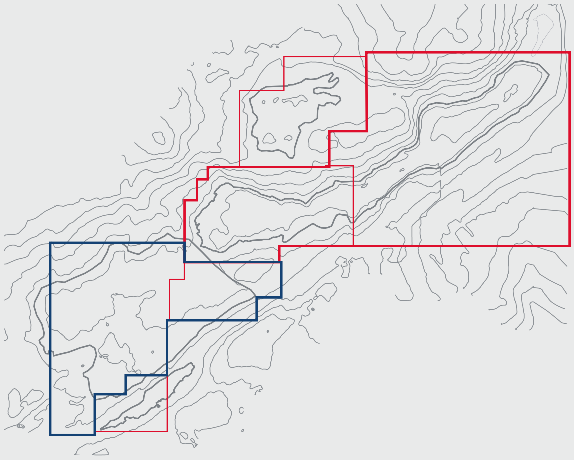

Link to KPIs/risks

KPIs (p19):

1 2 3 4
5 6

Risks (p20):

A B C D
E F G H
I J K L

KPIs (p19):

1 2 3 4
5 6

Risks (p20):

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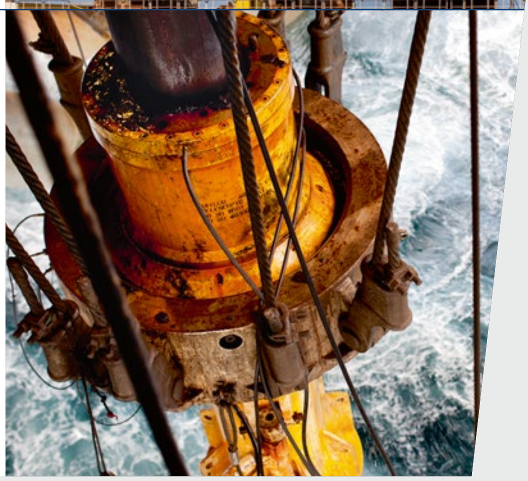


Produce

The road to first oil

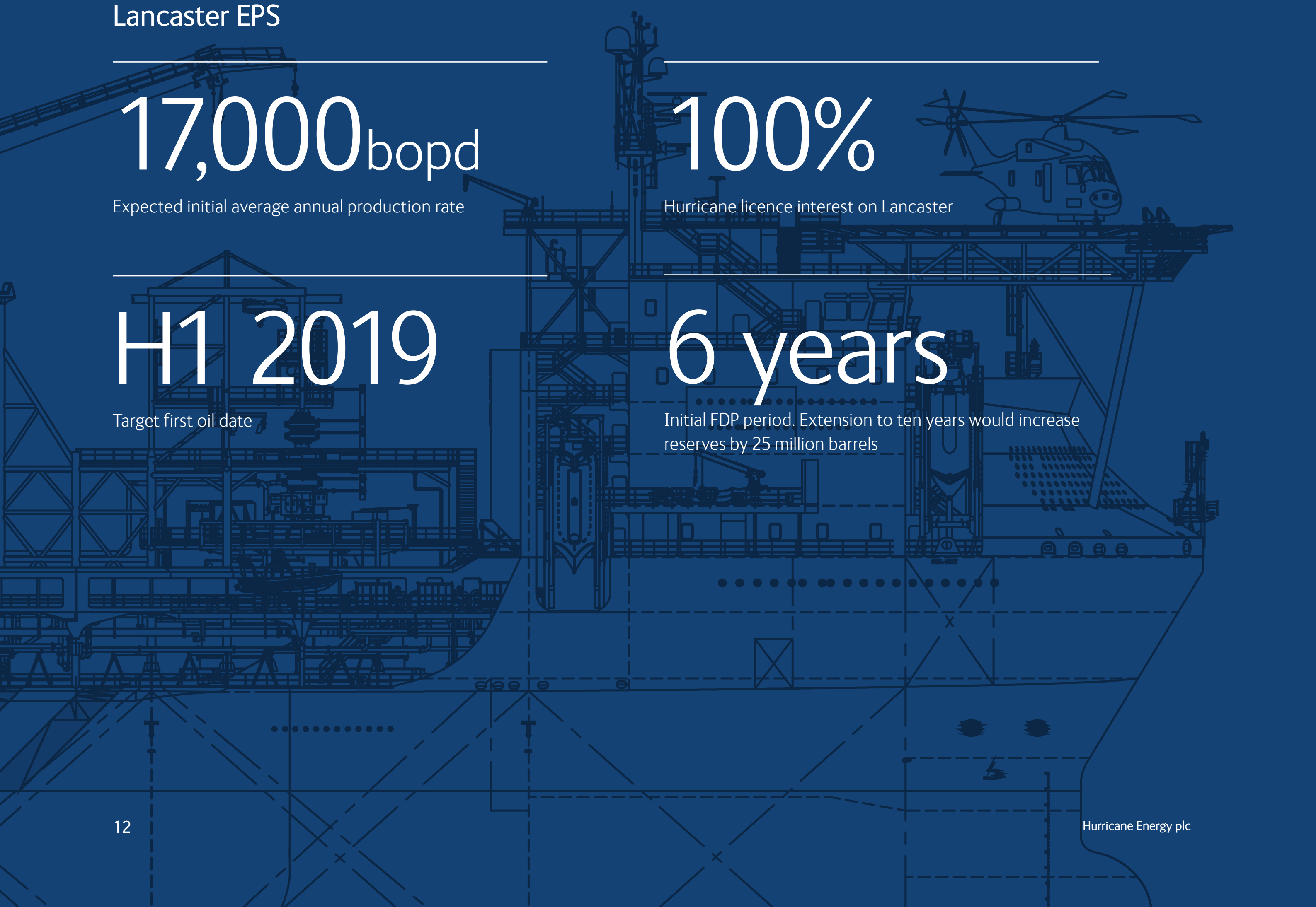
The first phase of development of Lancaster is an Early Production System (EPS). This involves tying two existing wells back to the Aoka Mizu FPSO vessel. The Bluewater-owned Aoka Mizu previously operated on the Blackbird and Ettrick fields in the North Sea and required only limited upgrades and life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

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

Its objectives are to:

- Provide long term production data to enhance understanding of reservoir characteristics and thereby optimise planning for full field development phases
- 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

Lancaster EPS



17,000bopd

Expected initial average annual production rate

100%

Hurricane licence interest on Lancaster

H1 2019

Target first oil date

6 years

Initial FDP period. Extension to ten years would increase reserves by 25 million barrels

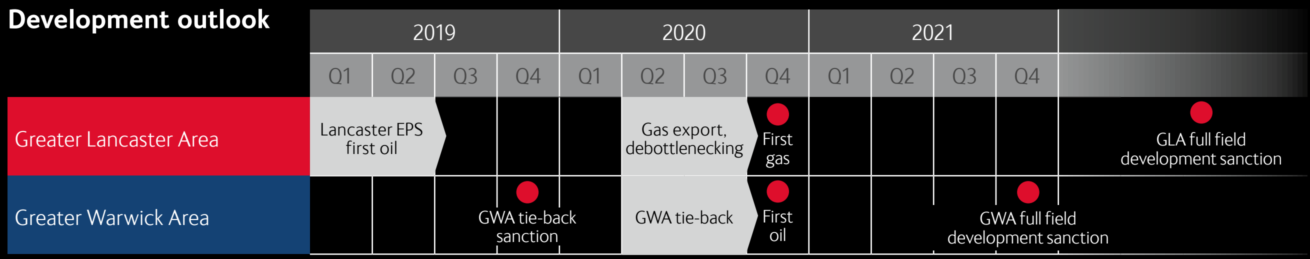
Aoka Mizu FPSO
The FPSO for the Lancaster EPS development on its way to the field

Develop

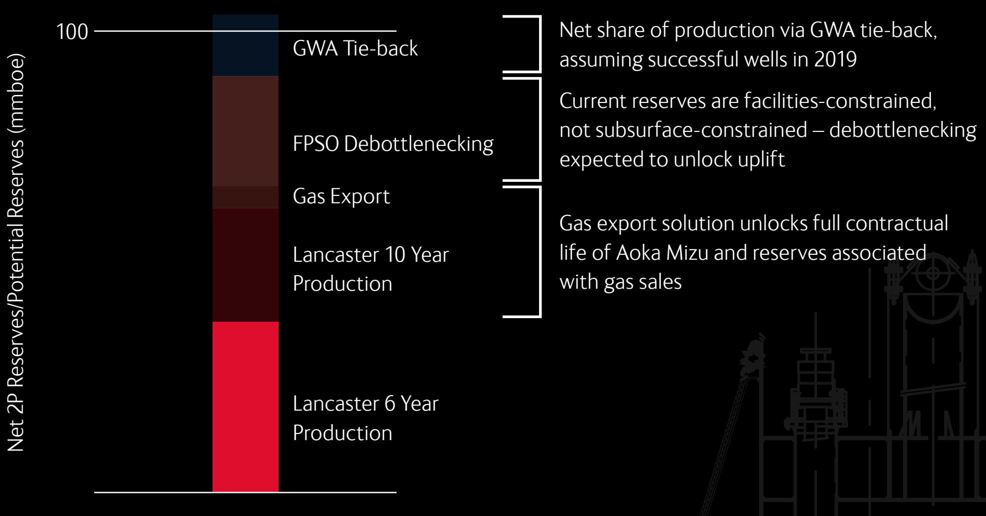
Growing reserve base

Contingent resources are converted to reserves with an associated development plan. Hurricane is maximising near-term reserve growth whilst working towards significant reserve uplift from initial phases of full field developments.

Development outlook



Optimising existing facilities for reserve growth



2019–20 activity expected to take net reserves over 100 million barrels of oil equivalent. A gas export solution contributes sales gas volumes whilst also unlocking the full ten-year life of the Aoka Mizu. Debottlenecking of the FPSO and GWA tie-back would contribute further uplift.

Lancaster EPS buoy
The Aoka Mizu uses a turret mooring system with a newly fabricated buoy for the Lancaster EPS

Appraise and Explore

Partnering to accelerate portfolio

Spirit's farm-in to the GWA opens up a significant new work programme across Hurricane's Lincoln and Warwick assets. This work programme is intended to accelerate monetisation by targeting reserve growth.

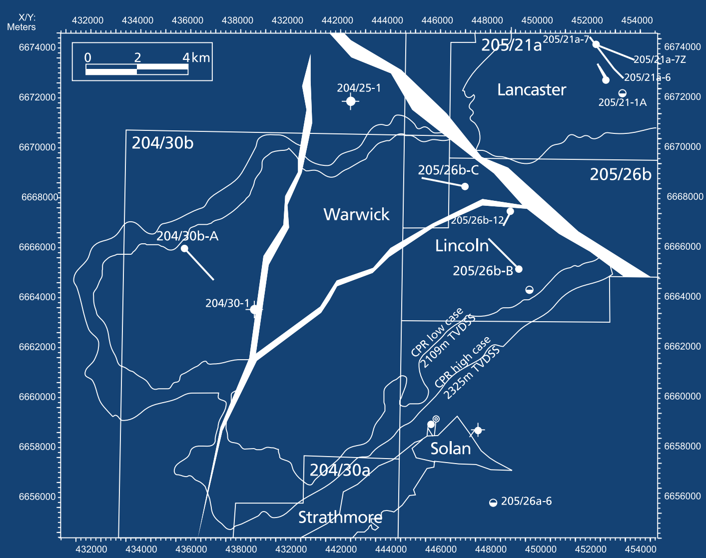
Hurricane and Spirit are committing to a work programme which envisages first oil on the GWA during 2020 and FID on the first phase of a full field development in 2021. If the 2019/2020 appraisal programme supports the joint venture's geological model for the GWA, the first phase of development is intended to unlock initial reserves of half a billion barrels (gross) from current GWA resources.

The first phase includes three fully carried wells in 2019. These wells plan to evaluate 935 mmboe of prospective resources on the Warwick structure and further de-risk 604 mmboe contingent resources at Lincoln. A second phase of drilling and testing is planned for 2020 with the objective of further de-risking resources and providing the development well stock necessary for an initial phase of full field development.

Why Spirit Energy?

Spirit is a strong financial partner that is aligned both technically and commercially with Hurricane. Spirit has the capability to take on operatorship at the commencement of FEED for full field development and has prior experience with basement reservoirs in Norway.

2019 wells



Transocean rig
The GWA joint venture is using the Transocean Leader for the 2019 drilling campaign

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 Lancaster 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 Lancaster 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 (VCP), a five-year long-term incentive plan implemented in November 2016. As described more fully in the Directors' Remuneration Report, the Milestones determine the eventual awards under the VCP at maturity of the scheme, provided a share price hurdle is met at that time, and having regard to total shareholder return and health, safety, security, environmental and quality (HSSEQ) performance.

<table>
<tr><th></th><th>Lancaster field appraisal</th><th>Secure financing for the EPS</th><th>Achieve first oil in H1 2019</th><th>Demonstrate long-term sustainable production from the EPS</th><th>Demonstrate technical Lancaster reserves</th><th>Enhance production through incremental infrastructure</th><th>Monetise assets</th></tr>
<tr><td>Previously achieved</td><td>Successful Lancaster -7 and -7Z well programme in 2016.

The -7 well identified an oil column in excess of 670m TVT and the -7Z well tested at sustained rates of 15,375 stb/d.</td><td>November 2016 capital raise funded FEED studies and initial long-lead item payments.

$547 million raised in 2017 to fully fund Lancaster EPS development.</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Achieved in 2018</td><td></td><td></td><td></td><td></td><td></td><td>Following Spirit farm-in, planning, engineering and ordering of long-lead items is taking place for enhanced production from Q4 2020.</td><td></td></tr>
<tr><td>In process</td><td></td><td></td><td>On track to deliver first oil in H1 2019 – see Review of Operations.</td><td>The purpose of the EPS is to deliver the long-term reservoir data needed to plan for future stages of development.

Analysis to date suggests target production rates are well within capacity of two Lancaster EPS wells.</td><td>Data from the Lancaster EPS and further appraisal work will narrow ranges of uncertainty and is expected to demonstrate technical recoverability of increased Lancaster volumes.</td><td>Activity following Spirit farm-in will include:
• GWA well tie-back;
• gas tie-in to West of Shetland Pipeline System (WOSPS); and
• debottlenecking of the Aoka Mizu FPSO.

Hurricane is also working towards additional GLA tie-backs and other opportunities for incremental production enhancements prior to full field developments.</td><td>Sale or partial sale of Hurricane's Rona Ridge assets and/or the Company.</td></tr>
<tr><td colspan="8">Share price hurdles</td></tr>
<tr><td colspan="8">Total shareholder return</td></tr>
<tr><td colspan="8">HSSEQ</td></tr>
</table>

Performance Measures

The Performance Measures used for determining annual bonus awards are based on inter-year assessment of the Group's performance towards implementing its strategy. They provide continual assessment and accountability of the executive directors to the rest of the Board. Performance Measures 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.

An annual bonus 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. This assessment is used to determine the annual bonuses payable to executive directors. The maximum payable to executive directors for full achievement of Performance Measures in 2018 was 50% of salary. The same cap applied to all employees.

	Operations						
	HSSEQ	**Drilling**	**EPS**	**Subsurface**	**Corporate/ investor relations**	**Finance**	**Corporate promotion**
2018 Performance Measures	Proactively manage operations to have zero fatalities or major/ long-term injuries. Minimise environmental impact. 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. Enhance the Company's IR coverage commensurate with a Premium Listed business.	Ensure the Company has sufficient liquidity as it approaches first oil. Install processes and procedures as if it were a Premium Listed business.	Promote the Company amongst industry and peers.
Achievement	Achieved	Achieved	Achieved	Achieved	Achieved	Achieved	Achieved

			Operations			
	HSSEQ	**Production**	**EPS**	**Drilling**	**Financial**	**Personal**
2019 expectation	Proactively manage operations to have zero fatalities or major/ long-term injuries. Minimise environmental impact. Obtain all required permits and develop appropriate internal processes to support operations.	To meet or exceed production targets against publicly disclosed targets.	To achieve EPS Provisional Acceptance on time and on budget.	To successfully drill and test three wells on the GWA achieving flow rates under natural flow and with ESPs.	To maintain capital, balance sheet and operational cost control.	Individual targets set to enhance internal leadership, external presence and future business development.
Strategy link	1	2	3	4	5	6

Details of the scoring for 2018 Performance Measures, and their weightings for 2019, are set out in the Directors' Remuneration Report on pages 52 and 53. For the risks to achieving these Performance Measures, please refer to the Principal Risks table on pages 20 to 23.

Principal Risks and Uncertainties

How we manage risk

The future outlook for the Group and therefore opportunities for growth in shareholder value should be understood in the context of the associated risks.

All companies carry certain risks and Hurricane is no exception. There are a wide variety of risks associated with the oil and gas exploration and production industry which may impact Hurricane's business. Depending on the nature of 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 their likelihood and/or mitigate their 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 has decreased

No change

Risk has increased

New risk this year

Key risk factor	Risk detail	How it is managed	How it has changed during the period
A **Substantial capital requirements**	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 cash flow and/or to raise further funds. During 2017, Hurricane raised a total of $547 million in two fundraises (before expenses) which is expected to be sufficient to reach first organic cash generation. These cash flows will be used to fund some of the Group's ongoing capital requirements, reducing the impact of risks associated with the availability of external capital.	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 Lancaster EPS is also expected to generate significant positive cash flow over the coming years.	
B **Exploration, appraisal and development operational risks**	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.	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, the impact of weather, cost overruns and unforeseen circumstances.	

Key risk factor	Risk detail	How it is managed	How it has changed during the period
C **Production operational risks**	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.	The Group invests significant time and resources to plan all of its operations and focusses 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, the impact of weather, operating cost overruns and unforeseen circumstances. The Group has obtained business interruption insurance to mitigate the impact of certain potential production shutdowns.	
D **Geological and reservoir risk**	The geology of the Group's licence areas and the behaviour of the associated reservoirs rely on various assumptions and interpretation techniques. There is a risk that the reservoirs do not behave as expected, such as earlier water production than predicted, reserves/resources being less than expected, or oil having different properties than expected.	All appraisal programmes are designed to de-risk the assets in the most cost-effective manner while gaining the maximum possible understanding of the geology and reservoir. 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 risks in future well planning or production strategy. 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 optimise the overall production from the reservoir. As production data is gathered the reservoir models will be updated to better reflect the actual reservoir characteristics.	
E **Regulatory**	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. As the breadth of the Group's activities have increased, including exploration, appraisal, development and production, the regulatory obligations that apply to the Group have increased, thereby increasing the risk of a breach.	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.	

Principal Risks and Uncertainties continued

Key risk factor	Risk detail	How it is managed	How it has changed during the period
F **Oil price fluctuations**	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. In particular, there is a greater market shift towards renewable energy sources and governments, including the United Kingdom, are developing their fiscal policy and regulatory frameworks to address the impact of climate change. There is a risk that climate change will have an adverse impact on oil price. However, it is not always possible to accurately predict the timing and direction of future oil price movements and there is a risk that oil prices may not remain at their current levels. Declines in oil prices may adversely affect the cash flows generated from the Lancaster EPS and may also adversely affect market sentiment and, consequently, lower the market price of the Company's ordinary shares and restrict the ability of the Group to raise finance.	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. Hurricane is committed to managing the risks and opportunities that arise from climate change in an effective and responsible manner, and where practicable seeks to reduce its carbon emissions and footprint. Hurricane continues to monitor the developing risks that climate change poses to the Group, and continues to monitor the developing policy environment at national and international level and will adapt our carbon policy accordingly.	
G **Third party infrastructure**	Any field development involving gas export, such as connecting to WOSPS, 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, and as such the risk has increased.	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, or aims to ensure that commercial agreements are appropriate to align interests or protect the Group's position.	
H **Development project delivery**	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 cash flow from the project and the funding required. Delays to target first oil or cost overruns in the case of the Lancaster EPS could have a particularly significant impact on the Group given that it currently has no alternative source of revenue.	The Group invests significant time and resources to plan its development projects and focusses 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, the impact of weather, cost overruns and unforeseen circumstances.	

Key risk factor	Risk detail	How it is managed	How it has changed during the period
I **Health, Safety and Environmental (HSE)**	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 Group's reputation as a result of some or all of the above.	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. The Group operates under a certified ISO 14001 Environmental Management System. 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.	
J **Compliance**	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.	Top-down leadership of the Group's values is supported by Group-wide corporate compliance training, including implementation of the Group's anti-bribery and corruption procedures across the Group's organisation and contracting arrangements.	
K **Joint venture partners**	Operations in the oil and gas industry are often conducted in a joint venture environment. There is a risk that joint venture partners are not aligned in their objectives and drivers, which may lead to inefficiencies and delays. Following farm-out transactions, the Group may not always act as operator on certain licence interests. The Group will generally have limited control over the day-to-day management of operations of those assets and will therefore be dependent upon a third-party operator.	Due diligence will be used to review and assess any third parties that the Group enters into a joint venture with in both operated and non-operated projects. The Group will have continuous and regular engagement with partners to ensure that all partners' interests are aligned, and to reduce the likelihood that the Group is exposed to risks that it believes are unacceptable.	+
L **Strategy**	The Group operates in a complex industry that is impacted by numerous variables including multiple macroeconomic factors. There is a risk that the Group is unable to deliver its strategy and/or its strategy does not provide the Group with an economic return in line with expectations. There is a risk that the Group may have to impair the value of its assets where it is unable to implement its strategy in part or in full. The strategy adopted by the Board regarding, but not limited to, which licence interests to obtain/retain, exploration or appraisal drilling programmes, development decisions and farm-out opportunities are all critical in relation to generating value and securing the longevity of the Group. Connected with this is the Group's remuneration strategy to ensure it can attract and retain key employees to enable the Group to delivery its strategy.	The Board aims to remain appraised of macroeconomic developments and discusses such developments at Board meetings. With this in mind, the Board actively manages its portfolio of assets to maximise value for shareholders. Depending on the circumstances at the time, this may entail divestments, acquisitions, farm-ins, farm-outs, and exchanges of interests. The Group will also evaluate opportunities to apply for new licence acreage and to progress appraisal and development opportunities across its portfolio. To support the Group's strategy, care is taken in recruitment activities to ensure strategic planning skills are suitably reflected and the Group's remuneration strategy aims to ensure that the Group can attract and retain key employees.	+

Going Concern and Long-Term Viability Statement

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 note 25 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 Lancaster EPS (currently anticipated to occur in the first half of 2019) and to date has obtained working capital primarily through equity and debt financing.

The Group ended the year with $123.2 million of cash and cash equivalents and liquid investments, of which $83.0m was unrestricted. The Group also has convertible bond debt which had a carrying value of $198.4m at the year end and has a coupon of 7.5% payable quarterly in arrears. The cash balances are forecast to allow the Group to meet its outstanding trade and other payables of $55.1 million that existed at 31 December 2018, the remainder of the Lancaster EPS pre-operation costs and coupon payments on the convertible bond debt that falls due within one year. 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 Group, as detailed on pages 20 to 23. In particular, the directors considered a number of scenarios which included the impact of a delay in first oil from the EPS and, following first oil, downside sensitivities in relation to production rates, operational uptime, oil price, operational costs and foreign exchange rates. An aggregated downside scenario combining the impact of a delay to first oil together with reductions in production rates and oil price was also considered, taking into consideration mitigating actions within management's control. The directors also noted that the majority of 2019 capital commitments were carried by Spirit. The directors identified that the Group's ability to meet its liabilities as they fall due for the next 12 months is dependent on, in particular, first oil on the Lancaster EPS being reached in the first half of 2019, or shortly thereafter. The directors continue to believe that whilst uncertainties exist in this regard that are outside of the Group's control, a number of which are at least partly dependent on weather conditions, a significant delay is unlikely and first oil on the Lancaster EPS is expected to be achieved in the first half of 2019.

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 12 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 it has 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 2021 (the Lookout Period).

Assessment of the Group's longer-term prospects

The longer-term prospects of the Group are driven by its strategy and business model, as outlined on pages 10 to 17, whilst factoring in the Group's principal risks and uncertainties (pages 20 to 23).

Assessment of the business is performed over a number of different time periods for differing reasons, which include an annual budget cycle (with reforecasts made as appropriate during the year) and a long-term corporate model which incorporates the latest annual budget, and provides forecast cashflow detail on a field-by-field basis along with cashflows incurred and generated at a corporate level.

These forecasts take into account the level of unrestricted cash and cash equivalents and liquid investments at 31 December 2018, together with the forecast cashflow generation from the Lancaster EPS, payment of the Convertible Bond interest coupon and the Group's share of capital expenditure on GWA (assuming all subsequent phases are approved by both parties).

The corporate model is prepared over a longer time horizon than the three-year Lookout Period, due to the initial field development plan for the EPS being 6 years (an extension of the field life to 10 years would increase reserves by an estimated 25 million barrels) and the timing of the Convertible Bonds' maturity in July 2022.

