



Hurricane

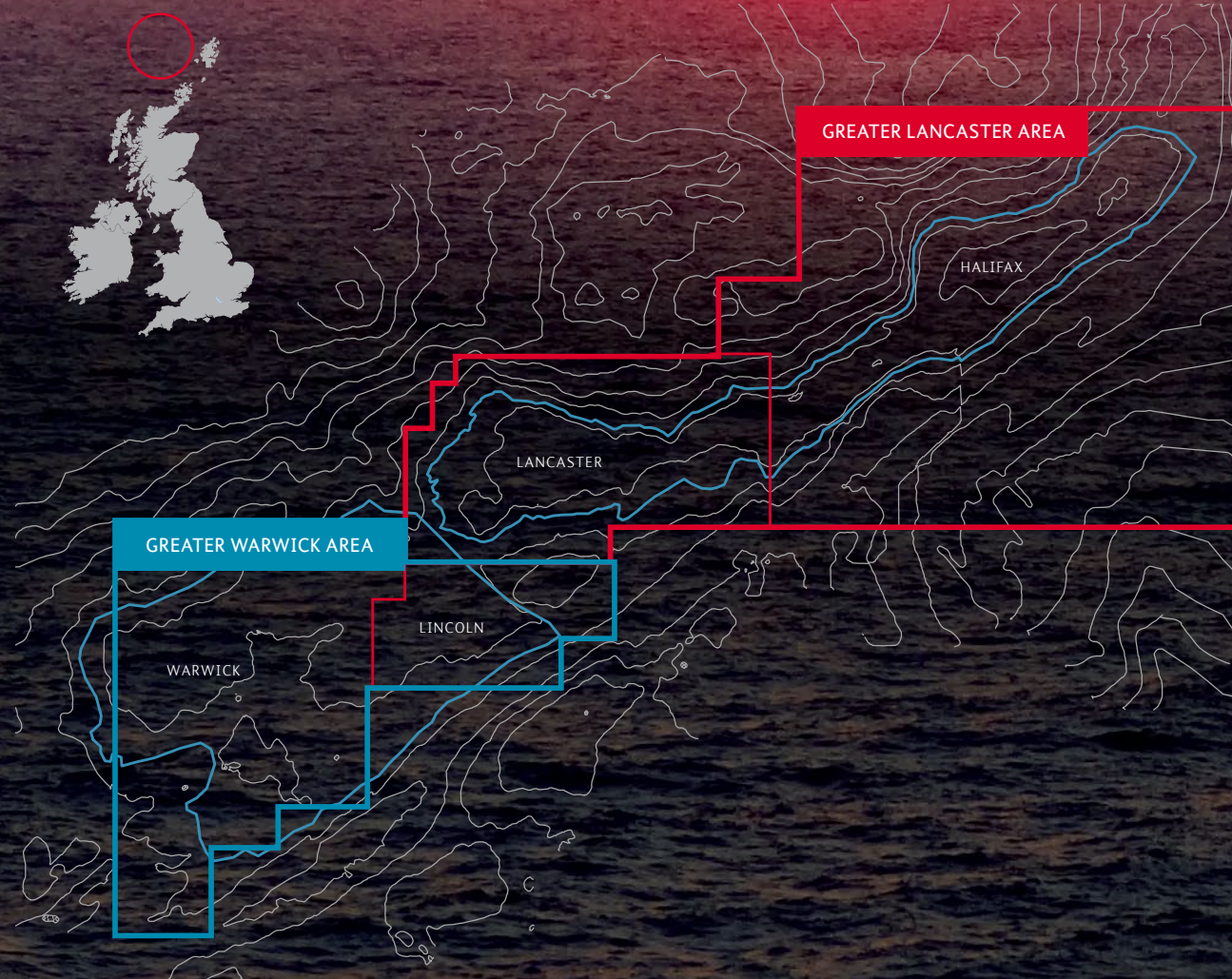


ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS 2019

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

2019 was a landmark year with first oil from the Lancaster Early Production System, achieved on time and on budget, delivering Hurricane's first production and revenue.

OUR ASSETS



Highlights

Revenue

From seven cargoes following first oil

\$170.3m

Operating cash flow generated

Equivalent of \$37.5 per barrel during 2019

\$112.2m

Profit after tax

Including the non-cash impacts of deferred tax, impairments and fair value gains on the Convertible Bond embedded derivative

\$58.7m

Underlying profit before tax*

Excluding the non-cash impacts of deferred tax, impairments and fair value gains on the Convertible Bond embedded derivative

\$30.0m

Production

Average following introduction of hydrocarbons on 11 May 2019

12,900 bopd

Crude oil sales

Across seven cargoes

2.9m bbl

Unrestricted cash at 31 December 2019

Excluding restricted cash of \$14.8m

\$156.6m

Throughout this release, ** indicates a non-IFRS measure, which management believe are useful in providing additional information on performance and trends. Definitions and reconciliations to the nearest equivalent IFRS measure are provided in Appendix B.

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Considering next steps



Dear Shareholders,

Hurricane Energy delivered first production from the Lancaster Field in 2019, a significant landmark after 15 years of patient investment to explore and develop the UK's fractured basement reservoir play. Not only is the Lancaster Early Production System (Lancaster EPS) a play-opening development, but the Hurricane team completed the project on time and on budget with an excellent health and safety record – truly a milestone achievement for the Company.

Lancaster EPS

The Lancaster EPS is at the core of the Company's strategy. An average of 12,900 barrels of oil per day (bopd) were produced during 2019 following start-up in May, above expectations for this ramp-up period. Since year-end, production has been gradually increased to the target of 20,000 bopd before operational downtime.

The Lancaster EPS has been designed with the express objective of obtaining a wealth of reservoir data over an extended period of time, to allow us to draw key conclusions from which to define the potential scale of full field development. Reservoir data from two highly productive wells are therefore being closely monitored to clarify the characteristics of this unique fractured basement play.

While well productivities are very encouraging and above expectations, there have been some unanticipated aspects including the interpretation of a previously unidentified water zone within the productive interval of the 205/21a-7Z well. However, this is a pioneering and unprecedented new development, and understandably we have much to learn about the production characteristics of this complex reservoir rock.

Greater Warwick Area

The three well 2019 drilling campaign, in joint venture with Spirit Energy Limited (Spirit Energy), was also completed on schedule and on budget, another notable achievement by the Hurricane operations team. Well results were mixed, with the Lincoln Crestal well producing at over 9,000 bopd, but the other two wells having significantly poorer outcomes. We have materially increased our understanding of this part of the Rona Ridge, which appears to have less well-developed reservoir qualities compared to Lancaster.

As a result, together with Spirit Energy, we are re-assessing the next stage of activity in the Greater Warwick Area (GWA) compared to the original plans at the time of farm-in, and have adjusted the joint venture cost allocation arrangements accordingly. We have not yet agreed a forward programme and budget for the GWA, although we have been ordering some long-lead items and carrying out the engineering work to be able to tie back a GWA well to the Aoka Mizu FPSO, but this remains subject to joint venture approval and regulatory consent.

Organisational resources

The increased demands of the GWA drilling campaign, alongside concurrent production operations at Lancaster, resulted in a significant step-up in the scope and intensity of activities at Hurricane in 2019. The Group's organisational structure has therefore been carefully expanded in Easing and Aberdeen to the extent necessary to manage these operational needs. Staff headcount increased from 41 to 52 over the year.

Financial results

The EPS generated significant cash during 2019. Sales revenues of \$170.3 million were recorded for the year, at an average realised price of \$59.3 per barrel. Operating costs have been in line with pre-start-up expectations. The Lancaster EPS capital programme was completed within budget, and the carry arrangements with Spirit Energy covered essentially all costs for GWA drilling.

The overall result was a highly satisfactory financial outcome, with operating cash flow of \$112.2 million and unrestricted cash of \$156.6 million at year end. However, despite these positive results, the share price declined materially in December when the disappointing final results of the GWA drilling programme and the terms of a five-year extension of Licence P1368 were announced. After year end, while strong revenue generation continued into the first quarter of 2020 despite declining oil prices, the impact of the COVID-19 pandemic led

to an unprecedented global economic crisis in March which contributed to a collapse in oil prices, to below \$30 per barrel. These events have profoundly depressed the Hurricane share price and clouded the financial outlook for Hurricane for the balance of 2020 and beyond.

Future activity

Hurricane has licence obligations that require wells to be drilled in the GWA and Lancaster areas in 2020 and 2021. We also have further opportunities both to expand production from the EPS and reduce uncertainty over the scale of long-term resources that might be exploited in a full development of the Lancaster field, and in other areas. However, the costs and time required to exploit such opportunities in the operating environment West of Shetland are significant, and a supportive economic environment is a pre-requisite.

Given the major impact of the COVID-19 pandemic, all future opportunities are being re-evaluated taking into account much lower oil prices. We must also recognise that production forecasts for the Lancaster EPS will remain subject to a degree of uncertainty until longer term reservoir performance has been evaluated. Furthermore, while every effort is being made with our contractors to minimise risks to staff, the ability to operate offshore with normal levels of efficiency during the COVID-19 pandemic could also be affected.

Capital allocation

Your Board will therefore exercise extreme caution over the scale and pace of future capital spending while respecting existing contractual and regulatory obligations. Amplifying the need for a cautious approach, capital markets' appetite for oil and gas investment has drastically reduced, so we must therefore aim for financial self-sufficiency including recognition of repayment obligations potentially crystallising upon Convertible Bond maturity in July 2022.

Despite extraordinarily difficult economic conditions, we will prioritise maintenance of a strong balance sheet with a cash cushion to absorb downside risks and meet future financial liabilities. We will continue to strictly control capital spending and will pursue other opportunities only if they can create early and significant shareholder value uplift at minimum cost.

Our shareholders have contributed substantial risk capital to bring Hurricane to first oil. The Board is hugely disappointed with the current share price and recognises the obligation to strive to deliver a return for their patience and commitment, which will require a recovery in economic conditions. Future investment decisions will take into account share price performance and the need to preserve and significantly increase value for shareholders.

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Corporate Governance

The Hurricane Board has evolved considerably in the past 12 months. We welcomed two additional independent non-executive directors, both bringing significant oil and gas industry experience. Sandy Shaw, appointed to the Board in January 2019, has extensive and highly relevant legal, commercial and transaction experience. Beverley Smith, appointed in December 2019, is a chartered geologist with significant technical, strategic and management expertise. Post year-end, Alistair Stobie resigned as a director and Chief Financial Officer, and has been succeeded by Richard Chaffe as acting Chief Financial Officer.

We have taken further steps towards meeting best standards of corporate governance, and in this year's annual report we outline how we now satisfy the principal provisions of the UK Corporate Governance Code for Premium Listed companies. This is no longer a bottleneck to moving to the Main Board of the London Stock Exchange, which the Board continues to consider.

Supplementing our annual report this year is a detailed ESG report. Much of what it describes is a reflection of the way Hurricane has operated for years – meeting the highest safety and environmental standards have always been over-riding principles for the Company. We are pleased to describe this in more detail, extend reporting on areas of increased societal and investor concern, and to formalise our disclosures within the GRI framework. This level of reporting will help us to demonstrate our accountability as the industry aims to reduce negative impacts and support the energy transition.

Chairman's Statement continued

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Start-up of production from the Lancaster field is a beginning rather than an end.”

Working in the interests of all stakeholders

The Company takes account of the interests of a wider group of key stakeholders at the same time as focussing on generating value for shareholders. Our long-term strategy depends on effective collaboration with our strategic partners, contractors, suppliers, host communities and regulators to achieve our aims. The directors recognise these responsibilities, and Board meetings regularly consider how best to discharge duties under Section 172 of the Companies Act 2006. For more information see pages 10 and 11. We report further on our activities in these areas on page 32 and in our more detailed ESG report.

Look ahead

Whilst momentous in and of itself, start-up of production from the Lancaster field is a beginning rather than an end. Two producing wells in a huge area do not, of course, prove a potential major regional play. We are however now gathering and analysing the dynamic reservoir performance data which will provide critical input to building the case over time for substantial reserves upgrades. With a continuation of the successful production track-record to date at Lancaster, the Company can weather a period of extreme low oil prices, and be in a position to realise the value of the Rona Ridge assets when more normal economic and other conditions have been restored.

Acknowledgements

The entire Hurricane management team and our contractors are to be congratulated for their expertise, dedication and hard work in bringing the Lancaster EPS on stream so successfully. And finally, as Chair, I must sincerely thank the members of the Hurricane Board for their sage guidance and unstinting commitment towards achieving this first major milestone for the Company.

Steven McTiernan

Chairman

Q&A

WITH STEVEN MCTIERNAN

How has Hurricane changed now that it is in production?

The transition to production has been achieved with limited growth in G&A costs while maintaining an entrepreneurial culture. The increased financial security from cash flow from production provides capacity for further development of the Company's assets.

What has the changing Board composition brought Hurricane?

We are delighted to have added two additional independent directors during 2019. Sandy and Beverley strengthen the Board's legal, commercial and oil & gas management experience, whilst satisfying UK Corporate Governance Code best practice standards for board independence and diversity.

Why has Hurricane released a dedicated ESG report?

Hurricane has always strived to conduct its business with regard to the highest levels of environmental, health, safety, and governance standards. We are therefore keen to describe our activities in this space in more detail in the ESG Report. We support the current drive for transparency in carbon reporting, and we recognise the long-term energy transition process underway towards a lower carbon intensity future. Hurricane oil, efficiently and safely produced in a jurisdiction with some of the highest standards in the world, can satisfy continuing oil demand as society shifts towards lower carbon alternatives.

How has COVID-19 directly affected Hurricane?

Our primary concern is our people. Having had a crew member fall ill offshore, ultimately testing positive for COVID-19 and requiring hospital treatment, we are aware of how real the risk that this virus poses is. We are supporting Bluewater in strengthening existing measures to prevent it travelling and spreading offshore.

Delivering on our objectives



Hurricane was established to discover, appraise and develop hydrocarbon resources from naturally fractured basement reservoirs. Achieving first production on the Lancaster EPS in May 2019 marks the successful culmination of many years of appraisal and development activity and the first production from a fractured basement field on the UK continental shelf.

Lancaster EPS development

After ten months of production, the performance of the EPS to date has given the Board confidence in Lancaster's potential. The Company is focussed on continuing to acquire the data that will further de-risk the Lancaster asset sufficiently to either attract an industry development partner, or to progress into further phases organically, if deemed the optimal allocation of capital for shareholders based on the prevailing market environment.

Hurricane delivered the Lancaster EPS on time and on budget, while maintaining 100% equity interest in the licence. This is testament to the capabilities of our team, the efficacy of our development model, and the competence of our Tier 1 contractors. We have overcome the hurdles of being the first company to produce from a UK basement field, demonstrated effective operations in the harsh metocean

conditions West of Shetland, and developed a market for our oil against the background of a volatile oil price. Overcoming these hurdles has put Hurricane in a position of relative strength where we have full exposure to Lancaster's upside value.

The Lancaster EPS was designed to provide long-term production data to enhance the Company's understanding of the reservoir and, in doing so, provide an acceptable return on investment. The purpose of this data acquisition strategy is to inform progression to a full field development of Lancaster. The intention being that the Lancaster EPS would be the first phase in a longer-term development. Our primary objective of data acquisition has been a resounding success. Since first production in May 2019, we have been able to acquire high quality production data including tests that evaluate individual and combined well behaviour. As a result, we are better informed regarding the reservoir and well performance. The high productivity of the wells and high facility uptime of the Aoka Mizu FPSO has meant that these tests have been possible whilst remaining above production guidance. In 2019 the Lancaster EPS produced 3.0 million barrels of oil and generated \$170 million of revenue, already providing a meaningful contribution towards making a financial return. The objective of progressing to future phases of development now faces additional headwinds in terms of the macroeconomic environment. Any future steps will be guided by our capital allocation framework such that we have the confidence of our shareholders to invest in the next phase.

Lancaster well performance and forward plan

Pre-production, the Company expected that the two EPS wells, 205/21a-6 and 205/21a-7Z, would deliver at an initial combined gross production rate of 20,000 bopd after completing a ramp-up phase associated with vessel commissioning. It was also anticipated that to achieve these rates the full 1 km borehole from each well would be required along with the assistance of electrical submersible pumps (ESPs) to provide potential production support. After undertaking necessary data gathering tests at lower production rates and testing the wells individually, I am pleased to confirm that the target combined gross production rate of 20,000 bopd has been achieved in the first quarter of 2020 under natural flow without use of ESPs, and that this rate is now being evaluated for longevity.

Data analysis from the Lancaster EPS has demonstrated that well productivity is better than initially expected and has confirmed individual production rates of in excess of 10,000 bopd and initial productivity indexes (PI) of over 200 stb/d/psi. Interpretation of data also indicates both wells are currently achieving this productivity from within only the foremost 60 m of the respective boreholes, which in each case is less than 10% of the borehole's length. One of the key data acquisition objectives of the Lancaster EPS was to investigate inter-well connectivity and the degree of interference. This has been achieved and the wells exhibit instantaneous interference with the producing intervals in each well separated by approximately 375m.

Chief Executive Officer's Review continued

Lancaster well performance and forward plan continued

However, not all news has been positive as oil production is accompanied by water which is attributed to a 10 m 'perched water' zone within the 205/21a-7Z well which was not identified prior to start-up of the Lancaster EPS. The production behaviour of perched water, the instant interference noted between the two wells, and the data gathering requirement to undertake single and combined well production experiments has meant that establishing predictive water cut trends has not yet been possible. The future behaviour of this water zone therefore remains a key point of further testing and evaluation.

In an attempt to address this issue, and as part of the planned ramp-up to the Company's 2020 production guidance rate, the wells have been on long-term test, since March, at a target 20,000 bopd gross combined production, with approximately 12,000 bopd from the 205/21a-6 well and 8,000 bopd from the 205/21a-7Z well. This oil production is currently associated with approximately 6,000 barrels of water per day (bwpd) which is efficiently accommodated by the Aoka Mizu's water handling facilities. These production rates have been achieved without the use of ESPs and with the wells choked back to less than 50% of their flowing potential, confirming the extraordinary productivity of these wells and the reservoir.

At time of writing, the Lancaster EPS has produced 4,470,000 barrels of oil and 540,000 barrels of water. Despite these produced volumes, the Lancaster EPS is still very much in a data gathering phase, considering the complexity of the unique basement reservoir. Long-term testing at the current rates will be required before any trends can be confirmed and conclusions made about the long-term potential of the reservoir. Once trends have been established it is anticipated that alternative combinations of well rates may be tested in order to establish the optimum long-term production configuration for the two wells.

Whilst water production rates have materially increased since start-up of the Lancaster EPS, and predicting future water cut behaviour is uncertain at present, the combination of high productivity wells, currently unused potential production support from ESPs, and the water handling capacity of the Aoka Mizu give the Company sufficient confidence to maintain its forward guidance at a net production rate of 18,000 bopd based on assumed uptime of 90%.

Greater Warwick Area

The 2019 GWA drilling and testing programme was designed to evaluate the oil type and producibility of the Lincoln and Warwick blocks, investigate the potential for intra-GWA compartmentalisation and, in the success case, provide suspended well stock for a tie-back to the Aoka Mizu FPSO and future production well stock for a GWA field development. To this end, two wells were planned and drilled on the previously undrilled Warwick structure and one well planned and drilled on the previously drilled Lincoln structure. Hurricane was 100% carried by Spirit on these drilling and testing operations.

These 2019 wells have informed us that GWA productivity is materially less than that demonstrated by Lancaster wells. The differences manifest in reduced drilling mud losses and PI compared to Lancaster. There are also important differences in the characteristics of GWA fault zones, all of which point to the GWA basement having less well-developed reservoir qualities compared to Lancaster in the areas penetrated to date.

While the bulk of faults identified pre-drill were confirmed, providing confidence in the seismic interpretation, drilling data has confirmed that the volume of fault zones associated with seismically identified faults are approximately 50% lower than experienced in both the Lancaster field and the 2016 Lincoln discovery well. This reduction in fault zone properties will need to be accommodated in future resource evaluation. Other components of resource range estimates such as fracture distribution, fracture characteristics and porosity are within expected ranges. Further work incorporating the impact of oil type and oil water contact ranges will be necessary before the Company can opine on revised resource range estimates for Lincoln and Warwick.

From the perspective of fluids, the Warwick West well encountered oil of 44 – 45° API whereas at Lincoln the oil is 41 – 42° API. Gas oil ratios (GORs) are also different from Lancaster with Warwick GORs estimated at 730 – 740 scf/bbl and Lincoln at 630 – 650 scf/bbl. The Lincoln and Warwick oils show a similar oil 'fingerprint' and consequently it is not possible to determine whether the variation in API and GOR is due to reservoir compartmentalisation or another mechanism. Geochemical work is ongoing to provide further clarity on this matter.

The most significant uncertainty remaining on the GWA is to understand what is controlling permeability and productivity in the reservoir. The GWA joint venture is yet to establish a relationship between reservoir properties and well productivity. Whilst a definitive oil water contact has yet to be determined, the 2019 operations have helped constrain the oil water contact ranges that are being considered by the GWA joint venture. Recognising these uncertainties, and the challenge of a low oil price environment, the GWA joint venture is working towards establishing an optimum work programme to address its licence commitments and progress the GWA towards a field development, should economics support such an undertaking.

P1368 licence extension

Work programmes across our licences have been adjusted to accommodate commitments required as part of the extension of Licence P1368, covering Lancaster and Lincoln. In reviewing our licence areas, Hurricane relinquished the licence subareas associated with Whirlwind and Strathmore. Hurricane had carried out limited work on Whirlwind since re-entering the 205/21a-5 well in early 2011 with the intention of undertaking further drilling with the benefit of learning from the Lancaster EPS. Strathmore is a small sandstone discovery which was unlikely to be developed. These relinquishments enable more focussed activity on core assets, consistent with good capital discipline. The Company will no longer recognise resources in relation to Whirlwind (2C contingent resources of 179 – 205 mmboe) or Strathmore (2C contingent resources of 32 mmboe). An operation to plug and abandon the 205/21a-5 well on Whirlwind was successfully completed in April 2020.

A deed of variation granting a five-year extension to Licence P1368, subject to certain conditions was executed by the licensees in December 2019. On Lincoln, a commitment well is required to be commenced by the end of 2020 for the purpose of acquiring sufficient data to meet the regulatory requirements necessary to delineate a field development area. On Lancaster, a commitment well is required to be commenced by the end of 2021 to demonstrate the presence of mobile oil at Lancaster below structural closure (1,350m TVDSS), following which the Lancaster field may be subject to re-determination.

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I am thrilled that Hurricane has generated \$170 million in revenue and \$112 million in operating cash flow in just over half a year of production.”

Financial results

The Financial Review will expand on the financial results for the year. Suffice to say, I am thrilled that Hurricane has generated \$170 million in revenue and \$112 million in operating cash flow in just over half a year of production whilst going through commissioning of a new installation in a harsh environment. I look forward to reporting on the increased production as we reach normalised levels. In due course, we intend to make full use of the Aoka Mizu FPSO's throughput capacity which will require incremental investments.

Next steps

In light of disappointing well results on Warwick, our inability to achieve regulatory consent to tie back the 2019 Lincoln Crestal well to the Aoka Mizu FPSO, the requirement for a licence commitment well, and the current macroeconomic environment, the GWA joint venture is assessing the next stage of activity on the GWA and consequently have not yet agreed a forward work programme and budget for the GWA.

Nonetheless, we have a significant cash position and at 18,000 bopd net production we enjoy low breakeven costs of \$17 per barrel covering operating costs at the Lancaster EPS. A Brent price of \$26 per barrel covers the Company's operating costs as well as its general and administrative expenses and the coupon cost of the Convertible Bond. We remain mindful of the need for capital discipline at this challenging time and our intention is to ensure that we will be optimally positioned to take the next steps on the GWA and Lancaster when the business impact of COVID-19 dissipates and macroeconomics permit.

Dr Robert Trice

Chief Executive Officer

2019

HIGHLIGHTS OF THE YEAR



Lancaster EPS hook-up

Aoka Mizu FPSO successfully hooked up to the turret mooring buoy in March. Installation is now in place for the life of the Lancaster EPS. Time between weather-interrupted attempts to hook-up was used to carry out pre-commissioning work.



First oil

Following individual well flow tests and having completed a 72-hour production test with both wells flowing at an aggregate 20,000 bopd, first oil was declared: a significant milestone.



Lincoln Crestal

Confirmed light mobile oil on the Greater Warwick Area with a maximum stable flow rate of 9,800 bopd with the use of ESPs.

Creating value

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

STRATEGY

1. Appraise

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 made a number of significant discoveries. Estimates of contingent resources of over 2 bnboe at the 2C level have been independently certified in Lancaster, Halifax and Lincoln (net to Hurricane).

2. Develop

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 believes that the optimum route for capital allocation, data acquisition and risk reduction is the implementation of an early production system prior to a phased full field development.

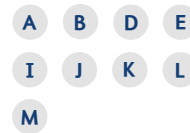
3. Produce

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.

LINK TO RISKS/KPIs

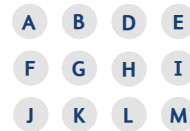
Risks



KPIs



Risks



KPIs



Risks



KPIs



OUR APPROACH TO HEALTH, SAFETY AND THE ENVIRONMENT

Hurricane has an integrated health, safety and environmental management system certified to ISO 14001 and is working towards ISO 45001. Risk management and aspects and impacts management form the basis of our decision making when undertaking business and/or safety critical activities. Hurricane has embedded its risk management processes into business operations to ensure key decisions and risks continue to be kept under review, with corrective measures taken when required.

CAPITAL ALLOCATION FRAMEWORK

Hurricane has competing calls on its capital. In the past, the Company raised funds for specific work programmes with well-defined uses of proceeds. Now in production, operating cash flow can be deployed in a number of ways. As for any oil exploration and production company, these could ultimately include investment in new projects, acquisition of new assets, returns to shareholders, repayment of debt or being held as cash for balance sheet strength. In taking strategic decisions relating to new activities or corporate finance actions, the Board is mindful of the Company's purpose and of its duty to generate shareholder value whilst also benefiting stakeholders more broadly.

The recent volatility in the oil price and uncertain macroeconomic environment resulting from the COVID-19 pandemic reinforce the need to consider external factors in planning, and to ensure that the Company's finances are robust in a range of scenarios. This includes considering the impact of climate change on long-term oil prices and the cost of capital for oil exploration and production companies. Recent changes in market sentiment have increased the risk that capital is not available for the sector at a time when the Company may need it and our strategic and financial decisions therefore require an increased level of prudence. The energy transition also reduces the potential value of long-dated reserves and terminal values which drives a focus on near- and medium-term value.

As part of a broader shareholder engagement with representatives that together hold over 20% of the share capital in the Company (not including Kerogen) and in light of the recent weakness in the Company's share price, the Board has decided to implement a capital allocation framework in relation to maintaining a strong balance sheet, future capital expenditure, capital returns to shareholders and appropriate levels of leverage.

Hurricane's assets are at the start of the field lifecycle. The core purpose of the Lancaster EPS relates to the data that it is gathering. Whilst cash flow and financial returns were also a requirement of the project, Hurricane ultimately intends to generate shareholder value from these cash flows by de-risking greater portions of the asset base and ramping up production. The Aoka Mizu facility also offers significant operating leverage to any increase in production rate or extension in life, given its fixed operating cost base and sunk capital costs.

Any additional production could therefore enhance the speed with which additional steps could be taken and the ultimate returns for shareholders. However, unless and until these additional capital investments have been de-risked from a funding and return perspective, in the near-term Hurricane may choose to delay investment to focus on other uses of cash.

Some of the Company's expenditure is committed. Operating costs, corporate general and administrative costs, and Convertible Bond coupon payments can be covered at Brent prices down to the low \$20s. In addition to these commitments, the Company's licence to operate relies on complying with its commitments to the regulator which include the drilling of commitment wells on both Lincoln and Lancaster by 2020 and 2021. Beyond this, Hurricane is aware that it needs to demonstrate to shareholders the value of any incremental discretionary capital expenditure in order to have a 'licence to invest' in this manner. The alternative, once the market environment has improved, is returning cash to shareholders when legally possible to do so. At present, the Company is not in a legal position to make distributions back to shareholders, as the parent company does not have sufficient distributable reserves. At low share prices the Board will assess the benefit of pursuing a capital reduction or other restructuring to be able to undertake a capital return plan, if this is deemed to be the best value for shareholders.

Whilst the Company's share price remains below the Convertible Bond strike price of \$0.52/share, Hurricane needs to prepare for its potential repayment in 2022. This is factored into the long-term viability assessment on pages 24 and 25. Although a potential draw on the cash in the Company, repayment would avoid the dilution of conversion and therefore has a similar impact to a buyback of shares without the same limitations of distributable reserves. Repurchases of the bond ahead of maturity could also be considered given the additional benefit of reducing future coupon requirements.

The Board will not fetter its discretion by limiting its future capital allocation decisions, which will ultimately depend on the market environment, technical results of previous activity, the Company's share price and feedback from all stakeholders. However, its capital allocation framework will describe the competing considerations that must be taken into account to drive these future decisions.

Strategy and Business Model continued

For our stakeholders

How we engage

As we have transitioned to production, we have implemented and developed our operating model, business management systems and working practices to ensure that Hurricane continues to act in a way that aims to benefit all stakeholders. We have reported on our governance practices and standards throughout this Annual Report and have extended our sustainability reporting this year by publishing a separate Environment, Social and Governance Report, alongside this Annual Report.

Section 172 Statement Companies Act 2006

A director of a company must act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole, taking into account the factors as listed in Section 172 of the Companies Act 2006. The Board uses its Board meetings as a mechanism for discharging its duties under Section 172. Having carried out an internal exercise to identify each stakeholder group our Boardroom discussions throughout the period have included the potential impact of decisions on each group and how we consider their needs and concerns. For more information see pages 11 to 32 and the Governance Report on pages 36 to 44.

Engagement with our shareholders and wider stakeholder groups plays a vital role throughout the business. Our directors are conscious of their responsibilities to act in the way that they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole, taking into account the factors as listed in Section 172 of the Companies Act 2006.

We set out our key stakeholder groups, their material issues, and how the Company and the Board engage on the following page. As part of our commitment to continual improvement, the Company took the time to evaluate how it relates to its stakeholders during the year in review. Further information on some of the exercises we undertook to better understand and engage with our key stakeholders on material topics of importance to them is reported in our 2019 ESG Report. Direct engagements with our shareholders, staff, regulators and other stakeholders have helped the Board to identify and understand the issues that are considered relevant by these groups.

In the early part of this year, a group of major shareholders articulated their views on certain key strategic matters including how the Company returns value to shareholders through its capital allocation framework. This dialogue was insightful, and the feedback received following the engagement has been incorporated into the Company's capital allocation framework which is reported on page 9.

The Company maintains an active dialogue with its regulator, the OGA, in carrying out its role as licence operator on its assets. Throughout the year in review and during the period up to the publication of the report a key point of engagement was on the licence extension which was agreed between the regulator, our joint venture partner and the Company including participation by the Board. This was a major decision during a period that otherwise largely comprised execution of operations previously sanctioned. The agreement reached with the parties secures Hurricane's licence to operate whilst limiting near-term negative impacts of changes in schedule and increased capex.

Our employees are critical to our success. During the year, the Board appointed Sandy Shaw as the designated non-executive director for workforce engagement matters. As part of this role Sandy has solicited the views of employees in Easing and Aberdeen via townhall meetings and subsequent engagement. Further information on how we engaged with our workforce during the year is reported below and on page 37.

Hurricane's Board has always focussed on the long term in its decision making. The Company's strategy to monetise the significant reserves and resources within its portfolio requires a plan that preserves its licence to operate, maintains the internal and external relationships required to operate efficiently, and provides the capital for significant investment programmes, when appropriate to sanction these activities under the Company's capital allocation framework. During the period, 'Climate change and energy transition' was recognised as a standalone Principal Risk (see page 23). Even ambitious energy transition scenarios see significant oil demand for many decades into the future. Identifying this as a Principal Risk illustrates the long-term focus of the Board's outlook.

KEY STAKEHOLDER GROUPS

Stakeholder	Why we engage	How we engage	How the Board engaged
Employees	Our people are fundamental to our business and in order to drive the success of the business, we need to have a motivated workforce.	Hurricane's offices operate on an open-door policy and, due to our flat structure, employees are encouraged at all levels to directly feed back to management and senior management. There is an open dialogue at all levels – business and operational update meetings, operational 'show and tells' and workforce engagement meetings at Group level and smaller team meetings which provide feedback to management at lower levels.	The Board engages with the Company's employees throughout the year, mainly informally. Members of the Board often take it upon themselves to informally meet with employees and enquire and take an interest into their day to day role. As Chair of the Remuneration Committee and designated non-executive director for workforce engagement matters, Sandy Shaw carried out a formal employee engagement process with all employees via townhall meetings in both Aberdeen and Easing.
Shareholders	Having trusted the Company by investing substantial risk capital in the business, we have a duty of care to keep our shareholders informed of our strategic plans and activities to create value and incorporate their priorities into our plans for the future of the business.	Hurricane has a programme of investor conferences, roadshows and ad-hoc investor events and meetings to engage with major institutional shareholders. All investors have an opportunity to have their voices heard via the Company's Annual General Meeting and direct communication through Hurricane's website.	During the year in review, the Board held meetings with certain major shareholders on a one-to-one basis, in ad-hoc small groups and with broader groups at Company events such as the Company's Annual General Meeting and Capital Markets Day.
Strategic or business partners	Our strategic and business partners, consisting of Tier 1 contractors and our GWA joint venture partner Spirit are part of our business and deeply rooted in our operational activities.	In some areas our partners are fully integrated with our team. For example, members of Petrofac's wells team sit in our Aberdeen office. Team to team interactions occur on a daily or even hourly basis during peak periods of operation, with good senior level relationships between Hurricane's executive directors and the appropriate senior principals at our partners.	Hurricane's executive directors have strong personal relationships with senior principals at our partners, meeting regularly. Members of the Board also have opportunities to engage with strategic partners/business partners at industry led events.
Contractors and suppliers	We value the role our contractors and suppliers play in delivering Hurricane's operations and supporting our teams.	We collaborate and continually work with our contractors and the full supply chain, sharing best practice and seeking out synergies to improve performance.	Engagement with contractors and suppliers is carried out by members of the management team, with feedback provided to the Board.
Regulators	Engagement with our regulators preserves our licence to operate and allows us to set the direction for future regulation.	Engagement takes place at multiple levels and includes a wide range of interactions including face-to-face meetings and in-person presentations.	Members of the Board are available to participate in meetings with regulators, as appropriate.
Local communities	Given the nature of oil and gas supply chains, communities affected by Hurricane's operations are dispersed. Hurricane focusses on the communities geographically closest to its oil and gas operations, the Shetland Islands and Aberdeen, to reinforce supportive local services.	In the past we have met with businesses and organisations across the Shetland community to discuss the growth of the region as a whole. With a substantial office in Aberdeen, we are fully integrated into the local community there.	The Company aims to have regular visits to Shetland to keep key representatives informed of the latest status of our operations. These visits include participation by executive directors. Historically these have taken place on at least an annual basis, however, a busy period of operations prevented a trip in 2019.

