



Hurricane

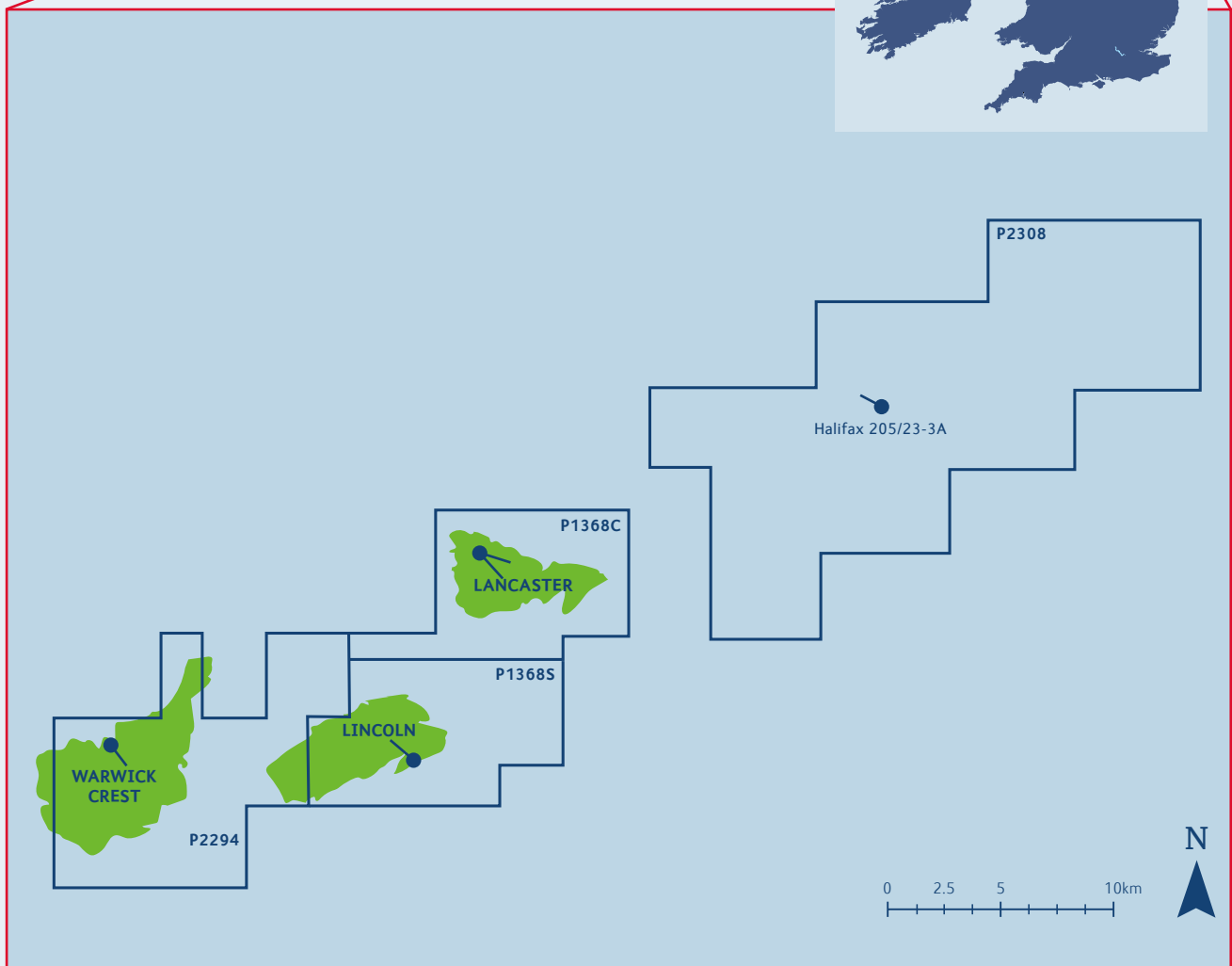


Annual Report and Group Financial Statements 2020



# Hurricane was established to discover, appraise and develop hydrocarbons from naturally fractured basement reservoirs

Our licences and assets



## Key figures

### Revenue

From 12 cargoes

# \$180 million

### Operating cash flow generated

Equivalent to \$15.8 per barrel during 2020

# \$80 million

### Statutory loss after tax

# \$625 million

### Underlying loss before tax<sup>†</sup>

Excluding oil price hedges, asset impairments, write-offs and fair value gains on the Convertible Bond embedded derivative

# \$36 million

### Production

Average daily rate

# 13,900 bopd

### Crude oil sales

Across 12 cargoes

# 5.1 MMbbl

### Net free cash<sup>†</sup> at 31 December 2020

Excluding restricted cash and liquid investments of \$52m

# \$111 million

### Net debt<sup>†</sup> at 31 December 2020

# \$119 million

Throughout this report, '†' indicates non-IFRS measures, which management believes are useful in providing additional information and context on performance and trends. Definitions and reconciliations to the nearest equivalent IFRS measures are provided in Appendix B.

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# A profoundly challenging year



**Steven McTiernan**  
Chairman

## Dear Shareholders,

It was always expected that 2020 would be a crucial year for Hurricane, but we did not anticipate facing multiple shocks from underperformance at our key Lancaster field asset, the COVID-19 pandemic, a collapse in oil prices, and significant organisational change. As a result, we have had to make difficult decisions in order to reduce our financial leverage and deliver a viable financial platform from which to take the business forward, resulting in the proposed financial restructuring announced in April 2021.

### COVID-19 pandemic

The rapid global spread of COVID-19 during 2020 led to distressing levels of mortality, as well as profound disruption to businesses and personal lives. Protecting Hurricane's people from the virus while supporting our suppliers and partners was a critical concern during the year. The comprehensive protective measures we have taken ensured uninterrupted offshore operations, and our onshore staff successfully adapted to changes in the working environment. We will aim to strike a suitable balance between office and home working in future.

### Oil prices

The pandemic had a significant impact on oil markets, with Brent prices falling to a remarkable low of \$13/bbl in April 2020 as global lockdowns choked off oil demand. While demand and prices recovered somewhat during 2020, the global oil supply-demand balance remains fragile, there are ongoing effects from COVID-19, and there are growing impacts from energy transition measures. As a result, in a market which has always been prone to price volatility, there is elevated uncertainty over the path of future oil prices.

### Lancaster field under-performance

The Lancaster field Early Production System (EPS) was conceived as a long-term production test with the objective of obtaining critical performance data on the fractured basement reservoir type, which had never before been developed in the UK (and only rarely globally). Previous estimates of Reserves and Resources were based on standard well evaluation techniques and short-term tests only, which are more difficult to interpret in fractured basement.

It had always been recognised that a minimum of 12 months observation of reservoir performance would be required before firm conclusions could start to be drawn on the scale of Reserves and Contingent Resources in Lancaster.

We had been encouraged by the operational success of bringing the field on stream in May 2019, albeit with water production commencing earlier than expected and increasing over time.

During the first half of 2020, Lancaster experienced a significant deterioration in reservoir performance while attempting to ramp production up to towards the target of 20,000 bopd. This led to a decision to shut in the 205/21a-7z well in May 2020 and suspend production guidance for the year. This disappointing performance signalled a material departure from pre-production expectations, and a need to revisit the basic geological model and data interpretations.

On 8 June 2020, it was announced that Dr Robert Trice had resigned as Chief Executive Officer (CEO) by mutual consent with the Board, and the ably qualified Beverley Smith agreed a temporary shift from her non-executive role to become Interim Chief Executive. A Technical Committee of the Board was established to provide further oversight as the subsurface team, under new leadership,

re-examined the range of geological and reservoir models for Lancaster and the other Rona Ridge assets.

### Technical review

A preliminary technical review of the Lancaster field was completed in September 2020, which concluded that the oil water contact was significantly shallower than previously estimated, and that effective reservoir properties within the fractured basement were worse than previously thought, consistent with the higher water production and more rapid pressure decline than originally anticipated. The revised reservoir and geological model, calibrated with observed performance, resulted in the Company significantly downgrading the Reserves and Contingent Resources for the Lancaster field in September 2020.

### Greater Warwick Area

While the Company's main focus during 2020 was on Lancaster, the revised interpretation of the Lancaster oil water contact also triggered a review of the data and assumptions for all Rona Ridge assets. Further progress has been made on understanding the Greater Warwick Area (GWA) subsurface following extensive analysis of the results of the 2019 drilling programme and reinterpretation of existing seismic data. This work also incorporated the learnings and implications from the results at Lancaster, including observed pressure depletion at Lincoln as a result of Lancaster production. This led to the conclusion that hydrocarbon columns are likely limited to local structural closures, and resulted in a significant downgrade of the GWA licence resource potential in both the Lincoln and Warwick Crest discoveries. While the Company and its joint venture (JV) partner continue to evaluate options for the GWA asset, further appraisal of both discoveries would be required as a first step before any assessment of commerciality and Reserves can be made.

### CPR

An independent Competent Persons Report (CPR) was commissioned from ERC Equipoise Limited (ERCE) and published in April 2021, the results of which were broadly consistent with the Lancaster and GWA Reserves and Contingent Resources estimates published by the Company in September 2020. Additionally, ERCE did not attribute any Contingent Resources to the Halifax well drilled in 2017.

## Financial results

In 2020, we delivered sales revenues of \$180.1 million at an average realised oil price of \$35.2/bbl, resulting in operating cash flow of \$80.2 million. Net free cash<sup>†</sup> of \$111.4 million led to a year end net debt<sup>†</sup> position of \$118.6 million. The substantial downgrade of Reserves and Contingent Resources led to write-downs in the carrying value of the Lancaster field and exploration intangibles totalling \$567.1 million and a write-down of deferred tax of \$54.2 million, resulting in an after tax loss of \$625.3 million for the year.

## Strategy and outlook

Based on the revised understanding of Lancaster, further development options for the field were announced in December 2020 and updated in April 2021. The options include re-entry and side-track of the existing 205/21a-7z producing well in 2022; a seismic programme in 2022; and a water injection well and related works in 2023, to provide reservoir pressure support.

However, the estimated capital investment of \$180 million required to implement these further Lancaster development options is significant compared to available cash, while abandonment and decommissioning costs must also be provided for. Future cash flows will be constrained by lower than expected and declining oil production rates from a single Lancaster well. Recognising the July 2022 maturity date for the Company's \$230 million Convertible Bond, in December 2020 the Company announced that it would enter into a period of substantive discussions with certain key stakeholders, including its Bondholders, to seek funding support and address the Convertible Bond maturity date.

The outcome of these discussions was the proposed financial restructuring announced on 30 April 2021. While the proposed financial restructuring entails significant dilution for existing equity investors, it would deleverage the Company's balance sheet, enhance its liquidity position, extend its debt maturity profile, and provide a stable platform upon which the Company can continue to operate its business.

Having carefully and thoroughly considered the alternatives, including that the likely consequence of the proposed financial restructuring not being implemented is likely to be a controlled wind-down of operations followed by an insolvent liquidation, the Company believes that the outcome of implementing the proposed financial restructuring is likely to be better for the Company, its business and its operations and employees than in the event of this likely alternative, and is in the best interests of the Company's stakeholders taken as a whole.

If duly approved and implemented, the proposed financial restructuring is expected to take effect in June 2021. However, as approval and implementation of the proposed financial restructuring is outside of the Company's control, there is a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern. For further details and analysis, see the Going Concern and Viability section of the Strategic Report.

As at the date of this report, more than 75% of Bondholders (by value) had acceded to a lock-up agreement which incorporates general undertakings to support the proposed financial restructuring. The proposed financial restructuring is an ongoing process and is subject, inter alia, to the approval of 75% (in value) of Bondholders present and voting at a meeting convened by the High Court of Justice and the subsequent sanction of that Court. There will also be a Court-convened meeting of shareholders to vote on the proposed financial restructuring. The Company will continue to publish announcements regarding the progress of the proposed financial restructuring at appropriate points in the process.

## Corporate governance

The executive team changed substantially during 2020. Alistair Stobie resigned as Chief Financial Officer and a director on 26 February 2020 by mutual agreement with the Board, and was replaced by Richard Chaffe, who had been Head of Finance since 2016.

After the announcement of Dr Trice's departure on 8 June 2020, Beverley Smith played a critical part in the technical review and Company reorganisation as Interim Chief Executive, but in line with her desire to return to a non-executive role, a search was undertaken for a permanent Chief Executive. This resulted in Antony Maris being appointed Chief Executive designate on 21 August 2020 and he assumed the full role on 11 September 2020. Antony brought 35 years of wide-ranging oil and gas sector technical and managerial experience to Hurricane, including in fractured basement reservoir plays offshore Vietnam and onshore Yemen. Beverley now Chairs the Technical Committee of the Board.

On 6 July 2020 we announced the very sad news that Neil Platt had passed away. Neil was a highly respected colleague, and his enthusiasm and technical excellence were integral to the successful delivery and operation of the Lancaster EPS. He will be sorely missed. Steve Holmes was appointed Chief Operations Officer, bringing 41 years of diverse oil and gas development, operations and commercial experience including eight years with Hurricane.

On 8 June 2020, Roy Kelly resigned as Kerogen Capital's nominated director and was replaced

by Dr Alan Parsley, while Jason Cheng resigned from his alternate director role. On 23 September 2020, Dr Parsley resigned as Kerogen Capital's nominated director, and Leonard Tao also stepped down from his alternate director role. Kerogen Capital therefore currently has no board representation, though it retains the right to appoint a director under the relationship deed signed in 2016 and remains a significant shareholder at the date of this report.

Given the poor production performance during 2020, the Remuneration Committee exercised its discretionary powers, and no awards were made to executive directors under the incentive compensation schemes in place.

## Sustainability

Despite the challenges faced during the year, we did not lose sight of the need to advance our sustainability strategy, building on the disclosures and commitments made in our inaugural 2019 Environmental, Social and Governance (ESG) Report. We established an ESG Committee of the Board, with Sandy Shaw as Chair, during 2020 to provide structured oversight of our programmes. We are committed to complying with evolving reporting requirements and will align with industry and regulatory efforts to decarbonise United Kingdom Continental Shelf (UKCS) operations.

## Acknowledgements

The West of Shetland fractured basement play has not lived up to original expectations, with significantly reduced forecasts of Reserves and Contingent Resources. Much poorer production rates than expected, combined with very low oil prices during 2020, has necessitated a proposed financial restructuring. Looking forward, and on the basis that the proposed financial restructuring completes, I am confident that we have an executive and management team with the capability, drive and focus to maximise returns from these West of Shetland assets, for the benefit of all stakeholders.

I would like to sincerely thank the whole Hurricane team for their hard work during this difficult period, in particular compressing a significant amount of technical re-evaluation and commercial work into the period since the technical re-set began in June 2020.

Finally, I want to thank our key industry stakeholders for their constructive help during this profoundly challenging year, particularly the Oil and Gas Authority (OGA) and Bluewater.

**Steven McTiernan**  
Chairman

# Resetting the business



**Antony Maris**  
Chief Executive Officer

## Introduction

My first report to you as CEO of Hurricane comes at a difficult time for the business. Underperformance at our key Lancaster asset has significantly reduced potential future cash flows, and current financial projections show the Company will not be in a position to repay its \$230 million of Convertible Bond debt at maturity in July 2022. This has necessitated a proposed financial restructuring of the Company's debt. If completed, this restructuring will deliver a viable balance sheet which can support our revised strategy of maximising cash flow from the Lancaster field to repay debt, and in parallel continue to build the justification for future activity on our West of Shetland assets.

## Risks in fractured basement reservoirs

While the discovery and appraisal of the Lancaster field yielded a significant amount of subsurface data, the development of the UKCS's first fractured basement field carried an above average degree of risk. Amongst the reasons why fractured basement plays had hitherto been largely ignored in the UKCS was the difficulty in drilling safely, and also heightened reservoir evaluation uncertainty, in particular because conventional logging tools and well testing techniques are not ideally suited to evaluating fractured basement reservoirs.

Hence, both before and after first production from Lancaster, there was a consistent emphasis in our communications on the need to acquire dynamic data from production operations, which was essential to help refine the wide range of Reserves and Contingent Resources estimates for Lancaster, and our other West of Shetland assets. While we have learned a great deal over the past 12 months, our fractured basement assets continue to require further investigation and analysis to narrow down the range of uncertainty on reservoir characteristics and parameters.

## Revised Lancaster geological interpretation

First production from the two Lancaster field EPS wells was achieved on time and budget in May 2019. Production operations were initially characterised by a series of individual and combined tests on both the 205/21a-6 and 205/21a-7z wells. While the initial productivity of both wells exceeded expectations, early water production and a more rapid decline in reservoir pressure than anticipated were the first signs that asset performance was diverging from pre-production projections.

Initially, water production was interpreted as coming from an isolated, intra-reservoir, water bearing interval, although the consistent increase and quantum of water production began to challenge this theory in the first half of 2020. When the 205/21a-7z well was shut in at the end of May 2020, it was decided to instigate a formal review of the Lancaster field geological and reservoir models to rigorously assess and interpret the dynamic data acquired since first production.

The initial results of this technical review were announced in September 2020. Lancaster is now believed to be more complex than previously thought. Instead of being primarily a basement reservoir, we now believe the field has Mesozoic-aged sandstones onlapping the basement flanks which are contributing to current production. Furthermore, and most importantly, analysis of reservoir pressure, production and other data resulted in a material revision of the field's oil water contact (OWC), from a range of 1,597 – 1,678 metres TVDSS in the May 2017 RPS Energy Lancaster CPR to 1,330 metres TVDSS. This shallower OWC is consistent with the observed early and higher water production, and more rapid reservoir pressure decline, than originally expected.

Declining reservoir pressure will have a further impact on production operations as pressure approaches the bubble point (the point at which gas is liberated from oil within the reservoir). Producing below bubble point may extend the life of the Lancaster field. Following extensive technical interaction with the OGA, we have submitted a Field



Development Plan Addendum (FDPA) that will, if approved, allow us this additional reservoir management flexibility, subject to quarterly review of operating procedures to ensure gas liberated in the reservoir is not produced to surface.

The Company's revised geological and reservoir performance interpretation was broadly consistent with the conclusions of ERCE's independent April 2021 CPR. ERCE estimates remaining Lancaster 2P Reserves of 7.1 MMbbls at 31 December 2020, based on future production from the 205/21a-6 well alone. We have, and will continue to, periodically test the 205/21a-7z well for reservoir management purposes, although the high and increasing water cut from this well makes sustained oil production unlikely due to the resulting excessive reservoir voidage.

In light of the revised interpretation of the OWC, the area of the P1368 Central licence outside the determined Lancaster field area was voluntarily relinquished in October 2020 and Hurricane was released of its obligation to drill a commitment well on the licence.

### Further development options for the Lancaster field

Since the outset of the technical review, a significant amount of work has been compressed into a short period of time to further refine the revised technical interpretation and consider further development options for the field. In December 2020, we outlined potential next steps for Lancaster development, namely: re-entry, side-track to an updip location and re-completion of the existing 205/21a-7z well, to target the central area of the field to enhance near-term performance; further seismic to better image the Mesozoic sandstones and refine the possible location of a water injection well; and drilling a water injection well to provide reservoir pressure support and improved sweep to enhance both Reserves and production. These development scenarios were refined further during the engagement with our Bondholders.

The total combined cost of these development options is currently estimated at approximately \$180 million. These options would commercialise some 8.7 MMbbls of ERCE's estimated 2C Contingent Resources of 37.9 MMbbls, the majority of which is currently classified as Development Unclarified pending further technical and commercial work, and the financing being in place to support any future activity.

### Greater Warwick Area

During 2020, we continued to collaborate with our partner, Spirit Energy, to refine our understanding of the potential of the GWA licence following the 2019 drilling programme. Given the unclear results of that drilling programme, and with more time being required for technical and commercial analysis, the GWA JV signed a revised cost allocation agreement in March 2020, adjusting certain terms relating to Spirit Energy's original 2018 farm-in. This allowed Hurricane the flexibility to progress planning and acquisition of long-lead items for both a potential GWA tie-back well and gas export from the Aoka Mizu ahead of a firm decision by the JV to proceed.

During the year, the focus was on evaluating the Lincoln discovery. In July 2020, we announced that the OGA had given notice of a proposed field determination area over local structural closure at the Lincoln discovery. This was subsequently accepted by the GWA JV.

Downhole gauges were installed in the Lincoln 205/26b-14 well at the time of drilling in 2019, which allows for periodic collection of data to refine our understanding of reservoir conditions at Lincoln and any implications for regional geology. In July 2020, Lincoln pressure data was retrieved and indicated 20 psi pressure depletion. We attribute this to the impact of Lancaster production some 8 km distant, which

suggests that Lancaster and Lincoln share the same aquifer pressure and gradient, and that the OWC at Lincoln is also likely to be close to the structural closure.

ERCE has estimated the OWC for the Lincoln discovery at 1,844 metres TVDSS ( $\pm$  16 metres), and gross 2C Contingent Resources (Development Unclarified) of 36.9 MMbbls for the basement reservoir only. As at Lancaster, there is some evidence for Mesozoic sandstones of Jurassic and Cretaceous age above the Lincoln basement discovery, although these have not been demonstrated by drilling and the Company is currently assessing their potential.

The Company has a regulatory commitment to plug and abandon the Lincoln 205/26b-14 well. The OGA recently approved an extension of the deadline for this activity to 31 October 2021 (from 30 June 2021) to allow for completion of operations in the summer 2021 weather window. The GWA JV has contracted a rig for this activity, with a gross budgeted campaign cost of c.\$13 million. The OGA has also agreed to extend the deadline for the GWA licence commitment well from 31 December 2020 to 30 June 2022 as a result of the disruption caused by the COVID-19 pandemic.

ERCE also estimated gross 2C Contingent Resources (Development Unclarified) for the Warwick Crest discovery of 50.9 MMbbls. No Contingent Resources were attributed by ERCE to the Halifax well drilled in 2017.



## Chief Executive Officer's review *continued*

### Greater Warwick Area *continued*

The Lincoln and Warwick Crest discoveries are at an early stage of appraisal. Further appraisal of both discoveries would be required as a first step before any assessment of commerciality and Reserves could be made. Any appraisal activity would involve a significant financial commitment for Hurricane, which the Company may not be able to fund. As a result of this funding uncertainty and the early stage of appraisal, there is currently no reasonable expectation that the Lincoln and Warwick Crest discoveries could generate any meaningful near-term cash realisation. The GWA JV partners will continue to evaluate and consider all options for the licence going forward.

### Proposed financial restructuring

Although the Company retained net free cash<sup>†</sup> of approximately \$111 million at the end of 2020, this was significantly less than expected because of low oil prices in 2020 and oil production rates at substantially lower and declining levels than original forecasts. Furthermore, the material reduction in Lancaster field Reserves has significantly reduced production expectations, in turn impacting future cash flow forecasts.

Given the negative impacts described above, and the likely capital cost of further investment in the Lancaster field, the Company decided to enter into a discussion with its Bondholders with regard to the funding of, and required support for, possible development options, while also addressing the July 2022 maturity of its Convertible Bond debt.

These discussions considered the likelihood that the Lancaster field will continue to produce from the 205/21a-6 well alone, the Company's necessary future spending requirements, contractual and decommissioning spending obligations, and the requirement for a viable balance sheet going forward. The engagement resulted in the Company announcing a proposed financial restructuring on 30 April 2021, which would entail a part-equitisation of the Convertible Bond, and significant dilution for existing shareholders. This difficult, but necessary, decision is however necessary to support the financial future of the Company.

As at the date of this document, more than 75% of Bondholders (by value) had acceded to a lock-up agreement which incorporates general undertakings to support the proposed

financial restructuring. The proposed financial restructuring is an ongoing process and is subject, inter alia, to the approval of 75% (in value) of Bondholders present and voting at a meeting convened by the High Court of Justice and the subsequent sanction of that Court. There will also be a Court-convened meeting of shareholders to vote on the proposed financial restructuring. The Company will continue to publish announcements regarding the progress of the proposed financial restructuring at appropriate points in the process.

### People and operations

While somewhat overshadowed by the subsurface work, Hurricane's operational delivery since start-up of the Lancaster field has been first class, and I commend our staff and key contractors on their performance against the backdrop of a challenging year.

Like many businesses, we have had to adapt our working practices and environments to reflect government and industry restrictions enacted to keep staff safe and reduce the impact of COVID-19, particularly on offshore operations. This has included a significant reduction in the manning of the Aoka Mizu FPSO to essential personnel only for most of the year. In March 2020, a crew member on the Aoka Mizu was evacuated to the mainland and subsequently tested positive for COVID-19. The individual made a full recovery.

Hurricane has worked closely with its contractors, suppliers and local authorities to manage the impact of these restrictions on its employees and the Company, and to date has not experienced any adverse operational impact from COVID-19.

Our onshore staff have been working from home since March 2020 and, where possible, we actively encouraged flexible working recognising that employees may have responsibility for childcare, home schooling, family members as well as other obligations during the pandemic. Feedback suggests that when a return to the office is possible, our employees wish to preserve some measure of home working, and we will aim to achieve this where possible. We have also introduced initiatives to address staff isolation and encourage contact between colleagues while we are working remotely. I would also like to express my thanks to all our colleagues whose hard work and dedication during a challenging 2020 helped to compress many months of work on the technical review and development options screening into a fraction of that time, without compromising on rigour or quality.

### Sustainability and environment

We have also maintained our focus on expanding our sustainability strategy, with an internal ESG Working Group established to enhance our ESG programme, with oversight from the new ESG Committee of the Board. We are fully aligned and supportive of the UK oil industry and regulatory initiatives to decarbonise the UKCS oil and gas operations and target net zero greenhouse gas emissions from the UKCS by 2050.

I am pleased to report that greenhouse gas emissions intensity from our own operations declined in 2020 vs 2019. We were able to reduce diesel-related CO<sub>2</sub> emissions year-on-year as more of the associated gas production from the Lancaster field was used in the Aoka Mizu's gas turbine generators.

Previously, we had outlined plans to implement a gas export scheme for associated gas production from our West of Shetland assets. Unfortunately, these plans have been postponed due to the financial and subsurface challenges we faced in 2020 and a constrained funding environment. We will, however, continue to investigate all possible means to reduce our GHG emissions and implement these where it is technically, financially and logistically feasible to do so.

### Outlook

Our business has seen significant change in the last 12 months. While this has caused upheaval and frustration for both employees and stakeholders, we hope to emerge from the proposed financial restructuring with a viable balance sheet that can support the Company in our core strategy of maximising cash flow from the existing wells and infrastructure in the Lancaster field. While implementing the NFA case, we will also continue to develop the technical and commercial case for further development opportunities at Lancaster and, if supported by our Bondholders, execute any further investment case effectively.

I will also aim to reinvigorate the entrepreneurial spirit and commitment to success which allowed Hurricane to deliver the first UKCS fractured basement development on time and budget.

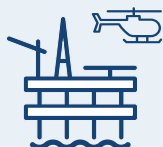
**Antony Maris**  
Chief Executive Officer



## Our response to COVID-19

The COVID-19 pandemic resulted in significant changes to working practices across the UK economy. As a business that relies on frequent crew changes (including international travel) on the Aoka Mizu FPSO and the continuous need for supplies and materials on the vessel, we had to adapt to these restrictions quickly without compromising our clear focus on ensuring the safe movement of people and goods.

Occupational health and safety have always been at the core of our daily operations and best practice. When the UK and Scottish Governments introduced lockdown measures at the start of the COVID-19 pandemic, we assessed the likely impact of COVID-19 on key offshore and onshore activities to determine whether they should proceed. This process enabled Hurricane to adapt its decision-making to the changing nature of the global pandemic, while minimising its impact on our business-critical activities.



### Offshore

Offshore, at the peak of the outbreak, we decided to decrease manning levels on the Aoka Mizu to the minimum required to sustain safe production and temporarily reduced our marine support vessel crew changes to every three months during the first COVID-19 lockdown period. We implemented quarantine arrangements, provided additional offshore medical staff to carry out daily health screening, and introduced pre-mobilisation and reactive offshore COVID-19 testing to monitor for symptoms. We are constantly assessing our arrangements in light of changing regulations to minimise the risk to people in our supply chain. We also deferred non-essential activities and avoided unnecessary travel to and from the Aoka Mizu.

We moved quickly to maintain our supply chain and the flow of goods to support our offshore activities. The delivery, receipt and packing of materials were entirely adapted to social distancing.



### Onshore

For our onshore staff, we transitioned to home working prior to the lockdown measures being introduced, to ensure our staff and contractors were protected from the occupational spread of the virus. Through staff townhalls, regular COVID-19 communications, intranet resources and flexible working arrangements, we have supported our people in navigating the challenges of working from home. Our people have valued spending less time commuting, so we expect to retain elements of home working beyond the pandemic, including a permanent reduction of business flights which will reduce costs and our carbon footprint.

The COVID-19 pandemic interrupted much of the planned community outreach work we had planned for 2020. For example, meetings with the Shetlands Islands Council and other community stakeholders such as schools and suppliers were postponed. We also had to cancel planned engagement with schools in Surrey, including work experience placements at our head office. We are exploring virtual alternatives to continue our engagement and will look to return to in-person engagement, as and when lockdown restrictions are relaxed and it is safe to do so.



### Financial and operational

Despite the pandemic and the financial pressures seen during the year from the decline in oil prices and underperformance from the Lancaster field, we did not make any redundancies, enforce shorter working hours, make use of the Government's furlough scheme or take advantage of any other COVID-19 support and relief measures (such as loans, or deferral of rent, rates and VAT). We also reached agreement with the OGA to defer committed well activity on the GWA licences given the effects of the pandemic. In particular, the plugging and abandonment of the Lincoln-14 well and the drilling of the GWA commitment well were deferred until 30 June 2021 and 30 June 2022 respectively. Subsequently, the OGA extended the plug and abandonment date of the Lincoln-14 well to 31 October 2021.

### COVID-19 case on the Aoka Mizu

When the potential impact of the pandemic became clear, our priority was to preserve the health and safety of our people and operations aboard the Aoka Mizu. We quickly engaged with our contracted civilian helicopter operator to ensure that our offshore facilities had the capability to safely repatriate staff experiencing symptoms offshore. These helicopters were specifically configured for safe transportation.

However, during the early stages of the pandemic, a crew member on the Aoka Mizu was evacuated to the mainland by an HM Coastguard helicopter where he subsequently tested positive for COVID-19. He received medical treatment and made a full recovery. Hurricane supported Bluewater, as installation operator of the Aoka Mizu, with its response. Bluewater worked within the guidelines provided by NHS Scotland, Health Protection Scotland, and Oil and Gas UK.

Production operations at Lancaster were not affected.



# Maximising cash flow from Lancaster

Hurricane’s proposed financial restructuring is likely to result in a core strategy of maximising cash flow from the existing Lancaster wells and infrastructure in order to pay down debt. However, we will continue our technical and commercial work to mature further investment options across our asset base and, if supported by our Bondholders, execute these in a cost-effective manner.

Strategy	Link to principal risks/KPIs	
<h2>1. Harvest</h2> <p><b>Maximise cash flows from the Lancaster field to pay down debt</b></p> <p>The likely outcome of the Company’s proposed financial restructuring is implementation of a no further activity case. In this scenario, the Company will seek to maximise cash flow and returns to stakeholders before the Lancaster field reaches its economic limit and is subsequently decommissioned</p>	<p>Principal risks</p> <p>B C D E F G J K M N</p>	<p>KPIs</p> <p>1 3 4 5</p>
<h2>2. Develop</h2> <p><b>Convert Contingent Resources to Reserves to maximise value ascribed by the market and industry</b></p> <p>Hurricane’s fields and discoveries have been assigned Contingent Resources by third-party Reserves consultant ERCE Equipoise. The Company will continue to mature the technical and commercial work required to deliver a viable development plan to target these Contingent Resources. If supported by Hurricane’s Bondholders, the Company aims to deliver any further activity in a cost-effective manner</p>	<p>Principal risks</p> <p>A B D E F G H I J K L M N</p>	<p>KPIs</p> <p>1 3 4 5</p>

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

Hurricane has an integrated health, safety and environmental management system (HSEMS) certified to ISO 14001 and ISO 45001.

## Activity programme

### Licence to operate

Activity	Timing	Estimated cost
Lincoln-14 well P&A	Summer/Autumn 2021	c.\$6.5 million (net)
GWA licence commitment well	By end June 2022	c.\$20 million (net)

### Possible development options

Activity	Timing	Estimated cost
Lancaster P8 well	Q2–Q3 2022	c.\$84 million (net)
Lancaster seismic	Q2–Q3 2022	c.\$9 million (net)
Lancaster water injector well	Q2–Q3 2023	c.\$88 million (net)

## Background to updated business model and strategy

Depressed oil prices from the onset of the COVID-19 pandemic to the end of 2020, coupled with the underperformance of the Lancaster field, negatively impacted cash generation during the year. While the Company maintained a net free cash' position at year end of 2020 of \$111 million, lower production forecasts for Lancaster have resulted in lower future cash flow projections for the field. While oil prices have recovered from their 2020 lows, there is considerable uncertainty over future prices given near-term supply and demand dynamics and the longer-term impact of the energy transition.

As a consequence, current financial projections show the Company will not be in a position to repay its \$230 million of Convertible Bond debt at maturity in July 2022. Therefore, Hurricane decided to engage with an ad hoc committee of its Bondholders proactively over the Company's debt maturity, which necessarily encompassed a broader dialogue around strategy, the merits of further development of the Company's asset base and the required funding and approvals which would be necessary to support this activity. Throughout this process, the focus has been on developing a number of scenarios to target the Reserves and Contingent Resources on the Lancaster field, given the inherent attractions of allocating more capital to a field that is already producing, relative to further appraisal of the Company's discoveries on the GWA licence.

The outcome of the engagement with the ad hoc committee was announced in April 2021 and is detailed in full on the Company's website. A financial restructuring has been proposed, which it is intended will partially reduce the Company's indebtedness through a part-equitisation of

the Convertible Bond. If the proposed financial restructuring is sanctioned and implemented, the Company's Bondholders will own 95% of Hurricane's enlarged issued share capital immediately following completion of the proposed financial restructuring. This outcome would likely deliver a viable balance sheet which will allow the Company to execute its core strategy (described below) while covering its costs and meeting its regulatory and contractual obligations.

As at the date of this report, more than 75% of Bondholders (by value) had acceded to a lock-up agreement which incorporates general undertakings to support the proposed financial restructuring. The proposed financial restructuring is an ongoing process and is subject, inter alia, to the approval of 75% (in value) of Bondholders present and voting at a meeting convened by the High Court of Justice and the subsequent sanction of that Court. There will also be a Court-convened meeting of shareholders to vote on the proposed financial restructuring. The Company will continue to publish announcements regarding the progress of the proposed financial restructuring at appropriate points in the process.

### Focus on paying down debt and exploring asset upside potential

The terms of the proposed financial restructuring agreed between Hurricane and its Bondholders would require implementation of a no further activity (NFA) case for Lancaster, unless an alternative investment case is approved by a quorum of the Company's Bondholders in the future. The NFA scenario, which is based on production from the 205/21a-6 well alone, requires that Hurricane executes a planned wind-down of operations starting when production from the Lancaster field is no longer economic. Importantly,

it assumes that Bluewater, as owner and operator of the Aoka Mizu FPSO, will agree to revise the existing charter arrangements governing the hire of the vessel. It also assumes that the Lancaster field be produced below the bubble point of the oil. Hurricane has submitted a Lancaster FDPA to the OGA, to allow for production below bubble point. Hurricane is in constructive discussions with the OGA to obtain the FDPA to permit ongoing reservoir management on this basis, subject to quarterly review of operating procedures to ensure gas liberated in the reservoir is not produced to surface. Hurricane has a reasonable expectation that an approved FDPA is likely to be forthcoming.

Notwithstanding the above, the Company will continue its technical and commercial work to mature potential further investment opportunities across its portfolio. In particular, the Company has developed a proposed side-track of the existing 205/21a-7z well on the Lancaster field, which would be drilled into central high of the field. While the incremental Reserves targeted by this well would be modest, it would provide production resilience through a second production well, directly addressing the significant operational risk in the NFA scenario of reliance on the 205/21a-6 well alone, and an important first step towards further development of the Lancaster field, possibly in the form of a water injection scheme to improve reservoir sweep and efficiency.

In parallel, Hurricane will continue to work with its partner, Spirit Energy, on the next steps for the Lincoln and Warwick Crest discoveries on the GWA licence. Both discoveries require appraisal activity as a first step before a commercially viable development plan could be presented, which is unlikely to be sanctioned in the near-term given the core strategy outlined above.

**Risk management, and environmental 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.**



# For our stakeholders

The table below provides a high-level overview of how we engaged with our stakeholders during the year in review.

## Key stakeholder groups

### Employees



#### Why we engage

Our people are fundamental to our business and in order to drive the success of the business, we need to have a motivated workforce.

#### How we engage

Employees are encouraged at all levels to provide feedback directly to management and senior management. There is an open dialogue at all levels – business and operational update meetings, operational ‘know and grow’, workforce engagement meetings at Group level and smaller team meetings which provide feedback to management.

#### How the Board engaged

The Board engages with the Company’s employees throughout the year, mainly informally and through frequent Group townhalls and Easing and Aberdeen fortnightly office ‘catch ups’. Members of the Board informally liaise with employees and enquire and take an interest in their day-to-day roles. As Chair of the Remuneration and ESG Committee and designated non-executive director for workforce engagement matters, Sandy Shaw carried out an informal employee engagement with employees facilitated by video call.

### Shareholders



#### Why we engage

Having invested risk capital in the business we have a duty to engage, where possible, with our shareholders and keep them informed of our strategic plans and progress towards these.

#### How we engage

During early 2020, we interacted with shareholders directly, switching to virtual engagement for the April 2020 Capital Markets Day and AGM due to the COVID-19 restrictions on large gatherings. While the focus during the second half of 2020 and into early 2021 was on addressing our debt in light of the Lancaster Reserves downgrade, the Company continued to issue regular operational and financial updates to shareholders, which, inter alia, disclosed the potential impact of a financial restructuring on shareholdings in the Company. The Company also sought to engage with certain large shareholders in relation to the terms of the proposed financial restructuring.

#### How the Board engaged

In 2020, the Chairman, CEO and CFO engaged with key shareholders, until COVID-19 restrictions resulted in a switch to virtual engagement. These interactions continued, where possible, during the process to resolve the Company’s inability to repay its \$230 million of Convertible Bond debt in light of the significant reduction in Lancaster Reserves and Contingent Resources. During this process, the Company sought to engage with certain large shareholders, in relation to the terms of the proposed financial restructuring.

### Bondholders



#### Why we engage

Having provided funding to part-finance the Lancaster EPS, we have a duty to engage, where possible, with our Bondholders, particularly with respect to our ability to meet our financial commitments (interest payments and repayment of the Convertible Bond) as they fall due.

#### How we engage

Ordinary course engagement with Bondholders is in practice the same as for shareholders, in the form of public announcements, direct interaction through meetings (in-person or virtually) and set piece events (such as the April 2020 Capital Markets Day). Following the material downgrade to Lancaster Reserves and the Contingent Resources across our West of Shetland assets, the Company decided to engage with an ad hoc committee of its Bondholders over the strategic direction and business model of the Company, and the Company’s ability to repay its Convertible Bond debt at maturity.

#### How the Board engaged

In the ordinary course and given its fiduciary duties, the Board would focus its attention and interactions on shareholders while being kept informed of feedback and sentiment among its Bondholders. However, the significant downgrade to the Company’s Reserves and Contingent Resources announced during the year resulted, by necessity and legal obligation, in the Board’s focus switching to engagement with its Bondholders, primarily through its financial and legal advisers.

## Why we engage with our stakeholders

The delivery of our strategy is reliant on the support and commitment of our stakeholders. The Company acknowledges that the underperformance of the Lancaster field relative to pre-production expectations, and the subsequent impact on Lancaster Reserves and Contingent Resources, has significantly and negatively affected all of our stakeholders. We have taken their interests into account as we have addressed the likelihood that the Company will not be able to repay its \$230 million Convertible Bond debt at maturity and have come to the conclusion that the implementation of the proposed financial restructuring is likely to provide the best outcome for the Group and its stakeholders.

### Strategic or business partners



#### Why we engage

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.

#### How we engage

In some aspects of GWA work our partners are fully integrated with our team. Hurricane's executive directors maintain a good relationship with their appropriate counterparts.

#### How the Board engaged

Hurricane's executive directors have strong business relationships with senior principals within our partners' organisations, with regular in person or virtual meetings.

Members of the Board also have opportunities to engage with strategic partners/business partners as required.

### Contractors and suppliers



#### Why we engage

We value the role our trusted contractors and suppliers play in delivering products and services and supporting our teams.