Critical to the longer-term prospects of the Group is the successful, safe and sustained operation of the Lancaster EPS. Not only will this generate significant revenue in order to finance future exploration and development, but also provide reservoir knowledge to materially de-risk the producibility and maximise the value of our Rona Ridge assets. This may include a farm-out or sale of certain assets and licences, developing a suitable gas export or disposal strategy and selecting the next phases of field development to maximise use of the capacity of the Aoka Mizu.

The Lookout Period

As was demonstrated by the quick conclusion of the Spirit farm-in transaction, key elements of the Group's strategy have the potential to change relatively quickly, and therefore the directors have determined that the appropriate period to assess the long-term viability of the business is three years, reflecting the dynamic and flexible nature of the Group.

This period incorporates:

- approximately three years of production and data from the Lancaster EPS;
- additional appraisal drilling on the GLA;
- appraisal drilling on the GWA; and
- at least 12 months of production data from the GWA well tied back to the Aoka Mizu.

It is currently envisaged that a final investment decision for the initial stage of a full field development on the GWA will be taken in Q4 2021. The directors believe that this marks the transition from reservoir testing via the Lancaster EPS and GWA well tie-back to full field development and that therefore the period to the end of 2021 is an appropriate Lookout Period.

Notwithstanding the three-year Lookout Period, the directors will continue to monitor the performance and prospects of the business over all relevant time periods.

Assessing the viability of the Group over the Lookout Period

Whilst each of the risks outlined on pages 20 to 23 has a potential impact on the business, during the Lookout Period, the directors focussed on those that are the most critical to the Group's funding position, which are considered to be development project delivery risk, geological and reservoir risk, production operational 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. The downside scenarios applied to the corporate model were:

- a delay of first oil beyond the target date of H1 2019;
- a decline in oil prices to $50 per barrel (and no hedging entered into);
- a reduction in the average production rate on the EPS as compared to the planned rate by 15%;
- an increase in fixed operating costs by 30%; and
- an adverse foreign exchange movement of 25% (a strengthening of Sterling against the Dollar).

The Group's ability to meet its liabilities as they fall due for the next 12 months is dependent on, in particular, first oil on the Lancaster EPS being reached in the first half of 2019, or shortly thereafter, and although the directors believe first oil will be achieved in this timeframe there are some uncertainties in this regard. Further details in this area are provided in the going concern section of this report.

A combined sensitivity containing an aggregation of the first three scenarios considered was also performed and, whilst considered unlikely to occur simultaneously (as a change in some variables would preclude others from increasing or decreasing by all of the downside amount), on the assumption that Lancaster first oil occurs in the first half of 2019 or shortly thereafter it demonstrated the Group's ability to take mitigating actions, within management's control, to maintain liquidity.

The reviews assumed that further development, exploration and appraisal activity would only be undertaken if fully funded or carried by a joint venture partner. Therefore, with the exception of the 2019 activity which is fully carried due to the Spirit farm-in on the GWA, such incremental activity was not included in either scenario planning or sensitivity analysis. The Group's ability to develop its assets beyond the Lancaster EPS is dependent on the performance of the Lancaster EPS being sufficient to provide cash flow that is surplus to the Group's other requirements, or on future fundraising activity.

Project execution and delivery

Neil Platt

"Transitioning this project from a planning and contracting phase to project execution is a landmark achievement."

Operational delivery was Hurricane's focus throughout 2018. For the first time in the Company's history this did not mean an emphasis on the drill-bit as activity at the fabrication/upgrade yard and SURF installation offshore took centre stage. Having raised the required financing, executed the relevant contracts and obtained applicable consents for the Lancaster EPS in 2017, the task for the project team was clear: maintain budget and schedule to put the Company in position to achieve first oil in the first half of 2019.

I am delighted to report good progress throughout the year, with the Lancaster EPS project on schedule and on budget at the time of writing. Crucially, we did so with strong health and safety performance despite over two million man-hours being expended across the project in 2017/18 by Hurricane and its contractors and subcontractors.

However, the Lancaster EPS is now only part of the story. Following the Spirit farm-in we are now progressing separate parts of our portfolio in parallel. The deal has allowed us to accelerate our planning for future phases of activity, including a three-well campaign in 2019. We plan to follow this with a further three wells and the tie-back of one of the 2019 wells in 2020, subject to partner approval. To enable this accelerated activity, we have expanded our organisational structure to accommodate operations across a number of concurrent projects.

FPSO and turret mooring system

We started the year in review with the Aoka Mizu having recently arrived at Drydocks World, Dubai, for its upgrade and life extension works. This thorough refurbishment is designed to give the Aoka Mizu a fresh ten-year lifespan with a degree of future-proofing built-in. Following sea trials, which commenced before the end of September, sail-away was announced on 15 October 2018. Whilst the added greenwater protection and new paint works are clearly evident, these do not do justice to the scale of the overhaul carried out in the intervening period. By way of example, 40km of new cabling was installed onto the vessel.

We are now carrying out the engineering work to deliver a GWA single well tie-back, reinstatement of gas compression, and debottlenecking of production capacity up to 40,000 bopd by the end of 2020.

Fabrication of the buoy for the turret mooring system in the same yard as the FPSO upgrade allowed for operational efficiencies. It also meant that a dry trial fit of the buoy into the Aoka Mizu could be carried out before the buoy departed for installation at the Lancaster field.

Well completions

The offshore phase of the Lancaster EPS development commenced with installation of the Enhanced Horizontal Xmas Trees on the Lancaster -6 and -7Z wells. The Far Superior offshore construction vessel was used to carry out this operation, making opportune use of vessel availability. Well completions themselves were carried out to plan using Transocean's Paul B. Loyd Jr rig. This operation included installation of dual-pod Electrical Submersible Pumps (ESPs) in each well.

The Lancaster EPS will determine the extent to which ESPs are required to enhance natural flow to target production levels. Crucially, they will also provide significant data to improve reservoir understanding, which is the core purpose of the Lancaster EPS.

Offshore installation

Offshore, the focus was on the SURF and mooring installation campaign: flowlines, umbilical, manifolds and turret mooring system buoy. The preparation for these works included moving over 6,000 boulders away from the pipeline and mooring line corridors and concluded with the covering of the flowlines and umbilical with over 30,000 tonnes of rock as protection from the ongoing fishing activities and observed environmental conditions.

The mooring system utilises 12 chain and wire lines, each anchored to a mooring pile driven into the seabed. The SURF and mooring system was successfully installed by TechnipFMC, one of our Tier 1 contractors, and its subcontractor SBM Offshore in the middle of 2018. The buoy, having been delivered from Dubai to Lerwick, was successfully installed in early August, connecting it to the mooring system and SURF. Rock protection was completed in the last quarter of 2018 meaning the system was then ready for the arrival of the Aoka Mizu.

Hurricane had highlighted the offshore installation phase of the Lancaster EPS development as being key to delivery of first oil in the first half of 2019. These operations needed to take place during the summer weather window to provide a system to which the Aoka Mizu would be able to hook-up. The budget for the Lancaster EPS had largely been fixed in lump sum contracts, passing a significant proportion of the risk of cost overruns back to contractors.

Offshore installation represented the area of greatest retained exposure. Hurricane was fortunate in benefiting from historically good weather in the summer of 2018. Calm conditions prevailed, allowing successful installation of the turret mooring buoy system and SURF.

First oil imminent

The FPSO is now hooked-up to the turret mooring buoy and commissioning work is ongoing prior to first oil. Following issues during initial hook-up attempts, Hurricane and Bluewater made the most of downtime whilst waiting on weather and delivery of replacement components to progress areas of pre-commissioning, where possible.

The commissioning and start-up procedures remain critical steps in the overall development.

> “Time will be taken to individually bring each well online in order to maximise reservoir data.”

Review of Operations continued

First oil imminent continued

Time will be taken to individually bring each well online in order to maximise reservoir data. We look forward to the announcement of first oil.

Health and safety

Hurricane had permanent representatives onsite at the upgrade yard in Dubai and offshore throughout Lancaster EPS operations. Together with our Tier 1 contractors, we carried out HSSEQ incentive programmes which we believe contributed to an exemplary health and safety record for the year. Further details are outlined in the Sustainability Report section on pages 32 to 35.

Future phases

The Spirit farm-in allowed Hurricane to begin planning for and progressing future phases of activity, without waiting for first oil to provide certainty of funding. As a result of the deal, Hurricane was able to commit to a rig to drill three wells on the GWA in 2019. Hurricane has shown that it has an effective working relationship with both Petrofac Facilities Management Limited and Transocean on previous drilling campaigns and this formula is being repeated on this campaign, with the Transocean Leader rig due to spud the first well in April 2019.

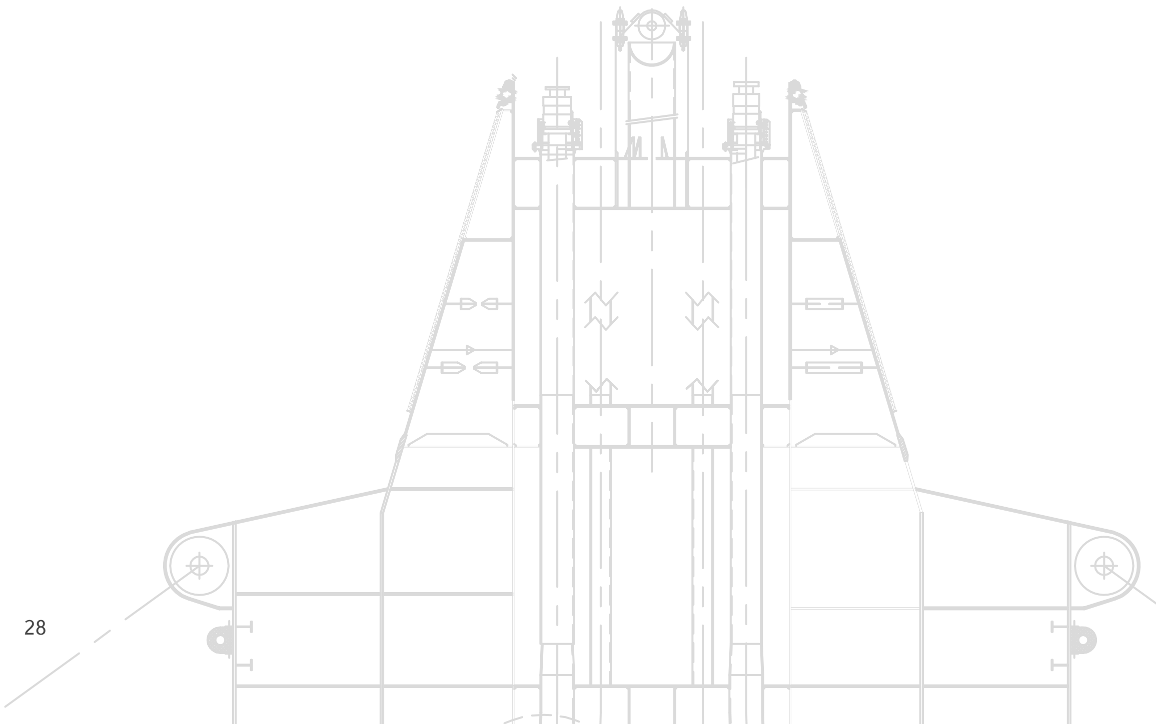
The three 2019 GWA wells are the first step in a pathway to full field development which has been agreed with Spirit. This is conditional on the success of each phase and the subsequent decisions to proceed. Our joint venture hit the ground running from the start. The deal went from concept to closure in very short order, with our corporate cultures proving to be very compatible. We have had a collaborative approach to the first phase of our operations which has included alignment on the subsurface interpretation and objectives of the 2019 wells. We also commenced planning and engineering study work to tie a single GWA well back to the Aoka Mizu, reinstate the gas compression system, tie the Aoka Mizu into WOSPS and to carry out the Aoka Mizu host modifications to enable this.

We are also looking ahead for what lies in store for the GLA and look forward to being able to announce next steps for activity following first oil and initial data from the Lancaster EPS.

During the course of 2018, the Company significantly added to its team and the breadth of its responsibilities. Many in the core team of consultants who were integral to delivering the Lancaster EPS have joined Hurricane full time. The Company now has skilled integrated teams able to deliver and support the Lancaster EPS, and also the GWA well campaign and tie-back activities. In addition, we have brought in-house contracts, procurement and logistics functions. We can now derive the synergies from providing support to the Aoka Mizu and the drilling rig as well as having greater control over our procurement operations.

Hurricane has transitioned from exploration and appraisal to development and will, very shortly, complete this journey by becoming a production company.

Neil Platt
Chief Operations Officer



On time, on budget

Alistair Stobie

“

In 2018, Hurricane continued its progress to first oil, with the Lancaster EPS remaining on schedule and on budget.”

In 2018, Hurricane continued its progress to first oil, with the Lancaster EPS remaining on schedule and budget. In September 2018, the Group successfully farmed out 50% of its GWA licences to Spirit, accelerating activity across the Hurricane portfolio.

The first half of the year was focussed on continuing the upgrade work on the Aoka Mizu and undertaking well completion operations. The second half of the year saw the installation of the buoy on the Lancaster field and the related installation of the subsea flowlines and umbilical. By the end of the year, the Lancaster EPS infrastructure was all in place and the Aoka Mizu ready to hook up.

The second half of the year also saw the Spirit Energy farm-in to 50% of the Group's Lincoln and Warwick licences, in exchange for future carry contributions of up to $387 million. The farm-out arrangement sees the significant acceleration of activity across the Group's portfolio, in particular on the GWA. In the initial phases, Spirit will fund 100% of three wells to be drilled in 2019, along with 100% of the preparation work and long-lead items to enable one of the exploration wells to be tied back to the Aoka Mizu. Additional detail on the Spirit farm-in deal is included in the CEO's Review.

The Group's loss after tax for the year was $60.9 million (2017: $7.0 million), the majority of which was the non-cash fair value loss of $42.4 million (2017: fair value gain of $10.4 million) on the derivative associated with the $230 million 7.5% convertible bonds issued by the Company in July 2017 (Convertible Bond). The fair value loss on the derivative does not have a cash or tax impact.

Our principal financial goals continue to be to manage the existing funds held by the Group to deliver first oil from the Lancaster EPS on schedule and on budget. This will bring us to the point where the Lancaster EPS begins to generate free cash which can be utilised to deliver the Group's long-term strategy. In addition, the Group has the financial goal to manage activity on the GWA within the agreed joint venture budget and to deliver the work scopes on schedule.

Use of funds

In 2018, the Group's primary uses of funds were:

- development cash expenditure on the Lancaster EPS, $205.3 million – this includes continued upgrade work on the FPSO, well completions and SURF delivery and installation;
- operating cash outflow, $4.4 million (2017: $8.1 million) – this decrease on the prior year reflects the lower level of corporate activity through the year, and a higher proportion of time and resource being spent on projects and therefore capitalised; and
- Convertible Bond coupon payments, $17.3 million (2017: $4.3 million).

Income Statement

The Group's loss after tax for the year was $60.9 million (2017: $7.0 million). The majority of the loss for the year was the non-cash fair value loss of $42.4 million (2017: fair value gain of $10.4 million) on the derivative associated with the Convertible Bond.

Financial Review continued

Income Statement continued

The Group's operating expenses, foreign exchange losses and finance costs make up the balance of the costs incurred. This was partially offset by interest income received from cash and liquid investments held by the Group during the period.

The decrease in other operating expenses from $14.6 million in 2017 to $12.7 million in 2018 reflects the lower level of corporate activity in the year compared to 2017. The average headcount increased from 21 to 31 over the year, with the majority of the focus on the Lancaster EPS and, in the last quarter of the year, the GWA. Headcount as at 31 December 2018 was 41. This has increased the overall gross staff cost (including share-based payment expense) from $9.1 million in 2017 to $13.0 million in 2018. However, as a significant portion of these costs are capitalised within projects, the resulting impact within operating costs in the Income Statement is $5.7 million (2017: $6.2 million).

The accounting for the Convertible Bond required the recognition of an embedded derivative liability related to the equity conversion option. The fair value of the embedded derivative is based on a simulation model which is impacted, in particular, by the volatility assumption applied and the Group's share price at the reporting date. The higher the assumed volatility and the higher the Group's share price, the more the fair value of the derivative liability increases. Any increase in the liability creates a corresponding non-cash charge in the Income Statement.

At 31 December 2017, the fair value of the embedded derivative liability was valued at $28.6 million. Between 31 December 2017 and 31 December 2018, Hurricane's share price rose from £0.31 to £0.44 per ordinary share, and the volatility assumption increased from 23.6% to 30.1%. The volatility assumption 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. It is assumed that this is an approximate forecast of the volatility in Hurricane's share price for the period to conversion. These movements have driven an increase in the derivative liability of $42.4 million, to a closing figure at 31 December 2018 of $71.0 million. Further share price rises would increase the liability and corresponding related losses, assuming other factors remain the same, as outlined further in note 24. The majority of interest costs of $24.5 million for the Convertible Bond have been capitalised during the year.

Due to the nature of the Group's business, it has accumulated significant tax losses since incorporation. Upon receipt of FDP approval for the Lancaster EPS in September 2017, for tax purposes, the Group is considered to have commenced trading. Pre-trading capital expenditure of $89.2 million is carried forward at 31 December 2018 and tax relief will be available once the FDP approval is received on the remaining licences. The Group has ring fenced trading losses of $526.5 million, non-ring fenced trading losses of $7.2 million, other deductible temporary differences of $25.5 million and pre-trading expenditure of $0.8m at 31 December 2018, which have no expiry date and would be available for offset against future taxable profits.

No asset has been recognised in the Financial Statements for a potential deferred tax asset of $31.9 million (2017: $16.1 million) resulting from the effect of carried forward trading losses, after offsetting $184.4 million (2017: $141.2 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.

Exploration and evaluation assets and property, plant and equipment

Throughout the year the Group continued incurring expenditure in relation to the Lancaster EPS and on the Lancaster field. Total expenditure in the year was $252.7 million. All such expenditure was included within property, plant and equipment. These capitalised costs included $23.3 million of capitalised interest.

Following the Spirit farm-in, the Group began preparing for its 2019 drilling programme and related work for a single GWA well tie-back. Whilst this expenditure was charged to exploration and evaluation assets, due to the carry element of the farm-in deal, the net cost to Hurricane for this work was minimal. Other expenditure relating to exploration and evaluation was in relation to the other assets in the Group's portfolio.

Cash and debt

The Group finished the year with a closing cash position of $83.0 million in usable funds (including cash and cash equivalents and liquid investments, but excluding restricted cash). The $230 million in convertible bonds, issued in July 2017, remained outstanding. Under the terms of the Convertible Bond, the first two years of coupon payments were placed in escrow ($34.5 million), of which $21.6 million has been paid out to date.

$83.0m

Closing unrestricted cash and equivalents

$3.7m

Reduction in other operating cash outflow

$60.9m

Loss after tax including $42.4 million non-cash fair value loss on embedded derivative

The maturity date of the Convertible Bond is July 2022, although bondholders have the option to convert the bonds to ordinary shares in the Company of £0.001 each (Ordinary Shares) before that time. As at the year end, no bonds had been converted to Ordinary Shares. 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 $71.0 million and the carrying value of the host debt contract at amortised cost was $198.4 million.

In April 2018 the Group agreed with one of its Tier 1 contractors that up to £18 million of invoices could be deferred until September 2019 at an annual interest rate of 7%. This has provided the Group with additional working capital during this period.

This deferral accounts for the majority of the $21.3 million of trade creditors at 31 December 2018.

In April 2018, as agreed with the Regulator, the Group increased the level of decommissioning security held in trust up to a total of £16.8 million to cover the post-tax cost of decommissioning the Lancaster EPS. This amount was placed on long-term deposit to maximise interest income and as such is accounted for as a non-current restricted liquid investment and recognised within non-current assets on the Balance Sheet as at 31 December 2018. In February 2019, the Group replaced this cash security held in trust with a decommissioning bond of the same value. Under the terms of the agreement with the bond provider, up to 90% of the original funds will be released back to the Group in tranches once specific production milestones are met. Until those milestones are reached, the funds will remain within escrow. The Group expects the milestones to be achieved within six months of first oil from the Lancaster EPS.

Cash flow

Net cash outflow from operating activities of $4.4 million is a reduction from the $8.1 million in 2017. This decrease is driven by the lower level of corporate activity in the year, with a greater proportion of time and resource spent on both the Lancaster EPS and the GWA activity. The cash expenditure on oil and gas property, plant and equipment of $205.3 million (2017: $85.0 million) was in relation to the Lancaster EPS.

Cash expenditure on intangible exploration and evaluation assets in the year of $4.2 million (2017: $180.6 million) was in relation to the Group's non-Lancaster assets.

The Group did not carry out any financing activities during the year as it holds sufficient funds to progress the Lancaster EPS through to first oil. The Spirit farm-in did not involve any cash being received as all consideration is in the form of carry on future capital expenditure.

The net decrease in cash, cash equivalents, and liquid investments in the year was $236.9 million (including the effects of foreign exchange rate changes).

IFRS 16 – Leases

Effective from 1 January 2019, the Group has adopted the new accounting standard on leases (IFRS 16 'Leases'). The main effect of this new standard for the Group is to bring operating leases onto the Balance Sheet recognising a right-of-use asset and lease liability for all leases greater than 12 months in length (unless the underlying asset has a low value). For Hurricane this has an impact in two areas: office leases and the charter of the FPSO.

Office leases

In respect of existing office leases as at 1 January 2019 the Group expects to recognise right-of-use assets of approximately $2.8 million and lease liabilities of approximately $3.3 million. The expected impact on profit and loss in 2019 is to decrease other operating expenses by $0.2 million and to increase finance costs by $0.2 million.

Aoka Mizu FPSO

In respect of the Aoka Mizu, the Group expects to recognise a right-of-use asset and lease liability of approximately $90–$100 million upon commencement of the lease (at first oil). The impact on profit and loss for 2019 will depend on the timing of first oil being reached, and oil production achieved (as the right-of-use asset will be depreciated on a unit-of-production basis). If the lease had commenced on 1 January 2019, it is estimated that the impact on profit and loss for 2019 would be to recognise a depreciation charge of approximately $14 million and a finance cost of approximately $9 million.

More details of the impact of this new standard are included in note 1.2.1 in the Financial Statements.

Brexit

Management has considered the impact that Brexit could have on the Group and its activities. As the Group's licences and activities are currently entirely UK based, with its future oil sales lined up to be with a UK company, management considers the risk relating to Brexit not to be significant. Some supplies are obtained from European Union suppliers outside of the UK and therefore there is a possibility for either customs-related delays or tariffs. The risk of delays has been mitigated by the advanced purchase of these materials where they are required for critical activities. This stockpiling will enable the Group to absorb delays that may occur. Given that European Union sourced supplies are not significant, the impact of any increase in tariffs is not expected to be material.

Should Brexit create a reduction in the value of Sterling against the US Dollar, this will in fact benefit the Group as future revenues will be in US Dollars and a significant portion of costs will be in Sterling. Management will also consider putting in place FX hedging to manage the downside exposure to fluctuations in the FX rates.

Overall, whilst the Group acknowledges that Brexit does present some risks to the business, these risks are manageable and the resulting impact unlikely to materially impact the Group. As such, we do not consider Brexit to be a principal risk.

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 pages 24 to 25), 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

Our approach to sustainability

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

Sustainability, which is integral to the successful execution of our strategy, is underpinned by our commitment to work in accordance with our values.

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, partners, suppliers, regulators and local communities. We aim to work in a transparent and accessible way and tailor our engagement processes to suit each group. Feedback and open dialogue allow us to consider a wide range of perspectives, which inform our work on our sustainability issues.

Oversight and accountability at Hurricane

Hurricane's directors take a close interest in the management of issues across the cycle, from impact assessments and feasibility studies through initial drilling and appraisal planning, to final stages of project development. Hurricane's projects are operated in our Assurance Policy, which supports the Value Assurance Process to deliver results whilst remaining in compliance with the law, accepted industry practice and appropriate regulatory standards.

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 Whistle-Blowing 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.

Working in partnership

Engagement and collaboration with others are 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 made 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 a number of national 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.

Stakeholder engagement

We recognise the importance of building trust and developing long-term relationships with our stakeholders. We continually engage with and listen to our stakeholders and actively seek out ways to build long-term relationships, aligning our business strategy with the matters that concern our stakeholders.

During the year, we met with businesses and organisations across the Shetland community to discuss the growth of the region as a whole. This included the council, harbour authorities, local businesses and the lifeboat service. The feedback received was one of interest and a keenness to be involved in Hurricane's future plan for the benefit of the Shetland community. In the spring, amongst broader stakeholder meetings, the Chief Executive Officer visited one of the local primary schools in the Shetland Islands. He gave a presentation to the children on the environment and the protection of aquatic life, followed by an interactive question and answer session.