Our Strategy in Action – Lancaster EPS

First oil achieved

Hurricane plans a phased development of the Lancaster field. Lancaster is now producing from its first phase of development, an Early Production System (EPS) consisting of two wells tied back to the Aoka Mizu floating production storage and offloading (FPSO) vessel. First oil was achieved in June 2019 on time and on budget.

KEY FACTS

Ownership	Hurricane Energy: 100%
Licence	P1368 Central
Quadrant/block	205/21a
Water depth	c.150m
First oil	4 June 2019
Wells	<ul style="list-style-type: none"> • 205/21a-6 (1km horizontal, drilled Q2 2014) • 205/21a-7Z (1km horizontal, drilled Q4 2016)
Infrastructure summary	<ul style="list-style-type: none"> • Harsh environment FPSO • 3x4 leg mooring system with turret mooring buoy • 2 flowlines (piggable) • 1 umbilical • 2 horizontal Xmas trees • 1 manifold

OBJECTIVES OF THE EPS

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



DEVELOPMENT TIMELINE

September 2017

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

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

June–July 2018

Well completion operations using the Paul B. Loyd Jr rig

August 2018

Turret mooring system for Lancaster EPS installation complete

September 2018

Completion of Lancaster EPS subsea installation

October 2018

Sail-away of the Aoka Mizu FPSO from Dubai

March 2019

Aoka Mizu FPSO hooked up to turret mooring system buoy

May 2019

Introduction of hydrocarbons to Aoka Mizu FPSO process systems

June 2019

First oil/provisional acceptance achieved with 72 hour production test during which combined flow from both wells reached and maintained 20,000 bopd



NEXT STEPS

- Final acceptance
 - » Complete remaining commissioning
- Sustain long-term production
 - » 90% system availability (production of 18,000 bopd)
- Continue data analysis
 - » Analyse pressure trends
 - » Monitor water cut trend
- Work towards future increase in FPSO throughput
 - » Host modifications to increase capacity to 40,000 bopd
- Potential WOSPs gas pipeline tie-in
 - » Finalise commercial arrangements
 - » Prepare to carry out installation
- Additional wells to be considered

Our Strategy in Action – Greater Warwick Area

Appraising along the Rona Ridge

Three well campaign completed on budget at no cost to Hurricane (fully carried by Spirit Energy), with a good health and safety record. All three wells encountered reservoir pressures consistent with pre-drill expectations and one flowed material volumes of oil. Lincoln Crestal demonstrated potential for commercial flow rates on the GWA.

KEY FACTS

Ownership	Hurricane Energy: 50% Spirit Energy: 50%
Licence	P1368 South, P2294
Quadrant/block	205/26b, 204/30b, 205/26d
Water depth	c.150m
Wells	<ul style="list-style-type: none"> • 205/26b-12 (Lincoln, 2016) • 205/26b-13Z (Warwick Deep, 2019) • 205/26b-14 (Lincoln Crestal, 2019) • 205/30b-4 (Warwick West, 2019)

BACKGROUND

- Spirit Energy farmed in to Greater Warwick Area in September 2018
- 50% interest for up to \$387 million in carry
- Hurricane to remain operator until FEED for the first phase of a full field development (FFD)
- New cost allocation agreement in March 2020, providing Hurricane with greater optionality and preserving carry since a well tie-back sanction has not been possible in 2020



SUMMARY OF WELL RESULTS

Warwick Deep (205/26b-13Z)

- Drilled to a total depth of 1,964m TVDSS, including a 712m horizontal section of fractured basement reservoir
- Current analysis indicates that the well intersected a poorly connected section of the fracture network with produced fluids being attributed to a single fracture or series of connected fractures behaving as a single feature. The well flowed water, producing 943 barrels of drilling fluid and formation water. Oil and gas were also noted but of insufficient volumes to provide any measure of flow rate. Given these results, the well was plugged and abandoned.
- Gas chromatography analysis indicates the presence of light oil within the basement section. Laboratory measurements of a centrifuged sample of oil from a recovered 1 litre DST oil sample bottle is supportive of the gas chromatography analysis, indicating a light oil with a minimum API of 40°.

Lincoln Crestal (205/26b-14)

- Drilled to a total depth of 1,780m TVDSS, including a 720m horizontal section of fractured basement reservoir and successfully flow tested
- Maximum stable flow rate of c. 9,800 bopd on electrical submersible pumps; average rate of 4,682 bopd under natural conditions
- Lincoln confirmed to contain light, 43° API oil
- Well to be plugged and abandoned by 30 September 2020, since the GWA partners have been unable to obtain the consents required to tie the well back to the Aoka Mizu FPSO

Warwick West (204/30b-4)

- Drilled to a total depth of 1,879m TVDSS, intersecting a 931m horizontal section of fractured basement reservoir
- DST obtained a stable, sustainable rate of 1,300 bopd on natural flow, after a number of flowing periods at variable rates. This rate is not considered commercial and so the well was plugged and abandoned
- Initial analysis indicates a light, 43° API oil

NEXT STEPS

- Working with partner, Spirit Energy, on options with the objective of securing regulatory approval for a field development area
 - » Potential single Lincoln well tie back to the Aoka Mizu FPSO
 - » Full field development considerations beyond the dynamic data acquired from a single well tie back including concept select activity
- Next phase consent application and sanction
- Further technical analysis of results
- Plug and abandon Lincoln Crestal well
- Lincoln licence commitment well

Key Performance Indicators

Aligned incentives

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 'Performance Measures' or 'Milestones':

- i. **Performance Measures** are inter-year progress measures, ensuring continued progress towards delivery of the Company's strategy on an annual basis; and
- ii. **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.

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

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 bonus payable to executive directors for full achievement of Performance Measures in 2019 was 100% of salary. The maximum bonus payable to staff for full achievement of Performance Measures in 2019 was 50% of salary.

	HSSEQ	Production	Operations		Financial	Personal
			EPS	Drilling		
2019 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.	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.
Achievement	4.0% / 7.5%	14.0% / 32.5%	11.0% / 30.0%		20.0% / 25.0%	5.0% / 5.0%
	HSSEQ	Production	Operations	Financial	Governance / Personal	
2020 Performance Measures	10.0%	30.0%	30.0%	25.0%	5.0%	
Strategy link	1	2	3	4	5	

Details of the scoring for 2019 Performance Measures, and weightings of 2020 Performance Measures, are set out in the Directors' Remuneration Report on pages 60 and 61. For the risks to achieving these Performance Measures, please refer to the Principal Risks table on pages 18 to 23.

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.

	Lancaster field appraisal	Secure financing for the EPS	Achieve first oil in H1 2019	Demonstrate long-term sustainable production from the EPS	Demonstrate technical Lancaster reserves	Enhance production through incremental infrastructure	Monetise assets
Previously achieved	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 bopd using an ESP.	November 2016 capital raise funded FEED studies and initial long-lead item payments. \$547 million raised in 2017 to fully fund Lancaster EPS development.	First oil achieved on 4 June 2019.				
In process				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.	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.	Activity following Spirit farm-in may include, subject to consents and partner agreement as appropriate: <ul style="list-style-type: none"> GWA well tie-back; gas export tie-in to West of Shetland Pipeline System (WOSPS); and debt bottlenecking of the Aoka Mizu FPSO. Hurricane is also working towards potential additional GLA tie-backs and other opportunities for incremental production enhancements prior to full field developments.	Sale or partial sale of Hurricane's Rona Ridge assets and/or the Company.
							Share price hurdles
							Total shareholder return
							HSSEQ

Principal Risks and Uncertainties


How we manage risk

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. The principal risks, and associated risk management activities, are prepared using a bottom-up process starting with the

risk registers for individual business units which are regularly reviewed and updated. These risk registers include changes to the impact and likelihood of each risk, the mitigating actions for each, a look back at how risks impacted the business, and any emerging risks that are arising as a result of external or internal changes, which are promoted to Principal Risks if necessary. These individual risk registers are consolidated into the Principal Risk register, and reviewed by senior management, the executive directors and the Board. 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 factor	Risk detail	How it is managed	How it has changed during the period
<p>A Substantial capital requirements</p>	<p>The Group's business plan to exploit and commercialise its assets requires significant capital expenditure.</p> <p>The impact of the availability of external capital has been reduced following the commencement of production from the Lancaster EPS in 2019. This provides a source of operating cash flow to fund certain future capital expenditure.</p> <p>Future plans may be curtailed if the Group is unable to generate sufficient funds from its operational cash flow and/or to raise further funds, as required.</p>	<p>The Group continually monitors its funding requirements to progress its asset portfolio.</p> <p>The start of production from the Lancaster EPS has resulted in positive operating cash flows for the first time and, subject to oil price, is expected to continue to deliver positive cash flow over the coming years. Costs will be continuously reviewed in order to identify opportunities for reductions.</p> <p>Alongside this, the Group actively engages with providers of finance including current and potential shareholders, brokers, banks and other financial institutions to understand the range of options available to the Group. The Group maintains large equity interests in its licences and future farm-outs could be pursued as a source of financing.</p> <p>The Group has implemented a capital allocation framework which guides the decision-making process in strategic investment, financing and shareholder return decisions.</p>	 No change

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
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, poor quality (or misinterpretation of) data, failure of offshore vessels/rigs or other crucial equipment, unforeseen problems occurring during drilling or completion works, and delays to offshore operations due to unfavourable weather.	<p>The Group invests significant time and resources to plan all of its exploration, appraisal and development operations and focusses 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.</p> <p>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.</p>	 No change
C Production operational risks	<p>There are many production-related operational risks. These mainly relate to, but are not limited to, the risk of unplanned downtime of production facilities. This may be the result of mechanical issues, unfavourable weather leading to delays in operations, availability of personnel, and/or other issues.</p> <p>Furthermore, additional development activity involving the Aoka Mizu FPSO may require some production downtime from the Lancaster wells, which may extend to a longer period than planned.</p> <p>As a result of the ongoing COVID-19 pandemic, there is an increased risk to operations arising from key offshore or onshore personnel potentially having to undergo periods of self-isolation and/or restrictions on offshore travel being imposed, which could reduce operational uptime and disrupt wider business activity.</p>	<p>The Group invests significant time and resources to plan all of its operations and focusses on minimising the various operational risks to which it is exposed. 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.</p> <p>In respect of COVID-19, the Group follows OGUK's Industry Travel Policy for Offshore Installations, and has been working with its offshore rig, FPSO and aviation contractors to put measures in place to prevent the spread of the virus, including confining, treating and evacuating affected employees and contractors where necessary. Quarantine arrangements are in place offshore and services are available to manage repatriation onshore. It has also implemented a temporary business travel ban for its employees and contractors, and all onshore employees have the necessary equipment and access allowing them to work at home if required.</p>	 Risk has increased

Principal Risks and Uncertainties continued

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
D Geological and reservoir risk	<p>The geology of the Group's licence areas and the behaviour of the associated reservoirs rely on various assumptions and interpretation techniques. There is a risk that the reservoirs do not behave as expected, such as significantly higher water production than predicted, reserves/resources being less than expected, or oil having different properties than expected.</p>	<p>All appraisal programmes are designed to de-risk the assets in the most cost-effective manner while gaining the maximum possible understanding of the geology and reservoir.</p> <p>Hurricane uses data obtained from drilling and well testing to populate numeric reservoir models. The recent and planned updates of these models enable Hurricane to better understand the reservoirs and build predictive cases that address the uncertainty envelope and thereby mitigate risks in future well planning or production strategy.</p> <p>Data has been closely monitored since the commencement of production. 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, reservoir models will be updated to better reflect the actual reservoir characteristics.</p>	 No change
E Regulatory	<p>There is a risk that changes in the regulatory environment affect the Group's ability to carry out planned programmes and/or the returns expected to be achieved from the Group's assets.</p> <p>There is also 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.</p> <p>As the breadth of the Group's activities has increased, including exploration, appraisal, development and production, the regulatory obligations that apply to the Group have increased, thereby increasing the risk of a breach.</p>	<p>The Group actively monitors the regulatory environment in the UK and seeks to anticipate and mitigate the impact of potential changes through engagement with regulatory authorities, both directly and via industry groups.</p> <p>The Group maintains active engagement with its primary contractors, and with relevant stakeholders, governmental and regulatory authorities. The Group regularly monitors its primary contractors' obligations in connection with Group activities, including undertaking compliance audits, and ensures that there are sufficient resources and competent personnel in place to satisfy such obligations.</p>	 Risk has increased

Key risk factor	Risk detail	How it is managed	How it has changed during the period
F Oil price fluctuations	<p>Oil prices can be volatile and subject to fluctuation in response to relatively minor changes in the supply of, and demand for, oil, market uncertainty and a variety of additional factors that are beyond the control of the Group.</p> <p>It is not 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. Now that the Group is in production, currently not directly hedged with respect to the oil price, changes in oil price will have a significant impact on the Group's operating cash flow.</p>	<p>The viability of the Group's assets is assessed on a regular basis. Economic models of development cases are stress tested using varying oil price forecasts. Investments have and will only be made if development cases are robust to downside price sensitivity scenarios. For Hurricane's producing assets the Group will consider the use of oil price hedging to manage any potential exposure. The Group's charter of the Aoka Mizu FPSO provides some cover with respect to changes in oil price as a significant proportion of the lease cost is in proportion to the quantity and price of crude oil sold.</p>	 <p>Risk has increased</p>
G Third-party infrastructure	<p>Any field development involving gas export, such as connecting to WOSPS, is likely to be dependent upon the availability of third-party infrastructure and available capital. If this fails, or is not available on reasonable commercial terms, it may result in delays to field development, production and cash generation. This could have a material adverse effect on the Group's business, prospects, financial condition and operations.</p>	<p>In planning the development scenarios for the Group's assets, the use of third-party infrastructure is assessed. Consideration is given to the extent, nature and commercial arrangements of potential use of third-party infrastructure. The Group minimises the use of third-party infrastructure, where appropriate, or aims to ensure that commercial agreements are appropriate to align interests or protect the Group's position.</p>	 <p>No change</p>
H Development project delivery	<p>Development projects are subject to various risks including availability of third-party services and manufacturing slots, solvency of major contractors, correct fabrication of key components to specification, incident-free installation operations, installation windows, permits, consents and weather. Problems with any of the above can cause project delays that would impact both the timing for completion of the project, as well as the cost. This can have a material impact on the projected cash flow from the project and the funding required.</p> <p>Future near-term development projects are likely to be incremental to the existing Lancaster EPS production facility. This will add additional complexity due to the need to accommodate and minimise the impact on production operations.</p>	<p>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.</p>	 <p>No change</p>

Principal Risks and Uncertainties continued

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
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. There is also a risk of employees or contractors contracting COVID-19 on offshore installations including the FPSO where it is not always practicable to strictly adhere to 'social distancing' measures cannot be practically complied with at all times.	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 has measures in place aiming, where possible, to prevent spread and impact of COVID-19, as outlined in risk C above. The Group also carries various insurances.	 Risk has increased
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.	 No change
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. The Group is aware that the majority shareholder of its joint venture partner on the Greater Warwick Area, Spirit Energy, is seeking a sale of its oil and gas business. A change in ownership could lead to a change in focus, resulting in delays in future joint venture activities.	Due diligence will be used to review and assess any third parties with whom the Group enters into a joint venture for 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. The Group has revised its commercial arrangements with Spirit Energy to limit the potential impact of a change in work programme timing on the value of carry previously agreed, and to clarify future cost splits amongst the joint venture.	 Risk has increased

Key risk factor	Risk detail	How it is managed	How it has changed during the period
<p>L Strategy</p>	<p>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.</p>	<p>The Board monitors 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.</p> <p>To support the Group's strategy, care is taken in recruitment activities to ensure strategic planning skills are suitably reflected. The Group's remuneration strategy is designed to attract and retain key employees.</p>	<p> No change</p>
<p>M Climate change and energy transition</p>	<p>Concerns relating to the potential impact of climate change are driving a societal transition towards a low-carbon future. Governments, including in the United Kingdom, are developing their fiscal policy and regulatory frameworks in response to these rising concerns, which could affect the ability of the Group to carry out planned work programmes, the economics of its assets and its cost and availability of capital.</p> <p>There is a risk that global views relating to climate change and energy transition will have an adverse impact on oil price. Declines in oil prices may adversely affect the cash flows generated from production and may also adversely affect the cost of capital for oil and gas companies and the market value attached to oil and gas assets.</p> <p>Climate change could increase the frequency and intensity of severe weather which could represent a physical risk to Hurricane's personnel and operations.</p>	<p>Hurricane is committed to carrying out its operations in an effective and responsible manner, and where practicable seeks to reduce its carbon emissions and footprint.</p> <p>The Group is conscious of the need to monitor the ways in which this energy transition might affect its business. As part of this, the Board considers the potential impact of climate change, and corresponding shifts in the policy and market setting in which the Group operates, in its oversight of the Group's strategy. In the future, the Board intends to adapt its approach to assessing climate-related financial risks, working towards alignment with TCFD (Task Force on Climate Related Disclosures) recommendations through the implementation of appropriate governance and risk management processes.</p>	<p> New risk this year</p>

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 off- and on-balance sheet commitments are set out in notes 2.7 and 5.3 of the Group Financial Statements. In addition, notes 5.8 to the Group Financial Statements includes the Group's objectives, policies and processes for managing its capital; and note 4.4 includes the Group's objectives concerning its financial risk management objectives; details of its financial instruments; and its exposures to credit, market and liquidity risk.

The Group ended the year with \$171.4 million of cash and cash equivalents, of which \$156.6 million was unrestricted. The Group's most significant long-term liabilities are the Convertible Bond in issue of \$230 million with a coupon of 7.5% payable quarterly in arrears, which matures in July 2022, and committed lease liabilities in respect of the Aoka Mizu FPSO.

The directors have performed a robust assessment of the going concern assumption, including a review of the budget for the year ending December 2020 and onwards, committed capital expenditure, regret costs and longer-term strategic forecasts and plans, including consideration of the principal risks faced by the Group, as detailed on pages 18 to 23, and taking into account the ongoing impact of the global COVID-19 pandemic on the macroeconomic situation and any potential impact to operations. This analysis has considered whether cash inflows from operation of the Lancaster asset together with cash balances held, plus amounts due from Spirit of \$47.5 million in respect of the joint venture funding, are forecast to be sufficient to allow the Group to meet its outstanding trade and other payables of \$72.1 million that existed at 31 December 2019, lease payments (primarily for the Aoka Mizu FPSO) and other operating costs, coupon payments on the Convertible Bond debt, and capital expenditure contracted for but not recognised as a liability.

In light of the ongoing global COVID-19 pandemic, and its significant impact on oil price, oil supply and demand, and the potential impact on Lancaster facility uptime, the directors considered the following scenarios to robustly stress test the ability of the Group to continue operating as a going concern:

- A flat Brent oil price of \$20 per barrel prevailing for the 12 months from April 2020; and
- A cessation of production and operations from the Lancaster EPS for 12 months from April 2020.

As part of this assessment, further downside sensitivities were considered in relation to production rates, operational uptime, operational costs and foreign exchange rates.

Under the \$20 per barrel oil price scenario the Group would be able to cover the operating costs of the Lancaster EPS and currently holds sufficient unrestricted cash to fund overheads, interest repayments and capital expenditure contracted and planned to take place over the next 12 months, including its licence commitments due to be carried out by the end of 2020. However, should oil prices fall further below \$20 per barrel, or production rates fall significantly below that which the directors consider reasonably possible for a sustained period of time, the Group may need to take mitigating actions as outlined below.

Under the cessation of production scenario, to robustly stress test the Group's position, it was assumed that it would not be possible to claim for loss of proceeds under the Group's business interruption insurance. Within this scenario, the forecasts assumed and modelled reductions in operating costs that would otherwise be fixed under normal production levels (including persons on board, fuel and other support costs). Under this scenario, the Group would have sufficient cash to meet the residual operating costs, overheads, debt repayments, and committed capital expenditure, but would not be able to meet all of its 2020 licence commitments without further mitigating actions taking place.

The mitigating actions may include deferring, cancelling or modifying the scope of certain work required to meet the Group's licence commitments, which would need to be agreed with the Regulator. Although no specific requests in this regard have been made, the Group welcomes the OGA's recent statements on taking a pragmatic approach to compliance where possible and willingness to take a flexible approach in relation to amending licence timelines.

Following this review, the directors are satisfied that, after taking into consideration the current macroeconomic situation and uncertainty arising from the COVID-19 pandemic, 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 31 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 2022 (the Lookout Period), subject to current oil prices not remaining at their current lows indefinitely, and an ability to refinance the Convertible Bond in July 2022, if required.

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 8 to 11, whilst factoring in the Group's principal risks and uncertainties (pages 18 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 cash flow detail on a field-by-field basis along with cash flows incurred and generated at a corporate level.

These forecasts take into account the level of unrestricted cash and cash equivalents, together with the forecast cash flow generation from the Lancaster EPS (based on expected production rates and oil prices), payment of the Convertible Bond interest coupon, the Group's share of committed capital expenditure on the GWA, and future capital spend on the GLA.

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 six years (an extension of the field life to ten years would increase reserves by an estimated 25 million barrels).

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 FPSO.

The Lookout Period

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, and the approximate length of the Group's planned exploration activities.

This period incorporates:

- a further three years of production and data from the Lancaster EPS;
- licence commitment drilling on the GWA;
- licence commitment drilling on the GLA; and
- the maturity of the Convertible Bond in July 2022.

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 18 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 prospects, which are considered to be production operational risks, geological and reservoir risk, regulatory risk, oil price risk and development project delivery risk; in addition to the emerging risk of COVID-19 and its impact on oil supply and demand, uptime assumptions and potential wider impact.

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. These included the scenarios outlined in the Going Concern section above. The review also considered the minimum daily production rate from the Lancaster EPS that would be required at a given oil price that would allow the Group to cover its operating costs, overheads and debt repayments, and also its capital expenditure programmes.

The reviews assumed that further development, exploration and appraisal activity would only be undertaken if fully funded from existing or operational cash flow or carried by a joint venture partner. The Group's ability to develop its assets beyond the Lancaster EPS is dependent on the performance of the Lancaster EPS continuing to provide cash flow that is surplus to the Group's other requirements, additional farm-outs, or future fundraising activity.

The results of the review demonstrated that the Group would have sufficient liquidity over the lookout period to meet its ongoing liabilities whilst also allowing it to invest in certain capital projects, assuming that oil prices follow the current forward curves at the time of assessment (\$30 rising to \$35 per barrel throughout 2020, \$40 per barrel in 2021 and \$45 thereafter). Should the oil price remain below c.\$25 per barrel indefinitely for the foreseeable future, mitigating actions as outlined above would need to be taken.

Furthermore, under certain downside scenarios, and assuming no other mitigating actions were taken (for example cancelling, postponing or reducing the scope of some capital projects,) it is forecast that the Group would not have sufficient cash available to fully redeem the Convertible Bond which falls due in July 2022 without raising additional equity or refinancing the Bond, should the Bonds not convert into Ordinary Shares. The Board considers the ability to refinance the bond to be a reasonable assumption given the projected cash flows (driven by low operating costs) from the Lancaster EPS, combined with the absence of any other existing debt.

Subject to these key assumptions and qualifications, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of assessment.

Project delivered



During 2019, Hurricane continued to focus on operational delivery at Lancaster whilst also commencing joint venture operations on the Greater Warwick Area. The focus in the first half of the year was on reaching first oil within the Company's H1 2019 guidance. In the second half, focus turned to delivering stable production and completing final elements of commissioning. Continued well operations on the Greater Warwick Area, together with joint venture partner Spirit Energy, punctuated this Lancaster narrative. This was Hurricane's first demonstration of significant simultaneous operations in two areas.

Given this high level of activity, I am delighted to report back that both areas of operation were delivered on budget and with strong health and safety performance, including nearly 1 million work hours without any LTIs being incurred.

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This was Hurricane's first demonstration of significant simultaneous operations in two areas.”

Lancaster EPS

Aoka Mizu hook-up

Although hook-up progress was slightly delayed due to the short weather windows and adverse weather conditions during Q1, Hurricane and Bluewater made the most of this time to expedite a number of offshore commissioning activities which would normally have been done once on location post-hook-up. Hook-up was ultimately achieved on 19 March 2019, with the vessel now secured in position with a 12-chain mooring system which is designed to be storm safe for the 10-year design life of the facility.

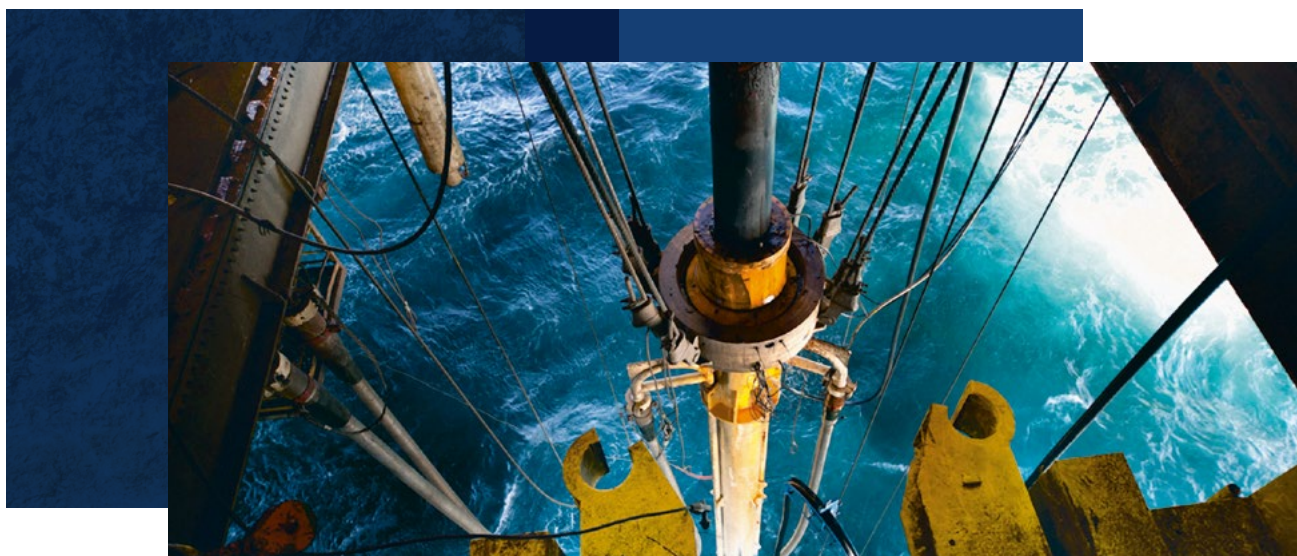
First oil

Introduction of hydrocarbons to the Aoka Mizu FPSO's process system on 11 May 2019 marked a significant milestone for the project and the commencement of the initial phase of production in parallel with ongoing commissioning. Following the introduction of hydrocarbons each of the two production wells were individually tested including shut-ins for data gathering purposes during which cleaning and testing (pigging) of the flowlines for flow assurance purposes took place. This start-up phase concluded with simultaneous flow from both wells for 72 consecutive hours, the contractual definition of first oil (and Provisional Acceptance) under contracts with Bluewater, on 4 June 2019.

Aoka Mizu final commissioning

Following the introduction of hydrocarbons, the Lancaster EPS production and subsurface teams have focussed on completing commissioning activities, optimising systems and focussing on achieving steady state operations at the earliest opportunity. I am happy to report that both the vessel and process facilities have performed well and facilities availability has been higher than predicted pre start-up, a testament to both Hurricane's and Bluewater's development teams. The only significant impediment to data gathering was the period during which production was conducted through an individual flowline whilst the operation of an emergency shutdown valve in the turret was investigated. The flowline is now back in use.

With the fuel gas compression system operational, the focus is now on maximising the use of our produced gas to minimise environmental emissions and operating costs compared to the alternative fuel source, diesel. Work on the power management systems will continue to optimise this further over the next few months. Whilst there are a number of remaining hurdles to Final Acceptance, Bluewater's delivery of vessel availability has been exemplary, and we are ahead of expectations in this regard. They are now focussed, along with Hurricane's production team, on maintaining this level of availability as the Installation and Pipeline Operator for the Lancaster EPS.



Greater Warwick Area joint venture

2019 drilling campaign

The combination of Petrofac Facilities Management as Well Operator and a Transocean rig, in this case the Leader semisubmersible, proved an effective team once again. The programme was completed within budget, despite starting late due to overrun in the programme with previous operators of the rig which pushed the programme into a less favourable weather window. The campaign was not without challenges, in particular, the need to side-track the Warwick Deep well. However, the combined performance of Hurricane's well operations team, Petrofac Facilities Management as Well Operator and the Transocean crews on board the Leader ensured that these and other hurdles were dealt with efficiently.

GWA tie-back and WOSPS tie-in

During the year, we carried out the engineering work to be able to deliver a GWA single well tie-back to the Aoka Mizu FPSO, reinstate gas compression on the vessel, and debottleneck production capacity up to 40,000 bopd. A number of time-critical long-lead items were also ordered to allow the possibility of a 2020 installation schedule. These activities were predominantly carried as part of the Phase 1 costs under the Spirit Energy deal. As announced on 6 February 2020, we no longer expect this activity to take place during 2020 but we are in a position to carry out the activity when the market environment and consents permit. Furthermore, having agreed new commercial arrangements with Spirit Energy in March 2020, Hurricane is able to proceed with gas export without a GWA tie-in, knowing that the carry value of the Spirit Energy farm-in has been preserved and would be payable in the event that the GWA joint venture partners proceed with a GWA tie-back in the future.

Corporate

Expanded organisational structure

To enable the planned acceleration of activity through 2019, following the deal with Spirit Energy, including simultaneous offshore operations, we expanded our organisational structure to accommodate operations across a number of concurrent projects. Our expanded Aberdeen presence, including having the Petrofac Facilities Management wells team in-house, has been performing well. We are now in a strong position to conduct multiple development and wells projects at any given time.

Health and safety

Following a strong health and safety record in the development and initial operations phase for the Lancaster EPS, and the 2019 drilling programme, a key focus for the Company from a health and safety perspective is on prevention and mitigation of impacts from the COVID-19 pandemic. Processes have been put in place to minimise the risk of infected persons travelling offshore, including self-declaration prior to attending the heliport and COVID-19 pre-screening checks at the heliport. Quarantine arrangements are in place offshore and services are available to manage repatriation onshore.

Hurricane and Bluewater also continue to review manning levels and supply chains. As a consequence, the minimum manning levels required to sustain production, whilst safely deferring non-essential activities and avoiding unnecessary travel, have been implemented on the Aoka Mizu FPSO. Changes to shift patterns to provide the necessary resilience have also been incorporated.

Look forward

Whilst our forward capital plans are relatively uncertain in the current macroeconomic environment, we have a significant programme of activity going forward related to both ongoing operations as well as regulatory commitments. Now in production on the Aoka Mizu FPSO, we are focussed on streamlining activities and improving production efficiency whilst minimising operating costs. Significant planning and engineering will also continue to take place so that we are 'drill-ready', and 'install-ready' when in a position to sanction the next phases of activity.

I'd like to thank the Hurricane team, our Tier 1 contractors and the broader network of subcontractors involved on our licences for their contributions to this year's successful operational delivery and look forward to continued production and future phases.

Neil Platt

Chief Operations Officer

Cash generating



The first half of the year included a momentous shift for the Group with the first recognition of revenue. The Aoka Mizu FPSO was hooked up and first oil from the Lancaster EPS was announced on 4 June 2019. During 2019 over 3 million barrels of oil were produced and seven cargoes sold, realising \$170.3 million in revenue and providing \$112.2 million in operating cash flow. The EPS start-up was completed on time and importantly the total capital expenditure incurred was within the original budget.

Alongside the progress on the Lancaster field, activity continued on the GWA with the drilling of three wells, which were completed on budget. The majority of the GWA activity was paid for in full by the Group's joint venture partner, Spirit Energy, as per the terms of the farm-out agreement. The first well, Warwick Deep, was not a commercial success, producing a mixture of drilling brine, water, and small amounts of oil and gas. The well was therefore plugged and abandoned, but not before valuable data had been collected from logging and attempting

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Even at low oil prices, the Lancaster EPS is now in a position to generate operating cash flow.”

to test the well. The rig then moved on to drill the Lincoln Crestal well, which successfully tested at commercial flow rates. The third well, Warwick West, produced oil at lower rates. Hurricane and Spirit Energy are now using the data from the campaign to help define the optimal appraisal strategy for the GWA.

The Group's profit after tax for the year was \$58.7 million (2018: loss after tax of \$60.9 million). This included the non-cash impacts of a \$34.7 million fair value gain on the Convertible Bond embedded derivative, \$54.2 million credit relating to deferred tax and \$66.5 million impairment of the Whirlwind asset following relinquishment of the licence at the OGA's request. Underlying profit before tax* (which excludes the embedded derivative fair value movement and asset impairments) was \$30.0 million (2018: \$16.7 million underlying loss before tax).

Even at the current low oil prices, the Lancaster EPS is now in a position to generate operating cash flow which can be utilised to deliver the Group's longer-term strategy.

Revenue

Revenue for the year was \$170.3 million with an average price of \$59.3/bbl realised across seven cargoes.

Cost of sales

Total cost of sales was \$118.5 million, including \$62.6 million of depreciation charges (calculated on a unit-of-production basis). Cash production costs* (which exclude depreciation and accounting movements in inventory but include the fixed lease charges for the FPSO) were \$66.0 million, equivalent to \$21.8 per barrel produced.

Of the cash production costs, lease payments for the Aoka Mizu FPSO were \$21.1 million. \$15.3 million of these were the revenue-linked incentive tariff. As the incentive tariff is linked to revenue a reduction in oil price results in a direct reduction in production costs, thereby partially reducing the oil price risk to the Group.

This resulted in a gross profit for the year of \$51.8 million.

* Non-IFRS measures are defined and reconciled to statutory IFRS measures in Appendix B.

Other profit and loss

General and administrative costs decreased from \$12.7 million to \$0.4 million primarily due to a \$3.2 million non-cash credit relating to the Group's share-based payment schemes (compared with a charge of \$4.7 million in 2018) due to a change in the expected vesting date and performance assumptions of those schemes. The remaining general and administrative costs also decreased due to increased recharges to joint operation partners and certain staff and administrative costs now included within cost of sales.

Net finance costs were \$21.5 million (2018: \$4.0 million). The majority of this related to the interest charge on the Convertible Bond (\$16.4 million) which, following first oil, could no longer be capitalised. In addition, in the period interest on lease liabilities were recognised for the first time (\$5.0 million), following the adoption of IFRS 16 on 1 January, and the commencement of the FPSO lease from first oil. These interest costs were partially offset by foreign exchange gains and interest income received.

This resulted in an underlying profit before tax* for the year of \$30.0 million (2018: underlying loss before tax of \$16.7 million).

Exploration write-off

The extension of the Group's P1368 licence, agreed with the OGA in December, included the relinquishment of the Whirlwind and Strathmore subareas. As a result, an impairment charge of \$66.5 million was recognised in the year, all relating to Whirlwind. The carrying value of Strathmore had previously been written off in 2017.