#### How we engage

We collaborate and continually work with our contractors and the full supply chain, sharing best practice and seeking out synergies to improve performance. During the year in review, 94% of our payments to suppliers took place within 30 days of receipt, placing Hurricane among the quicker payers in our industry which promotes a healthy relationship with our suppliers.

#### How the Board engaged

Engagement with contractors and suppliers is carried out by members of the management team, with feedback provided to the Board.

### Regulators



#### Why we engage

Engagement with our regulators preserves our licence to operate and allows us to set the direction for future regulation.

#### How we engage

Engagement takes place at multiple levels and includes a wide range of interactions including remote meetings and presentations.

#### How the Board engaged

Members of the Board are available to participate in meetings with regulators, as appropriate.

### Local communities



#### Why we engage

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.

#### How we engage

In the past we have met with businesses and organisations across the Shetland community to discuss the growth of the region as a whole. In light of COVID-19, we have been unable to engage in the manner we are used to.

#### How the Board engaged

The Company aims to have regular visits to Shetland to keep key representatives informed of the latest status of our operations. Unfortunately, due to COVID-19, these visits could not take place in 2020. We hope to resume an engagement programme once it is safe to do so.

# Section 172

## Section 172 Statement (Companies Act 2006)

Under Section 172 of the Companies Act 2006, a director has a duty to promote the success of the Company. The directors confirm that the deliberations of the Board, which underpin its decisions, incorporated appropriate consideration with due regard to the matters detailed in Section 172 of the Companies Act 2006.

The Board and each director acknowledge that the success of the Company's strategy is dependent on the support and commitment of all of the Company's stakeholders. The Board, when necessary, engages directly with stakeholders. However, during the period and in light of COVID-19, stakeholder engagement mainly took place at an operational level and the Board was therefore reliant on management to help it fully understand the impact of the Company's operations on its stakeholders.

During the year in review, the Board considered information from across the Group's businesses and received presentations from management, working groups and Board advisers. In addition to this, the Board reviewed papers and reports and took part in discussions which considered, where relevant, the impact of the Company's activities on its key stakeholders. These activities, together with direct engagement by the Board and individual directors with some of the Company's key stakeholders and shareholders, helped to inform the Board in its decision-making processes.

The Board recognises that balancing the needs and expectations of stakeholders is important, but it often has to make difficult decisions based on competing priorities where the outcome is not positive for all of the Company's stakeholders. Decisions are not taken lightly, and the decision-making process has been structured to enable directors to evaluate the merit of proposed business

activities and the likely consequences of its decisions over the short, medium and long term, with the aim of safeguarding the Company so that it can continue in existence, fulfilling its purpose and creating value for stakeholders.

During 2020 and into early 2021, the Company engaged in dialogue with certain key stakeholders on certain key strategic matters, including how the Lancaster Reserves downgrade has significantly reduced potential future cash flows from the field, and consequently current financial projections show the Company will not be in a position to repay its \$230 million of Convertible Bond debt at maturity in July 2022. The Company developed a business plan which was subsequently discussed with an ad hoc committee of the Company's Bondholders. This process resulted in the Company announcing in April 2021 a proposed financial restructuring of its indebtedness, with the intention of providing a stable platform upon which it can continue to operate its business. The proposed financial restructuring is discussed in more detail in the Going Concern and Viability Statement section of this Strategic Report.

As part of our annual ESG report materiality exercise, we have set out our key stakeholder groups, their material issues, and how the Company and the Board engage on them. Further information on this materiality exercise will be contained in our 2020 ESG Report, which will be published later in 2021.

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 key points of engagement were on extending the GWA commitment well deadline, commutation of the GLA commitment well and finally the Lancaster FDPAs on producing below bubble point.

The relationship and engagement with Bluewater, the owner and operator of the Aoka Mizu FPSO, is significant in the context of maximising long-term value in the business. As befits such a strategic relationship, we have multiple points of contact, from our operational staff through to the executive and board. During 2020, there were many positive interactions, particularly managing and minimising the impact of COVID-19 on offshore operations. There was also senior-level engagement as part of our proposed financial restructuring. Throughout the year, our operational team conducted regular townhalls for Bluewater's employees aboard the FPSO, to deliver updates on the Company's progress, the impact of the Lancaster reserve downgrade and lower oil prices and the results of the process to restructure the Company's balance sheet.

Our employees are also critical to our success. During the year, due to COVID-19, Sandy Shaw, the designated non-executive director for workforce engagement matters, had to revise her formal engagement schedule to an informal engagement schedule. As part of this role, Sandy informally engaged with staff as part of a wider initiative to maintain regular communication between employees while they were working at home as a result of the COVID-19 pandemic. On these calls, Sandy was able to understand and enquire into the welfare of employees, answer any questions and address any concerns they might have. The feedback received on this initiative has been very positive. Further information on how we engaged with our workforce during the year is reported below and on page 10.



## Key performance indicators

# Measuring performance

In previous years, Hurricane's strategic priorities were shaped by an overriding aim of maximising the value of the Company's Reserves and Contingent Resources. We used a number of financial key performance indicators (KPIs) to measure our progress and determine short and long-term incentives. In 2020, the KPIs were comprised of:

- i. **Performance Measures**, based on short-term measures intended to drive the progress of the delivery of the Company's strategy, which determined annual bonus awards; and
- ii. **Milestones**, which were longer-term measures designed to support the successful delivery of the Lancaster EPS and monetisation of the Group's assets over a five-year period, and which were to be used to determine the eventual awards under the Value Creation Plan (VCP) at maturity.

Underpinning all of the KPIs was a commitment to operating in a safe and environmentally sound manner.

The significant underperformance of the Lancaster field relative to pre-production expectations, and the subsequent material downgrades to Lancaster Reserves and Contingent Resources across the Company's West of Shetland assets, means that no Milestones were achieved during the year and further progress in achieving the Milestones is highly unlikely. Moreover, the fall in the Company's share price as a result of the negative revisions to the Company's Reserves and Contingent Resources also makes it very unlikely that the performance threshold for the VCP will be met. As a result, the Company has decided to discontinue reporting progress towards achieving the Milestones. Details on the Milestones can be found in the 2019 Annual Report.

	HSSEQ	Production	Operations	Financial	Governance/personal
<b>Weighting</b>	10%	30%	30%	25%	5%
<b>2020 Performance Measures</b>	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 manage the reservoir through data management and meet or exceed production targets against publicly disclosed targets.	To mature the GWA single well tie back scope with approval and support of the GWA JV and the regulator.  To mature the GLA project scope and achieve, preserve and maintain operational and commercial progress.	To demonstrate capital discipline and maintain capital, balance sheet and operational cost control.	Individual targets set to lengthen and strengthen relationships with key stakeholders and build and develop talent in the business.
<b>Achievement</b>	3.75%/10.00%	7.80%/30.00%	7.50%/30.00%	5.00%/25.00%	3.00%/5.00%

Details of the scoring for 2020 Performance Measures are set out in the Directors' Remuneration Report on pages 66 and 67. For the risks to achieving these Performance Measures, please refer to the principal risks table on pages 14 to 23.

We will continue to track our performance against a mix of financial and non-financial measures. The Performance Measures for 2021 have not yet been finalised, as they are contingent on the outcome of the proposed financial restructuring and the likely duration of future production operations at Lancaster. Notwithstanding, the Company's KPIs will continue to be anchored by a focus on safe and responsible working practices.

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 and opportunity registers for individual assets and 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 corporate risk register, and reviewed by senior management, the executive directors, the Audit and Risk Committee, 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><b>A</b> Substantial capital requirements</p>	<p>The Group’s strategy is to maximise cash flows from Lancaster to repay its debt and to convert Contingent Resources into Reserves to maximise value. In order to deliver on the latter, significant capital expenditure would be required. Should the proposed financial restructuring go ahead, any significant capital expenditure over and above a no further activity case will require support and approval from the Group’s Bondholders. Therefore, development plans that may otherwise have been sanctioned by the Board for investment may not proceed, resulting in Contingent Resources remaining unrecovered.</p> <p>The current uncertainty over oil supply and demand fundamentals, and the ongoing impact of COVID-19 on the wider economy may also restrict or constrain the ability to raise external funds.</p> <p>Should no support or sanction be forthcoming for future development business cases at the Lancaster Area, it is highly probable that the carrying value of oil and gas assets would be subject to further impairment.</p> <p>Furthermore, the proposed financial restructuring would give rise to significant equity dilution for existing shareholders and is likely to have caused reputational damage to the Group, hindering ability to raise further capital in the future.</p>	<p>The Group will remain in regular dialogue with its Bondholders and their advisers in order to progress options and seek sanction on development plans where they would further its strategy. The costs of such development plans are continuously reviewed in order to identify opportunities for reduction, although a sustained decline in oil prices to levels seen in the first half of 2020 would mean there would not be sufficient cash generation to organically fund such plans.</p> <p>The Group continually monitors its funding requirements to progress its asset portfolio; 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, although these options may become more limited should the proposed financial restructuring be implemented.</p> <p>The Group maintains large equity interests in its licences and future farm-outs could be pursued as a source of financing, subject to approval of Bondholders. Although the relinquishment of a portion of the P1368 licence has removed the requirement for a commitment well on the Lancaster field, there are still possible development options being assessed elsewhere on Lancaster, and a licence commitment well on GWA, but both would be subject to the approval of its Bondholders.</p>	 <p>Risk has increased</p>

## Key



Risk has decreased



No change



Risk has increased



New risk

Key risk factor	Risk detail	How it is managed	How it has changed during the period
<b>B</b> Exploration, appraisal and development operational risks	<p>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>	<p>The Group invests significant time and resources to plan its exploration, appraisal and development operations and focusses on minimising the various operational risks. The Group uses a range of third-party experts (including independent subsurface assurance 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
<b>C</b> 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>Following the suspension of production from the 205/21a-7z well (P7z well) in May 2020, the Group has implemented a production strategy of producing from the 205/21a-6 well alone, except for periodic testing of the P7z well for reservoir management purposes. The high water cut from the P7z well makes it unlikely that production can be optimised from this well going forward without a re-entry and side-track. Until such time as future development plans are sanctioned and completed (if at all), production is therefore dependent on single well operations. As such, there is increased risk relating to well failure, including ESP failure (associated with run time), and multiple single point failure risks.</p> <p>Furthermore, should any additional development activity be sanctioned, some production downtime may be required, which could extend to a longer period than planned.</p>	<p>The Group invests significant time and resources to plan 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.</p> <p>Reliance on single well operations can only be mitigated by additional well stock, which would, under the proposed financial restructuring, require the sanction of an investment case by at least 75% of Bondholders, and if such an investment case were approved, there would still be a significant period of time of single well operations remaining until the additional well stock came online.</p> <p>The Group has obtained business interruption insurance to mitigate the impact of certain potential production shutdowns, which would typically only include accidental physical loss or damage, or loss of well control.</p> <p>Contingency is built into operational budgets to allow for unexpected delays, the impact of weather, operating cost overruns and unforeseen circumstances.</p>	 Risk has increased



# Principal risks and uncertainties *continued*

## Key



Risk has decreased



No change



Risk has increased



New risk

Key risk factor	Risk detail	How it is managed	How it has changed during the period
<p><b>D</b> COVID-19</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 pandemic could also have general negative impacts on the Group's supply chain (including limiting access to aviation services).</p>	<p>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 system access allowing them to work at home if required.</p>	 New risk
<p><b>E</b> Geological and reservoir risk</p>	<p>The geology of the Group's licence areas is now interpreted to be highly complex with the interaction between different reservoirs still being understood, and is generally less well appraised and of higher risk than other North Sea fields. The predicted behaviour of the reservoirs relies on various assumptions, simulations, models and interpretation techniques, as refined by production data gathered over time. There is a risk that the reservoirs do not behave as expected, such as significantly higher water production than predicted, Reserves/Contingent Resources being less than expected, or oil having different properties than expected.</p>	<p>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>Although now understood to be more complex than previously thought, the Group has undertaken various studies (internally and using third party experts) and gathered significant amounts of data (from drilling, well testing and production) to reduce uncertainty and mitigate the geological and reservoir risks.</p> <p>During 2020, this included periodic collection of data from downhole gauges installed on the Lincoln 205/26b-14 well.</p> <p>Data has been closely monitored since the commencement of production, with modifications made to the production strategy (e.g. planned individual well shut-ins and varying flow rates) to optimise the overall production from the reservoir. As production data is gathered, reservoir models are refined and updated to reflect and incorporate the actual reservoir characteristics.</p> <p>This was evidenced by the initial results of the technical review announced in September 2020 (supported by the 2021 ERCE CPR) which, inter alia, concluded that from analysis of reservoir pressure, production and other data, there should be a material revision of the Lancaster field's estimated oil water contact. This revised understanding is consistent with dynamic data on water production and reservoir pressure decline experienced to date, and will further allow the Group to build predictive cases which aim to reduce uncertainty and mitigate the risks in future well planning and/or production strategy.</p>	 No change

Key risk factor	Risk detail	How it is managed	How it has changed during the period
<p><b>F</b> Regulatory</p>	<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>Production from the Lancaster Area requires OGA approval for production to continue below bubble point. The Group is confident it will obtain approval to an updated FDPA providing the Group with a rolling 3-month consent for production below bubble point, but this will be based on ongoing review of gas liberated within the reservoir and produced from the field. If the Group produces gas liberated from within the reservoir to surface, it expects its production consent to be withdrawn.</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, and 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> <p>The pending consent to produce below bubble point is expected to be subject to quarterly review of operating procedures, and a detailed reservoir monitoring and management plan is to be put in place to ensure no incremental liberated gas is produced to surface.</p>	 <p>Risk has increased</p>
<p><b>G</b> Oil price fluctuations</p>	<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, COVID-19, 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.</p> <p>Changes in oil price will have a significant impact on the Group's operating cash flow, and with production levels currently lower than expected, the Group is more exposed to price movements than previously.</p> <p>Purchases of put options may also become prohibitively expensive in times of high oil price volatility and entering into nil or low cost hedging structures such as swaps typically carries production risk exposure and therefore the Group may not be able to obtain credit for such arrangements.</p> <p>Should the proposed financial restructuring be implemented, the Group will not be permitted to enter into any oil price hedges (including contracts such as put options which protect from downside price risk but still allow participation in upside price risk) so long as the Amended Bonds are outstanding. With no ability to hedge, the Group's cash flows and thus its ability to fully settle the Amended Bonds in cash will remain highly dependent on movements in oil price.</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 are made if development cases are robust to downside price sensitivity scenarios.</p> <p>For Hurricane's producing assets the Group has previously used oil price hedging derivatives to manage a proportion of its production and will, if permitted, consider entering into similar arrangements in the future depending on production forecasts, economic outlook, cost of hedging and other capital requirements. However, should the proposed financial restructuring be implemented, this method of managing risk will no longer be possible.</p> <p>The Group's charter of the Aoka Mizu FPSO provides some mitigation with respect to changes in oil price as a proportional of the lease cost is in proportion to the quantity and price of crude oil sold, although under the current charter arrangements this variable element becomes a lower proportion of the overall operating cost base from June 2021.</p>	 <p>Risk has increased</p>

# Principal risks and uncertainties *continued*

## Key



Risk has decreased



No change



Risk has increased



New risk

Key risk factor	Risk detail	How it is managed	How it has changed during the period
<p><b>H</b> Third-party infrastructure</p>	<p>The Group's operations are dependent on the availability of the Aoka Mizu FPSO, rigs, equipment, and offshore services, leased or contracted from third party providers and suppliers. There is a risk the Company is unable to secure or extend third party services.</p> <p>Continued production from Lancaster is dependent on the FPSO continuing to be available to the Group. The initial term of the FPSO lease will expire in June 2022 unless by the beginning of June 2021 the Group exercises an option to extend the initial term. The current terms provide that, if the option is exercised, the term may only be extended for three years, and there is no possibility of a shorter extension. Based on current projections, to extend the lease term to June 2025 may, absent additional investment, not be optimal from an economic perspective, and there can be no guarantee that agreement will be reached with Bluewater in respect of a shorter extension. If agreement cannot be reached with Bluewater on a shorter extension period, then further period of production beyond June 2022 may not be possible.</p>	<p>Under the terms of the proposed financial restructuring, it is envisaged that the Group and Bluewater enter into amended agreements as part of, or shortly after, implementation of the transaction. As continued use of, and access to, the Aoka Mizu FPSO under commercially and economically acceptable terms is in the best interests of both the Group and its creditors, the Group, its Bondholders and advisers continue to hold open and constructive negotiations with Bluewater in order to achieve terms acceptable to all parties.</p> <p>The Group therefore has a reasonable belief that terms will be agreed with Bluewater which would allow the Group to continue to produce beyond June 2022.</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>	 Risk has increased
<p><b>I</b> Development project delivery</p>	<p>Once sanctioned, 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 will be incremental to the existing Lancaster EPS production infrastructure. This will add additional complexity due to the need to accommodate and minimise the impact on production operations and having numerous operating vessels in close proximity.</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>	 No change

Key risk factor	Risk detail	How it is managed	How it has changed during the period
<b>J</b> Health, safety and environmental (HSE)	In performing offshore exploration, development or production activities and onshore fabrication activities there is a risk of harm to the workforce, to the environment (e.g., from fabrication processes, hydrocarbon releases and/or oil spills, damage to seabed ecosystems or disturbance to marine mammal populations from noise pollution), to the assets during construction or in use, and to the Group's reputation as a result of some or all of the above.	The Group adopts its procedures in relation to HSE to assess, manage and control the risk faced by the workforce and mitigate against accidental damage to the environment and its assets and in doing so seeks to protect its reputation. HSE risks are minimised by the Group's corporate processes which ensure the employment of competent individuals, the procurement of appropriate equipment and the selection and monitoring of operational activities. The Group operates under a certified ISO 14001 and ISO 45001. Environmental Management System. In addition, the Group uses external consultants and specialists to plan and prepare for various emergency scenarios including, but not limited to, oil spills. As part of its preparedness, the Group undertakes training and exercises to assess the effectiveness of its procedures, processes and specialist service providers. The Group also carries various insurances.	 No change
<b>K</b> 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
<b>L</b> Joint venture activity	<p>Operations in the oil and gas industry are often conducted through joint ventures to spread cost and risk. However, there can be a risk that joint venture partners in assets are not aligned in their objectives and drivers, which may lead to inefficiencies and delays.</p> <p>The Greater Warwick Area is currently being appraised through a 50/50 joint venture between Hurricane GWA Limited and Spirit Energy, with Hurricane Energy plc as operator. Spirit Energy and Hurricane GWA Limited have a commitment under the relevant licence to drill a well by the end of June 2022. Spirit Energy and Hurricane GWA Limited have not yet reached an agreement on whether to drill the commitment well and/or whether the relevant licences should be relinquished to the OGA. It is a condition of the licence for the Lincoln subarea that, where the Lincoln commitment well is not drilled, the Lincoln subarea be relinquished by the joint venture partners.</p> <p>In the event of a relinquishment, the carrying value of exploration and evaluation assets would likely be written off in full. Hurricane Energy plc has issued a parent company guarantee in favour of Spirit Energy in respect of Hurricane GWA Limited's obligations under the joint operating agreement.</p>	<p>Due diligence is used to review and assess any third parties with whom the Group enters into a joint venture for both operated and non-operated projects.</p> <p>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.</p> <p>The Group's commercial arrangements with Spirit Energy remain in place, and numerous joint committees are in place (including finance, technical, development and commercial) to facilitate constructive dialogue and progress on the joint venture.</p> <p>The Group will remain in regular dialogue with its Bondholders and their advisers, as appropriate, in order to progress options and seek sanction on development plans where they would further its strategy on the joint venture licences.</p>	 Risk has increased

# Principal risks and uncertainties *continued*

## Key



Risk has decreased




No change




Risk has increased



New risk

Key risk factor	Risk detail	How it is managed	How it has changed during the period
<p><b>M</b> Strategy execution and staff retention</p>	<p>In determining its future strategy, the Group has had to take into consideration the likelihood that it will not be in a position to repay its \$230 million of Convertible Bond debt at maturity in July 2022 and the financial restructuring has been proposed as a consequence. Should the proposed financial restructuring be implemented, the Group's primary strategy will be maximising cash flows from the existing Lancaster field wells and infrastructure to repay its Bondholders, until the field reaches its economic limit and is subsequently decommissioned.</p> <p>Any expenditure required by the Group to deliver its secondary strategy of converting further Contingent Resources to Reserves will be subject to approval from its Bondholders. Therefore, there is a risk that the objectives of Bondholders are not fully aligned with the strategic intent of the Group, as well as the Group having limited ability to change its strategy should internal or external factors change.</p> <p>A significant risk to the execution of the Group's strategy is its ability to retain key personnel and their expertise. Should the proposed financial restructuring be implemented, there is a risk of increased staff turnover, potentially as a result of existing employee share schemes (the VCP, PSP and SIP) holding no value, and the Group's prospects may lead it to being viewed as a less attractive employer, potentially resulting in difficulties replacing key personnel.</p> <p>Should the Group not deliver its strategy, this could lead to lower than expected returns for Bondholders and a potential breach of covenants; resulting in an event of default and accelerated payments of the Amended Bonds falling due, for which the Group may not have, or be able to obtain, sufficient funds to meet.</p>	<p>The Board monitors macroeconomic developments and discusses these at Board meetings. With this in mind and based on its prevailing financial framework, the Board actively manages its assets to maximise value for stakeholders. Depending on the circumstances at the time, and subject to consents received from Bondholders, this may entail divestments, acquisitions, farm-ins, farm-outs, and exchanges of licence interests. The Group will also evaluate opportunities to progress appraisal and development opportunities across its portfolio, carefully evaluating and assessing the economic benefits of investment cases and creating detailed and robust business plans for the consideration of its Bondholders.</p> <p>To support execution of the Group's strategy, due care is taken in recruitment activities to ensure the organisation retains the requisite strategic planning skills. The Group's remuneration strategy is designed to attract and retain key employees, however, there can be no assurance that the Group will be able to continue to attract and retain all personnel necessary for the operation and development of its business. The Group may enter into retention arrangements with key management personnel and other employees; however, staff may still elect not to be bound by such arrangements or leave the Group's employment forfeiting any incentives. The Group does not maintain, nor does it plan to obtain, insurance against the loss of any of its key personnel.</p>	 Risk has increased



Key risk factor	Risk detail	How it is managed	How it has changed during the period
<p><b>N</b> 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. This includes, in particular, the OGA's Net Zero Stewardship Expectation strategy setting out how the oil and gas industry should progress towards zero routine flaring and venting for non-safety reasons and should reduce its greenhouse gas emissions in support of the delivery of the UK's net zero target.</p> <p>The technical requirements of these laws and regulations are becoming increasingly complex, stringently enforced and expensive to comply with and this trend is likely to continue. Any failure to comply with such laws and regulations may result in regulatory action, the imposition of fines or the payment of compensation to third parties. All of these liabilities and any other regulatory actions could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.</p> <p>There is a risk that global views relating to climate change and energy transition will have an adverse impact on oil price and the appetite to fund oil company operations through equity and/or debt. 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. In 2020, the Group established an ESG Committee of the Board to provide overarching governance and responsibility for its ESG programme.</p> <p>This committee considers the potential impact of climate change, and corresponding shifts in the policy and market setting in which the Group operates. 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 (which will be reported on for the first time later this year in the Group's 2020 ESG report) through the implementation of appropriate governance and risk management processes.</p> <p>Whilst not currently in a position to execute a gas export scheme for our assets (which would reduce flaring impact), the Group continues to investigate and implement actions that could reduce its environmental footprint, where it makes commercial and financial sense to do so.</p> <p>The Group was also an active participant in the UK oil and gas industry's response to the OGA's strategy review, which in 2021 formally adopted a net zero emissions target for the UKCS.</p>	 <p>Risk has increased</p>

# Principal risks and uncertainties *continued*

## Key



Risk has decreased



No change



Risk has increased



New risk

Key risk factor	Risk detail	How it is managed	How it has changed during the period
<p><b>O</b>  <b>Completion of proposed financial restructuring</b></p>	<p>The proposed financial restructuring is subject to both Bondholder approval and court sanction, requiring the support of 75% (by value) of the Bondholders present (virtually) or by proxy and voting at a meeting convened by the court, and which is expected to be held virtually via video conference. It is also subject to certain conditions which, if not satisfied (or waived if applicable), may result in failure to implement the proposed financial restructuring.</p> <p>If the proposed financial restructuring does not succeed, the Group believes the most likely outcome is that it will need to enter into a controlled wind-down followed by an insolvent liquidation. In such a scenario, the Group believes that shareholders will receive no recovery in respect of the shares that they hold, and Bondholders would rank as unsecured creditors of the Group. If the proposed financial restructuring is not approved by Bondholders, or is not sanctioned by the court, it is unlikely that the proposed financial restructuring will be implemented.</p> <p>If the proposed financial restructuring does not become effective this could:</p> <ul style="list-style-type: none"> <li>(i) have a destabilising effect on the business of the Group and as a result the financial condition and liquidity of the Group may be materially adversely affected; and/or</li> <li>(ii) result in the Group being unable to repay amounts due under the Convertible Bonds in full at maturity.</li> </ul> <p>Delay in implementing the proposed financial restructuring for whatever reason will prolong the period of uncertainty for the Group and may result in the accrual of additional costs (for example, there may be an increase in costs in relation to the preparation and issue of documentation, or other elements of the planning and implementation of the proposed financial restructuring) without any of the potential benefits of the proposed financial restructuring having been achieved.</p>	<p>The Group has been in an extended period of negotiations with the ad hoc group of Bondholders and their advisers, and has engaged its own reputable and experienced financial, legal and restructuring advisers in order to prepare the necessary business plans, documents and other supporting material for the Bondholder vote and application or sanction by the Court. Although at the date of this report in excess of 75% of Bondholders had acceded to a lock-up agreement agreeing to support the proposed financial restructuring, there remains a risk that the required support of the Bondholders will not be achieved; nor can there be assurances that the court will sanction the proposed financial restructuring. Furthermore, the court may sanction the proposed financial restructuring subject to conditions or amendments that the Group and Bondholders deem unacceptable and/or would have (directly or indirectly) a material adverse effect on the interests of any Bondholder.</p>	<p><b>+</b></p> <p>New risk</p>

Key risk factor	Risk detail	How it is managed	How it has changed during the period
<p><b>P</b> Litigation</p>	<p>The Group is subject to an elevated risk of litigation and regulatory investigation in relation to historic announcements and recent developments in relation to the proposed restructuring. On 10 May 2021 the FCA's Market Oversight Department requested that the Group provide information in relation to historic announcements and recent developments in relation to the proposed financial restructuring. The Group is not under formal investigation, and is responding to the FCA's enquiries, which are at a preliminary stage, on a voluntary basis. If any formal investigations or litigation are started and substantiated in the future against the Group, its directors, officers, employees or potentially its joint venture partners, this could result in a finding of liability and requirement to pay redress or criminal or civil penalties, including substantial monetary fines, against the Group, its directors, officers or employees. Any such outcomes in the future could damage the Group's reputation and its ability to do business and could adversely affect its financial condition and results of operations and prospects.</p>	<p>The Group has in place sufficient procedures, resources and controls to enable it to comply with its regulatory obligations, in particular the Market Abuse Regulations and the AIM Rules for Companies. The Group exercises reasonable care, skill and diligence, and obtains advice and guidance from its Nominated Adviser, in relation to its ongoing disclosure obligations.</p> <p>The Group has put in place and maintains appropriate levels of Director and Officers' insurance.</p>	<p>⊕ New risk</p>

# Going concern and 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 Group ended the year with \$166.5 million of cash and cash equivalents and liquid investments, of which \$114.9 million was unrestricted. After adjusting for working capital items, net free cash<sup>1</sup> at 31 December 2020 was \$111.4 million. 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 which, as outlined below and elsewhere in this document, the Group is currently seeking to restructure), and committed lease liabilities in respect of the Aoka Mizu FPSO.

Further details of the financial position of the Group, its cash flows and liquidity position are described in the Chief Financial Officer's Review, with the Group's off and on-balance sheet commitments set out in notes 2.7 and 5.3 of the Group Financial Statements. In addition, note 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 monitors its capital position and its liquidity risk regularly throughout the year, with cash flow models and forecasts regularly produced and refreshed based on production profiles, latest estimates of oil prices, operating and G&A budgets, working capital assumptions, movements to and from restricted funds, and the Group's debt repayments. Sensitivities are run to reflect different scenarios including changes in reservoir performance, movements in oil price and changes to the timing and/or quantum of capital expenditure projects.

## Proposed financial restructuring

The proposed financial restructuring, expected to complete in June 2021 subject to Bondholder approval and court sanction, will primarily comprise:

- a reduction of the Convertible Bond principal outstanding from \$230 million to \$180 million; in exchange for the allotment and issue of new shares to existing Bondholders representing approximately 95% of the Group's enlarged issued share capital after completion of the transaction;
- the Amended Bonds carrying an annual coupon rate of 9.4% (cash pay) plus 5.0% (payment in kind), interest accruing quarterly, with a mandatory excess cash sweep mechanism to redeem payment in kind interest and principal at each interest payment date;
- the provision of certain security and subsidiary guarantees;
- the maturity date of the Amended Bonds extended to 31 December 2024; and
- the Amended Bonds now containing a key financial covenant that requires the Group's liquidity (being consolidated cash and cash equivalents of the Group that are not subject to any security interests or held under escrow arrangements) to be not less than \$45 million until cessation of production from the Lancaster field.

The proposed financial restructuring is also dependent on certain conditions precedent being satisfied or waived by 75% of the participating Bondholders by value; the key condition being consent from the Regulator to an amendment to the Lancaster Field Development Plan to permit production with flowing bottom hole pressure up to 300 psi below the bubble point of the fluid (1,605 psia at 1,240 metres TVDSS).

There is no guarantee that these conditions will be satisfied (or waived, if applicable), in which case the proposed financial restructuring would not be implemented on its current terms or possibly at all.

## Assessment of going concern – base case (which assumes implementation of the proposed financial restructuring)

The directors have performed a robust assessment of the going concern assumption, considering the Group's ability to continue as a going concern from the date of approval of these Financial Statements through to 31 July 2022, (thus incorporating the redemption date of the Convertible Bond, absent the proposed financial restructuring) with the following key assumptions as its base case:

- completion of the proposed financial restructuring effective 30 June 2021;
- Dated Brent oil price of \$65/bbl for the remainder of 2021, \$64/bbl in 2022 and \$62/bbl thereafter;
- production from the P6 well alone as modelled using reservoir simulation modelling;
- renegotiated terms of the Aoka Mizu FPSO charter; and
- no sanction of further investment cases.

These production profiles modelled incorporated different oil price and technical assumptions to those included in the ERCE CPR, but were within the ranges of Reserves and Contingent Resources estimated by ERCE. The analysis included a review of the budget for the year ending December 2021 and onwards, committed capital expenditure, regret costs and longer-term forecasts and plans, including consideration of the principal risks faced by the Group (as outlined in the Principal Risks and Uncertainties section), 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 \$12.0 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 \$16.4 million and current decommissioning provisions of \$15.5 million



that existed at 31 December 2020, lease payments (primarily for the Aoka Mizu FPSO) and other operating costs, cash coupon payments and mandatory prepayment provisions on the proposed restructured Amended Bonds debt, and capital expenditure contracted for but not recognised as a liability; and whether the Group would be able to meet the minimum liquidity covenant of the Amended Bonds.

Under the base case, the Group is forecast to have sufficient headroom on the liquidity covenant throughout the going concern period.

Sensitivities to the base case were run where oil prices were reduced by a flat \$10/bbl, and forecast production reduced by 10% throughout the going concern period. In these downside scenarios, individually and in aggregate, the Group was forecast to have headroom on the liquidity covenant throughout the going concern period.

As a reverse stress test, it was estimated that either an immediate reduction to the oil price to \$40/bbl flat, a reduction to the forecast production rates by approximately 40% or a complete cessation of production for approximately 4 months during the going concern window could cause a breach of the liquidity covenant. It is likely that these circumstances would also constitute an event

of default by virtue of being a material adverse event or events under the terms of the Amended Bonds.

### Assessment of going concern – proposed financial restructuring does not complete

Should the proposed financial restructuring not go ahead, both under the production simulations and oil price assumptions used in the base case above, or any reasonably possible movement in oil prices, production rates and other assumptions (individually or in aggregate), the directors do not forecast a scenario where there would be sufficient free cash available to fully repay the \$230 million principal due on the Convertible Bond in July 2022. As such the ability of the Group to continue trading as a going concern would depend upon the occurrence of one or more of the following:

- a significant successful equity raise;
- Bondholders and creditors providing further financial waivers and/or amendments;
- the Group agreeing alternative plans for a proposed financial restructuring with stakeholders.

However, in the opinion of the directors, the possibilities of these scenarios being

successful is remote; and should the proposed financial restructuring not complete, it is likely that there would be a controlled wind-down of operations followed by an insolvent liquidation of the Group.

### Conclusion

Based on all required court and regulatory approval processes being complete and the required percentage of the Group's Bondholders by value having voted in favour of the proposed financial restructuring, the proposed financial restructuring is expected to complete in June 2021. The bondholder approval requires the support of 75% (by value) of the Bondholders present (virtually) or by proxy and voting at a meeting convened by the court. As of the date of this report, in excess of 75% (by value) of Bondholders had acceded to a lock-up agreement agreeing to support the proposed financial restructuring. As a result of the going concern assessment presented above, and on the assumption that the proposed financial restructuring completes in the timeframe outlined, the directors have a reasonable expectation that, after also taking into consideration the current macroeconomic situation and uncertainty arising from the COVID-19 pandemic, the Group has adequate resources to continue in operational existence throughout the going concern period.



## Going Concern and Viability Statement *continued*

### Going concern *continued*

#### Conclusion *continued*

Therefore, the directors continue to adopt the going concern basis of accounting in preparing these consolidated financial statements and the financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

However, successful completion of the proposed financial restructuring is subject to, inter alia, Bondholder approval and the Court sanctioning the proposal, and as such is outside of the Group's control. The directors therefore acknowledge that the events and conditions described above, relating to the uncertainties regarding management's ability to complete the restructuring and (should it not complete) management's ability to complete an alternative restructuring and prevent a controlled wind-down and/or insolvent liquidation of the Company, together in aggregate give rise to a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

As at the date of this document, the proposed financial restructuring is an ongoing process and is subject, inter alia, to the approval of the requisite majority (in value) of Bondholders and the sanction of the High Court of Justice. There will also be a Court-convened meeting of shareholders to vote on the proposed financial restructuring. The Company will continue to publish announcements regarding the progress of the proposed restructuring at appropriate points in the process.

### Viability statement

In accordance with Provision 31 of the Code, the directors have assessed the prospects of the Group over a longer period than the minimum 12 months required for the Going Concern statement.

#### 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 and 9, whilst factoring in the Group's principal risks and uncertainties (pages 14 to 23), and the assumption that the proposed financial restructuring is implemented.

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 at the latest practicable date of preparation of this review, together with the forecast cash flow generation from the Lancaster EPS (based on expected production rates and oil prices) and, assuming implementation of the proposed financial restructuring, payment of the Amended Bond interest and mandatory prepayments.

#### The Lookout Period

The directors have determined that the appropriate period to assess the viability of the business (the Lookout Period) is the period to 31 December 2024; as this is the maturity date of the Amended Bonds, should the proposed financial restructuring be sanctioned and implemented.

#### Assessing the viability of the Group over the Lookout Period

Whilst each of the risks outlined on pages 14 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 the risk of completing the proposed financial restructuring.

The base case assumptions used in assessing the viability over the Lookout Period were the same as the Going Concern assessment. Under the base case, the Group is forecast to have sufficient headroom on the liquidity covenant throughout the Lookout Period, and to have sufficient funds to fully repay the Amended Bonds in cash at maturity.

Consistent with the Going Concern assessment above, sensitivities to the base case were run where the oil price assumption was reduced by \$10/bbl (to \$55/bbl for the remainder of 2021, \$54/bbl in 2022 and \$52/bbl thereafter), and forecast production reduced by 10%. Under these downside scenarios, individually or in aggregate, it is possible that the liquidity covenant would be breached before the end of the Lookout Period coinciding with the time that production from the Lancaster field becomes uneconomic

(resulting in a cessation of production earlier than envisaged). Although this would be a potential event of default under the terms of the Amended Bonds, these breaches would occur in close proximity to the planned cessation of production date; and thus, in the view of the directors, there would be no material benefit to Bondholders in enforcing an event of default at that time due to the mandatory prepayment mechanism in place, and the additional costs incurred from, and additional time taken to complete an uncontrolled wind-down following enforcement of an event of default.

In other downside scenarios less severe than the sensitivities disclosed above, the liquidity covenant remains met throughout the Lookout Period, but there are insufficient funds to fully repay the Amended Bonds in cash at maturity. However, under the terms of the Amended Bonds, at December 2024, provided that, amongst other things, all production at Lancaster has ceased permanently and all remaining free cash of the Group has been applied towards outstanding liabilities under the Amended Bonds, the Group can exercise a conversion option and convert any remaining Principal into Ordinary Shares of the Company; thus ensuring a solvent position at the end of the Lookout Period.

Subject to these key assumptions and qualifications (including the assumption that the proposed financial restructuring completes), 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.

# Safe, environmentally responsible and efficient



**Steve Holmes**  
Chief Operations Officer

Very sadly, Hurricane's previous Chief Operations Officer, Neil Platt, passed away in July 2020. Neil joined Hurricane in 2011 and was the driving force in delivering the Lancaster EPS project on time and budget. He was a much loved and respected colleague and is greatly missed by everyone at the Company.

From an operations perspective, the focus in 2020 was on maintaining safe, environmentally responsible and reliable operations from the Aoka Mizu FPSO, particularly in light of the impact from COVID-19 on UK offshore oil and gas operations. Furthermore, we also had to factor in the underperformance of the Lancaster production wells into operations and production planning, as well as deliver the production testing data required to assist in reassessing the subsurface potential of the field.

Aoka Mizu production uptime averaged 98% in 2020, significantly exceeding our 90% target. This is testament to the notable and varied contributions of both Hurricane's staff and Bluewater, particularly given offshore manning levels were reduced in light of the COVID-19 pandemic. Following completion of remaining equipment tests, final acceptance of the Aoka Mizu was achieved in November 2020.

The planned annual Aoka Mizu shutdown was undertaken in early September 2020 and was safely completed in five rather than the scheduled seven days. Our employees, contractors and partners should be congratulated on this excellent performance. Our 2021 annual shutdown is currently planned to take place in July 2021.

During the year there were 12 liftings totalling 5.1 MMbbls. We have been investigating ways to increase resilience, optionality and flexibility in our offloading schedule, through trial loadings of a number of alternative vessels which can deliver Lancaster crude. Two of these trials have been carried out successfully in 2021 to date, including a shuttle tanker with LNG fuelled propulsion, which has a lower greenhouse gas footprint than our existing tanker pool.

We have had to work in close cooperation with our stakeholders and government authorities to manage the impact of COVID-19 on offshore operations during 2020. We saw this first-hand in March 2020, when a crew member onboard the Aoka Mizu was evacuated to the mainland for medical reasons and subsequently tested positive for COVID-19. Subsequently a number of precautionary flights were arranged to return suspected COVID-19 cases to shore. We are happy to confirm that the individual who tested positive for COVID-19 made a full recovery. We have worked closely with Bluewater, as installation operator of the Aoka Mizu, with its response to the March COVID-19 case and also on the planning to mitigate the impact of COVID-19 on the crew of the Aoka Mizu. Throughout this period, safeguarding measures put in place ensured that production operations were unaffected.

During the year, we have developed and refined pre-mobilisation offshore COVID-19 travel arrangements before outbound staff are mobilised to the Aoka Mizu. Currently, passengers are required to complete an offshore travel pre-flight self-declaration form and undertake a pre-mobilisation temperature check and a COVID-19 test before being deemed 'fit to fly' and

permitted to travel to the heliport for outbound travel to the Aoka Mizu. If the test result is positive, outbound travel is restricted until a further COVID-19 test confirms a negative result. Passengers who do not meet these criteria are requested to self-isolate for 10 days if they are able to do so or seek appropriate medical help if they cannot. Face coverings are provided to all passengers on transit to the FPSO, the use of which is mandatory when travelling by helicopter. Upon arrival at the FPSO, passengers are provided with their own single berth cabins, while daily COVID-19 health screening is undertaken, and mandatory COVID-19 testing has been introduced on the fourth day after arrival. The wearing of face masks to prevent airborne transmission is also required, where practicable. While UK border control travel restrictions are impacting our ability to mobilise and demobilise non-UK based offshore crew members as would be routinely planned, to date we have not experienced any significant negative impact from the pandemic on our operations.