In the future, we will continue to engage with our stakeholders to understand the issues that matter the most and identify opportunities to build stronger relationships.

Ethical conduct

Our commitment to acting with integrity, fairness and transparency is the cornerstone to the way we do business. Our Anti-Bribery and Corruption Policy, and our work to impart our values and standards on all who work with us, are testimony to that.

We believe this approach is essential for delivering our 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.

We operate a Whistle-Blowing Policy which encourages all employees and contractors to report any situation where they have a 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.

Modern slavery

We are committed to acting ethically and with integrity in all our business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in our own business or in any of our supply chains, consistent with our obligations under the Modern Slavery Act 2015. We expect the same high standards from all of our contractors, suppliers and other business partners. As part of our contracting processes, we expect our suppliers to comply with the Modern Slavery Act 2015.

Our people

Our people are the heart of Hurricane. We aim to employ and engage people who fit our business requirements and have the skills, experience and attitude necessary to fulfil the responsibilities associated with their position. We also look for a capacity to grow as individuals within Hurricane's corporate culture.

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 2018, throughout the Group, women represented 49% (2017: 48%) of our workforce.

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. The safety and wellbeing of our people and those who work for us is important and we continually work at increasing our efforts in enhancing the health and safety culture at Hurricane. 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.

Women in the workforce

49%

As at 31 December 2018

Policies

Hurricane's comprehensive Business Management System is supported by our six core policies:

- Environmental Policy
- Health and Safety Policy
- People Policy
- Assurance Policy
- Ethics Policy
- Corporate Major Accident Prevention Policy (CMAPP)

These can be found on the website, www.hurricaneenergy.com.

Sustainability Report continued

Health and safety continued

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
- 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 policies and business standards.

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

Monthly safety award ceremony as part of HSSEQ incentive programme at Drydocks World, Dubai.

We consider the context of the Group 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 continually review all our business operations to identify and minimise environmental impacts and risks.

Environmental impact assessments are regularly conducted and mitigation measures are put in place to protect the environment and prevent pollution where reasonably practicable.

Environmental management

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

We are focussed on integrating sustainability into every aspect of the business and we continually work on establishing strong governance processes to oversee our work. We are committed to reducing energy use and protecting the environment at all levels of our operations including our day-to-day activities and we work with our staff to manage the environmental aspects and impacts of the activities in our offices.

Oversight and accountability framework

The HSEM Committee 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 is 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.

In 2018, the committee:

- reviewed and, as applicable, amended the processes and policies surrounding the Business Management System (BMS) and the Environmental Management System (EMS); and
- monitored and reviewed the performance of the application of health and safety procedures and practices.

The committee continues to place an emphasis on the Group's health, safety and environmental performance and will continue to work on implementing all relevant processes and policies required to enhance the Company's health, safety and environmental performance.

Environmental protection

As part of our preparedness for major hazard situations, Hurricane participates in oil spill prevention and response programmes in conjunction with external parties. We have an Emergency Oil Spill Response Agreement with BP Exploration Operating Company Limited, providing access to spill response equipment and services located in Shetland. We also engage Oil Spill Response Limited on a range of stand-by services including aerial surveillance capabilities and are one of the core participants in the ownership of the Oil Spill Prevention and Response Advisory Group (OSPRAG) Capping Device, a system designed for rapid deployment to seal off subsea wells in an emergency. See the website for more information, www.oilspillresponse.com.

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

We recognise that Hurricane's assets, located offshore West of Shetland, are in a recognised environmentally sensitive area, designated as 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 supports initiatives that pursue research in this area to develop understanding to assist in protecting ecosystems, working through SERPENT and the NOC.

The NOC fleet of marine autonomous and robotic systems in front of RRS Discovery, on the quayside in Southampton. Credit: National Oceanography Centre.

Hurricane-supported environmental research

Hurricane is a long-standing participant in the global collaborative SERPENT (Scientific and Environmental ROV Partnership Using Existing Industrial Technologies) project. SERPENT aims to enhance scientific observation in deep water through access to the Remotely Operated Vehicles on board drilling rigs, during their standby time. This long-running project helps to characterise the animals living in poorly explored deep water and build an industry-wide understanding of the effects of drilling on seabed habitats.

SERPENT is hosted by the National Oceanography Centre (NOC) in Southampton. NOC is at the forefront of the development of innovative technology and methods to improve observations in the oceans. Building on the SERPENT collaboration, NOC and Hurricane are collaborating on an 'Innovation Partnership' funded by the Natural Environment Research Council, to explore how the latest autonomous marine robots can improve information acquired from environmental survey.

The scientists involved have carried out further analysis of Hurricane's existing environmental data and are working to propose how new technology could be used to increase the quality and efficiency of future environmental assessment.

This draws on the experience of NOC scientists working collaboratively with industry on projects such as incorporating marine autonomous systems into oil spill response and monitoring and environmental monitoring of decommissioned oil and gas infrastructure. The project aims to apply NOC's newly developed methods of assessing the ecology of seafloor habitats and time-series monitoring of Marine Protected Areas to the challenges of environmental monitoring of oil and gas activities.

www.serpentproject.com

Board approval of Strategic Report

This Strategic Report was approved by the Board on 27 March 2019 and signed on its behalf by:

Dr Robert Trice
Chief Executive Officer

Board of Directors

Steven McTiernan

Chairman

Age 67

NC

Steven was appointed Chairman of the Board on 1 May 2018 and is Chair of the Nominations Committee.

Skills and experience
Steven has over 45 years' oil and gas industry and investment banking experience. He held roles at Iraq Petroleum, Amoco, BP and Mesa, and his banking experience includes senior roles leading energy teams at the Chase Manhattan Bank, NatWest Markets and CIBC.

He has held a variety of board positions including non-executive director and Senior Independent Director of Tullow Oil plc for 11 years until December 2012. He also served as an independent director at First Quantum Minerals Ltd and Songa Offshore SE.

Other appointments
Steven is currently Chairman of Kenmare Resources plc.

Dr Robert Trice

Chief Executive Officer

Age 58

Robert co-founded the Company in late 2004 and has been a director since 29 December 2004.

As Chief Executive Officer (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.

Alistair Stobie

Chief Financial Officer

Age 52

LGC

Alistair was appointed to the Board on 16 March 2016 and his key responsibilities as Chief Financial Officer (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 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.

Neil Platt

Chief Operations Officer

Age 55

Neil joined Hurricane in 2011 and was appointed to the Board on 8 March 2013. As Chief Operations Officer (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 at Petrofac Production Solutions.

Key to committee membership

ARC	Audit and Risk Committee
RC	Remuneration Committee
NC	Nomination Committee
LGC	Listing and Governance Committee
■	Committee Chair

Dr David Jenkins

Senior independent non-executive director

Age 80

ARC NC **RC**

David joined the Board on 8 March 2013 and is the Senior Independent Director. David assumed the role of Interim Chairman and Chairman of the Nominations Committee on 8 November 2017, stepping down on 1 May 2018. David will step down from his role as Chairman of the Remuneration Committee on 1 April 2019 and will be succeeded by Sandy Shaw. He is currently a member of the Audit and Risk Committee, Nominations Committee and Remuneration Committee.

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 ten years from 1987.

He retired at the end of 1998 with the position of Chief Technology Adviser 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 he was a member of the advisory board of Riverstone Holdings.

John van der Welle

Independent non-executive director

Age 63

ARC NC RC **LGC**

John joined the Board on 8 March 2013, is Chairman of the Audit and Risk Committee and is a member of the Remuneration and Nominations Committees. John is also Chairman of 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.

Sandy Shaw

Independent non-executive director

Age 65

ARC NC RC

Sandy joined the Board on 3 January 2019. Sandy is a member of the Audit and Risk Committee and the Nominations Committee and on 1 April 2019 will become the Chair of the Remuneration Committee.

Skills and experience

Sandy has over 35 years' oil and gas industry experience, focussed on legal and commercial roles. From 2008 until its takeover in 2013, Sandy was Executive Director Corporate & Commercial, and Company Secretary of Valiant Petroleum, a company of which she was a founder and initially a non-executive director. She has also held senior executive positions as Group Legal Counsel and/or Commercial Director for a number of other oil and gas companies including Consort Resources, LASMO, Esso Petroleum and Marathon Oil.

Other appointments

Sandy is currently a non-executive director of Velocys plc, an AIM-quoted renewable fuels company.

Roy Kelly

Non-executive director (Shareholder Nominee Director)

Age 58

NC

Roy joined the Board on 10 May 2016, on completion of the fundraising in May 2016. His appointment to the Board is 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 Partner 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 ten years at BP where he trained as a petroleum reservoir engineer.

Other appointments

Roy currently holds a number of directorships in private limited companies in his capacity as Partner of Kerogen Capital.

Governance Report

Steven McTiernan

"The Board believes that an effective corporate governance framework is essential to underpin the success of the business."

Introduction from the Chairman

The Board believes that an effective corporate governance framework is essential to underpin the success of the business, supporting management while ensuring an appropriate level of challenge and exercising proper oversight while facilitating decision making.

At the beginning of the year, under the Interim Chairmanship of Dr David Jenkins, the Board agreed to implement a series of governance enhancements to better position the Group for the next stage in its development. In anticipation of first oil and further developments of the Company's extensive asset base, the Board was particularly concerned to take steps to enhance standards of governance and disclosure towards the levels required for Premium Listed companies, should the Board ultimately decide to take that step.

Since I became Chairman on 1 May 2018, the Board has continued to press ahead with various enhancements in corporate governance.

Board composition has been reviewed with the aim of achieving an appropriate level of independence and ensuring appropriate skillsets within the non-executive director group, and meeting enhanced diversity goals. A first step in this process was completed early in 2019, with the appointment of Sandy Shaw as an independent non-executive director and future Chair of Remuneration Committee. I am pleased to welcome Sandy to the Board, and I am confident that her oil and gas legal and commercial expertise will benefit the Board and the Company enormously.

Furthermore, Hurricane is presenting this 2018 Annual Report and Group Financial Statements in line with the principles and provisions of the UK Corporate Governance Code 2016 (the Code), a higher disclosure standard than is required of companies quoted on AIM. We are keen to meet these higher standards over time. We believe they not only provide better insights into our business for the benefit of all stakeholders, but also put Hurricane in good stead whilst we continue to explore a potential move to a Premium Listing.

Throughout the year, as a Board, we have continued to strengthen our engagement with our institutional shareholder base. An investor roadshow was held in the early part of the year and again more recently alongside interacting with shareholders at conferences and industry events.

Corporate governance statement

The Board is committed to applying the appropriate high standards of corporate governance commensurate with Hurricane's size and maturity and recognises its responsibility to serve the interests of its shareholders in managing the Company. The Company has aligned its governance with best practice and is reporting on a voluntary basis against the provisions of the Code on a comply or explain basis. The Code and associated guidance are available on the Financial Reporting Council website at www.frc.org.uk. A revised Code was published in July 2018 (the 2018 Code), which will become effective for accounting periods beginning on or after 1 January 2019. We have commenced our preparations for the key changes and will be examining current practices in relation to the requirements of the 2018 Code and will report in relation to them at the appropriate time.

This Governance Report incorporates the reports from the Audit and Risk Committee on page 43, the Nominations Committee on page 47, the Directors' Remuneration Report on page 49 and the Directors' Report on page 67. 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's assessment is that, during the 2018 reporting year, the Company has complied with the provisions of the Code with the following exceptions (relevant Code provisions shown in brackets):

- at the beginning of the year the Company had an non-executive Interim Chairman who on appointment to that temporary role was not deemed to be fully independent (A.3.1. and 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.);
- for part of the year the composition of the Board committees did not meet Code provisions (B.2.1., C.3.1. and D.2.1.) as there were insufficient independent director members; and
- Hurricane does not comply with Code provision (B.7.1.) by subjecting all of its directors to annual election by shareholders.

As reported last year, some of these exceptions were linked to the participation by two non-executive directors in a Company share option scheme awarded in 2013 before the Company's IPO, which under the Code resulted in them subsequently being deemed to be not independent. The Board has always considered its non-executive directors, excluding its Shareholder Nominee Director, independent in judgement and character by their actions.

As disclosed previously, 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. In addition, the Company appointed a new Chairman who was independent on appointment, allowing the Interim Chairman to return to his role as an independent non-executive director and as Senior Independent Director. The Company appointed an additional independent non-executive director, on 3 January 2019, and continues to review the Board's balance and skillset. The Company will seek to appoint an additional independent non-executive director to strengthen the independence of the Board. It is anticipated that full compliance with these Code provisions will be attained during 2019 as the Company moves into its critical oil production stage and seeks to make a further appointment having considered the skillset required befitting the maturity of the Company.

In addition, the Company did not comply with Code provision B.7.1. – the re-election by shareholders of all directors under an annual re-election process – as the Company in 2018 offered its directors for re-election by rotation in accordance with its Articles of Association, on the basis of one third of the directors in number being re-elected every year and every director subject to rotation at least once every three years. The Board believed that this was 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.

The Listing and Governance Committee

At the beginning of the year the Company's governance framework included a specially formed committee, the Listing and Governance Committee (LGC), to bring together a number of options and workstreams that it had been exploring, including an application for a Premium Listing.

The LGC's scope included: 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; and assessment of regulatory or other changes that may impact the Company's activities. The work and recommendations of the LGC were released via the Regulatory News Service (RNS), copies of which can also be found on the Company's website. The committee has not been required to meet in the last six months of the year, its recommendations having been embedded into the workstreams of the Board and other committees.

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 the consideration of significant financing matters. The Board has always had an adopted set of Matters Reserved for the Board; however, in 2018 a review of these was undertaken 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. More recently, they were again reviewed in light of the 2018 Code.

Board composition

Currently, the Board is comprised of three executive directors (the CEO, COO and CFO), a non-executive Chairman (independent on appointment) and four non-executive directors (three independent non-executive directors and a non-executive Shareholder Nominee Director (not independent)).

During the year Dr David Jenkins fulfilled the role of Interim Chairman until the appointment of the new non-executive Chairman, Steven McTiernan, on 1 May 2018. Details of the Company's search and selection process for a new Chairman can be found in the Nominations Committee Report on pages 47 and 48. 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 the new Chairman, Dr David Jenkins was deemed independent under the provisions of the Code and reverted to his role of Senior Independent Director.

In the early part of the year, the Company undertook a review of its Board structure, size, balance of skills and composition and has made a number of enhancements not least the appointment of a new independent Chairman and a further independent non-executive director. The table on page 40 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.

The Chairman's role

The 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, is consulted on all relevant matters, and in so doing, promotes 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 act 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.

Governance Report continued

Board composition continued

The Chief Executive Officer's role

The CEO'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.

The non-executive directors' roles

The 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 at the Annual General Meeting (AGM) in accordance with the Articles of Association, on the basis of one-third of the directors in number being re-elected every year and every director subject to rotation at least once every three years.

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 returned to the Senior Independent Director role on 1 May 2018 following the appointment of the new Chairman.

After the fundraising campaign in 2016, the Company appointed a director nominated by Kerogen Investments No.18 Limited (Kerogen), Roy Kelly, to the Board. Roy Kelly 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 relationship agreement with Kerogen, 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 67).

Board composition during the year

Name	Role	Independent	Period of service as at 31 Dec 2018	Date of appointment	Date of resignation
Non-Executives					
Steven McTiernan	Non-executive Chairman	On appointment	7 mths	1 May 2018	—
Dr David Jenkins	Senior Independent Director[1]	Yes	5 yrs 9 mths	8 March 2013	—
John van der Welle	Independent non-executive director	Yes	5 yrs 9 mths	8 March 2013	—
Roy Kelly	Shareholder Nominee Director (Kerogen nominee)	No	2 yrs 7 mths	10 May 2016	—
Executives					
Dr Robert Trice	CEO	No	14 yrs	29 December 2004	—
Neil Platt	COO	No	5 yrs 9 mths	8 March 2013	—
Alistair Stobie	CFO	No	2 yrs 9 mths	16 March 2016	—

Note:

1. Dr David Jenkins was appointed to the role of Interim Chairman on 8 November 2017. He was not deemed to be independent under provision B.1.1. of the Code due to the holding of share options awarded to him 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 he relinquished, for nil consideration, these options in order to be deemed independent under the Code. Upon the appointment of a new Chairman on 1 May 2018, Dr David Jenkins stepped down from being Interim Chairman and was deemed an independent non-executive director under the provisions of the Code and he reverted to his role of Senior Independent Director.

2. Following the year end Sandy Shaw was appointed as an independent non-executive director on 3 January 2019.

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 a Secretary to the Board, Audit and Risk Committee, and Nominations Committee and Remuneration Committee when required. He has direct access to the Chairman and to the committee chairs.

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 long-term shareholder value and promoting corporate governance. The Board's annual programme ensures that key strategic areas are addressed.

During the early part of 2018, the Board's main focus was on continued scrutiny of performance against agreed objectives to progress our business operations plan to secure delivery of the Lancaster EPS so as to achieve an acceptable return on capital invested.

Midway through the year, the Board's focus turned to securing the GWA joint venture with Spirit Energy. The Spirit farm-in was announced in September 2018 – this strategic partnership opens up a significant new work programme across Hurricane's assets, widening strategic options and accelerating their potential monetisation by targeting reserve growth.

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, enhancing and updating governance and compliance in line with current and new legislation. 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 five formal meetings in 2018. In addition three further meetings were called at short notice to consider specific transactions. The table below shows the attendance by all directors who served during the year at all of the meetings in 2018.

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.

Name	
Steven McTiernan[1]	●●● (scheduled) ●●● (additional)
Dr David Jenkins	●●●●● (scheduled) ●●● (additional)
John van der Welle	●●●●● (scheduled) ●●● (additional)
Roy Kelly (or his Alternate)	●●●●● (scheduled) ●●● (additional)
Dr Robert Trice	●●●●● (scheduled) ●●● (additional)
Neil Platt	●●●●● (scheduled) ●●● (additional)
Alistair Stobie	●●●●● (scheduled) ●●● (additional)

● Scheduled meetings

● Additional unscheduled meetings held at short notice

Note:

1. Number of meetings attended since his appointment on 1 May 2018.

Board evaluation

The Board undertook an evaluation of its performance and that of its committees for the year ended 31 December 2018, facilitated by an external consultant company secretary, in a similar format to the previous year for comparison purposes. The process was questionnaire based and covered: an assessment of the Board, completed by all directors; self-assessments by all directors; an assessment of the Chairman by fellow directors; and an assessment of the committees completed by relevant committee members, or in the case of the Audit and Risk committee, also by our external auditor. The questionnaire was designed to assess how well the Board is operating in key areas including strategy, business principles, risk management and internal control, performance measurement, stakeholder engagement, board composition and boardroom and committee practice.

The Chairman has presented and discussed the resulting evaluation reports with the Board and individual directors, and has enabled the directors to recognise strengths and tackle any weaknesses identified.

The process identified some areas to address in 2019 and beyond, including: meeting board independence criteria for Premium Listed companies and strengthen Board capacity and skills by seeking a further independent non-executive director to balance the Board, while also improving diversity; improve communications with senior management and employees, in light of a growing employee base and new teams; further develop board training with external speakers to enrich dialogue and challenge; continue to assess board practices and disclosures against evolving governance standards for Premium Listed companies; and intensify stakeholder engagement as the Company moves into the next phase of production and considers new strategic developments, to ensure alignment on desired outcomes.

In line with the provisions of the Code, whereby it is recommended that an external evaluation be carried out at least every three years, the Chairman will seek to develop the evaluation process next year against the 2018 Code provisions and in so doing will consider using an external evaluation process.

Board induction and training

The Board has in place policies for induction and ongoing training which were reviewed and enhanced during the year for the induction of the new non-executive Chairman and new non-executive director. Directors also participate in the Deloitte Academy, which provides them with access to technical briefings, education and bespoke training.

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 to 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.

Governance Report continued

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.

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 decisions which relate to any matter in which they have or may have a conflict of interest.

Re-election of directors

The Company to date has not complied 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 2019, 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 64 of the Articles of Association, at the AGM in 2019 are Dr Robert Trice and John van der Welle.

Election of directors

In accordance with the Articles of Association, each director appointed by the Board during the year shall be subject to election at the next AGM following their appointment. Sandy Shaw will offer herself for election at the AGM.

Other external directorships

In line with the executive 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

In line with our policy neither Hurricane nor any company in the Group made contributions in cash or kind to any political party, whether by gift or loan during the year.

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 Chairman and Senior Independent Director take the lead on these matters and ensure that the views of shareholders are communicated to the Board as a whole.

Meetings with shareholders took place throughout the 2018 reporting year. As part of the corporate governance enhancement programme, a governance roadshow was undertaken in January and February 2018 and shareholders had the opportunity to meet and question the Board at the AGM in June 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 Regulatory News Service of the London Stock Exchange and are also made available on the Company's 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 5 June 2019 at 11:00 am at 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 Chairs 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 Regulatory News Service of the London Stock Exchange and also made available on the Company's website. In line with the Companies Act 2006 and best practice, the Company now supplies information such as notices of meetings, forms of proxy and the Annual Report and Group Financial Statements 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.

Steven McTiernan
Chairman
27 March 2019

John van der Welle

"2018 was a year in which we embedded changes to our internal processes and procedures."

I am pleased to present the report of the Audit and Risk Committee for the year ended 31 December 2018, which also includes the committee's activities since year end to date. 2018 was a year in which we embedded changes to our internal processes and procedures, some of which were recommended by the Listing and Governance Committee. At the beginning of the year we reviewed and adopted an enhanced terms of reference of the committee, a copy of which can be found on Hurricane's website, www.hurricaneenergy.com. Towards the end of the year the committee reviewed its work schedule for 2019 in preparation for first oil and also commenced its review of the impact of the changes introduced by the new Corporate Governance Code (the 2018 Code), again bringing its terms of reference up to date with the new Code requirements. Whilst Hurricane is currently an AIM-quoted company, my report this year has been enhanced with reporting and disclosures on a voluntary basis commensurate with those expected of a Premium Listed company and against the requirements of the 2016 Corporate Governance Code.

Committee composition

Chairman

John van der Welle

Other members

Dr David Jenkins

Sandy Shaw[1]

Note:

1. Sandy Shaw joined the committee following her appointment on 3 January 2019.

Since March 2013, the Audit and Risk Committee has been chaired by John van der Welle, who has recent and relevant financial experience (as an Official List and AIM E&P company director) as required by the Code. The other committee member in the 2018 reporting year was Dr David Jenkins who possesses the required competence relevant to the sector in which Hurricane operates. Steven McTiernan was appointed as non-executive Chairman on 1 May 2018 and is not a member of the committee but attends the meeting by invitation as an observer. Sandy Shaw joined the committee on 3 January 2019. Roy Kelly (Shareholder Nominee Director) whilst not a committee member is invited to attend as an observer. The Company Secretary acts as Secretary of the committee.

For part of the year, the composition of the committee did not conform to the requirements of the Code. Dr David Jenkins stepped up to be Interim Chairman on 8 November 2017 and was not considered independent following his appointment to this temporary role, therefore leaving for part of the year one independent director on the committee in John van der Welle. As announced on 17 January 2018, this temporary situation would be resolved upon the appointment of a new independent Company Chairman and the subsequent appointment of new non-executive directors. Upon the appointment of the new Chairman, Steven McTiernan on 1 May 2018, Dr David Jenkins reverted to his role of Senior Independent Director leaving the committee code compliant for a company outside the FTSE 350. Upon the appointment on 3 January 2019 of Sandy Shaw, the committee in 2019 is fully compliant for a FTSE 350 company comprising of at least three independent non-executive directors.

Meetings

Meetings held

3

Meeting attendance in 2018

Name	
John van der Welle	● ● ●
Dr David Jenkins	● ● ●

The committee met three times during the year under review, and once to date in 2019. Attendance of the committee members is shown above. 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 auditor to attend its meetings. The external auditor has direct access to the Chair of the committee and has met and conversed with the Chair on a number of occasions during the year without the presence of the executive directors.

Following each meeting the Chair of the committee reports formally to the Board on the main issues discussed by the committee.

Audit and Risk Committee Chairman's Report continued

Role

The terms of reference of the committee reflect best practice and the requirements of the Code, as well as the Financial Reporting Council (FRC) 2016 Guidance on Audit committees, the FRC 2014 Guidance on Risk Management and Internal Control and 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 Group Financial Statements and advise the Board on whether it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group'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; and
- 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 2019, the committee has discharged its responsibilities and the following describes the main aspects of work completed by the committee:

Annual Report and financial reporting

During the year the committee considered the 2017 Annual Report and Group Financial Statements, along with the 2018 Interim Report. In 2019 to date, the committee considered the 2018 Annual Report and Group Financial Statements. The areas of focus for the committee included consistency of application of accounting policies; compliance with relevant 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 focusses on whether, taken as a whole, the Annual Report and Group Financial Statements are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. The committee 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 contain key sources of estimation in the preparation of the 2018 Financial Statements.