REVENUE

\$170m

PROFIT AFTER TAX

\$59m

AVERAGE SALES PRICE REALISED

\$59.3/bbl

AVERAGE CASH PRODUCTION COST

\$21.8/bbl

OPERATING CASH FLOW

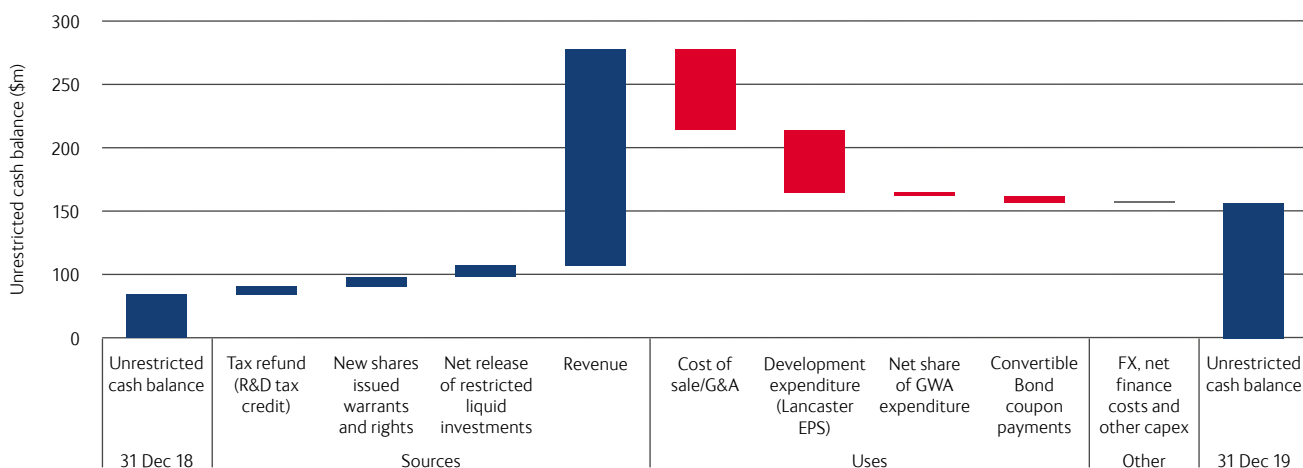
\$112m

AVERAGE PRODUCTION RATE

12,900 bopd

Cash flow bridge

FY results 2019



Financial Review continued

Convertible Bond fair value movement

The accounting for the Convertible Bond (issued in July 2017) required the recognition of an embedded derivative liability related to the equity conversion option. The fair value of the embedded derivative is based on the market value of the quoted Bond at the balance sheet date and equivalent yields on other bonds of a comparable size and maturity. The higher the market value of the Bond (which typically tracks the Company'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. See note 5.1 to the Financial Statements for further details.

The losses recognised do not have any impact on the Group's cash position, amounts payable in respect of the Convertible Bond, or on its tax position. On either conversion or repayment of the Bond, the recognised derivative liability will be released to the Income Statement.

The fair value gain recognised during the year in relation to the embedded derivative was \$34.7 million (2018: fair value loss of \$42.4 million).

Cash flow

In 2019, the Group's main sources of cash received were:

- proceeds from crude oil sales of \$170.3 million;
- tax refund relating to R&D tax credits of \$6.2 million; and
- new shares issued under warrants and rights of \$7.8 million.

In 2019, the Group's primary uses of funds were:

- remaining development expenditure on the Lancaster EPS of \$52.9 million;
- operating costs for the Lancaster EPS, including \$16.1 million of lease payments for the Aoka Mizu FPSO; and
- convertible Bond coupon payments of \$17.3 million.

As at 31 December 2019, the Group had an unrestricted cash position of \$156.6 million (31 December 2018: \$83.0 million).

The Group generated operating cash flow of \$112.2 million driven by the sale of seven cargoes of crude from the Lancaster EPS following first oil in June 2019. Factoring arrangements agreed with BP and banks meant we were able to benefit by receiving cash proceeds from liftings within days of title transfer, rather than the typical 30- to 60-day payment terms.

Average sales price realised per barrel was \$59.3. Cash production costs* were \$21.8 per barrel, generating an operating cash flow equivalent of \$37.5 per barrel during 2019.

In May 2019, Crystal Amber exercised warrants to subscribe for 23,333,333 Ordinary Shares at £0.20 per share. Kerogen Capital subsequently exercised a related right to subscribe for 6,257,501 Ordinary Shares also at £0.20 per share. Total proceeds received by the Group from the issue of these shares were \$7.8 million. Other cash received in the period was in respect of a tax claim under the research and development tax relief scheme for the 2016 and 2017 financial years; \$6.2 million was received in April 2019.

Cash expenditure in the period related to the final elements of capital expenditure bringing the Lancaster EPS to first oil including expenditure previously deferred from 2018, the costs of sales (including lease repayments) and G&A associated with the Group's operating costs, and the payments of the coupon on the Convertible Bond. With effect from October 2019, interest payments on the Convertible Bond have been paid out of unrestricted funds rather than from a dedicated restricted escrow account. Cash outflows relating to GWA represented the Group's share of its costs of the joint operation, and the timing impact of expenditure incurred by the Group as operator before recovery of costs from Spirit Energy.

Following start-up of production from the EPS, the Group is required to set aside a certain amount of cash generated from oil sales to cover some of the termination costs of the FPSO lease should it wish to exit the charter outside of the contractually agreed periods. At 31 December 2019, this amounted to \$11.7 million and was classified as restricted cash.

At the end of 2018, as agreed with the OGA, £16.8 million of cash was held in trust to cover the post-tax cost of decommissioning the Lancaster EPS and was accounted for as a non-current restricted liquid investment and recognised within non-current assets. 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, the original funds were able to be released back to the Group in tranches once specific production milestones were met. These milestones were all achieved by September 2019, and thus the full £16.8 million (\$21.7 million) was released back to unrestricted cash in the year.

* Non-IFRS measures are defined and reconciled to statutory IFRS measures in Appendix B.

Tax

The Group recognised a total tax credit for the year of \$60.5 million. This comprised a \$6.3 million credit under the R&D tax relief scheme noted above, and a \$54.2 million deferred tax credit.

Due to the nature of the Group's business, it has accumulated significant tax losses since incorporation. The Group has \$487.9 million of ring-fenced trading losses at 31 December 2019 and other allowances and supplementary charge losses of \$761.0 million, which have no expiry date and would be available for offset against future trading profits. Following commencement of production from the Lancaster EPS, positive cash flows from operations, data analysed to date and estimates of future taxable profits, a deferred tax asset of \$54.3 million has been recognised in respect of some of these trading losses and a corresponding tax credit recognised in the Income Statement.

The Group had pre-trading expenditure of \$122.2 million which was carried forward at 31 December 2019. Tax relief will be available on this amount as the Group's remaining licences reach the development stage.

Exploration and evaluation, and oil and gas assets

During the year, the Group incurred the remaining expenditure in relation to the Lancaster EPS and the Lancaster field as commissioning entered its final phases and first oil was achieved. Total additions to these assets during the period amounted to \$26.2 million, including \$9.1 million of capitalised interest, included within oil and gas assets (although cash expenditure on oil and gas assets in the year was higher as the Group settled certain deferred invoices due to one of our Tier 1 contractors which were previously capitalised in 2018).

Following the commencement of production, the Group's charter of the Aoka Mizu FPSO began. Under IFRS 16 this lease was initially recognised on the balance sheet as a right-of-use asset of \$101.3 million (within oil and gas assets) and a lease liability of \$96.4 million. The P&L expense for the FPSO is recognised within depreciation and finance costs: the lease asset is depreciated on a unit-of-production basis in line with the other EPS assets (and capitalised into crude oil inventory), and the lease liability accrues interest and reduces as the fixed lease payments are made. Because of this, the lease interest costs will be higher in the earlier years of the contract as compared to the end. See notes 2.3 and 5.2 of the financial information for further details.

The Group also recognised minimal capital additions to intangible exploration and evaluation assets on the balance sheet, due to the carry element of the farm-in deal relating to Phase 1 of the GWA programme. Other exploration and evaluation expenditure was in relation to the other assets in the Group's portfolio.

Brexit

Management has continued to monitor the impact, and consider future consequences, of the United Kingdom's withdrawal from the European Union, which took effect from 31 January 2020. Some goods and services obtained from EU-based suppliers may incur customs-related delays or tariffs after the end of the transition period, but the risk of delays will be mitigated by advanced purchase of materials where they are required for critical activities. The overall proportion of EU-sourced suppliers is not significant; therefore the impact of any increase in tariffs is not expected to be material. Any weakening of Sterling against other currencies would benefit the Group's reported results (as revenue is received in US Dollars and a significant proportion of operating costs are in Sterling). However, given that the Group's licences and activities are entirely based within the UK, and all crude oil sales currently made to a UK customer, management does not consider the risks relating to Brexit to be significant.

COVID-19

Hurricane has been closely monitoring the ongoing COVID-19 pandemic as part of its duty of care to its workforce and given the potential risk to operations arising from availability issues relating to key offshore or onshore personnel. Hurricane follows OGUK's Industry Travel Policy for Offshore Installations, and has been working with its offshore rig, FPSO and aviation contractors to put measures in place to prevent the spread of the virus, including quarantine arrangements in place offshore and services available to manage repatriation onshore. It has also implemented a temporary business travel ban for its employees and contractors and all onshore employees are working from home except where absolutely necessary. However, an FPSO crew member tested positive for the virus in March 2020, indicating the potential for cases offshore. Operational disruption could result from offshore cases which, in addition to the lower oil price environment, would have an impact on the level of operating cash flow and may have an impact on Hurricane's forecast capital programme. This has been considered as part of the assessment of going concern and the Group's longer-term prospects on pages 24 and 25.

Going concern

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 and 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.

Richard Chaffe

Acting Chief Financial Officer

Working responsibly

Hurricane has always had a strong focus on responsibility. Our main priorities are ensuring the safety of personnel and protecting the environment.

We have also always focussed on the social and governance topics that we see as significant to our business and stakeholders. This year this approach has been formalised and described in Hurricane's first standalone ESG Report. It covers our ESG approach and performance across our operations relating to our key material topics for calendar year 2019, designed to sit alongside this Annual Report. Future reports will be issued annually.

We have chosen to follow the Global Reporting Initiative (GRI) Standards (Core option). This guidance has been chosen as it is a broad and well-recognised framework to report against. We made this decision with reference to other standards and considering industry-specific guidance from the International Petroleum Industry Environmental Conservation Association (IPIECA) and the best practice reporting of peers.

Our approach to working responsibly

Working responsibly at all times is integral to the success of our business. We work in an open and transparent manner, both within the Company and with all our stakeholders, and our approach is underpinned by effective governance and management systems.

As an oil and gas company, our most important topics are long-term and considered on an ongoing basis. We recognise the importance of material topics, including 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 health and safety and protecting the environment.

We believe in building trust and working in partnership with all our stakeholders, relevant third parties and other companies, sharing best practice and developing long-term relationships that will strengthen our business and help us achieve our objectives.

Scope and boundaries

We report on those assets and activities over which we had control in terms of ESG policies and practices throughout 2018 and 2019. This covers our offshore operations on the UK Continental Shelf (UKCS) and our offices in Easing and Aberdeen. Read more about the boundaries in the ESG Report.

Identifying our stakeholders

As part of this process, we carried out an exercise to identify our stakeholders, defined as individuals, groups or bodies who might be significantly influenced or affected by Hurricane's activities, or whose support or participation is required for us to operate, fulfil our strategy and meet our objectives. Our engagement with these major groups is outlined in our strategy and business model on page 11.

Our stakeholder groups include:

- Employees
- Shareholders
- Strategic or business partners
- Contractors and suppliers
- Regulators
- Local communities

Identifying our material topics

For any company, it is important to understand the most important topics that impact and influence the business, as this will guide strategy and decision making. In 2019, we identified our material topics and their relative importance for the Company and its stakeholders. In line with GRI guidance, this involved assessing where impacts occur (or are at risk of occurring) and what Hurricane's involvement and influence are. These were then validated through an internal materiality workshop to determine the boundary for reporting purposes. In some cases, areas of impact were identified but have been excluded from the reporting boundary given a lack of materiality compared to the impact related to Hurricane's core business.

Our values

Hurricane is driven by a set of clear values that guide our behaviour and approach at all times. These values are underpinned by a commitment to ethical behaviour and full compliance with all applicable laws.



Straightforward
We keep it simple



Ingenious
We see what others miss



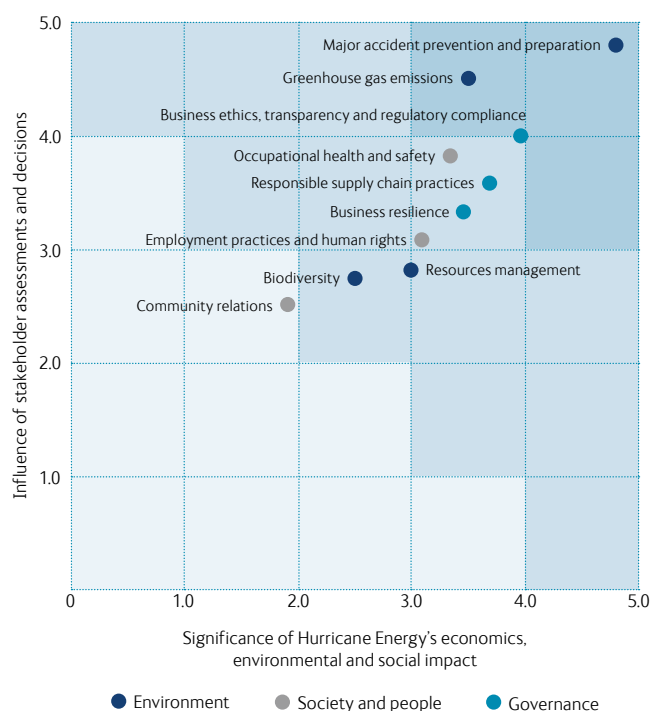
Tenacious
We never give up



Collaborative
The whole is greater than the sum of parts



Logical
It all adds up



How we engage with stakeholders on ESG matters

Regular informal interactions with stakeholders allow us to incorporate their views into our planning. Where we pursue actions with a substantial potential impact, such as field development phases, an external consultation process creates a more formal feedback mechanism. Examples of consultations Hurricane undertakes with a variety of different stakeholder groups include:

- mandatory consultations for permits and Environmental Statement Consultation processes, which include public consultation;
- investor meetings as a matter of course;
- workforce engagement meetings;
- meetings with the West of Shetland council and local communities; and
- informal proactive consultations with governmental and non-governmental organisations.

Sustainability 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 accordance with 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, chaired by the Chief Executive Officer, is responsible for recommending policies on health and safety, and environmental issues to the Board.

Our key policies and codes

To assist us in working responsibly, and to ensure the effective governance of our business, we have six key policies:

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

Modern slavery statement

Modern slavery is a very low risk for Hurricane, due to our size and the nature of our operations and direct suppliers. However, we are committed to implementing and enforcing effective systems and controls to ensure modern slavery does not take place anywhere in our own business or in any of our supply chains. 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 modern slavery policy was rolled out in 2019 and includes online training. This has been completed by all directors, employees and relevant third-party individuals. The policy will be reviewed on an annual basis going forward.

Climate change

As an oil exploration and production company, we are conscious of the need to monitor the ways in which the energy transition might affect our business. The Board considers the potential impact of climate change in its oversight of the Company's strategy. In the future, we intend to adapt our approach to assessing climate-related financial risks and working towards alignment with TCFD recommendations through the implementation of appropriate governance and risk management processes.

We recognise that society is transitioning towards a low-carbon future, and we support this goal. Even in the most ambitious scenarios, this shift will be gradual, and will require significant energy and economic prosperity to be achieved. Oil will continue to play an important role in the global economy for decades to come, and new sources of oil supply are required for a sustainable energy transition. Given this, the risk to Hurricane's business model from the changing global energy mix is believed to be long-term. We therefore maintain our strategy of monetising the significant reserves and resources within our portfolio through exploration, appraisal, development and production.

A further analysis of the risks posed by climate change is provided in the ESG Report.

Board approval of Strategic Report

This Strategic Report was approved by the Board on 8 April 2020 and signed on its behalf by:

Dr Robert Trice
Chief Executive Officer

Board of Directors



Steven McTiernan
Chairman

Steven was appointed Chairman of the Board on 1 May 2018.



Dr Robert Trice
Chief Executive Officer

Robert co-founded the Company in December 2004 and is CEO.



Neil Platt
Chief Operations Officer

Neil joined Hurricane in 2011 and was appointed to the Board on 8 March 2013.



Dr David Jenkins
Senior Independent Director

David joined the Board on 8 March 2013.



John van der Welle
Independent non-executive director

John joined the Board on 8 March 2013.



Sandy Shaw
Independent non-executive director

Sandy joined the Board on 3 January 2019.



Roy Kelly
Non-executive director (Shareholder Nominee Director)

Roy joined the Board on 10 May 2016, on completion of the fundraising in May 2016.



Beverley Smith
Independent non-executive director

Beverley joined the Board on 20 December 2019.



KEY TO COMMITTEE MEMBERSHIP

- Audit and Risk Committee
- Remuneration Committee
- Nominations Committee
- Committee Chair

Steven McTiernan, age 68

Steven has over 45 years' oil and gas industry and investment banking experience. He held senior and executive roles at Iraq Petroleum, Amoco, BP, Mesa, Chase Manhattan Bank, NatWest Markets and CIBC and a variety of board positions including non-executive director and Senior Independent Director of Tullow Oil plc and independent director at First Quantum Minerals Ltd and Songa Offshore SE.

Steven is currently Chairman of Kenmare Resources plc, a FTSE-listed mineral sands mining company.

Dr Robert Trice, age 59

Robert has over 30 years' oil industry experience and has worked for Enterprise Oil and Shell. Robert is a specialist in fractured reservoir evaluation, has a PhD in Geology from Birkbeck College, University of London and historically was a Visiting Professor at Trondheim University, Norway. Robert is a Fellow of the Geological Society and a member of the PESGB and SPE.

Neil Platt, age 56

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.

Dr David Jenkins, age 81

David spent 37 years at BP, where he was Chief Geologist (1979), General Manager, Exploration (1984) and then Chief Executive, Technology for BP Exploration (1987) for ten years.

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, age 64

John has over 30 years' oil industry experience, having qualified as a Chartered Accountant with Arthur Andersen in 1981. He is a Fellow of ACT and member of CIOT. John spent 11 years at Enterprise Oil, where he was Business Development Manager and subsequently Group Treasurer. He was Finance Director of a number of listed E&P companies, including Premier Oil 1999–2005 and Managing Director, Head of Oil and Gas, at RBS 2007–2008. Since 2010 John has worked as a consultant and as a non-executive director of a number of listed E&P companies.

John is currently the Chairman of Global Petroleum Limited, an ASX and AIM-listed company.

Sandy Shaw, age 66

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 including 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.

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

Roy Kelly, age 59

His appointment is in accordance with the terms of the Kerogen Relationship. Roy appointed Jason Cheng or, in his absence, Leonard Tao as his Alternate Director on the Board.

Roy is currently Chief Executive Officer of Victoria Oil and Gas, a London-listed African energy firm, and has over 35 years of technical, commercial and managerial experience in the upstream oil and gas industry. Roy was previously Partner, Head of Technical, at Kerogen Capital, and currently retains a role as operating partner on Kerogen's internal technical committee (in a non-executive capacity). Prior to that, Roy was Managing Director of Consulting at RPS Energy Ltd, a leading upstream technical consultancy and reserve auditor, and has held senior positions at PGS Reservoir, Ranger Oil and Sovereign Exploration, and BP (where he trained as a petroleum reservoir engineer).

Beverley Smith, age 54

Beverley is a Chartered Geologist with 30 years' experience in the upstream oil and gas sector, mostly gained with BG Group. Beverley was Vice President Exploration & Growth for Europe at BG Group where she provided strategic leadership of its largest exploration asset, including the challenging Jackdaw development. She has held a number of roles at the company including New Business Development Manager – Nigeria, Exploration & Development Manager – China, Exploration Manager – Algeria and technical roles in both the Central and Southern North Sea.

Beverley is currently President of PESGB and a trustee for the Etches Collection at the Kimmeridge Trust.

Note: Following the year ended 31 December 2019, Alistair Stobie resigned from his role as Chief Financial Officer and a director of the Company by mutual agreement with the Board on 26 February 2020.

Governance Report

Chairman's letter



Dear Shareholders,

Effective board governance, industry standard corporate behaviours, stakeholder engagement and commitment to environmental sustainability are, and will continue to be, critical factors in the success of Hurricane. During 2019, we made further progress with upgrading our standards of governance with the aim of meeting the standards required of Premium Listed companies.

Hurricane's culture has evolved and matured at the working level, and at board level the governance framework has been strengthened during the year. Based on these foundations, the Company has delivered the major strategic Milestone of producing first oil from the Lancaster field.

Two years of planning, upgrade and modification of the Aoka Mizu FPSO were completed on schedule and on budget on 4 June 2019, when we reached first oil from the Lancaster EPS Production System. The achievement of first oil is of national significance, since Lancaster is the UK's first field to produce from fractured basement. Since then, we have produced over four million barrels of oil and gathered important data from which to plan future developments.

Your Board is working towards building an efficient and sustainable business, keeping our operations simple and straightforward, fast moving and innovative, in order to exploit the opportunities others have overlooked. While maintaining this singular corporate culture, we recognise we must also work in collaboration with our industry partners, especially Spirit Energy, and a broad range of other stakeholders in the UK Continental Shelf arena, defined by the uniquely cooperative concepts articulated by the Wood Report and Oil & Gas Authority.

Our people are critical to our ability to achieve our goals. I would like to take this opportunity to commend the management team, all the staff at Hurricane and our Tier 1 contractors for their commitment to the success of the Company. We recognise that it is their personal effort and expertise, combined with the vision and innovation of Hurricane's founders and leadership team, that has made Lancaster a success, and drives the business forward.

“

Hurricane's commitment to effective governance is essential to the success and sustainability of our business.”

Alistair Stobie resigned from the Board and as Chief Financial Officer of Hurricane on 26 February 2020, and we sincerely thank him for his contribution to the development of the Company and his financial stewardship during a critical phase. Following Alistair's departure, Richard Chaffe, who joined the Company in 2016 as Head of Finance, has agreed to assume the role of Acting Chief Financial Officer. Richard was previously Finance Director at EOG Resources in the UK and before that worked for Ernst & Young.

I was delighted that Sandy Shaw and Beverley Smith joined the Hurricane Board as non-executive directors on 3 January 2019 and 20 December 2019 respectively. They have outstanding industry experience and personal qualities, and the Board benefits hugely from their sage legal and technical guidance.

While both Sandy and Beverley represent absolute “best in class” director quality, I am also pleased to report that as at 31 December 2019, we had 25 per cent female representation on the Board as set out in the Lord Davies Report (excluding Roy Kelly as Kerogen's nominee). The Board supported the aspirations set out in the 2011 Lord Davies Report that women should make up at least 25 per cent of board positions and currently supports the Hampton-Alexander Review to achieve 33% of women on FTSE 350 boards by 2020. We strongly endorse the objectives of improving diversity at board level.

Following Alistair's departure from the Company, and the appointment of Sandy Shaw and Beverley Smith, the Board consists of two executive and six non-executive directors (including the Chairman) and as a result a majority of the Board are independent for the first time.

During the year we met and engaged with a broad range of shareholders and stakeholders. These engagements took place variously at private meetings, the annual Hurricane investor roadshow, which was held in the early part of the year, the Capital Markets Day, the Annual General Meeting, and at other industry conferences and events. We also engaged with stakeholders on the Company's strategy, our capital allocation framework and, as part of the process of guiding and prioritising, our materiality assessment for our 2019 ESG Report.

Corporate governance statement

This Governance Report incorporates the reports from the Audit and Risk Committee on page 45, the Nominations Committee on page 51, the Directors' Remuneration Report on page 54 and the Directors' Report on page 76.

The Company continually aligns its governance with best practice. Hurricane is currently listed on AIM and complies with its obligations under the AIM Rules for Companies. Its shares are traded under the 'HUR' ticker. Hurricane is presenting this 2019 Annual Report and Group Financial Statements materially in line with the principles and provisions of the UK Corporate Governance Code (the Code) which was last amended in July 2018 (the 2018 Code), a higher disclosure standard than is required of companies quoted on AIM.

As with previous years we will be reporting on a voluntary basis against the 2018 Code on a comply or explain basis. The 2018 Code and associated guidance are available on the Financial Reporting Council website at www.frc.org.uk. We are keen to meet these higher standards as 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. During the year we have not fully complied with the following provisions of the 2018 Code:

- Provision 2.11 – For most of the year, less than half of the Board was independent; and
- Provision 3.18 – All directors are not subject to annual re-election. In accordance with Article 64 of the Company's Articles of Association, at least one-third of the Board stood for re-election at the Company's AGM.

The Board has so determined that any divergence from the 2018 Code is in the best interests of the Group and an explanation has been given.

APPLICATION OF THE PRINCIPLES AND PROVISIONS OF THE 2018 UK CORPORATE GOVERNANCE CODE

The notes below outline how the Company has applied the principles and provisions of the 2018 Code (including any divergence from the 2018 Code). Further information about our application of the Code is published on our website.

1. Board leadership and Company purpose

A. The Board's role

The Board is appointed to act on behalf of the shareholders and to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. The Board is accountable to the shareholders and each year the Company will hold an Annual General Meeting (AGM) at which the directors aim to provide a report to shareholders on the performance of the company, future plans and strategies. Hurricane's Board members bring a broad range of business skills and extensive experience to the Company to steer it towards a successful and sustainable future.

The Board's role in leading the Company is outlined on page 39 in the Annual Report and Accounts and in the Board's Corporate Governance Statement on our website.

B. The Company's purpose, values and strategy

The Company's purpose, culture and values align with its strategy, which is first and foremost to develop a growing reserve base and appraise and explore it in order to accelerate monetisation for our shareholders. Our purpose, culture and values influence both our strategy and how we operate. Details of our purpose, culture values and strategy can be found on pages 8, 9 and 32 and 33.

C. Performance measurement, framework of controls and the management of risks

The Board measures Company performance against its objectives, assesses the principal and emerging risks the Company faces and sets the Company's risk mitigations and risk appetite. The Board has an established a framework of prudent and effective controls. Further details can be found in the Strategic Report on pages 18 to 23 and in the Committee Reports on pages 45 to 76.

D. Shareholder and stakeholder engagement

The Board continually seeks effective engagement with shareholders and stakeholders and encourages participation from them. Details of engagements with shareholders during the year may be found on page 44 and also on our website. The 2020 AGM will be held on 3 June 2020, subject to UK Government guidance and no restrictions on meetings. In normal circumstances the whole Board is expected to attend the AGM and be available to answer shareholders' questions.

E. Workforce (including employees) policies and practice

The Company has workforce policies and encourages practices consistent with the Company's values to support long-term success. We want our employees to be engaged and remain motivated. To ensure this, we aim to know and understand how they feel, what motivates them and what matters to them. The feedback we receive on this is then used to support our employees to develop their skills and experience which in turn leads to job satisfaction.

During the year we appointed Sandy Shaw as the designated non-executive director for workforce engagement, whose role is to oversee the top-down and bottom up communication between the Board and the employees. In the latter part of the year, Sandy met with employees in both Aberdeen and Easing to introduce herself. At these meetings, Sandy took the opportunity to give a presentation on the Company's remuneration structure and policy and its effects on the employees. Following this presentation, she gave staff the ability to discuss and ask questions on the presentation.

Having a designated NED for workforce engagement on the Board does not detract from the Company's internal channel of raising concerns in confidence which are essential to ensuring that the integrity of our Code of Ethical Conduct is not compromised, whether by staff or by those who work on our behalf.

Sandy was chosen as the workforce engagement designate due to her background of working with and as part of a global workforce and she has been involved in solving a cross section of business and societal challenges. This experience will be invaluable to further developing engagement at Hurricane.

The policies attributed to the workforce can be found on our website www.hurricaneenergy.com including more information about the Company's SeeHearSpeakUp whistle blowing process >

2. Division of responsibilities

F. Role of the Chairman

The Chairman leads the Board, ensures its effectiveness and seeks to promote an effective, inspirational and high integrity culture. The Chairman, Steven McTiernan, was deemed independent on appointment. There is a clear separation between the roles of the Chairman and the CEO, Robert Trice.

Read more about the roles of the Chairman and CEO on page 40 >

Governance Report continued

APPLICATION OF THE PRINCIPLES AND PROVISIONS OF THE 2018 UK CORPORATE GOVERNANCE CODE CONTINUED

2. Division of responsibilities continued**G. Executive and non-executive directors**

Hurricane has an appropriate combination of executive and non-executive directors, with a clear division of responsibilities between the leadership of the Board and the executive directors. At the end of 2019, at least half the Board were independent.

The Board has a Senior Independent Director (SID), Dr David Jenkins, who may be contacted by shareholders and other directors, as required. The non-executive directors have regular meetings in the absence of the executive directors, and also from time to time in the absence of the Chairman.

More information on the responsibilities of the Chairman, CEO and SID can be found in the Board's Corporate Governance Statement on our website.

More information about the role of Board responsibilities can be found on [page 39](#)

H. Time commitment of directors

The time commitments of each non-executive director is considered at appointment by the Nominations Committee and is reviewed annually. The Chairman considers new external appointments of current directors which may impact existing time commitments. The executive directors currently do not hold external non-executive directorship at a listed entity. There are no directors whose time commitments are considered to be a matter for concern.

More information on the directors' time commitment during the year can be found on [page 42](#)

I. Provision of support

The Group Company Secretary, Daniel Jankes, supports the Board and its committees and ensures that the Board has the necessary policies and processes, and that directors receive appropriate and timely information. All directors may seek advice from the Group Company Secretary and may also take independent advice in relation to their duties, at the Company's expense.

More information on the role of the Company Secretary can be found on [page 41](#)

3. Composition, succession and evaluation**J. The Board's composition and appointment**

The balance of skills, experience, independence, diversity and knowledge on the Board is the responsibility of the Nominations Committee and is reviewed annually and whenever new appointments are considered. Both appointments and succession plans should be based on merit and objective criteria and promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. The recommendation of the appointment of new directors to the Board is led by the Nominations Committee which follows a formal, rigorous and transparent procedure and then makes recommendations to the Board. Appointments and succession plans are based on merit whilst supporting diversity in its broadest sense.

Non-compliance during the year

For the majority of the year until 20 December 2019, when Beverley was appointed, less than half of the Board was independent. For the majority of the year there were four non-independent directors and three independent non-executive directors whilst the search for an additional independent was carried out resulting in the successful appointment of Beverley.

More details about succession planning and the appointment process (including the use of an external search consultancy) can be found in the Nominations Committee Report on page 51.

K. Board skills, experience, knowledge and length of service

The Chairman annually reviews the skill, experience, knowledge requirements and length of service of each of the non-executive directors, and of the Board committees. Ongoing education and development needs are considered when setting the Board's and its committees' forward agendas. All directors have access to the Deloitte Academy and advisers are invited to provide relevant topic briefings. Site visits are organised as and when appropriate.

Non-compliance during the year

As advised in previous annual reports, the Company is non-compliant with Code Provision 3.18, the annual re-election of all directors instead only two directors (Dr Robert Trice and John van der Welle) stood for re-election at the Company's AGM in accordance with Article 64 of the Company's articles of association, retirement by rotation. The Board considers this to be in the best interests of the Company and shareholders during the key stage in its development. In accordance with Article 62, Sandy Shaw stood for election by shareholders.

More information about the skills on the Board and length of service can be found on [pages 40 and 41](#)

L. Board and committee performance and evaluation

An externally led performance evaluation of the Board and its committees was undertaken during the year. The findings and any actions for each committee are located in the relevant committee report.

4. Audit, risk and internal control**M. Policies and procedures relating to the audit function and the integrity of the Financial Statements**

The Audit and Risk Committee supports the Board in its responsibilities in relation to corporate reporting, risk management and internal controls, and manages the relationship with the Company's external auditor. The committee has policies and procedures to ensure the effectiveness of the external audit function, and assists the Board's requirement to satisfy itself on the integrity of the Financial and Narrative Statements. The committee provides regular reports to the Board. The Audit and Risk Committee's terms of reference are summarised in the committee's report on pages 45 to 50 and are available on our website.

More information about the annual evaluation process can be found on [page 43](#)

4. Audit, risk and internal control *continued*

N. Assessment of the Company's position and prospects

The Company's financial position and prospects are assessed by the Board taking account of recommendations made by the Audit and Risk Committee. The Board is responsible for ensuring the assessment is fair, balanced and understandable.

The directors' and auditor's statements of responsibility can be found on pages 79 to 87 respectively. Information on the Company's business model and strategy can be found in the Strategic Report on pages 8 to 11. The directors' long-term viability statement and confirmation that the business is a going concern can be found on pages 24 and 25.

[Directors' viability statement page 25](#) >

O. Risk management and internal controls frameworks

The Board is responsible for assessing the Company's principal and emerging risks, sets the Company's risk appetite and mitigating actions, and reviews the effectiveness of internal controls, taking account of the Audit and Risk Committee's assessment of the effectiveness of the Company's risk management system and internal controls during the year.

The findings of this review are included in the Audit and Risk Committee Report on page 49. More information on the Company's principal risks and risk management process can be found on page 18.

[More information on the Company's risk management process can be found on page 18](#) >

5. Remuneration

P. Remuneration Policy and packages

Our Remuneration Policy supports our strategy and is designed to promote long-term sustainable success. Executive pay is aligned to the Company's purpose and values and is linked to the successful delivery of the long-term strategy. The Policy is reviewed annually. As an AIM-listed company, we are not required to submit our Remuneration Policy to a shareholder vote.

[More information on our Remuneration Policy can be found on page 68](#) >

Q. Procedure to develop policy on executive remuneration

The Remuneration Committee is chaired by Sandy Shaw, who has served on the remuneration committee of other AIM companies (including more recently Velocys plc). The Remuneration Committee is responsible for developing policy on executive remuneration.

[Information on how remuneration policy is set, including the remuneration received by the directors during the year, in accordance with the Remuneration Policy, is set out on pages 68 to 76](#) >

R. The use of discretion

The Remuneration Committee exercises independent judgement and discretion when authorising remuneration outcomes. The committee takes care to ensure that remuneration is fair and takes into account the Company and individual performance, and wider circumstances. In compliance with the 2018 Code, discretion used during the year is disclosed in the Remuneration Report on page 54.

[The Directors' Remuneration Report can be found on page 54](#) >

The governance of the Company

Role of the Board

The Board is collectively responsible for the long-term success of the Company. The Board is also responsible for setting and leading the Group's strategic targets and objectives and ensuring 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.

The Board's role and responsibilities are reviewed against the Code to ensure that it is meeting all its responsibilities. 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; the consideration of significant financing matters; and oversight and independent assurance of policies and procedures. The Board has always had an adopted set of matters reserved for the Board. At the start of the year a review was carried out on the matters reserved for the Board in light of the 2018 Code.