Lancaster EPS oil production during 2020 totalled 5.1 MMbbls, or an average of 13,900 bopd. Production was higher in the first half of the year with both the 205/21a-6 and 205/21a-7z wells onstream in various configurations as part of the ongoing data gathering exercise. In May 2020, performance issues led to production from well 205/21a-7z being suspended. In June 2020, following a partial lifting of COVID-19 restrictions on UKCS activity, we successfully commissioned the electric submersible pumps (ESPs) installed in the Lancaster production wells. With the benefit of artificial lift from the ESPs, the 205/21a-7z well was brought back onstream at different rates to test performance and liquid output. However, with produced water now interpreted as originating from an underlying aquifer rather than an isolated water zone, part of the 205/21a-7z well is now considered to be in the water leg, with oil production being 'coned' from the reservoir above the well.

## Operations and Subsurface Review *continued*

As a result, a decision was taken in November 2020 to produce the field from the 205/21a-6 well alone. This production strategy has been implemented for the majority of the time since November 2020, with the well currently producing 11,250 bopd using artificial lift with a water cut of 30%. Under the NFA scenario, which is the likely outcome of the Company's proposed financial restructuring unless new development activity is approved (including by the Company's Bondholders), production from the 205/21a-6 well is expected to continue exhibiting a slow decline until the economic limit of the field is reached.

Based on current trends, it is possible that the wellhead flowing pressure in the Lancaster reservoir may approach the 'bubble point' (the point at which gas is liberated from oil within the reservoir) in late 2021 or early 2022. We are currently in a discussion with the OGA on an addendum to the Lancaster Field Development Plan to allow reservoir pressure to go below bubble point, as an emerging gas cap may provide a 'piston' like effect where oil in the Lancaster field is driven into the producing wells. Our production guidance for 2021 is 8,500–10,500 bopd, which is based on an FPSO production uptime assumption of 90% and production from the P6 well alone.

Planning is underway to meet our regulatory commitment to plug and abandon the Lincoln 205/26b-14 well, with the Stena Don rig contracted on behalf of the GWA licence partners to perform this activity during the summer of 2021.

### Health and safety

In 2020, Hurricane recorded one Lost Time Incident, when an offshore technician fell during scheduled maintenance activities and incurred injuries to his shoulder and ribs. The individual made a full recovery. The incident was fully investigated by Bluewater and Hurricane; control of work, supervision and spatial awareness were identified as being the main underlying contributing factors to the Lost Time Incident. Safety and control procedures were strengthened as a result. The Lost Time Incident Frequency Rate for 2020 was 1.29, compared to 0 for 2019.

The health and safety of our onshore colleagues has also been a priority given the home working arrangements put in place to manage the spread of COVID-19. We have conducted home working assessments to ensure that our staff have the necessary equipment and appropriate working conditions for safe and effective remote work.

### Operational emissions

During 2020, our Scope 1 greenhouse gas emissions were approximately 209,421 tonnes, or 41.2kg/bbl on an intensity basis. This compared to 145,388 tonnes and 48.0kg/bbl in 2019, when the Lancaster field was only producing for 7 months. Our 2019 greenhouse gas emissions have been restated to include emissions from logistical support to the FPSO, in line with the OGUK definition, and expanded to include other greenhouse gases specified by the Kyoto Protocol.

In particular, 10% of our CO<sub>2</sub> emissions in 2020 were from diesel consumption, down from 20% in 2019 following successful commissioning of the FPSO's fuel gas compressor and gas turbine generators. We will continue to look at ways of further reducing this figure in 2021 and beyond.

Previously, the tie-back of a well from the GWA licence was considered to be the trigger for the requirement to put in place a gas export scheme from our West of Shetland acreage. Long-lead items were acquired in 2019 for this purpose. However, the need for further work on the commercial potential of the GWA licence, allied to the financial constraints on our business, means we are not currently in a position to finance or implement a gas export scheme to significantly reduce our flaring emissions. However, we continue to look at ways of reducing our environmental footprint, whether physically or offsetting our emissions elsewhere. We remain fully cognisant of the increased scrutiny and oversight in this area.

### Reserves and Contingent Resources

While the Lancaster field EPS was developed on time and on budget with first production achieved in May 2019, the field has significantly underperformed pre-production expectations. As a result, a full technical review of the Lancaster field and the Company's wider West of Shetland portfolio was commissioned in June 2020. In September 2020, the initial findings of this review were announced, resulting in a material downgrade to the Reserves and Contingent Resources for the Lancaster field (compared to the May 2017 RPS Energy Lancaster CPR) as a consequence of a significantly shallower OWC than previously thought, consistent with higher water production and more rapid pressure decline than originally anticipated.

The Contingent Resources associated with the Lincoln discovery were also downgraded (compared to the December 2017 RPS Energy West of Shetland CPR). This followed an

extensive review of the 2019 drilling data and re-interpretation of seismic in light of the updated assessment of Lancaster, in particular that hydrocarbon columns are likely limited to local structural closures.

To provide an independent assessment of the Company's assets, ERC Equipoise was appointed as the Company's Independent Competent Person and Reserves auditor in November 2020. ERCE's CPR was published in April 2021, with the analysis and conclusions broadly consistent with the initial findings of the technical review in September 2020.

The revised interpretation of the Lancaster oil water contact also triggered a review of the Halifax historical data set and assumptions. No Contingent Resources were attributed by ERCE to the Halifax well drilled in 2017.

ERCE's estimates of Lancaster field Reserves, and the Contingent Resources estimated for Lancaster and the Lincoln and Warwick Crest discoveries are detailed in the tables on the following page. ERCE's work was prepared in accordance with the June 2018 Petroleum Resources Management System (PRMS) as the standard for classification and reporting with an effective date of 31 December 2020.

The Company's ability to monetise its Contingent Resources will require further technical appraisal, a commercially viable development plan to be agreed, sufficient additional funding for further appraisal and development, and regulatory, partner and Bondholder consents. The funding of any appraisal and/or development activity, and the Company's financial planning more broadly, needs to consider the Company's existing financial and contractual obligations, such as decommissioning and costs associated with the charter of the Aoka Mizu.

The Lincoln and Warwick Crest discoveries on the GWA licence are at an early stage of appraisal. While the Lincoln 205/26b-14 well flowed at approximately 9,800 bopd on test using an ESP in 2019 with a productivity index (PI) of 18 stb/d/psi, there remains significant uncertainty over future reservoir performance, and an appraisal programme to refine reservoir parameters would be required to better assess the potential for Lincoln's Reserves and commerciality. Ahead of any such appraisal plan, the Company has a regulatory commitment to plug and abandon the Lincoln 205/26b-14 well by 31 October 2021 as described above.

The Warwick Crest discovery well flowed at approximately 2,000 bopd in 2019 on test using an ESP with a PI of 3 stb/d/psi. The Company considers that such a rate and PI is significantly below the level which would support a commercial development. An appraisal programme would be required to further refine the reservoir parameters of the Warwick Crest discovery, demonstrate increased flow rates and a higher PI and establish the potential for commerciality.

The potential GWA licence appraisal activity described above would involve a significant financial commitment for Hurricane before any assessment of commerciality can be made, which the Company may not be able to fund. As a result of this funding uncertainty and the early stage of appraisal, there is currently no reasonable expectation that the Lincoln and Warwick Crest discoveries could generate any meaningful near-term cash realisation. The GWA JV partners will continue to evaluate and consider all options for the licence going forward.

### ERCE's estimates of Reserves for the Lancaster field at 31 December 2020

(MMbbl)	Gross			Net attributable to Hurricane		
	1P	2P	3P	1P	2P	3P
Developed Reserves <sup>1</sup>	3.3	7.1	10.8	3.3	7.1	10.8

#### Notes:

- In determining the economic Reserves for the Lancaster field, ERCE has assumed a Brent oil price of US\$50/bbl in 2021, US\$53/bbl in 2022, US\$55/bbl in 2023 and US\$56/bbl in 2024 and thereafter in real terms. Prices are escalated at 2.0% per annum inflation.

### ERCE's estimates of Contingent Resources for the Lancaster field at 31 December 2020

(MMbbl)	Gross			Net attributable to Hurricane		
	1C	2C	3C	1C	2C	3C
Contingent Resources, Development Pending (P8 well) <sup>1,2</sup>	4.0	3.2	1.9	4.0	3.2	1.9
Contingent Resources, Development Unclarified <sup>3</sup>	11.8	34.7	87.1	11.8	34.7	87.1
<b>Total</b>	<b>15.8</b>	<b>37.9</b>	<b>89.0</b>	<b>15.8</b>	<b>37.9</b>	<b>89.0</b>

#### Notes:

- The P8 well is the proposed side-track of the existing 205/21a-7z well, which the Company is considering drilling in 2022.
- Incremental resources are computed by the subtraction of the Reserves estimates for Lancaster from estimates of future recoverable volumes from the combined activity of the 205/21-6 (P6) and P8 wells. As the forecasts for the combined activity of the P6 and P8 wells both accelerate production and add additional resources, the incremental resources associated with the P8 well decrease as the Reserves attributed to the Lancaster field increase.
- Contingent Resources, development unclarified, assume water injection is implemented as part of any further development.

### ERCE's estimates of Contingent Resources for the Lincoln field at 31 December 2020

(MMbbl)	Gross			Net attributable to Hurricane		
	1C	2C	3C	1C	2C	3C
Contingent Resources, Development Unclarified <sup>1,2</sup>	17.4	36.9	79.8	8.7	18.5	39.9
<b>Total</b>	<b>17.4</b>	<b>36.9</b>	<b>79.8</b>	<b>8.7</b>	<b>18.5</b>	<b>39.9</b>

#### Notes:

- Contingent Resources, Development Unclarified, assume water injection is implemented as part of any development.
- Net attributable figures are rounded to one decimal point.

### ERCE's estimates of Contingent Resources for the Warwick Crest field at 31 December 2020

(MMbbl)	Gross			Net attributable to Hurricane		
	1C	2C	3C	1C	2C	3C
Contingent Resources, Development Unclarified <sup>1,2</sup>	19.6	50.9	128.9	9.8	25.5	64.5
<b>Total</b>	<b>19.6</b>	<b>50.9</b>	<b>128.9</b>	<b>9.8</b>	<b>25.5</b>	<b>64.5</b>

#### Notes:

- Contingent Resources, Development Unclarified, assume water injection is implemented as part of any development.
- Net attributable figures are rounded to one decimal point.

## Steve Holmes

Chief Operations Officer

# Financial discipline amidst the challenges



**Richard Chaffe**  
Chief Financial Officer

## Overview

2020 was a year when Hurricane had to focus on financial discipline, on both the operating and capital side, amidst the challenges of COVID-19, macroeconomic environment and the underperformance of the Lancaster field.

Despite the historic low oil prices seen across the period, and the reduced performance of the Lancaster wells, over 5.1 million barrels of Lancaster crude were sold across 12 cargoes, generating \$180 million in revenue. The Group was still able to generate positive cash flow from operations of \$80 million, thanks to the low operating costs and production efficiency of the Lancaster EPS. It is also testament to Hurricane's employees and key Tier 1 contractors that despite the ongoing impacts of COVID-19 there was minimal disruption to operations and business both offshore and onshore. Alongside operations at Lancaster, work continued on our joint venture with Spirit, including the build out of previously committed long-lead items for, and planning of, a potential future GWA tie-back and other studies to better understand the regional hydrocarbon potential.

The statutory loss for the year was driven by significant non-cash asset impairments relating to Lancaster (\$519.2 million), where reduced performance of the Lancaster well, combined with the more volatile oil price environment and uncertainty over future work programmes has materially reduced future expected cash flows from the asset; and Halifax (\$35.4 million), as a result of the 2021 CPR attributing no Reserves or Contingent Resources to the area.

The Group incurred \$62.0 million of cash capital expenditure (primarily on items and projects already committed to prior to the impact of COVID-19), ending the year with \$111.4 million of net free cash<sup>†</sup>.

Although Hurricane closed the year with a strong net free cash<sup>†</sup> position, the reduced Reserves estimates and production outlook as a result of the revised understanding of the Lancaster field has significantly reduced potential future cash flows from the field,

and consequently current financial projections show the Company will not be in a position to repay its \$230 million of Convertible Bond debt at maturity in July 2022. As such, Hurricane entered into a period of stakeholder engagement with regards to funding of future projects, support for development options, and repayment of the Convertible Bond debt. In April 2021, Hurricane entered into a lock-up agreement with an ad hoc group of its Bondholders in order to secure their support for a proposed financial restructuring that will deleverage the balance sheet, enhance Hurricane's liquidity position, reduce the amount of debt repayable upon maturity of the Convertible Bonds and extend its debt maturity profile. If duly approved and implemented, the proposed financial restructuring is expected to take effect in June 2021 and will result in significant dilution for existing shareholders, a difficult, but necessary decision to support the financial future of the company.

As at the date of this report, the proposed financial restructuring is an ongoing process and is subject, inter alia, to the approval of the requisite majority (in value) of Bondholders and the sanction of the High Court of Justice. There will also be a Court-convened meeting of shareholders to vote on the proposed financial restructuring. The Company will continue to publish announcements regarding the progress of the proposed financial restructuring at appropriate points in the process.

## Revenue

Revenue recognised for the year was \$180.1 million, with an average realised price of \$35.2/bbl across 12 cargoes (comprising 5.1 million barrels). Whilst the average Dated Brent price for the year was \$41.7/bbl, under the sales and marketing agreement Hurricane has in place with BP, the sale of Lancaster crude is priced at the average of either the first or last five days of the month of lifting (at the buyer's option). In volatile pricing environments, such as was seen during the unprecedented months in H1 2020, this meant that the contracted Dated Brent price



was typically lower than the spot price at date of sale.

After taking into account this timing and volatility impact, the remaining discount to the contractual Brent price was \$2.9/bbl (2019: \$3.1/bbl), representing the discount or premium offered by the refinery purchasing the crude, BP's marketing fee, and freight and other necessary costs incurred by BP in transporting Lancaster crude to its ultimate destination. The refinery discounts experienced saw significant variability during the first half of 2020 amid a highly volatile crude market. With all cargoes sold to date having been on time, within specification and contractual terms, Hurricane has a growing reputation as a reliable producer.

### Cost of sales

Total cost of sales was \$179.8 million, including \$96.6 million of non-cash depreciation charges. Cash production costs<sup>†</sup> (which exclude depreciation and accounting movements in inventory but include the fixed lease charges for the Aoka Mizu) were \$90.6 million (2019: \$66.0 million), equivalent to \$17.9/bbl (2019: \$21.8/bbl).

The decrease in cash production costs per barrel was partly due to the revenue-linked incentive tariff for the Aoka Mizu (whereby a reduction in realised sales prices results in a direct reduction in production costs, partially reducing oil price risk exposure to the Group). Excluding the incentive tariff, cash production costs reduced from \$16.7/bbl in 2019 to \$14.6/bbl in 2020, driven by higher average production rates in 2020 and cost reductions across operations.

### Impairment of oil and gas assets

As a result of the downwards revision of estimated Reserves announced in September 2020 (which were refined and revised by ERCE in the April 2021 CPR), revised production forecasts following the shut in of well P7z, and the more uncertain outlook for oil prices, a non-cash impairment charge of \$519.2 million was recognised against the Lancaster oil and gas assets. This charge was estimated using the best estimate of future cash flows that could be generated from Lancaster, using a probability weighted expected value approach which took into account the fact that a no further activity case was most likely, and that any investment cases to significantly enhance production through new wells would require Bondholder approval, should the proposed financial restructuring complete. These estimates

## Highlights

	2020	2019
Production	<b>5,078 Mbbbl</b>	3,030 Mbbbl
Production rate <sup>1</sup>	<b>13,900 bopd</b>	12,900 bopd
Sales volumes	<b>5,112 Mbbbl</b>	2,874 Mbbbl
Revenue	<b>\$180.1m</b>	\$170.3m
Average sales price realised	<b>\$35.2/bbl</b>	\$59.3/bbl
Cash production cost per barrel <sup>†</sup>	<b>\$17.9/bbl</b>	\$21.8/bbl
Operating cash flow	<b>\$80.2m</b>	\$112.2m
Closing net free cash <sup>†</sup>	<b>\$111.4m</b>	\$133.6m
Net debt <sup>†</sup>	<b>\$118.6m</b>	\$96.4m
Underlying (loss)/profit before tax <sup>†</sup>	<b>\$(36.0)m</b>	\$30.0m
Statutory (loss)/profit after tax	<b>\$(625.3)m</b>	\$58.7m

<sup>1</sup> Rounded to nearest 100 bopd; 2019 rates calculated from First Oil in 2019.

<sup>†</sup> Non-IFRS measures. See Appendix B to the Financial Statements for definition and reconciliation to nearest equivalent statutory IFRS measures.

also included management's own forecasts of production rates using reservoir simulation models. For further details on the impairment charge, key assumptions and methodology used see note 2.3.1 to the Financial Statements. These estimates and assumptions are subject to risk and uncertainty, and therefore changes to external factors and internal developments and plans (including the sanction or otherwise of any work programme, the timing thereof, oil prices, and any other intervening developments) have the ability to significantly impact these projections, which could lead to additional impairments or reversals in future periods.

### Impairment of intangible assets

Following the conclusion of the Group's technical review and publication of the 2021 CPR, a non-cash charge of \$35.4 million was recognised to fully impair the carrying value of the Halifax well. The CPR did not attribute any Reserves or Contingent Resources to Halifax, nor does the Group have any current plans or budgets for substantive expenditure on further exploration or evaluation on this licence. Impairments and write-offs of intangible exploration and intangible assets included \$12.1 million relating to Hurricane's share of idle hire costs for the Paul B Loyd Jr rig, which was contracted in anticipation of GWA drilling and/or well abandonment activity in 2020. Following the extension of consents to plug and abandon the 205/26b-

14 Lincoln well from 2020 into 2021, and an extension of the consent to commence drilling the GWA commitment well to 30 June 2022, the JV partners took the decision to terminate the hire of the rig in May 2020 and settle the remaining minimum hire costs with the rig operator.

### Other profit and loss

General and administrative costs (G&A) increased from \$0.4 million in 2019 to \$4.2 million in 2020. Excluding the impact of non-cash charges, net G&A before non-cash items decreased from \$3.0 million to \$2.9 million primarily due to more staff and administrative costs now included within cost of sales with 2020 representing the first full year of operations, partially offset by an increase in professional fees included within non-staff costs as we entered into a period of discussion with key stakeholders towards the end of the year.

Net finance costs increased from \$21.5 million in 2019 to \$35.5 million in 2020, driven by the cessation of interest capitalisation and the commencement of lease interest recognised effective at the date of First Oil in May 2019, and the cost of hedging options purchased in 2020 (see 'Hedging' on next page).

## Chief Financial Officer's Review *continued*

### Convertible Bond accounting

The accounting for the Convertible Bond required the recognition of an embedded derivative liability related to the equity conversion option, with the liability effectively representing the value to Bondholders of the conversion option at the balance sheet date. The fair value of the embedded derivative is valued using an option pricing model, with the key inputs being the Company's share price and its share price volatility. Any decrease in the liability creates a corresponding non-cash credit in the income statement. See note 5.1 to the Financial Statements for further details.

The fair value gain recognised during the year in relation to the embedded derivative was \$35.4 million (2019: \$34.7 million gain), primarily driven by decreases in the Company's share price.

The gains recognised in the year do not have any impact on the Group's cash position, amounts payable in respect of the Convertible Bond, or on its tax position. Upon conversion or repayment of the Convertible Bonds (or should the proposed financial restructuring be implemented), the derivative liability will be released to the Income Statement. Should the conversion rights not be exercised (for example, as a result of the proposed financial restructuring), a taxable gain of \$39.0 million would arise (being the amount of the embedded derivative initially recognised on issuing the Convertible Bonds in 2017) – see note 6.3 to the Financial Statements.

### Hedging

In June 2020, Hurricane hedged a portion of its forecast production for the second half of 2020. A total of 1.8 MMbbls (equivalent to c.10,000 bopd), was hedged through the purchase of put options with an average strike price of \$35/bbl (Dated Brent). The average strike price of \$35/bbl represented a floor for the hedged volumes with Hurricane retaining any upside in oil prices above this level. The cost of acquiring the put options was \$3.4 million, and the options expired out of the money in December 2020. Under the terms of the proposed financial restructuring, so long as the Amended Bonds remain outstanding, the Group will not be permitted to enter into any further oil price hedging contracts.

### Cash flow

The Group ended the year with \$111.4 million of net free cash<sup>†</sup> a decrease of \$22.2 million from the position at 31 December 2019.

Even with oil prices falling to historic lows during the year and production being lower than expectations due to reservoir performance issues and shut-in of the 205/21a-7z well for over half of the year, the Lancaster EPS was still able to be cash generative, contributing cash per barrel (before working capital movements) of \$17.4/bbl (2019: \$37.5/bbl).

Other operating cash outflows included \$3.4 million for the purchase of term put options and \$2.1 million on plugging and abandoning the previously suspended Halifax

and Whirlwind wells. After adjusting for movements in working capital, the Group's operating cash inflow for the year amounted to \$80.2 million.

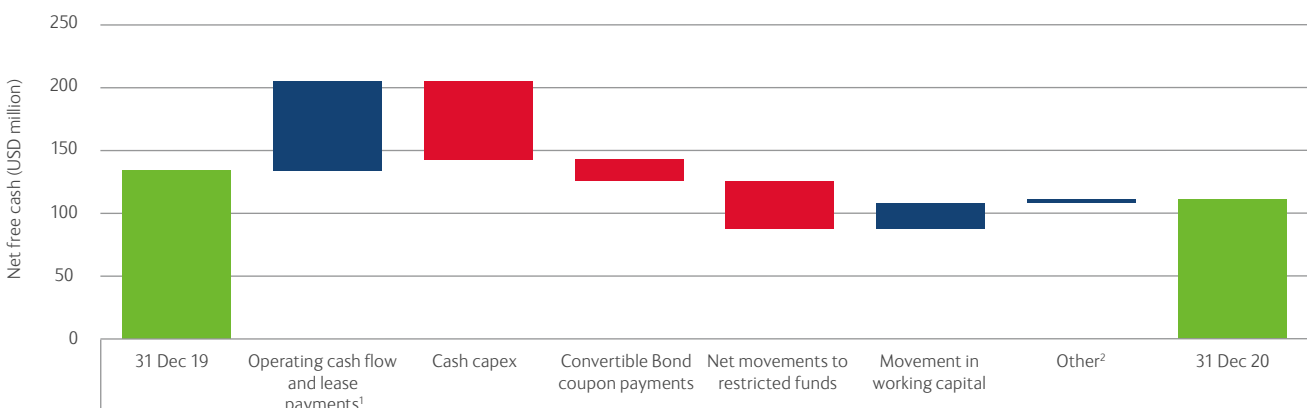
Cash capital expenditure in the period was \$62.0 million reflecting, in the most part, items previously committed to or capital expenditure required to meet work obligations under the Group's licences. Expenditure on GLA activities related to preparations for gas export work, long-lead items in preparation for future drilling activity, and the cost of scoping production enhancement opportunities for the Lancaster field (including a possible water injector and a sidetrack of the existing 205/21a-7z well). Net cash outflows relating to GWA represented the Group's share of its costs of the joint operation, including long-lead items and FPSO enhancements relating to a potential future GWA tie-back, long-lead items for the GWA commitment well and idle rig costs of the Paul B Loyd Jr (see above).

Financing outflows of \$26.8 million mainly included \$17.3 million for coupon payments of the Convertible Bond and the fixed lease repayments primarily for the Aoka Mizu.

### Restricted funds

As of 31 December 2020, the Group held \$51.6 million of cash and liquid investments within restricted funds, relating to FPSO early termination fees and decommissioning security arrangements.

### Net free cash<sup>†</sup> bridge



<sup>1</sup> Being cash generated from operations less fixed lease repayments.

<sup>2</sup> Includes cash interest received, FX movements and employee share schemes.

<sup>†</sup> Net free cash is a non-IFRS measure. See Appendix B to the Financial Statements for definition and reconciliation to nearest equivalent statutory IFRS measure(s).

Following start-up of production from the EPS, the Group is required to set aside a contractually determined amount of cash generated from oil sales to cover a proportion of the termination costs of the FPSO lease should the Group wish to exit the charter outside of contractual option periods. The balance classified as restricted cash under this arrangement was \$26.5 million (31 December 2019: \$11.1 million).

As part of the original Lancaster Field Development Plan approval, Hurricane was required to provide security for its decommissioning liability on the Lancaster field on a post-tax basis. This had been satisfied by way of a decommissioning bond since February 2019. However, following the fall in oil prices in H1 2020 and the downward revision to the Lancaster field's Reserves, the bond provider requested Hurricane provide cash collateral for the entire bond value. As this would provide no benefit to Hurricane, the decommissioning bond was terminated by mutual agreement in October 2020, and has now reverted to the arrangement in place prior to the decommissioning bond structure, whereby £16.8 million (\$22.8 million) of cash security is held in trust in order to continue meeting the obligation to provide post-tax security for the estimated cost of decommissioning the production wells, subsea infrastructure and related FPSO costs for the Lancaster Early Production System. In April 2021, the regulator formally notified the Group of its intention to request an increase to the amount of decommissioning security for the Lancaster field, so that it is lodged on a pre-tax basis. Once completed, this will result in an additional £11.2 million being placed into escrow and classified as restricted cash, expected to occur in June 2021.

### Decommissioning

The Group holds provisions totalling \$61.2 million for the anticipated cost of decommissioning its suspended and producing wells and associated infrastructure. Current provisions comprise the cost of plugging and abandoning the Lincoln 205/26b-14 and the suspended Lancaster 205/21a-4z well. The estimated cost of decommissioning the Lincoln

205/26b-14 well is \$13 million, of which Hurricane will bear 50%, and is required to be plugged and abandoned by 31 October 2021. Non-current provisions represent the estimated cost of plugging and abandoning the producing Lancaster P6 and P7z wells, removing the associated subsea infrastructure and related FPSO costs. As at 31 December 2020, £16.8 million (\$22.8 million) of cash was held in trust under decommissioning security agreements in respect of the Lancaster EPS with an additional £11.2 million (\$15.7 million) expected to be added into trust in June 2021 (see 'Restricted funds' above). During the year the Halifax and Whirlwind wells were successfully plugged and abandoned at a cost of \$2.1 million.

### Tax

The Group recognised a total tax charge for 2020 of \$54.2 million, all of which related to deferred tax and was non-cash. At 31 December 2019, following commencement of production from the Lancaster EPS and estimates of future taxable profits, a deferred tax asset and corresponding deferred tax credit of \$54.3 million was recognised in respect of trading losses accumulated to date. As a result of the 2021 CPR and technical review (and associated impairment of assets) estimates of future taxable profits have been revised downwards meaning that it is now not forecast that there will be sufficient future taxable profits against which to offset all of these tax losses. The deferred tax asset has therefore been written down to the estimated amount of recoverable tax losses, resulting in a net non-cash tax charge of \$54.2 million in the year.

### Tax losses

Due to the nature of the Group's business, it has accumulated significant tax losses since incorporation. The Group has \$468.7 million of ring-fenced trading losses and other allowances and supplementary charge losses of \$707.8 million, which have no expiry date and would be available for offset against future trading profits, and \$383.5 million of capital allowances available against future ring-fenced trading profits. The Group also has pre-trading expenditure of \$119.3 million,

for which tax relief may be available should the Group's remaining licences reach the development stage.

### Brexit

Management continues to monitor the impact of the UK's withdrawal from the European Union, which took effect from 31 January 2020, although in some instances there is still effectively a transition period until June 2021 (with respect to customs protocols and visa requirements). Some changes have been made to manifest and shipping processes to reflect known requirements. Firm decisions or guidance regarding final requirements remain subject to change; however, to date, the Group has not experienced any significant delays to goods or increased tariffs. As the overall proportion of EU-sourced suppliers is not significant, the Group's licences and activities are entirely based within the UK, and all crude oil sales are made to a UK customer; the Group therefore does not consider the ongoing implications of Brexit to be a significant risk. Management continue to monitor and engage with industry to ensure the Group is best placed to meet any new requirements as and when these are known.

### Going concern and viability

The directors have considered both the going concern and viability of the Group, including the risks arising from COVID-19. Assuming approval and implementation of the proposed financial restructuring, the directors have a reasonable expectation that the Group will continue in operational existence throughout the going concern period. However, as approval and implementation of the proposed financial restructuring is outside of the Group's control, there is a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern. For further details and analysis, see the Going Concern and Viability section of the Strategic Report.

**Richard Chaffe**  
Chief Financial Officer

# Working responsibly

Our approach to ESG considers the expectations of our key stakeholder groups, our shareholders and stakeholders, and our employees as well as the material issues for the sector.

In our standalone 2020 ESG Report, which will be published later in 2021, we will 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.

## Stakeholder engagement

The adverse operational performance at Lancaster during 2020 and associated Reserves downgrade has significantly reduced potential future cash flows from the field, and current financial projections show the Company will not be in a position to repay its \$230 million of Convertible Bond debt at maturity in July 2022.

As a result, the Company conducted, with its advisers, a thorough review of the various alternatives to address its financial position and carefully considered the likely consequences for the Company and all of its stakeholders, including shareholders, where possible, of those alternatives.

During this review Hurricane also consulted, when possible, with key stakeholders. On several occasions in late 2020 and early 2021 prior to the announcement of the proposed financial restructuring, the Company disclosed the possible impact on shareholders of any potential transaction to address its debt profile, including the risk of dilution to existing shareholders from a possible restructuring and/or partial equitisation of the convertible bonds.

## Our approach to working responsibly

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, where possible, working in partnership with all our stakeholders, relevant third parties and other companies and developing long-term relationships that will strengthen our business and help us achieve our objectives.

## Scope and boundaries

When our standalone 2020 ESG report is issued later this year, it will report on those assets and activities over which we had control in terms of ESG policies and practices throughout 2020. This covers our offshore and logistics operations on the UKCS and our offices in Surrey and Aberdeen.

## Identifying our stakeholders

We identify our stakeholders 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 on pages 10 to 11.

### Our stakeholder groups include:

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

## Identifying our material topics

It is important to understand the most important topics that impact and influence the business, to guide strategy and decision making. During the year, we undertook a desktop review of our relevant 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.

## 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.

## How we engage with stakeholders on ESG matters

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; and
- informal proactive consultations with governmental and non-governmental organisations.

We seek the input of external stakeholders for our materiality assessment every two years. Further information about our 2020 internal materiality assessment will be found in our standalone ESG report when it is published later this year.

## 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 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 CEO, 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;
- People Policy;
- Environmental Policy;
- Assurance Policy;
- Ethics Policy; and
- 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.

A copy of our latest Modern Slavery Policy can be found on our website and includes online training. This has been completed by all directors, employees and relevant third-party individuals. The policy is reviewed on an annual basis.

## 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 Company's environmental stewardship including the impact of climate change in its oversight of the Company's strategy. We support the Task Force on Climate-related Financial Disclosures (TCFD) and we have set out our inaugural disclosures against the TCFD framework in the ESG Report.

We recognise that society is transitioning towards a low-carbon future, and we support this goal. Even in the most ambitious scenarios we believe that petroleum must nonetheless play an important role in the global economy for decades to come, and new sources of petroleum supply will be required for a sustainable energy transition. We can contribute to the energy transition by reducing the greenhouse gas footprint of our operations where it is financially, commercially and logistically feasible to do so.

Our analysis of the risks posed by climate change and energy transition is provided in the Principal Risks and Uncertainties section on page 21 and within the standalone 2020 ESG Report when it is published later this year.

## Board approval of Strategic Report

This Strategic Report was approved by the Board on 24 May 2021 and signed on its behalf by:

**Antony Maris**  
Chief Executive Officer



## Board of Directors



**Steven McTiernan**  
Chairman

**Age:** 70

**Tenure:** Steven McTiernan was appointed Chairman of the Board on 1 May 2018.

**Experience:** Steven McTiernan has over 47 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 McTiernan is currently Chairman of Kenmare Resources plc, a FTSE-listed mineral sands mining company.

**Committee membership:**



**Antony Maris**  
Chief Executive Officer

**Age:** 60

**Tenure:** Antony Maris joined the Board as CEO designate on 21 August 2020 and transitioned into the role of CEO on 11 September 2020.

**Experience:** Antony Maris brings over 36 years of wide-ranging oil and gas sector technical and business leadership experience to Hurricane. Prior to his appointment as CEO, he spent 15 years with Pharos Energy plc (previously SOCO International plc) where he was COO from 2012 to early 2020. In this role, he was responsible for the development and operation of several oilfields, in joint venture with local and other parties, including fractured basement reservoirs offshore Vietnam and onshore Yemen. Pharos Energy's Vietnam assets, which delivered 60,000 bopd gross peak volumes, contributed significantly to Vietnam's overall hydrocarbon output. He was awarded the Friendship Order Medal by the Vietnam Government for his significant contribution to exploration and production activities.

Previously, Antony Maris worked in a variety of engineering, commercial and management roles with Consort Resources Limited, LASMO plc, Monument Oil and Gas plc, and Phillips Petroleum. He holds a B.Sc. in Petroleum Engineering and an MBA.

Antony Maris does not hold any external appointments.



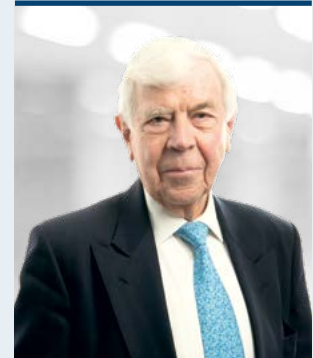
**Richard Chaffe**  
Chief Financial Officer

**Age:** 43

**Tenure:** Richard Chaffe joined Hurricane as Head of Finance in 2016. He became Acting CFO in February 2020, following the departure of Alistair Stobie. On 8 June 2020, the Company announced his appointment as CFO and Director.

**Experience:** Richard Chaffe is a Chartered Accountant with over 11 years' experience in the industry in the UK. Before joining Hurricane as Head of Finance, he was Finance Director of the UK subsidiary of EOG Resources Inc., an independent oil and gas exploration and production company with a market value of over \$35 billion. Prior to this, he worked for Ernst & Young for nine years, split between client facing work and working as part of an audit quality team within the London office.

Richard Chaffe does not hold any external appointments.



**Dr David Jenkins**  
Senior Independent Director

**Age:** 82

**Tenure:** Dr David Jenkins joined the Board on 8 March 2013.

**Experience:** David Jenkins 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.

Apart from the Hurricane appointment, David Jenkins does not hold any external appointments.

**Committee membership:**





**Sandy Shaw**  
Independent  
non-executive director

**Age:** 67

**Tenure:** Sandy Shaw joined the Board on 3 January 2019.

**Experience:** Sandy Shaw has over 40 years' oil and gas industry experience, focussed on legal and commercial roles. From 2008 until its takeover in 2013, Sandy Shaw 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 Shaw is currently a non-executive director and chair of remuneration committee of Velocys plc, an AIM-quoted sustainable fuels technology company.

**Committee membership:**



**Beverley Smith**  
Independent  
non-executive director

**Age:** 55

**Tenure:** Beverley Smith joined the Board on 20 December 2019.

**Experience:** Beverley Smith is a Chartered Geologist with 31 years' experience in the upstream oil and gas sector, mostly gained with BG Group. Beverley Smith was Vice President Exploration & Growth for Europe in her final role at BG Group where she provided strategic leadership to one of the largest exploration assets. Prior roles included management of exploration and development activities in the UK, China, Algeria and Trinidad with fractured basement experience in Yemen and fractured carbonates in Tunisia.

Beverley Smith is currently a non-executive director of Touchstone Exploration Inc., a trustee for the Etches Collection at the Kimmeridge Trust, and past President of the Petroleum Exploration Society of Great Britain.

**Committee membership:**



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

**Age:** 66

**Tenure:** John van der Welle joined the Board on 8 March 2013.



**Experience:** John van der Welle has over 31 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 van der Welle 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 van der Welle has worked as a consultant and as a non-executive director of a number of listed E&P companies.

John van der Welle is currently the Chairman of Global Petroleum Limited, an AIM-listed E&P company.

**Committee membership:**



## Key to committee membership

-  Audit and Risk Committee
-  Remuneration Committee
-  Nominations Committee
-  Environmental, Social and Governance Committee
-  Technical Committee
-  Committee Chair

Board of Directors *continued***Changes to the Board composition during the year in review**

When	What happened
27 February 2020	Alistair Stobie resigned as CFO and a director of the Company by mutual agreement with the Board. Richard Chaffe, the then Finance Director, assumed the role of Interim CFO.
8 June 2020	Robert Trice resigned as CEO and a director of the Company by mutual agreement with the Board. Beverley Smith assumed the role of Interim CEO. Roy Kelly, Kerogen Capital's shareholder director, resigned from Board and moved on from Kerogen Capital. He was replaced by Dr Alan Parsley. Jason Cheng also resigned from his Alternate Director position in relation to Kerogen's nominated director. The Company announced the appointment of Richard Chaffe as CFO and director of the Company.
6 July 2020	The Company announced the unfortunate passing of Neil Platt. The Board appointed Steve Holmes as Interim COO and on 9 September appointed him as the COO. Whilst an executive position this was not a Board appointment.
21 August 2020	The Board announced the appointment of Antony Maris as an executive director of the Company and CEO designate.
11 September 2020	Beverley Smith returned to the role of non-executive director and took the role of Chair of the Technical Committee. Antony Maris transitioned to the role of CEO.
23 September 2020	The Company announced the resignation of Dr Alan Parsley, non-executive Director, who was Kerogen Capital's shareholder director pursuant to the relationship deed signed in 2016 and Leonard Tao, alternate director to Dr Alan Parsley.

# Governance report

Chairman's letter



**Steven McTiernan**  
Chairman

## Dear Shareholders,

We faced unprecedented challenges in 2020 both from the impact of the COVID-19 pandemic on our business and the general operating environment, and from major corporate challenges specific to Hurricane. Nonetheless, your Board has continued to strive for high standards of board and corporate governance, beyond the standards for AIM Rules for Companies ensuring fullest transparency and compliance with our regulatory requirements.

## Board and organisational succession

Significant organisational changes have taken place both at executive director level and within critical technical units during 2020, following a Board evaluation process and in light of unfolding events during the first half of the year.

Alistair Stobie resigned as Chief Financial Officer and a director by mutual consent with the Board as announced on 27 February, at which date Richard Chaffe took on the role of Interim CFO having previously held the role of Head of Finance and Finance Director in the Company. Richard Chaffe was confirmed as CFO and a director in June.

After over sixteen years in the Company, Robert Trice, Chief Executive and founder of Hurricane Energy plc, resigned by mutual consent with the Board. Following Robert Trice's departure, the Board was most grateful that Beverley Smith was prepared to take on the role of Interim CEO, in a temporary shift from her previous non-executive role. As Interim CEO, Beverley Smith ably led the technical review announced in June, culminating in the statement on a reduction in Reserves and Contingent Resources in September.

During that period, your Board undertook a search process for a permanent CEO, as outlined on pages 55 and 56, which resulted in the appointment of Antony Maris as CEO designate and director on 21 August 2020. Antony Maris brought over 36 years of outstanding oil and gas technical and business leadership which includes substantial experience with fractured basement reservoirs, which is unusual even in a global context, and hugely beneficial to the Company.

Antony Maris was confirmed as CEO on 11 September, at which time Beverley Smith returned to her non-executive role. The Board would like to thank Beverley Smith for her commitment and exemplary leadership during a difficult and critical period for the Company.

It was with great sadness that we announced the unfortunate passing of Neil Platt, on 6 July, Neil had been a highly effective COO for seven years. Neil Platt was a tremendously respected colleague, and his passion, enthusiasm and technical excellence were integral to Hurricane's growth over the past decade. In particular, his leadership was pivotal to the successful delivery and operation of the Lancaster EPS. We were deeply saddened by this grievous loss. It was a great privilege to have known Neil Platt personally and to work with him these last few years. Steve Holmes assumed the role of Interim COO, having previously had the role of Production Operations Director in the Company for over a year. Steve Holmes was subsequently appointed COO on 9 September 2020, an executive position though not a Board appointment.

Roy Kelly, who had been the Kerogen Capital nominated non-executive director since 2016, resigned from the Board and moved on from Kerogen Capital on 8 June. Roy Kelly was replaced by Dr Alan Parsley. Jason Cheng also resigned from his Alternate Director role. Dr Alan Parsley, Kerogen Capital's Shareholder Director pursuant to the Relationship Deed signed in 2016, resigned from the Board on 23 September 2020. Leonard Tao, Alternate Director to Dr Parsley, resigned on the same date. Kerogen Capital, our largest shareholder, retains the right to appoint a director to the Board.