Going concern

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 prepares a detailed report for consideration and challenge by the committee and auditors, including forecast cash flows for the business, including a variety of potential scenarios alongside a range of sensitivity assumptions. The main assumption in the 2018 year-end cash flow forecasts which supports the going concern basis is the timing of achieving first oil, with other assumptions and sensitivities including mitigating actions that are under management's control, subsequent production performance, oil price, cost inflation and foreign exchange rates. The committee also reviewed longer-term forecasts and their basis prepared by management in support of the long-term viability statement in the 2018 Annual Report and Group Financial Statements. The committee noted that risks surrounding the timing of first oil had been considerably reduced following the successful hook-up of the FPSO to the buoy on 19 March 2019, and although a number of risks remained, these were not considered likely to cause a significant delay. Therefore, it was satisfied with the forecast financial position of the Group and the underlying assumptions made, and with the appropriateness of the going concern basis of preparation of the Financial Statements.

Long-term viability

The committee also reviewed longer-term forecasts prepared by management in support of the long-term viability statement, which included an assessment of the Group's longer-term prospects as driven by its business model and strategy. These forecasts take into account the Group's principal risks and were stress tested against a number of scenarios including the timing of achieving first oil and adverse movements in subsequent production performance, oil price, cost inflation and foreign exchange rates. The committee considered and challenged the lookout period of three years determined by management and agreed that this was appropriate given the Group's current strategy and progress to date. The committee was satisfied with the overall assessment of the long-term viability of the Group and the disclosures made in these Financial Statements.

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 and there is a recurring risk that the balance at the period end will not be recovered if such activities do not ultimately lead to commercially viable production. The committee received management's accounting paper on the matter, and reviewed and challenged the status of each E&E asset, including consideration of the likelihood of exploration licences being renewed upon expiry, future plans for drilling and other technical work, and the availability of funding for these activities, including future plans to be funded by the Group's joint venture partner. The committee noted that although the formal process for renewing the licence that holds the Lincoln and Whirlwind assets had not commenced, it was satisfied by management's representation that licence extensions are expected based on past practice and proposed future work scopes. As such, the committee agreed with management's assessment that there were no indicators of impairment present that would trigger an impairment test under IFRS 6, and therefore the carrying values of E&E assets of $131.5m remained appropriate.

Recoverability of Lancaster Property, Plant and Equipment (PP&E) assets

Following Field Development Plan (FDP) approval for the EPS in the second half of 2017, the Lancaster field assets were transferred from intangible exploration and evaluation assets to oil and gas properties within Property, Plant and Equipment (PP&E). Management is required under IAS 36 to consider if there are any indicators of impairment of assets and, if present, perform an impairment test. In 2018, the committee reviewed and challenged the paper prepared by management which gave an overview of recent activity, future plans, estimates of reserves and a consideration of potential indicators of impairment.

Furthermore, the committee considered the cash flow projections for the Lancaster EPS as a standalone asset, as presented to them within management's going concern paper, including various risks and sensitivities, and was satisfied that this did not demonstrate any impairment indicators.

The committee agreed with management's assessment that there were no indicators of impairment present that would trigger an impairment test under IAS 36, and therefore the carrying value of the Lancaster assets within PP&E of $727.8m remained appropriate.

Change in accounting for leases under IFRS 16

The Group adopted IFRS 16 with effect from 1 January 2019 which will result in significant and material changes to its Financial Statements. The committee reviewed management's paper and calculations showing the estimated impact of adopting of IFRS 16, including the proposed transition option, assessment of reasonably certain lease terms, methodology of selecting appropriate discount rates and the appropriateness of disclosures made in the notes to the Financial Statements. The committee agreed with management's assessment of the estimated impact and the disclosures made of the estimated impact in these Financial Statements.

Other financial reporting matters

The committee also considered other judgements and areas of estimation that had an impact on the Financial Statements, including accounting for the Spirit farm-in; the implications of Brexit and appropriateness of disclosures of any associated risks; the assumptions used in determining the valuation of the Convertible Bond; and the estimates and assumptions used in calculating decommissioning provisions. The committee agreed with management's treatment in each case.

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 20 to 23.

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 sections 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 Group 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 ongoing 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. In addition, in 2019 an independent external review of the Group's main internal financial controls was conducted, with the outcome reported to the committee. The report noted that there were some areas of the Group's internal financial controls which could be strengthened to bring the policies and procedures in line with the size and nature of the Group and therefore further reduce the risk of fraud.

The committee was nonetheless pleased to note that the external review had concluded that there were well-designed and operated controls in place, and that there were no actual control failures or instances of fraud identified. It will look forward to an update from management on its progress in improving these main internal financial controls later in the year.

Audit and Risk Committee Chairman's Report continued

Key matters considered by the committee 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. During the year the committee reviewed the need for an internal audit function as the Company progresses to first oil and the production phase, and concluded that a separate internal audit function is not yet needed. The committee believes that adequate internal assurance exists regarding internal controls and their effectiveness, including reliance on the external review referred to above.

External auditor

The committee regularly monitors and approves the services provided to the Group by its external auditor (Deloitte LLP).

An evaluation of the effectiveness of the external audit process has been carried out annually since 2016, taking into account the views of the relevant senior management and the committee members. This evaluation took the form of formal and informal feedback from senior management, committee members and the Chief Financial Officer. The conclusion of the evaluations was that the process was effective and areas for improvement were discussed with the external auditor to continually enhance the effectiveness of the audit process in future years.

The committee maintains an ongoing 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 auditor.

Deloitte LLP was first appointed as the external auditor in August 2010 following a tender process and the audit has not been put to tender since that date as 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 due to the size and scope of Hurricane. Going forward, the committee will consider the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 which require entities listed on regulated markets to carry out a competitive tender at least every 10 years. In line with those regulations, the committee will consider the timing of any formal competitive tender process following any potential transition to a Premium Listing at which time the Company would be formally subject to those regulations. The last audit partner rotation took place in 2015 whereby David Paterson became the lead Audit Partner.

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.

Non-audit fees

During the year, the fees for non-audit related services were $25,000 (fees for audit services were $112,000). These non-audit services related solely to the interim half year review. Further details of the fees for audit and non-audit services provided by the external auditor 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. A non-audit services policy was introduced in 2019 to formalise this arrangement, whereby the committee has pre-approved the external auditor to provide certain permitted services providing that the fees do not individually or cumulatively exceed $30,000 and are not subject to contingent fee arrangements. All other non-audit services are subject to individual approval from the committee. 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.

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 2018 was recently conducted via an internal evaluation process, with the results reported to the Board. This process concluded that the committee had continued to function well in 2018 and was effective in terms of its focus, 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
27 March 2019

Steven McTiernan

"This year has seen significant progress with our plans as Hurricane moves towards its critical phase of first oil and further develops its assets."

I am pleased to present my first Report of the Nominations Committee for the year ended 31 December 2018. This year has seen significant progress with our plans as Hurricane moves towards its critical phase of first oil and further develops its assets. The main focus for the committee at the beginning of the year under the Interim Committee Chairmanship of Dr David Jenkins was to continue and complete the search and selection process for my role of non-executive Chairman of Hurricane. This selection process culminated in my appointment on 1 May 2018. Under my tenure as committee Chair the focus has been to continue the search and selection of additional independent non-executive directors to broaden the experience, diversity and skillset of the Board in preparation for the next challenges facing Hurricane as it moves towards first oil and further explores all opportunities to develop its assets. Our rigorous and in-depth process led us to the successful appointment on 3 January 2019 of Sandy Shaw. I am delighted to welcome Sandy as she brings a wealth of oil and gas commercial and legal experience to the Board. As the Company evolves, we will continue to review the balance and diversity of skills required at Board level and senior management so that Hurricane has the expertise to deliver the Company's strategy and ensure long-term success.

Committee composition

Chair

Steven McTiernan

Other members

Dr David Jenkins

John van der Welle

Roy Kelly

Sandy Shaw[1]

Note:

1. Sandy Shaw joined the committee following her appointment on 3 January 2019.

Dr David Jenkins, as Interim Chairman, chaired the committee until 1 May 2018 when Steven McTiernan having been appointed as Chairman on that date took over as committee chair. Additional members during the year included John van der Welle (Independent director) and Roy Kelly (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.

The Company is reporting on a voluntary basis against the provisions of the Code. Under provision B.2.1. of the Code the committee should consist of a majority of independent directors. As previously disclosed at the beginning of the year the composition of the committee did not fully conform to this provision.

Dr David Jenkins having assumed the role of Interim Chairman on 8 November 2017 was not considered independent on appointment; therefore from 1 January 2018 to 30 April 2018 there was only one independent director on the committee (John van der Welle). From 1 May 2018 following the appointment of the new Chairman, Steven McTiernan (considered independent on appointment); and the return of Dr David Jenkins to his role of Senior Independent Director, the committee conformed to Code provision B.2.1., whereby the majority of the members should be independent. The appointment of Sandy Shaw on 3 January 2019 further strengthens the independence of the committee to ensure Code compliance going forward.

Name	Independence
Steven McTiernan (on appointment as Chairman)	Yes
Dr David Jenkins (from 1 May 2018 upon the appointment of the new Chairman)	Yes
John van der Welle	Yes
Roy Kelly	No
Sandy Shaw[1]	Yes

Note:

1. Sandy Shaw (independent) joined the committee following her appointment on 3 January 2019.

Nominations Committee Chairman's Report continued

Meetings

Meetings held

3

Meeting attendance

Name	
Steven McTiernan[1]	●
Dr David Jenkins	● ● ●
John van der Welle	● ● ●
Roy Kelly	● ● ●

Note:

1. Attendance following appointment on 1 May 2018.

The committee met three times during the year under review. Attendance of the committee members is shown above.

Between 31 December 2018 and the date of this report, the committee has met to forward plan in light of the Company's maturity as it moves into its critical production phase.

Role

The 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, which takes into account the merits of the candidates and the relevance of their background and experience, measured against objective criteria. Hurricane continues its commitment to appointing, retaining and developing an expert team which can effectively manage the Company's objectives and deliver its strategy.

Activities during the year

The committee's primary focus from late 2017 through to April 2018 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 firmly believes 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 successfully concluded with the appointment of a new Chairman on 1 May 2018. In addition, as part of the work of the committee and the enhancements recommended by the Listing and Governance Committee, further independent non-executive directors were sought to ensure Code compliance. The search and selection process for these directors has once again followed the same methodology. A detailed candidate screening/profile process was applied by the committee earlier in the year. Spencer Stuart was appointed to lead this selection process which successfully concluded, as anticipated, at the end of the 2018 financial year. The Company announced Sandy Shaw's appointment on 3 January 2019.

The Board and the work of the Nominations Committee supports the principles of diversity in the widest sense and in particular gender diversity in relation to the aspirations set out in the Davies Report and the Hampton-Alexander Review regarding 'Women on Boards'.

The proportion of women on the Board following the recent director appointments is now 16% (this excludes our Shareholder Nominee Director from any calculations). As Hurricane continues to develop in scope and size, the committee will seek to improve gender diversity at Board level, and in 2019 aims to discuss and agree measurable gender diversity objectives for the Board. In relation to the broader leadership team, diversity of skills, background, knowledge, international and industry experience, as well as gender, amongst many other factors, will continue to be taken into consideration when seeking to appoint any new director to the Board. Notwithstanding the foregoing, all Board appointments will always be made on merit.

Earlier in year the committee reviewed and re-approved its terms of reference updating them as appropriate in line with those expected of Premium Listed companies. Towards the end of the year as part of its ongoing review of its activities the committee commenced a review of the terms of reference against the 2018 Code. A copy of the revised terms of reference can be found on Hurricane's website at www.hurricaneenergy.com. We will report against the requirements of the 2018 Code next year when it is appropriate to do so.

During the year the committee underwent an evaluation. Each committee member completed a separate, tailored questionnaire to evaluate the performance of both the committee and each member's own contribution to it. The Chairman also conducts individual evaluations of each director to make sure they continue to contribute effectively, demonstrate commitment to their role and continue to bring relevant mix of skills and experience to the Board.

The committee recognises the importance of ensuring that all board members are aware of the committee's activities and the committee Chair reports back to the Board after each meeting.

Steven McTiernan
Nominations Committee Chairman
27 March 2019

Dr David Jenkins

> "Hurricane's Remuneration Policy is closely linked to the delivery of its strategy."

Annual Statement on remuneration

I am pleased to present Hurricane's Remuneration Report for the year ended 31 December 2018. This is my final statement as Chair of the Remuneration Committee as I will step down as chair of the committee on 1 April 2019 when Sandy Shaw, who joined the Board on 3 January 2019 succeeds me.

As an AIM-quoted company, Hurricane is not required to produce a formal remuneration report; however, as we did last year, 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, through this report, aims to continue to provide 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 the Directors' Remuneration Policy, how it was implemented in the year under review (2018), how we plan to implement it in 2019 and a summary of the key activities of the Remuneration Committee during the reporting year (2018).

Committee focus during 2018

During 2018 the committee was focussed on the following activities:

- reviewing the Group Remuneration Policy for the previous year;
- approving the annual bonus awards for the previous year;
- discussing proposed bonus targets and setting the annual bonus scheme Performance Measure scorecard metrics for 2019;
- reviewing and approving certain Milestones of the VCP;
- approving the 2017 Directors' Remuneration Report (DRR);
- receiving an update on external remuneration trends from advisors;
- recommending to the Board the implementation of the new joiners' share schemes for new employees not participating in the VCP;
- receiving an update on the peer group remuneration landscape;
- reviewing salary progression and bonus opportunities for the executive directors effective 1 January 2019; and
- reviewing the terms of reference for the committee.

During the year, the committee took the opportunity to receive an update on the peer group remuneration landscape and reviewed the base salaries for executive directors in 2018 (base salaries having been held at the same level since 2013), benchmarking them against executive remuneration in a UK oil and gas comparator group, including both Official List and AIM companies. The committee noted that the base salaries for the Company's executive directors remain in the lower quartile, of its oil and gas company comparator group. The committee recognises that it has a duty to shareholders and investors to retain and motivate the talented executive directors who run this business.

The committee also reviewed the bonus level which was last set in 2016. The current policy of a maximum potential bonus of 50% of base salary (applicable to all employees) at Hurricane remains in the lower quartile in comparison to most other relevant comparator companies. Within the oil and gas peer group, a maximum annual bonus potential of 100% is the norm, with the expectation that meeting normal challenging Performance Measures should result in an 'on target' award of 50% of the 100%, and any bonus award above that would be subject to attainment of stretch targets.

Directors' Remuneration Report continued

Annual Statement on Remuneration continued

Committee focus during 2018 continued

The committee awarded cash bonus payments of 50% out of a maximum of 50% of base salary to each executive director. These awards were based on the committee's assessment of achievements during the year against the Corporate Scorecard and Performance Measures for 2018. Details of the bonus award for 2018, including the Performance Measures and achievement against those targets, is set out on page 52.

No share-based awards under share schemes (other than the Share Incentive Plan (SIP)) were granted to any executive director during the year, nor were any shares under existing schemes due to vest. The Company operated the annual SIP in January 2018 and made awards under this HMRC-approved scheme to all of its participants, including executive directors. Further details are outlined on page 55.

Remuneration Policy underpinning Group strategy in 2018

Hurricane's Remuneration Policy is closely linked to the 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.

Hurricane's current remuneration policy is structured to link rewards to the short-term Performance Measures and long-term Milestones. Last year saw the second full year of performance under the Group's long-term incentive plan, the Value Creation Plan (VCP), a one-off five-year scheme implemented by the Board in late 2016. The VCP was introduced as a replacement to the original 2013 Performance Share Plan (PSP), following advice from specialist remuneration consultants. 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.

Consideration of our Remuneration Policy in 2019

Planning ahead, the committee reviewed the Company's remuneration philosophy and structure in light of the Company's objectives, strategy and plans and continues to believe that the remuneration policy needs to align and support the strategic direction of the business. In light of the growth of the Company, the excellent progress on the Lancaster EPS, and the expansion of the Company's operations due to the Spirit farm-in, the committee noted that the market demand for experienced oil and gas executives has increased and considered it important to assess the remuneration of the executive directors. As part of the assessment, consideration was given to the general pay and employment conditions of all employees in the Company, governance trends, the complexity of the business, market and economic competitiveness and expansion of responsibilities of the executive directors. Details of the changes to the executive directors pay in 2019 can be found on page 65.

Shareholder engagement during the year

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 of the VCP during the marketing phase. During the year, the Chairman of the Board, together with members of the committee, met with shareholders to discuss the Company's objectives during the year.

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
27 March 2019

Remuneration Committee composition

The Remuneration Committee is chaired by Dr David Jenkins, who will step down on 1 April 2019. During the year, the committee also included John van der Welle. Steven McTiernan was appointed 1 May 2018 and is not a member of the committee but attends the meeting by invitation. Sandy Shaw joined the committee on 3 January 2019 and will succeed Dr David Jenkins as Chair of the committee. Roy Kelly, Kerogen's Shareholder Nominee Director, attends the meetings as an observer.

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

For part of the year the composition of the committee did not conform to the provisions of the Code as David Jenkins was not independent upon appointment as Interim Chairman. Following the appointment of Steven McTiernan as the Company's Chairman, the committee comprised of two independent directors (Dr David Jenkins and John van der Welle). Dr David Jenkins was deemed to be fully independent under the Code following his step down from the role of Interim Chairman to his initial role as Senior Independent Director. Following the appointment of Sandy Shaw on 3 January 2019, the committee is made up of three independent directors.

Independence of committee members

Name	Independence
Dr David Jenkins[1]	Yes
John van der Welle	Yes
Sandy Shaw[2]	Yes

Notes:

1. Independent from 1 May 2018.
2. Sandy Shaw was appointed to the Board and committee on 3 January 2019.

Meetings

Meetings held

4

Meeting attendance

Name	
Dr David Jenkins	●●●●
John van der Welle	●●●●

The committee had four scheduled meetings and three unscheduled meetings during the year under review. The attendance of the committee members is shown above. 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.

Role

The committee's primary objective is to ensure that reward packages for executive directors and key senior management are competitive in order to recruit, 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. The terms of reference were reviewed at the end of 2018 to ensure that they continue to be fit for purpose for the Company and in line with the requirements of the Code. The committee reviewed and amended its terms of reference to make it in line with the 2018 Code. The amendments made were adopted by the Board on 25 March 2019.

Independent advisers

The committee in the past has been advised by specialist remuneration advisers, Mercer (previously Kepler), Dentons and Grant Thornton. During the year, advice was given on the SIP, VCP and 2017 PSP by Mercer and by Dentons. Of these advisers only Dentons provides other services, being the solicitors to the Company.

As part of the process of annually reviewing its remuneration advisers, the committee invited remuneration advisers to submit their proposals for the role of Hurricane's remuneration adviser. Following a competitive tender process, the committee formally appointed PwC on 18 January 2019 to advise on remuneration-related matters, including the Company's Remuneration Policy.

In respect of the advice received from Mercer on remuneration related matters, the benchmarking exercise on the remuneration of the executive directors and the other consultancy advice received, Mercer received total fees (based on hours spent) of £52,000. The committee was satisfied that the advice it received in the year was independent and objective.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Payment for remuneration advisers

Entity	Amounts paid 2018 £'000	Amounts paid 2017 £'000
Mercer	**52**	19
Dentons	**13**	15
Total	**65**	34

How the Directors' Remuneration Policy was implemented in 2018

During 2018, the remuneration packages for executive directors consisted of a lower quartile basic salary, benefits, an annual bonus scheme, and participation in a long-term incentive plan, being the VCP and participation in the Company's SIP.

Salary

Basic annual salaries are reviewed annually by the committee and the salary remained unchanged during the year.

Entity	Amounts paid 2018 £'000	Amounts paid 2017 £'000
Dr Robert Trice	**375**	375
Neil Platt	**275**	275
Alistair Stobie	**275**	275

A detailed table of remuneration for all directors (single figure remuneration) is outlined on page 54.

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.

Hurricane operates an auto-enrolled workplace pension scheme for all employees, including executive directors, and contributes up to 10% of employees' salaries, provided employees make a 4% contribution. To the extent that an employee or director exceeds their annual allowance or lifetime allowance, they are eligible to receive a cash allowance in lieu of pension. There is no variation between directors and employees regarding pension arrangements.

In 2018, Hurricane contributed to personal pension schemes for all employees. Executive directors received a cash allowance in lieu of pension.

Performance Measures for annual bonus award in respect of 2018

In 2018, the committee discussed the 2018 Corporate Scorecard and Performance Measures and in the early part of 2019 agreed the Corporate Scorecard and Performance Measures (set out in the table below) and targets in reference to the following key areas: HSSEQ; Operations (Drilling and EPS); Subsurface; Financial, Corporate/Investor Relations and Finance. The committee assessed that the executive directors had met the Performance Conditions in full and the committee awarded each executive director a maximum cash bonus of 50% of base salary (2017: 41.25%) for 2018. In awarding the bonus, the committee considered that the bonus payments were reflective of the excellent progress on the Lancaster EPS project, underpinned by the expansion of the Company's operations due to the Spirit farm-in.

	HSSEQ	Operations	Subsurface	Corporate/IR	Finance
2018 Weighting	25%	50%	10%	5%	10%
2018 Achievement	25%	50%	10%	5%	10%

For reasons of commercial sensitivity, details of the progress milestones achieved have not been disclosed.

Performance Measures for the annual bonus award in respect of 2019

For 2019, the committee has made changes to the Performance Measures and target weightings, including the introduction of 'Production' and 'Personal' Performance Measures categories. In making the changes, the committee had regard to the successful achievement of all Performance Measures in 2018 and considered it appropriate to adjust the weightings in a manner that reflects the growth and maturation of the Company, future production operations on the Lancaster EPS and the expansion of the Group's operations due to the Spirit farm-in. Although the committee has reduced the target weighting allocated to HSSEQ, the Group is commitment to health, safety and environmental performance across its business and the committee has the discretion to make downward adjustments to formulaic outcomes in exceptional circumstances.

The relative weightings for 2019 outlined below apply to each of the executive directors.

	HSSEQ	Production	Operations	Financial	Personal
2019 Weighting	7.5%	32.5%	30.0%	25.0%	5.0%

For reasons of commercial sensitivity, details of the progress milestones and target thresholds cannot be disclosed at this time. Disclosure will be made in the 2019 Annual Report where this does not compromise the interests of the Company.

Further details of the Key Performance Indicators and Performance Measures are found on pages 18 and 19 of the Strategic Report.

Further details of the bonus payment made to the executive directors in respect of the year ended 31 December 2018 are disclosed in the directors' remuneration table on page 54.

Payments for loss of office

There were no payments for loss of office in 2018.

Payments to past directors

There were no payments made in 2018.

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. The Letters of Appointment to the non-executive directors were updated at the end of 2017, in line with best practice and no changes were made in 2018. The fee arrangements were reviewed at the same time. Details of the fees paid to non-executive directors in 2018 are set out in the directors' remuneration table on page 54. No other changes are proposed to the Company's overall approach to the payment of fees to non-executive directors.

Current fees payable to non-executive directors

Annual Fee (Chairman)[1]	£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)[2]	£10,000
Additional Annual Fee (Nominations Committee Chairman)[3]	£10,000
Additional Fee (Listing and Governance Committee Chairman)[4]	£20,000

Note:

1. In the case of Dr David Jenkins, who was appointed on 8 November 2017 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 the appointment of the permanent Chairman in 1 May 2018. 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. Dr David Jenkins was paid an additional fixed fee of £10,000 as the Chairman of the Remuneration Committee.
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.
4. 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.

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Directors' single figure remuneration for the year ended 31 December 2018 (audited information)

	Salary/fee £'000	Taxable benefits[5] £'000	Cash bonus £'000	LTIP £'000	Pension contributions and payments in lieu of pensions £'000	SIP £'000	Total £'000
Year ended 31 December 2018							
Dr Robert Trice	**375**	**2**	**188**	—	**33**	**7**	**605**
Neil Platt	**275**	**2**	**138**	—	**24**	**7**	**446**
Alistair Stobie	**275**	—	**138**	—	**24**	**7**	**444**
Steven McTiernan[1]	**100**	—	—	—	—	—	**100**
Dr David Jenkins	**103**	—	—	—	—	—	**103**
John van der Welle[3]	**85**	—	—	—	—	—	**85**
Roy Kelly[4]	**60**	—	—	—	—	—	**60**
	1,273	**4**	**464**	—	**81**	**21**	**1,843**

	Salary/fee £'000	Taxable benefits[5] £'000	Cash bonus £'000	LTIP £'000	Pension contributions and payments in lieu of pensions £'000	SIP £'000	Total £'000
Year ended 31 December 2017							
Dr Robert Trice	375	2	155	—	33	7	572
Neil Platt	275	2	113	—	24	7	421
Alistair Stobie	275	—	113	—	24	7	419
Dr Robert Arnott[2]	223	—	—	—	—	—	223
Dr David Jenkins	55	—	—	—	—	—	55
John van der Welle[3]	60	—	—	—	—	—	60
Roy Kelly[4]	55	—	—	—	—	—	55
	1,318	4	381	—	81	21	1,805

Note:

1. Joined the Board on 1 May 2018.
2. Joined 1 March 2016 and 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 obtain field development approval for the Lancaster EPS, 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 8 November 2017 was £77,000 and upon resignation he was paid £23,000 for pay in lieu of notice (PILON).
3. £28,000 of fees in 2017 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.
4. Joined on 10 May 2016; 100% of non-executive director fees were paid to Kerogen Capital.
5. Taxable benefits include a voluntary package of benefits to directors including optional enrolment in healthcare, dental and travel insurance.