A full list of the items which fall under matters reserved can be found below:

- strategy and management;
- structure and capital;
- financial reporting and controls;
- major contracts/investments;
- communication;
- Board membership and other appointments;
- delegation of authority;
- remuneration;
- corporate governance matters;
- policies; and
- other matters including but not limited to changes to the Group's pension scheme and approval of the overall levels of insurance for the Group.

The Board is assisted by three principal committees (Audit and Risk, Nominations and Remuneration), and each is responsible for dealing with matters within its own terms of reference which are in line with the 2018 Code. All the independent non-executive directors attend the meetings of the principal committees. The individual reports from each committee Chair can be found on pages 45, 51 and 54.

Governance Report continued

The governance of the Company continued

Board composition

During the year, the Board and Nominations Committee discussed the composition of the Board and noted the importance of having the right balance, both in terms of having the right skills and experience but also to encourage openness and transparency during meetings. In 2019, the Company undertook a review of its Board structure, size, balance of skills and composition.

Currently, the Board is comprised of two executive directors (the CEO and COO), a non-executive Chairman (independent on appointment) and five non-executive directors (comprising four independent non-executive directors and a non-executive Shareholder Nominee Director (not independent). Alistair Stobie, the CFO, resigned from the Company on 26 February 2020. Richard Chaffe, has agreed to step into the role as Acting CFO.

The Board has determined that the present composition is currently sufficient for the purposes of the Group at this time, as it enables the Board to be agile and react quickly to new developments. The Board is appropriately balanced (in skills and experience) for the size and operations of the Company. Throughout the year the Nominations Committee has assisted the Board in reviewing and enhancing its composition, skillset and expertise.

In the early part of the year, on 3 January 2019, Sandy Shaw was appointed as an independent non-executive director. In the latter part of the year, on 20 December 2019, Beverley Smith was appointed as an independent non-executive director. The Board and the Nominations Committee will continue to monitor the size, composition and skillset of the Board and if required further appointments may be made to the Board. Details of the Company's search and selection process for a new independent non-executive director (INED) can be found in the Nominations Committee Report on pages 51 to 53. Further details of the background and skillset of the Board can be found on page 35.

The roles within the Board

The Chairman

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.

DIVERSITY



- As at 31 December 2019.
- Board diversity excludes Shareholder Nominee Director.

BOARD BREADTH OF EXPERIENCE

	Energy/oil and gas sector	AIM Market experience	UK Quoted Company experience	Subsurface/reservoir	Operations and facilities	Large project management	Legal/regulatory	ESG including HSE	Finance and accounting	Commercial	M&A/A&D
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Dr Robert Trice	●	●		●			●	●			
Neil Platt	●	●			●	●	●	●	●	●	●
Steven McTiernan	●	●	●	●		●	●		●	●	●
Dr David Jenkins	●	●	●	●	●		●	●		●	●
John van der Welle	●	●	●			●	●		●	●	●
Roy Kelly	●	●	●	●			●		●	●	●
Sandy Shaw	●	●		●			●		●	●	●
Beverley Smith	●		●	●		●		●		●	●

Executive directors

Non-executive directors

Note:

1. On 26 February 2020, Alistair Stobie resigned as Chief Financial Officer and a director of the Company by mutual agreement with the Board.

The Chief Executive Officer

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 senior management; and ensure effective leadership of all communication with shareholders and all key stakeholders.

The Senior Independent Director

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 is the Company's Senior Independent Director.

The non-executive directors

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 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 being subject to rotation at least once every three years.

After a successful fundraising campaign in 2016, the Company appointed a director nominated by 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 77).

The Company Secretary

The Company Secretary's role is to advise the Board through the Chairman on governance matters and ensure compliance with all Board procedures and company secretarial matters. The Company Secretary is also responsible for ensuring good information flow between the Board and its committees and between management and the non-executive directors. The General Counsel and Company Secretary is Daniel Jankes. He acts as a Secretary to the Board, Audit and Risk Committee, Nominations Committee and Remuneration Committee when required. He has direct access to the Chairman and to the committee Chairs.

Board composition during the year in review

Name	Role	Independent	Period of service as at 31 Dec 2019	Date of appointment	Date of resignation
Non-executives					
Steven McTiernan	Non-executive Chairman	On appointment	1 yr 7 mths	1 May 2018	—
Dr David Jenkins	Senior Independent Director	Yes	6 yrs 9 mths	8 March 2013	—
John van der Welle	Independent non-executive director	Yes	6 yrs 9 mths	8 March 2013	—
Roy Kelly	Shareholder Nominee Director	No	3 yrs 7 mths	10 May 2016	—
Sandy Shaw	Independent non-executive director ¹	Yes	12 mths	3 January 2019	—
Beverley Smith	Independent non-executive director ²	Yes	11 days	20 December 2019	—
Executives					
Dr Robert Trice	CEO	No	15 yrs	29 December 2004	—
Neil Platt	COO	No	6 yrs 9 mths	8 March 2013	—
Alistair Stobie	CFO ³	No	3 yrs 9 mths	16 March 2016	26 February 2020

Note:

1. Sandy Shaw was appointed as an independent non-executive director on 3 January 2019.
2. Beverley Smith was appointed as an independent non-executive director on 20 December 2019.
3. Following the year end, Alistair Stobie resigned on 26 February 2020 as Chief Financial Officer and a director of the Company by mutual agreement with the Board.

Governance Report continued

Board process and activities during the year

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

During the year in review, the following topic areas were covered at Board meetings:

- corporate governance, legal, regulatory and compliance – including policies, Board evaluation and training, workforce engagement, internal controls and risk management, and engagement with our regulator (OGA);
- financial management – including financial statements, planning, budgeting and financing, and performance monitoring;
- operations – including infrastructure, exploration, HSE, reservoir development and management;
- ESG – including GRI core application and ESG reporting requirements;
- risk and rewards – including corporate risk review and KPIs; and
- strategy – including growth and development, Performance Measures and reviewing of strategic objectives and Milestones.

During the early part of 2019, the Board's main focus was the operational progress and successful delivery of the Lancaster EPS and transitioning from an exploration to a production company with sustained production and material net cash flow.

Midway through the year and into the latter part of the year, the Board's focus also included the 2019 Greater Warwick Area drilling programme on Hurricane's Lincoln and Warwick assets; the exercise of warrants and subscription rights; overseeing the Company's regulatory affairs with the OGA and our joint venture partner, Spirit Energy; overseeing the extension and amendment to the P1368 licence agreed with the OGA in December 2019; and reviewing the Company's capital expenditure/annual budget for 2020.

The Board's routine programme included: receiving reports from the executive directors, monitoring financial reports and operating budgets, approving corporate reporting, monitoring risk management, receiving reports on health and safety, ESG reporting, succession planning, investor relations, compliance, governance and regulatory and legal affairs updates.

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.

Meeting attendance and responsibility in 2019

Each non-executive director participates fully in Board discussions and attends all possible Board and/or committee meetings in order to do so. As highlighted in the biographical details of the directors on pages 34 to 35, each of the directors, including the nominee directors of the majority shareholder, Kerogen Investments No.18 Limited (Kerogen), brings a different set of skills and experience to the Board.

The Board held five formal meetings in 2019. In addition two further meetings including a number of technical meetings were called at short notice to consider, discuss and, where appropriate, approve certain matters. The table below shows the attendance by all directors who served during the year at all of the meetings in 2019, their responsibilities and the link to remuneration.

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	Responsibility in 2019	Linked to remuneration
Steven McTiernan	 Board governance and performance, and shareholder engagement.	
Dr David Jenkins		
John van der Welle	 Non-executive directors assess, challenge and monitor the executive directors' delivery of strategy within the risk and governance structure agreed by the Board. As Board committee members, they also review the integrity of the Company's financial information, recommend appropriate succession plans and monitor Board diversity.	
Sandy Shaw ¹		
Beverly Smith ²	—	
Roy Kelly (or his Alternate)		
Dr Robert Trice	 The executive directors are responsible for the day-to-day operations of the Company including developing and implementing Group strategy;	✓
Neil Platt	 implementing Group policy; monitoring health and safety, and financial and operational performance; and overseeing purchasing and supply chain matters.	✓
Alistair Stobie ⁴		✓

 Scheduled meetings (additional meetings held at short notice)

Note:

1. Appointed on 3 January 2019.
2. Appointed on 20 December 2019.
3. Board members unable to attend scheduled meetings provide their input/contributions in advance of the meeting.
4. Resigned from the Company on 26 February 2020.

Board evaluation

In 2018, the performance and effectiveness of the Board and its committees was assessed by way of an internal evaluation. The process was questionnaire-based and the result of the assessment was provided to the Chairman and to the Board, that the performance of each director continued to be effective and that both the Board and its committees continued to provide effective leadership and exert the required levels of governance and control, which aligned with observations made by the Chairman and committee Chairs.

The Board recognises that it continually needs to monitor and improve its performance. For a review of the financial year ending 31 December 2019, the Board undertook an external evaluation of its performance and that of its committees, facilitated by an external consultant, in line with the mandated triennial external requirement set out in the 2018 Code. The selection process for the external provider was led by the Chairman and supported by the General Counsel and Company Secretary. The credentials of the chosen provider including their experience in board evaluation and independence were assessed and found to be suitable. The firm chosen to perform the evaluation was The Effective Board LLP (TEB). TEB is independent of, and has no other links with, the Company or its directors in connection with the brief.

Board evaluation process

The external evaluation was carried out in three steps as follows:

Step 1: TEB was given a comprehensive brief by the Chairman based on the outcome from the preceding Board evaluation. The evaluation process began in December 2019 and each director received a copy of the questionnaire in advance of their meeting with TEB.

Step 2: TEB conducted one-to-one interviews, separately, with each member of the Board and the General Counsel and Company Secretary. Each interview covered an agenda which included questions about the Company's strategy and operations, Board dynamic and composition, succession planning, Board administration and support and the Board committee structure and any specific matters which the director wished to raise. Directors were encouraged to raise any other matters they felt relevant to the Board evaluation process.

Step 3: A written report on the outcome of the evaluation exercise was sent to the Board and its committees and a presentation was given to the Board at its meeting on 16 March 2020.

Board evaluation results

TEB concluded that at a high level the Company's strategy remains largely agreed: to produce and generate the data needed to plan future development phases whilst producing cash flow to maintain portfolio progress. There was also agreement that the composition of the Board is largely suitable, and that more than half of the Board will consist of independent non-executive directors and thus comply with the 2018 UK Corporate Governance Code. Gender diversity will also be improved but remains a work in progress.

TEB also concluded that the Board's processes and procedures were effective. It was suggested that the provision of technical data was considered to be sufficient and the means of delivery satisfactory, and that Board papers are clear when making a decision on the implications for each stakeholder and other interests as defined by the Companies Act 2006 Section 172.

TEB recommended that a comprehensive strategy review be conducted when sufficient data was available from the Lancaster EPS, and that functional reviews of each management unit be carried out to compare with best industry practice, considering the significant growth in staff during 2019. An external evaluation will be carried out at least every three years.

Board induction and training

The Board has in place processes for directors' induction and ongoing training. These processes were reviewed and enhanced during the year. All members of the Board have access to appropriate professional development courses to support them in meeting their obligations and duties including the Deloitte Academy which non-executive directors continue to participate in. The Deloitte Academy, provides the directors with access to technical briefings, education and bespoke training.

In addition to the Deloitte Academy, the non-executive directors have access to an e-governance reading room and receive ongoing briefings (in person or by email) on current developments, including updates on governance and regulatory issues.

The enhanced induction process was used for Sandy Shaw's and Beverley Smith's induction.

Independent advice

The Board has adopted a policy whereby directors and Board committees 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.

Directors' and officers' (D&O) 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:

- 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
- 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.

Conflicts of interest

Every director has a duty to avoid a conflict between their personal interests and those of the Company and, where there is a conflict, disclose conflicts and potential conflicts to the Chairman and the Company Secretary as and when they arise. 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. As part of a director induction process, a newly appointed director completes a questionnaire that requires him or her to disclose any conflicts of interest to the Company.

Governance Report continued

Conflicts of interest continued

Thereafter, each director has an opportunity to disclose conflicts at the beginning of each Board and Board committee meeting and as part of an annual review. Directors do not participate in Board decisions which relate to any matter in which they have or may have a conflict of interest. The General Counsel and Company Secretary maintains a Register of Members for any conflict of interest and/or nature of conflict of interest. During the year there were some potential conflicts of interest in relation to matters being discussed by the Board and as such the director involved did not participate in discussions regarding these matters. The system in place for monitoring potential director conflicts remained effective throughout the period.

Re-election of directors

The Company to date has not complied with 2018 Code Provision 3.18 – the annual re-election of directors – 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 2020, 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 undertake 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 the Company's Articles of Association, at the AGM in 2020 are Neil Platt and Dr David Jenkins.

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. Beverley Smith will offer herself for election at the 2020 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 and stakeholders

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 2019 reporting year and shareholders had the opportunity to meet and question the Board at the AGM in June 2019.

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. Further information of how we engage with stakeholders can be found on pages 10 and 11.

Annual General Meeting (AGM)

At the time of writing the AGM is due to take place on 3 June 2020 at 11:00 am subject to there being no further guidance or restrictions issued by the UK Government regarding the holding of annual general meetings. The venue will be announced in the Notice of Meeting.

The Notice of the AGM is sent to shareholders at least 20 working days before the meeting. Ordinarily the Chairs of the Audit and Risk, Remuneration and Nominations Committees will be available at the AGM to answer any queries and all directors are encouraged to attend the AGM so that shareholders will have an opportunity to meet them, however due to COVID-19 restrictions this may not be possible in 2020. 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. In 2020 with COVID-19 restrictions the Company will endeavour (whilst safe to do so) 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.

At the 2019 AGM, all resolutions were passed with votes in support (ranging from 99.57% to 99.99%).

Steven McTiernan

Chairman
8 April 2020

Audit and Risk Committee Chair's Report



I am pleased to present the report of the Audit and Risk Committee for the year ended 31 December 2019, which also includes the committee's activities since year end to date. 2019 was a year in which the committee had a lot to consider. We had first oil, and our first lifting, introduced and implemented significant new accounting policies for the first time, and reviewed our internal controls, all of which are necessary following our transition from an exploration to an operating and producing company with revenues. We also commenced a financial position and prospects (FPP) procedures review in preparation for a possible move to the Premium List.

Whilst Hurricane is currently an AIM-quoted company, as with previous years, we are reporting and disclosing on a voluntary basis commensurate with that expected of a Premium Listed company and against the requirements of the 2018 Code which came into effect 1 January 2019. We welcome the new 2018 Code as it provides the Board with effective tools to satisfy itself that an appropriate governance structure is in place and enables the committee to monitor and take action to promote the quality of corporate reporting.

“

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This report will cover:

- the role of the committee;
- activities during the year (including new activities arising during the year); and
- planned activities for the next financial year.

Committee composition

Name	Independence
John van der Welle (Chair)	Yes
Dr David Jenkins	Yes
Sandy Shaw ¹	Yes
Beverley Smith ²	Yes

Note:

1. Sandy Shaw joined the committee on 22 March 2019 following her appointment on 3 January 2019.
2. Beverley Smith joined the committee on 13 March 2020 following her appointment on 20 December 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 2018 Code. The other committee members in the 2019 reporting year were Dr David Jenkins and Sandy Shaw, both of whom possess the required competence relevant to the sector in which Hurricane operates. Beverley Smith, who was appointed to the Board on 20 December 2019, became a member of the committee on 13 March 2020. Steven McTiernan, non-executive Chairman, was not a member of the committee but attends the meeting by invitation as an observer. Roy Kelly (Shareholder Nominee Director), whilst not a committee member, is also invited to attend as an observer. The Company Secretary acts as Secretary to the committee. The composition of the committee conforms to the requirements of the 2018 Code requirement for a Premium Listed company comprising at least three independent non-executive directors.

Meetings

Meetings held during the year in review

3

Meeting attendance in 2019

Name	Attendance
John van der Welle	●●●
Dr David Jenkins	●●●
Sandy Shaw	●●●

The committee met three times during the year under review, and twice to date in 2020. Attendance of the committee members in 2019 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 conversed with the Chair on a number of occasions during the year without the presence of the executive directors.

Audit and Risk Committee Chair's Report continued

Meeting attendance in 2019 continued

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

Role

During the reporting year and again in March 2020, the terms of reference of the committee were reviewed and updated to reflect best practice and the requirements of the 2018 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 and Narrative 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 (including the Company's internal financial 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 and make recommendations to the Board;
- 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 its independence and objectivity, and approval of auditor remuneration including the level of audit and non-audit fees;
- review and make recommendations to the Board on the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- 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.

ACTIVITIES DURING THE YEAR

During the reporting year, and the period to date in 2020, the committee has discharged its responsibilities as follows:

The table below highlights key aspects of the committee's work in 2019, following which there is a further description of the committee's work including that undertaken to date in 2020.

March 2019

- **Financial Performance** – Reviewed the Group's financial performance, significant financial reporting issues, accounting policies, standards and judgements, and the external auditor's audit findings report on the Group Financial Statements for the year ended 31 December 2018.
- **Narrative Reporting** – Reviewed the content of the 2018 Annual Report and Group Financial Statements ensuring it is fair, balanced and understandable and contains the necessary information for shareholders to assess the Group's position, performance, business model and strategy.
- **Risk Management System/Internal Controls** – Reviewed the effectiveness of internal controls and the corporate risk register and considered the need for an internal audit function.
- **External Audit Effectiveness** – Reviewed the effectiveness of the external audit process.
- **Relationship with External Auditor** – Reviewed auditor independence, approved the auditor's non-audit services policy and recommended the reappointment of the auditors to the Board.
- **Committee Governance** – Reviewed the Committee's annual work programme, reviewed the findings of the annual evaluation survey of the committee's effectiveness. Reviewed the Terms of Reference against the new 2018 UK Corporate Governance Code.
- **Financial Performance** – Reviewed the Group's 2019 Interim Financial Statements and the external auditor's half year review findings report.

September 2019

- **External Auditor's Review Effectiveness** – Reviewed the effectiveness of the external auditor's review process.
- **Risk Management System/Internal Controls** – Reviewed the corporate compliance programme/report and approved the commencement of an external financial position and prospects procedures review.
- **Committee Governance** – Reviewed the committee's annual work programme and on-going programme of education.

November 2019

- **External Audit Effectiveness** – Agreed the annual external audit plan.
- **Relationship with External Auditor** – Reviewed the audit fees proposal.
- **Risk Management System/Internal Controls** – Received an update on the corporate risk register and associated principal risks facing the Group.

In March 2019 the committee reviewed the 2018 Annual Report and Group Financial Statements, including discussing with Deloitte their audit findings report. In addition, the committee considered the effectiveness of the audit, the independence and objectivity of the external auditors, the effectiveness of internal controls and reviewed the externally prepared report on key financial controls. As regards the Company's risk management system, the corporate risk register and the corresponding principal risks facing the business as disclosed in the 2018 Annual Report were considered. The committee reviewed and approved its report for inclusion the 2018 Annual Report. The committee also considered whether the Company should implement an internal audit function and approved a new policy on the provision of non-audit services by the external auditor. Finally, a review of the committee's terms of reference was also undertaken.

The committee met in September 2019 primarily to consider the 2019 Interim Financial Statements, including the external auditor's review findings report. In addition, the committee considered the effectiveness of the auditor's review. As regards internal controls, the committee approved management's proposal to instigate a financial position and prospects procedures review by Deloitte in order to position the Company for a possible future move to the Premium List, noting that this would be conducted by a different team to the external audit team, and should provide assurance as regards internal financial controls. The committee reviewed management's annual corporate compliance report, covering a variety of legal, regulatory and other areas which form part of the Company's compliance programme. Finally, the committee reviewed its arrangements for the provision of on-going education to its members.

At the committee's meeting held in November 2019, the main items considered were the Company's updated corporate risk register and associated principal risks, the initial report from Deloitte on the FPP procedures work they had commenced, and the proposed plan for the audit of the 2019 Annual Report and Group Financial Statements. In addition, the committee considered a detailed technical update provided by Deloitte.

The committee met in March and April 2020 to review the 2019 Annual Report and Group Financial Statements, the key accounting and disclosure issues relating thereto, and Deloitte's audit findings report. Further information on the key areas of focus in this review is given in the next section below. In addition, the committee considered the effectiveness of the audit, the independence and objectivity of the external auditors, the effectiveness of internal controls and reviewed the updating FPP procedures report presented by Deloitte. The corporate risk register, corresponding principal risks and procedures for identifying emerging risks facing the business as disclosed in the 2019 Annual Report were considered. The committee also reviewed and approved its report for inclusion the 2019 Annual Report. The committee further considered whether the Company should implement an internal audit function. Finally, the committee considered the external review of its effectiveness undertaken as part of the external board evaluation and reviewed an amendment to the committee's terms of reference.

2019 Annual Report and financial reporting

As regards the 2019 Annual Report and Group Financial Statements, the areas of focus for the committee included the accounting for, and disclosure of, crude oil production; revenue recognition; the adoption of IFRS 16 'Leases'; consistency of application of accounting policies; ongoing 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 is 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 2019 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 the external auditor, including forecast cash flows for the business. These forecasts include a variety of potential scenarios alongside a range of sensitivity assumptions. The main assumptions made in the 2019 year-end cash flow forecasts which support the going concern basis include operational and production performance and oil price, taking into account the impact of the COVID-19 pandemic on oil price and potential risks to operations, and other macroeconomic events not within the Company's control. The committee also reviewed longer-term forecasts and their basis prepared by management in support of the long-term viability statement in the 2019 Annual Report and Group Financial Statements (see further below). The committee was satisfied with the forecast financial position of the Group and the underlying assumptions made, the sensitivities and different scenarios applied to the forecasts, 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 operational and production performance, future capital expenditure and regret costs, 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, including the key assumptions and qualifications (particularly relating to the refinancing of the Convertible Bond should sufficient cash not be available), made in these Financial Statements.

Audit and Risk Committee Chair's Report continued

New accounting issues arising in the year

Accounting for crude oil production and inventory

The committee received management's accounting paper on the proposed accounting and disclosure for crude oil production and inventory capitalisation, being new policies adopted following the commencement of crude oil production from the Lancaster EPS. The committee was satisfied that the proposed accounting policy and disclosure were in line with IAS 2 'Inventories' and other relevant accounting standards.

Accounting for the BP sales and marketing contract

The committee reviewed management's accounting paper on the proposed accounting for the sales and marketing contract for crude oil with BP, with particular reference to IFRS 15 'Revenue from Contracts with Customers'. After considering management's assessments, the committee was satisfied that the contract met the conditions for revenue to be recognised at a point in time and that the variable pricing element did not meet the criteria for accounting as an embedded derivative.

Accounting for the Aoka Mizu FPSO lease under IFRS 16 'Leases'

Upon commencement of the FPSO lease in May 2019, an additional \$96 million of lease liabilities, \$96 million of right-of-use oil and gas assets and \$5 million of decommissioning assets were recognised (see note 5.2) in accordance with IFRS 16. The committee challenged management's assumptions on the lease term and methodology in arriving at the appropriate incremental borrowing rate, which was derived based on the market value of the Company's Convertible Bond at the date of lease commencement. The committee also reviewed the disclosures required under IFRS 16 and concurred with management's presentation in the Financial Statements.

Recognition and estimation of deferred tax assets

Following a period of cash flow generation from the Lancaster EPS, the committee concurred with management's assessment that it was now appropriate to recognise a deferred tax asset in respect of tax losses, as it was considered likely that there would be future taxable profits against which those losses could be utilised. The committee reviewed management's projection of taxable profits, challenging the key assumptions including of the timeframe used, capital projects, forecast oil prices and consistency with models used for going concern and impairment indicator assessments. After considering these forecasts, the committee was satisfied with the quantum of deferred tax asset recognised the corresponding credit to the income statement and the related disclosures.

Recurring accounting issues

Recoverability of Lancaster property, plant and equipment (PP&E) assets

The committee considered the cash flow generated from the Lancaster EPS from first oil to date, and the cash flow projections going forward including various risks and sensitivities and was satisfied that this did not demonstrate any impairment indicators as at the Balance Sheet date.

The committee agreed with management's assessment that there were no indicators of impairment present at the Balance Sheet date that would trigger an impairment test under IAS 36 'Impairment of Assets', and therefore the carrying value of the Lancaster assets within PP&E of \$796 million remained appropriate. The committee noted the decline in oil prices in March 2020 and concluded with management that this was a non-adjusting post-balance sheet event that would require separate disclosure in the 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 'Exploration for and Evaluation of Mineral Resources' 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 reviewed management's accounting paper on the matter, and reviewed and considered 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. Following the extension and amendment to the P1368 licence agreed with the OGA in December 2019, the committee agreed that the carrying value of \$68 million attributable to Whirlwind should be fully written off. In respect of the Warwick and Lincoln wells drilled during the year the committee agreed with management's assessment that, despite the mixed results from the wells, the campaign yielded oil discoveries in the areas drilled and that results of testing and analysis from the wells will provide significant useful information in determining future work programmes, and therefore no impairment was necessary. For the Group's other E&E assets, it was also agreed and concluded that there were no indicators of impairment present that would trigger an impairment test under IFRS 6, and therefore the total carrying values of E&E assets of \$76 million remained appropriate.

Other financial reporting matters

The committee also considered other judgements and areas of estimation that had an impact on the Financial Statements; the implications of Brexit and appropriateness of disclosures of any associated risks; the assumptions used in determining the valuation of the Convertible Bond; assumptions underlying the IFRS 2 share-based payment calculations; 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 (operating 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. During the year, the committee and the Board carried out a review of the Company's Register to ensure that it accurately reflects the risks faced by the Company in this new phase of its life. The committee, in the review of the Register, recognised the risk of concerns relating to the potential impact of climate change and considered the Company's response to this risk. The committee is aware of the market sentiment on this matter and will support management in the monitoring of GHG emissions, maximising efficiency of installations and infrastructure, and using best available technology to minimise carbon intensity.

A summary of the principal risks and uncertainties facing the Group, and how the risks have changed in the period, as well as the procedures in place to identify emerging risks, is provided on pages 18 to 23.

The process put in place by the Group to address financial and liquidity risk is 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 early 2019 an independent external review of the Group's main internal financial controls was conducted, with the outcome reported to the committee. The review concluded that there were well-designed and operated controls in place, and that there were no control failures or instances of fraud identified.

However, the review also 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. During the year, the committee received an update from management on its progress in improving these main internal financial controls and was pleased to note that all the recommendations had been implemented.

Financial position and prospects procedures

The directors also engaged the services of Deloitte LLP in 2019 to undertake an assurance engagement, reviewing the Company's financial position and prospects procedures. The FPP procedures review was commenced in order to determine if the Company has established procedures that provide a reasonable basis for the directors to make proper judgements on an ongoing basis as to the financial position and prospects of the Company in accordance with Listing Rule 8.4.2, should the directors consider that the Company should seek a Premium Listing on the Main Market. The review is ongoing, however having completed the first phase of their work, Deloitte provided an interim report to the committee at its March 2020 meeting. The report confirmed that the Company has established controls and processes that contribute towards a robust FPP environment. It also identified a number of key focus areas where actions are to be undertaken to establish an appropriate FPP environment for a Premium Listed company. It is planned that further work will be undertaken by management in the current year to address these areas in preparation for any potential Premium Listing of the Company.

Audit and Risk Committee Chair's Report continued

Internal audit

Due to the relative simplicity of the Company's business prior to first oil (as a single country, pre-revenue, 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. Following the commencement of production from the Lancaster EPS during the year, the committee reviewed again the need for an internal audit function and recommended to the Board 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 structured external reviews being undertaken as outlined 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. During the year in review, 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 ten 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.

Following completion of the audit of the 2018 Annual Report and Financial Statements, Paul Barnett replaced David Paterson as lead audit partner. Paul Barnett was not previously involved in the audit of the Company or its subsidiaries.

The committee believes the independence and objectivity of the external auditor and the effectiveness of the audit process remain strong. In accordance with the Companies Act 2006, a resolution to re-appoint Deloitte LLP will be proposed at the next AGM.

Non-audit fees

During the year, the fees for non-audit-related services were \$152,000 (fees for audit services were \$159,000). These non-audit services related to the FPP procedures review and to the interim financial statements half year review. Further details of the fees for audit and non-audit services provided by the external auditor are disclosed in note 7.1 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 FPP procedures review engagement was subject to this individual approval, the committee noting that this was to be a non-recurring engagement and that Deloitte was best placed to undertake the work given its existing knowledge and understanding of the Company's business processes. 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.

Effectiveness

An evaluation of the effectiveness of the committee for the year in review was recently conducted via an external evaluation process, with the results reported to the Board. This process concluded that the committee had continued to function well in 2019 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. During the reporting year and thereafter, the committee has been strengthened in expertise and diversity.

Planned activities for 2020

The main planned activities of the committee in 2020 are:

- Review of the 2019 Annual Report and Group Financial Statements.
- Review the 2020 Interim Report.
- Consider and approve the audit plan for the 2020 Annual Report and Group Financial Statements.
- Consider the Company's internal control and risk management frameworks.
- Undertake all other matters in accordance with the terms of reference of the committee as outlined above.

John van der Welle

Audit and Risk Committee Chair

8 April 2020



Nominations Committee Chair's Report



Dear Shareholders,

I am pleased to present the Report of the Nominations Committee for the year ended 31 December 2019 which summarises the important ongoing objectives and responsibilities of the committee, the work carried out during the year and our plans for the coming year. I hope you will find this report informative.

The Board is the foundation of Hurricane's governance structure and it sets the cultural tone by putting in place a pragmatic structure which enables swift decision making and effective oversight. Details of our governance structure can be found on page 39.

The committee's role and responsibilities are set out in its terms of reference, which are reviewed annually and approved by the Board. These are available on the Company's website at www.hurricaneenergy.com.

Committee Code compliance

The Company is reporting on a voluntary basis against the provisions of the 2018 Code. Under Provision 17 of the 2018 Code the committee should consist of a majority of independent directors. The committee fully conformed to this provision during the year. All the non-executive directors, including Roy Kelly (Shareholder Nominee Director), who was appointed to the committee in line with the Kerogen Relationship Deed, dated 18 April 2016, served as members of the committee throughout the year ended 31 December 2019. At the beginning of the year, the Board and committee welcomed Sandy Shaw, who strengthened the independence of the committee to ensure Code compliance going forward. Sandy brings a wealth of commercial oil and gas and legal experience to the Board and its committees.



An effective nominations committee underpins our values and ability to deliver our strategy."

Board appointment

In 2019, the committee oversaw changes to the Board. On 3 January 2019, we announced Sandy Shaw's appointment to the Board as an independent non-executive director. Sandy brings a wealth of industry experience to Hurricane and has been a great addition to the Board. As part of the process of enhancing the skillset and diversity at Board level, Beverley Smith was appointed to the Board on 20 December 2019 as an independent non-executive director. I am pleased to welcome Beverley to the Board, and I am confident that her operational expertise will benefit the Board and the Company enormously. Beverley's appointment to the Board further enhances the Company's conformity to Provision 11 of the 2018 Code.

Board changes and succession planning

Succession planning is an important element of good governance, ensuring that we are fully prepared for planned or sudden departures from key positions throughout the year. Following the resignation of Alistair Stobie from his role as Chief Financial Officer on 26 February 2020, the Board and Nomination Committee looked through the talent pipeline and appointed Richard Chaffe as the Acting Chief Financial Officer.

Committee members

Name	Independence
Steven McTiernan (Chair)	Yes
Dr David Jenkins	Yes
John van der Welle	Yes
Roy Kelly	No
Sandy Shaw ¹	Yes
Beverley Smith ²	Yes

Note:

- Sandy Shaw (independent) joined the committee on 22 March 2019 following her appointment on 3 January 2019.
- Beverley Smith (independent) joined the committee on 13 March 2020 following her appointment to the Board on 20 December 2019.

Meetings

Meetings held during the year in review

6

Meeting attendance in 2019

Name	Attendance ¹
Steven McTiernan	●●●●●●
Dr David Jenkins	●●●●●●
John van der Welle	●●●●●●
Roy Kelly	●●●●●●
Sandy Shaw	●●●●●●

Note:

- Beverley Smith did not attend any committee meetings during the year as she was appointed on 20 December 2019.

Nominations Committee Chair's Report continued

Membership during the year

The committee met six times during the year under review. Attendance of the committee members is shown above. When members are unable to attend the meeting, they provide feedback to the Chair on the matters discussed in advance of the meeting. Regular attendees at the meetings include Kerogen's Alternate Director and the General Counsel and Company Secretary.

Role and responsibilities of the committee

The Nominations Committee considers the structure, size and composition of the Board and its committees – this includes reviewing the balance of skills, knowledge, experience, diversity and independence on the Board. The committee is also responsible for ensuring that there exists the correct balance of skills, knowledge and experience to effectively lead the Company and support the Group strategy.

As part of its annual work programme, the committee reviews and considers the Board member and senior management succession in order to appropriately 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 a range of factors including:

- the merits of the candidates and the relevance of their background and business experience, particularly in the regions in which the Group operates;
- diversity; and
- the need for an appropriately sized Board.

Hurricane continues its commitment to appointing, retaining and developing an expert team which can effectively manage the Company's objectives and deliver its strategy.

The committee began the year by evaluating the skills, experience and competencies required for the committee and the Board to continually make strong progress towards supporting the Company in achieving its goals. In light of this, and the requirement for an additional independent non-executive director under the Code, the Board agreed to explore potential candidates for the appointment and prepared a description of the role and capabilities required. In evaluating the skillset, the committee used a skills matrix to map out its existing skillset, taking into consideration the business strategy and the Board's ability to meet future challenges. In evaluating the skillset, the committee agreed that the independent non-executive director appointed would need to have experience in the following areas:

- energy/oil and gas operations (including growth focussed experience);
- ESG including HSE; and
- large project management.

Prior to commencing a full and rigorous selection process of a new independent non-executive director a formal tender process was undertaken to appoint a search and selection specialist, following which Preng and Associates was appointed. Preng and Associates is a leading executive search firm totally dedicated to the energy industry which has no connection with the Company other than its appointment for this process. The committee, having discussed the desired competencies and the process used by Preng and Associates to compile the candidate list, agreed that its methodology and rationale was appropriate for this task.

ACTIVITIES DURING THE YEAR

March 2019

- Considered the Board governance including balance and composition on the Board
- Assessed the necessary skillsets on the Board and identified and agreed the skillset required for an additional INED on the Board
- Progressed the diversity and inclusivity agenda on the Board
- Evaluated the performance of the committee
- Considered the Group executive and senior management performance

June 2019

- Reviewed progress and search process for INED
- Appointed Preng and Associates to carry out the search process on behalf of the committee
- Considered succession planning

September 2019

- Shortlisted and interviewed a shortlist of candidates
- Appointed an external Board evaluation facilitator

October 2019

- Discussed the outcomes from the interviews and agreed and approved two candidates to go to the next stage of interview with the management team
- Received an update on the agenda and process of the Board evaluation

November 2019

- Reviewed progress and search process for INED/succession planning

December 2019

- Recommended to the Board the appointment of Beverley Smith

As part of the agreed selection process, Preng and Associates provided a thorough profile on each candidate and an opportunity for all other Board members to meet with any potential candidates. During the search process, the committee took the time to ensure that any potential candidate considered would have the time to commit to the requirements of the role and importantly would not be overboarded. The committee firmly believes that following such a thorough and rigorous process is critical to the committee recommending suitable candidates to the Board. The selection process successfully concluded with the appointment of Beverley Smith as announced on 20 December 2019.