## Governance and the Board

The Board has overall responsibility for setting the Company's strategic aims, defining the business plan and strategy and managing the financial and operational resources of the Company. The delivery and implementation of the business plan and strategy resides with the executive directors and the executive team (senior management) who in turn are supported by a range of functional teams, and external service providers as required.

To implement the business strategy, the Company has adopted a corporate governance structure which strives to meet the highest standards, above and beyond those required to meet AIM rules. In so far as is practicable, the Board has complied with the 2018 UK Corporate Governance Code (2018 UK Code) even though as an AIM listed (as opposed to premium listed) company, the Company is not required to comply with the Code. As part of the proposed financial restructuring, the Company will adopt the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Companies Alliance, (QCA Corporate Governance Code), which sets out similarly high standards of corporate governance.

## Governance report *continued*

Chairman's letter *continued*

### Governance and the Board *continued*

Companies are increasingly judged on governance standards, integrity and sustainability as much as financial performance. One of my key responsibilities as Chairman therefore is to set the tone for the Company and ensure that appropriate and fit-for-purpose governance processes and controls are in place and functioning effectively.

In striving to meet the highest standards of governance, I am grateful for the support and guidance of other members of the Board, who have diverse backgrounds and bring a balance of highly relevant skills and experience. Importantly, the whole Board has shown willingness to deliver outstanding commitment in difficult times. I thank them all for their valuable contribution and oversight of the strategic, operational and compliance risks across the Company.

### New Board committees

Critical to improving standards of oversight this year has been the creation of two new formal Board committees which we announced on 8 June.

The Technical Committee was chaired initially by Dr David Jenkins from June until 11 September 2020, and subsequently by Beverley Smith. This committee was established in the first instance to provide oversight of the technical review of geological and reservoir models for the Lancaster field by the new subsurface team, and in the longer term to take overall responsibility for processes and controls in regard to Reserves and Contingent Resources estimation and production forecasts.

The Environmental, Social, and Governance ("ESG") Committee, chaired by Sandy Shaw, was established to oversee and report on the ESG impacts of Company operations. The Board recognises the importance of embedding ESG considerations into Company strategy, to justify our societal licence to operate and improve sustainability, as well as future financial performance.

### Strategic planning and stakeholder engagement

The impact of the COVID-19 pandemic led to a major collapse in oil prices in 2020, seriously impacting the economics of oil production in high-cost areas such as West of Shetland. In addition, after increasing water production from the Lancaster EPS,

oil production during 2020 was less than anticipated. The outcome of the Company's technical review (as reported in the Strategic Report) resulted in significant downgrades in Reserves and Contingent Resources with negative implications for future production from the EPS compared to original expectations.

Regrettably, the review established that (i) the former expectations of success in terms of sustainable levels of oil production from substantial Reserves and Contingent Resources were no longer considered possible; (ii) to continue production from the field, significant expenditure (discussed in the Strategic Report) would be required and, given the financial uncertainties, no decision could be finalised regarding such investment or the impending (June 2021) requirement to notify an extension to the Aoka Mizu charter; therefore (iii) the Group requires a financial restructuring of the Convertible Bonds and a restructuring of its capital structure in order to provide a stable platform upon which it can continue to operate its business.

Working with management and supported by independent advisers, the Board considered various technical and financial options to maximise value for all stakeholders, taking into account the rights of the holders of Convertible Bonds, considering the maturity of the Convertible Bonds in July 2022 and lower than anticipated cashflow generation from the Lancaster EPS. The Company also sought to engage with certain large shareholders in relation to the terms of the proposed financial restructuring. The outcome of this wider process was the proposed financial restructuring announced on 30 April 2021.

Whilst the proposed financial restructuring would result in substantial dilution for current equity holders, it would deleverage the Company's balance sheet, improve its liquidity position, extend its debt maturity profile, and provide a forum for the Company's asset base to be further developed, subject to the support of its creditors. Having carefully and thoroughly considered the alternatives, including the likely consequences of the proposed financial restructuring not being implemented, the Company believes that the outcome of implementing the proposed financial restructuring is likely to be better for the Company, its business and its operations and employees than in the event of managed wind down/liquidation (relevant alternative), and is in the best interests of the Company's

stakeholders taken as a whole. The proposed financial restructuring is expected to take effect in June 2021, subject to the approval of Bondholders and the sanction of the court.

As at the date of this report, the court has also convened a plan meeting of shareholders, at which shareholders will be asked to vote on the proposed financial restructuring. The shareholder plan meeting will take place on 11 June 2021 following the Bondholder plan meeting. The outcome of those plan meetings will be published by the Company shortly after the conclusion of the meetings.

Subject to the outcome of the Bondholder plan meeting, the Company expects the sanction hearing of the court, at which the court will be asked to sanction the proposed restructuring plan, to take place on or around 18 June 2021. The Company will make an announcement regarding the outcome of the sanction hearing as soon as possible after that hearing concludes.

Going forward, the Company will pursue a strategy of maximising cash flow from the existing Lancaster wells and infrastructure in order to pay down debt. In parallel, the Company will continue to explore opportunities for further investment in its West of Shetland asset base, the sanction of which would be subject to Bondholder consent.

### Preparing for the future

The oil and gas industry faces profound regulatory uncertainties in the UK, as the impact of the government's "zero carbon" commitments become more apparent. Oil price volatility continues as the uneven recovery from COVID-19 progresses globally. The Board has had to consider these profound external uncertainties alongside the material technical risks in considering going concern and viability statements on pages 24 to 26.

In previous years, the Company has stated its ambition to seek Premium Listing on the Main Market of the London Stock Exchange. Considering the near-term uncertainties in the business and at a macroeconomic level, it is no longer deemed appropriate to proceed with this ambition.

### Steven McTiernan

Chairman

24 May 2021



## Corporate governance statement

This Governance Report incorporates the reports from the Audit and Risk Committee on page 49, the Nominations Committee on page 55, the ESG Committee on page 58, the Technical Committee on page 60, the Directors' Remuneration Report on page 62 and the Directors' Report on page 82.

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 2020 Annual Report and Group Financial Statements materially in line with the principles and provisions of the 2018 Code, a higher disclosure standard than is required of companies quoted on AIM.

As with previous years we continue to report 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](http://www.frc.org.uk). During the year we have not fully complied with the following provisions of the 2018 Code:

- Principle 2.11 – For two short periods in the summer, totalling less than 60 days less than half of the Board was independent. This was rectified in September when Beverley Smith returned to her non-executive director role. The Board considers Beverley Smith to be independent in judgement and character by her actions. Further information on the Board changes which took place during the year can be found on page 38.
- Principle 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 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.

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

## Governance report *continued*

### Application of the 2018 UK Corporate Governance Code (2018 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

<b>A. The Board's role</b>	<p>The Board is appointed to act on behalf of shareholders and stakeholders to promote the long-term sustainable success of the Company and contribute to wider society and where required by law, in certain circumstances, to consider or act in the interests of creditors. Hurricane's Board members bring a broad range of business skills and extensive relevant experience to the Company.</p> <p>The Board's role is outlined on page 44 in the Annual Report and Accounts and in the Board's Corporate Governance Statement on our website.</p>
<b>B. The Company's purpose, values and strategy</b>	<p>Details of our purpose and values can be found on our website. Information on our strategy can be found in the Strategic Report.</p>
<b>C. Performance measurement, framework of controls and the management of risks</b>	<p>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 established a framework of prudent and effective controls. Further details can be found in the Strategic Report on pages 14 to 23.</p>
<b>D. Shareholder and stakeholder engagement</b>	<p>Details of engagements during the year may be found on pages 10 to 11. The 2021 AGM will be held on 30 June 2021 as a hybrid meeting. In normal circumstances the whole Board is expected to attend the AGM and be available to answer shareholders' questions.</p>
<b>E. Workforce (including employees) policies and practice</b>	<p>The Company has workforce policies and encourages practices consistent with the Company's values.</p> <p>Sandy Shaw is the designated non-executive director for workforce engagement. In this role Sandy Shaw oversees the top-down and bottom up communication between the Board and the employees.</p> <p>Having a designated non-executive director 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.</p> <div style="border: 1px solid red; padding: 5px; margin-top: 10px;"> <p>The policies related to the workforce can be found on our website <a href="http://www.hurricaneenergy.com">www.hurricaneenergy.com</a> including more information about the Company's SeeHearSpeakUp whistle blowing process. &gt;</p> </div>

#### 2. Division of responsibilities

<b>F. Role of the Chairman</b>	<div style="border: 1px solid red; padding: 5px; margin-top: 10px;"> <p>Read more about the role of the Chairman on page 45. &gt;</p> </div>
<b>G. Executive and non-executive directors</b>	<div style="border: 1px solid red; padding: 5px; margin-top: 10px;"> <p>More information about the role of the executive and non-executive directors can be found on page 45. &gt;</p> </div>
<b>H. Time commitment of directors</b>	<p>The time commitments of each non-executive director are considered at appointment by the Nominations Committee and are reviewed annually. The events of 2020 and 2021 have placed a considerable amount of additional pressure on, and increased time commitment from both directors and staff and the Board is thankful for their consistent hard work during this time. There are no directors whose time commitments are considered to be a matter for concern.</p>
<b>I. Provision of support</b>	<div style="border: 1px solid red; padding: 5px; margin-top: 10px;"> <p>More information on the role of the Company Secretary can be found on page 45. &gt;</p> </div>

### 3. Composition, succession and evaluation

<b>J. The Board's composition and appointment</b>	<p>The balance of skills, experience, independence, diversity and knowledge on the Board is the responsibility of the Nominations Committee and is reviewed annually.</p> <p>More information about composition, succession and evaluation can be found in the Nominations Committee Report on page 55 &gt;</p>
<b>K. Board skills, experience, knowledge and length of service</b>	<p>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 Board and committee agendas. All directors have access to the Deloitte Academy and advisers are invited to provide relevant topic briefings.</p> <p>More information about the skills on the Board and length of service can be found on pages 44 and 45. &gt;</p>
<b>L. Board and committee performance and evaluation</b>	<p>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.</p>

### 4. Audit, risk and internal control

<b>M. Policies and procedures relating to the audit function and the integrity of the Financial Statements</b>	<p>Information on the policies and procedures relating to the audit function and the integrity of the Financial Statements can be found in the Audit and risk Committee Report on pages 49 to 54 .</p>
<b>N. Assessment of the Company's position and prospects</b>	<p>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 84 to 94 respectively. Information on the assessment of the Company's position and prospects can be found in the Strategic Report.</p>
<b>O. Risk management and internal controls frameworks</b>	<p>Information on the Company's principal risks and risk management process can be found on pages 14 to 23. Information on the Company's internal controls frameworks can be found in the Audit and Risk Committee Report on page 52. &gt;</p>

### 5. Remuneration

<b>P. Remuneration Policy and packages</b>	<p>Information on the Company's Remuneration Policy can be found on page 74. &gt;</p>
<b>Q. Procedure to develop policy on executive remuneration</b>	<p>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 74 to 81. &gt;</p>
<b>R. The use of discretion</b>	<p>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, any discretion used during the year is disclosed in the Remuneration Report.</p> <p>The Directors' Remuneration Report can be found on page 62. &gt;</p>

# Governance report *continued*

## The governance of the Company

### Role of the Board

The Board is collectively responsible for the long-term success of the Company and is thereby responsible for setting the Group's strategic objectives and ensuring they are properly pursued. In addition, the Board ensures that major business risks are actively monitored and managed, going beyond regulatory compliance, so as to be accountable to all 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 reserved control over certain matters for the Board decision, including:

- strategy and management;
- corporate structure and capital;
- financial reporting and controls;
- major contracts/investments;
- communication;
- Board membership and other appointments;
- delegation of authority;
- remuneration;
- corporate governance (including ESG) 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 five principal committees, Audit and Risk, Nominations, ESG, Technical and Remuneration. Each committee 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.

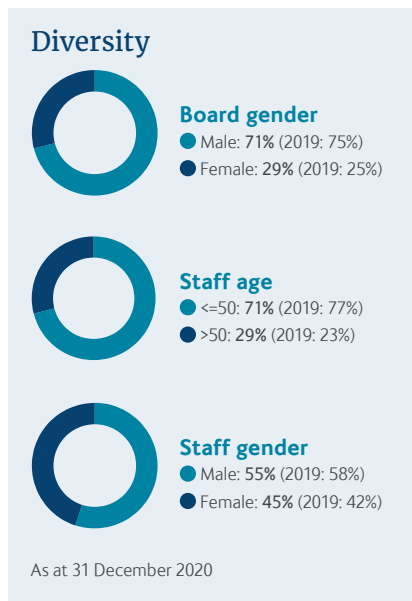
### Board composition

During the year, the Board (with input from the Nominations Committee) discussed and undertook a review of the Board structure, size, balance of skills and composition noting the importance of encouraging a culture of openness and transparency.

The Board has determined that the present composition is sufficient for the purposes of the Group at this time, and is appropriately balanced (in skills and experience) considering the size and operations of the Company.

Currently, the Board is comprised of two executive directors (the CEO and CFO), a non-executive Chairman (independent on appointment) and four Independent non-executive directors.

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 CEO and CFO can be found in the Nominations Committee Report on pages 55 to 57. Further details of the background and skillset of the Board can be found below.



## Board skills and experience



Director	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
Antony Maris (E)	●	●	●	●	●	●	●	●	●	●	●
Richard Chaffe (E)	●					●	●		●	●	●
Steven McTiernan (N)	●	●	●	●	●	●	●		●	●	●
Dr David Jenkins (N)	●	●	●	●	●	●	●	●		●	●
John van der Welle (N)	●	●	●			●	●		●	●	●
Sandy Shaw (N)	●	●	●			●	●	●		●	●
Beverley Smith (N)	●	●	●	●	●	●	●	●		●	●

### Key

(E) Executive director (N) Non-executive director

## 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 stakeholders and shareholders, and discusses their views and concerns with the Board; and working with the CEO to represent the Company in key strategic and stakeholder relationships.

### 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 Chief Financial Officer

The CFO's role is to: lead the Group's financial operations, this includes tracking cash flow and financial planning as well as analysing the Company's financial strengths and weaknesses and proposing corrective actions; ensuring compliance with internal and external financial reporting; ensuring appropriate stewardship of assets and cash management and managing the financial actions of the Group.

### 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.

### 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, ESG 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 2020	Date of appointment	Date of resignation
<b>Non-executives</b>					
Steven McTiernan	Non-executive Chairman	On appointment	2 yrs 7 mths	1 May 2018	—
Dr David Jenkins	Senior Independent Director	Yes	7 yrs 8 mths	8 March 2013	—
John van der Welle	Independent non-executive director	Yes	7 yrs 8 mths	8 March 2013	—
Roy Kelly <sup>1</sup>	Shareholder Nominee Director	No	4 yrs	10 May 2016	5 June 2020
Sandy Shaw	Independent non-executive director	Yes	2 yrs	3 January 2019	—
Beverley Smith <sup>1</sup>	Independent non-executive director	Yes	1 yr	20 December 2019	—
Alan Parsley <sup>1</sup>	Shareholder Nominee Director	No	3 mths	5 June 2020	23 September 2020
<b>Executives</b>					
Robert Trice <sup>1</sup>	CEO	No	15 yrs 5 mths	29 December 2004	5 June 2020
Neil Platt	COO	No	7 yrs 3 mths	8 March 2013	6 July 2020
Alistair Stobie <sup>1</sup>	CFO	No	3 yrs 11 mths	16 March 2016	26 February 2020
Antony Maris <sup>1</sup>	CEO	No	4 mths	21 August 2020	—
Richard Chaffe <sup>1</sup>	CFO	No	6 mths	5 June 2020	—

### Note:

- As announced on 27 February 2020, Alistair Stobie resigned as Chief Financial Officer and a director of the Company by mutual agreement with the Board. Richard Chaffe, the then Finance Director, was appointed Interim CFO. On 8 June 2020, the Company announced the resignation of Robert Trice as Chief Executive Officer and a director of the Company, the appointment of Beverley Smith as Interim CEO and Richard Chaffe as CFO and director of the Company. Beverley Smith transitioned back to the role of non-executive director on 11 September 2020. As announced on 8 June 2020, Roy Kelly, Kerogen Capital's shareholder director, resigned from his director position and was replaced by Dr Alan Parsley. Jason Cheng also resigned from his Alternate Director position in relation to Kerogen's nominated director. On 6 July 2020, the Company announced Neil Platt had passed away. On 21 August, the Board announced the appointment of Antony Maris as an executive director of the Company and Chief Executive Officer ("CEO") designate. Antony Maris transitioned to the role of CEO on 11 September 2020. On 23 September 2020, the Company announced the resignation, of Dr Alan Parsley, who was Kerogen Capital's Shareholder Nominee Director pursuant to the Relationship Deed signed in 2016 and Leonard Tao, Alternate Director to Dr Parsley. At the date of this Report, there is no Kerogen Capital Board representative although they continue to have the right to appoint a director for the time being.



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 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:

- COVID-19 impact and risk mitigation;
- strategy, including production stabilisation and potential future development options, performance measures and milestones;
- corporate governance, legal, regulatory and compliance – including policies, Board composition, Board evaluation and training, workforce engagement, internal controls and risk management, and engagement with our regulator (OGA);
- risk and rewards – including corporate risk review and KPIs;
- operations – including infrastructure, exploration, HSE, reservoir development and management;
- proposed financial restructuring of the Group;
- financial management – including financial statements, planning, budgeting and financing, and performance monitoring; and

- ESG – including ESG annual work programme and reporting requirements review.

During the early part of 2020, the Board's primary focus was the operational progress and delivery of the Lancaster EPS, while transitioning organisation focus and systems from a pure exploration to a production company with material cash flow. Following the outbreak of COVID-19, the Board's focus immediately shifted to ensuring the safety of the Company's employees and mitigating the risks associated with COVID-19.

From June 2020 to the latter part of the year, the Board's focus shifted towards consideration of the commercial and financial impact of the technical review on projected future cash generation potential of the Lancaster EPS considering lower than expected production and oil prices, and given the Company's liabilities under the Convertible Bonds. Given this focus, the Company appointed Evercore Partners International LLP as its financial advisers and Dentons UK and Middle East LLP as its legal advisers. The Board also appointed Ashurst LLP as the Board's legal advisers.

During the year, the Board oversaw regulatory affairs with the OGA and our joint venture partner, Spirit Energy; discussions with the OGA in regard to the extension of the deadline for the GWA licence commitment well from 31 December 2020 to 30 June 2022 and the extension of the suspension consent for the 205/26b-14 Lincoln well from June 2020 to October 2021; and reviewed the Company's capital expenditure/annual budget for 2021.

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, succession planning, ESG, investor relations, compliance, governance and regulatory and legal affairs updates. The Board also received regular updates from the respective committee 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 following each meeting.

**Meeting attendance and responsibility in 2020**

Each non-executive director participates fully in Board discussions and attends all Board and/or committee meetings of which, the non-executive director is a committee member of. As highlighted in the biographical details of the directors on pages 36 to 37, each of the directors, brings a different set of skills and experience to the Board.

The Board held 13 formal Board meetings in 2020. In addition, 12 further informal 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, 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 2020	Linked to remuneration
Steven McTiernan	Board governance and performance, and shareholder engagement.	
Dr David Jenkins	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.	
John van der Welle		
Sandy Shaw		
Beverly Smith		
Robert Trice		✓
Alistair Stobie	The executive directors are responsible for the day-to-day operations of the Company including developing and implementing Group strategy; implementing Group policy; monitoring health and safety, and financial and operational performance; and overseeing purchasing and supply chain matters.	✓
Neil Platt		✓
Antony Maris <sup>2</sup>		✓
Richard Chaffe <sup>1</sup>		✓

● Scheduled meetings (additional meetings were held at short notice)

**Note:**

1. Richard Chaffe attended all the Board meetings held during the year. The attendance reflects the number of meetings attended in the capacity of director and member of the Board.
2. Antony Maris was appointed to the Board on 21 August 2020. The attendance reflects the number of meetings attended following his appointment to the Board.

## Board evaluation

In alignment with the provisions of the 2018 Code, the Board recognises the need to assess its performance and effectiveness periodically, and to make improvements where necessary. In light of a number of Board changes which took place during 2020, it was decided to undertake an external evaluation in December 2020, facilitated by the same independent consultant used for the 2019 evaluation, to ensure consistency of approach and monitor trends from year to year. The selection process for the external facilitator was led by the Chairman and supported by the CEO. The credentials of The Effective Board LLP (TEB) including their experience in board evaluation were assessed and found to be suitable. TEB is independent of and has no conflicts in regard to the Company or its directors.

## Board evaluation process

The evaluation was carried out by way of individual interviews and director appraisals with all members of the Board. The agenda was designed to assess and understand whether directors:

- thoroughly discuss strategic options for the Company, and agree the relevant steps to achieve objectives, whilst managing the risks inherent in the operating environment;
- are aligned after the management changes during the year, supportive of the revised organisational structure and Company culture, and aware of succession planning requirements;
- promote open and frank discussion within a positive Board dynamic; and
- are effective in ensuring that the executive team implements the strategy and plans and manages all the other activities of the Company, and including effective interactions with all relevant stakeholders.

In addition, the performance of each of the Board's five committees were reviewed relative to their terms of reference, along with Board administration and support. Directors were encouraged to raise any other matters they felt relevant to the Board evaluation process.

## Board evaluation results

A written report on the outcome of the evaluation was sent to the Board in January 2021. Individual appraisals were provided to the Chairman except for the assessment of the Chairman which was provided to the Senior Independent Director.

In summary, TEB concluded that the performance of each individual director currently on the Board was effective, with high levels of commitment during a very difficult time for the Company. The Board as a whole exerts the required levels of governance and control, and was judged to be significantly better aligned, with an improved culture following the Board changes earlier in 2020. The size, composition and skills mix of the Board was judged to be appropriate, and there was unanimous agreement that the Board was functioning better as a decision-making unit.

Committees benefitted from effective leadership from their respective Chairs. There was general agreement that the two new committees are providing important improvements, both to oversight of the environment and sustainability performance of the Company, and to the transparency and opportunity for challenge of management's technical judgements.

Finally, TEB concluded that the Board's administration processes and procedures remain effective or have further improved, despite the disruption of remote working and online meetings due to the impact of COVID-19. The volume of data made available to the Board was considered to be sufficient, and the means of delivery satisfactory. Board papers are generally clear and complete and timely, and satisfactory for decision-making. The Board also routinely considers the implications of operations and Board decisions for each stakeholder and other interests as defined by the Companies Act 2006 Section 172.

## 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 and Chapter Zero, the Climate Forum which non-executive directors continue to participate in.

## 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 and responsibilities regarding shareholder and stakeholders, liquidity, financing, and potential insolvent trading. During the year, the Board appointed Ashurst LLP as its

independent adviser on the directors duties and responsibilities during the proposed financial restructuring process.

## 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:

- (a) any liability incurred by or attaching to the director or officer in connection with any negligence, default, breach of duty, or breach of trust by them in relation to the Company or any associated company; and
- (b) any other liability incurred by or attaching to the director or officer in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to/or in connection with their duties, powers or office, other than certain excluded liabilities including to the extent that such an indemnity is not permitted by law.

## 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.

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.

## Governance report *continued*

### 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. Antony Maris and Richard Chaffe will offer themselves for election at the 2021 AGM.

### Re-election of directors

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 2021 are Steven McTiernan and Sandy Shaw.

### 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 and stakeholders takes place as appropriate. It believes that dialogue, as appropriate, is key to developing an understanding of the views of shareholders and stakeholders. The Board also remains informed by internal feedback on stakeholder engagements, monitoring the main movements in shareholdings and reviewing brokers' reports.

In the first half of 2020, the Company communicated with its shareholders in the normal course of business, including a Capital Markets Day in April 2020 which was held virtually given the restrictions on in-person attendance at such events following the onset of the COVID-19 pandemic.

During the second half of 2020, the Board's focus was on addressing the Company's debt profile in light of the significant downgrade

to Reserves at the Lancaster field, which significantly reduced potential future cash flows from the field, and current financial projections show the Company will not be in a position to repay its \$230 million of Convertible Bond debt at maturity in July 2022. The Company and its advisers entered into a process of engagement with an Ad Hoc Committee of its Bondholders, providing it with detailed financial and legal information about the Company to facilitate negotiations on a proposed financial restructuring of the Group. The Company also sought to engage with certain large shareholders in relation to the terms of the proposed financial restructuring.

During the proposed financial restructuring process, the Company continued to provide shareholders with operational and financial updates through the Regulatory News Service. In particular, shareholders were notified that the Company was engaging with its Bondholders in order to address its debt profile and that the outcome of these discussions risked dilution to existing shareholders from a possible restructuring and/or partial equitisation of the Convertible Bonds. This process led to the proposed financial restructuring of the Convertible Bonds announced by the Company on 30 April 2021.

Whilst the proposed financial restructuring would result in substantial dilution for current equity holders, it would deleverage the Company's balance sheet, improve its liquidity position, extend its debt maturity profile, and provide a forum for the Company's asset base to be further developed, subject to the support of its creditors. Having carefully and thoroughly considered the alternatives, including the likely consequences of the proposed financial restructuring not being implemented, the Company believes that the outcome of implementing the proposed financial restructuring is likely to be better for the Company, its business and its operations and employees than in the event of the relevant alternative, and is in the best interests of the Company's stakeholders taken as a whole. The proposed financial restructuring is expected to take effect in June 2021. While the Company's main focus during 2020 was on Lancaster, further progress has been made on understanding the Greater Warwick Area ("GWA") following extensive analysis of the results of the 2019 drilling programme and reinterpretation of existing seismic data. This work focused on the Lincoln discovery, and also incorporated the learnings and implications from the results at Lancaster, in particular that hydrocarbon columns are likely limited to local structural closures.

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, with support from the Management team, take the lead on these matters and ensure that the views of shareholders and stakeholders are communicated to the Board as a whole.

Meetings with key shareholders took place during the reporting year. Unfortunately, as a result of COVID-19, shareholders were unable to meet and question the Board at the AGM in June 2020.

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

### Annual General Meeting (AGM)

The AGM is due to take place on 30 June 2021 at 3.00 p.m. Information about the format of the AGM can be found in the Notice of Meeting. Voting on the resolutions will generally be conducted by a poll and the voting results will be announced through the Regulatory News Service of the London Stock Exchange and also made available on the Company's website. In line with the Companies Act 2006 and best practice, the Company now supplies information such as notices of meetings, forms of proxy and the Annual Report and Group Financial Statements via its website.

Registered shareholders are notified by email or post when new information is available on the website. The Company will 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 2020 AGM, all resolutions were passed with votes in support (ranging from 99.44% to 99.92%).

## Audit and Risk Committee Chair's report



**John van der Welle**  
Audit and Risk Committee Chair

I am pleased to present the report of the Audit and Risk Committee for the year ended 31 December 2020, which also includes the committee's activities since year end to date. 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.

This report covers:

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

2020 was an unprecedented year for the world, as we all witnessed global demand for oil decline and the price of Brent dropping from a high of nearly \$70/bbl in January to \$13/bbl on 21 April. Despite the significant volatility in oil prices during the period, the Company generated \$80.2 million (2019: \$112.1 million) of operating cash flow and low cash production costs of \$18/bbl (2019: \$22/bbl).

On 8 June 2020, we announced a technical review & reassessment of the Lancaster field. The outcome of the reassessment showed a significant downgrade in Reserves and Contingent Resources and further evidence that the field is more complex than previously thought. The committee continues to work with senior management to deliver the proposed financial restructuring announced in April 2021, designed to deleverage the Company's balance sheet, improve its liquidity position and extend its debt maturity profile, thereby providing Hurricane with the stable platform required for the Company to continue to operate its business.

### Meetings and Membership

#### Meeting attendance in 2020

Name	Attendance	Independence
John van der Welle	●●●●	Yes
Dr David Jenkins	●●●●	Yes
Sandy Shaw	●●●●	Yes
Beverley Smith <sup>1</sup>	●●	Yes

#### Note:

1. Beverley Smith ceased attendance in the capacity of a non-executive director once she was appointed interim CEO.

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 2020 reporting year were Dr David Jenkins, Sandy Shaw and Beverley Smith. At the start of the year, membership of the Audit and Risk Committee included John van der Welle (Chair), Dr David Jenkins, Sandy Shaw and Beverley Smith. During the year, the Nominations Committee reviewed the evolution of the committees. To support its effectiveness, the committee membership was revised, so that with effect from September 2020, the members of the committee were John van der Welle, Dr David Jenkins and Sandy Shaw. Steven McTiernan, non-executive Chairman, is not a member of the committee but attends the meeting by invitation 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 of at least three independent non-executive directors and the committee is also considered, as a whole, to have the required competence relevant to the oil & gas sector in which the Company operates.

The committee met four times during the year under review, and once to date in 2021. Attendance of the committee members in 2020 is shown on this page. The committee has the right to request other executive directors and senior management to attend its meetings. Deloitte are requested to attend the meetings on an ad hoc basis. 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.

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



## Audit and Risk Committee Chair's report *continued*

### Principle responsibilities of the committee

During the reporting year and again in May 2021, 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 Revised Ethical Standard. 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 and stakeholders 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.

At its meetings in March and April 2020 the committee reviewed the 2019 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 2019 Annual Report were considered. The committee reviewed and approved its report for inclusion the 2019 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, including recommending amendment in relation to the Company's whistle-blowing system to ensure alignment with the 2018 Code.

The committee met in September 2020 primarily to consider the 2020 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 for the Company's Internal Controls Review programme which supports the assurance of the Company's internal financial controls including an external review of internal financial controls to be conducted by Grant Thornton. 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. The committee took this opportunity to consider, review and approve the proposed amendment to the non-audit services policy, in alignment with the FRC's Revised Ethical Standard.

At the committee's meeting held in November 2020, the main items considered

were the Company's updated corporate risk register and associated principal risks, the proposed plan for the external audit of the 2020 Annual Report and Group Financial Statements and the effectiveness of the Company's internal financial controls. In addition, the committee considered a detailed technical accounting and corporate governance update provided by Deloitte.

The committee met in May 2021 to review the 2020 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 Company's policy on the provision of non-audit services by the external auditor, the effectiveness of internal controls, and whether an internal audit function was needed. The corporate risk register, corresponding principal risks and procedures for identifying emerging risks facing the business as disclosed in the 2020 Annual Report were considered. The committee also reviewed and approved its report for inclusion the 2020 Annual Report. Finally, the committee considered inter alia the external review of its effectiveness undertaken as part of the external board evaluation and reviewed the committee's terms of reference.

### 2020 Annual Report and financial reporting

As regards the 2020 Annual Report and Group Financial Statements, the areas of focus for the committee included the impact of COVID-19 including lower oil prices on the Group's viability and disclosures in the Financial Statements; the Reserves and Contingent Resources downgrade at Lancaster and corresponding impairment testing in relation to oil and gas assets, and intangible exploration and evaluation assets; the impact of lower than previously expected oil prices and production from the Lancaster field and related consequences for going concern and long-term viability, including the related impact on the Company's proposed financial restructuring; carrying value of deferred tax assets; 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.



## Activities during the year

During the reporting year, the committee has discharged its responsibilities as follows:

### March and April 2020

- **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 2019.
- **Narrative Reporting** – Reviewed the content of the 2019 Annual Report and Group Financial Statements ensuring it is fair, balanced and understandable and contains the necessary information for shareholders and stakeholders 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. Considered the macro and micro risks associated with COVID-19. Received and reviewed the Deloitte FPP procedures review interim report.
- **External Audit Effectiveness** – Reviewed the effectiveness of the external audit process.
- **Relationship with External Auditor** – Reviewed auditor independence 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 2018 Code.

### September 2020

- **Financial Performance** – Reviewed the Group's 2020 Interim Financial Statements and the external auditor's half year review findings report.
- **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 proposal for Grant Thornton to undertake a second Internal Controls Review.
- **Committee Governance** – Reviewed the Company's Non-Audit Services Policy in line with the FRC's Revised Ethical Standard, reviewed the committee's annual work programme and on-going programme of education.

### November 2020

- **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 and received a report from Grant Thornton on the outcome of the Internal Controls Review, and further reviewed the status of the findings in the Deloitte FPP procedures review interim report.
- **Committee Governance** – Reviewed the committee's annual work programme and on-going programme of education.

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 and stakeholders 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 2020 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, supported by cash flow projections for the Group. These forecasts included liquidity projections under the terms of the proposed financial restructuring, including the revised debt repayment structure and the most likely outcome of no further investment activity being undertaken. The main assumptions made in the 2020 year-end cash flow forecasts which support the going concern basis were operational and production performance and oil price, and also taking into account the impact of the proposed financial restructuring and other macroeconomic events not within the Company's control. These key judgments and estimates made by management were challenged and assessed by the committee. The committee was satisfied that under the base case presented the Group would be able to continue in operational existence and comply with the covenants of the Amended Bonds throughout the going concern period. The committee also reviewed projections which showed that, if the proposed financial restructuring was not approved, the Group would not be able to repay the Convertible Bond at maturity in July 2022 and would likely go into (i) a managed wind down or (ii) liquidation. The committee has reviewed the going concern statement on pages 24 to 26 and concluded it was fair, balanced, and appropriately disclosed the material uncertainty in relation to the application of the going concern basis of accounting due to completion the proposed financial restructuring being outside of the Company's control.

## Audit and Risk Committee Chair's report *continued*

### Principle responsibilities of the committee *continued*

#### 2020 Annual Report and financial reporting *continued*

#### Viability and longer-term prospects of the Group

The committee also reviewed longer-term forecasts prepared by management in support of the viability statement, which included an assessment of the Group's longer-term prospects, whilst taking into account its primary strategy to maximise cashflows from Lancaster in order to repay its Amended Bond debts and its ability to meet the financial covenants under the Amended Bonds. These forecasts took into account the Group's principal risks and were stress tested against a number of scenarios including operational risks, geological and reservoir risk, regulatory risk, oil price risk and the risk of completing the proposed financial restructuring transaction. The committee considered and challenged the Lookout Period determined by management and agreed that this was appropriate given the Group's current strategy and maturity period of the Amended Bonds. The committee was satisfied with the overall assessment of the viability of the Group and the disclosures, including the key assumptions and qualifications relating to the proposed financial restructuring, made in these Financial Statements.

#### New accounting issues arising in the year

#### Downgrade of Reserves and Contingent Resources, impairment and associated impact on the financial statements

The committee agreed with management that sufficient impairment triggers had arisen that required an impairment test of the Lancaster oil and gas assets under IAS 36 'Impairment of Assets'. Management presented to the committee cash flow forecasts, taking into account future developments using the expected cash flow methodology, including various risks and sensitivities. It also examined the discount rate used by management to discount the cash flows to present value and concluded that the rate was appropriate. The committee challenged management's methodology, and were satisfied that the quantum of impairment recognised was appropriate and the disclosures made were in line with IFRS requirements.

#### Recurring accounting issues 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 April 2021 CPR, likelihood of exploration licences being renewed upon expiry, future plans for drilling and other technical work, and the availability of funding for these activities, including future plans to be funded by the Group's joint venture partner. The committee agreed with management's conclusion that the rig hire costs of the Paul B Loyd Jr rig could not remain capitalised and should therefore be written off as an impairment expense. For the remaining E&E costs carried on the Balance Sheet, the committee noted that the P2308 (Halifax) and P2294 (Warwick) licences were extended into their second terms in September 2020 and November 2020 respectively, and that a field development area (FDA) had been agreed for the Lincoln subarea. The committee agreed with management's conclusion that the carrying value of the Halifax licence should be written off, as the 2021 CPR attributed no Contingent Resources to the area. It was also agreed and concluded that, notwithstanding the resource downgrades on Lincoln/Warwick, no impairments were required for those assets based on an assessment of the potential economics of GWA. The committee challenged the conclusion based on the potential uncertainties over future development of the licences given the proposed financial restructuring, and concluded the level of disclosure over the uncertainty and risk to the assets' carrying value was appropriately disclosed.

#### Recognition and estimation of deferred tax assets

Following the downgrade to estimated Reserves and Contingent Resources, the committee concurred with management's assessment that the previously recognised deferred tax assets should be written off, due to a lower forecast production profile alongside a more uncertain macroeconomic outlook. The committee reviewed

management's projection of taxable profits, challenging the key assumptions including 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 that the deferred tax asset relating to GLA should be fully written off.

#### 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 COVID-19 and Brexit and appropriateness of disclosures of any associated risks; the assumptions used in determining the valuation of the Convertible Bond; and the estimates and assumptions used in calculating decommissioning provisions. The committee agreed with management's treatment in each case.

#### Internal control and risk management

The Board (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 energy transition, 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 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 14 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 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. At its September 2020 meeting, it was agreed that there should be a further external review of the Company's key internal financial controls to be undertaken by Grant Thornton, who had previously undertaken such a review in 2019. This was conducted in the fourth quarter of 2020, with the outcome reported to the committee at its November meeting. The review concluded that there were well-designed and operated financial controls in place, and a notable improvement from the previous year's review. It also noted that all the priority findings raised in the 2019 review had been addressed by management. The 2020 review identified one medium priority and several low priority areas which it recommended should be strengthened, and work is underway to address these.

### Financial position and prospects (FPP) procedures

The directors 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 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. Deloitte provided an interim report on its findings 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. In November 2020, the committee reviewed with management the status of implementation work undertaken in respect of all the findings by Deloitte in its interim report, noting that seeking a Premium Listing is no longer a priority for the Company following the changed circumstances due to the outcome of the Company's technical review, announced in September 2020. Thereafter on 30 April 2021 the Company announced that the Board is no longer considering a Main Market listing.

### 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. During the year, the committee reviewed again the need for an internal audit function. Due to the Company's situation and the additional assurance support provided by Grant Thornton referred to above, the committee recommended to the Board that the lack of internal audit does not impact the Company's assurance workstream and the work of the external auditors and therefore 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 annual external reviews being undertaken as outlined above.

## Audit and Risk Committee Chair's report *continued*

### 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 CFO. 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.

Following completion of the audit of the 2019 Annual Report and Financial Statements, David Paterson replaced Paul Barnett as lead audit partner. David Paterson was previously lead audit partner from 2015 until 2018 at which point, he took a brief sabbatical. Following the external audit of the 2020 Annual Report and Financial Statements David Paterson will stand down as lead audit partner, having completed the maximum of

five years in that role. The new lead audit partner will be Bevan Whitehead, who was Hurricane's lead audit partner prior to David Paterson's original appointment.

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 \$98,000 (2019: \$152,000), (fees for audit services were \$230,000 (2019: \$159,000)). These non-audit services related 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. The Company's non-audit services policy formalises this arrangement, whereby the committee has pre-approved the external auditor to provide certain permitted services providing that the fees do not individually or cumulatively exceed \$30,000 and are not subject to contingent fee arrangements. All other non-audit services are subject to individual approval from the committee. The committee was satisfied throughout the year that Deloitte LLP's objectivity and independence were in no way impaired by the nature of 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 2020 and was effective in terms of its focus, expertise and use of time and that it had been provided with sufficient resources to carry out its duties.

### John van der Welle

Audit and Risk Committee Chair

24 May 2021

## Nominations Committee Chair's report



**Steven McTiernan**  
Nominations Committee Chair

I am pleased to present the Report of the Nominations Committee for the year ended 31 December 2020 which summarises the objectives and responsibilities of the committee, the work carried out during the year, and plans for the coming year.

The Company through the Nominations Committee has reinforced its commitment to appointing and developing an expert leadership team which can effectively manage the Company's assets and adapt strategy in light of significantly changed technical understanding and adverse economic and financial conditions during the year.

### Principal responsibilities of the committee:

- Monitoring the structure, size, and composition of the Board as whole and the committees, making recommendations for changes as may be necessary to achieve an appropriate balance of experience, independence and diversity;
- Considering succession planning for directors and other senior executives, taking into account length of service, evolving challenges and opportunities facing the Group, and the skills and expertise required;
- Identifying and nominating candidates for appointment as directors, ensuring rigorous and transparent selection and appraisal procedures, with the ultimate appointment of directors made by the Board based on the recommendations of the committee;
- Commissioning a Board performance evaluation process annually, reviewing the results and making recommendations therefrom.

The terms of reference for the Nominations Committee, which are reviewed annually and approved by the Board, are available on the Company's website at [www.hurricaneenergy.com](http://www.hurricaneenergy.com).

### Code compliance and diversity

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, and the committee fully conformed to this provision during the year.

Furthermore, at year end, some 29% of our Board positions were held by women, close to compliance with Hampton-Alexander Review FTSE 350 targets. The Board and the work of the Nominations Committee support the principles of promoting diversity in the widest sense and fully support the aspirations set out in the Davies Report regarding 'Women on Boards'. When seeking to appoint any new director to the Board, notwithstanding the foregoing, all Board appointments will be made on merit.