Share awards held under long-term incentive plans as at 31 December 2018 (audited information)

Grant date	Award	As at 1 Jan 2018	Granted	Exercised	Lapsed/ forfeited	As at 31 Dec 2018	Exercise price	Date from which exercisable	Expiry date
Dr Robert Trice[1]									
25 Jan 2011	Share option	225,000	—	—	—	225,000	£1.00	25 Jan 2014	31 Dec 2020
Neil Platt[1]									
	—	—	—	—	—	—	£nil	n/a	n/a
Alistair Stobie[1]									
	—	—	—	—	—	—	£nil	n/a	n/a
Total		**225,000**	—	—	—	**225,000**			

Note:

1. 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. 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. When the Company introduced the VCP in 2016, the directors who entered into the VCP were required to forfeit any 2013 PSP awards. 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 the Company's market capitalisation above the market capitalisation calculated at the Threshold Value.

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 25 January 2018 to the executive directors are outlined in the table below:

2018 Executive director SIP awards

Executive director	Partnership Shares (purchased)	Matching Shares (awarded)	Free Shares (awarded)
Dr Robert Trice	4,632	9,264	9,264
Neil Platt	4,632	9,264	9,264
Alistair Stobie	4,632	9,264	9,264

Global Shares Trustee Company Limited (SIP Trustee), Trustee of the Hurricane Energy plc SIP, awarded 474,006 Ordinary Shares to participants in the SIP at a price of £0.3886 per share, being the closing mid-market price on 24 January 2018.

SIP share awards are included in the table of directors' interests in Ordinary Shares which can be found in the table on page 56.

Executive director SIP holdings

Executive director	**Total SIP holding as at 31 Dec 2018**	Total SIP holding as at 31 Dec 2017
Dr Robert Trice	**238,298**	215,138
Neil Platt	**230,798**	207,638
Alistair Stobie	**41,525**	18,365

Directors' Remuneration Report continued

Annual Report on Remuneration continued

Directors' interests in Ordinary Shares (audited information)

At 31 December 2018, 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 as at 31 Dec 2018	Number of shares held as at 31 Dec 2017
Dr Robert Trice	**26,283,184**	26,260,024
Neil Platt	**644,276**	621,116
Alistair Stobie	**41,525**	18,365
Steven McTiernan	**375,000**	Nil
Dr David Jenkins	**205,000**	205,000
John van der Welle	**154,159**	154,159
Sandy Shaw[1]	**Nil**	Nil
Roy Kelly[2]	**Nil**	Nil

Note:

1. Sandy Shaw joined the Board on 3 January 2019.
2. Roy Kelly's direct holding is nil but he is Kerogen's Nominated Director – Kerogen holds 428,531,211 shares.

All directors are encouraged to hold shares in the Company. A minimum shareholding requirement has been introduced for executive directors of 200% of salary, to be achieved within five years. Further details on the minimum shareholding requirement can be found in the Directors' Remuneration policy on pages 59 to 66.

Total interests of Directors

Beneficial holdings at 31 Dec 2018	Shares in Hurricane Energy plc	SIP Shares in Hurricane Energy plc, held by SIP Trustee	VCP Growth Shares in Hurricane Group Limited
Dr Robert Trice	26,044,886	238,298	140
Neil Platt	413,478	230,798	140
Alistair Stobie	Nil	41,525	140
Steven McTiernan	375,000	Nil	Nil
Dr David Jenkins	205,000	Nil	Nil
John van der Welle	154,159	Nil	Nil
Sandy Shaw[1]	Nil	Nil	Nil
Roy Kelly[2]	Nil	Nil	Nil

Note:

1. Sandy Shaw joined the Board on 3 January 2019.
2. Roy Kelly's direct holding is nil but he is Kerogen's Nominated Director – Kerogen hold 428,531,211 shares.

Since the end of the financial year in review (2018) and the date of the signing of the Annual Report and Group Financial Statements there were SIP share awards granted to participants in the SIP at a price of 45.86 pence per share, being the closing mid-market price on 24 January 2019. The executive directors were awarded the following shares:

2019 Executive director SIP awards

Executive director	Partnership Shares (purchased)	Matching Shares (awarded)	Free Shares (awarded)
Dr Robert Trice	3,924	7,848	7,849
Neil Platt	3,924	7,848	7,849
Alistair Stobie	3,924	7,848	7,849

Vesting of long-term incentive plans

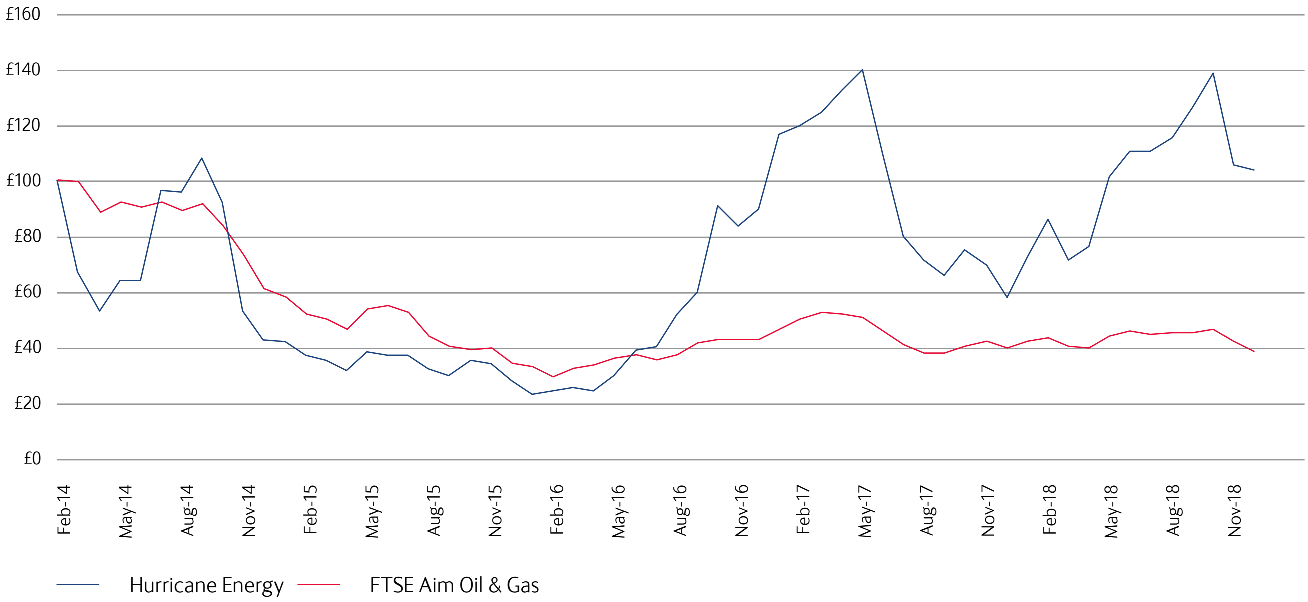
There were no long-term incentive plan awards vesting in 2018. The Group had previously operated the 2013 PSP; however, following the review in 2016, the Group introduced the VCP. Employees and executive directors receiving awards under the VCP were required to forfeit any 2013 PSP plan awards. Although certain VCP Milestones have been passed, there will be no vesting until a maturity event or the end of the scheme, in November 2021.

No long-term incentive plan awards were granted to the executive directors during the financial year in review (2018).

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.

Value of £100 invested at Hurricane IPO



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 54 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 £'000	Total remuneration £'000	Portion of maximum bonus awarded %	Percentage of multi-year awards vested which could have vested from achievement of performance targets %
2018	**375**	**605**	**100%[1]**	**–%**
2017	375	572	83%[2]	–%
2016	375	926	84%	–%
2015	375	413	–%	–%
2014	375	788	50%	–%

Note:

1. This equates to 50% of base salary, the maximum annual cash bonus that could be earned by executive directors in 2018. Further details are provided on pages 49 and 50.
2. This equates to 41.25% of base salary. The maximum annual cash bonus that could be earned by executive directors in 2017 was 50%.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

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 2017–18

	Salary and fees	Taxable benefits	Annual bonus
CEO	–%	9%	21%
Employees	18%	14%	63%

Note:
The salary of the CEO was unchanged during the year. Further information on increases to headcount and staff costs can be found on page 30.

Relative importance of employee pay

	Total remuneration paid to employees		Distributions to Shareholders	
	$'000	% change	$'000	% change
2018	**13,007**	**43.0%**	**Nil**	**–%**
2017	9,093	7.7%	Nil	–%

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

The total remuneration paid to employees has increased due to the significant increase in headcount during the year.

Implementation of Remuneration Policy for 2019
Due to the material increase in scale and complexity of operations leading to significantly increased responsibilities of the management team, the committee felt it necessary to address the gap to market and bring executive pay to more competitive levels in order to be able to recruit, attract and retain the right talent to ensure successful delivery of the business strategy. Having frozen salaries for the last six years, the committee undertook a review of salaries with its professional advisers and will restore the maximum bonus opportunity under the Policy to 100% of base salary, which is appropriate given the performance targets for the business and is more in line with market practice for comparable companies.

There will be an increase in the base salary of each executive director of £50,000. The increase is intended to reflect the increased responsibilities and scope of the positions given the changes in the Company and to provide market competitive levels of reward for the respective roles, supporting recruitment, retention and motivation of key executives. The salary increase will be carried out in two tranches over the space of two years to avoid an excessive step-change in any one year and to align the salary with competitive market rates. There will be no changes to other benefits nor pension arrangements.

Performance Measures are determined by the committee each year and may vary to ensure that they promote the Company's business strategy and shareholder value. For the 2019 Performance Measures, the committee have proposed stretching targets structured in a manner that ensures 'on target' performance would generally lead to 50% of payment and any performance over and beyond the performance target would lead to an over 50% bonus award up to a maximum of 100% of salary. See page 53 for the relevant weightings. The committee always ensures it takes into consideration the complexity of the business, market and economic competitiveness, the increased responsibilities of the executive directors and the salary levels for the wider workforce when setting the remuneration of the executive directors.

Other Remuneration Report matters
The closing mid-market price of the Company's Ordinary Shares on 31 December 2018 was £0.4416 per share. During the year the share price ranged from £0.3006 per share to £0.6075 per 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 and does not plan to do so at its forthcoming AGM in 2019. The Committee will review this matter in 2020.

This Remuneration Report was approved by the Board on 27 March 2019 and signed on its behalf by:

Dr David Jenkins
Remuneration Committee Chairman
27 March 2019

Directors' Remuneration Policy framework

Following industry practice and best practice corporate governance guidelines, 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 and long-term.

Key changes to the Policy for 2019

Following a transformative year for the business, which resulted in a material increase in the scale and complexity of operations and significantly increased the responsibilities of the management team, the committee felt it necessary to address the gap to market identified by our consultants and bring executive pay to more competitive levels in order to be able to recruit, attract and retain the right talent to ensure successful delivery of the business strategy. Having frozen salaries for the last six years, the committee decided to achieve this through a review of salaries and restoring the maximum bonus opportunity under the policy to 100% of salary which is the norm for comparator companies.

We have also made policy improvements to align with developments in corporate governance best practice and remuneration reporting. This includes the introduction of a formal recruitment policy for incoming executive directors, greater clarity around the treatment of leavers on termination of employment and introduction of malus and clawback provisions to the annual bonus. To ensure no rewards for failure, we have also provided greater clarity around the committee's discretion under the Policy. This includes committee powers to override formulaic outcomes if payouts do not reflect overall business or individual performance, as well as discretion in cash constrained years to pay the bonus in shares and/or to require deferral of a portion of the bonus.

Finally, to improve alignment between management and shareholder interests, a minimum shareholding requirement has been introduced for executive directors of 200% of salary, to be achieved within five years. We note that, in view of the expiry of the VCP in 2021, the committee is also considering the development of a new long-term incentive plan in which executive directors may participate in future years, and this will be included in a new Policy when finalised.

2019 Remuneration Policy for executive directors

The changes described above are reflected in the revised Policy to apply from 2019 onwards, which is set out below. 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.

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Base salary	Supports recruitment, retention and motivation of key executives.	Intended to provide market competitive levels of reward for the respective role. Reviewed annually or upon changes in role. A review may not necessarily result in an increase. Salaries are paid monthly in cash. Elements considered include: • salaries for similar roles in relevant comparator companies; • individual specifics (e.g. personal performance, experience and the individual's role within the Group); • company performance; • enhanced/reduced scope of responsibility compared with the norm for a given role; and • pay and conditions for all employees.	No formal limit on annual increases, although when given, it will normally be in line with those of the wider workforce. The committee may consider increases above this level in cases where an individual's responsibility or role has increased, or if it becomes evident that a realignment with market rates is required. The Company may set salary levels below the market at the time of appointment, with the intention of bringing the salary levels in line with the market as the individual gains the relevant experience. In such cases, subsequent increases in salary may be higher than the general increase for employees until the target positioning is achieved.	The committee is of the view that base salary levels for executive directors should reflect the competitive market level for the individual's skill set and contribution.

Directors' Remuneration Report continued

Directors' Remuneration Policy continued

2019 Remuneration Policy for executive directors continued

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Annual bonus	Incentivises and rewards executives for the achievement of annual performance targets linked to delivery of the Group's strategy. Ensures continual assessment and accountability of executives to the rest of the Board.	At the start of the year, executive directors 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. Bonuses will normally be payable immediately in cash. However, in cash constrained years, the Remuneration Committee will have discretion to pay some or all of the bonus in shares, and/or may require a portion of the bonus to be deferred in cash and/or shares for up to three years. Where deferred in shares, dividend equivalents may be accrued over the vesting period and be paid on shares that vest.	The maximum annual bonus for all employees is limited to 100% of base salary with the expectation that meeting normal challenging Performance Measures should result in an 'on target' award of 50% of the 100%, and any bonus award above that would be subject to attainment of stretch targets. In exceptional circumstances, the Remuneration Committee has discretion to pay bonuses in excess of 100% of basic salary, such as to recognise outstanding performance. Rationale will be provided in the Directors' Remuneration Report for any such use of discretion.	The Performance Measures are set by the committee, who also determine the level of achievement against these targets. Measures will typically include a mixture of strategic, operational, financial and personal objectives, with a link to health, safety and environmental performance. The Performance Measures, weightings and targets are reviewed each year to ensure they remain appropriate and reinforce the business strategy. In exceptional circumstances the committee retains the discretion to: a) change the Performance Measures, targets and weightings part way through a performance period if there is a material event which causes the committee to believe the original performance measures are no longer appropriate, provided they are not materially more or less difficult to satisfy; and b) make downward or upward adjustments to the formulaic outcome, within the Policy and Plan limits, where it believes the outcome is not a fair and accurate reflection of overall business or individual performance, to ensure fairness to both shareholders and participants.

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Long-term share based incentive plans – VCP	Incentivises management to achieve the Company's strategy of de-risking and monetising its resource base. Participants had to invest in and risk personal funds to participate in the scheme. 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 Lancaster EPS).	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 table of Milestones on page 18). 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 (being an 38.2% increase against the share price at the commencement of the VCP). A maturity event in the case of a successful sale or disposal would be subject to a higher hurdle price of £0.65 (91.2% increase). Total Shareholder Return (TSR) performance relative to FTSE AIM Oil & Gas benchmark and health and safety and environmental performance may, at the committee's discretion, lead to reductions in vesting levels. Malus and clawback provisions may apply within 12 months of receiving any value from an award in the event an employee is at fault for material misstatement of the financial accounts or is guilty of gross misconduct. Further detail on the operation of the VCP can be found in the 2017 Directors' Remuneration Report on pages 54 and 55.	The maximum potential award to all participants in the plan equates to 8.4% of the growth in market capitalisation of the Company above a threshold value linked to £0.34 per share.	No awards vest if share price hurdles are not met. 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 & Gas benchmark and health, safety and environmental performance.

Directors' Remuneration Report continued

Directors' Remuneration Policy continued

2019 Remuneration Policy for executive directors continued

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Share Incentive Plan	Encourages and deepens share ownership by employees. 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 – see page 64).	Operates on an annual basis (usually in January). 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. Participating employees receive an allocation of Partnership Shares at market value purchased using deductions from employees' pre-tax salaries. 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. The scheme is subject to standard leaver provisions – see page 64. Further detail on the operation of the SIP can be found in the 2017 Directors' Remuneration Report on page 55.	The current scheme operates at the HMRC-approved maximum level.	None.
Pension	Helps recruitment and retention of key personnel.	Hurricane operates an auto-enrolled workplace pension scheme for all employees, including executive directors. To the extent that an employee or director exceeds their annual allowance or lifetime allowance, they are eligible to receive a cash allowance in lieu of pension.	Hurricane contributes up to 10% of employees' salaries, provided that they make a 4% contribution. This is aligned across all employees.	Not applicable.
Benefits	Helps recruitment and retention of key personnel.	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. Where appropriate, to ensure the ability to attract and retain talent in order to deliver the Group strategy, other benefits may be offered including, but not limited to, relocation and expatriate allowances.	The value is the cost of providing the described benefits. There is no set maximum and no variation across employees.	Not applicable.

Legacy share awards

The committee reserves the right to honour any commitments entered into prior to the implementation of the 2019 Remuneration Policy. Executive directors will be eligible to receive any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the Policy set out herein, in respect of awards made under a previous Policy or where the terms of the payment were agreed at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration of the individual becoming a director of the Company.

For example, this may include previous awards made under the Performance Share Plan 2017 (2017 PSP), the Performance Share Plan 2013 (2013 PSP) and the Share Option Plan 2011. More detail of these plans can be found in the 2017 Directors' Remuneration Report on pages 55 and 56.

Shareholding requirement

Executive directors are required to build a minimum shareholding, equivalent in value to 200% of salary, within five years. The requirement can be satisfied using shares vesting from long-term incentives and deferred shares (net of tax) and will be tested by the committee at the end of the five-year period beginning from 1 January 2019.

Whilst the committee is cognisant of the new UK Corporate Governance Code requirement for a post-termination shareholding requirement, it is not considered necessary or appropriate at this time. The structure of the VCP and potential for an exit mean that executive directors may have a significant shareholding on vesting of the VCP. The committee anticipates that a special broker sales programme would be implemented to facilitate the payment of taxation in a manner that ensures an orderly market and alignment with shareholders. The committee will, however, keep this under review and consider introducing such a requirement should it become appropriate in future.

Remuneration Committee discretion

The committee will operate all incentive plans according to the rules and discretions contained therein to ensure that the implementation of the Remuneration Policy is fair, both to the individual director and to the shareholders. The discretions cover aspects such as:

- selection of participants;
- timing of grant and vesting of awards;
- size of awards (subject to the policy limits);
- choice of measures, weightings and targets;
- determining level of payout or vesting based on an assessment of performance;
- treatment of awards on termination of employment and Change of Control;
- adjustment of awards in certain circumstances, e.g. changes in capital structure;
- adjustment of performance conditions in exceptional circumstances; and
- application of malus and/or clawback.

Any such use of discretion will be fully disclosed in the subsequent Annual Report.

Performance Measures and target setting

The committee agrees an annual balanced Corporate Scorecard of Performance Measures and target weightings. Performance Measures used under the annual bonus and long-term incentives are selected annually to reflect the Group's main short- and long-term objectives and reflect both financial and non-financial priorities, whilst not overlapping with the Milestones of the VCP. These will typically include a mix of strategic, financial, operational and personal metrics with a link to health, safety and environmental performance. Performance Measures are set to be stretching but achievable, taking into account a range of internal and external reference points, having regard to the particular strategic priorities and economic environment in a given year.

Recruitment Policy for executive directors

In the case of a new externally appointed executive director, the Remuneration Committee may make use of all existing components under the Remuneration Policy applying to existing executive directors, including salary, pension, benefits, annual bonus and SIP awards. The current maximum limits under the existing Policy will apply similarly on recruitment, except that the maximum annual bonus opportunity will be pro-rated to reflect the proportion of employment during the year. Depending on the timing of appointment, it may be appropriate to operate different Performance Measures for the remainder of that bonus period.

Where appropriate and necessary to facilitate the recruitment of an individual, the committee may consider granting an award to replace awards forfeited on leaving of a previous employer. Such buyout award would have a fair value no higher than that of the awards forfeited. In determining the size of the award, the committee will consider the likelihood of any existing performance conditions being met, the proportion of the vesting period remaining, and the form of the award. Any such buy-out award will typically be made under existing annual bonus and long-term incentive arrangements, although in exceptional circumstances the committee may exercise discretion to make awards using a different structure.

In view of the vesting and/or expiry of the VCP in 2021, the committee is mindful of the need to develop new long-term incentive plans in which the current and/or new executive directors may participate in future years. The committee will continue to review the requirements of the Company over the coming years to ensure future long-term incentive plans are structured to resource and deliver the strategic objectives and plans of the Company.

Diversity and inclusion

Hurricane respects the diversity of its workforce and further information on Hurricane's commitment to diversity and inclusion can be found in the Nominations Committee Report on page 48.

Directors' Remuneration Report continued

Directors' Remuneration Policy continued

Directors' service contracts and termination policy

The executive directors have rolling-term Service Agreements with the Group. The notice period for Dr Robert Trice, Neil Platt and Alistair Stobie is 12 months if given by the Group and six months if given by the individual. Alistair Stobie's notice period changed on 18 September 2018, from six months in either case to 12 months if given by the Group and six months if given by the individual in order to align his notice period with the other executive directors.

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 instalments until the end of the notice period at the discretion of the Group and executive directors will be expected to mitigate their loss. 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 committee will seek to ensure that there are no unjustified payments for failure. For Dr Robert Trice, Alistair Stobie, Neil Platt, where the 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 Service Agreements contain provisions enabling the Group to place the executive director on gardening leave during the period of notice.

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 Group/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 18 September 2018[1]	12/6 months

Note:

1. Alistair Stobie's notice period changed on 18 September 2018 from six months in either case to 12 months if given by the Group and six months if given by the individual.

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

When considering exit payments, the committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The table below summarises how incentive awards are typically treated in specific circumstances. Whilst the committee retains overall discretion on determining good leaver status, it typically defines a good leaver in circumstances such as death, redundancy, injury, ill health or disability, retirement with the agreement of the Company and personal circumstances affecting immediate family preventing the individual working for the Company. Other leavers may include those leaving employment for any other reason as well as those leaving due to misconduct, wilful failure to perform duties and any action that would entitle the Company to terminate employment without notice or payment in lieu of notice:

Component	Good leaver reasons	Other leaver reasons	Change of control
Annual bonus	Paid at the same time as continuing employees, to the extent that the performance conditions are achieved and pro-rating for the proportion of the financial year served, unless the committee determines otherwise.	No bonus payable unless the committee determines otherwise (as set out above).	Paid immediately on the effective date of change of control, subject to the achievement of the performance conditions and pro-rated for the proportion of the year served to the date of change of control, unless the committee determines otherwise.
Deferred bonus	Awards continue until the normal vesting date, or may vest earlier at the discretion of the committee.	Outstanding share awards lapse.	Vests immediately in full on the effective date of change of control.
VCP	Growth shares continue as normal but are pro-rated for time in employment.	Individual must sell growth shares to Hurricane for nominal value and will not receive any value from the VCP.	Vests immediately in full on the effective date of change of control, according to the normal performance conditions for a maturity event.
SIP	For all-employee HMRC registered plans, leavers will not be eligible for any further share awards and will be treated in accordance with the plan rules approved by HMRC. Any contributions which have not been used to buy Partnership Shares will be returned to the individual.		