The committee recognises that Board diversity contributes to its success and the committee understands the importance of establishing a Board that is more reflective of the value that Hurricane places on diversity and inclusion. The Board and the work of the Nominations Committee support the principles of diversity in the widest sense and welcome in particular gender diversity in relation to the aspirations set out in the Davies Report regarding 'Women on Boards'. As part of the committee's strategy to equip the Board with the skills and attributes it will require, the committee agreed that Hurricane will begin to take steps to meet the Davies Report recommendations. The Board recognises that appointments to the Board will always be based upon individual merit and objective criteria and the committee was pleased to receive the unanimous support of all the Board members on this objective. The Board and the committee remain up to date on the various government initiatives in the area of diversity.

Following the appointment of Sandy Shaw and Beverley Smith to the Board, the proportion of women on the Board as at 31 December 2019 was 25% (our Shareholder Nominee Director is excluded from the count due to the special relationship with Kerogen as the major shareholder, which confers the right to appoint one director). Hurricane will continue to work towards gender diversity at Board level as it continues to develop in scope and size. 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. For the year ending 31 December 2019, the percentage of women in senior management (reporting directly to the executive directors) was 33%. When seeking to appoint any new director to the Board, notwithstanding the foregoing, all Board appointments will always be made on merit.

In line with the requirements of the 2018 Code, the committee continues to work on succession planning at both Board and senior management level with the view of identifying key prospects and tailoring training and development plans for any potential future progression. As part of the process, management below Board level is provided with regular access to the Board, including the opportunity to attend Board meetings and other Board-related functions, as well as give presentations on specialist topics and projects. This helps to provide valuable exposure to the Board for up and coming management and is valuable for Board members in assessing the Company's strength and depth.

The Company strongly supports the government initiative on gender pay reporting and, whilst we do not fall into the requirement to report on this, we continually monitor gender pay.

In line with its annual review process, the committee reviewed and re-approved its terms of reference which are in line with those expected of Premium Listed companies. A copy of the revised terms of reference can be found on Hurricane's website at www.hurricaneenergy.com.

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.

Evaluation of the committee's performance

During the year, the performance of the Nominations Committee was considered through the annual Board evaluation process. This year the evaluation was carried out by an external facilitator, The Effective Board LLP. As part of the process of the external Board evaluation, members were interviewed individually to discuss the effectiveness of the committee and were encouraged to provide feedback. From the responses provided, it was confirmed that the committee continued to operate effectively. It was noted that Beverley's appointment means the Board is now Code compliant. As previously stated, the committee will continue to review the recruitment of an additional independent non-executive member in order to further expand the breadth of experience on the Board, in the next stage of the Company's development. It was recommended that the committee continues its work in expanding its focus on succession planning and embedding the requirements of the 2018 Code into the committee's work programme (in particular developing the diversity policy at board level).

During the year, the Chairman evaluated the directors' skillset and time commitment to ensure that they continue to contribute effectively, demonstrate commitment to their roles and bring a relevant mix of skills and experience to the Board.

Looking forward to 2020

The key priorities of the committee for the next year remain the following:

- to regularly review our succession and contingency planning across the business to guarantee that there is a clear link to individual career development and professional development;
- to drive the Company's diversity and inclusivity agenda across all levels in the business;
- to ensure that the Board and senior management continue to have the necessary level of Board and senior management skills and leadership to deliver the strategy; and
- to monitor the Board's composition, balance, diversity and skillset.

Appointment and re-appointment review

In accordance with the Company's Articles of Association, the Nominations Committee monitors which non-executive directors will be selected for re-election by rotation at the Company's AGM. For the 2020 AGM, Dr David Jenkins and Neil Platt will retire by rotation and will submit themselves for re-election. New directors may be appointed by the Board but are subject to election by shareholders at the first opportunity after their appointment. Beverley Smith will be subject to election at the Company's AGM in 2020. Non-executive directors are normally appointed for an initial term of three years, which is reviewed and may be extended by two further three-year terms. It is Board policy that non-executive director appointments should normally last for no more than nine years. The Company regularly reviews its non-executive director tenure in line with best practice and on merit. Biographical details of all directors can be found on pages 34 and 35.

Steven McTiernan

Nominations Committee Chair
8 April 2020

Directors' Remuneration Report

Annual Statement on Remuneration



I am pleased to present Hurricane's Remuneration Report for the year ended 31 December 2019. This is my first statement as Chair of Hurricane's Remuneration Committee. Prior to joining Hurricane, I was Chair of the Remuneration Committee of other AIM companies. I succeeded David Jenkins as Chair of the committee when he stepped down on 1 April 2019. In the short time since, I have received incredible support and an enthusiastic reception from my hardworking colleagues. I look forward to building on the progress we have made to date.

As an AIM-quoted company, Hurricane is not required to produce a formal Remuneration Report; however, as we have done in the last couple of years, we have prepared this report on a voluntary basis striking a balance between best practice corporate governance for Premium Listed Companies and its application for AIM companies. I hope that the Remuneration Report provides you with a comprehensive picture of our activities during the year (including committee decisions as a result of business performance) and our remuneration framework and its alignment with the business strategy and the rest of the workforce.

This Remuneration Report is split into:

- this Annual Statement on Remuneration;
- the Annual Remuneration Report; and
- the Remuneration Policy.

“

Our remuneration framework is aligned to our strategy and KPIs.”

The Chair'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 and other stakeholders about the details of Hurricane's remuneration policies and how they underpin the Group's strategy.

This Annual Statement gives an overview of the Directors' Remuneration Policy; how it was implemented in the year under review (2019); how we plan to implement it in 2020; and a summary of the key activities of the Remuneration Committee during the reporting year (2019). The committee has taken the time during the year to ensure that Hurricane's reward structure is:

- clear and transparent – we do this by effectively engaging with shareholders and the workforce, explaining the various components of pay, benefits, bonus and long-term incentives as are set out in this report;
- simple and easy to understand by being clearly linked to the Company's stated initiatives;
- aligned with shareholder interests with the bonus linked to performance metrics relating to annual targets and long-term incentives linked to inter alia share price performance;
- predictable and proportional in terms of value of rewards to individual directors and the link between individual awards and the delivery of strategy and the long-term performance of the Company; and
- is aligned to the Company's culture, purpose, values and strategy. More detail can be found in this report as we describe how the remuneration policy underpins our strategy and purpose

Committee Code compliance

The committee is reporting against the 2018 Code. During the year, the committee fully conformed to the provisions of the 2018 Code. All the non-executive directors served as members of the committee throughout the year ending 31 December 2019, with the exception of Beverley Smith, who was appointed to the Board on 20 December 2019, and Roy Kelly (Shareholder Nominee Director). The Shareholder Nominee Director and the Chairman, Steven McTiernan are invited to attend as observers.

Activity during the year

This year has had a strategic importance to Hurricane as we achieved the first oil Milestone on 4 June 2019, followed by first lifting which we announced on 18 June 2019 – both having a significant impact on the Company's KPIs. The success of first oil and first lifting was further supported by the results of the Lincoln Crestal well as reported on 12 September 2019. Further information on this can be found on page 12 of the Strategic Report.

In the first half of 2019, the committee reviewed the Group Remuneration Policy for the previous year and made amendments in line with the 2018 UK Code. The committee reviewed the bonus targets for the previous year ensuring the bonus levels were in line with market expectations. As a result of the review, the committee agreed to increase the executive director's maximum bonus potential from 50% to 100%. It is the committee's 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. Notwithstanding the bonus opportunity increase, the executive director's maximum annual bonus potential of 100% of salary remains in the lower quartile compared to its oil and gas company comparator peer group. The maximum bonus potential for Hurricane's peer group is 150% of salary and the lowest potential is 100% of base salary.

During the year in review, the committee discussed, proposed and set the bonus targets for the 2019 annual bonus scheme Performance Measure scorecard metrics (KPIs). On 9 March 2020, the committee met and assessed the performance during the year against the KPI scorecard. It was agreed that a fair assessment of overall performance against the 2019 Corporate scorecard was 54% of maximum, marginally above on-target performance, (this percentage included a maximum score of 5% for "Personal" on target performance, albeit this would be applied as a variable to each executive director). The Committee recognised the key achievements of the year: delivery of the EPS – the Company's core thesis – on time and within budget with no lost time incidents and production and sale of oil in line with our publicly quoted guidance, thereby successfully moving the Company from pure exploration into production operations. The Committee considered that the 2019 performance had demonstrated that the KPIs and their application were both reasonable and sensible.

Notwithstanding the considerable achievements secured in 2019 the committee also took into account those events during the year which, whilst not within the specified KPIs had impacted corporate performance, including required adjustments to the 2020 licence work programmes and budgets and the significant fall in share price since the beginning of 2020. In light of these factors the committee was cognisant of its obligation to consider using its discretion to adjust the formulaic outcome of the KPI scorecard. Consequently, the Committee deemed it necessary to apply a downward discretion. In addition, the committee discussed the extent to which a differentiation should be made in the bonus awarded to each executive director. (In previous years, executive directors received exactly the same percentage bonus awards). The committee concluded that the bonus awards would be differentiated and awarded Robert Trice a 40% bonus award and Neil Platt a 45% bonus award. (In 2018, the executive directors were awarded a bonus of 50% of base salary.) The 2019 bonus award will be delivered two thirds cash and one third in shares (all net of tax and other deductions), the shares to be held in the Employee Benefit Trust for a period of three years unless earlier release is agreed at the sole discretion of the Board.

ACTIVITIES DURING THE YEAR

January 2019

- Reviewed the Group Remuneration Policy for the previous year
- Discussed the achievement of bonus targets for the previous year
- Discussed the bonus targets for the 2019 annual bonus scheme Performance Measure scorecard metrics
- Approved the annual SIP and the Performance Share Plan (PSP) awards to new employees not participating in the VCP
- Sourced and appointed a new independent remuneration adviser, PricewaterhouseCoopers LLP (PwC)

March 2019

- Approved the bonus targets for the 2019 annual bonus scheme Performance Measure scorecard metrics
- Approved the 2018 Directors' Remuneration Report (DRR)
- Reviewed the results from the external evaluation of the committee for the 2018 FY
- Reviewed the results from the internal evaluation of the committee

June 2019

- Approved the bonus targets for the 2019 annual bonus scheme Performance Measure scorecard metrics
- Considered the achievement and impact of the first oil Milestone
- Received an update on external remuneration trends from PwC
- Reviewed the workforce engagement process relating to remuneration
- Received an update on the peer group remuneration landscape and benchmarking of executive directors and senior management
- Reviewed PwC's work programme

November 2019

- Implemented the workforce engagement process
- Commenced the review of the draft 2020 KPIs
- Reviewed status of 2019 bonus against the KPIs
- Reviewed draft 2020 KPIs
- Reviewed salary progression and bonus opportunities for the executive directors, senior management and employees effective 1 January 2020
- Discussed the development and implementation of staff's performance review

December 2019

- Discussed and reviewed the recommendation for the 2019 staff bonus pool and bonus allocations for the senior direct reports to the executive directors

Directors' Remuneration Report continued

Annual Statement on Remuneration continued

Activity during the year continued

Details of the bonus award for 2019, including the Performance Measures and achievement against those targets and the rationale for the exercise of discretion, are set out on page 60. It is of note that the bonus pool for award to employees below the executive directors was set at 50% of the maximum (with no deferred element), being in effect a higher relative level of award compared to the adjusted award granted to the executive directors. No share-based awards under share schemes (other than the Share Incentive Plan (SIP)) were granted to any executive director during the year in review, nor were any shares under existing schemes due to vest. The Company operated the annual SIP in January 2019 and made awards under this HMRC-approved scheme to all of its participants, including executive directors. Further details are outlined on page 64.

In the second half of the year in review, the committee took the opportunity to receive an update on the peer group remuneration landscape and benchmarked the base salaries of the executive directors and senior management against executive remuneration in a UK oil and gas comparator group, including both Official List and AIM companies. The committee recognises that it has a duty to shareholders and investors to retain and motivate the talented executive directors who run this business through the provision of market competitive levels of reward. 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 despite the first phase pay increases (in an amount of £25,000) effected for 2019. In line with this, as discussed in last year's report, the second phase (in an amount of £25,000) of the proposed £50,000 salary increase for each executive director was applied from January 2020 before any global decrease in oil prices.

Remuneration Policy underpinning Group strategy in 2019

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 third 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 was devised to incentivise management to achieve the Company's strategy of de-risking and monetising its resource base and generate value for shareholders through share price growth. The participants each incurred a cost to participate in the scheme, therefore aligning their own interest to those of shareholders. Each director incurred a cost of £80,644 to participate. The scheme only has value to participants if the price of Ordinary Shares in Hurricane Energy plc exceeds a hurdle price of at least £0.55 per share. If the Milestones and share price hurdles are not met, the funds invested will be lost in their entirety.

During the year, Hurricane achieved an important Milestone when it delivered first oil in the first half of 2019 and I am pleased to say that we are continually working to demonstrate long-term sustainable production from the Lancaster EPS. 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 2020

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. 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. As discussed above and disclosed last year, executive directors employed during the year received the second and final tranche (in an amount of £25,000) of their proposed £50,000 salary increase with effect from 1 January 2020. Details of executive director remuneration in 2020 can be found on page 62. There are no other changes planned to the implementation of the Policy in 2020 at this stage. In light of the potential impact of COVID-19, the fall in oil price and other macroeconomic uncertainties, the committee anticipates that remuneration may need to be further reviewed during 2020, including potential downward adjustments to base salary and/or bonus as part of an overall Company response to the current environment. This review may also include the committee exercising a positive discretion for exceptional performance carried out in adverse and unprecedented circumstances.

Shareholder engagement during the year

The committee continually works to ensure that Hurricane's remuneration structure mirrors and reflects the culture we want to cultivate. We do this by ensuring our core values are embedded within the individual's performance criteria. 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 shareholders consulted on the structure of the VCP during the marketing phase. During the year, the Chairman of the Board and I held discussions with shareholders on the Company's objectives and how our remuneration structure supports the delivery of our strategy.

The Board and committee remain committed to dialogue with its new broader shareholder base on all matters, including remuneration, and will continue to engage in appropriate dialogue going forward.

Bringing our workforce on the journey with us

The Board seeks to ensure that the Company's incentive structures support the delivery of shareholder objectives and aligns with Company culture. To achieve this, the Board and committee remain committed to engaging in open and constructive dialogue with both employees and shareholders on appropriate mechanisms to achieve this. Ensuring colleagues remain engaged as we continue to grow as a company is very important to us. We value the thoughts and opinions of our colleagues and it is vital our staff have a say in the future and culture of Hurricane.

In line with the requirements of the 2018 UK Code to 'gather the views of the workforce', during the year, I was designated the non-executive director for workforce engagement matters. One of the first tasks I undertook was to meet and engage with our employees in our Aberdeen and Easing offices. At the engagement meeting, we discussed remuneration and non-remuneration-related matters. The feedback I received was open and honest, and was fed back to the Board, and taken into account, inter alia, when determining the remuneration of the executive directors during the year. I look forward to future engagement meetings as well as informal, individual communications.

All of our workforce participated in equity arrangements (either through the VCP, PSP awards and/or the Share Incentive Plan (SIP)), and during the year 100% of our employees were eligible to participate in the bonus scheme.

Evaluation of the committee's performance

During the year, the performance of the Remuneration Committee was considered through the annual Board evaluation process. This year the evaluation was carried out by the external facilitator, The Effective Board LLP. As part of the process of evaluation, members were interviewed individually to discuss the effectiveness of the committee. Members were also encouraged to provide specific feedback using a tailored questionnaire. From the responses provided, it was confirmed that the committee continued to operate effectively.

Sandy Shaw

Remuneration Committee Chair

8 April 2020

Directors' Remuneration Report continued

Remuneration Committee composition

The Remuneration Committee is chaired by Sandy Shaw. Sandy joined the committee on 3 January 2019 and succeeded Dr David Jenkins who stepped down as Chair of the committee on 1 April 2019. During the year, the committee was made up of three independent directors: Sandy Shaw, Dr David Jenkins and John van der Welle. Beverley Smith, who joined the Board at the end of the year, joined the committee on 20 January 2020. Steven McTiernan, Chairman of the Board, is not a member of the committee but attends the meetings by invitation. Roy Kelly, Kerogen's Shareholder Nominee Director, attends the meetings as an observer. The committee's composition during the year conformed to the provisions of the 2018 Code.

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

Committee composition

Name	Independence
Sandy Shaw ¹	Yes
Dr David Jenkins	Yes
John van der Welle	Yes
Beverley Smith ²	Yes

Note:

- Sandy Shaw was appointed to the Board and committee on 3 January 2019, and succeeded Dr David Jenkins as Chair of the committee on 1 April 2019.
- Beverley Smith joined the committee on 20 January 2020, following her appointment to the Board on 20 December 2019.

Meetings

Meetings held during the year in review

5

Meeting attendance in 2019

Name	Attendance
Sandy Shaw	●●●●●
Dr David Jenkins	●●●●●
John van der Welle	●●●●●

The committee had five scheduled meetings during the year under review as well as ad hoc telephone conferences. 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 objectives are to:

- ensure that reward packages (including salary, benefits, bonus and pension entitlements, and participation in share and other incentive schemes) 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;
- 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', and senior managers' (including the Company Secretary's), remuneration, their contractual terms and their compensation arrangements.

The committee also reviews the framework and policy for remuneration for all staff to ensure that it is fairly and appropriately administered and ensures the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration. The staff bonus 'pool' depends on corporate performance against performance targets in pursuit of strategy and allocation is undertaken by the executive directors against staff performance appraisals.

Committee terms of reference

In line with its annual review process, the committee reviewed and re-approved its terms of reference. The terms of reference explain the committee's role and the authority delegated to it. The committee's terms of reference were last reviewed on 20 January 2020 to ensure that they continue to be fit for purpose for the Company. The terms of reference were last amended and adopted by the Board on 25 March 2019 in order to bring it in line with the requirements of the 2018 UK Code. A copy of the revised terms of reference can be found on Hurricane's website at www.hurricaneenergy.com. 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.

Independent advisers

The committee in the past has been advised by specialist remuneration advisers, Mercer (previously Kepler), Dentons and Grant Thornton. From 18 January 2019, PricewaterhouseCoopers LLP (PwC) was appointed by the Remuneration Committee as independent adviser following a formal competitive selection process. During the year, advice was given on the VCP and the 2017 PSPs by PwC and by Dentons. Of these advisers only Dentons provides other services, being the solicitors to the Company.

In respect of the advice received from PwC on remuneration-related matters including the Policy review, the benchmarking exercise on the remuneration of the executive directors and the other consultancy advice received, PwC received total fees (based on hours spent) of £43,500. Whilst PwC also provide corporation tax advice to the Group, the committee remains satisfied that the advice it received in the year was independent and objective and that PwC has no further connection with the Company or individual directors. PwC is a founding member of the Remuneration Consultants Group and voluntarily operates under its Code of Conduct in its dealings with the committee.

Payment for remuneration advisers

Entity	Amounts paid 2019 £'000	Amounts paid 2018 ¹ £'000
PwC	43	—
Dentons	19	13
Mercer (previously Kepler)	—	52
Total	62	65

Implementing the Directors' Remuneration Policy in 2019 and 2020

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. 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. During 2019, the remuneration packages for executive directors consisted of a lower quartile basic salary (notwithstanding a salary increase), benefits, an annual bonus scheme, participation in a long-term incentive plan, being the VCP, and participation in the Company's SIP.

Policy area	Opportunity	How we implemented the Policy during the year	How we plan to implement the Policy in 2020
Annual bonus – The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework. Malus and clawback provisions apply.	The maximum annual bonus for executive directors 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. The maximum annual bonus for employees is limited to 50% of base salary.	During the year, the maximum opportunities for the executive directors remained at 100%. Two thirds of the bonus will be paid in cash and one third in shares (using net proceeds after all deductions) with the shares held in the Employee Benefit Trust for three years, unless early release is agreed at the discretion of the Board. See page 60 for further details on outcomes.	There is no intention to alter the on-target level or maximum bonus opportunity in principle at this time, however in light of the potential impact of COVID-19, the fall in oil price and other macroeconomic uncertainties that make defining performance measures and targets difficult, constrain capital and other spend and hinder work plans and budgets, the committee anticipates that bonus may temporarily be limited in 2020. The committee will consider paying all or a portion of bonus awards in shares, and using shares as a component of bonus awards on a regular basis going forward. The committee will continue to review the bonus payment mechanism in the future. In addition when determining the outcomes for the 2020 bonus the Committee will use its discretion to make any adjustments necessary to ensure the outcomes are fair and reasonable in light of the Company's performance and ensure executive directors do not unduly benefit from any windfall gains resulting from the current unfortunate circumstances.
Share-based incentive plans – VCP and SIP.	The VCP, a long-term scheme, incentivises management to achieve the Company's strategy, 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). Further information on the VCP can be found on page 70. The SIP encourages and deepens share ownership by employees.	Apart from the outstanding awards under the VCP granted in 2016, and the SIP, the executive directors did not participate in an LTIP during the year.	No VCP awards will vest if share price hurdles are not met. No further LTIP awards will be granted to executive directors in 2020. In view of the expiry of the VCP in 2021, the committee is considering the development of a new LTIP in which executive directors and other senior employees may participate in future years, and this will be included in a new Policy when finalised.

Salary

Basic annual salaries are reviewed annually by the committee to ensure that they promote the Company's business strategy and shareholder value. As reported in last year's report, in 2019 the committee undertook a review of salaries with its professional advisers. Due to the material scale and complexity in the size of the Company's operations, the committee felt it necessary to bridge the gap in the executive remuneration 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, in the latter part of 2018, the committee agreed to increase the base salary of each executive director by £50,000, to be carried out in two tranches of £25,000 each 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. 2019 was the first tranche of increase. The second tranche came into effect from 1 January 2020. There will be no changes to other benefits nor pension arrangements over this period. 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. See page 62 for more information of the remuneration received by the executive directors during the year.

Directors' Remuneration Report continued

Remuneration Committee composition continued

Salary continued

Name	Annual salary for 2020 ² £'000	Amounts paid 2019 £'000	Amounts paid 2018 £'000
Dr Robert Trice	425	400	375
Neil Platt	325	300	275
Alistair Stobie ¹	325	300	275

Note:

1. Alistair Stobie resigned as Chief Financial Officer on 26 February 2020. His annual salary will be pro-rated to reflect his period of employment in the Company in 2020
2. In light of the potential impact of COVID-19, the fall in oil price and other macroeconomic uncertainties that constrain spend, the committee and the Board may consider the necessity of salary reductions at all levels.

A detailed table of remuneration for all directors (single figure remuneration) is outlined on page 62.

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 recently critical illness plans. There is no difference in the benefit package between directors and employees.

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. In line with our policies, 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 2019, Hurricane contributed to the workplace 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 2019

For 2019, the committee made changes to the Performance Measures and target weightings, including the introduction of 'Production' and 'Personal' Performance Measure categories. The Corporate scorecard and Performance Measures (set out in the table below) and targets for 2019 therefore relate to the following key areas: HSSEQ; Production; Operations; Financial; and Personal.

The committee considered it appropriate at this stage of the Company 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. The proposed stretched targets are 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 a bonus award of over 50% up to a maximum of 100% of salary. The adjusted relevant weightings (and achievements of those weightings) are stated below.

The committee assessed the executive directors performance during the year against the KPI scorecard. It was agreed that a fair assessment of performance against the 2019 Corporate scorecard was 54%, marginally above on-target performance (this included a maximum score of 5% for 'Personal' on target performance, although this was applied as a variable to each executive director). The Committee recognised the key achievements of the year: delivery of the EPS, the Company's core thesis, on time and within budget with no lost time incidents and production and sale of oil in line with our publicly quoted guidance, thereby successfully moving the Company from pure exploration into production operations. The Committee considered that the 2019 performance had demonstrated that the KPIs and their application were both reasonable and sensible.

Notwithstanding the considerable achievements secured in 2019, the committee also took into account those events during the year which, whilst not within the specified KPIs, had impacted corporate performance, including required adjustments to the 2020 licence work programmes and budgets and the significant fall in share price since the beginning of 2019. In light of these factors the committee took cognisance of its obligation to consider using its discretion to adjust the formulaic outcome of the KPI scorecard. Consequently, the Committee deemed it necessary to apply a downward discretion. In addition, the committee discussed the extent to which a differentiation should be made in the bonus awarded to each executive director. In previous years, executive directors received the same percentage bonus awards. The committee concluded that the bonus awards would be differentiated and awarded Robert Trice a 40% bonus award and Neil Platt a 45% bonus award (in 2018, the executive directors were awarded a bonus of 50% of base salary). The 2019 bonus award to Robert Trice and Neil Platt will be delivered as to two thirds cash payment and one third in shares, (using net proceeds after all deductions), the shares to be held in the Employee Benefit Trust for a period of three years unless earlier release is agreed at the sole discretion of the Board.

Following the resignation of Alistair Stobie as CFO on 26 February 2020 (by mutual agreement with the Board) the Committee, taking into account his performance and contribution to the Company in 2019, and in line with the Remuneration Policy, awarded a bonus of £39,556 (equivalent to 13.2% of base salary) in respect of 2019, all payable in cash.

Performance Measures for annual bonus award in respect of 2019

	HSSEQ	Production	Operations	Financial	Personal	Total
2019 weighting	7.5%	32.5%	30.0%	25.0%	5.0%	100%
2019 achievement	4%	14%	11%	20%	5%	54% ¹

Note:

1. This is a maximum score, with potential for differentiation based on merit and achievement. The formulaic outturn of the bonus award was 54%; however, the committee exercised its downward discretion on the bonus output by approximately 20% and differentiated the bonus outcome for the executive directors, awarding Robert Trice 40% and Neil Platt 45% bonus award. The bonus award to Robert Trice and Neil Platt will be delivered as two-thirds post-tax value in cash and one-third post-tax value in shares, effectively deferring receipt as the shares will be held in the Employee Benefit Trust for three years.

Details of the 2019 KPI

HSSEQ – It is of note that during the year in review, across all operations, the Company recorded over 975,000 hours worked with no significant environmental incidents and no lost time incidents, serious injuries or fatalities. This is an exemplary achievement in the UKCS West of Shetland working environment, well worth the score of slightly above on-target (4% of 7.5%).

Production – Production levels were generally met with over 3 million barrels of oil produced with a target of 3.6 million barrels and a threshold of 2.1 million barrels, production for the period was in the low end of the on-target range, tempered only by the Company's desire to obtain well performance data by producing each well separately and together at varying levels over an extended testing period to determine the capacities of each well and the interrelated pressure data, a scoring of just below on-target (14% of 32.5%) was recognised.

Operations – This Performance Measure included targets for both the EPS (first oil timing and acceptance budget figures, 15% in total) and the GWA three well drilling programme (15% in total).

Throughout the EPS project the Company maintained a first oil date of H1 2019 and a project cost of \$467 million. The target first oil date of 30 May 2019 (achieved 4 June 2019) was originally stated as early as 2016, pre-funding and pre-FDP approval. The target cost was referred to in the fundraising in 2017 and remained unchanged (a project cost of slightly below \$467 million was achieved, thereby achieving the target). Given a background where the vast majority of offshore projects are delayed, subject to cost overruns through delays or scope creep, the Company achieving first oil in the original targeted window and within its stated budget is an exceptional achievement, recognised internally and by external stakeholders. A scoring of a marginally above on-target award (8% of 15%) was recognised.

For the GWA drilling, as noted in other sections of this report, the results were disappointing; although two of the three wells were strictly considered to be discoveries, only the Lincoln Crestal well flowed at potentially commercial rates. Given the demonstrated challenges of drilling horizontal wells in basement, achieving an acceptable natural flow rate from the Lincoln Crestal well was of significant importance to the Company, demonstrating that Lancaster is not the only basement field that can flow oil, with a potential for a Lincoln well to be tied back to the Aoka Mizu FPSO as originally conceived at the signing of the Spirit farm-out. That said, the committee, using the outturn metrics only, justified an overall threshold achievement for one well (3% of 15%).

Financial – These metrics covered capital discipline on the GWA wells, balance sheet control (levels of free cash without new fundraising) and operating cost control on the EPS (being primarily operating cost per barrel). The GWA well programme was on budget. Both balance sheet targets and operating cost control targets exceeded stretch levels. Together these results gave an outturn of 20% (of 25%).

Personal – Personal targets were incorporated to recognise varying executive responsibilities in building external relationships, leadership and organisational development during a time of significant change and growth in the Company and to enable the committee to differentiate between the performance of the executive directors. The maximum achievable was 5% and involved significant committee judgement in application.

2020 Performance Measures and targets

For 2020 annual performance will continue to be measured against a set of key corporate performance measures, which also include personal targets. The committee considered it appropriate to adjust the target weightings for 2020 so as to reflect the growth, maturity and future challenges of the Company. However, at the time of writing, in light of recent emerging global events not least COVID-19, the fall in oil price and other macroeconomic uncertainties, the committee will need to consider carefully the impact on performance of all of these factors when measuring performance throughout 2020. The table below summarises the performance measures and relative weightings for 2020 which apply to each of the executive directors. For reasons of commercial sensitivity details of the milestones and target thresholds cannot be disclosed at this time, however disclosures will be made as appropriate in the 2020 Annual Report, where this does not compromise the interests of the Company.

	HSSEQ	Production	Operations	Financial	Governance / Personal	Total
2020 weighting	10%	30%	30%	25%	5%	100%

Further details of the bonus payment made to the executive directors in respect of the year ended 31 December 2019 are disclosed in the directors' remuneration table on page 62.

Directors' Remuneration Report continued

Remuneration Committee composition continued

Payments for loss of office

There were no payments for loss of office in 2019.

Payments to past directors

There were no payments made in 2019 to past directors.

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 2019. The fee arrangements were reviewed at the same time. Details of the fees paid to non-executive directors in 2019 are set out in the directors' remuneration table below. 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)	£150,000
Annual fee (non-executive director)	£60,000
Additional annual fee (Senior Independent Director)	£10,000
Additional annual fee (Audit and Risk Committee Chair)	£10,000
Additional annual fee (Remuneration Committee Chair) ¹	£10,000
Additional annual fee (Nominations Committee Chair) ²	£10,000

Note:

- During the year, Dr David Jenkins was paid a pro-rated additional fee for his role as Chair of the Remuneration Committee from 1 January 2019 to 1 April 2019 when he was succeeded as Chair of the Remuneration Committee by Sandy Shaw.
- Where the Nominations Committee Chair's role is fulfilled by the Company's Chairman, there is no additional fee included in the Chairman's remuneration.

Directors' single figure remuneration for the year ended 31 December 2019 (audited information)

	Fixed pay			Performance-related pay			Other	Total £'000
	Base salary/fee £'000	Taxable benefits ⁵ £'000	Pension contributions and payments in lieu of pensions £'000	Bonus ⁷			SIP £'000	
				Cash £'000	Shares £'000	LTIP ⁸ £'000		
Year ended 31 December 2019								
Dr Robert Trice	400	2	35	107	53	—	7	604
Neil Platt	300	2	26	90	45	—	7	470
Alistair Stobie ⁶	300	4	26	40	—	—	2	372
Steven McTiernan	150	—	—	—	—	—	—	150
Dr David Jenkins	73	—	—	—	—	—	—	73
John van der Welle	70	—	—	—	—	—	—	70
Roy Kelly ¹	60	—	—	—	—	—	—	60
Sandy Shaw ³	67	—	—	—	—	—	—	67
Beverley Smith ⁴	2	—	—	—	—	—	—	2
	1,422	8	87	237	98	—	16	1,868

	Fixed pay			Performance-related pay		Other		Total £'000
	Base salary/fee £'000	Taxable benefits ⁵ £'000	Pension contributions and payments in lieu of pensions £'000	Bonus		SIP £'000		
				Cash bonus £'000	LTIP ⁸ £'000			
Year ended 31 December 2018								
Dr Robert Trice	375	2	33	188	—	7		605
Neil Platt	275	2	24	138	—	7		446
Alistair Stobie	275	3	24	138	—	7		447
Steven McTiernan ²	100	—	—	—	—	—		100
Dr David Jenkins	103	—	—	—	—	—		103
John van der Welle	85	—	—	—	—	—		85
Roy Kelly ¹	60	—	—	—	—	—		60
	1,273	7	81	464	—	21		1,846

Note:

- Roy Kelly joined on 10 May 2016; 100% of non-executive director fees were paid to Kerogen Capital.
- Steven McTiernan joined the Board on 1 May 2018. His director fees were prorated to account for this.
- Sandy Shaw joined the Board on 3 January 2019 and was appointed Chair of the Remuneration Committee on 1 April 2019.
- Beverley Smith joined the Board on 20 December 2019 and received a pro-rated fee of £1,800.
- Taxable benefits include a voluntary package of benefits to directors including optional enrolment in healthcare, dental, travel insurance and critical illness cover. Alistair Stobie received £11,000 of taxable benefits in 2019 relating to healthcare cover, of which £4,000 related to 2019, £3,000 to 2018 and £4,000 to earlier periods.
- Alistair Stobie resigned from his role as CFO and director of Hurricane Energy plc on 26 February 2020 by mutual agreement with the Board. The Committee awarded Alistair Stobie a discretionary cash bonus of £39,556 (equivalent to 13.2% of base salary) in respect of his services to the Company in 2019. The Company's SIP is subject to standard leaver provisions. Following resignation, Alistair forfeited all his Matching and Free Shares. Alistair's SIP shares retained from 2019 awards and are therefore limited to his 3,924 Partnership Shares.
- The bonus paid in 2019 for Dr Robert Trice and Neil Platt will be delivered two thirds cash and one third in shares (both subject to tax).
- The VCP was implemented in November 2016 when the Group awarded 840 Growth Shares in Hurricane Group Limited (a Group subsidiary) to executive directors and certain employees. To participate in the VCP, the participants made a one-off contribution and were awarded a total of 840 Growth Shares. Out of the 840 Growth Shares, the executive directors as at the date of implementation (Dr Robert Trice, Alistair Stobie and Neil Platt) were each awarded 140 Growth Shares. Vesting of the VCP awards is dependent on the Group achieving Milestones including exceeding a hurdle of £0.55 per share average price for a three-month period beforehand. Following Alistair's resignation from the Company, his VCP, upon vesting, will be pro-rated for time in employment.