Hurricane also continues to work towards gender diversity in the broader leadership team. For the year ending 31 December 2020, the percentage of women in senior management (reporting directly to the executive directors) was 18%.

### Board changes and succession planning

The committee began the year by considering the results of the independent Board Evaluation report carried out by an external facilitator, TEB, as reported on page 47. This report reviewed Board competencies and behaviours, alignment with corporate strategy and desired "tone from the top". Executive and senior employee succession and talent management was considered, and recommendations made to the Board.

Alistair Stobie resigned as CFO and a director as announced on 27 February by mutual agreement with the Board. After consideration of required skills and experience and recommendation by the committee, Richard Chaffe who joined the business as Head of Finance in 2016 and subsequently became Finance Director was appointed as replacement.

Dr Robert Trice resigned as Chief Executive Officer by mutual consent with the Board as announced on 8 June, and on the recommendation of the committee, Beverley Smith shifted from a non-executive role to become Interim Chief Executive.

In line with Beverley Smith's desire to return to her previous non-executive role, a full and rigorous selection process was undertaken to identify a suitable permanent CEO. Odgers Berndtson, a leading specialist executive search consulting firm, were appointed to undertake a mapping exercise of suitable candidates for the CEO role and to provide a longlist for the committee to consider. The committee reviewed both this list of candidates and other applications.



## Nominations Committee Chair's report *continued*

### Board changes and succession planning *continued*

A thorough interview process was undertaken to provide a comprehensive evaluation of candidate skills, technical and executive experience. Emphasis was placed on candidates with technical experience relevant to the Company's unusual basement reservoirs. The committee unanimously recommended Antony Maris to the Board, and the selection process successfully concluded following extensive due diligence, with his appointment as CEO designate on 21 August 2020 and permanent CEO after Beverley Smith returned to her non-executive role on 11 September 2020.

Very sadly, the Company announced on 6 July, the passing of Neil Platt, COO and director since 2013. The committee and the Board paid tribute to his commitment and leadership which was pivotal to the successful delivery and operation of the Lancaster Early Production System. Steve Holmes stepped up to fill the COO role, bringing 40 years of diverse operations experience including over 8 years with Hurricane.

Under the terms of the Relationship Deed signed 18 April 2016 between the Company and Kerogen Capital, Kerogen Capital has the right to appoint a Shareholder Nominee Director and Alternate Director to the Board, reflecting their position as the largest shareholder in the Company. Roy Kelly, who had been the Kerogen Capital nominated non-executive director since 2016, moved on from Kerogen Capital and was replaced by Dr Alan Parsley, a member of the Advisory Board of Kerogen Capital as announced on 8 June. Jason Cheng resigned from his Alternate Director position on the same day. On 23 September 2020, Dr Alan Parsley, resigned his role as non-executive director, and Leonard Tao also resigned as an alternate director to Dr Parsley so that, at the date of this Report, there is no Kerogen Capital non-executive director. Kerogen Capital retain the right to appoint a non-executive director.

### Creation of additional Board committees

After the unexpectedly poor production performance of the Lancaster EPS during the first half of the year, the committee considered the need for enhanced oversight of technical matters, and recommended that a formal Technical Committee of the Board should be created.

### Activities during the year

#### March 2020

- Considered results of external Board Evaluation, and actions required based on identified issues.
- Board skills/competence matrices review & alignment with corporate strategy.
- Reviewed executive and senior employee succession and talent management.
- Annual review of committee Terms of Reference.

#### April 2020

- Considered and approved the Nominations Committee Report within the Corporate Governance Section of the 2019 Annual Report and Accounts.

#### June 2020

- Consideration of change in CEO.
- Recommendation to appoint Odgers Berndtson to carry out search process for CEO.
- Recommendation to confirm Richard Chaffe as CFO and director.
- Technical Committee and ESG Committees – constitution and composition, reduce size of other committees.
- Recommendation for Dr David Jenkins to serve as Technical Committee Chair until Beverley Smith ends Interim CEO role.

#### July 2020

- Shortlisted, interviewed and recommended a shortlist of candidates for CEO role.
- Considered due diligence report on CEO candidate by TEB.
- Recommended CEO role should be offered to Antony Maris.
- Considered candidates for role of ESG Chair.

#### November 2020

- Reviewed balance of Board after the resignation of Dr Alan Parsley and Leonard Tao from the Board.
- Recommended the appointment of an external Board Evaluation facilitator, TEB.
- Recommended the appointment of Sandy Shaw as the Chair of the ESG Committee.
- Assessed the necessary skillsets on the Board compared to current director qualifications.
- Considered diversity and inclusivity objectives for the Board.
- Reviewed and re-approved committee terms of reference. A copy of the revised terms of reference can be found on Hurricane's website at [www.hurricaneenergy.com](http://www.hurricaneenergy.com).

The committee also recognised that the Company needed to enhance ESG related disclosures, including aligning emissions reporting to the Task Force on Climate-related Financial Disclosures, and taking account of UN Sustainable Development Goals and UK Streamlined Energy and Carbon Reporting ("SECR") policy. Accordingly, the committee recommended creating an Environmental, Social, and Governance ("ESG") Committee of the Board, to oversee and report on the impacts of Company operations and products.

These two new committees were announced on 8 June 2020. The Technical Committee was chaired by David Jenkins on formation, followed by Beverley Smith from 11 September 2020. The ESG Committee is chaired by Sandy Shaw.

## Membership of Board committees

With the creation of two new Board committees, the Nominations Committee reviewed and made recommendations for changes to the number of directors formally assigned to each committee, generally reducing the number to spread responsibilities as broadly as possible over an increased number of committees, for efficiency and economy, and in particular to avoid any need to expand the overall size of the Board.

The proposed evolution of committee membership was accepted by the Board and effected in September 2020. While fewer non-executive directors now serve formally on individual committees, all directors including executive directors are invited to attend committee meetings, as the Chairman of the relevant committee sees fit.

In the specific case of the Nominations Committee, a complement of five directors at the beginning of the year became two from June onwards.

## Meeting attendance

The committee met six times during the year under review. Attendance of the committee members is shown below. When members are unable to attend the meeting, they provide feedback to the Chair on the matters discussed in advance of the meeting. Other non-executive directors and the General Counsel and Company Secretary are regularly in attendance at the meetings.

### Meetings held during the year in review

6

### Meeting attendance in 2020

Name	Attendance <sup>1</sup>	Independence
Steven McTiernan	● ● ● ● ● ●	Yes
John van der Welle	● ● ● ● ● ●	Yes
Dr David Jenkins	● ● ●	Yes
Sandy Shaw	● ● ●	Yes
Beverly Smith	● ● ●	Yes

#### Note:

- At the start of the year, membership of the Nominations Committee included Steven McTiernan (Chair), Dr David Jenkins, John van der Welle, Sandy Shaw and Beverly Smith. In June the Nominations Committee reviewed the evolution of the committees and it was agreed that in order to support the committee's effectiveness, the committee membership was revised, so that with effect from September 2020, the committee was made up of two non-executive directors, Steven McTiernan and John van der Welle. Sandy Shaw, Beverly Smith and Dr David Jenkins continue to attend meetings.

## Evaluation of the committee's performance

An evaluation was carried out by an external facilitator, TEB. Board members were interviewed by TEB to discuss the effectiveness of the committee. From the responses provided, it was confirmed that the committee, and other Board members who are not members of the committee but had participated in meetings, felt that the committee was fulfilling its terms of reference effectively.

It was noted that the committee had proved its effectiveness by the appointment and transitioning of interim and permanent CEOs, CFO and COO during the year. It was noted that the committee and the participants at its meeting widely agreed that the composition of the Board remains suitable to the challenges ahead.

## Appointment and re-appointment review

For the 2021 AGM, Antony Maris and Richard Chaffe will submit themselves for election and Steven McTiernan and Sandy Shaw will retire by rotation and submit themselves for re-election. Non-executive directors are normally appointed for an initial term of three years, which is reviewed and may be extended by two or more further three-year terms. Biographical details of all directors can be found on pages 36 to 37.

## Steven McTiernan

Nominations Committee Chair  
24 May 2021

## Environmental, Social and Governance (ESG) Committee Chair's report



**Sandy Shaw**

Environmental, Social and Governance (ESG) Committee Chair

I am pleased to present the first Report of the ESG Committee which summarises the framework, work programme and governance of ESG by the committee during the year in review. I hope you will find this report informative. Hurricane's ESG committee governance structure supports the perspective that ESG is not a destination but rather a journey of continual learning, improvement and implementation. In alignment with this belief, we have put in place a pragmatic ESG committee which enables swift decision-making and effective oversight.

The world we inhabit is changing and Hurricane intends to change with it. Society's concern for climate change has grown stronger, with social media playing an increasingly enabling role and governments, internationally, being focused and supportive, we are seeing a new global impetus being applied to the issues of sustainability, decarbonisation and good citizenship. In this evolving world Hurricane has committed to being open, transparent, and accountable for our actions, treating all our people equitably, taking appropriate steps to comply with relevant, appropriate guidelines and seeking to embed ESG into our decision-making process. The committee's role and responsibilities are set out in its terms of reference, which are reviewed annually and approved by the Board. The Company produces a standalone ESG report which was prepared in accordance with the Global Reporting Initiative (GRI) Standards and is approved by the Board of Directors before publication. The standalone 2020 ESG report will be issued later this year and will be available on the Company's website at [www.hurricaneenergy.com](http://www.hurricaneenergy.com).

### Committee Code compliance

The Company is reporting on a voluntary basis and is aware that setting up an ESG Committee is not a requirement/provision of the 2018 Code.

### Activities during the year

In the first half of the year, the ESG working group devised the Company's ESG work programme and began to work to implement the programme, where relevant. In the latter part of the year, the ESG Committee convened its first meeting. At the meeting, the working group presented an ESG workshop to the committee. The meeting was attended by the other non-executive directors on the Board. This gave the Board a thorough introduction to the ambit of ESG with opportunity to understand how ESG should be embedded in corporate strategy and objectives.

### Meetings and Membership

#### Meeting attendance in 2020

Name	Attendance <sup>1</sup>	Independence
Sandy Shaw (Chair)	●	Yes
Beverley Smith	●	Yes

#### Note:

1. The committee held one formal meeting during the year, having been formally created in September 2020

### Membership during the year

The committee formally met once during the year under review but regularly informally liaised on ESG matters during the year. The Company's ESG work programme and working group precedes the formal establishment of the committee. The committee members in the 2020 reporting year were Beverley Smith and Sandy Shaw. Attendance of the committee members is shown above. As a principle at Hurricane, when members are unable to attend the meeting, they provide feedback to the Chair on the matters to be discussed in advance of the meeting. The other non-executive directors, the CEO, the CFO, the COO and the General Counsel and Company Secretary were in attendance at the formal meeting. In line with the committee terms of reference, the Company Secretary acts as Secretary to the committee.

## Role and responsibilities of the committee

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](http://www.hurricaneenergy.com). The primary role of the ESG Committee is to support the Board in managing the Company's ESG exposure, as well as integrating & embedding the management of ESG factors such as climate change and the energy transition into the Company's strategy, culture and business plan. An ESG workgroup (working group) supports the committee in functioning effectively is an ESG workgroup (working group). The working group is comprised of representatives from various departments in the business namely, Head of Investor Relations, Compliance Manager, Assistant Company Secretary, Financial Controller, Group HSSEQ Manager, Group Environmental Manager, Group HSE Technical Assistant & Training Coordinator and FP&A Analyst. The working group attends and presents at the ESG Committee meeting and when appropriate may present to the whole Board. In supporting the Board in implementing ESG factors into the Company's strategy, culture and business plan, the committee regularly collaborates with the other Board committees namely, the Audit and Risk Committee, Technical Committee, Remuneration Committee and the Nominations Committee.

As part of its annual work programme, amongst other activities, the committee reviews and considers the industry and government pathway to net zero emissions; physical and transitional risks and opportunities attributed to climate change; and the Company's ESG disclosure in order to appropriately identify and make recommendations for any changes to the Board. All decisions relating to ESG are made by the entire Board based on the recommendations of the committee, which takes into account a range of factors including:

- the merits and impact of the activity on the Company and its stakeholders;
- the cost of the activity; and
- understanding the process by which the Company can contribute to the UK's energy transition over the next decade.

The details about the activities considered at our first meeting is reported in our 2020 standalone ESG report, which will be issued later this year.

## Evaluation of the committee's performance

During the year, the performance of the ESG Committee was considered through the annual Board evaluation process. 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.

The members of the committee and other participants at the meeting were of the view that the committee has made a commendable start and there is confidence that this committee will fulfil its terms of reference in due course.

**Sandy Shaw**  
ESG Committee Chair  
24 May 2021

## Technical Committee Chair's report



**Beverley Smith**  
Technical Committee Chair

I am pleased to present the first formal Report of the Technical Committee for the year ended 31 December 2020 which summarises the framework, and governance of the committee. The Technical Committee was formed in June 2020 and formalised an existing technical advisory committee which was set up in 2015, through which certain members of the Board had provided oversight of critical technical matters on an ad hoc basis. Dr David Jenkins, Senior independent Non-Executive Director since 2013, chaired the Technical Committee from June to 11 September 2020 after which I stepped into the role of Chair of the Technical Committee.

The role of the committee is to ensure the integrity of our technical Reserves and Contingent Resources disclosures and to make recommendations and provide assistance to the Board with respect to technical and operating matters, including development planning. I am grateful for all the work undertaken by Dr David Jenkins before I became Chair and for supporting my transition into this role.

### Committee code compliance

The Company is reporting on a voluntary basis and is aware that setting up a Technical Committee is not a requirement/provision of the 2018 Code.

## Activities during the year

### June 2020

Given the challenges experienced in sustaining the target plateau production rate from the existing two well configuration on natural flow, we announced in June 2020 that the Technical Committee would re-examine the full range of possible geological and reservoir models for the Lancaster field, in light of the dynamic reservoir data then available.

### September – December 2020

The outcome of the review was announced in September, including a material downgrade of unaudited Reserves and Contingent Resource estimates for Lancaster, due both to a revision to the depth of the oil water contact (OWC) in the field (1330m TVDSS) and a reduction in effective reservoir properties within the fractured basement, consistent with higher water production and more rapid pressure decline than originally anticipated. The revised depth of the Lancaster OWC is in excess of 200m shallower than the OWCs outlined in the May 2017 RPS Energy Lancaster CPR, post the drilling of 205/21a-7 (1597-1653-1678m TVDSS), and is close to the mapped depth of local structural closure in the Lancaster area.

The shallower OWC in Lancaster allowed the Company to agree a reduced field determination area with the OGA and to relinquish acreage outside the determined field area which was below the new oil water contact. As a consequence, the OGA agreed to release the Company from the obligation to drill the Lancaster commitment well, which was a commitment to test for deep oil that was no longer considered viable. The downgrades were at least partially offset by the inclusion into the reservoir model of onlapping Mesozoic clastics on the flanks of the Lancaster structure.

The Company also announced revised estimates of unaudited Contingent Resources for Lincoln in September, based on analysis of the results of 2019 drilling programme, and revised seismic interpretation. The estimate of the Lincoln OWC was revised to a shallower depth than presented in the December 2017 RPS Energy West of Shetland CPR, and close to local mapped structural closure in the Lincoln area. It was noted that the Company now expected that local structural closure would be the controlling factor for all hydrocarbon contacts in the rest of the portfolio on the Rona Ridge.

A new independent Competent Person's report was then commissioned from ERCE, to cover all assets in the portfolio, which was released in April 2021. A copy of the report can be found on our website and a summary of Reserves and Contingent Resources for the portfolio can be found on page 29.

ERCE's evaluation limited the effective hydrocarbon columns to the depth of local structural closures for all assets, reflecting both the Lancaster conclusions and a lack of produced hydrocarbons at depth. The Halifax well, 205/23-3A was drilled outside of local structural closure and failed to produce hydrocarbons on test, consequently ERCE did not assign any Contingent Resources to the well.



## Meetings and membership

### Meeting attendance in 2020

Name	Attendance	Independence
Beverley Smith (Chair)	● ● ● ● ●	Yes
David Jenkins	● ● ● ● ●	Yes
Steven McTiernan	● ● ● ● ●	Yes

### Membership during the year

The committee members in the 2020 reporting year were Dr David Jenkins, Steven McTiernan and Beverley Smith. Sandy Shaw and John van der Welle from time to time attend the meetings by invitation to be an observer. The committee formally met four times during the year under review but regularly liaise with the subsurface teams on technical matters during the year. The committee has the right to request other executive directors and senior management to attend its meetings.

### Role and responsibilities of the committee

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](http://www.hurricaneenergy.com). To support the committee in functioning effectively is a technical workgroup (Technical Working Group) which is led by the CEO. The Technical Working Group is comprised of the CEO, the Head of Subsurface, GLA Asset Manager and representatives from the subsurface team. Independent assurance of the technical work undertaken by the Technical Working Group is provided by consultants and their conclusions are shared with the Technical Committee. These peer reviews are in addition to the Competent Persons Report.

As part of its annual work programme, the committee reviews and considers the production profile and technical activities of the wells and regulatory requirements for drilling operations in order to appropriately identify and make recommendations for any changes to the Board. All decisions relating to the Technical elements are made by the entire Board based on the recommendations of the committee.

### Evaluation of the committee's performance

During the year, the performance of the Technical Committee was considered through the annual Board evaluation process. 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. Overall, members of the committee were of the view that the committee does indeed fulfil its terms of reference effectively. All other participants in this review who are not members of the committee also felt that the committee is operating effectively and fulfilling its terms of reference. It was noted that the Company has clear, transparent oversight of the technical work conducted with a peer assurance process.

### Beverley Smith

Technical Committee Chair

24 May 2021

# Directors' remuneration report

Annual Statement on Remuneration



**Sandy Shaw**  
Remuneration Committee Chair

I am pleased to present Hurricane's Remuneration Report for the year ended 31 December 2020. I would like to begin my report by expressing gratitude to our stakeholders, shareholders, employees and contractors for their continued support and commitment to Hurricane in what has been a tough year for all.

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 against the 2018 Code. 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.

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 (2020); how we plan to implement it in 2021; and a summary of the key activities of the Remuneration Committee during the reporting year. 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, stakeholders 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 and stakeholders interests with any bonus linked to performance metrics relating to annual targets and long-term incentives linked to inter alia share price performance;

- predictable and proportionate 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;
- is aligned to the Company's culture, purpose, values and strategy;
- the Remuneration Committee is able to exercise its discretion to ensure that awards do not give rise to unusual or inappropriate results.

More detail can be found in this report as we describe how the remuneration policy underpins our strategy and purpose.

## COVID-19

Firstly, I want to address the rapid escalation of the coronavirus outbreak and its impact on all of the Group's stakeholders. As noted in the Chief Executive's report, our priority since the start of the outbreak has been the health and safety of our employees. It is important to recognise our employees for their significant contribution. Their collective efforts have enabled us to deliver the continuity of our business which is essential to our operations. I would also like to take the opportunity to thank the executive team for their efforts and diligence. The committee recognised that they had worked extremely hard to remain operational through a challenging year and circumstances. As an organisation, we navigated the ongoing COVID-19 crisis by prioritising the safety and wellbeing of our employees and working hard to establish a business-as-usual environment that minimises disruptions. Subsequent to this, we began assessing the financial and operational risks the pandemic posed to the business and responded quickly and accordingly. In spite of what has been a difficult year, due to the executive's stewardship of resources, we did not furlough our employees or reduce our headcount and the Company remained stable enough to meet its short-term capital demands for continuous business operations. We consciously did not accept the government's COVID-19 financial support for businesses, which, if we had accepted, may have impacted our shareholder and stakeholder value which was already under pressure due to unprecedented volatility. The backdrop of the economic impact of the pandemic and the outcome from the technical review have framed the committee's decisions and the reward outcomes for the executive directors.

## Committee 2018 Code compliance

The committee is reporting against the 2018 Code. During the year, the committee fully conformed to the provisions of the 2018 Code. The following non-executive directors: Dr David Jenkins and John van der Welle served as members of the committee throughout the year ending 31 December 2020. The Chairman Steven McTiernan and the other directors are invited to attend as observers (as appropriate).

## Committee activities

In the first half of 2020, the committee reviewed the Group Remuneration Policy for the previous year and made amendments as appropriate. 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 the executive director's bonus potential and the form of the bonus payment. It is the committee's expectation that bonus awards above "on target" should be subject to attainment of stretch targets.

In light of the management restructure which took place during the year, the committee, cognisant of the cost of executive exits, reduced the executive notice period from 12 months to six months which was implemented into the new executives' service contracts. The committee believe this action is in the best interest of stakeholders and shareholders and supports an agile system of delivering results.

During the year in review, the committee discussed, proposed, and set the bonus targets for the 2020 annual bonus scheme Performance Measure scorecard metrics (KPIs). On 15 January 2021, 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 Corporate scorecard was 27% of maximum, (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). Notwithstanding a potential to award the bonus in line with the mathematical outturn, it was determined that no bonus would be awarded to the executive directors. The committee acknowledged that 2020 was an unprecedented and challenging year for the industry and the business and there were numerous factors including COVID-19, executive restructure, fall in share price and the write down of Reserves which impacted performance during the year in review. It was recognised that the executives, in light of a very challenging and difficult year, had worked extremely hard to maintain operations and in normal circumstances, the committee would have considered awarding a bonus.

## Activities during the year

### January 2020

- 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 2020 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.

### February 2020

- Considered the remuneration components of Alistair Stobie's departure.
- Considered and approved the achievement of the bonus targets for the 2019 annual bonus scheme Performance Measure scorecard metrics.
- Considered and approved the 2020 KPIs.
- Considered the remuneration package for the Acting CFO.
- Reviewed the results from the external evaluation of the committee for the 2019 FY.
- Reviewed the results from the internal evaluation of the committee.

### April 2020

- Approved the bonus targets for the 2020 annual bonus scheme Performance Measure scorecard metrics.
- Approved the 2019 Directors' Remuneration Report (DRR).

### June 2020

- Considered the remuneration components of Robert Trice and other senior staff member's departure and Beverley Smith's Interim CEO position.
- Considered the appropriate forum for workforce engagement.
- Considered and agreed to recommend to the Board for approval, the remuneration for the CFO.
- Approved the bonus targets for the 2019 annual bonus scheme Performance Measure scorecard metrics.
- Received an update from PwC on mid-season external remuneration and AGM trends.

### August 2020

- Considered the CEO candidate service agreement and agree to recommend to the Board for approval, the remuneration for the CEO candidate.

### October 2020

- Considered a replacement for the VCP following its expiry in November 2021.

### November 2020

- Reviewed plan to implement the workforce engagement process.
- Reviewed status of 2020 bonus against the KPIs.
- Commenced discussion of the draft 2021 KPIs.
- Reviewed salary progression and bonus opportunities for the executive directors, senior management and employees in light of the macro economic environment.
- Considered and reviewed the VCP milestone performance.
- Received an update on the implementation of staff performance review.

## Directors' remuneration report *continued*

Annual Statement on Remuneration *continued*

### Committee activities *continued*

Details of the bonus award calculations for 2020, including the Performance Measures and achievement against those targets are set out on page 67.

No share-based awards under share schemes 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 2020 and made awards under this HMRC-approved scheme to all of its participants, including the executive directors at the time. Further details are outlined on page 71.

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 new 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 noted that the base salaries for the Company's new executive directors (CEO and CFO), which were significantly lower (by approximately 19% and 10% respectively) than the base salary for the previous executive directors, remained in the lower quartile of its oil and gas company comparator group, and decided that in the context of the pandemic, the fall in share price and market sentiment on director's remuneration, no increases would be made.

### Remuneration Policy underpinning Group strategy in 2021

It has been Hurricane's practice to closely link its Remuneration Policy to the delivery of its strategy. In addition to offering suitable base levels of salary and benefits to attract and retain employees, all employees are eligible to participate in an annual bonus scheme, to drive delivery of inter-year performance, and in longer-term share-based incentive plans (either through the VCP, 2017 PSP awards and/or the Share Incentive Plan (SIP)) connected to our initial strategy of progressing and monetising our Rona Ridge assets. Further information on our strategy and outlook can be found in the Strategic Report.

Hurricane's current Remuneration Policy is structured to link rewards to the short-term Performance Measures and long-term Milestones. Last year saw the fourth full year of performance under the Group's executive/senior management long-term incentive plan, the Value Creation Plan (VCP), a one-off five-year scheme implemented by the Board in late 2016, replacing the 2013 Performance Share Plan (PSP), devised to incentivise

achievement of the Company's initial strategy of de-risking and monetising its resource base and generating 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 at the time 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 and if the Milestones are met, otherwise the funds invested will be lost in their entirety. During the year, no milestone was achieved. The final vesting date on the VCP is November 2021. The committee is cognisant that given the difficult period the Company has gone through in the last year including the proposed financial restructuring, it is unlikely that the VCP and PSPs, based on the same Milestones and hurdles, will vest by the final vesting date in November 2021.

Planning ahead, in the coming year, given the proposed financial restructuring, the committee will review the Company's remuneration philosophy and structure in light of the Company's objectives, strategy and plans and ensure the Remuneration Policy aligns and supports the strategic direction of the business.

### Shareholder engagement during the year

The committee continually works to ensure that 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.

The Board and committee remain committed to dialogue with its shareholders and other stakeholders on all matters, including remuneration as appropriate.

### Bringing our workforce on the journey with us

The Board seeks to ensure that the Company's incentive structures support the delivery of stakeholder 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.

In line with the requirements of the 2018 Code to 'gather the views of the workforce', during the year, and recognising the constraints of

COVID-19 in regard to face-to-face meetings, I informally engaged with and met staff via video call. During those meetings, we had the opportunity to talk about staff welfare, working practices, support and the Company. The feedback I received from my interactions was open and honest and where appropriate was fed back to the Board for consideration. To gain insight on the best working practice suited to our employees, the Company undertook a survey of employees preferred needs/desires on remote and flexible working in the future. The results from the survey will be considered by the Remuneration Committee and the Board. I look forward to future engagement meetings be it formally or informally via video call.

### Evaluation of the committee's performance

During the year, the performance of the Remuneration Committee was considered through the annual Board evaluation process carried out by the external facilitator, TEB. 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. It is recommended the committee review a replacement for the Value Creation Plan which is due to mature in November 2021 and design a strategic remuneration policy to attract, retain and motivate key employees and the executive directors.

### Sandy Shaw

Remuneration Committee Chair

24 May 2021

# Annual remuneration report

## Remuneration Committee composition

The Remuneration Committee is chaired by Sandy Shaw. During the year, the committee was made up of four independent directors: Sandy Shaw, Dr David Jenkins, John van der Welle and Beverley Smith. Beverley Smith stepped down from the committee when she became interim CEO as announced on 8 June 2020. During this period, the Nominations Committee reviewed the evolution of the Board committees and to support the committee's effectiveness, the committee membership was revised, so that with effect from September 2020, the committee was made up of three non-executive directors Dr David Jenkins, John van der Welle and Sandy Shaw. Steven McTiernan, Chairman of the Board and Beverley Smith are not members of the committee but attend the meetings by invitation. 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.

## Meetings and Membership

### Meeting attendance in 2020

Name	Attendance	Independence
Sandy Shaw		Yes
Dr David Jenkins		Yes
John van der Welle		Yes
Beverley Smith <sup>1</sup>		Yes

#### Note:

1. Beverley Smith stepped down from the committee when she became interim CEO. The attendance reported above reflects her time as a member of the committee.

The committee had eight 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 and stakeholders.

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. In light of the what has been a challenging year for the Company (and on a macro-economic level) following the write-down of Reserves and Contingent Resources, and the fall in the Company's share price, it was deemed inappropriate to award significant bonuses to employees and no bonus was awarded to executive directors.

## Committee terms of reference

As part of its annual review process, the committee reviews its terms of reference and makes recommendations to the Board for approval. 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 15 January 2021 to

ensure that they continue to be fit for purpose for the Company. A copy of the revised terms of reference can be found on Hurricane's website at [www.hurricaneenergy.com](http://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

PricewaterhouseCoopers LLP (PwC) are the Remuneration Committee's independent remuneration adviser. During the year, advice was given on the executive remuneration and bonus payment by PwC and by Dentons. Both PwC and Dentons are independent of the Company and each of its directors.

The committee received advice 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 £52,000. The committee remains satisfied that the advice it received in the year was independent and objective. 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 <sup>1</sup>	Amounts paid 2020 £'000	Amounts paid 2019 £'000
PwC	52	43
Dentons	22	19
<b>Total</b>	<b>74</b>	<b>62</b>

#### Note:

1. The increase to the amounts paid to Dentons & PwC was attributed to the advice received in relation to changes in executive/senior management team.



Annual remuneration report *continued***Implementing the Directors' Remuneration Policy in 2020 and 2021**

Performance Measures are determined by the committee each year and may vary to ensure that they promote the Company's business strategy and shareholder and stakeholder 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 2020, the remuneration packages for the previous executive directors consisted of a base salary, benefits (such as pension, private medical and dental cover), participation in the annual bonus scheme, participation in a long-term incentive plan, being the VCP, and participation in the Company's SIP. The same remuneration package was offered to the new executives, with the exception of the VCP, which is now closed.

Policy area	Opportunity	How we implemented the Policy during the year	How we plan to implement the Policy in 2021
<b>Annual bonus</b> – 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. Any bonus awarded to the executives is entirely discretionary and may at the Company's discretion be paid to the executive as a combination of shares and cash. 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%. For the year in review, no bonus awards were made to the executives.	The committee will continue to review the policy (including the bonus opportunity) during the year in line with the business and strategic direction. Currently in light of the impact of COVID-19 on oil price coupled with the macroeconomic uncertainties, the write-down of Reserves and Contingent Resources following the technical review, and the proposed financial restructuring, the committee anticipates that bonus may temporarily be limited in 2021. When determining the outcomes for bonuses, if and where appropriate, 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.
<b>Share-based incentive plans</b> – VCP, PSP and SIP.	The VCP is a long-term scheme, incentivising achievement of the Company's strategy, only paying out after five years or earlier upon a maturity event. The 2017 PSP is a scheme for staff, based on parallel performance metrics to the VCP. The SIP, which is open to all employees, encourages and deepens share ownership by employees.	Apart from the SIP and the outstanding awards under the VCP granted in 2016 and the 2017 PSP, the directors did not participate in an LTIP during the year.	No VCP awards will vest if Milestones and share price hurdles are not met. It is highly likely that the VCP and 2017 PSP will not vest on its maturity in November 2021 given the significant downgrade to Lancaster Field Reserves and future production profiles, and the proposed financial restructure. The committee will consider the appropriate remuneration and retention tools for executive directors and key employees. This will be included in a new Policy when finalised.

**Note:**

1. Richard Chaffe is the only current director participant of the VCP and the 2017 PSP. Richard Chaffe was awarded 40 Growth Shares under the VCP, and 3,230,000 Category A, 2017 PSP shares shortly after he joined the business in 2016. Due to the adverse operational performance from the Lancaster field during 2020, coupled with the COVID-19 impact on oil prices, and the proposed financial restructuring, it is highly unlikely the VCP and 2017 PSP will vest on expiry.

**Salary**

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. There will be no changes to other benefits nor pension arrangements over this period. See page 69 for more information of the remuneration received by the executive directors during the year.

Current directors	Amounts paid in 2020 <sup>1</sup> £'000	Annual salary for 2021 £'000
Antony Maris	117	325
Richard Chaffe	158	270

**Note:**

1. The amounts paid in 2020 reflects the period of employment as a director of the Company.

## Salary *continued*

### Previous Directors

Name	Annual salary for 2021 <sup>4</sup> £'000	Amounts paid in 2020 <sup>3</sup> £'000
Dr Robert Trice <sup>2</sup>	—	185
Neil Platt <sup>3</sup>	—	176
Alistair Stobie <sup>1</sup>	—	50

#### Notes:

1. Alistair Stobie resigned as Chief Financial Officer as announced on 27 February 2020. He was paid a total of £50,000 during his period of employment as a director of the Company.
2. Dr Robert Trice resigned as Chief Executive Officer as announced on 8 June 2020. He was paid a total of £185,000 during his period of employment as a director of the Company.
3. Neil Platt's, annual salary reflect his period of employment in the Company in 2020.

A detailed table of remuneration for all directors (single figure remuneration) is outlined on pages 69 and 70.

## 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 2020, 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 2020

Following changes made in 2019 to the Performance Measures and target weightings, the stretch targets are structured in a manner that ensures 'on target' performance would generally lead to a bonus award of 50% of salary 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 committee assessed the executive directors' performance during the year against the KPI scorecard and in its discretion determined that no bonus will be awarded to the executive directors in respect of 2020 even though it was agreed that a fair assessment of performance against the 2020 Corporate scorecard was 27%, a score significantly lower than on-target performance. In awarding the scoring, the committee recognised that 2020 was a very challenging and unprecedented year and key achievements of the year were hampered by many factors including the write down of Reserves and Contingent Resources, low share prices, significantly reduced potential future cash flows and doubts over the Company's ability to repay the Convertible Bonds at maturity from Lancaster Field cash flows. In all cases, the committee noted that considerable steps had been taken by the executive directors to navigate the business through these very challenging times and had some significant achievements during the year, including enhancing the Company's relationship with our regulator, the OGA, putting together a business plan to deliver value in the short to medium term. Those efforts are most appreciated.

## Performance Measures for annual bonus award in respect of 2020

	HSSEQ	Production	Operations	Financial	Personal	Total
2020 weighting	10%	30%	30%	25%	5%	100%
2020 achievement	3.75%	7.80%	7.50%	5.0%	3%	27% <sup>1</sup>

#### Note:

1. This is a maximum score, with potential for differentiation based on merit and achievement.

Annual remuneration report *continued***Details of the 2020 KPI**

**HSSEQ** – It is of note that during the year in review, across all operations, the Company recorded over 1,000,000 hours worked with no significant environmental incidents. Lessons have been learned on how to improve on this going forward. A scoring of below target (3.75% of 10%) was recognised.

**Production** – Production levels were on average 13,900bopd, which was significantly below expectations. The committee was cognisant that production for the period was influenced by a range of dynamics including well performance. The committee recognised that the executives exercised significant financial discipline during the year and savings of \$12.3 million were made on operating costs. A scoring of below on-target (7.8% of 30%) was recognised.

**Capital and Asset Optimisation** – This Performance Measure included targets for both GWA and GLA (30% in total). For GWA, during the year, the Company took steps to achieve, preserve and maintain, operational, commercial and project readiness to progress the single well tieback and obtained an 18 months deferral of the Lincoln commitment well. In light of this it was impossible to demonstrate an oil water contact below structural closure.

For GLA, commutation of the Lancaster Commitment well was achieved but with mandatory relinquishment. A scoring of below on-target (7.5% of 30%) was recognised.

**Financial** – These metrics covered capital discipline on the GWA wells, other capital work scopes and long lead procurement and balance sheet control. No drilling costs were incurred in 2020, due to the deferral of the Lincoln well. Both balance sheet targets and operating cost control were restrained and \$12.6 million was saved on the \$55 million target development spend. Together these results gave an outturn of 5% (of 30%).

**External Relations / Governance / Personnel** – These metrics encompassed strengthening relationships with key stakeholders and building a clear employee value proposition to develop and retain talent at Hurricane. The maximum achievable was 5% and involved significant committee judgement in application. A scoring of 3% was awarded.

**2021 performance measures and targets**

Annual performance will continue to be measured against a set of agreed key corporate performance measures, which are likely to include aspects of ESG and also personal targets. The performance measures for 2021 have not yet been finalised, as they are contingent on the outcome of the proposed financial restructuring and the likely duration of future production operations at Lancaster. Notwithstanding, the Company's KPIs will continue to be anchored by a focus on safe and responsible working practices.

**Payments for loss of office (audited information)**

The Company announced the departure of Alistair Stobie on 27 February 2020 and Robert Trice on 8 June 2020, both of which were by mutual agreement. Remuneration payments following their departure was determined by the Remuneration Committee taking into account contractual entitlements, the rules of the Company's incentive plans and the Company's Remuneration Policy. To provide support to Richard Chaffe and Beverley Smith, if required, during their Management transition, Alistair Stobie remained employed by the Group during his notice period until 30 April 2020, whilst Robert Trice remained employed during his notice period until 8 December 2020. During this period of employment, their salaries, pensions and benefits continued to be paid as usual. In total during this period, Alistair Stobie received two months' salary of £59,000, £5,000 of pensions and £3,000 worth of benefits. Robert Trice received six months' salary of £214,000, £19,000 of pensions and £1,000 worth of benefits.

Having ceased employment, the former Directors received a payment in lieu of notice (PILON) in respect of salary and benefits for the unexpired period of their notice. These PILON payments were £268,000 to Alistair Stobie and £213,000 to Robert Trice and were paid in monthly instalments, subject to mitigation. Alistair Stobie and Robert Trice also received £86,000 and £89,000 settlement payments respectively which were subject to the material conditions of their settlement agreements. The Company paid for the former Directors' legal advice in relation to their departure.

Alistair Stobie and Robert Trice were not eligible to participate in the annual bonus plan for 2020. Alistair Stobie and Robert Trice are participants in the Company's VCP scheme and were treated as good leavers under the VCP. Due to the adverse operational performance from the Lancaster field during 2020, coupled with the COVID-19 impact on oil prices and the proposed financial restructuring, it is highly unlikely the VCP will vest on its maturity date in 2021. Robert Trice held 225,000 share options as at the date of his departure. The share options did not reach the relevant hurdle point of £1.00 and lapsed on 31 December 2020.

**Payments to past directors**

There were no payments made in 2020 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. No changes were made during the year to the non-executive directors' letters of appointment. Beverley Smith received a temporary employment contract for her role as Interim CEO. The terms of the employment contract ceased when she returned to her non-executive role. Fee arrangements for non-executive directors are set out below. Details of the directors remuneration in 2020 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<sup>1</sup>

Annual fee (Chairman) <sup>1</sup>	£150,000
Annual fee (Non-Executive Director)	£60,000
Additional annual fee (Senior Independent Director)	£10,000
Additional annual fee (Audit and Risk Committee Chair)	£10,000
Additional annual fee (Remuneration Committee Chair)	£10,000
Additional annual fee (Nominations Committee Chair)	£10,000
Additional annual fee (ESG Committee Chair) <sup>2</sup>	£10,000
Additional annual fee (Technical Committee Chair) <sup>2</sup>	£10,000

### Note:

- As the Chairman of the Company fulfils the role of Chair of the Nominations Committee, the additional fee of £10,000 is not included in the Chairman's remuneration.
- The Company announced the establishment of the ESG Committee and the Technical Committee on 8 June 2020.