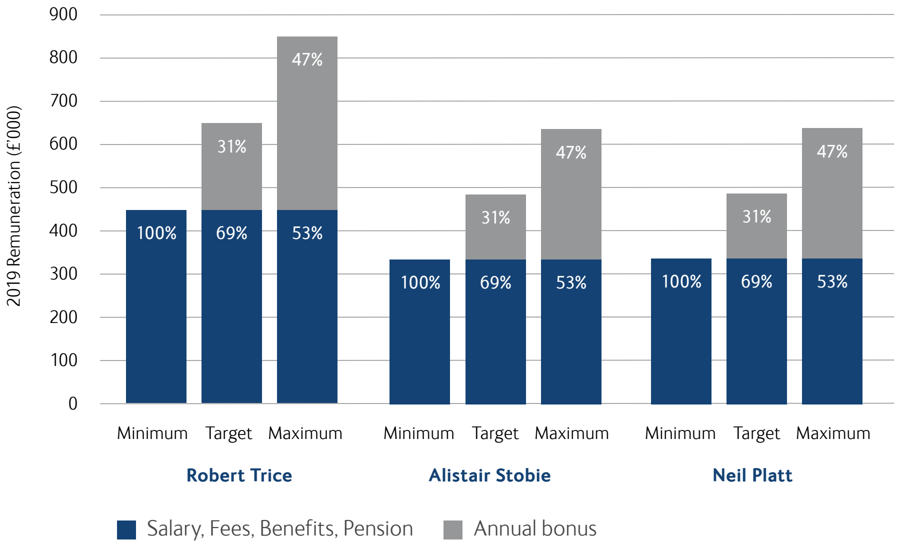
The committee reserves the right to make any other payments in connection with termination of employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payment may include, but is not limited to, paying reasonable fees for outplacement assistance and/or the director's legal or professional advice fees in connection with his cessation of office or employment.

External appointments

The executive directors are restricted under the terms of their Service Agreements from assuming any responsibilities or duties in any person without 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. The Policy is for the individual to retain any fee earned in relation to an external appointment.

Amounts executive directors could earn under the Remuneration Policy

The charts below outline how much the CEO, COO and CFO could earn under the Company's Remuneration Policy based on their salaries as at 1 January 2019.



Note:

1. Minimum Performance includes only base salary, benefits and cash in lieu of pension.
2. Cash bonus for on-target performance for 2019 is set at 50% of salary with a maximum of 100% for stretch targets.
3. 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 at the end of its five year term (as described on pages 55 and 56 of the 2017 Annual Report and Group Financial Statements) 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 on page 66.

Chairman and non-executive directors' fees and letters of appointment

Fees for the Chairman are determined by the Remuneration Committee, and fees for non-executive directors are determined by the Chairman and executive directors.

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Fees	To recruit and retain non-executive directors of a suitable calibre for the role and duties required.	Fees are normally reviewed annually, taking into account the time commitment required, the responsibilities assumed and comparative market rates. Fees are paid in monthly instalments and may be paid in cash and/or shares. The Chairman receives a total annual fee in respect of Board duties. Non-executive directors receive an annual Board fee, and may receive additional fees for extra responsibilities undertaken, such as for chairing a committee or for the role of Senior Independent director. The Company retains the flexibility to pay fees for the membership of committees. In exceptional circumstances, fees may also be paid for additional time spent on the Company's business outside of normal duties. Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon. Non-executive directors do not participate in any variable remuneration or receive any benefits.	Details of the current fee levels are set out in the Annual Report on Remuneration on page 53. The fee levels are subject to the maximum limits set out in the Articles of Association.	Not applicable.

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 with no compensation in the event of such termination, other than accrued fees and expenses. 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. No director plays a part in any decision about their own remuneration.

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.

Directors' Remuneration Report continued

Directors' Remuneration Policy continued

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 1,990,728,053. 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 42 million Ordinary Shares would be issuable under the VCP and 18 million would be issuable under the PSPs. This would result in the total Ordinary Shares outstanding being 2,049,851,800. 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 28 March 2019 (the date of release of our annual results), at precisely the hurdle price of £0.65. To demonstrate a maximum possible payout 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 2,506,551,838. A transaction as described above at £0.65 per share would therefore value the Company's ordinary shares at £1,629 million, or £777 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 100 million Ordinary Shares would be issuable under the VCP and 35 million would be issuable under the PSPs.

This would result in the total Ordinary Shares outstanding being 2,641,980,023. Total shares issued under the VCP and PSP would represent around 5.1% 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

In making decisions on executive director remuneration, the committee considers pay and conditions of other employees across the Company. The Company does not consult with employees on executive remuneration; however, it does consider any informal feedback received. 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 policy and practice with regard to the remuneration of senior executives below the Board is broadly consistent with that for the executive directors. A number of key senior executives below Board level participate in the VCP in addition to the current executive directors, while others are eligible to participate in a PSP based on similar performance conditions.

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. All employees are eligible to participate in the Company's annual bonus scheme and Share Incentive Plan, with a voluntary package of benefits available. Pension arrangements are aligned across all employees including executive directors.

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 ten-year period), and the committee reviews the position before any proposed grant to ensure this limit is not breached.

The existing share options and PSP awards granted under the Company's share option and PSP schemes to date equated to less than 2.0% of the current issued Ordinary Shares of the Company at the end of the year in review (2017: 0.4%). In certain hypothetical scenarios, the VCP, taken together with the share options and PSP awards granted under the Company's schemes to date, may impact on the dilution limit. There are, however, overriding restrictions under all share plans of the Group to ensure the 10% limit is not breached.

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.

This section of the report has been prepared on a voluntary basis to be consistent with the remuneration reports prepared by Premium listed companies.

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 2018 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 J.P. 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 Partner of Kerogen Capital, having joined the firm in 2011. Prior to this he spent around 9 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 \$60,911,000 (2017: \$7,004,000). The directors do not recommend the payment of a dividend.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Strategic Report. The financial position of the Group, its cash flows, and liquidity position are described in the Chief Financial Officer's review and set out in the Group Financial Statements. Further details of the Group's commitments are set out in note 25 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 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 24.

Certain information in the Strategic report

The following items are set out in the Strategic Report on pages 1 to 35: particulars of important events affecting the Group which have occurred since 31 December 2018; 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 27 of the Group Financial Statements.

Annual General Meeting (AGM)

The Company's AGM will be held on 5 June 2019. The Notice of Annual General Meeting 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 or 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 2018 and 27 March 2019, 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 2018	Change in Percentage notified as at 27 Mar 2019
Kerogen Investments No. 18 Limited	21.9%	Nil
Pelham Capital Limited	6.2%	Nil
Crystal Amber Fund Limited	5.0%	(0.1%)

Directors' Report continued

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 publicised on the Company's website after the meeting.

Political donations
No political donations were made in 2018.

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 2019 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 elected to prepare the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and 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.

In preparing the Parent Company Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- follow applicable UK Accounting Standards (except where any departures from this requirement are explained in the notes to the Parent Company Financial Statements); and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the 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 the relevant financial reporting framework, 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 27 March 2019 and signed on its behalf by:

Dr Robert Trice
Chief Executive Officer
27 March 2019

Alistair Stobie
Chief Financial Officer
27 March 2019

Opinion

In our opinion:

- the financial statements of Hurricane Energy plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 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 United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements 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 cash flow statement; and
- the related notes 1 to 27 in respect of the group and 1 to 6 in respect of the parent company.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters	The key audit matters that we identified in the current year were: • recoverability of the Lancaster field; • recoverability of Exploration & Evaluation (E&E) assets; and • going concern. Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
Materiality	The materiality that we used for the group financial statements was \$10 million which was determined on the basis of 1.6% of group net assets.
Scoping	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.
Significant changes in our approach	There have been no significant changes in our audit approach compared to the prior year with the exception of the addition of going concern as a key audit matter.

Independent Auditor's Report continued

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the directors' statement in note 2.3 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 parent 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 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 parent 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 20 to 23 that describe the principal risks and explain how they are being managed or mitigated; • the directors' confirmation on page 20 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 pages 24 and 25 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 confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

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.

The matters outlined below are consistent with those in the prior year, with the following exceptions: (a) convertible bond accounting is no longer considered to represent a key audit matter as there were no developments in the current year that required any changes to the accounting judgement and valuation methodology applied in the prior year; and (b) going concern has been included as a key audit matter in the current year, for the reasons outlined below.

Recoverability of the Lancaster field

Key audit matter description	The Lancaster asset remains Hurricane's primary focus in the near term and is in the final stages of development with First Oil expected to occur within the first half of 2019. The Lancaster asset is held within Property, Plant and Equipment ("PP&E") and had a carrying value of $728 million (2017: $445 million) at 31 December 2018. PP&E balances are subject to impairment considerations under IAS 36 – Impairment of Assets ("IAS 36"). Under IAS 36, management is required to consider if there are any indicators of impairment. If an impairment indicator exists an impairment test, which compares carrying value to the asset's recoverable amount, being the higher of value in use and fair value less cost to sell, is required to be carried out. This is considered a key audit matter due to the significant judgements involved in the identification of impairment indicators under IAS 36. Due to the importance of the Lancaster field to the group and the judgemental nature of the impairment indicator assessment, we have also determined that there was a potential for fraud through possible manipulation of this balance. In the prior year, management conducted an impairment test at the date Lancaster was reclassified from an E&E asset to PP&E and concluded that no impairment was required. In the current year, in order to assess whether any impairment indicators existed at 31 December 2018, management has considered the triggers for impairment included in IAS 36 and concluded that no such triggers have arisen. Accordingly, they have not carried out a further impairment test on the Lancaster asset. Further details of the approach adopted by management in this area are provided in notes 3 and 11 of the Financial Statements and in the Audit and Risk Committee Chairman's Report on page 45.

Key audit matters continued

Recoverability of the Lancaster field continued

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

Our procedures included:

- held discussions with senior financial and technical management to understand the status of the Lancaster Early Production System ("EPS") development and whether the unsuccessful hook-up attempts of the floating production, storage and offloading vessel in early 2019 have any significant impact on the asset's recoverable amount;
- confirmed that were no indications of any changes in the 2P reserves associated with the Lancaster EPS during the current year, noting that there have been no updated reserve reports from the company's independent reservoir engineer nor any drilling activities that might necessitate any reserve revisions;
- compared the company's latest estimates for the Lancaster EPS development costs with those included in the prior year impairment test;
- read the licence agreement for this field and confirmed that all requirements will have been complied with if, as expected, first oil is reached at Lancaster before November 2019;
- considered changes in the macro economic environment during the current year, such as oil prices and discount rate, to assess if there have been any adverse developments which would indicate a potential impairment;
- considered whether the recoverable amount of Lancaster would be significantly impacted in the event of a "no deal" Brexit;
- obtained the latest version of the company's corporate cash flow model, extracted the elements of the model that relate to Lancaster and used this to independently derive a high level estimate of the value in use of the field, utilising the post-tax discount rate of 10% that was used in the 2017 impairment test, and compared this to the asset's carrying value; and
- confirmed that the market capitalisation of the company at 31 December 2018 was significantly in excess of its net assets at that date.

Key observations

We are satisfied that there are no impairment indicators for the Lancaster Field.

Recoverability of Exploration & Evaluation assets

Key audit matter description

The total value of the group's E&E assets at 31 December 2018 was $132 million (2017: $126 million). E&E assets are assessed by management for impairment at least annually. This is considered a key audit matter due to the significant judgements involved in assessing whether there have been any indicators of impairment under IFRS 6 "Exploration for and evaluation of mineral resources".

Management assessed whether there are any indicators of impairment of the group's E&E assets by reference to IFRS 6. Such indicators include:

- The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- 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.
- 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.

Management has concluded that there have been no impairment indicators for its E&E assets. In reaching this conclusion they have concluded that, although the licence that holds the Whirlwind and Lincoln assets (with a combined carrying value at 31 December 2018 of $97 million (2017: $93 million)) is due to expire in December 2019, they expect this licence to be renewed. Formal discussions with the UK regulatory authorities in this regard are not anticipated to commence until the second half of 2019.

Further details of the approach adopted by management in this area are provided in notes 3 and 12 of the Financial Statements and in the Audit and Risk Committee Chairman's Report on page 44.

Independent Auditor's Report continued

Key audit matters continued

Recoverability of Exploration & Evaluation assets continued	
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; • reading the licence agreements for each of the assets, confirming that all commitments have been met and identifying any licences that are at or near to expiry; and • challenging the basis on which management anticipates being able to renew the licence which holds the Whirlwind and Lincoln assets by understanding the licence renewal process and future intentions for each licence.
Key observations	We are satisfied that there are no impairment indicators for the group's E&E assets.

Going Concern	
Key audit matter description	The group has no source of operating revenue prior to first oil from the Lancaster EPS and is therefore dependent on existing funds to meet overheads and expenditure for the development of the Lancaster EPS and to further appraise the group's E&E portfolio. In particular, the group's ability to meet its financial liabilities as they fall due during the next 12 months is dependent on, in particular, first oil being successfully achieved on the Lancaster EPS in the first half of 2019, or shortly thereafter, and their ability to achieve this is subject to a number of operational uncertainties, a number of which are at least partially dependent on weather conditions and hence not directly within management's control. Accordingly, we considered the appropriateness of the going concern assumption and the adequacy of management's disclosure to be a key audit matter. Management has prepared a base case cash flow forecast for a period of at least 12 months from the date of approval of the financial statements and also considered a number of downside scenarios. The base case forecast assumes first oil from the Lancaster EPS is achieved in the first half of 2019. Based on this, management has concluded that the going concern basis of accounting is appropriate. Further details of the approach adopted by management in this area are provided in the going concern section of note 2 of the Financial Statements and in the Audit and Risk Committee Chairman's Report on page 44.
How the scope of our audit responded to the key audit matter	Our procedures included: • obtained management's cash flow forecasts for a period of 12 months from the date of approval of the financial statements and compared these to the Board-approved budget; • challenged the key assumptions used in management's base case model, in particular the timing of first oil at Lancaster and subsequent production rates, by holding discussions with senior operational management and reviewing supporting documentation; • discussed the remaining risks to achieving first oil with both management and senior representatives from the third party contractor with responsibility for the majority of the remaining activities; • compared the oil price assumptions to third party forecasts and publicly available forward curves; • considered the impact of a "no deal" Brexit on the cash flow forecasts; • assessed the historical accuracy of budgets prepared by management; • tested the mechanical accuracy of the cash forecast model; • considered the adequacy of management's downside scenarios and ran an additional downside sensitivity which considered the aggregate impact of a delay in Lancaster first oil and, following first oil, reductions in oil price and production rates; and • considered whether the disclosures relating to going concern are appropriate.

Key audit matters continued

Going Concern continued

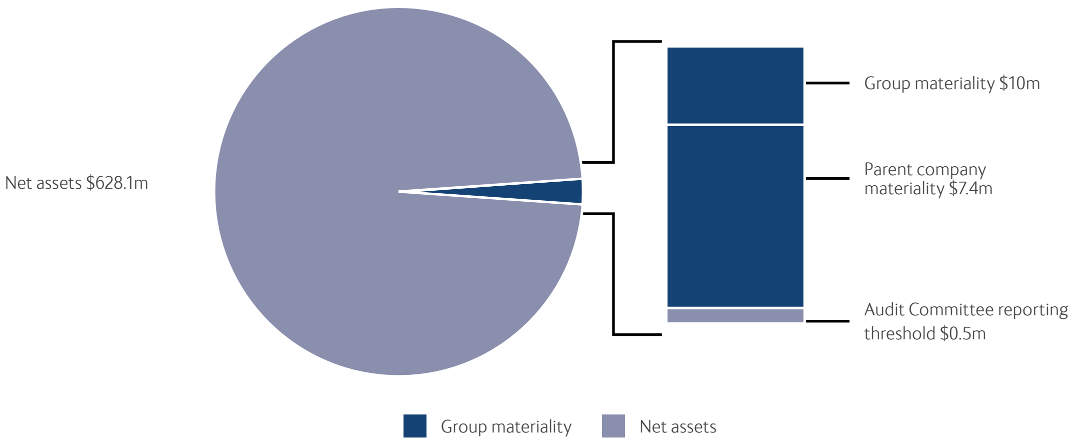
Key observations	Based on the forecasts prepared by management, we are satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

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
Materiality	$10 million (2017: $10 million)	$7.4 million (2017: $7.8 million)
Basis for determining materiality	1.6% (2017: 1.5%) of net assets	1.5% (2017: 1.5%) of net assets
Rationale for the benchmark applied	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 (2017: $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.

Independent Auditor's Report continued

Other information

We have nothing to report in respect of these matters.

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.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Report on other legal and regulatory requirements continued

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 provisions of 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.

We have nothing to report in respect of this matter.

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/or those matters we have expressly agreed to report to them on in our engagement letter 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.

David Paterson ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Deloitte UK
27 March 2019

Group Statement of Comprehensive Income
for the year ended 31 December 2018

	Notes	**Year ended 31 Dec 2018 $'000**	Year ended 31 Dec 2017 $'000
Write-off and impairment of intangible exploration and evaluation assets	12	**—**	(10,412)
Other operating expenses		**(12,660)**	(14,586)
Operating loss	6	**(12,660)**	(24,998)
Interest income	7	**3,152**	880
Foreign exchange (losses)/gains		**(5,329)**	8,020
Finance costs	7	**(1,869)**	(1,322)
Fair value (loss)/gain on derivative financial instruments	24	**(42,374)**	10,416
Loss on liquidation of subsidiary	21.4	**(1,831)**	—
Loss before tax		**(60,911)**	(7,004)
Tax	9	**—**	—
Loss for the year		**(60,911)**	(7,004)
Cumulative foreign exchange differences recycled to Income Statement on liquidation of subsidiary	21.4	**1,831**	—
Total comprehensive loss for the year		**(59,080)**	(7,004)
		Cents	Cents
Loss per share (basic and diluted)	10	**(3.11)**	(0.46)

All results arise from continuing operations.

Group Balance Sheet

as at 31 December 2018

Registered company number: 05245689

	Notes	31 Dec 2018 $'000	31 Dec 2017 $'000
Non-current assets			
Property, plant and equipment	11	**728,171**	445,291
Intangible exploration and evaluation assets	12	**131,526**	126,365
Other non-current assets	17	**24,298**	16,089
Other receivables	13	**191**	202
		884,186	587,947
Current assets			
Inventory	15	**4,571**	1,434
Trade and other receivables	16	**2,565**	4,737
Liquid investments	17	—	201,973
Cash and cash equivalents	17	**98,864**	141,956
		106,000	350,100
Total assets		**990,186**	938,047
Current liabilities			
Trade and other payables	18	**(55,064)**	(28,833)
Derivative financial instruments	24.6	—	(11)
		(55,064)	(28,844)
Non-current liabilities			
Convertible loan liability	19	**(198,364)**	(191,102)
Derivative financial instruments	24.5	**(71,007)**	(28,622)
Decommissioning provisions	20	**(37,657)**	(7,023)
		(307,028)	(226,747)
Total liabilities		**(362,092)**	(255,591)
Net assets		**628,094**	682,456
Equity			
Share capital	21.1	**2,843**	2,843
Share premium		**813,681**	813,496
Share option reserve	21.2	**24,067**	19,477
Own shares reserve	21.3	**(380)**	(323)
Foreign exchange reserve	21.4	**(90,828)**	(92,659)
Accumulated deficit		**(121,289)**	(60,378)
Total equity		**628,094**	682,456

The Financial Statements of Hurricane Energy plc were approved by the Board and authorised for issue on 27 March 2019. They were signed on its behalf by:

Dr Robert Trice
Chief Executive Officer

Alistair Stobie
Chief Financial Officer

Group Statement of Changes in Equity
for the year ended 31 December 2018

	Share capital $'000	Share premium $'000	Share option reserve $'000	Own shares reserve $'000	Foreign exchange reserve $'000	Accumulated deficit $'000	Total $'000
At 1 January 2017	1,860	508,510	15,648	(366)	(92,659)	(53,374)	379,619
Loss for the period	—	—	—	—	—	(7,004)	(7,004)
Shares allotted	983	319,873	—	—	—	—	320,856
Transaction costs	—	(14,887)	—	—	—	—	(14,887)
Share-based payments	—	—	3,829	—	—	—	3,829
Net release of own shares held in SIP Trust	—	—	—	43	—	—	43
At 31 December 2017	2,843	813,496	19,477	(323)	(92,659)	(60,378)	682,456
Loss for the period	—	—	—	—	—	**(60,911)**	**(60,911)**
Other comprehensive income	—	—	—	—	**1,831**	—	**1,831**
Total comprehensive loss for the period	—	—	—	—	**1,831**	**(60,911)**	**(59,080)**
Shares allotted	—	**185**	—	—	—	—	**185**
Share-based payments	—	—	**4,590**	—	—	—	**4,590**
Net purchase of own shares held in SIP Trust	—	—	—	**(57)**	—	—	**(57)**
At 31 December 2018	**2,843**	**813,681**	**24,067**	**(380)**	**(90,828)**	**(121,289)**	**628,094**

Group Cash Flow Statement
for the year ended 31 December 2018

	Notes	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
Net cash outflow from operating activities	23	**(4,445)**	(8,088)
Investing activities			
Interest received		**3,152**	885
Decrease/(increase) in liquid investments		**180,642**	(201,973)
Expenditure on property, plant and equipment – oil and gas properties		**(205,319)**	(85,004)
Expenditure on property, plant and equipment – other fixed assets		**(343)**	(58)
Expenditure on intangible exploration and evaluation assets		**(4,217)**	(180,612)
Expenditure on inventory		**(3,137)**	(991)
Net cash used in investing activities		**(29,222)**	(467,753)
Financing activities			
Convertible Bond interest paid	19	**(17,250)**	(4,313)
Bank charges		**(17)**	(15)
Net proceeds from borrowings	19	**—**	223,095
Additional borrowing transaction costs	19	**—**	(303)
Net proceeds from issue of share capital and warrants	21.1	**49**	313,895
Additional equity issue transaction costs	21.1	**—**	(7,976)
Net cash (used in)/from financing activities		**(17,218)**	524,383
Net (decrease)/increase in cash and cash equivalents		**(50,885)**	48,542
Cash and cash equivalents at the beginning of the period		**158,045**	101,482
(Decrease)/increase in cash and cash equivalents		**(50,885)**	48,542
Effects of foreign exchange rate changes		**(5,329)**	8,021
Cash and cash equivalents at the end of the period	17	**101,831**	158,045

Notes to the Group Financial Statements
for the year ended 31 December 2018

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 Group's principal activity is the exploration and development of oil and gas reserves principally on the UK Continental Shelf.

1.1. New and amended standards adopted by the Group
In the current year, the following accounting standards became effective and have been adopted in these Financial Statements but have not materially affected either the Group's accounting policies or the amounts reported in these Financial Statements in either the current or prior year:

- IFRS 9 'Financial Instruments'; and
- IFRS 15 'Revenue from Contracts with Customers'.

The Group has also applied a number of amendments to other IFRS and interpretations that became effective from 1 January 2018, but their adoption has not had any material impact on the disclosures or on the amounts reported in the Financial Statements.

1.2. New and amended standards not yet effective or adopted by the Group
IFRS 16 'Leases' will become effective for the Group from 1 January 2019. There are no other standards, amendments or interpretations not yet effective that are expected to have a material impact on the Group's Financial Statements in the current or future reporting periods or on foreseeable future transactions.

1.2.1. IFRS 16 'Leases'
IFRS 16 'Leases' supersedes IAS 17 'Leases', the core principle of the standard being 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. Upon application of IFRS 16, the Group will recognise right-of-use assets and lease liabilities on the Balance Sheet (initially measured at the present value of the future lease payments), and will recognise depreciation of the right-of-use assets and interest on the lease liabilities in profit and loss. Cash flows relating to lease payments will be presented within financing activities (currently operating activities), split between portions relating to the principal and interest.

The Group intends to adopt the standard using the simplified transition approach and will not restate comparative amounts for the year prior to adoption.

As disclosed in note 25.2, the Group has undiscounted non-cancellable operating lease commitments of $4.2 million as at 31 December 2018 relating to office property leases. Payments for future use of the Aoka Mizu FPSO are contingent on first oil being achieved and are therefore not recognised as a non-cancellable operating lease commitment at that date. The undiscounted expected future minimum rental payments of $127.9 million are disclosed as an 'other commitment' in note 25.3.

In respect of the Aoka Mizu FPSO, the Group expects to recognise a right-of-use asset and lease liability of approximately $90–$100 million upon commencement of the lease (at first oil). The impact on profit and loss for 2019 will depend on both the timing of first oil being reached, and oil production achieved (as the right-of-use asset will be depreciated on a unit-of-production basis). If the lease had commenced on 1 January 2019, it is estimated that the impact on profit and loss for 2019 would be to recognise a depreciation charge of approximately $14 million and a finance cost of approximately $9 million.

In respect of office properties, the Group expects to recognise right-of-use assets of approximately $2.8 million and lease liabilities of approximately $3.3 million. The expected impact on profit and loss for 2019 is to decrease other operating expenses by $0.2 million (being a $0.5 million operating lease rental expense decrease offset by a $0.3 million depreciation charge increase) and to increase finance costs by $0.2 million. Cash outflow from operating activities would decrease by $0.5 million with net cash used in financing activities increased by the same amount. The impact of deferred tax on adoption is not expected to be material.