Share awards held under long-term incentive plans as at 31 December 2019 (audited information)

Grant date	Award	As at 1 Jan 2019	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:

- During 2016, the executive directors of the Company during that year were invited to acquire a total of 420 VCP Growth Shares (out of a total number of 840 Growth Shares), 140 to each of Dr Robert Trice, Alistair Stobie and Neil Platt. The VCP is an all-employee one-off five-year performance period scheme, which aims 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. Following Alistair Stobie's resignation from his role as Chief Financial Officer and as director of the Company, Alistair's VCP award, upon vesting, will be pro-rated for time in employment.

Directors' Remuneration Report continued

Remuneration Committee composition continued

Share Incentive Plan awards during the year (audited information)

The Company operates a HMRC approved SIP annually to encourage and deepen share ownership in the Company. The awards on 25 January 2019 to the executive directors are outlined in the table below:

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 ¹	3,924	7,848	7,849

Note:

1. The Company's SIP is subject to standard leaver provisions. Following the resignation of Alistair Stobie from the Company on 26 February 2020, Alistair forfeited all his Matching and Free Shares. Alistair's SIP shares retained from 2019 awards are therefore limited to his 3,924 Partnership Shares.

Global Shares Trustee Company Limited (SIP Trustee), Trustee of the Hurricane Energy plc SIP, awarded 341,301 Ordinary Shares to participants in the SIP (including the executive directors) at a price of £0.4586 per share, being the closing mid-market price on 24 January 2019.

SIP Share awards are included in the table of directors' interests in Ordinary Shares which can be found in the table below.

Executive director SIP holdings

Executive director	Total SIP holding as at 31 Dec 2019	Total SIP holding as at 31 Dec 2018
Dr Robert Trice	257,919	238,298
Neil Platt	250,419	230,798
Alistair Stobie ¹	61,146	41,525

Note:

1. The Company's SIP is subject to standard leaver provisions. Following the resignation of Alistair Stobie from the Company on 26 February 2020, Alistair forfeited a total of 48,917 Matching and Free shares, leaving him with a total of 12,229 SIP shares in ownership.

Directors' interests in Ordinary Shares (audited information)

At 31 December 2019, 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 2019	Number of shares held as at 31 Dec 2018
Dr Robert Trice	26,302,805	26,283,184
Neil Platt	663,897	644,276
Alistair Stobie ⁴	61,146	41,525
Steven McTiernan	375,000	375,000
Dr David Jenkins	205,000	205,000
John van der Welle	154,159	154,159
Roy Kelly ¹	Nil	Nil
Sandy Shaw ²	Nil	Nil
Beverley Smith ³	Nil	Nil

Note:

1. Roy Kelly's direct holding is nil but he is Kerogen's Nominated Director – Kerogen holds 318,531,211 shares as at 31 December 2019.

2. Sandy Shaw joined the Board on 3 January 2019.

3. Beverley Smith joined the Board on 20 December 2019.

4. The Company's SIP is subject to standard leaver provisions. Following the resignation of Alistair Stobie from the Company on 26 February 2020, Alistair forfeited a total of 48,917 Matching and Free shares. Alistair's total number of shares as at 31 December 2019 were made up of SIP shares, which is held by the SIP Trustee.

All directors are encouraged to hold shares in the Company. A minimum shareholding requirement for executive directors of 200% of salary, to be achieved within five years, was introduced in March 2019. The requirement can be satisfied using shares vesting from long-term incentives/shares awarded as part of a bonus and will be tested by the committee at the end of the five-year period beginning from 1 January 2019. Further details on the minimum shareholding requirement can be found in the Directors' Remuneration Policy on pages 68 to 76.

Total interests of directors

Beneficial holdings at 31 Dec 2019	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	257,919	140
Neil Platt	413,478	250,419	140
Alistair Stobie ⁴	Nil	61,146	140
Steven McTiernan	375,000	Nil	Nil
Dr David Jenkins	205,000	Nil	Nil
John van der Welle	154,159	Nil	Nil
Roy Kelly ¹	Nil	Nil	Nil
Sandy Shaw ²	Nil	Nil	Nil
Beverley Smith ³	Nil	Nil	Nil

Note:

- Roy Kelly's direct holding is nil but he is Kerogen's Nominated Director – Kerogen hold 318,531,211 shares as at 31 December 2019.
- Sandy Shaw joined the Board on 3 January 2019.
- Beverley Smith joined the Board on 20 December 2019.
- The SIP is subject to standard leaver provisions. Following the resignation of Alistair Stobie from the Company on 26 February 2020, Alistair's total number of shares as at 31 December 2019 consisted of SIP shares, which is held by the SIP Trustee. The total number of shares Alistair has in the Company as at the date of his resignation is 12,229. Alistair's VCP shares upon vesting will be pro-rated to reflect his time in employment at Hurricane.

Since the end of the financial year in review (2019) and the date of the signing of the Annual Report and Group Financial Statements there were 1,674,240 SIP Share awards granted to participants in the SIP at a price of £0.2563 pence per share, being the closing mid-market price on 20 January 2020. The executive directors were awarded the following shares:

2020 executive director SIP awards

Executive director	Partnership Shares (purchased)	Matching Shares (awarded)	Free Shares (awarded)
Dr Robert Trice	7,023	14,046	14,046
Neil Platt	7,023	14,046	14,046
Alistair Stobie ¹	7,023	14,046	14,046

Note:

- The SIP is subject to standard leaver provisions. Following the resignation of Alistair Stobie from the Company on 26 February 2020, Alistair forfeited all his Matching and Free Shares. Alistair's SIP awards for 2020 will be 7,023 shares (his Partnership Shares, which were purchased).

Vesting of long-term incentive plans

There were no long-term incentive plan awards vesting in 2019. 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 achieved, there will be no vesting until a maturity event or the end of the scheme, subject to share price hurdles, in November 2021.

No long-term incentive plan awards were granted to the executive directors during the financial year in review (2019).

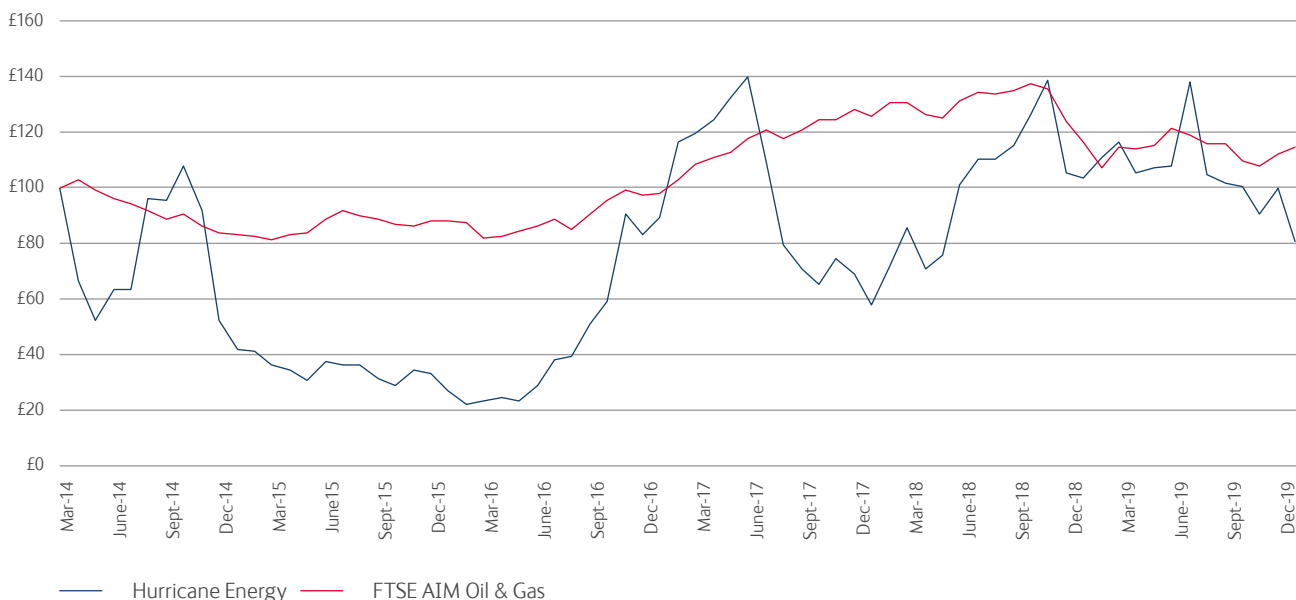
Directors' Remuneration Report continued

Remuneration Committee composition continued

Performance graph

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

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 62 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	Bonus awarded as a % of salary %	Percentage of multi-year awards vested which could have vested from achievement of performance targets %
2019	400¹	604	40%²	—
2018	375	605	50% ³	—
2017	375	572	41% ⁴	—
2016	375	926	84%	—
2015	375	413	—	—
2014	375	788	50%	—

Note:

- In the early part of 2019, the base salary of each executive director was increased by £50,000, which was carried out in two tranches of £25,000 each 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 were no changes to other benefits nor pension arrangements.
- At the start of the year, the committee increased the directors maximum bonus opportunity from 50% to 100% of base salary. For the year in review, the Chief Executive Officer was awarded a bonus of 40% of base salary (maximum potential of 100%) to be paid in both cash and shares. Further information on the annual bonus award in respect of 2019 can be found on pages 60 to 62.
- This equates to 100% of the 50% of base salary which was the maximum annual cash bonus that could be earned by executive directors in 2018.
- This equates to 83% of the 50% of base salary which was the maximum annual cash bonus that could be earned by executive directors in 2017.

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 2018–19

	Salary	Taxable benefits	Annual bonus
CEO	7%	6%	-15%
Employees	16%	11%	1%

Note:

The salary of the CEO changed during the year to reflect the first tranche of the £50,000 salary increase. Further information on increases to headcount and staff costs can be found on page 87.

Relative importance of employee pay

	Total remuneration paid to employees		Distributions to shareholders	
	\$'000	% change	\$'000	% change
2019	13,524	62%	Nil	—
2018	8,338	61%	Nil	—

Note:

The numbers have been recalculated to align with the directors' disclosure in the single figure table.

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

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

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 2020. The committee will continually review this matter.

This Remuneration Report was approved by the Board on 8 April 2020 and signed on its behalf by:

Sandy Shaw

Remuneration Committee Chair

8 April 2020

Directors' Remuneration Report continued

Directors' Remuneration Policy

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.

Our Remuneration Policy was revised in 2018 to align with best practices in corporate governance and remuneration reporting, including the introduction of the following:

- a formal recruitment policy for incoming executive directors;
- clear treatment of leavers on termination of employment;
- malus and clawback provisions in the annual bonus; and
- alignment between management and shareholder interests through a minimum shareholding requirement for executive directors of 200% of salary, to be achieved within five years (i.e. by January 2024, at which time compliance will be reviewed by the committee).

Our Policy continues to ensure there are no rewards for failure, by providing clarity around the committee's discretion under the Policy. This includes committee powers to override formulaic outcomes if pay-outs do not reflect overall business or individual performance, as well as discretion to pay some or all of the bonus in shares and/or to require deferral of a portion of the bonus.

2020 Remuneration Policy

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 materially follows the requirements applicable to UK Premium Listed companies. There have been some changes to the revised Policy reported in the 2018 Annual Report and Accounts, which is set out below. These changes include the delay to timing of bonus payments for the executive directors (following release of the final results) and the option for payment of the bonus in shares even in non-cash constrained years.

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Base salary	Supports recruitment, retention and motivation of key executives.	<p>Intended to provide market competitive levels of reward for the respective role.</p> <p>Reviewed annually or upon changes in role. A review may not necessarily result in an increase. Salaries are paid monthly in cash.</p> <p>Elements considered include:</p> <ul style="list-style-type: none"> • 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. 	<p>No formal limit on annual increases, although when given, it will normally be in line with those of the wider workforce.</p> <p>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.</p> <p>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.</p>	The committee is of the view that base salary levels for executive directors should reflect the competitive market level for the individual's skillset and contribution.

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Annual bonus	<p>Incentivises and rewards executives for the achievement of annual performance targets linked to delivery of the Group's strategy.</p> <p>Ensures continual assessment and accountability of executives to the rest of the Board.</p>	<p>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.</p> <p>Bonuses will normally be payable following completion of the audit and the release of the Company's annual results. Bonuses will be payable in cash, however the Remuneration Committee will have absolute discretion to pay some or all of the bonus in shares which may include conditions or restrictions on trading for determined periods, 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.</p> <p>Malus and clawback provisions may apply in the event an employee is at fault for inter-alia material misstatement of the financial accounts or is guilty of gross misconduct.</p>	<p>The maximum annual bonus for executive directors 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.</p> <p>In exceptional circumstances, the Remuneration Committee has discretion to pay bonuses in excess of 100% of basic salary, such as to recognise outstanding performance.</p> <p>Rationale will be provided in the Directors' Remuneration Report for any such use of discretion.</p>	<p>The Performance Measures are set by the committee, which also determines 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.</p> <p>The Performance Measures, weightings and targets are reviewed each year to ensure they remain appropriate and reinforce the business strategy.</p> <p>In exceptional circumstances the committee retains the discretion to:</p> <ol style="list-style-type: none"> 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 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.

Directors' Remuneration Report continued

Directors' Remuneration Policy continued

2020 Remuneration Policy continued

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Long-term share-based incentive plans – VCP	<p>Incentivises management to achieve the Company's strategy of de-risking and monetising its resource base.</p> <p>Participants had to substantially invest in and risk personal funds to participate in the scheme.</p> <p>A long-term scheme, only paying out after five years or earlier upon a maturity event (successful disposal or production target that would require additional infrastructure beyond the Lancaster EPS).</p>	<p>Certain operational Milestones, linked to long-term strategy, determine the level of vesting of portions of a pool of Growth Shares at maturity of the scheme (see table of Milestones on page 16).</p> <p>Upon a vesting, the vested portion of Growth Shares may be exchanged for Ordinary Shares, provided the share price is above a hurdle price of £0.55 (being a 61.8% increase against the share price at the commencement of the VCP).</p> <p>A maturity event in the case of a successful sale or disposal would be subject to a higher hurdle price of £0.65 (91.2% increase against the share price at the commencement of the VCP).</p> <p>Total shareholder return (TSR) performance relative to the FTSE AIM Oil & Gas benchmark and health and safety and environmental performance may, at the committee's discretion, lead to reductions in vesting levels.</p> <p>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.</p> <p>Further detail on the operation of the VCP can be found in the 2017 Directors' Remuneration Report on pages 54 and 55.</p>	<p>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 the share price at the commencement of the VCP.</p>	<p>No awards vest if share price hurdles are not met.</p> <p>The committee has discretion over the vesting associated with Milestones and can reduce overall vesting with reference to TSR performance relative to the FTSE AIM Oil & Gas benchmark and health, safety and environmental performance.</p>

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Share Incentive Plan	<p>Encourages and deepens share ownership by employees.</p> <p>Encourages retention of employees since Free and Matching Shares must be held for three years or are surrendered upon end of employment (except in relation to good leavers – see page 74).</p>	<p>Operates on an annual basis (usually in January).</p> <p>SIP awards are partly satisfied by the issue of new Ordinary Shares to the SIP Trustee (Global Shares Trustee Company Limited) at the nominal value of the shares.</p> <p>Participating employees receive an allocation of Partnership Shares at market value purchased using deductions from employees' pre-tax salaries.</p> <p>Matching Shares (twice the number of Partnership Shares acquired by an employee) and Free Shares (being Ordinary Shares to a value not exceeding £3,600) are correspondingly allocated to employees, paid for by the Company.</p> <p>The scheme is subject to standard leaver provisions – see page 74.</p> <p>Further detail on the operation of the SIP is disclosed in the 2017 Directors' Remuneration Report on page 55.</p>	The current scheme operates at the HMRC-approved maximum level.	None.
Pension	Helps recruitment and retention of key personnel and seeks to ensure, in line with government policy, that personnel have financial security in retirement.	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.

Directors' Remuneration Report continued

Directors' Remuneration Policy continued

2020 Remuneration Policy continued

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Benefits	Helps recruitment and retention of key personnel.	<p>Hurricane offers a typical voluntary package of benefits to directors and employees including optional enrolment in healthcare, dental and travel insurance, death in service and most recently critical illness plans.</p> <p>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.</p>	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 53 and 54.

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 shares purchased on behalf of employees by the Company in lieu of cash bonus and shares purchased by employees and will be tested by the committee at the end of the five-year period beginning from 1 January 2019. By paying a portion of the bonus for the year under review by way of fully paid up shares (at a post-tax value proportion of the bonus) the Company has augmented the build-up of share ownership by the executive directors in line with this stated intent.

The committee is cognisant of the new UK Corporate Governance Code requirement for a post-termination shareholding requirement, and upon due and careful review agreed that it is not 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 pay-out or vesting based on an assessment of performance and to override formulaic outcomes where appropriate;
- determining whether and, if so, the proportions at which the bonus will be payable in cash, deferred cash, shares or deferred shares and the terms applying to such shares and deferrals;
- 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 a previous employer. Such buy-out 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 51.

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.

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 the current executive directors, Dr Robert Trice and 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 ¹	16 March 2016	7 November 2016 18 September 2018 ¹	12/6 months

Note:

1. On 26 February 2020, by mutual agreement with the Board, Alistair Stobie resigned as Chief Financial Officer and a director of the Company.

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

Directors' Remuneration Report continued

Directors' Remuneration Policy continued

Directors' service contracts and termination policy continued

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.		

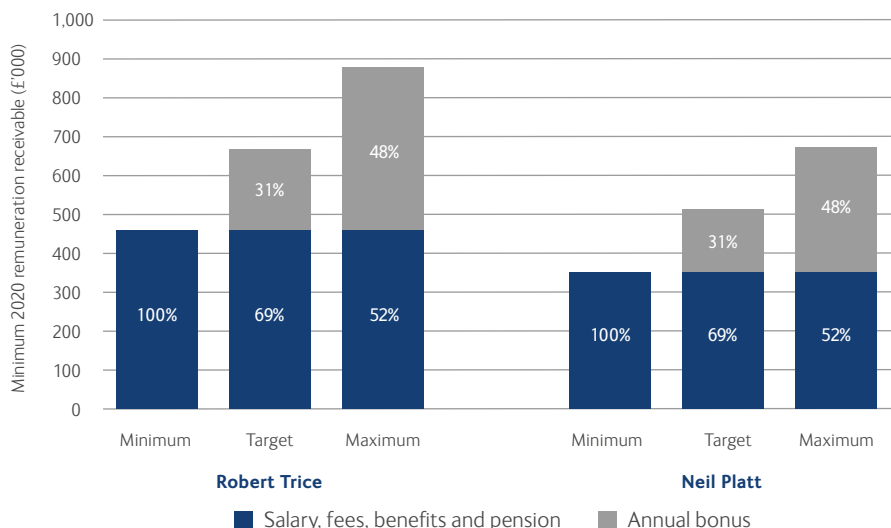
The committee reserves the right to make any other payments in connection with termination of employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim 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 and COO could earn under the Company's Remuneration Policy based on their salaries as at 1 January 2020.



Note:

1. Minimum performance includes only base salary, benefits and cash in lieu of pension.
2. Cash bonus for on target performance for 2020 is set at 50% of salary with a maximum of 100% for stretch targets.
3. No new long-term incentive plan awards will be granted to the current executive directors in 2020. The 2016 VCP award 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 75.

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 but no conversion of the 2017 Convertible Bond (since it matures in July 2022), the total number of Ordinary Shares outstanding in issue would be 1,993 million. At £0.55 per share, the Company's market capitalisation would be £1,096 million, or £418 million over the market capitalisation calculated at the Threshold Value for the VCP (which is linked to £0.34 per share being the share price at the commencement of the VCP). 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 39 million Ordinary Shares would be issuable under the VCP and 20 million would be issuable under the PSPs. This would result in the total Ordinary Shares outstanding being 2,052 million. Total shares issued under the VCP and PSP would represent around 3% of the total Ordinary Shares outstanding in issue. The average value of the Ordinary Shares issued to each executive director in this hypothetical scenario would be £3 million.

The second hypothetical scenario assumes a Transaction Maturity event, such as a change of control transaction, were to take place on 9 April 2020 (the date of release of our annual results), at precisely the hurdle price of £0.65. To demonstrate a maximum possible pay-out in this scenario, we have assumed prior exercise of all in-the-money options, and 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 2,485 million. A transaction as described above at £0.65 per share would therefore value the Company's Ordinary Shares at £1,615 million, or £770 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 2,620 million. Total shares issued under the VCP and PSP would represent around 5% 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.

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.	<p>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 arrangements can be made for net cash proceeds after all deductions to be used to purchase shares in the Company.</p> <p>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.</p> <p>Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon.</p> <p>Non-executive directors do not participate in any variable remuneration or receive any benefits.</p>	<p>Details of the current fee levels are set out in the Annual Report on Remuneration on page 62.</p> <p>The fee levels are subject to the maximum limits set out in the Articles of Association.</p>	Not applicable.

Directors' Remuneration Report continued

Directors' Remuneration Policy continued

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

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.

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, and considers any informal feedback received. To support this, in line with the 2018 Code, Sandy Shaw has been appointed as the designated non-executive director responsible for enhancing the employee voice in the boardroom. She will engage with the workforce, normally twice a year, at different sites to provide an equal forum across all parts of the business to meet and engage on remuneration and non-remuneration matters.

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

Differences in Remuneration Policy for executive directors compared to other employees

The Company has developed a Remuneration Policy for all employees which incentivises everyone to deliver on the key strategic Milestones and create value for all shareholders. The 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 and PSPs. 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 (2018: 2.0%). 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 taking cognisance of the remuneration reporting requirements of Premium Listed companies whilst striking a balance between best practice corporate governance and its application for AIM listed companies.

Directors' Report

Company registration

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

Principal activity and area of operation

The principal activity of the Group is to discover, appraise and develop hydrocarbon resources from naturally fractured basement reservoirs on the UK Continental Shelf. Details of the principal joint operation of the Group as at 31 December 2019 are shown in note 2.6 to the Group Financial Statements, and details of the principal subsidiary undertakings of the Group as at 31 December 2019 are shown in note D to the Company Financial Statements. The Group's operations are based in the UK with a focus on the West of Shetland.

Directors

The directors who held office during the 2019 financial year and up to the date of this report are listed on pages 34 and 35. 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 nine years in the Energy and Natural Resources Group at J.P. Morgan, in both Australia and Hong Kong, where he managed a wide range of M&A and capital markets transactions in the natural resources sector across numerous geographies, including Asia, Central Asia, Latin America and Africa. Leonard is regulated by the Securities and Futures Commission in Hong Kong.

Insurance and indemnities

The Company maintains D&O liability insurance in respect of legal action that might be brought against its directors and officers. More information of the D&O liability insurance can be found on page 43. The indemnity was in force throughout the tenure of each director during the last financial year and is currently in force.

The Company does not have in place any indemnities for the benefit of the external auditor.

Engagement with employees and stakeholders

The average number of employees within the Group is shown in note 3.3 to the Group Financial Statements. We continuously engage with our employees in a number of ways including employee forums, all people briefings, corporate communications events and by conference calls and email. Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team meetings, formal workforce engagement meetings and one-to-one meetings. More information on how we have engaged with our employees and stakeholders can be found on pages 10 and 11.

The Board recognises the importance of considering all stakeholders in its decision making, as set out in Section 172 of the Companies Act and is committed to engaging effectively and working constructively with all of our stakeholders. To date, this has the positive impact of promoting the success of the Company as a whole. More information on how we engage with our stakeholders can be found on page 10.

Results for the year and dividend

The profit of the Group for the year was \$58,675,000 (2018: loss of \$60,911,000). 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 2.7 of the Group Financial Statements. In addition, notes 5.8 and 4.4 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 33: particulars of important events affecting the Group which have occurred since 31 December 2019; an indication of likely future developments in the business of the Group; policies relevant to greenhouse gas emissions; and steps taken to evolve the relationship with stakeholders. Financial risk management objectives, the use of financial instruments, our R&D activities and the exposure of the Group to price, credit, liquidity and cash flow risks are outlined in note 4.4 of the Group Financial Statements.

Directors' Report continued

Carbon and energy use

We recognise the use of fossil fuels in our operations and look for opportunities to maximise efficiency as part of our approach to limiting our environmental impact. This year, the Group is publishing its first ESG report which was reported against the global reporting initiative (GRI) standard. This report describes the Group's approach to carbon emissions and resource usage in more detail.

Taking an operational control approach and excluding non-material emissions from Hurricane's two offices, the Group reports its Scope 1 carbon emissions from the Aoka Mizu FPSO. Hurricane will be recording energy usage on the same basis to make future disclosures in line with the Streamline Energy and Carbon Reporting guidance in relation to The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, which is effective for reporting years starting after 1 April 2019.

Global GHG emissions for the period
1 January 2019 to 31 December 2019
(tonnes CO₂e)

Total emissions	128,831
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Subsequent events

The key events which have occurred since the end of the Group's financial year are detailed in note 7.4 of the Group Financial Statements.

Annual General Meeting (AGM)

The Company's AGM will be held on 3 June 2020 subject to UK Government advice and no restrictions on meetings. The Notice of Annual General Meeting, to be circulated to all shareholders, contains the details of 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 2019 and 6 April 2020, 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 2019	Change in percentage notified as at 6 Apr 2020
Kerogen Investments No. 18 Limited	16.0%	0.0%
Pelham Capital Limited	6.1%	0.0%
AFFM S.A.	5.4%	0.0%
Crystal Amber Fund Limited	5.0%	1.2%

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 2019.

Auditor

Deloitte LLP has indicated its willingness to be re-appointed as the auditor for the Company and a resolution proposing its re-appointment will be put to shareholders at the 2020 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, is fair, balanced and understandable and provides 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 8 April 2020 and signed on its behalf by:

Dr Robert Trice
Chief Executive Officer
8 April 2020

Steven McTiernan
Chairman
8 April 2020

Independent Auditor's Report

1. 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 2019 and of the group's profit 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;
- 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 7 in respect of the group and A to I 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).

2. 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.

3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Carrying Value of the Lancaster field; • Recoverability of Exploration & Evaluation (E&E) assets; and • Going concern <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> ⊕ Increased level of risk ⊙ Similar level of risk ⊖ Decreased level of risk
Materiality	The materiality that we used for the group financial statements was \$10 million which was determined on the basis of 1.5% of group net assets.
Scoping	We have performed a full scope audit of all material balances within the group. All the work was performed by the Deloitte London audit team.
Significant changes in our approach	<p>There have been no significant changes in our audit approach compared to the prior year with the exception of:</p> <ul style="list-style-type: none"> • Performing certain audit procedures on the impact of First Oil, including testing revenues, depreciation, cost of sales and inventory. • Placing reliance on key controls over the purchases and payables cycle that are relevant to the audit.

4. Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern

We have reviewed the directors' statement in note 1.2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the 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.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 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.

4.2 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 company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 18–23 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 18 that they have carried out a robust assessment of the principal and emerging risks facing the company, 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 company, 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 company 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.

Viability means the ability of the company to continue over the time horizon considered appropriate by the directors.

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

5. 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.

Independent Auditor's Report continued

5. Key audit matters continued

The matters outlined below are consistent with those in the prior year.

5.1 Carrying Value of the Lancaster field **Key audit matter description**

The Lancaster field is currently Hurricane's only producing asset, having achieved First Oil from the Early Production System ("EPS") during the first half of 2019. The Lancaster asset is held within Property, Plant and Equipment ("PP&E") and had a carrying value of \$796 million (2018: \$728 million) at 31 December 2019.

The Lancaster field is held under the P1368 licence which was originally due to expire during 2019, but Hurricane was successfully granted a five-year extension to the licence to December 2024.

PP&E balances are subject to impairment considerations under IAS 36 – Impairment of Assets ("IAS 36") and therefore management must assess whether there are any indicators of impairment of the asset at 31 December 2019.

This is considered a key audit matter due to the number of management judgements involved in making this assessment, including the 2P reserve estimate, forecast oil price assumptions, and cost and production estimates involved in the identification of impairment indicators under IAS 36. In addition, due to the importance of the Lancaster field to the group and the judgemental nature of the impairment indicator assessment, we also considered that there was a potential for fraud through possible manipulation of the assumptions noted above. As the Lancaster field is now producing, the risk associated with the recoverability has decreased compared to our prior year assessment.

In the current year, in order to assess whether any impairment indicators existed at 31 December 2019, management has considered the triggers for impairment set out 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 note 2.3 of the financial statements and in the Audit and Risk Committee Chairman's Report on page 48.

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

Our procedures included:

- Obtaining an understanding of the relevant controls related to the recoverability of Lancaster.
- Holding discussions with senior financial and technical management to understand the performance of the Lancaster Early Production System ("EPS") which achieved First Oil in the year;
- Challenging whether there were any indications of 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;
- Obtaining and reviewing the executed deed of variation for the P1368 licence which contains this field, to which the Group was granted a five-year extension during the year, and understanding the associated licence terms and commitments;
- Considering 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;
- Obtaining the latest version of the company's corporate cash flow model, extracting the elements of the model that relate to Lancaster and using this to independently derive a high level estimate of the value in use of the field, and comparing this to the asset's carrying value; and
- Considering the market capitalisation of the company at 31 December 2019 in comparison to the asset's carrying value.

Key observations

We are satisfied that there are no impairment indicators for the Lancaster field and that the carrying value was recoverable at 31 December 2019.

5. Key audit matters continued

5.2 Recoverability of Exploration & Evaluation assets

Key audit matter description



The total value of the group's E&E assets at 31 December 2019 was \$76 million (2018: \$132 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 facts and circumstances that suggest that the carrying amount exceeds the recoverable amount under IFRS 6 "Exploration for and evaluation of mineral resources".

E&E assets are held on various licences; being the P1368 licence (containing part of the Lincoln asset) on which the Group was granted a 5-year extension during the year, the P2294 licence (Warwick and part of the Lincoln assets) and the P2308 licence (Halifax asset). The P2294 and P2308 licences reach the end of their current licence terms during 2020, and as such there is judgements involved in assessing the ability to renew these licences in the future.

Management assessed whether there are any facts and circumstances that suggest that the carrying amount exceeds the recoverable amount of the group's E&E assets by reference to IFRS 6, including:

- 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; and
- 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.

During the year, the licence on which the Whirlwind and Strathmore assets are situated was relinquished, and therefore management has fully impaired the carrying value of the Whirlwind asset (\$66 million). The Strathmore asset was already fully impaired in prior periods.

Management has concluded that no facts and circumstances suggest that the carrying amount exceeds the recoverable amount for any other assets in its E&E asset portfolio as at 31 December 2019.

Further details of the approach adopted by management in this area are provided in note 2.4 of the financial statements and in the Audit and Risk Committee Chairman's Report on page 48.

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



Our procedures included:

- Obtaining an understanding of the relevant controls related to the recoverability of E&E assets.
- Participating in meetings with key operational and finance staff to understand the current status and future intentions for each asset;
- Reviewing E&E activity in the year and challenging management on results in the period on the Lincoln field.
- Assessing whether all assets which remain capitalised are included in future budgets and, if they are not, understanding the basis by which management anticipates being able to recover the amounts that have been capitalised;
- Reading the licence agreements for each of the assets and assessing whether all commitments have been met and identifying any licences that are at or near to expiry;
- Obtaining and reviewing the executed deed of variation to the P1368 licence agreement which contains a part of the Lincoln E&E asset, which granted a five-year extension to the P1368 licence to December 2024 and understood the commitments required within the licence; and
- Challenging the basis on which management anticipates being able to renew the P2294 licence which contains the Warwick and part of the Lincoln asset, and the P2308 licence which contains the Halifax asset, both of which reach the end of their current terms during 2020;

Key observations



We concur that the Whirlwind asset should be fully impaired during the period and that there are no other facts and circumstances that would suggest the carrying value is greater than the recoverable amount for the group's remaining E&E assets.

Independent Auditor's Report continued

5. Key audit matters continued

5.3 Going Concern **Key audit matter description**

As a result of the significant reduction in oil prices subsequent to the balance sheet date and the COVID-19 pandemic causing significant global disruption, we consider the appropriateness of the going concern assumption and the adequacy of management's disclosure in this area to be a key audit matter.

Management has prepared a base case cash flow forecast for a period to June 2021, and also considered a number of downside scenarios.

The base case forecast assumes oil prices of \$30 per barrel until the end of the third quarter of 2020, rising to \$40 in the fourth quarter, and \$50 per barrel flat from January 2021 onwards. Management has also considered two downside scenarios, including a scenario of \$20 per barrel for the 12 months from April 2020 and a scenario necessitating a cessation of production and operations from the Lancaster EPS throughout the going concern window due to COVID-19. Furthermore, management has also considered mitigating actions available include deferring, cancelling or modifying the scope of certain work required to meet the Group's licence commitments, which would need to be agreed with the Regulator. 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 1.2 of the financial statements and in the Audit and Risk Committee Chairman's Report on page 47.

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

Our procedures included:

- Obtaining an understanding of the relevant controls related to the going concern assessment;
- Obtaining management's cash flow forecasts for a period of 12 months from the date of approval of the financial statements and comparing these to the Board approved budget;
- Challenging the key assumptions used in management's base case model, in particular the operational uptime, gross production levels, lifting quantities, and oil price assumption, by holding discussions with senior operational management and reviewing supporting documentation;
- Comparing the oil price assumptions to third party forecasts and publicly available forward curves;
- Assessing the impact of climate change, the COVID-19 outbreak, and price war tensions between Saudi Arabia and Russia on forecast crude oil prices;
- Validating cash positions as at 1 March 2020;
- Assessing the historical accuracy of budgets prepared by management;
- Testing the mechanical accuracy of the cash forecast model;
- Considering the impact of the COVID-19 outbreak by assessing the adequacy of management's downside scenarios and running an additional downside sensitivity which considered the aggregate impact of a depressed oil price and a cessation of production throughout the going concern period; and
- Considering whether the disclosures relating to going concern are appropriate.

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.

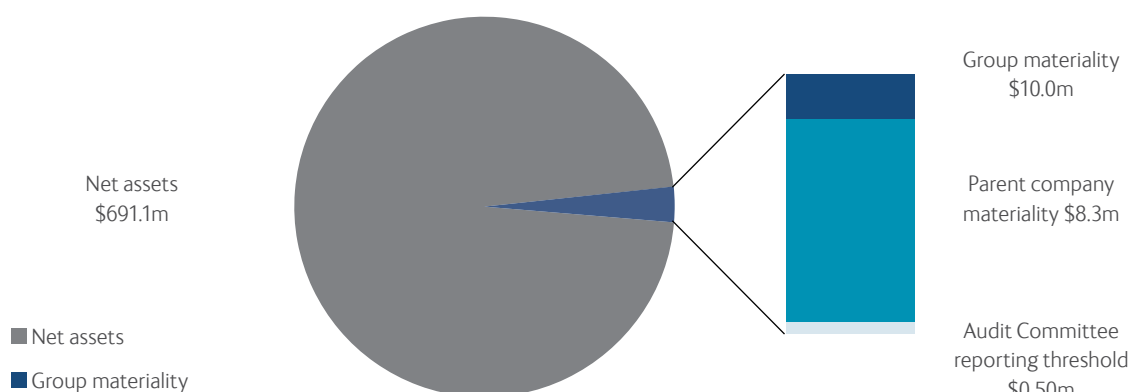
6. Our application of materiality

6.1. 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 (2018: \$10 million)	\$8.3 million (2019: \$7.4 million)
Basis for determining materiality	1.5% (2018: 1.6%) of net assets	1.5% (2018: 1.5%) of net assets
Rationale for the benchmark applied	As Hurricane commenced production in the middle of the year, the group has generated limited revenue in 2019 and the EPS is still in the early stages of development. We have therefore concluded that net assets remains 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.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- Our risk assessment, including our assessment of the group's overall control environment and that we consider it appropriate to rely on controls for some business processes
- Our past experience of the audit, which has indicated a low number of uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of \$0.5 million (2018: \$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 Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report continued

7. An overview of the scope of our audit

7.1. Identification and scoping of components

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.