## Directors' single figure remuneration for the year ended 31 December 2020 (audited information)

	Fixed pay				Variable pay				Total fixed and variable pay £'000	
	Base salary/fee £'000	Taxable benefits <sup>4</sup> £'000	Pension contributions and payments in lieu of pensions £'000	Total fixed pay £'000	Bonus		Other			
					Cash £'000	Shares £'000	LTIP <sup>7</sup> £'000	SIP £'000	Total variable pay £'000	
<b>Year ended 31 December 2020</b>										
Dr Robert Trice <sup>6,9</sup>	185	1	16	202	—	—	—	—	—	202
Neil Platt <sup>6,10</sup>	176	2	15	193	—	—	—	7	7	200
Alistair Stobie <sup>5</sup>	50	—	4	54	—	—	—	—	—	54
Antony Maris	117	—	12	129	—	—	—	—	—	129
Richard Chaffe <sup>11</sup>	158	3	16	177	—	—	—	—	—	177
Steven McTiernan	150	—	—	150	—	—	—	—	—	150
Dr David Jenkins	70	—	—	70	—	—	—	—	—	70
John van der Welle	70	—	—	70	—	—	—	—	—	70
Roy Kelly <sup>1</sup>	25	—	—	25	—	—	—	—	—	25
Sandy Shaw <sup>2</sup>	71	—	—	71	—	—	—	—	—	71
Beverley Smith <sup>3</sup>	173	—	13	186	—	—	—	—	—	186
Alan Parsley <sup>8</sup>	—	—	—	—	—	—	—	—	—	—
	1,245	6	76	1,327	—	—	—	7	7	1,334

Annual remuneration report *continued***Directors' single figure remuneration for the year ended 31 December 2020 (audited information) *continued***

	Fixed pay				Variable pay				Total variable pay	Total fixed and variable pay £'000
	Base salary/fee £'000	Taxable benefits <sup>4</sup> £'000	Pension contributions and payments in lieu of pensions £'000	Total fixed pay £'000	Bonus <sup>6</sup>		Other			
					Cash bonus £'000	Shares £'000	LTIP <sup>7</sup> £'000	SIP £'000		
<b>Year ended</b>										
<b>31 December 2019</b>										
Dr Robert Trice	400	2	35	437	107	53	—	7	167	604
Neil Platt	300	2	26	328	90	45	—	7	142	470
Alistair Stobie	300	4	26	330	40	—	—	2	42	372
Steven McTiernan	150	—	—	150	—	—	—	—	—	150
Dr David Jenkins	73	—	—	73	—	—	—	—	—	73
John van der Welle	70	—	—	70	—	—	—	—	—	70
Roy Kelly <sup>1</sup>	60	—	—	60	—	—	—	—	—	60
Sandy Shaw <sup>2</sup>	67	—	—	67	—	—	—	—	—	67
Beverley Smith <sup>3</sup>	2	—	—	2	—	—	—	—	—	2
	1,422	8	87	1517	237	98	—	16	351	1,868

**Notes:**

- Roy Kelly joined on 10 May 2016; 100% of non-executive director fees were paid to Kerogen Capital. On 8 June 2020, the Company announced that Roy Kelly resigned from his director role. He was replaced by Dr Alan Parsley. A total fee of £25,000 was paid to Kerogen Capital from January to June 2020.
- Sandy Shaw joined the Board on 3 January 2019 and was appointed Chair of the Remuneration Committee on 1 April 2019 and was appointed Chair of the ESG Committee on 17 November 2020. The November and December remuneration for the role of Chair of the ESG Committee was paid in January 2021.
- Beverley Smith joined the Board on 20 December 2019 and received a pro-rated fee of £1,800. On 8 June 2020, the Company announced that Beverley Smith was appointed Interim CEO. She received remuneration of £127,000 for her role as interim CEO from 8 June to 11 September and £46,000 for her role as non-executive director from (1 January to 8 June and 11 September to 31 Dec). The remuneration for the role of Chair of the Technical Committee from 11 September 2020 was paid in January 2021.
- Taxable benefits include a voluntary package of benefits to directors including optional enrolment in healthcare, dental, travel insurance and critical illness cover.
- The Company announced the resignation of Alistair Stobie from his role as CFO and director of Hurricane Energy plc on 27 February 2020. The total remuneration paid to Alistair Stobie during his time as CFO and director of the Company is reflected above. Payments following his stepping down as a director are set out above in the section "Payments for loss of office". The Company's SIP is subject to standard leaver provisions. Following resignation, Alistair Stobie forfeited a total of 77,009 Matching and Free Shares.
- The bonus paid in 2019 for Dr Robert Trice and Neil Platt were 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. Alistair Stobie, Robert Trice and Neil Platt's VCP, upon vesting, will be pro-rated for time in employment. Due to the adverse operational performance from the Lancaster field during 2020, coupled with the COVID-19 impact on oil prices, and the proposed financial restructuring, it is highly unlikely the VCP will vest on expiry.
- Dr Alan Parsley replaced Roy Kelly as the Kerogen Capital representative on the Board. 100% of non-executive director fees were payable to Alan Parsley rather than Kerogen Capital. For the periods from appointment to resignation, Alan Parsley waived any fees due.
- The total remuneration paid to Robert Trice during his time as CEO and director of the Company is reflected above. Payments following his stepping down as a director are set out above in the section "Payments for loss of office". The Company's SIP is subject to standard leaver provisions. Following resignation, Robert Trice forfeited a total of 62,317 Matching and Free Shares. The Company at its discretion is able to clawback the 2019 cash bonus and bonus shares up to three years from the date of award.
- The total base salary reported for Neil Platt reflects his role as COO from 1 January to 6 July 2020.
- Richard Chaffe is currently the only director participant in the VCP and 2017 PSP. Richard Chaffe was awarded 40 Growth Shares under the VCP and 3,230,000 Category A, 2017 PSP shares shortly after he joined the business in 2016. Due to the adverse operational performance from the Lancaster field during 2020, coupled with the COVID-19 impact on oil prices, and the proposed financial restructuring, it is highly unlikely the VCP and 2017 PSP will vest on expiry.

**Share awards held under long-term incentive plans as at 31 December 2020 (audited information)**

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

**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, detailed elsewhere in this Report and fully detailed in the Company's 2016 Annual Report and Accounts. When the Company introduced the VCP in 2016, the directors who entered into the VCP were required to forfeit any 2013 PSP awards. Alistair Stobie's, Robert Trice's and Neil Platt's VCP awards, upon vesting (if any), will be pro-rated for time in employment. Due to the adverse operational performance from the Lancaster field during 2020, coupled with the COVID-19 impact on oil prices, and the proposed financial restructuring, it is highly unlikely the VCP will vest on expiry.



## 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 20 January 2020 to the executive directors are outlined below. Global Shares Trustee Company Limited (SIP Trustee), Trustee of the Hurricane Energy plc SIP, awarded 1,674,240 Ordinary Shares to participants in the SIP (including the executive directors) at a price of £0.2563 per share, being the closing mid-market price on 17 January 2020. The Company's SIP is subject to standard leaver provisions. Alistair Stobie forfeited a total of 77,009 Matching and Free shares, following his resignation, leaving him with a total of 19,252 SIP shares in ownership. Robert Trice forfeited a total of 62,317 shares following his resignation, leaving him with a total of 230,717 SIP shares in ownership. On the unfortunate passing of Neil Platt, his SIP shares became subject to the good leaver provisions.

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

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

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. As a result of the management changes which took place during the year, the five-year period will begin from the date of their appointment. Further details on the minimum shareholding requirement can be found in the Directors' Remuneration Policy on pages 74 to 81. At 31 December 2020, the directors' interests, all of which were beneficial interests, in the Ordinary Shares of the Company (including all SIP Shares held and those of connected persons) were as follows:

Beneficial holdings	Total number of shares held as at 31 Dec 2020	Total SIP Shares in Hurricane Energy plc, held by the SIP Trustee	Number of shares held as at 31 Dec 2019
Antony Maris <sup>2</sup>	169,084	Nil	Nil
Richard Chaffe <sup>1</sup>	140,558	96,261	Nil
Steven McTiernan	625,000	Nil	375,000
Dr David Jenkins	400,000	Nil	205,000
John van der Welle	354,159	Nil	154,159
Sandy Shaw	208,771	Nil	Nil
Beverley Smith	334,448	Nil	Nil

### Note:

1. The total number of shares for Richard Chaffe includes his 96,261 SIP shares.
2. Antony Maris joined the business on 21 August 2020 and currently does not have any SIP shares.

## 2021 executive director SIP awards

In light of the macro economic environment and the decline in the Company's share price during the year, the committee made the decision that it was in the best interest of the staff and the Company to temporarily suspend the 2021 SIP operations until there is clarity on the direction of the business.

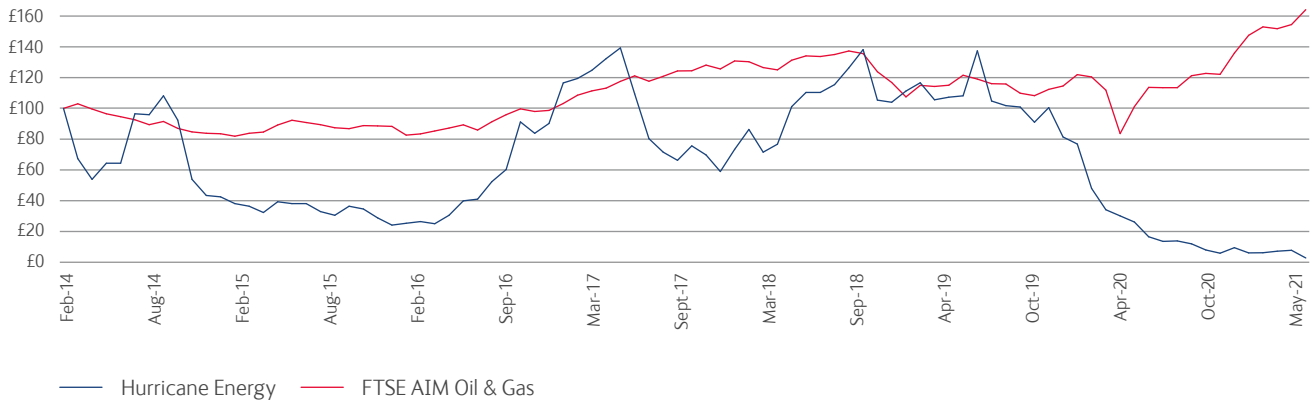
## Vesting of long-term incentive plans

There were no long-term incentive plan awards vesting in 2020. 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. Due to the adverse operational performance from the Lancaster field during 2020, coupled with the COVID-19 impact on oil prices, and proposed finance restructuring, it is highly unlikely that the VCP will vest on expiry.

No long-term incentive plan awards were granted to the executive directors during the financial year in review (2020).

Annual remuneration report *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 Dr. Robert Trice in his time as Chief Executive Officer in the past five years is shown below. The single total remuneration figure earned by Antony Maris in 2020 is shown below.

**Dr Robert Trice**

	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 %
2020 <sup>2</sup>	185	202	—	—
2019 <sup>1</sup>	400	604	40%	—
2018	375	605	50%	—
2017	375	572	41%	—
2016	375	926	84%	—

**Antony Maris<sup>3</sup>**

	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 %
2020	117	129	—	—
2019	—	—	—	—
2018	—	—	—	—
2017	—	—	—	—
2016	—	—	—	—

**Note:**

- In the early part of 2019, Robert Trice base salary was increased by £50,000. The increase 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. In this period the committee also increased the executive directors maximum bonus opportunity from 50% to 100% of base salary. For the 2019 financial year, 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 of the 2019 Annual Report and Accounts.
- Total remuneration has been pro-rated following his departure and calculated to be consistent with the figures disclosed in this report on page 69 and the table also details the proportion of annual bonus and LTIP awards payable and/or vesting in the relevant year.
- Antony Maris joined the business on 21 August 2020. The remuneration reported reflects his reflects the period of employment as a director of the Company in 2020.

## Annual percentage change in remuneration of directors and employees

As required by the The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, which implement Articles 9a and 9b of European Directive 2017/828/EC1 (commonly known as the Revised Shareholder Rights Directive or SRD), the table below shows a comparison of the annual change of each individual director's pay to the annual change in average employee pay commencing the year ended 31 December 2020.

Change in pay between the year ended 31 December 2019 and 31 December 2020

		Base salary/fees % change	Bonus % change	Benefit % change
Executive directors	Antony Maris	-%	—	—
	Richard Chaffe	-%	—	—
Non-executive directors	Steven McTiernan	-%	—	—
	David Jenkins	(3%)	—	—
	John van der Welle	-%	—	—
	Sandy Shaw	4%	—	—
	Beverley Smith	189% <sup>1</sup>	—	—
Average pay of employees		11%	(80%)	—

### Note:

1. The significant increase in Beverley Smith's remuneration is as a result of the temporary change of role during the year from non-executive director to Interim CEO. Details about the Board changes in 2020 can be found in the Nominations Committee report on page 55.

## Relative importance of employee pay

	Total remuneration paid to employees		Distributions to shareholders	
	\$'000	% change	\$'000	% change
<b>2020</b>	<b>11,658</b>	<b>(14%)</b>	<b>Nil</b>	<b>—</b>
2019	13,524	62%	Nil	—

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

## 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 2021.

This Remuneration Report was approved by the Board on 24 May 2021 and signed on its behalf by:

### Sandy Shaw

Remuneration Committee Chair  
24 May 2021

# Annual remuneration report *continued*

## Remuneration Policy

### Directors' Remuneration Policy framework

Following industry practice and best practice corporate governance guidelines, Hurricane's executive directors' Remuneration Policy has been 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 and stakeholders. 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 materially 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, shareholder and stakeholder interests through a minimum shareholding requirement for executive directors of 200% of salary, to be achieved within five years. In light of the management changes which took place during the year, the countdown of the five year period will begin from the date of their appointment, so that the hurdle must be met by or before five years' time i.e. by June and August 2025 for the new CFO and CEO respectively. The committee will keep compliance under review during the period.

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.

### 2021 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 2019 Annual Report and Accounts, which is set out below. These changes include the change in the executive director notice period from 12 months to 6 months.

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"> <li>• salaries for similar roles in relevant comparator companies;</li> <li>• individual specifics (e.g. personal performance, experience and the individual's role within the Group);</li> <li>• Company performance;</li> <li>• enhanced/reduced scope of responsibility compared with the norm for a given role; and</li> <li>• pay and conditions for all employees.</li> </ul>	<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.

## 2021 Remuneration Policy *continued*

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.</p> <p>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 ESG.</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"> <li>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</li> <li>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 shareholders, stakeholders and participants.</li> </ol>



Annual remuneration report *continued*Remuneration Policy *continued***2021 Remuneration Policy** *continued*

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Long-term share-based incentive plans – VCP <sup>1</sup> .	<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. The VCP was closed to further participants in 2016.</p> <p>In view of the imminent expiry of the VCP in 2021, with vesting highly unlikely, the committee will be considering the development of a new LTIP in which executive directors and other senior employees may participate and this will be included in a new Policy when finalised.</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.</p> <p>Upon a vesting, the vested portion of Growth Shares may be exchanged for Ordinary Shares, provided the share price is above set hurdle prices of £0.55 or £0.65 (being increases of 61.8% and 91.2% respectively against the share price at the commencement of the VCP).</p> <p>Malus and clawback provisions apply.</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. In the event of any vesting, the committee has discretion over the vesting associated with Milestones and can reduce overall vesting with reference to Total Shareholder Return performance relative to the FTSE AIM Oil &amp; 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).</p>	<p>Operates on an annual basis (usually in January).</p> <p>SIP awards are partly satisfied by the issue of new Ordinary Shares to the SIP Trustee (Global Shares Trustee Company Limited) at the nominal value of the shares.</p> <p>Participating employees receive an allocation of Partnership Shares at market value purchased using deductions from employees' pre-tax salaries.</p> <p>Matching Shares (twice the number of Partnership Shares acquired by an employee) and Free Shares (being Ordinary Shares to a value not exceeding £3,600) are correspondingly allocated to employees, paid for by the Company.</p> <p>The scheme is subject to standard leaver provisions.</p> <p>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.	The current scheme has been temporarily suspended in light of the challenges faced by the business including a significant drop in share price.
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.
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.

**Note:**

1. Due to the adverse operational performance from the Lancaster field during 2020, coupled with the COVID-19 impact on oil prices and the proposed financial restructuring, it is highly unlikely the VCP will vest on its maturity date in 2021.

## Annual remuneration report *continued*

Remuneration Policy *continued*

### Legacy share awards

The committee reserves the right to honour any commitments entered into prior to the implementation of the 2020 Remuneration Policy.

### 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. Shares purchased by the directors will be monitored by the committee during the period and tested by the committee at the end of the five-year period beginning from the date of their appointment.

The committee is cognisant of the 2018 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 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, shareholders and stakeholders. 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 ESG 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. The Performance Measures for 2020 can be found on pages 67 to 68. Information on the 2021 performance measures can be found on page 68.

### 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 using other remuneration tools and may exercise discretion, as appropriate, to make awards using a different structure.

In view of the upcoming expiry of the VCP, the committee is mindful that it is highly unlikely that the VCP will vest. As appropriate, following consultation with shareholders and key stakeholders, appropriate remuneration structures to support the strategic direction of the Company will be put in place.

### 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 55.

## Directors' service contracts and termination policy

The executive directors have rolling-term Service Agreements with the Group. Following a restructure to the Company's management team, the Remuneration Committee recognised the cost of executive exits and as such reduced the executive notice period from 12 months to six months. The Committee believe this action is in the best interest of stakeholders and shareholders and supports an agile system of delivering results. The notice period for Antony Maris and Richard Chaffe are six months by either party.

The Group's policy has therefore been revised to set executive director notice periods of up to six months as a maximum.

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, 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 participate in such bonus scheme arrangements of the Company applicable to directors of the Company, in line with the Company's bonus policy. Any bonus awarded to the executives is entirely discretionary and may at the Company's discretion be paid to the executive as a combination of shares and cash.

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

Richard Chaffe agreed to become employee shareholder as he meets the status requirement under Section 205A(1) of the Employment Rights Act 1996, relinquishing 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.

Name	Date of Service Agreement	Notice by Group/individual
Antony Maris	21 August 2020	6/6 months
Richard Chaffe	5 June 2020	6/6 months

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. Due to the adverse operational performance from the Lancaster field during 2020, coupled with the COVID-19 impact on oil prices and the proposed financial restructuring, it is highly unlikely the VCP will vest on its maturity date in 2021.
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.		

Annual remuneration report *continued*Remuneration Policy *continued***Directors' service contracts and termination policy** *continued*

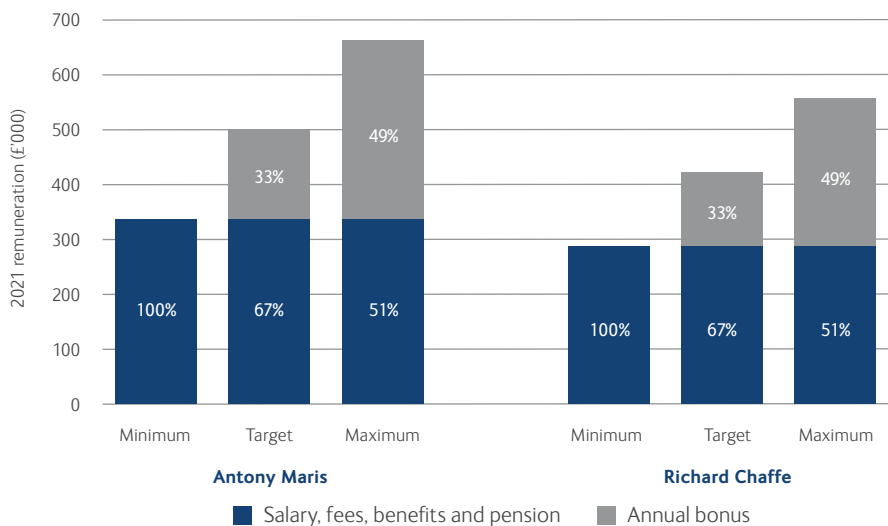
The committee reserves the right to make any other payments in connection with termination of employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim 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 their 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 CFO could earn under the Company's Remuneration Policy based on their salaries as at 1 January 2021.

**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/or 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 69.</p> <p>The fee levels are subject to the maximum limits set out in the Articles of Association.</p>	Not applicable.



Each non-executive director is appointed for a term of three years. This term may be extended by the Board upon recommendation of the Nominations Committee, and the appointment can be terminated by either party on three months' notice with no compensation in the event of such termination, other than accrued fees and expenses. Non-executive directors are typically expected to serve two three-year terms; however, the Board may invite the individual to serve an additional period. The non-executive directors are subject to re-election by rotation by shareholders at least once every three years. No director plays a part in any decision about their own remuneration.

### **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 is the designated non-executive director responsible for enhancing the employee voice in the boardroom. As appropriate, she will engage with the workforce, on remuneration and non-remuneration matters.

The Company does not formally consult with employees on executive remuneration as the size and scope of Hurricane's operations at this stage in its development would make any consultation process ineffectual.

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

The Company's Remuneration Policy for all employees, similar to the remuneration policy for executive directors, incentivises everyone to deliver on the strategic direction and create value for all shareholders. All employees are eligible to participate in the Company's annual bonus scheme and SIP, with a voluntary package of benefits available. From time to time, they are also invited to participate in long term incentive plans. 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 1.5% of the current issued Ordinary Shares of the Company at the end of the year in review (2019: 2.0%).

### **Shareholder views**

The Company has not, to date, sought formal shareholder approval for its Remuneration Policy.

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 hydrocarbons from naturally fractured basement reservoirs on the UK Continental Shelf. Details of the principal joint operation of the Group as at 31 December 2020 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 2020 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 2020 financial year and up to the date of this report are listed on page 45. Information pertaining to the former CEO, CFO and COO is disclosed on page 38.

### 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 47. 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. The Company's Section 172 statement can be found on page 12.

### Results for the year and dividend

The Loss of the Group for the year was \$625,325,000 (2019: profit of \$58,675,000). 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 and maturity analysis of financial liabilities are set out in note 2.7 and 5.3 respectively of the Group Financial Statements. In addition, notes 4.4 and 5.8 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.

On the basis that Company receives all the relevant consents and approvals to implement the proposed financial restructuring process, further details of which can be found on pages 24 to 26 of the strategic report and note 7.4.3 to the Financial Statements, the directors have a reasonable expectation that, the Group has adequate resources to continue in operational existence throughout the going concern period. Therefore, the directors

continue to adopt the going concern basis of accounting in preparing these consolidated financial statements and the financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

However, successful completion of the proposed financial restructuring is subject to, inter alia, Bondholder approval and the Court sanctioning the proposal and as such is outside of the Group's control. The uncertainties regarding management's ability to complete the proposed financial restructuring and (should it not complete) management's ability to complete an alternative restructuring and prevent a controlled wind-down and insolvent liquidation of the Company, create material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

Further details are provided in Going Concern section of the Group Strategic Report on pages 24 to 26.

### Certain information in the Strategic Report

The following items are set out in the Strategic Report on pages 1 to 35: particulars of important events affecting the Group which have occurred since 31 December 2020; an indication of future strategy and outlook; engagement with our creditors and stakeholders during the year; and our sustainable strategy. Financial risk management objectives, the use of financial instruments, non-cash impairments and the impairment of our intangible assets; Convertible Bond accounting and the exposure of the Group to price, credit, liquidity and cash flow risks are outlined in note 5 of the Group Financial Statements.

## Streamlined energy and carbon reporting disclosure

Hurricane's GHG emissions and recorded energy usage are reported in line with the Streamlined Energy and Carbon Reporting framework for the period 1 January 2020 to 31 December 2020.

Metric	Source	2020	2019
Scope 1 GHG emissions (CO <sub>2</sub> e) <sup>1</sup>	Aoka Mizu FPSO and offshore logistics chain	209,421	144,372
Scope 2 CO <sub>2</sub> emissions (CO <sub>2</sub> e) <sup>2</sup>	Office emissions from energy consumption (Easing & Aberdeen)	84	93
Scope 1 emissions intensity (kg CO <sub>2</sub> e per bbl oil) <sup>1</sup>	Aoka Mizu FPSO and offshore logistics chain	41.2	47.6
Scope 1 energy use (TJ) <sup>1</sup>	Aoka Mizu FPSO combustion activities only (excludes logistics chain)	3,048	2,018
Total scope 1 and scope 2 emissions		209,505	144,465

### Notes:

1. Scope 1 GHG emissions, intensity and Scope 1 energy use for 2019 reflect the Lancaster oil field producing since March 2019.
2. Scope 2 emissions reported only as CO<sub>2</sub>e, no other GHGs were included for scope 2.

### Methodology

Hurricane Energy plc is required to report its energy use and carbon emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The data detailed in the table above represent emissions and energy use for which Hurricane Energy plc is responsible.

The scope and methodology of the Company's reporting changed in 2020 to include the six major GHGs targeted by the Kyoto Protocol (including Scope 1 CO<sub>2</sub>e emissions from the Company's offshore logistics chain) to align with the OGUK's definition of Scope 1 emissions. As Hurricane only has rigs on short-term hire, they are excluded from the Company's Scope 1 emissions in line with OGUK guidance. We believe this provides a more complete picture of the Company's emissions performance and will enable easier annual comparisons in the future. The methodology used to calculate the Company's emissions will be reported in our standalone 2020 ESG report, which will be issued later this year.

### Energy efficiency

The Company recognise the use of fossil fuels in its operations and that its emissions intensity is above the UKCS average. As an independent Exploration and Production company, we will continue to manage our GHG emissions through monitoring and assessment and aim to reduce emissions wherever economically, commercially, and technically feasible. The Company's approach to carbon emissions and resource usage will be reported in its standalone 2020 ESG report which will be issued later this year.

### 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 30 June 2021. The Notice of Annual General Meeting, which has been circulated to all shareholders, contains information on the format of the meeting and 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 2020 and 24 May 2021, 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 2020	Change in percentage notified as at 24 May 2021
Kerogen Investments No. 18 Limited	15.99%	—
Crystal Amber Fund Limited	11.55%	2.77%

### 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.

## Directors' report *continued*

### 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 2020.

### 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 2021 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 accounting standards in conformity with the requirements of the Companies Act 2006 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 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 24 May 2021 and signed on its behalf by:

**Antony Maris**

Chief Executive Officer

**Steven McTiernan**

Chairman

# Independent Auditor's report

to the members of Hurricane Energy plc

## Report on the audit of the financial statements

### 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 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 7.4 in respect of the group and A to J 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 international accounting standards in conformity with the requirements of the Companies Act 2006. 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 Financial Reporting Standard 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. Material uncertainty related to going concern

We draw attention to note 1.2 in the financial statements, which indicates that implementation of the proposed financial restructuring is dependent on all required court and regulatory approval processes being complete and the required percentage of the group's Bondholders by value having voted in favour. Note 1.2 also discloses that, if the proposed financial restructuring does not go ahead, the directors do not forecast a scenario where there would be sufficient free cash available to fully repay the \$230 million Convertible Bond (the "Convertible Bond") principal due in July 2022.

These events or conditions, along with the other matters as set forth in note 1.2, indicate that a material uncertainty exists that may cast significant doubt on the group's and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Holding discussions with management, with the assistance of a specialist from our internal restructuring group, to understand the current status of the proposed financial restructuring and the options available if it does not go ahead;
- Obtaining an understanding of the relevant controls related to the going concern assessment;
- Obtaining management's cash flow forecasts for the period to the end of July 2022, thereby including the current contractual repayment date of the Convertible Bond, and comparing these to the latest cash flow forecasts approved by the Board. Separate forecasts were prepared both on the assumption that the proposed financial restructuring goes ahead (the "base case") and on the assumption that it does not;



## Independent Auditor's report *continued*

to the members of Hurricane Energy plc

### 3. Material uncertainty related to going concern *continued*

- Obtaining an understanding of the terms of the proposed restructured Bond debt, including the mandatory prepayment provision and the \$45m minimum liquidity covenant;
- Comparing the oil price assumptions to third party forecasts and publicly available forward curves;
- Comparing the forecast production volumes and expenditure used in the cash flow forecasts in relation to the Lancaster field to those used in the No Further Activity scenario in the impairment test for Lancaster;
- Considering the level of headroom in the base case cash flow forecast with reference to the proposed minimum liquidity covenant;
- Assessing the results of the sensitivity analysis prepared by management in respect of the base case, which included reductions in both oil price and production volumes as well as related reverse stress tests;
- Assessing the historical accuracy of budgets prepared by management;
- Testing the mechanical accuracy of the cash flow forecast model; and
- Considering whether the disclosures relating to going concern are appropriate.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to:

- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting; and
- the directors' identification in the financial statements of the material uncertainty related to the group's and parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### 4. Summary of our audit approach

#### Key audit matters

The key audit matters that we identified in the current year were:

- Going concern (see material uncertainty related to going concern section);
- Carrying Value of the Lancaster field; and
- Recoverability of Exploration & Evaluation (E&E) assets.

Within this report, key audit matters are identified as follows:

- ⊕ Increased level of risk
- ⊖ Similar level of risk
- ⊗ Decreased level of risk

#### Materiality

The materiality that we used for the group financial statements was \$4.0 million, which was determined with reference to a number of financial metrics and represents 0.9% of total assets, 5% of operating cash flows and 4.3% of EBITDAX, being earnings before finance income, finance costs, fair value gain on Convertible Bond embedded derivative, depreciation, impairment of oil and gas assets and impairment of intangible exploration and evaluation 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

There have been no significant changes in our audit approach compared to the prior year.

### 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. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

## 5. Key audit matters *continued*

### 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 \$208.0 million (2019: \$796.2 million) at 31 December 2020.

This is considered a key audit matter due to the significant judgement and estimates involved in assessing whether any impairment has arisen at year-end, and in quantifying any such impairment. In addition, we considered that there was a risk of impairment due to the potential impact of climate change on long term oil prices. Given the importance of the Lancaster field to the group and the judgemental nature of the impairment assessment, we also considered that there was a potential for possible manipulation of the assumptions used in the impairment test. We have assessed an increased risk in 2020 as compared to 2019 as a result of oil price volatility and the significant reduction in Lancaster's estimated recoverable Reserves during the year.

Management reviewed Lancaster for indicators of impairment as at 31 December 2020. Given the downward revision of estimated recoverable Reserves as a result of the Technical Review undertaken during the year, the significant decline in oil price which occurred in the first half of 2020 and the market capitalisation of the group falling below its net assets, management concluded that there was an indicator of impairment on the Lancaster field. Management have estimated the recoverable amount of the field using its best estimate of value in use, using the expected cash flow approach. Under this approach, the directors considered four scenarios and assigned a probability weighting to each in order to arrive at a risk-adjusted probability cash flow projection. Details of the four scenarios and associated probabilities, which took into consideration a number of investment options under consideration, are provided in note 2.3.1 to the financial statements.

Management recorded a pre-tax impairment charge of \$519.2 million on the Lancaster field. No impairment charges were recorded in 2019.

Management's value in use estimate was based on key assumptions which included:

- Oil price forecasts, being (in real terms) \$52/bbl average for 2021, rising to \$57/bbl in 2022, \$58/bbl in 2023 and \$57/bbl in 2024 and thereafter;
- Reserves and Contingent Resources estimates and production profiles; and
- Probability weightings applied to each scenario.

Reserves and Contingent Resources estimates and production profiles were primarily based on internal estimates and reservoir simulation models, taking into account the Reserves and Contingent Resources estimates in a Competent Person's Report provided by a firm of independent third party reservoir engineering experts (the "2021 CPR"). Management have highlighted the estimated future cash flows used in the impairment test as a key source of estimation uncertainty in note 2.3.1 to the financial statements.

Further details of the approach adopted by management in this area are provided in note 2.3.1 of the financial statements and in the Audit and Risk Committee Chairman's Report on page 52.

# Independent Auditor's report *continued*

to the members of Hurricane Energy plc

## 5. Key audit matters *continued*

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



We obtained an understanding of management's key internal controls over the estimation of oil prices, reserve estimates and production profiles and the probability weightings applied to each scenario, as well as the overall process by which management has derived its estimates of the value in use. In addition, we conducted the following substantive procedures:

#### Oil prices

- We independently developed a reasonable range of forecasts based on external data obtained, against which we compared management's oil price assumptions in order to challenge whether they are reasonable. In developing this range, we obtained a variety of reputable and reliable third party forecasts, peer information and other relevant market data.
- In challenging management's price assumptions, we considered the extent to which they reflect the impact of lower oil demand due to climate change, the energy transition and COVID-19. This included consideration of third party forecasts stated as being consistent with achieving the Paris 2°C Goal.

#### Reserves and Contingent Resources estimates and production profiles

- We engaged our internal reserves specialists to assist in our substantive procedures noted below related to the Reserves and Contingent Resources estimates and production profiles used in management's impairment model.
- We assessed the process used by management to derive their internal Reserves and Contingent Resources estimates and associated production profiles for each of the four scenarios.
- We obtained an understanding of how management provide information to, and interact with, the third party reservoir engineering experts.
- We read the 2021 CPR provided by the third party reservoir engineers and communicated directly with them to discuss and assess their scope of work, and evaluate their competence, capabilities and objectivity.
- We compared management's internal production forecasts for each of the four scenarios with the most comparable estimates included in the 2021 CPR and assessed the appropriateness of the differences.

#### Probability weightings

- We assessed management's rationale for the probabilities applied to each of the four scenarios, noting that all but one of the scenarios are predicated on the assumption that the proposed financial restructuring proceeds to completion.
- As bondholder approval is required for any significant investment in the field, we obtained an understanding from management as to discussions held with the bondholders on the various investment options prior to the announcement of the proposed financial restructuring.
- We assessed whether the probability weightings were consistent with documentation associated with the proposed financial restructuring and approved by the bondholders, including the announcement of the transaction on 30 April 2021 and the terms of the lock-up agreement.

#### Other procedures

- We involved our internal valuation specialists to independently develop a reasonable range of discount rates for the Lancaster field and compared those to the post-tax real rate used by management of 9.4%.
- We assessed management's assumption, as disclosed in note 2.3.1, that they will be successful in renegotiating certain terms of the Aoka Mizu FPSO charter, by obtaining an understanding of the current status of negotiations with the FPSO owner.
- We assessed management's other assumptions by reference to third party information, our knowledge of the group and industry and also budgeted and forecast performance.
- We assessed that Hurricane's expected cash flow value in use methodology was acceptable under IFRS and tested the integrity and mechanical accuracy of the impairment model.
- We assessed whether management's presentation and disclosures relating to impairment and associated estimation uncertainty were adequate.

### Key observations



We are satisfied that the impairment charge recorded by management is appropriate. We are also satisfied that appropriate disclosures relating to management's impairment assessment and sensitivity analysis have been provided in Note 2.3.1 to the financial statements. We highlight that the impairment charge is sensitive to the probabilities applied to each scenario, which in turn are influenced by the extent to which the bondholders approve the various investment options under consideration and hence outside of management's direct control.

## 5. Key audit matters *continued*

### 5.2 Recoverability of Exploration & Evaluation (“E&E”) assets

#### Key audit matter description



The total value of the group's E&E assets at 31 December 2020 was \$55.4 million (2019: \$75.9 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 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), the P2294 licence (Warwick and part of the Lincoln assets) and the P2308 licence (Halifax asset). During 2020, the P2294 licence was extended into its second term, which expires in 2023, and the P2308 licence was extended into its second term, which expires in 2024.

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

- 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, a portion (\$12.1 million) of Hurricane's exploration and evaluation expenditure on the Lincoln field was written off, comprising the group's share of standby costs for the Paul B Loyd Jr rig, which was not used for any drilling campaigns during 2020 following the Oil and Gas Authority granting an extension to the licence commitments on the Lincoln field in light of the COVID-19 pandemic.

Following the conclusion of the group's Technical Review and finalisation of the 2021 CPR, management recorded an impairment charge of \$35.4 million to fully write off the carrying value attributable to the Halifax field and license, as the revised estimates do not attribute any Reserves and Contingent Resources to Halifax and the group has no plans or budgets for substantive expenditure on further exploration or evaluation on this licence.

Although the 2021 CPR estimated a significant reduction in Contingent Resources attributable to its other E&E assets (the Lincoln and Warwick fields) as compared to the previous CPR in 2017, management's economic analysis shows their carrying amount could be recovered in full through successful development. The assumptions in this economic analysis include oil price forecasts and a discount rate consistent with those used in the Lancaster impairment test, as well as production estimates materially consistent with the 2C Contingent Resources figures included in the 2021 CPR. Based on their analysis, management has concluded that no impairment is required for the Lincoln and Warwick fields as at 31 December 2020.

Management has highlighted the identification of impairment indicators for its E&E assets as a critical accounting judgement in note 2.4.1 of the financial statements. Further details of the approach adopted by management in this area are provided in note 2.4.1 of the financial statements and in the Audit and Risk Committee Chairman's Report on page 52.

# Independent Auditor’s report *continued*

to the members of Hurricane Energy plc

## 5. Key audit matters *continued*

### 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;
- Confirming that further exploration activity for all assets which remain capitalised are included in future budgets;
- Reading license commitments to determine whether the requisite activity has been performed to maintain the rights to the assets;
- Reading the 2021 CPR and holding discussions with the independent third-party reservoir engineering experts and management to understand the rationale for the movements in estimated Contingent Resources for each field compared to the 2017 CPR;
- Confirming that the 2021 CPR attributed no oil Reserves or Contingent Resources to Halifax;
- Testing, on a sample basis, the standby costs incurred for the Paul B Loyd Jr rig; and
- Obtaining and challenging management’s economic model for the Lincoln and Warwick fields. This included assessing the oil price and discount rates by reference to the work done on the Lancaster impairment and reconciling the production estimates to the 2021 CPR. We involved our internal reserves specialists to assess the level of risk that should be applied to management’s economic analysis, given the category of Contingent Resources assigned to the fields in the 2021 CPR. We also assessed management’s other assumptions by reference to third party information and our knowledge of the group and industry and tested the integrity and mechanical accuracy of the model.

### Key observations



We are satisfied that the standby costs for the Paul B Loyd Jr rig and the carrying value of the Halifax field should be fully impaired during the period and that no impairment charges are required in relation to the Lincoln and Warwick fields. We highlight that, assuming the proposed financial restricting proceeds to completion, significant further expenditure on the Lincoln and Warwick fields will be subject to bondholder approval and hence is outside of management’s direct control.

## 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
<b>Materiality</b>	\$4.0 million (2019: \$10.0 million)	\$3.5 million (2019: \$8.3 million)
<b>Basis for determining materiality</b>	0.9% of total assets, 5% of operating cash flow and 4.3% of EBITDAX (2019: 1.5% of net assets)	3% of net assets
<b>Rationale for the benchmark applied</b>	Under the terms of the proposed financial restructuring, the majority of the group’s equity will be held by the current holders of the Convertible Bonds. We have therefore concluded that our materiality should reflect the likely focus of this stakeholder group, being the group’s ability to repay the proposed restructured bond debt. As such, we have adopted a blended approach to materiality, focusing on total assets, operating cash flow and EBITDAX.	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. Our application of materiality *continued*

### 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 financial statements	Parent company financial statements
<b>Performance Materiality</b>	\$2.8 million (2019: \$7 million)	\$2.4 million (2019: \$5.8 million)
<b>Basis and rationale for determining performance materiality</b>	Group performance materiality was set at 70% of group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors: <ul style="list-style-type: none"> <li>• 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; and</li> <li>• Our past experience of the audit, which has indicated a low number of uncorrected misstatements identified in prior periods.</li> </ul>	

### 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 \$0.2 million (2019: \$0.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 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. All the audit work for the 31 December 2020 year end was performed by the group engagement team.

### 7.2. Our consideration of the control environment

We placed reliance on controls over the purchases and payables cycle that are relevant to critical business processes. We have also obtained an understanding of certain controls over the revenue and collection processes and over our significant audit risks. Given the nature of the group's information technology systems, we concluded that it was not necessary to place reliance on the related controls in this area.

## 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.

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.

We have nothing to report in this regard.

## 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.



## Independent Auditor's report *continued*

to the members of Hurricane Energy plc

### 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

#### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuation and reserves specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: the carrying value of the Lancaster field. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, AIM Rules, and UK tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's operating licences and environmental regulations.

#### 11.2. Audit response to risks identified

As a result of performing the above, we identified the carrying value of the Lancaster field as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and making enquiries regarding any relevant legal correspondence; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### 12. 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.

### 13. 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.

### 14. Corporate governance statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 24-26;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 26;
- the directors' statement on fair, balanced and understandable set out on page 84;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 14;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 52-53; and
- the section describing the work of the Audit and Risk Committee set out on pages 49-54.

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

#### 15.1. 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.

#### 15.2. 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.

## Independent Auditor's report *continued*

to the members of Hurricane Energy plc

### **16. 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.

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

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

24 May 2021

# Group statement of comprehensive income

for the year ended 31 December 2020

	Notes	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
Revenue	2.1	<b>180,083</b>	170,283
Cost of sales	2.2	<b>(179,816)</b>	(118,453)
<b>Gross profit</b>		<b>267</b>	51,830
General and administrative expenses	3.3	<b>(4,229)</b>	(400)
Impairment of oil and gas assets	2.3	<b>(519,152)</b>	—
Impairment of intangible exploration and evaluation assets and exploration expense written off	2.4	<b>(47,945)</b>	(66,468)
<b>Operating loss</b>		<b>(571,059)</b>	(15,038)
Finance income	3.2	<b>2,696</b>	1,741
Finance costs	3.2	<b>(38,160)</b>	(23,206)
Fair value gain on Convertible Bond embedded derivative	5.1	<b>35,431</b>	34,691
<b>Loss before tax</b>		<b>(571,092)</b>	(1,812)
Tax	6.1	<b>(54,233)</b>	60,487
<b>Total comprehensive (loss)/profit for the year</b>		<b>(625,325)</b>	58,675
		<b>Cents</b>	Cents
(Loss)/earnings per share – basic	3.1	<b>(31.43)</b>	2.97
(Loss)/earnings per share – diluted	3.1	<b>(31.43)</b>	1.70

All results arise from continuing operations.