The Group does not have any activities as a lessor.

2. Significant accounting policies
2.1. Basis of preparation
The Financial Statements have been prepared under the historical cost convention (except for derivative financial instruments which have been measured at fair value) in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), and in accordance with the requirements of the AIM Rules.

The Group Statement of Comprehensive Income and related notes represent results from continuing operations, there being no discontinued operations in the years presented.

2.2. Foreign currency translation
These consolidated Financial Statements are presented in US Dollars, which is the Company's functional and presentation currency, and rounded to the nearest thousand unless otherwise stated. The functional currency is the currency of the primary economic environment in which the Group operates, as a significant proportion of expenditure, and the majority of future expected revenue, is priced in US Dollars. All entities within the Group, except for dormant entities, have a US Dollar functional currency.

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.

2. Significant accounting policies continued

2.2. Foreign currency translation continued

The principal rates of exchange used were:

Pound Sterling/US Dollar	31 Dec 2018	31 Dec 2017
Year-end rate	**0.79**	0.74
Average rate	**0.75**	0.78

Upon disposal or liquidation of a subsidiary, any cumulative exchange differences recognised in equity as a result of previous changes in the functional currency of that subsidiary are recycled to the Income Statement.

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 note 3.1, the going concern section of the Directors' Report and within the Group's Strategic Report on page 24.

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 returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

All intragroup transactions, balances, income and expenses are eliminated on consolidation.

The Group's joint arrangement with Spirit Energy Limited (Spirit) is accounted for as a joint operation (where the parties have rights to the assets and obligations for the liabilities of that arrangement). As such, in relation to its interests in the joint operation, the Group recognises its assets, liabilities, revenues and expenses of the joint operation, including its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the Financial Statements under the relevant headings. Details of this joint operation are set out in note 14.

2.5. Revenue

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 and 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 and a field development plan has been approved, 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 test before reclassification). Subsequent development costs in respect of the reserves are capitalised within oil and gas properties.

If there are indicators of impairment (examples of which include the expiry or expected non-renewal of a licence; a lack of planned or budgeted substantive expenditure for a particular field; insufficient commercially viable reserves resulting in a discontinuation of development; and data existing which indicates that the carrying amount of an asset is unlikely to be fully recovered either from successful development or sale), 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, production and future costs) and its estimated fair value less costs to sell. Capitalised costs which are subsequently written off are classified as operating expenses.

Notes to the Group Financial Statements continued
for the year ended 31 December 2018

2. Significant accounting policies continued

2.7. Intangible exploration and evaluation expenditure continued

The Group may enter into farm-out arrangements, whereby it assigns an interest in reserves and future production to another party (the farmee). For farm-outs of assets that are in the exploration and evaluation stage, the Group does not recognise any consideration in respect of the farmee's committed or expected carry but continues to hold its remaining interest at the previous cost of the full interest, less any cash consideration received from the farmee upon entering the arrangement.

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, borrowing 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

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a specific identification basis, including the cost of direct materials and (where applicable) direct labour and proportion of overhead expenses. Net realisable value is determined by an estimate of the price that could be realised through resale or scrap of an item based on its condition at the balance sheet date.

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 either the related exploration and evaluation asset or property, plant and equipment as appropriate. 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 recognised within finance costs.

2.11. 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.

From time to time, entities within the Group may be entitled to claim tax deductions in relation to qualifying expenditure, such as the UK's research and development tax incentive regime. Such allowances are accounted for as tax credits, reducing income tax payable and current tax expense and are only recognised as current tax receivables when amounts have been agreed with the relevant tax authorities and not at the point that the claims are made. Deferred tax assets are recognised for unclaimed tax credits subject to the conditions outlined below.

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.

2. Significant accounting policies continued

2.11. Taxation continued

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.

2.12. 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 vesting conditions) at the date of grant.

The corresponding credit entry for share-based employee compensation arrangements is recognised in equity within the share option reserve.

The assumptions underlying the number of awards expected to vest are subsequently adjusted for the effects of non-market conditions to reflect the circumstances prevailing at the Balance Sheet date. Fair value is measured using statistical models. The expected vesting period used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Share Incentive Plan (SIP) Trust is a separately administered discretionary trust whose assets mainly comprise shares in the Company. Own shares held by the SIP Trust are deducted from shareholders' funds and held at historical cost until they are sold to employees to satisfy share incentive plans. The assets, liabilities, income and costs of the SIP Trust are included in both the Company's and the consolidated Financial Statements.

2.13. Financial instruments

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes party to the contractual provisions of the instrument.

2.13.1. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities, for which fair value is measured or disclosed in the Financial Statements, are categorised within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

2.13.2. Financial assets

Financial assets are initially recognised at fair value, and subsequently measured at amortised cost, less any allowances for losses using the expected credit loss model, being the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive.

Cash includes cash on hand and cash with banks and financial institutions.

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 and cash equivalents include amounts held in escrow that are contractually restricted to be used only for certain payments or transactions, and where the approval process for release of those funds is perfunctory, e.g. for dispersal to certain independent third parties for work undertaken as part of the Group's operations, or for coupon payments on the Convertible Bond. Such amounts are classified as non-current if the payment or transaction is not expected to be realised or settled within 12 months.

Liquid investments are defined as short-term investments in fixed-term deposit accounts of between three and 12 months' maturity. Funds held in liquid investments may be contractually restricted to be used only for certain payments or transactions.

2.13.3. Financial liabilities and equity instruments

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

Financial liabilities are classified as either financial liabilities at fair value through profit and loss (FVTPL) or as other financial liabilities. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged or cancelled or they expire.

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.

Notes to the Group Financial Statements continued
for the year ended 31 December 2018

2. Significant accounting policies continued

2.13. Financial instruments continued

2.13.3. Financial liabilities and equity instruments continued

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.

The component parts of compound instruments, such as convertible bonds, 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 of a convertible bond issued does not meet the definition of an equity instrument, that portion is classified as an embedded derivative and measured accordingly (see section 2.13.7 below). 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. The debt component amount is recorded as a financial liability on an amortised cost basis using the effective interest rate method until extinguished upon conversion or at the instrument's maturity date.

2.13.4. 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 or is a derivative that is not a designated or effective hedging instrument.

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

2.13.5. Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and 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.

2.13.6. 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. The Group does not currently designate any derivatives as hedging instruments.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as non-current if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Other derivatives are presented as current assets or current liabilities.

2.13.7. Embedded derivatives

Derivatives embedded in financial instruments or other host contracts that are not financial assets 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. Derivatives embedded in financial instruments or other host contracts that are financial assets are not separated; instead the entire contract is accounted for either at amortised cost or fair value as appropriate.

An embedded derivative is presented as non-current if the remaining maturity of the compound instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

2.14. 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. The amount of borrowing costs eligible to be capitalised is reduced by an amount equivalent to any interest income received on temporary reinvestment of those borrowings. 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.

2.15. 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. Contingent rentals arising are recognised as an expense in the period in which they are incurred.

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.

3.1. 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.

3.1.1. Presumption of going concern

The Group closely monitors and manages its liquidity risk, through review of cash flow forecasts. In calculating cash flow forecasts, management makes a number of judgements and estimates including the timing of first oil from the EPS, forecast capital expenditure, production rates, operational uptime, oil price, operational costs and foreign exchange rates. The cash flow forecasts are regularly produced and sensitivities run for different scenarios. In addition to the Group's operating cash flows, portfolio management opportunities are reviewed potentially to enhance the financial capacity and flexibility of the Group. The Group's forecasts, taking into account reasonably possible changes as described above, show that the Group will be able to operate and meet all commitments as they fall due and will have adequate resources to continue in operational existence for the foreseeable future (being 12 months from the date of approval of these Financial Statements). Full details of the assessment are provided in the going concern section of the Directors' Report and within the Strategic Report on page 24.

3.1.2. 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 judgement is made with reference to the impairment indicators outlined in note 2.7. The carrying values of the Group's intangible exploration and evaluation assets, alongside any related judgements made in the current year, are set out in note 12.

3.1.3. Recoverability of the Lancaster field assets

The asset balance relating to the Lancaster field held within property, plant and equipment is subject to an impairment assessment under IAS 36 'Impairment of Assets', whereby the Group is required to consider if there are any indicators of impairment. The judgement as to whether there are any indicators of impairment takes into consideration a number of internal and external factors, including: changes in estimated commercial reserves; changes in estimated future oil and gas prices; changes in estimated future capital and operating expenditure to develop and produce commercial reserves; and any indications that discount rates likely to be applied by market participants in assessing the asset's recoverable amount may have increased. In the current year, the Company has also considered the status of the Lancaster EPS, including the rate of progress towards first oil. If an impairment indicator exists an impairment test, which compares carrying value to the asset's recoverable amount (being the higher of value in use and fair value less cost to sell), is required to be carried out.

As a result of taking into account the above factors, the Group has concluded that there have been no indicators of impairment of the Lancaster PP&E asset in the current year.

3.2. 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.

3.2.1. Valuation of Convertible Bond embedded derivative

Valuation of the embedded derivative within the Convertible Bond requires a number of estimates, the most significant of which is the estimated volatility of the Hurricane Energy plc share price over the expected life of the Convertible Bond. The fair value calculations and related sensitivities for the embedded derivative are disclosed in note 24.5.

4. Operating segments

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 prior year other than interest income.

Notes to the Group Financial Statements continued
for the year ended 31 December 2018

6. Operating loss

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
Operating loss is stated after charging:		
Staff costs (note 8)	**5,714**	6,167
Operating lease rentals – land and buildings	**381**	226
Depreciation of property, plant and equipment (note 11)	**42**	22
Write-off and impairment of intangible exploration and evaluation assets (note 12)	—	10,412
Auditor's remuneration (see below)	**137**	224

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

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
Audit services		
Fees payable to the Company's auditor for:		
The audit of the Company's annual accounts	**88**	118
The audit of the Company's subsidiaries	**24**	24
	112	142
Non-audit services		
Other services pursuant to legislation – interim review	**25**	21
Corporate finance	—	61
	25	82
Total	**137**	224

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

7. Finance income and costs

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
Interest income on cash, cash equivalents and liquid investments	**3,152**	880
Finance income	**3,152**	880
Convertible Bond interest expense	**(24,512)**	(10,448)
Other interest expense	**(415)**	—
Bank charges	**(17)**	(15)
Unwinding of discount on decommissioning provisions (note 20)	**(178)**	(83)
Convertible Bond transaction costs charged to the Income Statement (note 19)	—	(1,224)
Finance costs incurred	**(25,122)**	(11,770)
Interest capitalised	**23,253**	10,448
Finance costs	**(1,869)**	(1,322)
Total net finance income/(costs)	**1,283**	(442)

8. Staff costs

	Year ended 31 Dec 2018 Number	Year ended 31 Dec 2017 Number
The average number of persons employed by the Group during the year was:		
Operations	**31**	21

	$'000	$'000
Staff costs for the above persons were:		
Wages and salaries	**7,019**	4,502
Social security costs	**1,020**	532
Share-based payment expense (note 22)	**4,669**	3,922
Pension costs	**299**	137
Total staff costs	**13,007**	9,093
Less: amounts capitalised	**(7,293)**	(2,926)
Staff costs recognised in the Income Statement	**5,714**	6,167

From January 2018, an enhanced defined contribution scheme has been offered to all employees. Prior to January 2018, the Group made contributions to employees' existing pension schemes. As at 31 December 2018, all existing employees had transferred to the Company workplace pension scheme.

Details of directors' remuneration are provided in the Directors' Remuneration Report on pages 49 to 66.

9. Tax

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
UK corporation tax		
Current tax – current year	—	—
Total current tax	—	—
Deferred tax – current year	—	—
Total deferred tax	—	—
Tax credit per Income Statement	—	—
Loss on ordinary activities before tax	**(60,911)**	(7,004)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK applicable to oil and gas companies of 40% (2017: 40%)	**(24,364)**	(2,802)
Effects of:		
Expenses not deductible for tax purposes	**1,951**	1,576
Items taxed at rates other than the standard rate of 40%	**2,391**	(2,395)
Ring fence expenditure supplement	**(17,522)**	—
Losses not recognised	**37,544**	3,621
Total tax credit for the year	—	—

Notes to the Group Financial Statements continued
for the year ended 31 December 2018

9. Tax continued

9.1. Factors which may affect future tax charges

Pre-trading capital expenditure of $89.2 million is carried forward at 31 December 2018 and tax relief will be available once FDP approval is received on the remaining licences. The Group has ring fenced trading losses of $526.5 million, non-ring fenced trading losses of $7.2 million, other deductible temporary differences of $25.5 million and pre-trading expenditure of $0.8m at 31 December 2018, which have no expiry date and would be available for offset against future taxable profits.

9.2. Deferred tax liability

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
Accelerated capital allowances	**184,440**	139,520
Other timing differences	**(1)**	1,775
Tax losses carried forward	**(184,439)**	(141,295)
Deferred tax liability	**—**	—

Tax losses of $461.0 million have been offset against deferred tax liabilities primarily related to fixed assets. A potential deferred tax asset of $31.9 million (2017: $16.1 million) on remaining losses of $99.0 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 relates to several different types of tax loss, each being calculated at a different rate, with the highest rate being that applicable to UK ring-fence profits of 40% (2017: 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 the 2016 budget, 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 recognised at 17%.

10. Earnings per share

The basic and diluted loss per share has been calculated using the loss for the year ended 31 December 2018 of $60,911,000 (2017: $7,004,000). The loss per share is calculated using a weighted average number of Ordinary Shares in issue, excluding own shares held.

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Loss after tax ($'000)	**(60,911)**	(7,004)
Basic and diluted weighted average number of Ordinary Shares in issue	**1,958,468,753**	1,538,803,716
Basic and diluted loss per share (cents)	**(3.11)**	(0.46)

The effect of the warrants and options outstanding in 2018 and 2017 was antidilutive as the Group incurred a loss. The impact of the conversion feature included within the Convertible Bond was also antidilutive in both years. The number of potential Ordinary Shares that have been excluded from the earnings per share calculation is disclosed in notes 21.1 (warrants), 22 (options) and 19 (conversion feature of the Convertible Bond).

11. Property, plant and equipment

	Oil and gas properties $'000	Other fixed assets $'000	Total $'000
Cost			
At 1 January 2017	—	995	995
Additions	109,381	58	109,439
Reclassification from intangible assets	335,856	—	335,856
At 31 December 2017	445,237	1,053	446,290
Additions	**252,673**	**343**	**253,016**
Changes to decommissioning estimates (note 20)	**29,906**	—	**29,906**
At 31 December 2018	**727,816**	**1,396**	**729,212**
Depreciation			
At 1 January 2017	—	(977)	(977)
Charge for the year	—	(22)	(22)
At 31 December 2017	—	(999)	(999)
Charge for the year	—	**(42)**	**(42)**
At 31 December 2018	—	**(1,041)**	**(1,041)**
Carrying amount at 31 December 2017	445,237	54	445,291
Carrying amount at 31 December 2018	**727,816**	**355**	**728,171**

Oil and gas properties relate solely to the Lancaster EPS. Other fixed assets comprise leasehold improvements, fixtures, office equipment and computer hardware.

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 to property, plant and equipment. Included within that transfer from intangible assets was $4,409,000 of borrowing costs that were previously capitalised within intangible exploration and evaluation assets.

Depreciation of the oil and gas properties will commence once production begins. Included within additions to oil and gas properties is $23,253,000 (2017: $6,039,000) of capitalised borrowing costs (see note 19).

12. Intangible exploration and evaluation assets

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
At 1 January	**126,365**	302,539
Additions	**4,611**	169,113
Changes to decommissioning estimates (note 20)	**550**	981
Impairment losses	—	(1,971)
Amounts written off	—	(8,441)
Reclassification to property, plant and equipment – oil and gas properties	—	(335,856)
At 31 December	**131,526**	126,365

Intangible exploration and evaluation assets comprise the cost of licence interests and exploration and evaluation expenditure within the Group's licensed acreage in the West of Shetland area. 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 plan for further exploration and evaluation activities in relation to these and the likely opportunities for realising the value of the Group's licences, either by farm-out or by development of the assets. The directors have concluded that no impairment triggers have arisen in relation to any of its exploration and evaluation expenditure in the current year. In doing so they have concluded that, although the licence that holds the Whirlwind and Lincoln assets (with a combined carrying value at 31 December 2018 of $97 million) is due to expire in December 2019, they expect this licence to be renewed.

Notes to the Group Financial Statements continued
for the year ended 31 December 2018

12. Intangible exploration and evaluation assets continued
In the prior year, the Group relinquished its licences relating to the Typhoon and Tempest fields and as such the intangible exploration and evaluation assets relating to those licences were fully written off. An impairment charge for all costs incurred to date relating to the Strathmore field was also recognised as the Group assessed it had no further plans for that field in the foreseeable future.

On 24 September 2017 approval was granted for the EPS field development. As a result, $335,856,000 of intangible assets were reclassified to oil and gas properties within property, plant and equipment.

No borrowing costs were capitalised into intangible assets in the year (2017: $4,409,000).

13. Other non-current receivables
Other non-current receivables of $191,000 (2017: $202,000) represent refundable deposits for office property leases.

14. Joint operations
In September 2018 the Group entered into a joint operation with Spirit to share costs and risks associated with the Greater Warwick Area (GWA) in exchange for granting Spirit a 50% interest in the Group's Lincoln (P1368 South) and Warwick (P2294) licences. Spirit will contribute up to $387 million of capital expenditure and operating costs, structured as:

- a full carry up to $180.6 million (gross) for phase 1 (being the current work programme: drill, log and test three exploration and appraisal wells to accelerate appraisal of the Lincoln discovery and exploration of the Warwick prospect; fund the purchase of long-lead items to allow the tie-back of one or more GWA wells to the Aoka Mizu FPSO in 2020; and carry out host modifications of the Aoka Mizu);
- subject to successful completion of phase 1 and FID taken to proceed, a 50% carry of the Group's share of up to $187.5 million (gross) for phase 2 (complete tie-back of one GWA well to the Aoka Mizu, complete host modifications of the Aoka Mizu, tie-in to the West of Shetland Pipeline system for gas export); and
- contingent further contribution of $150–$250 million in the form of a carry of Hurricane's share of GWA full field development cost, subject to reserves being developed and agreement of the GWA partners.

No upfront cash consideration was received or paid by the Group upon entering into the joint operation. The Group has been appointed as operator, until full field development workstreams commence.

15. Inventory

	31 Dec 2018 $'000	31 Dec 2017 $'000
Fuel and chemicals	**360**	—
Drilling materials and consumables	**4,211**	1,434
	4,571	1,434

16. Trade and other receivables

	31 Dec 2018 $'000	31 Dec 2017 $'000
Other receivables	**603**	4,179
Receivables due from joint operation partner	**1,746**	—
Prepayments and accrued income	**216**	558
	2,565	4,737

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.

Joint operation receivables represent expenses incurred by the Group as operator of the joint operation to be paid by the joint operation partner. They accrue interest at LIBOR and are generally due for settlement within 30 days.

The other receivables balance at 31 December 2017 included a deposit of $3.8 million paid to the Department for Business, Energy and Industrial Strategy in relation to decommissioning security for the Lancaster EPS. This deposit was repaid in 2018 when the Group funded a decommissioning security agreement (see note 17).

17. Cash and cash equivalents and liquid investments

	31 Dec 2018			31 Dec 2017		
	Restricted $'000	**Unrestricted $'000**	**Total $'000**	Restricted $'000	Unrestricted $'000	Total $'000
Current cash and cash equivalents	**15,864**	**83,000**	**98,864**	17,327	124,629	141,956
Non-current cash and equivalents	**2,967**	**—**	**2,967**	16,089	—	16,089
Cash and cash equivalents (per Cash Flow Statement)	**18,831**	**83,000**	**101,831**	33,416	124,629	158,045
Current liquid investments	**—**	**—**	**—**	—	201,973	201,973
Non-current liquid investments	**21,331**	**—**	**21,331**	—	—	—
Total cash and cash equivalents and liquid investments	**40,162**	**83,000**	**123,162**	33,416	326,602	360,018

Current restricted cash and cash equivalents represent amounts 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 can only be withdrawn on the consent of both the relevant third party and the Company.

At 31 December 2018 $2,967,000 (2017: $3,151,000) of the non-current restricted cash and cash equivalents is held in escrow for future expected costs associated with the Group's decommissioning obligations. In 2017 $12,938,000 of the non-current restricted funds were held in escrow relating to coupon payments (due in more than one year) under the terms of the Convertible Bond. Non-current restricted funds are included in the Balance Sheet in other non-current assets.

The non-current restricted liquid investment balance at 31 December 2018 represents cash held in trust under a decommissioning security agreement for the Lancaster EPS. Non-current liquid investments are included in the Balance Sheet in other non-current assets.

18. Trade and other payables

	31 Dec 2018 $'000	31 Dec 2017 $'000
Trade payables	**21,275**	1,030
Other payables	**932**	159
Accruals	**32,857**	27,644
	55,064	28,833

The carrying amounts of trade and other payables are considered to be materially equivalent to their fair values and are unsecured. The majority of trade payables at 31 December 2018 are due to one of the Group's Tier 1 contractors, accrue interest at 7% per annum and are payable in September 2019. All other trade and other payables are non-interest bearing and generally payable within 30 days.

Trade and other payables include the Group's share of joint operation payables, including amounts that the Group settles on behalf of joint operation partners.

19. 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). The number of potential Ordinary Shares that could be issued if all the Convertible Bonds were converted is 442,307,692 (assuming conversion at the initial conversion price of $0.52). 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 $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

Notes to the Group Financial Statements continued
for the year ended 31 December 2018

19. Borrowings continued

– 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 as the bonds can be settled by the Group in cash and hence does not meet the 'fixed for fixed' criteria outlined in IAS 32 for recognition as an equity instrument. 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 maturity. The effective interest rate applicable to the debt component is 13.5%.

The amounts recognised in the Financial Statements related to the Convertible Bond, being all liabilities arising from financing activities, are as follows:

	Debt component $'000	Derivative component $'000	Total $'000
At 1 January 2017	—	—	—
Gross proceeds from issue of Convertible Bond	190,951	39,049	230,000
Transaction costs paid	(5,984)	(1,224)	(7,208)
Net proceeds from issue of Convertible Bond	184,967	37,825	222,792
Cash interest paid	(4,313)	—	(4,313)
Fair value gains	—	(10,427)	(10,427)
Interest charged (note 7)	10,448	—	10,448
Transaction costs expensed	—	1,224	1,224
At 31 December 2017	191,102	28,622	219,724
Cash interest paid	**(17,250)**	—	**(17,250)**
Fair value losses	—	**42,385**	**42,385**
Interest charged (note 7)	**24,512**	—	**24,512**
At 31 December 2018	**198,364**	**71,007**	**269,371**

Of the $7,208,000 transaction costs paid, $6,905,000 was settled directly from the gross proceeds.

20. Decommissioning provisions

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
At 1 January	**7,023**	5,959
New provisions and changes in estimates	**30,456**	981
Unwinding of discount	**178**	83
At 31 December	**37,657**	7,023

The provision for decommissioning relates to the costs required to decommission the suspended wells previously drilled on the Lancaster, Whirlwind and Halifax exploration assets and the costs required to decommission the Lancaster EPS installation as at 31 December 2018. The expected decommissioning costs for these assets is based on the directors' best estimate of the cost of decommissioning the assets at the end of 2025 discounted at 1.09% per annum (2017: 1.31%). New provisions in the current year primarily relate to the work completed in 2018 in relation to the EPS installation on the Lancaster asset. Of the total new provisions and changes in estimates in the year, $29,906,000 has been recorded as additions to property plant and equipment – oil and gas properties and $550,000 as additions to intangible exploration and evaluation assets.

21. Capital and reserves

21.1. Share capital

The Company has one class of Ordinary Share, which has a par value of £0.001. The rights and obligations of holders of Ordinary Shares are disclosed in the Directors' Report on page 67. The Company does not have an authorised share capital.

Shares allotted, called up and fully paid:

	Ordinary Shares	Year ended 31 Dec 2018 $'000	Ordinary Shares	Year ended 31 Dec 2017 $'000
At 1 January	**1,959,210,336**	**2,843**	1,202,860,397	1,860
Shares issued under warrants (at £0.52 per share)	—	—	25,000,000	25
Shares issued under placing (at £0.32 per share)	—	—	731,222,213	958
Shares issued to SIP (note 21.3)	**341,301**	—	127,726	—
At 31 December	**1,959,551,637**	**2,843**	1,959,210,336	2,843

Total transaction costs relating to the issue of shares in 2017 was $14,887,000, of which $6,911,000 was settled directly from the gross proceeds of $320,806,000.