7.2. Our consideration of the control environment

We placed reliance on controls over the purchases and payables controls that are relevant to critical business processes. We have also obtained an understanding of certain controls in the revenue and collection processes and over our significant audit risks.

8. Other information

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

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

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

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

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

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company'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.

We have nothing to report in respect of these matters.

9. 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.

10. 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

11. 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 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.

12. Opinion on other matter 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.

13. Matters on which we are required to report by exception

13.1. 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.

13.2. 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.

14. Use of our report

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

Paul Barnett FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

8 April 2020

Group Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	Year ended 31 Dec 2019 \$'000	Restated Year ended 31 Dec 2018 \$'000
Revenue	2.1	170,283	—
Cost of sales	2.2	(118,453)	—
Gross profit		51,830	—
General and administrative expenses		(400)	(12,660)
Write-off of intangible exploration and evaluation assets	2.4	(66,468)	—
Operating loss		(15,038)	(12,660)
Finance income	3.2	1,741	3,163
Finance costs	3.2	(23,206)	(7,198)
Fair value gain/(loss) on Convertible Bond embedded derivative	5.1	34,691	(42,385)
Loss on liquidation of subsidiary	5.7	—	(1,831)
Loss before tax		(1,812)	(60,911)
Tax	6.1	60,487	—
Profit/(loss) for the year		58,675	(60,911)
Cumulative foreign exchange differences recycled to the income statement on liquidation of subsidiary	5.7	—	1,831
Total comprehensive income/(loss) for the year		58,675	(59,080)
		Cents	Cents
Earnings/(loss) per share – basic	3.1	2.97	(3.11)
Earnings/(loss) per share – diluted	3.1	1.70	(3.11)

The presentation, description and classification of certain comparative lines have been restated – see note 1.5.

All results arise from continuing operations.



Group Balance Sheet

as at 31 December 2019

Registered company number: 05245689

	Notes	31 Dec 2019 \$'000	Restated 31 Dec 2018 \$'000
Non-current assets			
Intangible exploration and evaluation assets	2.4	75,874	131,526
Oil and gas assets	2.3	796,155	727,816
Other non-current assets	7.2	3,080	546
Deferred tax assets	6.2	54,311	—
Cash and cash equivalents and liquid investments	4.1	3,065	24,298
		932,485	884,186
Current assets			
Inventory	2.2	9,945	4,571
Trade and other receivables	4.2	50,435	2,565
Cash and cash equivalents	4.1	168,369	98,864
		228,749	106,000
Total assets		1,161,234	990,186
Current liabilities			
Trade and other payables	4.3	(72,369)	(55,064)
Lease liabilities	5.2	(9,501)	—
Decommissioning provisions	2.5	(12,484)	—
		(94,354)	(55,064)
Non-current liabilities			
Lease liabilities	5.2	(89,685)	—
Convertible Bond liability	5.1	(206,604)	(198,364)
Derivative financial instruments	5.1	(36,316)	(71,007)
Decommissioning provisions	2.5	(43,190)	(37,657)
		(375,795)	(307,028)
Total liabilities		(470,149)	(362,092)
Net assets		691,085	628,094
Equity			
Share capital	5.4	2,883	2,843
Share premium		821,910	813,681
Share option reserve	5.5	20,828	24,067
Own shares reserve	5.6	(684)	(380)
Foreign exchange reserve	5.7	(90,828)	(90,828)
Accumulated deficit		(63,024)	(121,289)
Total equity		691,085	628,094

The Financial Statements of Hurricane Energy plc were approved by the Board and authorised for issue on 8 April 2020. They were signed on its behalf by:

Dr Robert Trice

Chief Executive Officer

Group Statement of Changes in Equity

for the year ended 31 December 2019

	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 2018	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 year	—	—	—	—	1,831	(60,911)	(59,080)
New shares issued under employee share schemes	—	185	—	(136)	—	—	49
Share-based payments	—	—	4,590	79	—	—	4,669
At 31 December 2018	2,843	813,681	24,067	(380)	(90,828)	(121,289)	628,094
Change in accounting policy (note 1.6)	—	—	—	—	—	(410)	(410)
At 1 January 2019	2,843	813,681	24,067	(380)	(90,828)	(121,699)	627,684
Profit for the period	—	—	—	—	—	58,675	58,675
New shares issued under warrants and rights (note 5.4)	39	7,743	—	—	—	—	7,782
New shares issued under employee share schemes (note 5.4)	1	486	—	(393)	—	—	94
Share-based payments	—	—	(3,239)	89	—	—	(3,150)
At 31 December 2019	2,883	821,910	20,828	(684)	(90,828)	(63,024)	691,085



Group Cash Flow Statement

for the year ended 31 December 2019

	Notes	Year ended 31 Dec 2019 \$'000	Restated Year ended 31 Dec 2018 \$'000
Cash flows from operating activities			
Operating loss		(15,038)	(12,660)
Adjustments for:			
Depreciation of property, plant and equipment	2.3	63,161	42
Write-off of intangible exploration and evaluation assets	2.4	66,468	—
Share-based payment (credit)/charge	3.4	(3,150)	4,669
Decommissioning spend	2.5	(12)	—
Operating cash flow before working capital movements		111,429	(7,949)
Movement in receivables		(2,559)	3,928
Movement in payables		8,912	1,322
Movement in crude oil, fuel and chemicals inventories		(5,613)	(360)
Net cash inflow/(outflow) from operating activities		112,169	(3,059)
Cash flows from investing activities			
Interest received		1,438	3,152
Decrease in liquid investments		21,668	180,642
Expenditure on oil and gas assets		(52,878)	(205,319)
Expenditure on other fixed assets		(289)	(343)
Expenditure on intangible exploration and evaluation assets		(2,265)	(5,963)
Movement in spares and supplies inventories		239	(2,777)
Tax refund relating to R&D expenditure	6.1	6,235	—
Net cash used in investing activities		(25,852)	(30,608)
Cash flows from financing activities			
Convertible Bond interest paid	5.1	(17,250)	(17,250)
Lease repayments	5.2	(5,556)	—
Interest and other finance charges paid		(1,539)	(17)
New shares issued under warrants and rights	5.4	7,782	—
New shares issued under employee share schemes		94	49
Net cash used in financing activities		(16,469)	(17,218)
Increase/(decrease) in cash and cash equivalents		69,848	(50,885)
Cash and cash equivalents at beginning of period	4.1	101,831	158,045
Net increase/(decrease) in cash and cash equivalents		69,848	(50,885)
Effects of foreign exchange rate changes		(245)	(5,329)
Cash and cash equivalents at end of period	4.1	171,434	101,831

The presentation, description and classification of certain comparative lines have been restated – see note 1.5.

Notes to the Group Financial Statements

for the year ended 31 December 2019

Section 1. General information and basis of preparation

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 (registered company number 05245689). The nature of the Group's operations and its principal activity is exploration, development and production of oil and gas reserves principally on the UK Continental Shelf.

1.1 Basis of preparation and consolidation

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

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 2.6.

In the opinion of the directors, the operations of the Group comprise one segment of business, being oil and gas exploration, development and production together with related activities in only one geographical area, the UK Continental Shelf.

1.2 Going concern

The Financial Statements have been prepared in accordance with the going concern basis of accounting. The use of this basis of accounting takes into consideration the Group's current and forecast financing position, additional details of which are provided in the going concern section of the Directors' Report and within the Group's Strategic Report on page 24.

1.3 Significant events and changes in the period

The commencement of the Lancaster FPS start-up phase in May 2019, provisional acceptance of the Aoka Mizu FPSO in June 2019 and the sale by the Group, for the first time, of crude oil cargoes have had the following impacts on the Group's financial position and performance in the period:

- commencement of the Aoka Mizu FPSO bareboat charter and recognition as a right-of-use asset and lease liability under IFRS 16 'Leases' (notes 2.3 and 5.2);
- recognition of crude oil inventory (note 2.2);
- recognition of revenue (note 2.1) and cost of sales (note 2.2);
- commencement of oil and gas assets depreciation under the unit-of-production basis (note 2.3);
- cessation of Convertible Bond interest capitalisation (note 3.2);
- reclassification of certain items in the income statement, balance sheet and statement of cash flows (note 1.5); and
- recognition of deferred tax assets (note 6.2).

The Group also recognised an impairment charge of \$66.5million relating to its Whirlwind exploration and evaluation intangible asset (note 2.4) following the relinquishment of that licence subarea. For further discussion about the Group's performance and financial position, see the Chief Executive Officer's Review and Financial Review on pages 5 to 7 and 28 to 31 respectively.

1.4 Foreign currencies and 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 all of its current 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.

Section 1. General information and basis of preparation continued

1.4 Foreign currencies and translation continued

The principal rates of exchange used were:

Pounds Sterling/US Dollar	31 Dec 2019	31 Dec 2018
Year-end rate	0.76	0.79
Average rate	0.78	0.75

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.

1.5 Restatement and reclassification of comparative information

Following a review of its Financial Statements, the commencement of crude oil production and the recognition for the first time of revenue and cost of sales, the Group has elected to change the presentation and classification of the statement of comprehensive income and statement of cash flows. Comparative information has been restated accordingly. There has been no change to the reported loss after tax for the year ended 31 December 2018.

Foreign exchange gains or losses and fair value gains or losses on derivatives (excluding movements in the Convertible Bond embedded derivative) are now presented within finance income or finance costs. 'Other operating expenses' has been renamed to 'General and administrative expenses'.

Other fixed assets (being property, plant and equipment not classified as oil and gas assets) are now presented on the balance sheet within the line 'Other fixed assets and long-term receivables'.

Movements in joint operation payables and receivables are now presented within cash flows from investing activities (previously cash flows from operating activities) as they primarily relate to exploration and evaluation activities. For the year ended 31 December 2018, this change resulted in an increase in the investing cash outflow arising from expenditure on intangible exploration and evaluation assets of \$1,746,000 and an increase in the operating cash inflow arising from movements in receivables of the same amount. Movements in inventory are now presented within cash flows from operating activities where relating to crude oil, fuel and chemicals, and within cash flows from investing activities where relating to spares and supplies. For the year ended 31 December 2018, this change resulted in an increase in the operating cash outflow arising from movements in inventories of \$360,000, and a decrease in the investing cash outflow arising from movement in inventories of the same amount.

1.6 New and amended standards adopted by the Group

IFRS 16 'Leases' became effective for the Group from 1 January 2019. The core principle of IFRS 16 is to provide a single lessee accounting model, requiring lessees to recognise a right-of-use asset and lease liability for all leases unless the term is less than 12 months, or the underlying asset has a low value. As a result of applying IFRS 16, the Group has recognised right-of-use assets and lease liabilities on the balance sheet, representing rights to use the underlying leased assets and obligations to make lease payments.

The Group has applied IFRS 16 retrospectively from 1 January 2019 but has elected not to restate comparatives (as permitted under the standard's transitional provisions). The cumulative effect of initial application has instead been recognised within retained earnings as at 1 January 2019.

Upon adoption, the Group has used the practical expedients of applying a single discount rate to a portfolio of leases with similar characteristics; relying on previous assessments of whether a lease is onerous; excluding initial direct costs from the right-of-use asset measurement; and using hindsight to determine the lease term.

The right-of-use asset for the lease of the Group's head office was measured on a retrospective basis. Other right-of-use assets were measured at an amount equal to the lease liability, adjusted for any onerous provisions, accruals or prepayments as at 31 December 2018.

The impacts of adoption on the affected balance sheet lines were as follows:

	At 31 Dec 2018 \$'000	Adjustment on adoption of IFRS 16 \$'000	At 1 Jan 2019 \$'000
Other fixed assets and long-term receivables	728,171	2,784	730,955
Trade and other receivables	2,565	(75)	2,490
Deferred tax assets	—	83	83
Trade and other payables	(55,064)	121	(54,943)
Lease liabilities – current	—	(568)	(568)
Lease liabilities – non-current	—	(2,755)	(2,755)
Net assets/total equity		(410)	

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 1. General information and basis of preparation continued**1.6 New and amended standards adopted by the Group** continued

A reconciliation of the operating lease commitments disclosed at 31 December 2018 to the total lease liabilities recognised upon initial application of IFRS 16 is presented below:

	\$'000
Operating lease commitments at 31 December 2018	4,162
Effect of discounting at weighted average incremental borrowing rate of 4.7%	(839)
Lease liabilities recognised at 1 January 2019	3,323

The Group's accounting policy for leases, and its previous accounting policy under IAS 17, is shown in note 5.2.

The Group has also applied other new accounting standards, amendments and interpretations for the first time, but their adoption has not had any material impact on the disclosures or on the amounts reported in the Financial Statements, nor are they expected to significantly affect future periods:

- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Annual Improvements to IFRS 2015-2017 Cycle;
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19); and
- IFRIC 23 'Uncertainty over Income Tax Treatments'.

The Group has also elected to early adopt the amendments to IAS 1 and IAS 8 'Definition of Material'. Under the amended definitions, information is determined as material if omitting, misstating or obscuring such information could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

1.7 New and amended accounting standards not yet adopted

A number of new and amended accounting standards and interpretations have been published that are not mandatory for the Group's accounts ended 31 December 2019, nor have they been early adopted. These standards and interpretations are not expected to have a material impact on the Group's consolidated Financial Statements:

- Amendments to References to Conceptual Framework in IFRS Standards (effective from 1 January 2020);
- Amendments to IFRS 3 'Definition of a Business' (effective from 1 January 2020);
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date not yet confirmed); and
- IFRS 17 'Insurance Contracts' (effective from 1 January 2022).

1.8 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, 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.

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:

- recoverability of intangible exploration and evaluation assets (note 2);
- recoverability of Lancaster field assets (note 2);
- lease term of the Aoka Mizu FPSO (notes 2 and 5.2); and
- recognition of deferred tax assets (note 6).

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:

- estimation of hydrocarbon reserves and resources (note 2);
- valuation of Convertible Bond embedded derivative (note 5.1); and
- estimation of future taxable profits against which to recognise deferred tax assets (note 6).

Section 2. Oil and gas operations

Accounting policies applicable to this section as a whole

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.

Critical judgements and key sources of estimation uncertainty applicable to this section

Critical judgement – 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. 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 2.4.

Critical judgement – 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. The Group's long-term oil price assumption used in considering whether indicators of impairment were present was a flat price of \$55 per barrel (2018: \$60 per barrel), being the prevailing price at the balance sheet date.

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.

Critical judgement – lease term of the Aoka Mizu FPSO

Judgement has been applied to determine the lease term for the Aoka Mizu FPSO bareboat charter as the contract includes renewal and termination options. Extension or termination options, and the costs or penalties associated with exercising such options, are included only if the lease term is reasonably certain to be extended or not terminated. This assessment can significantly affect the right-of-use asset and lease liability recognised. The lease term for the Aoka Mizu FPSO has been assessed to be six years in line with the Lancaster EPS Field Development Plan.

Key source of estimation uncertainty – estimation of hydrocarbon reserves and resources

Hydrocarbon reserves and resources are those hydrocarbons that can be economically extracted from the Group's oil and gas assets. The Group's reserves and resources have been estimated based on information compiled by independent qualified persons, using standard recognised evaluation techniques.

Should additional geological and reservoir information be obtained through operation of a field, underlying economic assumptions change, or the committed duration of the EPS be updated, estimates of recoverable reserves may change which may significantly impact the financial position and performance of the Group. This could include a significant change in the depreciation charge for oil and gas assets, provisions for decommissioning, the results of any impairment testing performed and the recognition and carrying value of any deferred tax assets.

The estimated quantity of proved plus probable reserves (2P reserves) in respect of the Lancaster EPS was independently assessed in May 2017 as being 37.3 mmbob, based on a six-year duration of the EPS. Following the production of 3.0 mmbob during the year, the estimated quantity of 2P reserves at 31 December 2019 is 34.3 mmbob.

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 2. Oil and gas operations continued**2.1 Revenue****Accounting policy**

Revenue from contracts with customers is recognised when the Group satisfies its performance obligation of transferring control of oil to a customer. Transfer of control is usually concurrent with both transfer of title and the customer taking physical possession of the oil, which is determined by reference to the contract and relevant Incoterms. These performance obligations are satisfied at a point in time.

The amount of revenue recognised is measured at the transaction price, which is determined primarily by reference to quoted market prices at or around the time of lifting. Where final pricing terms are only available after delivery (e.g. using quoted prices or other information such as discharge quantity that can only be determined after the time of sale), revenue is initially recognised based on relevant prices at the time of sale on a provisional basis and subsequently adjusted. This variable consideration element is deemed highly probable not to result in a significant reversal of revenue as changes in pricing arising from post-sale adjustments are resolved within a short period of time following delivery and are not considered to be material.

All revenue is derived from contracts with customers and is comprised of only one category and geographical location, being the sale of crude oil from the Lancaster EPS. All sales were made to one external customer, being BP Oil International Limited.

	Year ended 31 Dec 2019 \$'000
Oil sales	170,283
Revenue from contracts with customers	170,283
Cargoes sold	7
Sales volumes (thousand bbl)	2,874
Average sales price realised (\$/bbl)	59.3

2.2 Cost of sales and inventory**Accounting policy****Crude oil inventories**

Crude oil inventories are stated at the lower of cost and net realisable value. The cost of crude oil is the cost of production, including direct labour and materials, depreciation and an appropriate portion of fixed overheads allocated based on normal operating capacity of the production facilities, determined on a weighted average cost basis. Net realisable value of crude oil is based on the market price of similar crude oil at the balance sheet date and costs to sell, adjusted if the sale of inventories after that date gives additional evidence about its net realisable value.

The cost of crude oil is expensed in the period in which the related revenue is recognised.

Other inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis (for fuel and chemicals) or a specific identification basis (for spares and supplies), including the cost of direct materials and (where applicable) direct labour and a proportion of overhead expenses. Net realisable value is determined by an estimate of the price that could be realised through resale or scrappage based on its condition at the balance sheet date.

Included within cost of sales are costs relating to the European Union Emissions Trading System (EU ETS). Provision is made at the end of each period for the cost of allowances required to cover carbon emissions made in the emission reporting period to date. The estimated cost of allowances required is based on the weighted average cost per unit of emissions expected to be incurred for the compliance period. This is calculated as the carrying amount of any allowances held plus the cost of meeting the expected shortfall (using the market price at the balance sheet date), divided by the expected total number of units of emissions for the compliance period. The provision is held on the balance sheet within trade and other payables until settled by the delivery of emissions certificates.

Section 2. Oil and gas operations continued

2.2 Cost of sales and inventory continued

Cost of sales

	Note	Year ended 31 Dec 2019 \$'000
Operating costs		44,915
Depreciation of oil and gas assets – owned	2.3	54,406
Depreciation of oil and gas assets – leased	2.3	8,210
Movement in crude oil inventory		(4,424)
Variable lease payments		15,346
		118,453

Inventory

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Crude oil	4,424	—
Fuel and chemicals	1,549	360
Spares and supplies	3,972	4,211
	9,945	4,571

The amount of crude oil inventory recognised as an expense in the period was \$93.5 million.

2.3 Oil and gas assets

Accounting policies

Oil and gas assets are stated at cost less accumulated depreciation and any provision for impairment.

Oil and gas assets – cost

Oil and gas assets 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.

Right-of-use assets (leased assets) are initially measured at cost, which comprises the initial measurement of the lease liability (see note 5.2), plus any lease payments made prior to lease commencement, initial direct costs incurred and the estimated cost of restoration or decommissioning, less any lease incentives received. Right-of-use assets are presented within property, plant and equipment on the balance sheet.

Oil and gas assets – 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 reserves base, which is proved plus probable reserves (2P 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 those reserves into production.

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.

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 2. Oil and gas operations continued**2.3 Oil and gas assets** continued

	Leased \$'000	Owned \$'000	Total \$'000
Cost			
At 1 January 2018	—	445,237	445,237
Additions	—	252,673	252,673
Changes to decommissioning estimates (note 2.5)	—	29,906	29,906
At 31 December 2018	—	727,816	727,816
Additions	96,361	26,189	122,550
Changes to decommissioning estimates (note 2.5)	4,986	3,419	8,405
At 31 December 2019	101,347	757,424	858,771
Depreciation			
At 1 January 2018	—	—	—
Charge for the year	—	—	—
At 31 December 2018	—	—	—
Charge for the year (note 2.3)	(8,210)	(54,406)	(62,616)
At 31 December 2019	(8,210)	(54,406)	(62,616)
Carrying amount at 31 December 2018	—	727,816	727,816
Carrying amount at 31 December 2019	93,137	703,018	796,155

Included within the cost of owned oil and gas assets is \$42.8 million of capitalised borrowing costs (31 December 2018: \$33.7 million), and \$92.1 million (31 December 2018: \$89.6 million) of assets not currently subject to depreciation (as they relate to non-producing parts of the Lancaster field).

Oil and gas assets held under leases comprise the Aoka Mizu FPSO bareboat charter, which commenced during the year (see note 5.2).

The total amount of depreciation charged to oil and gas assets and other fixed assets was \$63.2 million.

2.4 Intangible exploration and evaluation assets**Accounting policy**

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 surrender, 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 costs) and its estimated fair value less costs to sell. Capitalised costs which are subsequently written off are classified as operating expenses.

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.

Section 2. Oil and gas operations continued

2.4 Intangible exploration and evaluation assets continued

	Year ended 31 Dec 2019 \$'000	Year ended 31 Dec 2018 \$'000
At 1 January	131,526	126,365
Additions	6,619	4,611
Write-offs	(66,468)	—
Changes to decommissioning estimates (note 2.5)	4,197	550
At 31 December	75,874	131,526

Intangible exploration and evaluation assets comprise the Group's share of the cost of licence interests and exploration and evaluation expenditure within its 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.

On 12 December 2019, the Group executed a deed of variation with the Oil and Gas Authority (OGA), granting a five-year extension to its P1368 licence (which covered the Lincoln, Lancaster, Whirlwind and Strathmore subareas) to December 2024. As part of this extension agreed with the OGA, the Whirlwind and Strathmore subareas have been relinquished resulting in a write-off of \$66.5 million, all relating to Whirlwind. The carrying value of intangible exploration and evaluation assets relating to Strathmore was previously fully impaired in 2017.

Although the initial terms of the licences that hold the Warwick and Halifax assets are due to expire in August 2020 and November 2020 respectively, the directors expect these licences to be renewed into their second terms, having met the required work programmes for both licences within their initial terms.

The directors have concluded that no impairment triggers have arisen in relation to any of the Group's other exploration and evaluation expenditure in the current period.

2.5 Decommissioning provisions

Accounting policy

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 oil and gas 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 included as a finance cost.

	Year ended 31 Dec 2019 \$'000	Year ended 31 Dec 2018 \$'000
At 1 January	37,657	7,023
Net new provisions and changes in estimates	17,706	30,456
Utilised in year	(12)	—
Unwinding of discount	323	178
At 31 December	55,674	37,657
Of which:		
Current	12,484	—
Non-current	43,190	37,657
	55,674	37,657

The provision for decommissioning relates to the costs required to decommission the suspended wells previously drilled on the Lincoln, Lancaster, Whirlwind and Halifax exploration assets, the costs required to decommission the Lancaster EPS installations and the costs required to clean, remove and restore the Aoka Mizu FPSO at the end of the charter term.

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 2. Oil and gas operations continued**2.5 Decommissioning provisions** continued

The decommissioning costs are expected to be incurred during 2020 (for the Lincoln, Whirlwind and Halifax exploration wells) and towards the end of 2025 (for the Lancaster EPS, Aoka Mizu FPSO and Lancaster exploration well). Estimated costs have been discounted at a rate at 0.64% per annum (2018: 1.1%).

New provisions in the current year primarily relate to the Lancaster EPS and Aoka Mizu FPSO, and the Lincoln Crestal well which, as at 31 December 2019, is required by the OGA to be plugged and abandoned during 2020. Changes in estimates in the year arose from a decrease in the assumed discount rate, changes in key assumptions including rig rates, and changes in the expected timing for decommissioning the Halifax and Whirlwind suspended wells which are now expected to complete in 2020 (previously 2025).

Of the total net new provisions and changes in estimates in the year, \$8.4 million have been recorded as additions to property, plant and equipment – oil and gas assets, \$4.2 million as net additions to intangible exploration and evaluation assets and \$5.1 million recognised as receivables due from the Group's joint operation partner.

The abandonment and decommissioning of the Warwick Deep and Warwick West wells was fully paid for by the Group's joint operation partner, and was completed during 2019.

2.6 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. The phased work programme includes a planned tie-back of a GWA well to the Aoka Mizu FPSO, together with host modifications to the vessel and a gas export tie-in to the West of Shetland Pipeline System. This work was split across Phase 1 (Hurricane fully carried up to a gross cost of \$180.6 million) and Phase 2 (Hurricane 50% carried up to a gross cost of \$187.5 million), with Phase 2 to commence after a final investment decision on a GWA tie-back to the Aoka Mizu FPSO. As Phase 2 had not yet commenced, all costs incurred from inception to 31 December 2019 in excess of the \$180.6 million carry (\$4.8 million) were funded on a 50:50 basis. Subsequent to the year end, a revised cost allocation was agreed – see note 7.4.2.

No upfront cash consideration was received or paid by the Group upon entering into the joint operation. The Group currently acts as operator of the joint operation and will continue to do so until full field development workstreams commence.

Activities on the joint operation during the year primarily comprised the Phase 1 work programme, and as such the net cash cost to the Group was minimal.

Amounts due from and to the joint operation partner are shown in notes 4.2 and 4.3 respectively.

Further details on the activities and progress of the joint operation are described in the Strategic Report on pages 14 to 15.

2.7 Commitments

As at the balance sheet date, the Group had the following outstanding contractual and other commitments:

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Contractual commitments for acquisition/construction of oil and gas assets	4,299	10,997
Contractual commitments for acquisition/construction of intangible exploration and evaluation assets	17,127	—
Minimum undiscounted value of leases not yet commenced	20,358	127,900

Commitments shown above are net of amounts expected to be carried by the Group's joint operation partner, except for leases not yet commenced.

Section 3. Income statement

3.1 Earnings per share

	Year ended 31 Dec 2019 \$'000	Year ended 31 Dec 2018 \$'000
Profit/(loss) attributable to holders of Ordinary Shares in the Company used in calculating basic earnings per share (being profit/(loss) after tax)	58,675	(60,911)
Add back impact of:		
Convertible Bond – interest expense not capitalised	16,417	—
Convertible Bond – depreciation of interest capitalised in the year	738	—
Convertible Bond – fair value gain	(34,691)	—
Profit attributable to holders of Ordinary Shares in the Company used in calculating diluted earnings per share	41,139	(60,911)
	Number	Number
Weighted average number of Ordinary Shares used in calculating basic earnings per share	1,978,513,120	1,958,468,753
Potential dilutive effect of:		
Convertible Bond	442,307,692	—
Weighted average number of Ordinary Shares and potential Ordinary Shares used in calculating diluted earnings per share	2,420,820,812	1,958,468,753
	Cents	Cents
Basic earnings/(loss) per share	2.97	(3.11)
Diluted earnings/(loss) per share	1.70	(3.11)

The impact of the VCP and PSP awards (see note 3.4) was antidilutive in 2019 because market-based conditions for both schemes had not been met at the balance sheet date, and the impact of other employee share options (see note 3.4) was antidilutive in 2019 as the adjusted exercise prices were in excess of the average market price of Ordinary Shares during the relevant periods.

The effect of warrants, share awards and options outstanding in 2018 was antidilutive as the Group incurred a loss. The impact of the conversion feature included within the Convertible Bond in 2018 was also antidilutive.

3.2 Finance income and costs

	Year ended 31 Dec 2019 \$'000	Restated Year ended 31 Dec 2018 \$'000
Interest income on cash, cash equivalents and liquid investments	1,453	3,152
Net foreign exchange gains	288	—
Net fair value gain on foreign exchange derivatives	—	11
Finance income	1,741	3,163
Convertible Bond interest expense (note 5.1)	(25,490)	(24,512)
Interest on lease liabilities (note 5.2)	(4,972)	—
Other interest expense and bank charges	(1,495)	(432)
Net foreign exchange losses	—	(5,329)
Unwinding of discount on decommissioning provisions (note 2.5 Decommissioning provisions)	(323)	(178)
Finance costs incurred	(32,280)	(30,451)
Interest capitalised	9,074	23,253
Finance costs	(23,206)	(7,198)
Total net finance costs	(21,465)	(4,035)

The presentation and classification of items within finance income and finance costs has been restated – see note 1.5.

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 3. Income statement continued**3.3 Staff costs**

	Year ended 31 Dec 2019 Number \$'000	Year ended 31 Dec 2018 Number \$'000
Average number of employees	55	31
Staff costs for the above:		
Wages and salaries	11,358	7,019
Social security costs	1,550	1,020
Share-based payment (credit)/charge (note 3.4)	(3,150)	4,669
Pension costs – defined contribution	616	299
Total staff costs	10,374	13,007
Staff costs capitalised	(4,248)	(7,293)
Staff costs	6,126	5,714

Staff costs are shown gross before recharges to joint operation partners.

Details of directors' remuneration are provided in the Remuneration Report on pages 54 to 75.

3.4 Share-based payment expense**Accounting policy**

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 the 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.

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 credit of \$3.2 million in respect of share-based payments in 2019 (2018: charge of \$4.7 million), primarily as a result of a change in non-market-based performance assumptions and a longer assumed vesting period for the VCP and some PSPs (see below).

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

3.4.1 PSP awards

	Year ended 31 Dec 2019 Number of awards	Year ended 31 Dec 2018 Number of awards
Outstanding at 1 January	29,473,132	6,233,355
Granted	4,957,128	24,515,250
Forfeited/lapsed	(4,592,847)	(1,275,473)
Outstanding at 31 December	29,837,413	29,473,132

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 two years.

Section 3. Income statement continued

3.4 Share-based payment expense continued

3.4.1 PSP awards continued

During 2019, 4,957,128 conditional rights to receive Ordinary Shares at nil cost were granted to eligible new employees under the Hurricane Energy 2017 PSP. The fair value of the awards was calculated using a simulation model. 3,375,000 of these awards vest based on the same conditions as the VCP, with the remainder of the awards granted during the year subject to further market-based conditions (but still only vesting should the VCP vest). The Group has revised its assessment of those PSPs which have non-market-based performance conditions, and now assumes a vesting period which runs to the expiry of the VCP's five-year term, which is November 2021 (the previous assumption was that the awards would vest upon a maturity event in January 2021), and assumed a decrease in the maximum payout that could be achieved for each award.

At 31 December 2019, 1,582,128 of the PSP awards outstanding (31 December 2018: nil) have an adjustment mechanism applied on vesting whereby the number of shares awarded can increase by up to 100% in relation to the increase in share price over the vesting period.

3.4.2 Share options

There are two tranches of share options that remain outstanding at 31 December 2019. 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 2019 the number of options that remained outstanding was 780,000 (2018: 780,000). The weighted average exercise price for these options was £0.55 (2018: £0.55). All outstanding options are exercisable. The options outstanding at 31 December 2019 had a weighted average remaining contractual life of one year (2018: one year).

The first 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. The second tranche of 500,000 share options was granted in July 2019 at an exercise price of £0.30. These options lapse in December 2020.

3.4.3 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 revised its assessment of the non-market-based performance conditions attached to the awards, and now assumes a vesting period which runs to the expiry of the VCP's five-year term, which is November 2021 (the previous assumption was that the awards would vest upon a maturity event in January 2021), and assumed a decrease in the maximum payout that could be achieved for each award.

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 in the Remuneration Report on pages 59 and 69 of the Governance Report.

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 4. Cash, working capital and financial instruments**Accounting policies applicable in general to this section**

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.

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.

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.

Financial liabilities

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.

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.

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.

Derivatives (other than embedded derivatives)

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.

Section 4. Cash, working capital and financial instruments continued

4.1 Cash and cash equivalents and liquid investments

Accounting policy

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 3 and 12 months' maturity. Funds held in liquid investments may be contractually restricted to be used only for certain payments or transactions.

	31 Dec 2019			31 Dec 2018		
	Restricted \$'000	Unrestricted \$'000	Total \$'000	Restricted \$'000	Unrestricted \$'000	Total \$'000
Current cash and cash equivalents	11,778	156,591	168,369	15,864	83,000	98,864
Non-current cash and equivalents	3,065	—	3,065	2,967	—	2,967
Cash and cash equivalents (per cash flow statement)	14,843	156,591	171,434	18,831	83,000	101,831
Non-current liquid investments	—	—	—	21,331	—	21,331
Total cash and cash equivalents and liquid investments	14,843	156,591	171,434	40,162	83,000	123,162

Included within restricted cash and cash equivalents at 31 December 2019 is \$11.7 million set aside in relation to the Aoka Mizu FPSO bareboat charter. Under the terms of the contract, the Group is required to ring-fence an amount to ensure it could meet its liability to pay an early termination fee to the lessor.

Other current restricted cash and cash equivalents at 31 December 2019 represent amounts held in escrow related to the Lancaster EPS project. Current restricted cash and cash equivalents at 31 December 2018 also included amounts relating to coupon payments under the terms of the Convertible Bond.

At 31 December 2019 and 2018, all the non-current restricted cash and cash equivalents were held in escrow for future costs associated with the Group's decommissioning obligations.

At 31 December 2018, non-current liquid investments represent restricted amounts held in trust under a decommissioning security agreement for the Lancaster EPS, which was transferred to current unrestricted cash during 2019 after achieving certain required levels of production.

The carrying amounts of cash and cash equivalents and liquid investments are considered to be materially equivalent to their fair values.

4.2 Trade and other receivables

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Amounts due from joint operation partner	47,519	1,746
Trade receivables	723	—
Prepayments	1,066	216
Other receivables	1,127	603
	50,435	2,565

The carrying amounts of trade and other receivables are considered to be materially equivalent to their fair values and are unsecured. Joint operation receivables represent expenses incurred by the Group as operator of the joint operation which will be recovered from the Group's joint operation partner. Amounts billed to the joint operation partner accrue interest at LIBOR and are generally due for settlement within ten days.

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 4. Cash, working capital and financial instruments continued**4.3 Trade and other payables**

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Amounts due to joint operation partner	5,371	—
Trade payables	647	21,275
Other payables	654	932
Accruals	65,697	32,857
	72,369	55,064

The carrying amounts of trade and other payables are considered to be materially equivalent to their fair values and are unsecured. Trade and other payables are non-interest bearing and generally payable within 30 days.