## Group balance sheet

as at 31 December 2020

Registered company number: 05245689

	Notes	31 Dec 2020 \$'000	31 Dec 2019 \$'000
<b>Non-current assets</b>			
Intangible exploration and evaluation assets	2.4	55,390	75,874
Oil and gas assets	2.3	208,027	796,155
Other non-current assets	7.2	2,605	3,080
Deferred tax assets	6.2	78	54,311
Liquid investments	4.1	22,811	—
Cash and cash equivalents	4.1	—	3,065
		<b>288,911</b>	932,485
<b>Current assets</b>			
Inventory	2.2	11,285	9,945
Trade and other receivables	4.2	14,524	50,435
Cash and cash equivalents	4.1	143,703	168,369
		<b>169,512</b>	228,749
<b>Total assets</b>		<b>458,423</b>	1,161,234
<b>Current liabilities</b>			
Trade and other payables	4.3	(16,356)	(72,369)
Lease liabilities	5.2	(18,479)	(9,501)
Decommissioning provisions	2.5	(15,466)	(12,484)
		<b>(50,301)</b>	(94,354)
<b>Non-current liabilities</b>			
Lease liabilities	5.2	(78,842)	(89,685)
Convertible Bond liability	5.1	(216,034)	(206,604)
Convertible Bond embedded derivative	5.1	(885)	(36,316)
Decommissioning provisions	2.5	(45,675)	(43,190)
		<b>(341,436)</b>	(375,795)
<b>Total liabilities</b>		<b>(391,737)</b>	(470,149)
<b>Net assets</b>		<b>66,686</b>	691,085
<b>Equity</b>			
Share capital	5.4	2,885	2,883
Share premium		822,458	821,910
Share option reserve	5.5	21,443	20,828
Own shares reserve	5.6	(923)	(684)
Foreign exchange reserve	5.7	(90,828)	(90,828)
Accumulated deficit		(688,349)	(63,024)
<b>Total equity</b>		<b>66,686</b>	691,085

The Financial Statements of Hurricane Energy plc were approved by the Board and authorised for issue on 24 May 2021. They were signed on its behalf by:

**Antony Maris**

Chief Executive Officer

## Group statement of changes in equity

for the year ended 31 December 2020

	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 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
Loss for the period	—	—	—	—	—	(625,325)	(625,325)
New shares issued under employee share schemes (note 5.4)	2	548	—	(445)	—	—	105
Share-based payments	—	—	615	206	—	—	821
<b>At 31 December 2020</b>	<b>2,885</b>	<b>822,458</b>	<b>21,443</b>	<b>(923)</b>	<b>(90,828)</b>	<b>(688,349)</b>	<b>66,686</b>



## Group cash flow statement

for the year ended 31 December 2020

	Notes	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
<b>Cash flows from operating activities</b>			
Operating loss		(571,059)	(15,038)
Adjustments for:			
Depreciation of property, plant and equipment	2.3	97,136	63,161
Impairment of oil and gas assets	2.3	519,152	—
Impairment of intangible exploration and evaluation assets and exploration expense written off	2.4	47,945	66,468
Share-based payment charge/(credit)	3.4	821	(3,150)
Purchase of derivative financial instruments	4.4	(3,420)	—
Decommissioning spend	2.5	(2,108)	(12)
Operating cash flow before working capital movements		88,467	111,429
Movement in receivables		159	(2,559)
Movement in payables		(10,352)	8,912
Movement in crude oil, fuel and chemicals inventories	2.2	1,946	(5,613)
<b>Net cash inflow from operating activities</b>		<b>80,220</b>	<b>112,169</b>
<b>Cash flows from investing activities</b>			
Interest received		1,227	1,438
(Increase)/decrease in liquid investments		(22,811)	21,668
Expenditure on oil and gas assets		(23,396)	(52,878)
Expenditure on other fixed assets		(69)	(289)
Expenditure on intangible exploration and evaluation assets		(35,269)	(2,265)
Movement in spares and supplies inventories	2.2	(3,286)	239
Tax refund relating to R&D expenditure	6.1	—	6,235
<b>Net cash used in investing activities</b>		<b>(83,604)</b>	<b>(25,852)</b>
<b>Cash flows from financing activities</b>			
Convertible Bond interest paid	5.1	(17,250)	(17,250)
Lease repayments	5.2	(9,658)	(5,556)
Interest and other finance charges paid		(15)	(1,539)
New shares issued under warrants and rights	5.4	—	7,782
New shares issued under employee share schemes		105	94
<b>Net cash used in financing activities</b>		<b>(26,818)</b>	<b>(16,469)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(30,202)</b>	<b>69,848</b>
<b>Cash and cash equivalents at beginning of year</b>	4.1	<b>171,434</b>	<b>101,831</b>
Net (decrease)/increase in cash and cash equivalents		(30,202)	69,848
Effects of foreign exchange rate changes		2,471	(245)
<b>Cash and cash equivalents at end of year</b>	4.1	<b>143,703</b>	<b>171,434</b>

# Notes to the Group financial statements

for the year ended 31 December 2020

## 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 accounting standards in conformity with the requirements of the Companies Act 2006 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.

#### Critical judgement – presumption of going concern

The presumption of going concern is made on the assumption that the proposed financial restructuring of the Group's existing Convertible Bonds is successfully implemented (see note 7.4.3). Should the proposed financial restructuring not go ahead, the Group is likely to be unable to repay the principal of \$230 million due on the Convertible Bonds on maturity in July 2022.

As implementation of the proposed financial restructuring is dependent on all required court and regulatory approval processes being complete and the required percentage of the Group's Bondholders by value having voted in favour, a material uncertainty exists that may cast significant doubt as to the presumption of the Group's ability to continue as a going concern.

#### Proposed financial restructuring

The proposed financial restructuring, expected to complete in June 2021 subject to Bondholder approval and court sanction, will primarily comprise:

- a reduction of the Convertible Bond principal outstanding from \$230 million to \$180 million; in exchange for the allotment and issue of new shares to existing Bondholders representing approximately 95% of the Group's so enlarged issued share capital after completion of the transaction;
- the Amended Bonds carrying an annual coupon rate of 9.4% (cash pay) plus 5.0% (payment in kind), interest accruing quarterly; with a mandatory excess cash sweep mechanism to redeem payment in kind interest and principal at each interest payment date;
- the provision of certain security and subsidiary guarantees;
- the maturity date of the Amended Bonds extended to 31 December 2024; and
- the Amended Bonds now containing a key financial covenant that requires the Group's liquidity (defined as the consolidated cash and cash equivalents of the Group that are not subject to any security interests or held under escrow arrangements) to be not less than \$45 million until cessation of production from the Lancaster field.

The proposed financial restructuring is also dependent on certain conditions precedent being satisfied or waived by at least 75% of the participating Bondholders by value; the key condition being that consent from the Regulator is received to an amendment to the Lancaster Field Development Plan to permit production with flowing bottom hole pressure up to 300 psi below the bubble point of the fluid (1605 psia at 1240m TVDSS).

There is no guarantee that the conditions will be satisfied (or waived, if applicable), in which case the proposed financial restructuring would not be implemented on its current terms or possibly at all.

Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 1. General information and basis of preparation** *continued***1.2 Going concern** *continued***Assessment of going concern – base case (which assumes implementation of the proposed financial restructuring)**

The directors have performed a robust assessment of the going concern assumption, considering the Group's ability to continue as a going concern from the date of approval of these Financial Statements through to 31 July 2022, (thus incorporating the redemption date of the Convertible Bond, absent the proposed financial restructuring) with the following key assumptions as its base case:

- completion of the proposed financial restructuring effective 30 June 2021;
- Dated Brent oil price of \$65/bbl for the remainder of 2021, \$64/bbl in 2022 and \$62/bbl thereafter;
- production from the P6 well alone as modelled using reservoir simulation modelling;
- renegotiated terms of the Aoka Mizu FPSO charter; and
- no sanction of further investment cases.

These production profiles modelled incorporated different oil price and technical assumptions to those included in the ERCE CPR, but were within the ranges of Reserves and Contingent Resources estimated by ERCE. The analysis included a review of the budget for the year ending December 2021 and onwards, committed capital expenditure, regret costs and longer-term forecasts and plans, including consideration of the principal risks faced by the Group (as outlined in the Principal Risks and Uncertainties section), 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 \$12.0 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 \$16.4 million and current decommissioning provisions of \$15.5 million that existed at 31 December 2020, lease payments (primarily for the Aoka Mizu FPSO) and other operating costs, cash coupon payments and mandatory prepayment provisions on the proposed restructured Amended Bonds debt, and capital expenditure contracted for but not recognised as a liability; and whether the Group would be able to meet the minimum liquidity covenant of the Amended Bonds.

Under the base case, the Group is forecast to have sufficient headroom on the liquidity covenant throughout the going concern period.

Sensitivities to the base case were run where oil prices were reduced by a flat \$10/bbl, and forecast production reduced by 10% throughout the going concern period. In these downside scenarios, individually and in aggregate, the Group was forecast to have headroom on the liquidity covenant throughout the going concern period.

As a reverse stress test, it was estimated that either an immediate reduction to the oil price to \$40/bbl flat, a reduction to the forecast production rates by approximately 40%, or a complete cessation of production for approximately 4 months during the going concern window could cause a breach of the liquidity covenant. It is likely that these circumstances would also constitute an event of default by virtue of being a material adverse event under the terms of the Amended Bonds.

**Assessment of going concern – proposed financial restructuring does not complete**

Should the proposed restructuring not go ahead, both under the production simulations and oil price assumptions used in the base case above, or any reasonably possible movement in oil prices, production rates and other assumptions (individually or in aggregate), the directors do not forecast a scenario where there would be sufficient free cash available to fully repay the \$230 million principal due on the Convertible Bond in July 2022. As such the ability of the Group to continue trading as a going concern would depend upon the occurrence of one or more of the following:

- a significant successful equity raise;
- Bondholders and creditors providing further financial waivers and/or amendments;
- the Group agreeing alternative plans for a proposed financial restructuring with stakeholders.

However, in the opinion of the directors, the possibilities of these scenarios being successful is remote; and should the proposed financial restructuring not complete, it is likely that there would be a controlled wind-down of operations followed by an insolvent liquidation of the Group.

**Conclusion as to presumption of going concern**

Based on all required court and regulatory approval processes being complete and the required percentage of the Group's Bondholders by value having voted in favour of the proposed financial restructuring, the proposed financial restructuring is expected to complete in June 2021. The Bondholder approval requires the support of 75% (by value) of the Bondholders present (virtually) or by proxy and voting at a meeting convened by the court. As at the date of this report, in excess of 75% by value of Bondholders had acceded to a lock-up agreement agreeing to support the proposed financial restructuring. As a result of the going concern assessment presented above, and on the assumption that the proposed financial restructuring completes in the timeframe outlined, the directors have a reasonable expectation that, after also taking into consideration the current macroeconomic situation and uncertainty arising from the COVID-19 pandemic, the Group has adequate resources to continue in operational existence throughout the going concern period.

Therefore, the directors continue to adopt the going concern basis of accounting in preparing these consolidated financial statements and the financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

## Section 1. General information and basis of preparation *continued*

### 1.2 Going concern *continued*

#### Conclusion as to presumption of going concern *continued*

However, successful completion of the proposed financial restructuring is subject to, inter alia, Bondholder approval and the Court sanctioning the proposal, and as such is outside of the Group's control. The directors therefore acknowledge that the events and conditions described above, relating to the uncertainties regarding management's ability to complete the restructuring and (should it not complete) management's ability to complete an alternative restructuring and prevent a controlled wind-down and/or insolvent liquidation of the Group, together in aggregate give rise to a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

### 1.3 Significant events and changes in the period

In September 2020, following the initial conclusions of its technical review, the Group announced a significant reduction to its unaudited best estimates of Reserves and Contingent Resources from the Lancaster field. These estimates were further revised and refined in an updated CPR, announced in April 2021.

In the first half of 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, with Dated Brent falling from a high of US\$69/bbl in early January to a low of US\$13/bbl in April, before stabilising to the US\$40-\$45/bbl range for most of the remainder of the year. As a result, average realised oil price per barrel was significantly lower than 2019 (note 2.1), which in turn has led to pressure on the Group's liquidity and capital resources.

The impact of these events and changes in estimates gave rise to an impairment charge against oil and gas assets of \$519.2 million (note 2.3.1), an impairment charge against intangible exploration and evaluation assets of \$35.4 million (note 2.4.1) and a write-off of deferred tax assets of \$54.2 million (note 6.2).

For further discussion about the Group's performance and financial position, see the Chief Executive Officer's Review and Chief Financial Officer's Review.

### 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 trading entities within the Group 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.

The principal rates of exchange used were:

US Dollar/Pounds Sterling	31 Dec 2020	31 Dec 2019
Year-end rate	1.35	1.32
Average rate	1.28	1.28

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 New and amended standards adopted by the Group

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

- Amendments to References to Conceptual Framework in IFRS Standards;
- Amendments to IFRS 3 – 'Definition of a Business'; and
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

### 1.6 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 financial year ended 31 December 2020, 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 IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (effective from 1 January 2021);
- Annual Improvements to IFRS Standards 2018-2020 Cycle (effective from 1 January 2022);
- Amendments to IFRS 3 – Reference to Conceptual Framework (effective from 1 January 2022); and
- Amendments to IAS 16 – Proceeds before Intended Use (effective from 1 January 2022).

Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 1. General information and basis of preparation** *continued***1.7 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:

- presumption of going concern (note 1.2);
- identification of impairment indicators for Lancaster field oil and gas assets (note 2.3);
- identification of impairment indicators for intangible exploration and evaluation assets (note 2.4);
- lease term of the Aoka Mizu FPSO (section 2 and note 5.2); and
- recognition of deferred tax assets (section 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:

- estimated future cashflows of oil and gas assets used for impairment testing (note 2.3)
- estimation of hydrocarbon Reserves and Contingent Resources (section 2);
- valuation of the Convertible Bond embedded derivative (note 5.1); and
- estimation of future taxable profits against which to recognise deferred tax assets (section 6).

**1.7.1. Impact of climate change and energy transition on critical judgements and estimates**

Climate change and the transition to a low carbon economy were considered in preparing these consolidated Financial Statements. In particular, the energy transition is likely to impact future oil and gas prices which in turn may affect the recoverable amount of the Group's oil and gas assets. The estimate of future cash flows from oil and gas assets, which includes management's best estimate of future oil prices, is considered a key source of estimation uncertainty. In developing these price assumptions, consideration was given to a range of forecasts, including a number that were described as being consistent with achieving the 2015 COP 21 Paris agreement goal to limit temperature rises to well below 2 degrees Celsius (the 'Paris compliant scenarios'). Further details of the key assumptions in this area have been provided in note 2.3.1, including sensitivity analysis outlining the impact on the impairment charge of using higher or lower oil price assumptions to management's best estimate of oil prices. The impact of a \$5/bbl reduction to management's best estimate of oil prices, disclosed in note 2.3.1, is estimated to be broadly equivalent to the Paris compliant scenarios. In addition to impairment, climate change pressures could curtail the expected useful lives of the Group's oil and gas assets, thereby accelerating depreciation charges. However, under current forecasts and the investment cases under consideration, the Group's oil and gas assets are likely to be fully depreciated within five years, during which timeframe it is expected that global demand for oil will remain robust. Accordingly, the impact of climate change on expected useful lives is not considered to be a significant judgement or estimate.

In addition to oil and gas assets, climate change could adversely impact the future development or viability of exploration and evaluation (E&E) prospects. The existence of impairment triggers for E&E assets is considered a critical accounting judgement, with further details of impairments recorded in the year and the amounts that remain capitalised at year end provided in note 2.4.

**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 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.

## Section 2. Oil and gas operations *continued*

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

#### 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 extension 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 from inception of the lease taking into account the extension options, termination arrangements, and the estimated economic life of proposed but not yet sanctioned investment cases.

#### Key source of estimation uncertainty – estimation of hydrocarbon Reserves and Contingent Resources

Hydrocarbon Reserves and Contingent Resources are those hydrocarbons that can be economically extracted from the Group's oil and gas assets. The Group's Reserves and Contingent 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 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) at 31 December 2020 in respect of the Lancaster EPS was independently assessed in April 2021 as being 7.1 MMbbl, and the estimated quantity of Contingent Resources as at the same date being 3.2 MMbbl (Development Pending) and 34.7 MMbbl (Development Unclarified).

## 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 2020 \$'000	Year ended 31 Dec 2019 \$'000
Oil sales	180,083	170,283
<b>Revenue from contracts with customers</b>	<b>180,083</b>	<b>170,283</b>
Cargoes sold	12	7
Sales volumes (thousand bbl)	5,112	2,874
Average sales price realised (\$/bbl)	<b>\$35.2/bbl</b>	\$59.3/bbl



Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 2. Oil and gas operations** *continued***2.2 Cost of sales and inventory****Accounting policy****Crude oil inventories**

Crude oil inventories are held 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.

For other inventories, 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. Items are classified as spares and supplies inventory where they are either standard parts, easily resalable or available for use on non-specific campaigns, and as oil and gas assets or intangible exploration and evaluation assets where they are specialised parts intended for specific projects. 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 emissions trading schemes. 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, 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. Allowances granted free of charge are held at nil cost, with any gain on sale of free allowances granted recognised at the time of sale.

**Cost of sales**

	Note	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
Operating costs		<b>65,107</b>	44,915
Depreciation of oil and gas assets – owned	2.3	<b>84,756</b>	54,406
Depreciation of oil and gas assets – leased	2.3	<b>11,828</b>	8,210
Movement in crude oil inventory		<b>1,733</b>	(4,424)
Variable lease payments	5.2	<b>16,392</b>	15,346
		<b>179,816</b>	118,453

**Inventory**

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Crude oil	<b>2,691</b>	4,424
Fuel and chemicals	<b>1,336</b>	1,549
Spares and supplies	<b>7,258</b>	3,972
	<b>11,285</b>	9,945

The amount of crude oil inventory recognised as an expense in the year was \$155.2 million (2019: \$93.5 million).

## Section 2. Oil and gas operations *continued*

### 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 directly attributable staff and related overhead expenditure, which is allocated via the Group's time writing process, capitalised borrowing costs and the cost of provisions 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 production in the period to the estimated Reserves base, which is the best estimate of proved plus probable Reserves (2P Reserves), at the end of the period, plus the production in the period. Costs used in the unit-of-production calculation comprise the net book values of producing assets, taking into account future development expenditures necessary to bring those Reserves into production. Where the carrying value of oil and gas assets has been impaired by using an expected cashflow approach, the equivalent expected future development costs and expected Reserves and Contingent Resources base are taken into account when determining the depreciation rate.

#### 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 an 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 2020

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

	Note	Leased \$'000	Owned \$'000	Total \$'000
<b>Cost</b>				
At 1 January 2019		—	727,816	727,816
Additions		96,361	26,189	122,550
Changes to decommissioning estimates	2.5	4,986	3,419	8,405
At 31 December 2019		101,347	757,424	858,771
Additions		—	23,652	23,652
Changes to decommissioning estimates	2.5	474	3,482	3,956
<b>At 31 December 2020</b>		<b>101,821</b>	<b>784,558</b>	<b>886,379</b>
<b>Depreciation and impairment</b>				
At 1 January 2019		—	—	—
Depreciation charge for the year		(8,210)	(54,406)	(62,616)
At 31 December 2019		(8,210)	(54,406)	(62,616)
Depreciation charge for the year		(11,828)	(84,756)	(96,584)
Provision for impairment	2.4.1	(60,166)	(458,986)	(519,152)
<b>At 31 December 2020</b>		<b>(80,204)</b>	<b>(598,148)</b>	<b>(678,352)</b>
Carrying amount at 31 December 2019		93,137	703,018	796,155
<b>Carrying amount at 31 December 2020</b>		<b>21,617</b>	<b>186,410</b>	<b>208,027</b>

Included within the cost of owned oil and gas assets is \$42.8 million of capitalised borrowing costs (31 December 2019: \$42.8 million), and \$94.7 million (31 December 2019: \$92.1 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 solely the Aoka Mizu FPSO bareboat charter, which commenced in May 2019 (see note 5.2).

The total amount of depreciation charged to oil and gas assets and other fixed assets was \$97.1 million (2019: \$63.2 million).

## Section 2. Oil and gas operations *continued*

### 2.3 Oil and gas assets *continued*

#### 2.3.1 Impairment of oil and gas assets

##### **Critical judgement – identification of impairment indicators for oil and gas 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; significant adverse changes to production versus previous estimates of management; changes in estimated future oil and gas prices; changes in estimated future capital and operating expenditure to develop and produce commercial Reserves; the market capitalisation of the Group falling and remaining significantly below the net book value of assets; and any indications that discount rates likely to be applied by market participants in assessing the asset's recoverable amount may have increased.

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.

##### **Key source of estimation uncertainty – estimated future cash flows of oil and gas assets used for impairment testing**

The Group assesses its assets and cash-generating units (CGUs) in each reporting period to determine whether any indicators of impairment exist. Where indicators exist, a formal impairment test is undertaken to estimate the recoverable amount (which is considered to be the higher of fair value less costs of disposal (FVLCD) and value in use (VIU)).

For the Lancaster field, the recoverable amount was based on VIU which was estimated using the expected cash flow approach. This approach uses expectations about possible cash flows of different potential scenarios that are under consideration at the time of preparing these Financial Statements, taking into account the likelihood, cost and incremental upside of future investment cases designed to maintain sustainable production, using certain key estimates and assumptions. The scenarios considered included a no further activity case based solely on production from the 205/21a-6 well (P6 well); a case that also assumed the drilling of a sidetrack to the 205/21a-7z well (to be referred to as P8) and a case that assumed both the drilling of this sidetrack and the drilling of a water injector well. The results of each scenario were then probability weighted using management's best estimates, taking into consideration that any significant capital investment beyond the no further activity case would, under the terms of the proposed financial restructuring disclosed in note 7.4.3, require Bondholder approval.

These estimates and assumptions are subject to significant risk and uncertainty, and therefore changes to external factors and internal developments and plans have the ability to significantly impact these projections, which could lead to additional impairments or reversals in future periods. Sensitivity analysis to some of these estimates and assumptions are outlined below.

An impairment charge of \$519.2 million was recognised against oil and gas assets in the period, allocated pro-rata to owned and leased assets based on their respective carrying values pre-impairment.

The triggers for the impairment test were the downward revision of estimated Reserves from Lancaster, the decline in oil prices across the first half of 2020 and the market capitalisation of the Company falling below its consolidated net assets. The recoverable amount was determined based on management's best estimate of value in use, using key assumptions, judgements and estimates as outlined below, and taking into account the status of the Group's proposed financial restructuring (see note 7.4.3) and the potential investment cases under consideration.

The estimate of value in use was made using the expected cash flow approach. Under this approach, the directors considered four scenarios and assigned a probability weighting to each in order to arrive at a risk-adjusted probability cash flow projection. The four scenarios considered, and the percentage probability assigned to each by management for the purposes of the expected cash flow approach, were:

- Wind-down scenario (10%) – whereby the proposed financial restructuring does not complete, and there is a controlled wind-down of production at the Lancaster field, ceasing in June 2022 (at the end of the initial charter term of the Aoka Mizu FPSO);
- No further activity (NFA) scenario (50%) – whereby there is no further investment in the Lancaster field, with operations winding down when production becomes uneconomic;
- 'P8 2022' scenario (30%) – whereby an investment case to drill a side-track of the existing 205/21a-7z well is sanctioned, and drilled in spring 2022; and
- 'P8 + WI 2023' scenario (10%) – whereby an investment case to drill a water injector well is sanctioned (following completion of the 'P8 2022' case) and drilled in summer 2023.

Under the terms of the proposed financial restructuring, the latter three scenarios are predicated, inter alia, on the support of Bondholders and achieving consent from the regulator to permit production with flowing bottom hole pressure up to 300 psi below bubble point. The scenarios also assume renegotiation of some terms of the Aoka Mizu FPSO charter which would mitigate the impact of the early termination fee that would otherwise become payable upon cessation of production outside of contractual option periods. These conditions have been taken into account when assigning the likelihood of outcomes of each scenario.

Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 2. Oil and gas operations** *continued***2.3 Oil and gas assets** *continued***2.3.1 Impairment of oil and gas assets** *continued*

The key assumptions used within each cash flow projection are based on best estimates using past experience, latest internal technical analysis and external factors, and include:

- production profiles and operating performance primarily based on internal estimates and reservoir simulation models, as these are believed to provide the most accurate forecast of likely future activities. (The production profiles modelled incorporated different oil price and technical assumptions to those included in the ERCE CPR, but were within the ranges of Reserves and Contingent Resources estimated by ERCE);
- the estimated capital cost of a side-track of the 205/21a-7z well to commence production in summer 2022 (both with and without drilling an additional well for the purposes of water injection), based, where possible, on quotes and contracts with key suppliers and contractors;
- subsequent forecast increases in production performance due to the additional volumes (and, under a water injector scenario, additional pressure support) over and above estimated production in a 'no further activity' case;
- Dated Brent oil price assumptions (in real terms) of \$52/bbl average for 2021, rising to \$57/bbl in 2022, \$58/bbl in 2023 and \$57/bbl in 2024 and thereafter (being management's best estimate of future oil prices as at 31 December 2020, as required by IAS 36);
- operating cost assumptions based on latest budgets, contracts and information from key suppliers; and
- a pre-tax real discount rate of 9.4%.

The sensitivity of changes to some of these key estimates and assumptions which have a material impact are estimated as follows:

	Decrease/ (increase) to impairment charge \$'000
Oil price assumption:	
\$5/bbl increase to price curve	44,277
\$5/bbl decrease to price curve	(44,292)
Forecast production rates:	
10% increase	44,802
10% decrease	(44,503)

The sensitivities disclosed are considered in isolation and a result of changing only one variable, and do not take into account any change to the likelihood of a potential scenario occurring as a result of changes to those assumptions.

A \$5/bbl increase or decrease to the forecast oil price are considered to be reasonably possible based on oil price volatility, and a 10% increase or decrease to forecast production rates are considered to be reasonably possible based on experienced uptime and production levels.

The impact of assuming the Aoka Mizu FPSO charter continues on its current terms (and thus crystallising an early termination fee in some scenarios) would be to increase the impairment charge by \$13.3 million.

The sensitivity of the impairment charge from using an individual scenario instead of the expected cash flow approach is as follows:

	(Increase)/ decrease to impairment charge \$'000
Wind down	(106,836)
No further activity	(10,133)
P8 2022	20,155
P8 + WI 2023	97,037

## Section 2. Oil and gas operations *continued*

### 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. These costs include directly attributable staff and related overhead expenditure, which is allocated to assets via the Group's timewriting process. 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.

	Note	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
At 1 January		75,874	131,526
Additions		25,623	6,619
Exploration expenditure written off	2.4.1	(12,079)	(66,468)
Provision for impairment	2.4.1	(35,397)	—
Changes to decommissioning estimates	2.5	1,369	4,197
<b>At 31 December</b>		<b>55,390</b>	<b>75,874</b>

Intangible exploration and evaluation assets represent 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, which comprise Lincoln (on licence P1368 South), Warwick (licence P2294) and Halifax (licence P2308).

With effect from September 2020, the P2294 licence that holds the Warwick assets was extended into its second term, which expires in August 2023. In November 2020, the P2308 licence which holds the Halifax assets was also extended into its second term, which expires in November 2024.

#### 2.4.1 Impairment and write-off of intangible exploration and evaluation assets

##### Critical judgement – identification of impairment indicators for 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 2.4 above.

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.



Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 2. Oil and gas operations** *continued***2.4 Intangible exploration and evaluation assets** *continued***2.4.1 Impairment and write-off of intangible exploration and evaluation assets** *continued*

\$12.1 million of exploration and evaluation expenditure was written off in the year, comprising the Group's share of standby costs for the Paul B Loyd Jr rig, which was not used for any drilling campaigns during 2020 following the OGA granting an extension to the licence commitments on the Lincoln field in light of the COVID-19 pandemic. See the Chief Executive Officer's Review and Chief Financial Officer's Review above for further details.

A further \$0.5 million of exploration expense was written off in the year relating to changes in decommissioning estimates for the Whirlwind well (which was fully written-off in December 2019).

Following the conclusion of the group's technical review and finalisation of the 2021 CPR, provision for impairment of \$35.4 million has been recognised in the year, being the full carrying amount of exploration and evaluation expenditure attributable to the Halifax licence, as the revised estimates do not attribute any Reserves or Contingent Resources to Halifax and the Group has no plans or budgets for substantive expenditure on further exploration or evaluation on this licence.

Although the 2021 CPR estimated a reduction in Contingent Resources attributable to the Lincoln subarea (as compared to the December 2017 RPS Energy West of Shetland CPR) the directors have concluded that no impairment to exploration and evaluation assets is necessary at this time as economic analysis shows the potential for its carrying amount to be recovered in full through successful development in conjunction with the Warwick area. However, any appraisal and development activity would involve a significant financial commitment for the Group (and its joint operation partner); and, under the terms of the proposed financial restructuring, the Group would need to seek approval from Bondholders in order to proceed with significant capital expenditure on GWA (including the licence obligation to drill a commitment well on the Lincoln subarea). The directors would also consider their ability to realise value from the licences via sale or farm-out transaction, subject to regulatory, Bondholder and joint operation partner approval. It is a condition of the licence for the Lincoln subarea that, if the Lincoln commitment well is not drilled, the Lincoln subarea be relinquished by the joint venture partners. In the event of a relinquishment, the carrying value of exploration and evaluation assets relating to Lincoln would be written off in full.

On 12 December 2019, the Group executed a deed of variation with the 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 were relinquished resulting in a write-off of \$66.5 million for the year ended 31 December 2019, all relating to Whirlwind. The carrying value of intangible exploration and evaluation assets relating to Strathmore was previously fully impaired in 2017.

**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 classified within finance costs.

	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
At 1 January	55,673	37,657
Net new provisions and changes in estimates	7,459	17,706
Utilised in year	(2,108)	(12)
Unwinding of discount	117	323
<b>At 31 December</b>	<b>61,141</b>	<b>55,674</b>
Of which:		
Current	15,466	12,484
Non-current	45,675	43,190
	<b>61,141</b>	<b>55,674</b>

The provisions for decommissioning relate to the costs required to decommission the suspended wells previously drilled on the Lincoln and Lancaster 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.

## Section 2. Oil and gas operations *continued*

### 2.5 Decommissioning provisions *continued*

The decommissioning costs are expected to be incurred during 2021 (for the Lincoln 205/26b-14 well and Lancaster 205/21a-4z well) and shortly after the expiry of the FPSO lease term (currently assumed to be in 2025) for the Lancaster EPS and Aoka Mizu FPSO. Estimated costs are not currently discounted due to risk-free rates being materially near to nil (2019: discounted at a rate of 0.64%).

Changes in estimates in the period have arisen from a decrease in the assumed discount rate, changes in foreign exchange rates, and changes to the expected costs and timing of decommissioning the Lincoln 205/26b-14 well following the OGA granting an extension of the suspension consent from June 2020 to June 2021.

Of the total net new provisions and changes in estimates, \$1.4 million was recorded as non-cash additions to intangible exploration and evaluation assets, \$4.0 million as non-cash additions to oil and gas assets, \$1.6 million recognised as receivables due from the Group's joint operation partner and \$0.5 million charged to exploration expenditure written off.

The utilisation of provisions during the period related to the plugging and abandonment of the Halifax and Whirlwind wells.

### 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 (WOSPS). 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 has not yet commenced, all costs incurred from inception to 31 December 2020 in excess of the \$180.6 million carry have been funded on a 50:50 basis.

With effect from 6 March 2020, a new cost allocation framework was implemented whereby 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. 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 the WOSPS on a sole basis as part of GLA activities. 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, and would reimburse the joint operation (and therefore Spirit's equity share) for related gas export past costs up to 31 January 2020 (excluding carry) of approximately \$18.5 million (only where installation occurs prior to both 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.

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 should full field development workstreams commence.

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.

### 2.7. Commitments

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

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Contractual commitments in respect of oil and gas assets	9,089	4,299
Contractual commitments in respect of exploration and evaluation assets	3,888	17,127
Minimum undiscounted value of leases not yet commenced	—	20,358

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

Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 3. Income statement****3.1 Earnings per share**

	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
(Loss)/profit attributable to holders of Ordinary Shares in the Company used in calculating basic earnings per share (being (loss)/profit after tax)	<b>(625,325)</b>	58,675
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)
(Loss)/profit attributable to holders of Ordinary Shares in the Company used in calculating diluted earnings per share	<b>(625,325)</b>	41,139
	Number	Number
Weighted average number of Ordinary Shares used in calculating basic earnings per share	<b>1,989,607,524</b>	1,978,513,120
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	<b>1,989,607,524</b>	2,420,820,812
	Cents	Cents
Basic (loss)/earnings per share	<b>(31.43)</b>	2.97
Diluted (loss)/earnings per share	<b>(31.43)</b>	1.70

The effect of warrants, share awards and options outstanding in 2020 was antidilutive as the Group incurred a loss. The impact of the conversion feature included within the Convertible Bond in 2020 was also antidilutive for the same reason.

The impact of the VCP and PSP awards 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 was antidilutive in 2019 as the adjusted exercise prices were in excess of the average market price of Ordinary Shares during the relevant periods (see note 3.4 for further details of share-based payments).

**3.2 Finance income and costs**

	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
Interest income on cash, cash equivalents and liquid investments	<b>1,227</b>	1,453
Net foreign exchange gains	<b>1,469</b>	288
<b>Finance income</b>	<b>2,696</b>	1,741
Convertible Bond interest expense (note 5.1)	<b>(26,680)</b>	(25,490)
Interest on lease liabilities (note 5.2)	<b>(7,702)</b>	(4,972)
Fair value losses on oil price derivatives	<b>(3,420)</b>	—
Other interest expense and bank charges	<b>(241)</b>	(1,495)
Unwinding of discount on decommissioning provisions (note 2.5)	<b>(117)</b>	(323)
<b>Finance costs incurred</b>	<b>(38,160)</b>	(32,280)
Interest capitalised	—	9,074
<b>Finance costs</b>	<b>(38,160)</b>	(23,206)
<b>Total net finance costs</b>	<b>(35,464)</b>	(21,465)

## Section 3. Income statement *continued*

### 3.3 General and administrative expenditure

	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
Wages and salaries	10,001	11,358
Social security costs	937	1,550
Defined contribution pension costs	720	616
<b>Staff costs</b>	<b>11,658</b>	<b>13,524</b>
Non-staff costs	7,409	4,552
<b>Gross general and administrative expenditure before recharges</b>	<b>19,067</b>	<b>18,076</b>
Capitalised into oil and gas assets	(3,499)	(2,890)
Capitalised into exploration and evaluation assets	(7,121)	(9,590)
Included within cost of sales	(5,591)	(2,591)
<b>Net general and administrative expenditure before non-cash items</b>	<b>2,856</b>	<b>3,005</b>
Non-cash general and administrative costs:		
Net share-based payment charge/(credit) (note 3.4)	821	(3,150)
Depreciation of other fixed assets and other right-of-use assets	552	545
<b>General and administrative expenditure</b>	<b>4,229</b>	<b>400</b>
	<b>Number</b>	Number
Average number of employees	62	55

Details of directors' remuneration are provided in the Remuneration Report.

### 3.4 Share-based payments

#### 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 charge of \$0.8 million in respect of share-based payments in 2020 (2019: credit of \$3.2 million).

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

Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 3. Income statement** *continued***3.4 Share-based payments** *continued***3.4.1 PSP awards**

	<b>Year ended 31 Dec 2020 Number of awards</b>	Year ended 31 Dec 2019 Number of awards
Outstanding at 1 January	<b>29,837,413</b>	29,473,132
Granted	<b>2,664,220</b>	4,957,128
Forfeited/lapsed	<b>(4,816,783)</b>	(4,592,847)
<b>Outstanding at 31 December</b>	<b>27,684,850</b>	29,837,413

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 year.

During 2020, 2,664,220 conditional rights to receive Ordinary Shares at nilcost were granted to eligible new employees under the Hurricane Energy 2017 PSP. The fair value of the awards was calculated using a simulation model.

At 31 December 2020, 3,980,226 of the PSP awards outstanding (31 December 2019: 1,582,128) 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. 3,375,000 of the PSP awards (31 December 2019: 3,375,000) 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 vesting period assumed runs to the expiry of the VCP's five-year term, which is November 2021.

**3.4.2 Other share options**

At the start of the year, 780,000 share options remained outstanding, which had an average exercise price of £0.55. These options all lapsed in December 2020 with their exercise criteria not having been satisfied.

**3.4.3 VCP awards**

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 vesting period assumed runs to the expiry of the VCP's five-year term, which is November 2021.

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.

## 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.

## 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.

Liquid investments are defined as short-term investments in fixed-term deposit accounts of between 3 and 12 months' maturity.

Cash and cash equivalents, and liquid investments, include amounts held in escrow or other reserved accounts 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.



Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 4. Cash, working capital and financial instruments** *continued***4.1 Cash and cash equivalents and liquid investments** *continued*

	31 Dec 2020			31 Dec 2019		
	Restricted \$'000	Unrestricted \$'000	Total \$'000	Restricted \$'000	Unrestricted \$'000	Total \$'000
Current cash and cash equivalents	28,792	114,911	143,703	11,778	156,591	168,369
Non-current cash and equivalents	—	—	—	3,065	—	3,065
<b>Cash and cash equivalents (per cash flow statement)</b>	<b>28,792</b>	<b>114,911</b>	<b>143,703</b>	<b>14,843</b>	<b>156,591</b>	<b>171,434</b>
Liquid investments	22,811	—	22,811	—	—	—
<b>Total cash and cash equivalents and liquid investments</b>	<b>51,603</b>	<b>114,911</b>	<b>166,514</b>	<b>14,843</b>	<b>156,591</b>	<b>171,434</b>

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

The movement in restricted and unrestricted cash, cash equivalents and liquid investments is as follows:

	Year ended 31 Dec 2020			Year ended 31 Dec 2019		
	Restricted \$'000	Unrestricted \$'000	Total \$'000	Restricted \$'000	Unrestricted \$'000	Total \$'000
At 1 January	14,843	156,591	171,434	40,162	83,000	123,162
Operating cashflows	—	78,272	78,272	—	112,169	112,169
Change in Lancaster EPS decommissioning security arrangements	22,811	(22,811)	—	(21,668)	21,668	—
Capital expenditure and other investing cashflows	—	(58,845)	(58,845)	(2,520)	(45,000)	(47,520)
Financing cashflows	—	(26,818)	(26,818)	(12,938)	(3,531)	(16,469)
Movement in FPSO early termination reserve	14,807	(14,807)	—	11,735	(11,735)	—
Net release of other restricted funds	(892)	892	—	(363)	363	—
Foreign exchange rate changes	34	2,437	2,471	435	(343)	92
<b>At 31 December</b>	<b>51,603</b>	<b>114,911</b>	<b>166,514</b>	<b>14,843</b>	<b>156,591</b>	<b>171,434</b>

Included within restricted cash and cash equivalents is \$26.5 million (2019: \$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 amounts to ensure it could meet its liability to pay an early termination fee to the lessor if the contract was terminated by the Group earlier than the expiry of an option period. The remaining \$2.3 million of restricted cash comprises decommissioning security in place for the suspended Lancaster 205/21a-4z well.

The \$22.8 million restricted liquid investment balance comprises decommissioning security in place for the Lancaster EPS. As part of the original Lancaster Field Development Plan approval, the Group was required to provide security of £16.8 million for its decommissioning liability on the Lancaster field, being the estimated post-tax amount to meet future decommissioning obligations. This security was held in trust (classified within restricted liquid investments) until February 2019 when it was transferred into a decommissioning bond, and subsequently released to unrestricted cash during 2019 as the bond conditions were satisfied. Following the downwards revision of Reserves and Contingent Resources in September 2020 and the ongoing uncertainty with regard to oil prices, the bond provider requested that the Company provide cash collateral for 100% of the bond's value. As the Group would derive no benefit from the bond while still paying fees to the bond provider, the decommissioning bond was terminated by mutual agreement and the required security amount was placed back into trust (classified within restricted liquid investments). In April 2021, the regulator gave notice of its intention to formally request that an additional £11.2 million relating to this decommissioning security be lodged by the Group – see note 7.4.2.

## Section 4. Cash, working capital and financial instruments *continued*

### 4.2 Trade and other receivables

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Amounts due from joint operation partner	12,024	47,519
Trade receivables	393	723
Prepayments	1,644	1,066
Other receivables	463	1,127
	14,524	50,435

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 amounts 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.

### 4.3 Trade and other payables

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Amounts due to joint operation partner	—	5,371
Trade payables	2,748	647
Other payables	646	654
Accruals	12,962	65,697
	16,356	72,369

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 in the prior year represent cash calls the Group 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), financial trade and other payables (note 4.3), financial trade and other receivables (note 4.2) and borrowings (note 5.1).

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 \$216.0 million and the embedded derivative with a fair value of \$0.9 million. As at 31 December 2020, the fair value of the entire instrument based on the exchange traded value (categorised as Level 1 of the fair value hierarchy) was \$103.5 million (31 December 2019: \$272.2 million).