As part of its 2016 fundraising programme, the Group issued warrants to Crystal Amber to subscribe for up to 23,333,333 Ordinary Shares at a price of £0.20 per share. These warrants expire in May 2019. If the warrants are exercised, Kerogen Capital is entitled to subscribe for up to such number of Ordinary Shares, also at a price of £0.20 per share, as will result in it holding the same percentage share capital of the Company as it held prior to those warrants being exercised.

21.2. Share option reserve

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 (see note 22).

21.3. Own shares reserve

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.

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
At 1 January	**323**	366
Cost of shares acquired	**136**	50
Cost of shares vesting to employees	**(79)**	(93)
At 31 December	**380**	323

During January 2018 the SIP acquired 341,301 new Ordinary Shares in the Company of £0.001 nominal value (2017: 127,726) at a price of £0.39 per share (2017: £0.49 per share), all of which were allocated to participants. At 31 December 2018 there were 1,963,624 Ordinary Shares held in the SIP Trust (2017: 1,512,778). All of these shares were allocated to participants (2017: all allocated).

21.4. Foreign exchange reserve

The foreign exchange reserve arose from the change in the Company's functional and presentation currency from Pounds Sterling to US Dollars on 1 January 2017. During the year a Group subsidiary entered voluntary liquidation. The foreign exchange reserve balance of that subsidiary ($1,831,000) was recycled to profit and loss as, upon appointment of the liquidator, the entity was deemed to be fully disposed.

22. Equity-settled compensation agreements

The Group operates a number of share-based payment plans, including several Performance Share Plans (PSPs), the Value Creation Plan (VCP), the Company's HMRC-approved SIP and share option awards. The Group recognised a total expense of $4,669,000 in respect of share-based payments in 2018 (2017: $3,922,000).

Details of the agreements that have had a material impact on the Financial Statements are set out below.

Notes to the Group Financial Statements continued
for the year ended 31 December 2018

22. Equity-settled compensation agreements continued

22.1. PSP awards

	Year ended 31 Dec 2018 Number of awards	Year ended 31 Dec 2017 Number of awards
Outstanding at 1 January	**6,233,353**	8,930,354
Granted	**24,515,250**	—
Forfeited/lapsed	**(2,516,734)**	(2,697,001)
Outstanding at 31 December	**28,231,869**	6,233,353

Under the Hurricane Energy 2013 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 over the next three years.

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

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.

During 2018, 24,515,250 conditional rights to receive Ordinary Shares at nil cost were granted to eligible new employees under the Hurricane Energy 2017 PSP. The share awards vest based on the same conditions as the VCP.

22.2. Share options

There are two tranches of share options that remain outstanding at 31 December 2018. Both tranches vested either on or before IPO. All other share options and long-term incentive plan awards were replaced by the PSP. As at 31 December 2018 the number of options that remained outstanding was 780,000 (2017: 780,000). The weighted average exercise price for these options was £0.55 (2017: £0.55). All outstanding options are exercisable. The options outstanding at 31 December 2018 had a weighted average remaining contractual life of one year (2017: two 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, with the remaining 500,000 lapsing 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, with the remaining 280,000 lapsing in December 2020.

22.3. Value Creation Plan

In November 2016 the Group introduced the 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) share price 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 its assessment of the various non-market-based performance conditions. If the assumed vesting period was shortened by one year, the additional charge per year would be approximately $2.9 million.

Those employees or directors who entered the VCP were required to forfeit any PSPs held at that time. Further details of the VCP can be found on page 61 in the Directors' Remuneration Report.

23. Reconciliation of operating loss to net cashflow from operating activities

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
Operating loss	**(12,660)**	(24,998)
Adjustments for:		
Depreciation of property, plant and equipment	**42**	22
Write-off and impairment of intangible exploration and evaluation assets	**—**	10,412
Share-based payment charge	**4,669**	3,922
Operating cash outflow before working capital movements	**(7,949)**	(10,642)
Decrease/(increase) in receivables	**2,182**	(3,370)
Increase in payables	**1,322**	64
Cash used in operating activities	**(4,445)**	(13,948)
Research and development tax credit received	**—**	5,860
Net cash outflow from operating activities	**(4,445)**	(8,088)

24. Financial instruments and financial risk management

The Group monitors and manages the financial risks relating to its operations on a continuous basis. These include market risk, liquidity risk and credit risk.

The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes. Other than the embedded derivative referred to in section 24.5 below, the Group's significant financial instruments are cash and cash equivalents (note 17), trade payables (note 18) and borrowings (note 19).

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 $198.4 million and the embedded derivative with a fair value of $71.0 million. As at the balance sheet date, the fair value of the entire instrument based on the exchange traded value (categorised as Level 1 of the fair value hierarchy) was $297.6 million (2017: $251.3 million).

24.1. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises foreign currency, interest rate and other commodity price risk.

24.1.1. Foreign currency risk

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group undertakes transactions denominated in currencies other than its functional currency (which is the US Dollar). For transactions denominated in Pounds Sterling, the Group manages this risk by holding Sterling against actual or expected Sterling commitments to act as an economic hedge against exchange rate movements. From time to time, the Group enters into foreign exchange swaps to hedge specific future payments in other currencies; see section 24.6 below. The Group has not designated any financial instruments as hedging instruments or hedged items.

The Group's cash and cash equivalents and liquid investments are mainly held in US Dollars and Pounds Sterling. At 31 December 2018, 72% of the Group's cash and cash equivalents and liquid investments were held in Pounds Sterling (2017: 42%).

A 10% increase in the strength of Sterling against the US Dollar would cause a decrease of $5.6 million (2017: $15.1 million) on the loss after tax of the Group for the year ended 31 December 2018, with a 10% weakening causing an equal and opposite increase. The impact on equity is the same as the impact on profit after tax. The exposure to other foreign currency exchange movements is not material.

This sensitivity analysis includes foreign currency denominated monetary items (2017: foreign currency denominated cash and cash equivalents and liquid investments only) and assumes all other variables remain unchanged. The change in assumption in preparing the sensitivity analysis is due to the lower balance of cash and cash equivalents and liquid investments as a proportion of total monetary items. Whilst the effect of any movement in exchange rates upon revaluing foreign currency denominated monetary items 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.

Notes to the Group Financial Statements continued
for the year ended 31 December 2018

24. Financial instruments and financial risk management continued
24.1. Market risk continued
24.1.2. Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate movements through its cash and cash equivalents and liquid investments which earn interest at variable interest rates.

If interest rates had been 1% higher during the year ended 31 December 2018, the Group's profit after tax for that year would have increased by approximately $1.2 million (2017: $3.6 million), assuming the cash and cash equivalents at the Balance Sheet date had been in place for the whole year. The impact on equity is the same as the impact on profit after tax. 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.

24.1.3. Other price risk – commodities
The Group enters into commodity contracts (such as fuel and chemical purchases) in the normal course of business, which are not derivatives, and are recognised at cost when the transactions occur.

24.2. Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

Financial liabilities of the Group comprise trade payables (note 18) and the Convertible Bond (note 19). The Group manages its liquidity risk by maintaining adequate cash and cash equivalents to cover its liabilities as and when they fall due.

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

24.3. Credit risk
Credit risk is the risk that the Group will suffer a financial loss as a result of another party failing to discharge an obligation and arises from cash and other liquid investments deposited with banks and financial institutions, and receivables outstanding from its joint operation partner.

For deposits lodged at banks and financial institutions, only those parties with at least 'A' credit ratings assigned by an international credit rating agency are accepted.

The carrying value of cash and cash equivalents and trade receivables represents the Group's maximum exposure to credit risk at year end. The Group has no material financial assets that are past due.

24.4. 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 2018 consists of cash and cash equivalents, liquid investments, 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 2018 equity attributable to equity holders of the parent is $628.1 million (2017: $682.5 million), whilst cash and cash equivalents and liquid investments amount to $123.2 million (2017: $360.0 million).

24.5. Embedded derivatives
As outlined in note 19, the conversion feature of the Convertible Bonds has been classified as an embedded derivative. The amounts recognised in relation to the embedded derivative are as follows:

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
Derivative liability at 1 January	**(28,622)**	—
Recognition at date of issue	—	(39,049)
Change in fair value recognised in the Income Statement	**(42,385)**	10,427
Derivative liability at 31 December	**(71,007)**	(28,622)

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.

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.

24. Financial instruments and financial risk management continued

24.5. Embedded derivatives continued

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 2018 used a share price volatility assumption of 30.1% (2017: 23.6%) and the price of one Hurricane Energy plc Ordinary Share as at the year end of £0.442 (2017: £0.310). The sensitivity of a reasonably possible increase or decrease of those inputs to the Group's profit before tax and equity for the year ended 31 December 2018 is summarised below, assuming all other variables were held constant:

	Gain/(loss) $'000
Share price volatility assumption:	
5% points increase	**(7,822)**
5% points decrease	**7,746**
Share price at year end:	
£0.10 increase	**(42,443)**
£0.10 decrease	**34,774**

24.6. Foreign exchange derivatives

During 2017 the Group entered into several foreign exchange swaps to cover specific future foreign currency payments. All of these swaps were settled or expired during the year resulting in a net fair value gain of $11,000 (2017: loss of $11,000) recognised in the Income Statement.

25. Commitments

25.1. Capital commitments

As at 31 December 2018 the Group had contractual commitments to purchase property, plant and equipment and intangible assets of $11.0 million (2017: $199.7 million).

25.2. Operating lease commitments

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

	31 Dec 2018 $'000	31 Dec 2017 $'000
Within one year	**569**	293
In the second to fifth years inclusive	**1,892**	820
After five years	**1,701**	—
	4,162	1,113

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

25.3. Other commitments

The lease term of the Aoka Mizu FPSO will commence upon achieving first oil from the Lancaster field. Undiscounted future minimum rentals payable total $127.9 million which fall due, from commencement of the lease, as follows: $9.2 million within one year; $91.3 million in the second to fifth years inclusive; and $27.4 million after five years.

The estimated impact of the lease on the Group's 2019 Financial Statements is disclosed in note 1.2.1.

Notes to the Group Financial Statements continued
for the year ended 31 December 2018

26. Related parties
The remuneration of the directors, who are considered the Group's key management personnel, is as follows:

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
Salaries, fees, bonuses and benefits in kind	**2,473**	2,331
Share-based payment expense	**2,033**	2,099
	4,506	4,430

The above transactions include $73,000 paid to Kerogen Capital (2017: $72,000), which is a related party of the Company because of the size of its shareholding and the provision of key management personnel services to the Company. No amounts were outstanding at either period end.

All transactions with the directors are detailed in the Directors' Remuneration Report on pages 53 to 56.

27. Subsequent events
27.1. Share Incentive Plan
On 25 January 2019, Global Shares Trustee Company Limited, Trustee of the HMRC-approved Hurricane Energy plc SIP, awarded 815,582 Ordinary Shares to participants in the SIP at a price of £0.4586 per share. The SIP award has been satisfied by the issue of 815,582 new Ordinary Shares issued to the SIP Trustee at a subscription price of £0.001 per share (being the nominal value of the shares).

27.2. Hook-up of FPSO
On 19 March 2019 the Aoka Mizu FPSO successfully hooked up to the turret mooring system buoy on station at the Lancaster field and was securely moored.

Company Balance Sheet
as at 31 December 2018

	Notes	31 Dec 2018 $'000	31 Dec 2017 $'000
Non-current assets			
Property, plant and equipment	2	**30**	54
Investments	3	**159,204**	159,204
Amounts due from subsidiary undertakings		**501,204**	219,600
Other non-current assets		**24,298**	16,089
Other receivables		**191**	202
		684,927	395,149
Current assets			
Inventory		**4,571**	1,434
Trade and other receivables	4	**2,538**	4,569
Liquid investments		—	201,973
Cash and cash equivalents		**98,864**	141,956
		105,973	349,932
Total assets		**790,900**	745,081
Current liabilities			
Trade and other payables	5	**(25,051)**	(3,067)
Derivative financial instruments		—	(11)
		(25,051)	(3,078)
Non-current liabilities			
Convertible loan liability		**(198,363)**	(191,102)
Derivative financial instruments		**(71,007)**	(28,622)
		(269,370)	(219,724)
Total liabilities		**(294,421)**	(222,802)
Net assets		**496,479**	522,279
Equity			
Share capital		**2,843**	2,843
Share premium		**813,681**	813,496
Share option reserve		**24,067**	19,477
Own shares reserve		**(380)**	(323)
Foreign exchange reserve		**(79,591)**	(79,591)
Accumulated deficit		**(264,141)**	(233,623)
Total equity		**496,479**	522,279

The loss of the Company for 2018 was $30,518,000 (2017: $178,506,000), being the total comprehensive loss for the year.

The Financial Statements of Hurricane Energy plc were approved by the Board and authorised for issue on 27 March 2019. They were signed on its behalf by:

Dr Robert Trice
Chief Executive Officer

Alistair Stobie
Chief Financial Officer

Company Statement of Changes in Equity
for the year ended 31 December 2018

	Share capital $'000	Share premium $'000	Share option reserve $'000	Own shares reserve $'000	Foreign exchange reserve $'000	Accumulated deficit $'000	Total $'000
At 1 January 2017	1,860	508,510	15,648	(366)	(79,591)	(55,117)	390,944
Loss for the period	—	—	—	—	—	(178,506)	(178,506)
Shares allotted	983	319,874	—	—	—	—	320,857
Transaction costs	—	(14,888)	—	—	—	—	(14,888)
Share-based payments	—	—	3,829	—	—	—	3,829
Net release of own shares held in SIP Trust	—	—	—	43	—	—	43
At 31 December 2017	2,843	813,496	19,477	(323)	(79,591)	(233,623)	522,279
Loss for the period	—	—	—	—	—	**(30,518)**	**(30,518)**
Shares allotted	—	**185**	—	—	—	—	**185**
Share-based payments	—	—	**4,590**	—	—	—	**4,590**
Net purchase of own shares held in SIP Trust	—	—	—	**(57)**	—	—	**(57)**
At 31 December 2018	**2,843**	**813,681**	**24,067**	**(380)**	**(79,591)**	**(264,141)**	**496,479**

1. General information and significant accounting policies

1.1. 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 Company is the ultimate parent of the Hurricane Energy plc Group whose principal activity is the exploration and development of oil and gas reserves principally on the UK Continental Shelf.

1.2. Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100, and as such these Financial Statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The Company transitioned from EU-adopted IFRS to FRS 101 for all periods presented. There were no amendments on the adoption of FRS 101. The Financial Statements have been prepared under the historical cost convention (except for derivative financial instruments which have been measured at fair value).

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, and has also taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 1 'First-time Adoption of International Financial Reporting Standards' to present an opening balance sheet at the date of transition to FRS 101;
- paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined), as equivalent disclosures are included within the consolidated Financial Statements;
- all requirements of IFRS 7 'Financial Instruments: Disclosures', as equivalent disclosures are included in the consolidated Financial Statements;
- paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- paragraph 38 of IAS 1 'Presentation of Financial Statements' – the requirement to disclose comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1 (a reconciliation of the number of shares outstanding at the beginning and end of the period);
  - paragraph 73(e) of IAS 16 'Property, Plant and Equipment' (reconciliations between the carrying amount at the beginning and end of the period); and
  - paragraph 118(e) of IAS 38 'Intangible Assets' (reconciliations between the carrying amount at the beginning and end of the period);
- IAS 7 'Statement of Cash Flows';
- paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (the requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective); and
- paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation), and the other requirements of that standard to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

1.3. Accounting policies

The Company's accounting policies are aligned with the Group accounting policies as set out in note 2 to the Group Financial Statements, with the addition of the following:

Investments in subsidiaries are held at cost less any accumulated provision for impairment losses.

1.4. Critical accounting judgements and key sources of estimation uncertainty

The critical accounting judgements in applying the Company's accounting policies and key sources of estimation uncertainty are that of going concern and the valuation of the Convertible Bond embedded derivative, and are set out within notes 3.1.1 and 3.2.1 to the Group Financial Statements.

Notes to the Company Financial Statements continued
for the year ended 31 December 2018

2. Property, plant and equipment

	Year ended 31 Dec 2018 $'000
Cost	
At 1 January 2018	**1,053**
Additions	**9**
At 31 December 2018	**1,062**
Depreciation	
At 1 January 2018	**(999)**
Charge for the year	**(33)**
At 31 December 2018	**(1,032)**
Carrying amount at 31 December 2018	**30**

Property, plant and equipment comprises leasehold improvements, fixtures, office equipment and computer hardware. The Company had no material capital commitments outstanding at the period end.

3. Investments in subsidiaries

	Year ended 31 Dec 2018 $'000
Cost	
At 1 January 2018	**180,817**
Disposals	**(19,048)**
At 31 December 2018	**161,769**
Provisions for impairment	
At 1 January 2018	**(21,613)**
Disposals	**19,048**
At 31 December 2018	**(2,565)**
Carrying amount at 31 December 2017	**159,204**
Carrying amount at 31 December 2018	**159,204**

Details of the Company's investments in subsidiaries held at 31 December 2017 and 31 December 2018 are presented below, and, unless otherwise noted:

- ownership comprises the entire ordinary share capital of each subsidiary;
- subsidiaries are incorporated and domiciled in the UK;
- subsidiaries are directly held by the Company; and
- the registered office of each subsidiary is The Wharf, Abbey Mill Business Park, Lower Eashing, Godalming, Surrey GU7 2QN.

3. Investments in subsidiaries continued

Company	Company number	Nature of business
Hurricane Basement Limited[1]	07700492	Dormant company
Hurricane Exploration (UK) Limited[2]	05458508	Oil and gas exploration
Hurricane GLA Limited[1]	10656211	Oil and gas development
Hurricane Group Limited	07700755	Dormant company
Hurricane GWA Limited[1]	10656130	Oil and gas exploration
Hurricane Holdings Limited	10654801	Holding company
Hurricane Petroleum Limited[1]	07700415	Dormant company
Hurricane (Strathmore) Limited	10654846	Oil and gas exploration
Hurricane (Typhoon Tempest) Limited[3]	10654818	Oil and gas exploration
Hurricane (Whirlwind) Limited	10654845	Oil and gas exploration

1. Held indirectly by the Company.
2. In liquidation. Registered office: 6 Snow Hill, London EC1A 2AY.
3. Entity dissolved via voluntary strike-off effective 2 April 2019.

4. Trade and other receivables

	31 Dec 2018 $'000	31 Dec 2017 $'000
Other receivables	**603**	4,179
Receivables due from joint operation partner	**1,746**	—
Prepayments and accrued income	**189**	390
	2,538	4,569

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.

Joint operation receivables represent expenses incurred by the Company as operator of the joint operation to be paid by the joint operation partner. They accrue interest at LIBOR and are generally due for settlement within 30 days.

The other receivables balance at 31 December 2017 included a deposit of $3.8 million paid to the Department for Business, Energy and Industrial Strategy in relation to decommissioning security for the Lancaster EPS. This deposit was repaid in 2018 when the Company funded a decommissioning security agreement.

5. Trade and other payables

	31 Dec 2018 $'000	31 Dec 2017 $'000
Trade payables	**21,275**	1,029
Other payables	**932**	159
Accruals	**2,844**	1,879
	25,051	3,067

The carrying amounts of trade and other payables are considered to be materially equivalent to their fair values and are unsecured. The majority of trade payables at 31 December 2018 are due to one of the Group's Tier 1 contractors, accrue interest at 7% per annum and are payable in September 2019. All other trade and other payables are non-interest bearing and generally payable within 30 days.

Trade and other payables include the Company's share of joint operation payables, including amounts that the Company settles on behalf of joint operation partners.

Notes to the Company Financial Statements continued
for the year ended 31 December 2018

6. Other disclosures
Some information directly relevant to the Company Financial Statements is included in the notes to the Group Financial Statements, as the disclosures in those notes entirely relate to activities and balances of the Company:

- Note 13 – Other non-current receivables
- Note 14 – Joint operations
- Note 15 – Inventory
- Note 17 – Cash and cash equivalents and liquid investments
- Note 19 – Borrowings
- Note 21 – Capital and reserves
- Note 22 – Equity-settled compensation agreements
- Note 24.5 – Embedded derivatives
- Note 25.1 – Capital commitments
- Note 25.2 – Operating lease commitments
- Note 27 – Subsequent events

Advisers

Nominated Adviser and Broker

Stifel Nicolaus Europe Limited

150 Cheapside, London EC2V 6ET

www.stifel.com

Joint Broker

Morgan and Stanley & Co. International plc

20 Bank Street, London E14 4AD

www.morganstanley.com

Solicitors to Company

Dentons UKMEA LLP

One Fleet Place, London EC4M 7WS

www.dentons.com

Auditor

Deloitte LLP

1 New Street Square, London EC4A 3HQ

www.deloitte.com

Independent Competent Person

RPS Energy Limited

140 London Wall, London EC2Y 5DN

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

Glossary

2018 Code	Financial Reporting Council's UK Corporate Governance Code (2018)
2C contingent resources	Best case contingent resources under the Society of Petroleum Engineers' Petroleum Resources Management System
2P reserves	Proved plus probable reserves under the Society of Petroleum Engineers' Petroleum Resources Management System
AIM	The AIM market of the London Stock Exchange
AGM	Annual General Meeting
Aoka Mizu	Aoka Mizu FPSO
Bluewater	Bluewater Energy Services and affiliates
BMS	Business Management System
bnboe	Billion barrels of oil equivalent
Board	Board of Directors of the Company
bopd	Barrels of oil per day
carry	Payment of a partner's working interest share of costs
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Code	Financial Reporting Council's UK Corporate Governance Code (2016)
Company	Hurricane Energy plc
Convertible Bond	$230million of 7.5% convertible bonds issued by the Company in July 2017
COO	Chief Operations Officer
CPR	Competent Persons Report
DRR	Directors' Remuneration Report
E&E	Exploration and Evaluation
E&P	Exploration and Production/Exploration and Production company
EMS	Environmental Management System
EPS	Early Production System
EUR	Euro
FDP	Field Development Plan
FEED	Front End Engineering and Design
FFD	Full Field Development
FID	Final Investment Decision
FPSO	Floating production storage and offloading vessel
FRC	Financial Reporting Council

G&A	General and Administrative costs
GBP	British Pounds Sterling
GLA	Greater Lancaster Area
Group	Hurricane Energy plc, together with its subsidiaries
GWA	Greater Warwick Area
HSE	Health, Safety and Environmental
HSEM	Health, Safety and Environmental Management
HSSEQ	Health, Safety, Security, Environmental and Quality
Hurricane	Hurricane Energy plc, together with its subsidiaries
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
Kerogen Subscription	The 2016 subscription in May 2016 of 293,911,931 Ordinary Shares in Hurricane Energy plc by Kerogen Capital and its associated companies
KPI	Key Performance Indicator
LGC	Listing and Governance Committee
LLIs	Long-Lead Items
Lookout Period	The three-year period assessed under the LTV assessment
LTV	Long-Term Viability
M&A	Mergers and Acquisitions
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
mmboe	Million barrels of oil equivalent
NED Plan	Mirror of the Hurricane 2013 Performance Share Plan for non-executive directors
NOC	National Oceanography Centre
ODT	Oil-Down-To
Official List	The list of companies listed in the UK maintained by the Financial Conduct Authority (acting in its capacity as the UK Listing Authority)
OGA	Oil and Gas Authority
Ordinary Shares	Ordinary shares in the Company of £0.001 each
OSPRAG	Oil Spill Prevention and Response Advisory Group
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
PILON	Pay in Lieu of Notice
PMT	Project Management Team

Glossary continued

PP&E	Property, Plant and Equipment
Premium Listed	Listed on the premium segment of a recognised stock exchange
Prospective resources	Best case prospective resources under the Society of Petroleum Engineers' Petroleum Resources Management System
PSP	Performance Share Plan
QCA	Quoted Companies Alliance
QCA Code	Corporate Governance Code for Small and Mid-Size Quoted Companies
Register	Corporate Risk Register
Regulator	Oil and Gas Authority, Department for Business Energy and Industrial Strategy, and/or The Health and Safety Executive
ROV	Remotely Operated Vehicle
RPS	RPS Energy Consultants Ltd
SERPENT	Scientific and Environmental ROV Partnership
SIP	Share Incentive Plan
Spirit	Spirit Energy Limited
stb/d	Stock tank barrels of oil per day
Supergiant	Field with 1 billion or more barrels of ultimately recoverable oil (ref: Encyclopaedia Britannica)
SURF	Subsea, Umbilical, Risers, Flowlines
Threshold Value	The price used to determine the value of Growth Shares in relation to the VCP: £0.34 per share (the price on date of issue of the Growth Shares), as adjusted
Tier 1 contractors	Hurricane's major direct contractors
TSR	Total Shareholder Return
TVT	True Vertical Thickness
USD	United States Dollars
VCP	Value Creation Plan
WOSPS	West of Shetland Pipeline System
Xmas trees	An assembly of valves, spools, and fittings used at the head of an oil and gas well

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