Trade and other payables and accruals include the Group's share of joint operation payables, including amounts that the Group settles on behalf of joint operation partners. Accruals include expenditure relating to joint operations incurred by the Group as operator which have yet to be billed to joint operation partners. Amounts due to the joint operation partner represent cash calls the Group has made as operator in advance of balances relating to the joint operation falling due.

4.4 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 financial instruments referred to below, the Group's significant financial instruments are cash and cash equivalents (note 4.1), trade payables (note 4.3), trade receivables (note 4.2) and borrowings (note 5.1 Convertible Bond).

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 \$206.6 million and the embedded derivative with a fair value of \$36.3 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 \$272.2 million (2018: \$297.6 million).

4.4.1 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 exchange, interest rate and other commodity price risk.

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; no such swaps were entered into or matured in the current year. 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 2019, 83% of the Group's cash and cash equivalents and liquid investments were held in US Dollars (2018: 28%).

A 10% increase in the strength of Sterling against the US Dollar would cause an estimated increase of \$1.8 million (2018: \$5.6 million increase) on the profit after tax of the Group for the year ended 31 December 2019, with a 10% weakening causing an equal and opposite decrease. 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 and assumes all other variables remain unchanged. 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.

Section 4. Cash, working capital and financial instruments continued

4.4 Financial risk management continued

4.4.1 Market risk continued

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.

For the year ended 31 December 2019, a 1% increase in interest rates would have increased the Group's profit after tax by approximately \$1.6 million, and a 0.5% decrease would have reduced the Group's profit after tax by approximately \$0.8 million, assuming that the amount of cash and cash equivalents at the balance sheet date had been in place for the whole year. The impact on equity would be the same as the impact on profit after tax.

Other price risk – commodity price risk

Commodity risk primarily arises from the production and sale of crude oil from the Lancaster EPS, as the price realised from the sale of crude oil is determined primarily by reference to quoted market prices at or around the time of lifting. The Group does not currently actively manage commodity price risk through entering into fixed price contracts or other hedging activities; however, this risk is partially mitigated by a proportion of cost of sales (variable lease payments) being linked to the price of crude oil sold.

The Group enters into other 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.

4.4.2 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 4.3), lease liabilities (note 5.2) and the Convertible Bond (note 5.1). The maturity analysis of financial liabilities is shown in note 5.3.

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 Strategic Report on page 24.

4.4.3 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, receivables from the sale of crude oil, and receivables outstanding from its joint operation partner.

For deposits lodged at banks and financial institutions, only those parties with at least investment grade credit ratings assigned by an international credit rating agency are accepted. Similarly, where the Group enters into factoring arrangements to accelerate the receipt of cash from sales of crude oil, only banks with at least investment grade credit ratings are used.

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

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 5. Capital and debt**5.1 Convertible Bond****Accounting policies**

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

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Where warrants are granted in conjunction with other equity instruments, which themselves meet the definition of equity, they are recorded at their fair value, which is measured using 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. 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.

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.

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.

Key source of estimation uncertainty – 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 equivalent bond yield applied to the debt component. The fair value calculations and related sensitivities for the embedded derivative are disclosed below.

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 a USD/GBP rate of 1.30). The number of potential Ordinary Shares that could be issued if all the bonds were converted is 442,307,692 (assuming conversion at the initial conversion price of \$0.52). The impact of these potential Ordinary Shares on diluted earnings per share is shown in note 3.1. 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
 - 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.

Section 5. Capital and debt continued

5.1 Convertible Bond continued

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 Bond. 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
Carrying value at 1 January 2018	191,102	28,622	219,724
Cash interest paid	(17,250)	—	(17,250)
Fair value losses	—	42,385	42,385
Interest charged	24,512	—	24,512
Carrying value at 31 December 2018	198,364	71,007	269,371
Cash interest paid	(17,250)	—	(17,250)
Fair value gains	—	(34,691)	(34,691)
Interest charged	25,490	—	25,490
Carrying value at 31 December 2019	206,604	36,316	242,920
Fair value at 31 December 2018	225,700	71,007	296,707
Fair value at 31 December 2019	235,852	36,316	272,168

The embedded derivative component of the Convertible Bond has been assessed to be a Level 3 financial liability, as the fair values are determined by a valuation technique that uses one key input that is not based on observable market data, being equivalent bond yield. The equivalent bond yield was estimated by taking an average yield of non-convertible bonds in issue from similar oil and gas E&P companies, adjusting for the size, duration and remaining time to maturity of the Convertible Bond. This bond yield was then used to estimate the value of the debt component, taking into account the remaining cash coupon payments, the maturity date of July 2022 and the repayment amount of \$230 million. The fair value of the embedded derivative was then calculated by deducting the estimated fair value of the debt component from the quoted market value of the Convertible Bond.

The fair value calculation at 31 December 2019 used an equivalent bond yield rate assumption of 7.2% and the quoted market value of the Convertible Bond as a whole of \$272.2 million. The sensitivity of a reasonably possible increase or decrease of those inputs to the Group's profit after tax for the period ended 31 December 2019 is summarised below, assuming all other variables were held constant:

	(Loss)/gain \$'000
Equivalent bond yield assumption	
1% increase	(5,015)
1% decrease	5,184

In the prior year, the valuation technique was based on a simulation model, using estimated share price volatility and the price of one Hurricane Energy plc Ordinary Share as the key inputs. 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% and the price of one Hurricane Energy plc Ordinary Share at that date of £0.442.

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 5. Capital and debt continued**5.2 Leases****Accounting policy**

The Group enters into leases of property, equipment and oil exploration, development and production assets. The most significant leases are the bareboat charter of the Aoka Mizu FPSO, which commenced in May 2019, and the leases of various office properties.

Lease liabilities are initially measured at the present value of lease payments unpaid at the commencement date. Lease payments are discounted using the incremental borrowing rate (being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions), unless the rate implicit in the lease is available. The Group currently uses the incremental borrowing rate as the discount rate for all leases. For the purposes of measuring the lease liability, lease payments comprise fixed payments and variable lease payments based on an index or rate.

Right-of-use assets are measured at cost, which comprises the initial measurement of the lease liability, plus any lease payments made prior to lease commencement, initial direct costs incurred and the estimated cost of restoration or decommissioning, less any lease incentives received. The Aoka Mizu FPSO right-of-use asset is depreciated on a unit-of-production basis, the reserves base of which is proved plus probable reserves (2P reserves), as estimated as being recoverable over the assessed lease term. Other right-of-use assets are depreciated over the lease term (or useful life, if shorter). Right-of-use assets are subject to an impairment test if events and circumstances indicate that the carrying value may exceed the recoverable amount.

Lease repayments made are allocated to capital repayment and interest so as to produce a constant periodic rate of interest on the remaining lease liability balance.

Right-of-use assets are presented within property, plant and equipment. Lease liabilities are presented as separate line items on the face of the balance sheet. In the cash flow statement, lease repayments (both the principal and interest portion) are presented within cash used in financing activities, except for payments for leases of short-term and low-value assets and variable lease payments, which are presented within cash flows from operating activities.

Leases of low-value items (such as office equipment) and short-term leases (where the lease term is 12 months or less, which include the rental of drilling rigs) are expensed on a straight-line basis to the income statement or capitalised into intangible exploration and evaluation assets and/or oil and gas assets in accordance with the relevant Group accounting policy. Variable lease payments linked to the sale of crude oil are recognised within cost of sales when the associated sale occurs.

The Group does not have any activities as a lessor.

Previous accounting policy for leases

Up to 31 December 2018, rentals under operating leases were charged to the income statement on a straight-line basis over the lease term or (for rig hire costs) capitalised into intangible exploration and evaluation assets and/or oil and gas assets, even if the payments were not made on such a basis. Contingent rentals arising were recognised as an expense in the period in which they were incurred. Payments for leases were presented within cash flows from operating activities or investing activities (if capitalised into intangible exploration and evaluation assets).

Critical judgement – lease term of the Aoka Mizu FPSO

Judgement has been applied to determine the lease term for the Aoka Mizu FPSO bareboat charter as the contract includes renewal and termination options. Extension or termination options, and the costs or penalties associated with exercising such options, are included only if the lease term is reasonably certain to be extended or not terminated. This assessment can significantly affect the right-of-use asset and lease liability recognised. The lease term for the Aoka Mizu FPSO has been assessed to be six years in line with the Lancaster EPS Field Development Plan.

Section 5. Capital and debt continued

5.2 Leases continued

Lease liabilities

	Year ended 31 Dec 2019 \$'000
At 1 January (note 1.6)	3,323
New leases	96,361
Cash payments of principal and interest	(5,556)
Interest charged	4,972
Foreign exchange movements	86
At 31 December	99,186
Of which:	
Current	9,501
Non-current	89,685
	99,186

In May 2019, the Group's bareboat charter of the Aoka Mizu FPSO commenced. Under the contract, the Group makes fixed payments (which are included within the lease liability measurement) and variable payments, which are based on a percentage of the quantity and price of crude oil sold. These variable payments are excluded from the measurement of the lease liability, and instead are recognised as an expense in the period in which sales are made. After taking into account reasonably certain extension option periods, the Group has assessed the lease term to be six years, in line with the Lancaster EPS Field Development Plan. Should the Group give notice to terminate the lease other than by not exercising extension option periods, significant early termination penalties would apply.

Upon commencement of the charter, the Group recognised \$96.4 million as a lease liability and \$101.2 million as a right-of-use asset (including the estimated costs of removing and restoring the FPSO at the end of the charter term).

The charges to the income statement in respect of leases during the year included the following:

	Year ended 31 Dec 2019 \$'000
Depreciation charge of right-of-use assets:	
Oil and gas assets (included within cost of sales)	8,210
Other fixed assets (included within general and administrative expenses)	337
	8,547
Lease interest (included within finance costs)	4,972
Variable lease payments (included within cost of sales)	15,346

The total cash outflow for leases for the year was \$16.6 million.

The expense relating to low-value leases recognised in the income statement was not material. The expense relating to short-term leases (mainly drilling rigs) was fully carried by the Group's joint operation partner.

The operating lease expense in the prior year (accounted for under IAS 17) was \$381,000, all of which was included within general and administrative expenses.

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 5. Capital and debt continued**5.3 Maturity analysis of financial liabilities**

The maturity analysis of contractual undiscounted cash flows for non-derivative financial liabilities is as follows:

	Less than 6 months \$'000	6–12 months \$'000	1–2 years \$'000	2–5 years \$'000	More than 5 years \$'000	Total \$'000
Trade payables and accruals	72,370	—	—	—	—	72,370
Convertible Bond interest	8,625	8,625	17,250	12,938	—	47,438
Lease liabilities	4,843	4,818	18,583	83,469	15,336	127,049
At 31 December 2019	85,838	13,443	35,833	96,407	15,336	246,857

	Less than 6 months \$'000	6–12 months \$'000	1–2 years \$'000	2–5 years \$'000	More than 5 years \$'000	Total \$'000
Trade payables and accruals	32,754	22,310	—	—	—	55,064
Convertible Bond interest	8,625	8,625	17,250	30,188	—	64,688
At 31 December 2018	41,379	30,935	17,250	30,188	—	119,752

Not included within the tables above is the Convertible Bond principal of \$230 million which, unless previously converted into Ordinary Shares, redeemed or cancelled, is due to be redeemed on 24 July 2022 (see note 5.1).

At 31 December 2019, \$42.5 million was due from the Group's joint operation partner to settle trade payables and accruals relating to the joint operation (see note 4.2).

5.4 Share capital

	Ordinary Shares	\$'000
At 1 January 2018	1,959,210,336	2,843
Shares issued under employee share schemes	341,301	—
At 31 December 2018	1,959,551,637	2,843
Shares issued under warrants and rights	29,860,834	39
Shares issued under employee share schemes	815,582	1
At 31 December 2019	1,990,228,053	2,883

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 78. The Company does not have an authorised share capital.

In May 2019, Crystal Amber exercised warrants allowing it to subscribe for 23,333,333 Ordinary Shares at £0.20 per share. Kerogen Capital subsequently exercised a related right to subscribe for 6,527,501 Ordinary Shares at £0.20 per share. The gross proceeds received from these warrants and rights was \$7,782,000. No transaction costs were incurred by the Group relating to the issue of these shares. Following the full exercise of these warrants and rights, there are no outstanding warrants or rights relating to the Company's Ordinary Shares.

5.5 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 3.4 Share-based payment expense).

5.6 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.

In 2019 the SIP acquired 815,582 new Ordinary Shares in the Company of £0.001 nominal value (2018: 341,301) at a price of 45.86 pence per share (2018: 39 pence per share), all of which were allocated to participants. At 31 December 2019 there were 2,711,245 Ordinary Shares held in the SIP Trust (2018: 1,936,624), with 2,680,508 allocated to participants (2018: all allocated).

Section 5. Capital and debt continued

5.7 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. In 2018 a Group subsidiary entered voluntary liquidation. The foreign exchange reserve balance of that subsidiary (\$1.8 million) was recycled to profit and loss as, upon appointment of the liquidator, the entity was deemed to be fully disposed.

5.8 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. For further information, refer to the Capital Allocation Framework within the Strategic Report on page 9. The Group is not subject to any externally imposed capital requirements.

Capital managed by the Group at 31 December 2019 consists of cash and cash equivalents, borrowings and equity attributable to equity holders of the parent. The capital structure is reviewed by management through regular internal and financial reporting and forecasting. As at 31 December 2019 equity attributable to equity holders of the parent is \$691.1 million (2018: \$629.4 million), whilst cash and cash equivalents and liquid investments amount to \$171.4 million (2018: \$123.2 million).

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 6. Taxation**Accounting policy**

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.

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.

Critical judgement and key source of estimation uncertainty – recognition and measurement of deferred tax assets

Judgement has been applied in determining whether deferred tax assets are recognised on the balance sheet (over and above the extent to which they offset deferred tax liabilities). Following the commencement of the start-up phase of the Lancaster EPS in May 2019, system availability and production rates have delivered positive cash flows; management has judged that the EPS is capable of generating the taxable profits necessary to allow the temporary differences reflected in the deferred tax asset to be utilised in full. The Group's deferred tax assets at 31 December 2019 are recognised to the extent that taxable profits are expected to arise in the future against which ring-fence tax losses and other allowances can be utilised. Estimates of future taxable profits were made using the Group's corporate cash flow model. The cash flows included in the corporate model are predominantly derived from future revenue from the Lancaster EPS arising from the currently producing wells, and future spend on currently unsanctioned but highly likely capital projects. Estimates of future taxable profits were made using the Group's corporate cash flow model, consistent with that used in assessing whether there were indicators of impairment for the Lancaster asset, and at the same long-term oil price of \$55 per barrel prevailing at the balance sheet date. The results of the review concluded that it was appropriate to recognise a deferred tax asset in respect of ring-fence tax losses, supplementary charge losses and other allowances of \$54.3 million.

Assumptions about the generation of future taxable profits depend on management's estimates of cash flows and taxable income. These estimates are primarily based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and gas prices, hydrocarbon reserves and operating costs), as well as decommissioning estimates, future capital expenditure and capital structure. Should future cash flows and/or taxable income differ significantly from these estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

Section 6. Taxation continued

6.1 Tax credit for the year

	Year ended 31 Dec 2019 \$'000	Year ended 31 Dec 2018 \$'000
UK corporation tax		
Current tax – prior years	6,259	—
Total current tax	6,259	—
Deferred tax – current year	90,226	—
Effect of changes in tax rates	(35,998)	—
Total deferred tax	54,228	—
Tax credit per income statement	60,487	—
Loss on ordinary activities before tax	(1,812)	(60,911)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK applicable to oil and gas companies of 40% (2018: 40%)	725	24,364
Effects of:		
R&D tax credit	6,259	—
Expenses not deductible for tax purposes	(1,724)	(1,951)
Income not chargeable for tax purposes	4,211	—
Items taxed at rates other than the standard rate of 40%	(278,873)	(2,391)
Ring-fence expenditure supplement	22,057	17,522
Recognition of deferred tax not previously recognised	307,832	—
Losses not recognised	—	(37,544)
Total tax credit for the year	60,487	—

In 2018 the Group made a claim under the SME research and development tax relief scheme in respect of the 2016 and 2017 financial years and has surrendered the resulting losses for a payable tax credit. \$6.2 million was received in respect of this in April 2019, classified within cash flows from investing activities as the original expenditure giving rise to the credit was reported within investing activities.

6.2. Deferred tax

	Year ended 31 Dec 2019 \$'000	Year ended 31 Dec 2018 \$'000
Accelerated capital allowances	(168,626)	(184,440)
Other timing differences	448	1
Tax losses carried forward	222,489	184,439
Deferred tax asset	54,311	—

6.3. Factors which may affect future tax charges

The Group has ring-fenced trading losses of \$487.9 million at 31 December 2019 and other allowances and supplementary charge losses of \$761.0 million, which have no expiry date and would be available for offset against future trading profits. All of these losses have been recognised as a deferred tax asset of \$54.3 million as at 31 December 2019. The deferred tax assets relate to different types of tax loss, each being calculated at a different rate, the highest being that applicable to UK ring-fence profits of 30%.

It is estimated that a reduction in the long-term oil price used in the taxable profits forecast by \$15 per barrel (to \$40 per barrel) would decrease the deferred tax asset recognised by \$26 million, and a reduction to \$35 per barrel or below would reduce the deferred tax asset to nil.

In addition to the above, the Group has pre-trading expenditure of \$122.2 million which is carried forward at 31 December 2019 and tax relief will be available should FDP approval be obtained on the remaining licences.

Notes to the Group Financial Statements continued

for the year ended 31 December 2019

Section 7. Other disclosures**7.1 Auditor's remuneration**

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

	Year ended 31 Dec 2019 \$'000	Year ended 31 Dec 2018 \$'000
Audit services		
Fees payable to the Company's auditor for:		
The audit of the Company's annual accounts	135	88
The audit of the Company's subsidiaries	24	24
	159	112
Non-audit services		
Other services pursuant to legislation – interim review	49	25
Financial Position and Prospects Procedures review	103	—
	152	25
Total	311	137

7.2 Other non-current assets**Accounting policy**

Fixed assets, other than oil and gas assets, are 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.

The accounting policy for leases, including right-of-use assets, is presented in note 5.2.

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Other fixed assets:		
Leased	2,446	—
Owned	437	355
Prepayments	197	191
	3,080	546

Other fixed assets held under leases (right-of-use assets) comprise office property leases. \$2.8 million was recognised on the balance sheet at 1 January 2019 on transition to IFRS 16 in relation to these leases (see note 1.6). There were no additions or disposals to this class of right-of-use asset during the year.

Owned other fixed assets include the cost of leasehold improvements, fixtures, office equipment and computer hardware.

7.3 Related parties

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

	Year ended 31 Dec 2019 \$'000	Year ended 31 Dec 2018 \$'000
Salaries, fees, bonuses and benefits in kind	2,618	2,473
Share-based payment (credit)/charge	(1,557)	2,033
	1,061	4,506

The above transactions include \$84,000 paid to Kerogen Capital (2018: \$73,000), 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.

Section 7. Other disclosures continued

7.3 Related parties continued

All transactions with the directors are detailed in the Remuneration Report on pages 54 to 75.

In May 2019, Kerogen Investments No. 18 Limited, a company controlled by Kerogen Capital (which is a related party of the Company due to the size of its shareholding and the provision of key management personnel services to the Company), executed a subscription right for 6,527,501 Ordinary Shares in the Company at £0.20 per share (see note 5.4).

There is no ultimate controlling party of the Group.

7.4 Subsequent events

7.4.1 SIP award

On 20 January 2020 Global Shares Trustee Company Limited, trustee of the HMRC-approved Hurricane Energy plc SIP, awarded 1,674,240 Ordinary Shares to participants in the SIP at a price of 25.63 pence per share. The SIP award has been satisfied by the issue of 1,643,503 new Ordinary Shares issued to the SIP Trustee at a subscription price of £0.001 per share (being the nominal value of the shares).

7.4.2 Revised GWA cost allocation agreement

On 6 March 2020, a new cost allocation framework was agreed in respect of the 2018 farm-in with Spirit. Under the amended terms the joint operation will build out the equipment and materials required to tie back a single well from the GWA to the Aoka Mizu FPSO on a 50:50 basis with an additional net cost to Hurricane of approximately \$20.5 million. On completion, these items will be held in storage until the joint operation sanctions the tie-back of a well to the Aoka Mizu FPSO, with the required regulatory consents to do so.

- Hurricane can elect to continue to build-out long-lead items related to the tie-in of the Aoka Mizu FPSO to WOSPS on a sole basis, at a cost of approximately \$28.0 million.
- While Hurricane has no current plans to proceed with the WOSPS installation, in the event that a decision is taken in future to proceed, subject to the required approvals and consents:
 - Hurricane would bear 100% of the associated costs currently estimated to be in the region of \$62.0 million; and
 - Hurricane would reimburse Spirit for related gas export past costs up to 31 January 2020 (excluding carry) of approximately \$18.0 million, only where installation occurs prior to the partners' approval of Phase 2.
- If at any time Phase 2 is approved and a GWA tie-back to the Aoka Mizu FPSO proceeds, Hurricane will benefit from the original terms of the 2018 farm-in through retrospective application of the carry in the proportions originally agreed.

7.4.3 Oil price movements

In March 2020, oil prices declined sharply due to supply and demand factors, which included the impact of the COVID-19 pandemic and increases in Saudi Arabian production. Should oil prices continue to decline further and/or remain at these current lower levels for an extended period of time, this would reduce the level of operating cash flow generated by the Group from its producing assets, leading to a potential impairment of fixed assets and a reduction in the carrying amount of the Group's deferred tax assets. The impact of this decline has been considered as part of the Group's going concern and long-term viability assessment as discussed on pages 24 to 25. The lower oil price environment may also have an impact on the Group's forecast capital programme, either potentially delaying certain projects due to lack of available free cash or cancelling them entirely as they are no longer forecast to be viable.

Company Balance Sheet

as at 31 December 2019

Registered company number: 05245689

	Notes	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Non-current assets			
Property, plant and equipment	B	2,604	30
Investments in subsidiaries	D	130,060	159,204
Amounts due from subsidiary undertakings		519,497	501,204
Deferred tax assets		50	—
Other receivables		197	191
Cash and cash equivalents and liquid investments	H	3,065	24,298
		655,473	684,927
Current assets			
Inventory	G	3,972	4,571
Trade and other receivables	E	48,803	2,538
Cash and cash equivalents	H	142,176	98,864
		194,951	105,973
Total assets		850,424	790,900
Current liabilities			
Trade and other payables	F	(10,603)	(25,051)
Lease liabilities	C	(351)	—
Amounts due to subsidiary undertakings		(37,285)	—
		(48,239)	(25,051)
Non-current liabilities			
Lease liabilities	C	(2,637)	—
Convertible loan liability		(206,604)	(198,363)
Derivative financial instruments		(36,316)	(71,007)
		(245,557)	(269,370)
Total liabilities		(293,796)	(294,421)
Net assets		556,628	496,479
Equity			
Share capital		2,883	2,843
Share premium		821,910	813,681
Share option reserve		20,828	24,067
Own shares reserve		(684)	(380)
Foreign exchange reserve		(79,591)	(79,591)
Accumulated deficit		(208,718)	(264,141)
Total equity		556,628	496,479

The profit of the Company for 2019 was \$55.8 million (2018: loss of \$30.5 million), being the total comprehensive profit for the year (2018: total comprehensive loss).

The Financial Statements of Hurricane Energy plc were approved by the Board and authorised for issue on 8 April 2020. They were signed on its behalf by:

Dr Robert Trice

Chief Executive Officer



Company Statement of Changes in Equity

for the year ended 31 December 2019

	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 2018	2,843	813,496	19,477	(323)	(79,591)	(233,623)	522,279
Loss for the period	—	—	—	—	—	(30,518)	(30,518)
New shares issued under employee share schemes	—	185	—	(136)	—	—	49
Share-based payments	—	—	4,590	79	—	—	4,669
At 31 December 2018	2,843	813,681	24,067	(380)	(79,591)	(264,141)	496,479
Change in accounting policy (note B)	—	—	—	—	—	(410)	(410)
At 1 January 2019	2,843	813,681	24,067	(380)	(79,591)	(264,551)	496,069
Profit for the period	—	—	—	—	—	55,833	55,833
New shares issued under warrants and rights	39	7,743	—	—	—	—	7,782
New shares issued under employee share schemes	1	486	—	(393)	—	—	94
Share-based payments	—	—	(3,239)	89	—	—	(3,150)
At 31 December 2019	2,883	821,910	20,828	(684)	(79,591)	(208,718)	556,628

Notes to the Company Financial Statements

for the year ended 31 December 2019

A. 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, development and production of oil and gas reserves principally on the UK Continental Shelf.

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 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:

- 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.

Accounting policies

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

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

Critical accounting judgements and key sources of estimation uncertainty

The key sources of estimation uncertainty used in applying the Company's accounting policies are the valuation of the Convertible Bond embedded derivative, set out within note 5.1 to the Group Financial Statements.

B. Property, plant and equipment

	Leased \$'000	Owned \$'000	Total \$'000
Cost			
At 1 January 2019	2,784	1,062	3,846
Additions	—	247	247
At 31 December 2019	2,784	1,309	4,093
Depreciation			
At 1 January 2019	—	(1,032)	(1,032)
Charge for the year	(337)	(120)	(457)
At 31 December 2019	(337)	(1,152)	(1,489)
Carrying amount at 31 December 2019	2,447	157	2,604

Owned property, plant and equipment comprises leasehold improvements, fixtures, office equipment and computer hardware. Property, plant and equipment held under leases (right-of-use assets) comprise office property leases. \$2.8 million was recognised on the balance sheet at 1 January 2019 on transition to IFRS 16 in relation to these leases (see note 1.6 to the Group Financial Statements).

The Company had no material capital commitments outstanding at the period end.

C. Leases

	Year ended 31 Dec 2019 \$'000
At 1 January	3,323
Cash payments of principal and interest	(570)
Interest charged	149
Foreign exchange movements	86
At 31 December	2,988
Of which:	
Current	351
Non-current	2,637
	2,988

The total cash outflow for leases for the year was \$570,000.

The expense relating to short-term or low-value leases recognised in the income statement was not material.

The operating lease expense in the prior year (accounted for under IAS 17) was \$381,000, all of which was included within general and administrative expenses.

Notes to the Company Financial Statements continued

for the year ended 31 December 2019

D. Investments in subsidiaries

	Year ended 31 Dec 2019 \$'000
Cost	
At 1 January	161,769
At 31 December	161,769
Provisions for impairment	
At 1 January	(2,565)
Impairment of investment	(29,144)
At 31 December	(31,709)
Carrying amount at 1 January	159,204
Carrying amount at 31 December	130,060

During the year, the Company fully impaired its investment in Hurricane Whirlwind Limited, due to that subsidiary relinquishing its interest in the P1368 licence at the OGA's request.

Details of the Company's investments in subsidiaries held as at 31 December 2019 are presented below, and, unless otherwise noted:

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

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 (Whirlwind) Limited	10654845	Oil and gas exploration

Note:

1. Held indirectly by the Company.
2. Dissolved effective 23 January 2020.

E. Trade and other receivables

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Receivables due from joint operation partner	47,519	1,746
Prepayments	297	189
Other receivables	987	603
	48,803	2,538

The carrying amounts of trade and other receivables are considered to be materially equivalent to their fair values and are unsecured. Joint operation receivables represent expenses incurred by the Group as operator of the joint operation which will be recovered from the Group's joint operation partner. Amounts billed to the joint operation partner accrue interest at LIBOR and are generally due for settlement within ten days.

F. Trade and other payables

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Amounts due to joint operation partner	5,371	—
Trade payables	647	21,275
Other payables	654	932
Accruals	3,931	2,844
	10,603	25,051

The carrying amounts of trade and other payables are considered to be materially equivalent to their fair values and are unsecured. Trade and other payables are non-interest bearing and generally payable within 30 days.

Trade and other payables and accruals include the Group's share of joint operation payables, including amounts that the Group settles on behalf of joint operation partners. Accruals include expenditure relating to joint operations incurred by the Group as operator which have yet to be billed to joint operation partners. Amounts due to the joint operation partner represent cash calls the Group has made as operator in advance of balances relating to the joint operation falling due.

G. Inventory

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Fuel and chemicals	—	360
Spares and supplies	3,972	4,211
	3,972	4,571

H. Cash, cash equivalents and liquid investments

	31 Dec 2019			31 Dec 2018		
	Restricted \$'000	Unrestricted \$'000	Total \$'000	Restricted \$'000	Unrestricted \$'000	Total \$'000
Current cash and cash equivalents	11,778	130,398	142,176	15,864	83,000	98,864
Non-current cash and equivalents	3,065	—	3,065	2,967	—	2,967
Cash and cash equivalents	14,843	130,398	145,241	18,831	83,000	101,831
Non-current liquid investments	—	—	—	21,331	—	21,331
Total cash and cash equivalents and liquid investments	14,843	130,398	145,241	40,162	83,000	123,162

I. 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 2.6 – Joint operations
- Note 3.4 – Share-based payment expense
- Note 5.1 – Convertible Bond
- Note 5.4 – Share capital
- Note 5.5 – Share option reserve
- Note 5.6 – Own shares reserve
- Note 7.2 – Other non-current assets
- Note 7.4 – Subsequent events

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www.morganstanley.com

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www.dentons.com

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www.computershare.co.uk

PR and communications advisers

Vigo Communications Limited

Sackville House, 40 Piccadilly, London W1J 0DR
www.vigocomms.com



Appendix A: 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
ACT	The Association of Corporate Treasurers
AIM	The AIM market of the London Stock Exchange
AGM	Annual General Meeting
API	The American Petroleum Institute gravity scale
Aoka Mizu	Aoka Mizu FPSO
bbl	Barrel
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
CIOT	The Chartered Institute of Taxation
Company	Hurricane Energy plc and/or its subsidiaries
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
DST	Drill Stem Testing
D&O	Directors and Officers
E&E	Exploration and Evaluation
E&P	Exploration and Production/Exploration and Production company
EMS	Environmental Management System
EPS	Early Production System
ESG	Environmental, Social and Governance
ESP	Electrical submersible pump
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
FVTPL	Fair value through profit and loss

Appendix A: Glossary continued

G&A	General and Administrative costs
GBP	British Pounds Sterling
GLA	Greater Lancaster Area, comprising the Lancaster and Halifax fields located on UKCS licences P1368 Central and P2308
GRI	Global Reporting Initiative
Group	Hurricane Energy plc, together with its subsidiaries
GWA	Greater Warwick Area, comprising the Lincoln and Warwick fields located on UKCS licences P1368 South and P2294
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
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Incoterms	The internationally recognised set of rules which define the responsibilities of buyers and sellers for the delivery of goods under sales contracts
INED	Independent non-executive director
IPO	Initial Public Offering
kbbbls	Thousand barrels
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
LTI	Lost Time Injury
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
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
OGUK	Oil & Gas trade association for the United Kingdom
Ordinary Shares	Ordinary shares in the Company of £0.001 each

Perched water	A volume of formation water not connected to the aquifer
PESGB	Petroleum Exploration Society of Great Britain
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
PP&E	Property, Plant and Equipment
Premium Listing	Listing 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
RBS	The Royal Bank of Scotland
Register	Corporate Risk Register
Regret costs	Amounts that remain payable under contracts on cancellation of a project
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
SIP	Share Incentive Plan
SPE	The Society of Petroleum Engineers
Spirit Energy	Spirit Energy Limited
stb/d/psi	Stock tank barrels of oil per day per pound per square inch of drawdown
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
TVDSS	True Vertical Depth Sub Sea
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

Appendix B: Non-IFRS Measures

Accounting policy for non-IFRS measures

Management believes that certain non-IFRS measures (also referred to as 'alternative performance measures') are useful metrics as they provide additional useful information on performance and trends. These measures are used by management for internal performance analysis and incentive compensation arrangements for directors and employees. The non-IFRS measures presented below are not defined in IFRS or other GAAPs and therefore may not be comparable with similarly described or defined measures reported by other companies. They are not intended to be a substitute for, or superior to, IFRS measures.

Definitions and reconciliations to the nearest equivalent IFRS measure are presented below.

Underlying profit before tax

Underlying profit before tax is defined as profit before tax under IFRS, before fair value gains or losses on the Convertible Bond embedded derivative, impairment and write-offs of intangible exploration and evaluation assets, impairment of oil and gas assets and gains or losses on disposal of assets or subsidiaries.

Management believes that underlying profit before tax is a useful measure as it provides useful trends on the pre-tax performance of the Group's core business and asset by removing certain items and transactions within the income statement. These are the volatile non-cash impact of the Convertible Bond embedded derivative movement (the valuation of which is largely outwith management's control) and gains or losses arising from write-offs, impairments and disposals of assets which do not reflect the Group's core assets and business.

	Notes	Year ended 31 Dec 2019 \$'000	Year ended 31 Dec 2018 \$'000
Loss before tax (IFRS measure)		(1,812)	(60,911)
Add back:			
Fair value (gain)/loss on Convertible Bond embedded derivative	5.1	(34,691)	42,385
Write-off of intangible exploration and evaluation assets	2.4	66,468	—
Loss on liquidation of subsidiary	5.7	—	1,831
Underlying profit before tax		29,965	(16,695)

Cash production costs

Cash production costs are defined as cost of sales under IFRS, less depreciation of oil and gas assets (including right-of-use assets) and accounting movements of crude oil inventory (including any net realisable value provision movements), plus fixed lease payments for leased oil and gas assets.

Depreciation and movements in crude oil inventory are deducted as they are non-cash accounting adjustments to cost of sales. Fixed lease payments for oil and gas assets are added back because, under IFRS 16, the charge relating to fixed lease payments is charged to the income statement within both depreciation of oil and gas assets and interest on lease liabilities. They are therefore included within cash production costs as they are considered by management to be operating costs in nature. Fixed lease payments for the purposes of this measure are calculated as the day rate charge multiplied by the number of days in the period.

Cash production cost per barrel is defined as cash operating costs divided by production volumes.

Management believes that cash production costs and cash production cost per barrel are useful measures as they remove non-cash elements from cost of sales, assist with cash flow forecasting and budgeting, and provide indicative breakeven amounts for the sale of crude oil.



	Notes	Year ended 31 Dec 2019 \$'000
Cost of sales (IFRS measure)	2.2	118,453
Less:		
Depreciation of oil and gas assets – owned	2.3	(54,406)
Depreciation of oil and gas assets – leased	2.3	(8,210)
Movements in crude oil inventory	2.2	4,424
Add:		
Fixed lease payments payable on oil and gas assets		5,761
Cash production costs		66,022
Production volumes (thousand bbl)		3,030
Cash production cost per barrel (\$/bbl)		21.8



Hurricane Energy plc's commitment to environmental issues is reflected in this Annual Report which has been printed on GalerieArt silk, an FSC® certified material. This document was printed by CPI Group using their environmental print technology with 99 per cent of dry waste diverted from landfill, minimising the impact of printing on the environment. Both the printer and the paper mill are registered to ISO 14001.



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