Should the proposed financial restructuring be implemented, \$50 million of the existing Convertible Bonds will be released, and the existing terms amended to change the rates of interest payable, introduce mandatory prepayment provisions and amend the conversion rights – see note 7.4.3.

#### 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 or prior year. The Group has not designated any financial instruments as hedging instruments or hedged items.

Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 4. Cash, working capital and financial instruments** *continued***4.4 Financial risk management** *continued***4.4.1 Market risk** *continued**Foreign currency risk* *continued*

The Group's cash and cash equivalents and liquid investments are mainly held in US Dollars and Pounds Sterling. At 31 December 2020, 83% of the Group's cash and cash equivalents and liquid investments were held in US Dollars (2019: 83%).

A 10% increase in the strength of Sterling against the US Dollar would cause an estimated increase of \$1.8 million (2019: \$1.8 million increase) on the profit after tax of the Group for the year ended 31 December 2020, 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 the impact of retranslating foreign currency denominated monetary items at the balance sheet date, 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.

*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 2020, a 1% increase in interest rates would have increased the Group's profit after tax by approximately \$1.5 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 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 in the month of lifting. Crude oil price risk is partially mitigated by a proportion of cost of sales (variable lease payments) being linked to the price of crude oil sold.

In June 2020, the Group hedged a portion of its forecast production for the second half of 2020. A total of 1.8MMbbls, (the equivalent of c.10,000 bopd.) were hedged with an average strike price of \$35/bbl. The options expired on 31 December 2020 out of the money, with the full cost of acquiring the put options of \$3.4 million recognised within finance costs and cash flows from operations in the income statement and cash flow statement respectively. There were no other commodity price derivative contracts in place or outstanding at the balance sheet date.

The Group enters into other commodity contracts (such as purchases of carbon emission allowances, fuel and chemicals) in the normal course of business, which are not derivatives, and are recognised at cost when the transactions occur.

Should the proposed financial restructuring be implemented (see note 7.4.3), the Amended Bonds will be subject to restrictions on permitted hedging activities which will severely limit the Group's ability to manage market risk. The most material restriction is that the Group will no longer be able to undertake any oil price hedging and will only be able to enter into currency hedging transactions of a limited nature.

**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 where possible to cover its liabilities as and when they fall due. Methods of achieving this include utilising receivable factoring to accelerate receipt of cash due from crude oil sales (accelerating from standard payment terms to receipt within two to three working days after lifting), and cash calling amounts in advance from joint operation partners if required.

As outlined in note 7.4.3, the Group has, subsequent to the balance sheet date, entered into a lock-up agreement with certain of its Bondholders which is intended to enable the Group to avoid breaching its repayment obligations under the Convertible Bonds on their maturity, reduce the amount of debt repayable upon maturity of the Convertible Bonds, enhance its liquidity position and extend its debt maturity profile.

Consideration of the Group's current and forecast financing position in light of this proposed financial restructuring is provided in more detail within the Going Concern and Viability section of the Strategic Report.

**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.

## Section 4. Cash, working capital and financial instruments *continued*

### 4.4 Financial risk management *continued*

#### 4.4.3 Credit risk *continued*

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.

## 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 the volatility of the Company's Ordinary Share price. The fair value calculations and related sensitivities for the embedded derivative are disclosed below.

Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 5. Capital and debt** *continued***5.1 Convertible Bond** *continued*

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 Convertible 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 is subject to a covenant which imposes a restriction on the incurrence of certain 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.

The conversion feature of the Convertible Bonds is classified as an embedded derivative as the Convertible 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%.

Subsequent to the balance sheet date, the Group entered into a lock-up agreement with certain of its Bondholders in order to enter into a proposed financial restructuring which will, if approved, significantly amend the terms of the existing Convertible Bonds; see note 7.4.3 for further details.

The amounts recognised in the Financial Statements related to the Convertible Bond (which, together with leases as disclosed in note 5.2, are the group's liabilities arising from financing activities) are as follows:

	Debt component \$'000	Derivative component \$'000	Total \$'000
Carrying value at 1 January 2019	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
Cash interest paid	<b>(17,250)</b>	—	<b>(17,250)</b>
Fair value gains	—	<b>(35,431)</b>	<b>(35,431)</b>
Interest charged	<b>26,680</b>	—	<b>26,680</b>
<b>Carrying value at 31 December 2020</b>	<b>216,034</b>	<b>885</b>	<b>216,919</b>
Fair value at 31 December 2019	235,852	36,316	272,168
<b>Fair value at 31 December 2020</b>	<b>102,615</b>	<b>885</b>	<b>103,500</b>

The embedded derivative component of the Convertible Bond is categorised within Level 3 of the fair value hierarchy, as the derivatives themselves are not traded on an active market and their fair values are determined using a valuation technique that uses one key input that is not based on observable market data, being share price volatility.

## Section 5. Capital and debt *continued*

### 5.1 Convertible Bond *continued*

The key inputs used are share price volatility (calculated as the volatility of one Hurricane Ordinary Share over a period equivalent to the remaining expected term to redemption) and the price of one Ordinary Share at 31 December 2020. In determining the fair value of the embedded derivative, the likelihood of the early redemption option being exercised and the likelihood of a change of control of the Group within the life of the Convertible Bond were considered. The likelihood of each was considered to be nil for the purposes of the valuation.

The fair value calculation at 31 December 2020 used a share price volatility assumption of 118.2% (2019: n/a) and the price of one Hurricane Energy plc Ordinary Share as at the balance sheet date of £0.025 (2019: n/a). The sensitivity of a reasonably possible increase or decrease of those inputs to the Group's profit before tax for the period ended 31 December 2020 is summarised below, assuming all other variables were held constant:

	(Loss)/gain \$'000
Share price volatility assumption:	
20% increase	(989)
20% decrease	605
Share price at balance sheet date:	
£0.05 increase	(7,656)
£0.02 decrease	871

Should the proposed financial restructuring be implemented, the existing conversion rights attached to the Convertible Bonds will be amended and the value of the existing embedded derivative reduced to nil at the effective implementation date.

The valuation as at 31 December 2019 was derived by deducting the estimated fair value of the debt component (using an equivalent bond yield of 7.2% estimated from average adjusted bond yields from similar oil and gas E&P companies) from the quoted market value of the Convertible Bond. The valuation methodology has changed due to the previous methodology not being appropriate where the market value of the Convertible Bond is below its par value.

### 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 (of both the principal and interest portions) 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 or cash used in investing activities in accordance with the relevant Group accounting policy.

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.



Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 5. Capital and debt** *continued***5.2 Leases** *continued***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 extension 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 from inception of the lease taking into account the extension options, termination arrangements, and the estimated economic life of proposed but not yet sanctioned investment cases.

**Lease liabilities**

The amounts recognised in the Financial Statements relating to lease liabilities (which are liabilities arising from financing activities) are as follows:

	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
At 1 January	99,186	3,323
New leases	—	96,361
Cash payments of principal and interest	(9,658)	(5,556)
Interest charged	7,702	4,972
Foreign exchange movements	91	86
<b>At 31 December</b>	<b>97,321</b>	<b>99,186</b>
Of which:		
Current	18,479	9,501
Non-current	78,842	89,685
	<b>97,321</b>	<b>99,186</b>

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. Should the Group give notice to terminate the lease other than by not exercising extension option periods, significant early termination penalties would apply. The Group is required to set aside amounts to cover a portion of these early termination penalties, which are classified within restricted cash (see note 4.1).

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

	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
Depreciation charge of right-of-use assets:		
Oil and gas assets (included within cost of sales)	11,828	8,210
Other fixed assets (included within general and administrative expenses)	340	337
	<b>12,168</b>	<b>8,547</b>
Lease interest (included within finance costs)	7,702	4,972
Variable lease payments (included within cost of sales)	16,392	15,346

The total gross cash outflow for leases for the year was \$46.9 million, of which \$10.1 million was recovered from the Group's joint operation partner.

The Group's share of the expense relating to the short-term lease of the Paul B Loyd Jr rig was recognised within write-off of exploration and evaluation expenditure (see note 2.4.1). The expense relating to low-value leases and other short-term leases recognised in the income statement was not material.

## 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	16,356	—	—	—	—	16,356
Convertible Bond interest	8,625	8,625	12,938	—	—	30,188
Lease liabilities	4,801	13,799	27,877	69,976	1,295	117,748
<b>At 31 December 2020</b>	<b>29,782</b>	<b>22,424</b>	<b>40,815</b>	<b>69,976</b>	<b>1,295</b>	<b>164,292</b>

	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
<b>At 31 December 2019</b>	<b>85,838</b>	<b>13,443</b>	<b>35,833</b>	<b>96,407</b>	<b>15,336</b>	<b>246,857</b>

Not included within the tables above is the principal of \$230 million payable on the Convertible Bond which, unless previously converted into Ordinary Shares, redeemed or cancelled, is due to be redeemed on 24 July 2022 (see note 5.1). Should the proposed financial restructuring be implemented (see note 7.4.3), the principal due on the Amended Bond would be \$180 million and would mature in December 2024; however, as the Amended Bonds contain mandatory redemption provisions whereby excess cash flow generated over certain thresholds will be applied to the principal and accrued interest at each interest payment date, the maturity profile of the Amended Bonds is likely to be significantly different to the existing Convertible Bonds.

### 5.4 Share capital

	Ordinary Shares	\$'000
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
Shares issued under employee share schemes	<b>1,643,503</b>	<b>2</b>
<b>At 31 December 2020</b>	<b>1,991,871,556</b>	<b>2,885</b>

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. 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.

Should the proposed financial restructuring be implemented, further details of which are disclosed in note 7.4.3, an issue of Ordinary Shares comprising 95% of the fully diluted pro-forma equity of the Company would be made in exchange for a \$50 million release of the principal amount outstanding under the Convertible Bonds.

### 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).

### 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 2020 the SIP acquired 1,643,503 new Ordinary Shares in the Company of £0.001 nominal value (2019: 815,582) at a price of 25.63 pence per share (2019: 45.86 pence per share), all of which were allocated to participants. At 31 December 2020 there were 3,196,522 Ordinary Shares held in the SIP Trust (2019: 2,711,245), with 2,921,347 allocated to participants (2019: 2,680,508).

# Notes to the Group financial statements *continued*

for the year ended 31 December 2020

## 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.

### 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.

The Group is not subject to any externally imposed capital requirements, although the proposed financial restructuring would, amongst other restrictions, put into place mandatory repayments of principal and accrued interest of the Amended Bonds (subject to available cash at the repayment date) and a minimum liquidity covenant (see note 7.4.3).

Capital managed by the Group at 31 December 2020 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 2020 equity attributable to equity holders of the parent was \$66.7 million (2019: \$691.1 million), whilst cash and cash equivalents and liquid investments amounted to \$166.5 million (2019: \$171.4 million).

## 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 of, and estimation of future taxable profits against which to recognise, 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). 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 capital projects. Estimates of future taxable profits were made using the Group's corporate cash flow model, with key judgements and assumptions consistent with those used in testing the Lancaster assets for impairment (note 2.3.1). The results of the review concluded that there would not be sufficient forecast taxable profits at this time to continue recognising a deferred tax asset in excess of deferred tax liabilities and therefore the previously recognised deferred tax asset of \$54.2 million relating to this has been written off in full.

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 charge for the year

	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
<b>UK corporation tax</b>		
Current tax – prior years	—	6,259
Total current tax	—	6,259
Deferred tax – current year	<b>(44,501)</b>	90,226
Deferred tax – prior year	<b>(9,732)</b>	—
Effect of changes in tax rates	—	(35,998)
Total deferred tax	<b>(54,233)</b>	54,228
Tax (charge)/credit per income statement	<b>(54,233)</b>	60,487
<b>Loss on ordinary activities before tax</b>	<b>(571,092)</b>	(1,812)
Loss on ordinary activities multiplied by standard combined rate of corporation tax in the UK applicable to oil and gas companies of 40% (2019: 40%)	<b>228,437</b>	725
Effects of:		
R&D tax credit	—	6,259
Expenses not deductible for tax purposes	<b>(4,656)</b>	(1,724)
Income not chargeable for tax purposes	<b>15,138</b>	4,211
Items taxed at rates other than the standard rate of 40%	<b>(24)</b>	(278,873)
Ring-fence expenditure supplement	<b>22,769</b>	22,057
Recognition of deferred tax not previously recognised	—	307,832
Prior period deferred tax	<b>(9,732)</b>	—
Losses not recognised	<b>(306,165)</b>	—
Total tax (charge)/credit for the year	<b>(54,233)</b>	60,487

Income not chargeable for tax purposes primarily relates to the tax effect of the fair value gain on the Convertible Bond embedded derivative (see note 5.1).

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 2020 \$'000	Year ended 31 Dec 2019 \$'000
Accelerated capital allowances	<b>(2,645)</b>	(168,626)
Other timing differences	<b>16</b>	448
Tax losses carried forward	<b>2,707</b>	222,489
Deferred tax asset	<b>78</b>	54,311

A potential deferred tax asset of \$302.9 million in relation to tax losses and allowances available to the main trading entity, Hurricane GLA Limited, has not been recognised, as it has been concluded that it is not appropriate to recognise any of this potential deferred tax asset based on an assessment of future taxable profits. There is an additional potential deferred tax asset of \$44.3 million, representing pre-trading expenditure not recognised, and includes potential claims for ring-fence expenditure supplement claims. The additional deferred tax asset is calculated primarily at a rate of 40% (31 December 2019: 40%) subject to any required adjustments for supplementary charge tax.

Notes to the Group financial statements *continued*

for the year ended 31 December 2020

**Section 6. Taxation** *continued***6.3 Factors which may affect future tax charges**

The Group has ring-fenced trading losses of \$468.7 million at 31 December 2020 (31 December 2019: \$487.9 million) and supplementary charge losses and investment allowances of \$707.8 million at 31 December 2020 (31 December 2019: \$701.8 million), which have no expiry date and would be available for offset against future ring-fenced trading profits. The Group also has capital allowance pools of \$383.5 million available to be used against future ring-fenced trading profits at 31 December 2020 (\$297.6 million). In addition, the Group has pre-trading expenditure of \$119.3 million which is carried forward at 31 December 2020 and tax relief may be available were trading activities to commence in the pre-trading entities (this expenditure could also be uplifted by RFES to \$161.3 million).

It is estimated that neither an increase in the long-term oil price curve used in the taxable profits forecast by \$10 per barrel, an increase in forecast production rates of 10%, or an aggregate of both increases would give rise to sufficient forecast taxable profits that would permit re-recognition of the deferred tax asset relating to trading activities.

Should the proposed financial restructuring be implemented (as outlined in note 7.4.3 and the Strategic Report), the existing conversion rights of the Convertible Bonds (as accounted for by the embedded derivative component of the Convertible Bond – see note 5.1) will be amended and the deemed options therein will lapse unexercised. A taxable gain of \$39.0 million would arise within the parent company, being the amount of the embedded derivative initially recognised on issuing the Convertible Bonds in 2017. Should that gain not be able to be sheltered in full by outside ring-fence carry forward losses of the parent company or other Group companies, a tax charge of 19% of the remaining unsheltered gain (up to \$7.4 million) would be payable.

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

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

	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
<b>Audit services</b>		
Fees payable to the Company's auditor for:		
The audit of the Company's annual accounts	194	135
The audit of the Company's subsidiaries	36	24
	<b>230</b>	159
<b>Non-audit services</b>		
Other services pursuant to legislation – interim review	98	49
Financial Position and Prospects Procedures review	—	103
	<b>98</b>	152
<b>Total</b>	<b>328</b>	311

**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 2020 \$'000	31 Dec 2019 \$'000
Other fixed assets:		
Leased	2,106	2,446
Owned	295	437
Prepayments	204	197
	<b>2,605</b>	3,080

Other fixed assets held under leases (right-of-use assets) comprise office property leases. 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.

## Section 7. Other disclosures *continued*

### 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 2020 \$'000	Year ended 31 Dec 2019 \$'000
Salaries, fees, bonuses and benefits in kind	1,828	2,618
Share-based payment credit	(308)	(1,557)
	<b>1,520</b>	<b>1,061</b>

The above transactions include \$33,000 paid to Kerogen Capital (2019: \$84,000), which is a related party of the Company because of the size of its shareholding and the provision of key management personnel services to the Company. No amounts were outstanding at either period end.

All transactions with the directors are detailed in the Remuneration Report.

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 CPR

In April 2021, an updated CPR on the Group's assets was published, which gave an updated estimate of the hydrocarbon Reserves and Contingent Resources as at 31 December 2020, thus providing additional evidence of conditions that existed as at the balance sheet date. The results of this CPR have therefore been reflected within these Financial Statements, by taking into account these estimates within the impairment test for oil and gas assets (note 2.3.1) and giving rise to a full impairment of exploration and evaluation expenditure attributable to the Halifax licence, as the CPR did not attribute any Reserves or Contingent Resources to that area (note 2.4.1).

#### 7.4.2 Decommissioning security

In April 2021, the Offshore Petroleum Regulator for Environment and Decommissioning gave notice of its intention to formally request that the Company increase the amount of decommissioning security for the Lancaster field by £11.2 million (\$15.7 million), in order for the security to be in place on a pre-tax basis. The Group therefore expects to place this amount into restricted funds shortly after the receipt of the formal request, expected to be in June 2021.

#### 7.4.3 Proposed financial restructuring

On 30 April 2021, the Group entered into a lock-up agreement (LUA) with an ad hoc group of Bondholders (the Ad Hoc Committee; representing approximately 69% by value of the Group's Convertible Bonds outstanding), pursuant to a proposed financial restructuring plan (the proposed financial restructuring). As at the date of this report, in excess of 75% by value of Bondholders had signed or acceded to the LUA.

As a result of entering into the LUA, an Event of Default has occurred pursuant to the terms and conditions of the Convertible Bonds. As the Company's ability to repay the Convertible Bonds at maturity is dependent on the implementation of the proposed financial restructuring, a Potential Event of Default (as defined in the Trust Deed) has also arisen. The Group has provided notice of the Event of Default and Potential Event of Default to the Trustee. Noting that in excess of 75% by value of Bondholders had signed or acceded to the LUA, and the LUA contains certain forbearances and an agreement not to take or encourage any action which would, or would reasonably be expected to, delay, frustrate, impede or prevent the implementation or consummation of the proposed financial restructuring, the Group does not expect the Bondholders to take action in relation to the Event of Default while the LUA is in effect.

The main components of the proposed financial restructuring are:

- a debt for equity conversion, which entails (amongst other things):
  - a release of approximately \$50 million of the outstanding principal amount under the Convertible Bonds in consideration for the allotment and issue of Ordinary Shares in the Company representing in aggregate approximately 95% of the total number of fully diluted issued shares of the Company immediately following the effective date of the proposed financial restructuring; and
  - various amendments to the terms and conditions of the remaining \$180 million of Convertible Bonds and associated documents in accordance with the revised terms detailed below, including the provision of security and subsidiary guarantees; and
- a revised business strategy for the Group which contemplates: (i) an extended production case (which would see production from the Lancaster 205/21a-6 well continue until its economic limit is reached); and (ii) subject to approval by the Bondholders, an opportunity for subsequent investments in the Lancaster field (which, at the time of entering into the LUA, envisaged the drilling of a side-track of the existing 205/21a-7z well in 2022, potentially followed by the drilling of a water injector well in 2023).



# Notes to the Group financial statements *continued*

for the year ended 31 December 2020

## Section 7. Other disclosures *continued*

### 7.4 Subsequent events *continued*

#### 7.4.3 Proposed Financial Restructuring *continued*

##### *Amended Bonds*

If implemented, the proposed financial restructuring would result in the release of \$50 million of the outstanding principal amount of the Convertible Bonds, such that the amount due on maturity of the Amended Bonds will be up to \$180 million. Under the terms of the Amended Bonds, the cash coupon on the Convertible Bonds would be increased from 7.5% to 9.4% per annum, an additional payment-in-kind (PIK) interest at a rate of 5% per annum would be introduced and the maturity date would be extended to December 2024. A mandatory prepayment provision, whereby excess cash flow generated by the Group will be applied in mandatory redemption of the Amended Bonds on each interest payment date, and various general, restrictive and information covenants will be added to the Amended Bonds, with a key financial covenant being that the liquidity of the Group (being consolidated cash and cash equivalents of the Group that are not subject to any security interests or held under escrow arrangements) must be no less than \$45 million until cessation of production from the Lancaster field.

If implemented, the proposed financial restructuring would result in the removal of the existing conversion options of the Convertible Bonds, and the introduction of a new maturity conversion option exercisable by the Company after December 2024 provided that, amongst other things, all production at Lancaster has ceased permanently and all remaining free cash of the Group has been applied towards outstanding liabilities under the Amended Bonds, all of which is intended to ensure continuing solvency for the Company. This conversion option would, in the circumstances outlined above, allow the Company to convert any remaining outstanding Amended Bonds into Ordinary Shares of the Company. The Amended Bonds will be secured by certain assets, undertakings, property, interests and rights of the Company (Hurricane Energy plc), Hurricane Holdings Limited and Hurricane GLA Limited (both being subsidiaries of the Company), and additional guarantees will be granted by certain Company subsidiaries.

##### *Implementation of the proposed financial restructuring*

To implement the proposed financial restructuring, it is proposed that an English Restructuring Plan under Part 26A of the Companies Act 2006 will be utilised, which will require the support of 75% (by value) of the Bondholders voting at a meeting convened by the court. The convening hearing of the court was held on 21 May 2021. The Bondholder plan meeting convened by the court has been scheduled for 11 June 2021.

The court has also convened a plan meeting of shareholders, at which shareholders will be asked to vote on the proposed financial restructuring. The shareholder plan meeting will take place on 11 June 2021 following the Bondholder plan meeting. The outcome of those plan meetings will be published by the Company shortly after the conclusion of the meetings.

Subject to the outcome of the Bondholder plan meeting, the Company expects the sanction hearing of the court, at which the court will be asked to sanction the proposed restructuring plan, to commence on or around 21 June 2021. The Company will make an announcement regarding the outcome of the sanction hearing as soon as possible after that hearing concludes.

Unless waived by a 75% majority in value of the Bondholders who are party to or have acceded to the LUA, the implementation of the proposed financial restructuring is conditional on, inter alia, receiving consent from the OGA to amend the Lancaster Field Development Plan to permit production with flowing bottom hole pressure up to 300 psi below the bubble point of the fluid (1,605 psia at 1,240 metres TVDSS).

##### *Failure to implement the proposed financial restructuring*

In the event that the proposed financial restructuring (a) is not approved by Bondholders and shareholders at the Bondholder plan meeting and shareholder plan meeting, respectively; or (b) is approved by Bondholders but not by shareholders, and is not sanctioned by the Court; or (c) is approved by Bondholders and shareholders, but is not sanctioned by the Court, the proposed financial restructuring will not be capable of being implemented. In that scenario, given the circumstances, there would be insufficient time to seek, and it is most unlikely that the Company would be able to obtain, the requisite level of Bondholder consent to implement any alternative transaction outside of a controlled wind-down of the Group's operations followed by an insolvent liquidation of the Company and its subsidiaries.

# Company balance sheet

as at 31 December 2020

Registered company number: 05245689

	Notes	31 Dec 2020 \$'000	31 Dec 2019 \$'000
<b>Non-current assets</b>			
Property, plant and equipment	B	2,210	2,604
Investments in subsidiaries	D	130,060	130,060
Amounts due from subsidiary undertakings	E	104,529	519,497
Deferred tax assets		78	50
Other receivables		202	197
Cash and cash equivalents	H	—	3,065
		<b>237,079</b>	655,473
<b>Current assets</b>			
Inventory	G	7,258	3,972
Trade and other receivables	E	12,803	48,803
Cash and cash equivalents	H	81,605	142,176
		<b>101,666</b>	194,951
<b>Total assets</b>		<b>338,745</b>	850,424
<b>Current liabilities</b>			
Trade and other payables	F	(3,956)	(10,603)
Lease liabilities	C	(381)	(351)
Amounts due to subsidiary undertakings		—	(37,285)
		<b>(4,337)</b>	(48,239)
<b>Non-current liabilities</b>			
Lease liabilities	C	(2,322)	(2,637)
Convertible Bond liability		(216,034)	(206,604)
Convertible Bond embedded derivative		(885)	(36,316)
		<b>(219,241)</b>	(245,557)
<b>Total liabilities</b>		<b>(223,578)</b>	(293,796)
<b>Net assets</b>		<b>115,167</b>	556,628
<b>Equity</b>			
Share capital		2,885	2,883
Share premium		822,458	821,910
Share option reserve		21,443	20,828
Own shares reserve		(923)	(684)
Foreign exchange reserve		(79,591)	(79,591)
Accumulated deficit		(651,105)	(208,718)
<b>Total equity</b>		<b>115,167</b>	556,628

The loss of the Company for 2020 was \$442.4 million (2019: profit of \$55.8 million), being the total comprehensive loss for the year (2019: total comprehensive profit).

The Financial Statements of Hurricane Energy plc were approved by the Board and authorised for issue on 24 May 2021. They were signed on its behalf by:

**Antony Maris**

Chief Executive Officer

## Company statement of changes in equity

for the year ended 31 December 2020

	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 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)
<b>At 31 December 2019</b>	<b>2,883</b>	<b>821,910</b>	<b>20,828</b>	<b>(684)</b>	<b>(79,591)</b>	<b>(208,718)</b>	<b>556,628</b>
Loss for the period	—	—	—	—	—	<b>(442,387)</b>	<b>(442,387)</b>
New shares issued under employee share schemes	<b>2</b>	<b>548</b>	—	<b>(445)</b>	—	—	<b>105</b>
Share-based payments	—	—	<b>615</b>	<b>206</b>	—	—	<b>821</b>
<b>At 31 December 2020</b>	<b>2,885</b>	<b>822,458</b>	<b>21,443</b>	<b>(923)</b>	<b>(79,591)</b>	<b>(651,105)</b>	<b>115,167</b>

# Notes to the Company financial statements

for the year ended 31 December 2020

## 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 critical accounting judgements and key sources of estimation uncertainty used in applying the Company's accounting policies are the presumption of going concern, valuation of the Convertible Bond embedded derivative (set out within notes 1.2 and 5.1 to the Group Financial Statements respectively) and recoverability of investments and amounts due from subsidiaries (notes D and E below).

Notes to the Company financial statements *continued*

for the year ended 31 December 2020

**B. Property, plant and equipment**

	Leased \$'000	Owned \$'000	Total \$'000
Cost			
At 1 January 2020	2,784	1,309	4,093
Additions	—	69	69
<b>At 31 December 2020</b>	<b>2,784</b>	<b>1,378</b>	<b>4,162</b>
Depreciation			
At 1 January 2020	(337)	(1,152)	(1,489)
Charge for the year	(340)	(123)	(463)
<b>At 31 December 2020</b>	<b>(677)</b>	<b>(1,275)</b>	<b>(1,952)</b>
<b>Carrying amount at 31 December 2020</b>	<b>2,107</b>	<b>103</b>	<b>2,210</b>

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.

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

**C. Leases**

	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
At 1 January	2,988	3,323
Cash payments of principal and interest	(508)	(570)
Interest charged	132	149
Foreign exchange movements	91	86
<b>At 31 December</b>	<b>2,703</b>	<b>2,988</b>
Of which:		
Current	381	351
Non-current	2,322	2,637
	<b>2,703</b>	<b>2,988</b>

The total cash outflow for leases for the year was \$0.5 million.

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

**D. Investments in subsidiaries**

	Year ended 31 Dec 2020 \$'000
<b>Cost</b>	
At 1 January	161,769
<b>At 31 December</b>	<b>161,769</b>
<b>Provisions for impairment</b>	
At 1 January	(31,709)
<b>At 31 December</b>	<b>(31,709)</b>
Carrying amount at 1 January	130,060
<b>Carrying amount at 31 December</b>	<b>130,060</b>

## D. Investments in subsidiaries *continued*

Details of the Company's investments in subsidiaries held as at 31 December 2020 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 of 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 <sup>1</sup>	07700492	Dormant company
Hurricane GLA Limited <sup>1</sup>	10656211	Oil and gas development and production
Hurricane Group Limited	07700755	Dormant company
Hurricane GWA Limited <sup>1</sup>	10656130	Oil and gas exploration
Hurricane Holdings Limited	10654801	Holding company
Hurricane Petroleum Limited <sup>1</sup>	07700415	Dormant company
Hurricane (Strathmore) Limited	10654846	Oil and gas exploration
Hurricane (Whirlwind) Limited	10654845	Oil and gas exploration

1. Held indirectly by the Company.

## E. Trade and other receivables

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Receivables due from joint operation partner	12,024	47,519
Prepayments	536	297
Other receivables	243	987
	<b>12,803</b>	48,803

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 amounts 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.

A loss allowance of \$495.4 million has been made against non-current amounts due from subsidiary undertakings, based on the present value of probability-weighted amounts using information and estimates in line with those used for impairment testing of the Group's oil and gas assets (see note 2.3.1 to the Group Financial Statements).

## F. Trade and other payables

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Amounts due to joint operation partner	—	5,371
Trade payables	2,551	647
Other payables	646	654
Accruals	759	3,931
	<b>3,956</b>	10,603

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.



Notes to the Company financial statements *continued*

for the year ended 31 December 2020

**G. Inventory**

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Spares and supplies	7,258	3,972
	<b>7,258</b>	3,972

**H. Cash, cash equivalents and liquid investments**

	31 Dec 2020			31 Dec 2019		
	Restricted \$'000	Unrestricted \$'000	Total \$'000	Restricted \$'000	Unrestricted \$'000	Total \$'000
Current cash and cash equivalents	—	81,605	81,605	11,778	130,398	142,176
Non-current cash and equivalents	—	—	—	3,065	—	3,065
<b>Cash and cash equivalents</b>	—	<b>81,605</b>	<b>81,605</b>	14,843	130,398	145,241
Non-current liquid investments	—	—	—	—	—	—
<b>Total cash and cash equivalents and liquid investments</b>	—	<b>81,605</b>	<b>81,605</b>	14,843	130,398	145,241

**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

**J. Subsequent events**

On 30 April 2021, the Company announced a proposed financial restructuring of its Convertible Bonds – see note 7.4.3 to the consolidated Financial Statements.

## Advisers

### **Nominated adviser and broker**

#### **Stifel Nicolaus Europe Limited**

150 Cheapside, London EC2V 6ET  
www.stifel.com

### **Joint broker**

#### **Investec Bank plc**

30 Gresham Street, London EC2V 7QP  
www.investec.com

### **Solicitors to Company**

#### **Dentons UKMEA LLP**

One Fleet Place, London EC4M 7WS  
www.dentons.com

### **Auditor**

#### **Deloitte LLP**

1 New Street Square, London EC4A 3HQ  
www.deloitte.com

### **Independent competent person**

#### **ERC Equipoise Limited**

6th Floor Stephenson House, 2 Cherry Orchard Road, Croydon CR0 6BA

### **Registrar and receiving agent**

#### **Computershare Investor Services Plc**

The Pavilions, Bridgwater Road, Bristol BS99 6ZZ  
www.computershare.co.uk

### **PR and communications advisers**

#### **Vigo Communications Limited**

Sackville House, 40 Piccadilly, London W1J 0DR  
www.vigoconsulting.com

## Appendix A: Glossary

1C	Denotes low estimate of Contingent Resources
1P	Denotes low estimate of Reserves (i.e., Proved Reserves). Equal to P1
2018 Code	Financial Reporting Council's UK Corporate Governance Code (2018)
2C	Denotes best estimate of Contingent Resources
2P	Denotes the best estimate of Reserves. The sum of Proved plus Probable Reserves
3C	Denotes high estimate of Contingent Resources
3P	Denotes high estimate of Reserves. The sum of Proved plus Probable plus Possible Reserves
ACT	The Association of Corporate Treasurers
AIM	The AIM market of the London Stock Exchange
AGM	Annual General Meeting
Amended Bond(s)	\$180 million of 14.4% convertible bonds due December 2024; being the Convertible Bond(s) amended and restated following completion of the proposed financial restructuring
Aoka Mizu	Aoka Mizu FPSO
bbl	Barrel
Bluewater	Bluewater Energy Services and affiliates
Bondholder	A holder of one or more the Company's Convertible Bonds or, should the proposed financial restructuring proceed, the Company's Amended Bonds
Board	Board of directors of the Company
bopd	Barrels of oil per day
BP	BP Oil International Limited
bubble point	The pressure at which gas begins to come out of solution from oil within the reservoir
carry	Payment of a partner's working interest share of costs
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash generating unit
CIOT	The Chartered Institute of Taxation
CO <sub>2</sub> e	Carbon dioxide equivalent
Company	Hurricane Energy plc and/or its subsidiaries
coned	The production of fluids as a result of drawdown pressures during production overcoming the natural buoyancy forces that segregate oil, water and gas
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable owing to one or more contingencies
Contingent Resources, Development Pending	A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future
Contingent Resources, Development Unclassified	A discovered accumulation where project activities are under evaluation and where justification as a commercial development is unknown based on available information
Convertible Bond(s)	\$230million of 7.5% convertible bonds issued by the Company in July 2017
COO	Chief Operations Officer
COP 21	The 21st Conference of the Parties to the United Nations Framework Convention on Climate Change
CPR	Competent Persons Report
Developed Reserves	Reserves that are expected to be recovered from existing wells and facilities. Developed Reserves may be further sub-classified as producing or non-producing
DRR	Directors' Remuneration Report
D&O	Directors and Officers
E&E	Exploration and Evaluation
E&P	Exploration and Production/Exploration and Production company
Economic Limit	Defined as the time when the maximum cumulative net cash flow occurs for a project
EPS	Early Production System
ERCE	ERC Equipoise Limited

ESG	Environmental, Social and Governance
ESP	Electrical submersible pump
EUR	Euro
FDP	Field Development Plan
FDPA	Field Development Plan Addendum
FP&A	Financial Planning and Analysis
FFD	Full Field Development
FPP	Financial position and prospects
FPZO	Floating production storage and offloading vessel
FRC	Financial Reporting Council
FVLCD	Fair value less costs of disposal
FVTPL	Fair value through profit and loss
G&A	General and Administrative costs
GBP	British Pounds Sterling
GHG	Greenhouse Gas (i.e. Carbon Dioxide, Methane, Nitrous Oxide, Chlorofluorocarbon-12, Hydrofluorocarbon-23, Sulphur Hexafluoride, Nitrogen Trifluoride)
GLA	Greater Lancaster Area, comprising 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
HSEMS	Health, Safety and Environmental Management System
HSSEQ	Health, Safety, Security, Environmental and Quality
Hurricane	Hurricane Energy plc, together with its subsidiaries
IAS	International Accounting Standard
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
IPIECA	International Petroleum Industry Environmental Conservation Association
IPO	Initial Public Offering
JV	Joint venture
KPI	Key Performance Indicator
LGC	Listing and Governance Committee
LLIs	Long-Lead Items
Lookout Period	The period assessed under the viability assessment
LTIP	Long term incentive plan
LUA	Lock-up agreement
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
Mbbl	Thousand barrels of oil
MMbbl	Million barrels of oil
NFA case	The terms of the proposed financial restructuring agreed between Hurricane and its bondholders requires implementation of a no further activity case for Lancaster, based on production from the 205/21a-6 well alone, and requires that Hurricane executes a planned wind-down of operations starting when production from the Lancaster field is no longer economic
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

Appendix A: Glossary *continued*

OGUK	Oil & Gas trade association for the United Kingdom
Ordinary Shares	Ordinary shares in the Company of £0.001 each
OWC	Oil water contact
P&A	Plug and abandon
P8	The proposed sidetrack to be drilled from the 205/21a-7z horizontal producer well
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
PRMS	Petroleum Resources Management System
PSP	Performance Share Plan
psia	Pounds per square inch (absolute) unit of pressure
QCA Code	Corporate Governance Code for Small and Mid-Size Quoted Companies
R&D	Research & Development
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
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions
Restructuring Plan	Implementation of the proposed financial restructuring announced by Hurricane on 30 April 2021 with holders of its Convertible Bonds under Part 26A of the Companies Act 2006
RFES	Ring fence expenditure supplement
ROV	Remotely Operated Vehicle
RPS	RPS Energy Consultants Ltd
SIP	Share Incentive Plan
SME	Small and medium sized enterprises
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
TEB	The Effective Board LLP
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
UKCS	United Kingdom Continental Shelf
UKCS	United Kingdom Continental Shelf
USD	United States Dollars
VCP	Value Creation Plan
VIU	Value in use
WI	Water injector
WOSPS	West of Shetland Pipeline System

## 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, fair value gains or losses on unhedged derivative financial instruments, 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 outside management's control) and gains or losses arising from write-offs, and impairments of oil and gas and exploration and evaluation assets, and disposals of assets or subsidiaries which do not reflect the Group's core business. Fair value gains or losses on derivatives not designated as hedging instruments in a hedging relationship have been added to the items excluded from underlying profit before tax as the Group entered into such contracts for the first time during 2020. These fair value movements are excluded from underlying profit before tax as movements are wholly due to movements in oil price which is not within management's control.

	Notes	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
<b>Loss before tax (IFRS measure)</b>		<b>(571,092)</b>	(1,812)
Add back:			
Fair value gain on Convertible Bond embedded derivative	5.1	(35,431)	(34,691)
Fair value loss on unhedged derivative financial instruments	3.2	3,420	—
Impairment and write-off of intangible exploration and evaluation assets	2.4	47,945	66,468
Impairment of oil and gas assets	2.3	519,152	—
<b>Underlying (loss)/profit before tax</b>		<b>(36,006)</b>	29,965

### 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 payable for leased oil and gas assets. Cash production costs (excluding incentive tariff) are defined as cash production costs less variable lease payments.

Depreciation and movements in crude oil inventory are deducted as they are non-cash accounting adjustments to cost of sales. Fixed lease payments payable 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 payable for the purposes of this measure are calculated as the day rate charge multiplied by the number of days in the period. Cash production costs (excluding incentive tariff) deduct variable lease payments, as the latter is directly linked to the price of crude oil sold and thus largely outside of management's control. Cash production cost per barrel measures are defined as the relevant cash production cost measure divided by production volumes.

Management believes that cash production costs and cash production cost per barrel (both including and excluding incentive tariff) 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.

Appendix B: Non-IFRS measures *continued*

	Note	Year ended 31 Dec 2020 \$'000	Year ended 31 Dec 2019 \$'000
<b>Cost of sales (IFRS measure)</b>	2.2	<b>179,816</b>	118,453
Less:			
Depreciation of oil and gas assets – owned	2.3	<b>(84,756)</b>	(54,406)
Depreciation of oil and gas assets – leased	2.3	<b>(11,828)</b>	(8,210)
Movements in crude oil inventory	2.2	<b>(1,733)</b>	4,424
Add:			
Fixed lease payments payable on oil and gas assets		<b>9,150</b>	5,761
<b>Cash production costs</b>		<b>90,649</b>	66,022
Variable lease payments (incentive tariff)	2.2	<b>(16,392)</b>	(15,346)
<b>Cash production costs (excluding incentive tariff)</b>		<b>74,257</b>	50,676
Production volumes		<b>5,078 kbbl</b>	3,030 kbbl
Cash production costs per barrel		<b>\$17.9/bbl</b>	\$21.8/bbl
Cash production costs per barrel (excluding incentive tariff)		<b>\$14.6/bbl</b>	\$16.7/bbl

**Net free cash and net debt**

Net free cash is defined as current unrestricted cash and cash equivalents, plus current financial trade and other receivables (which exclude prepayments) and current oil price derivatives, less current financial trade and other payables.

Management believes that net free cash is a useful measure as it provides a view of the Group's available liquidity and resources after settling all its immediate creditors and accruals and recovering amounts due and accrued from joint operation activities, outstanding amounts from crude oil sales and after settling any other financial trade payables or receivables.

Net debt is defined as net free cash less the par value of the Convertible Bond, being the total amount repayable on maturity of the Bond debt in July 2022 (unless previously converted, redeemed or purchased and cancelled).

Management believes that net debt is a useful measure as it aids stakeholders in understanding the current financial position and liquidity of the Group.

	Note	31 Dec 2020 \$'000	31 Dec 2019 \$'000
<b>Cash and cash equivalents (IFRS measure)</b>	4.1	<b>143,703</b>	171,434
Add:			
Trade and other receivables	4.2	<b>14,524</b>	50,435
Derivative financial instruments	4.4	—	—
Less:			
Restricted cash and cash equivalents	4.1	<b>(28,792)</b>	(14,843)
Prepayments	4.2	<b>(1,644)</b>	(1,066)
Trade and other payables	4.3	<b>(16,356)</b>	(72,369)
<b>Net free cash</b>		<b>111,435</b>	133,591
Par value of Convertible Bond	5.1	<b>(230,000)</b>	(230,000)
<b>Net debt</b>		<b>(118,565)</b>	(96,409)





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