



19 March 2020

Hurricane Energy plc
("Hurricane", the "Company", or the "Group")
Full Year Results 2019

Hurricane Energy plc, the UK based oil and gas company focused on hydrocarbon resources in naturally fractured basement reservoirs, provides its unaudited full year results for the period ended 31 December 2019.

Dr Robert Trice, Chief Executive of Hurricane, commented:

"The COVID-19 pandemic is having a profound impact on human health and the global economy. Unprecedented restrictions on travel and association have created a challenging, rapidly changing and unpredictable environment for society, and for Hurricane. The oil price has suffered a dramatic fall from these factors, exacerbated by increased supply from OPEC and Russia, and consequently oil company share prices have declined significantly.

"We recognise the depressed share price has been frustrating for our investors, especially at a time when operationally the Company is delivering very positive results from the Lancaster Early Production System (Lancaster EPS). Against this difficult backdrop, today we announce our full year results for 2019, Hurricane's first year with production. The Lancaster EPS is the first phase of development of our substantial Rona Ridge assets. Achieving first oil marks the culmination of many years of appraisal and development activity. Doing so safely, on schedule, and on budget is a remarkable achievement and a huge credit to our operating and development teams and our Tier 1 contractors.

"Whilst the financial security gained from production is crucial, the ultimate goal of the Lancaster EPS is to improve our understanding of the reservoir in order to de-risk the resource and aid the planning of future phases of development on the Rona Ridge. Our primary objective of data acquisition has been an unqualified success. High productivity and high facility uptime of the Aoka Mizu FPSO has meant that we have been able to undertake extensive tests to investigate interference behaviour between the two producing wells, whilst remaining above production guidance. These tests have included the evaluation of individual and combined well behaviour at different production rates. As a result, we are better informed regarding the reservoir and well performance. There are some initial key observations that can now be made, and we will provide a more detailed update at our Capital Markets Day presentation on 25 March 2020.

"Having signed the Greater Warwick Area (GWA) farm-out in September 2018, our partnership with Spirit Energy commenced with a three-well drilling and testing programme in 2019. Whilst achieving operational objectives and being completed on budget, the two Warwick well results were disappointing and unlike Lancaster, although the Lincoln Crestal well produced oil at a rate of 9,800 barrels of oil per day. A further set-back to the GWA partnership's aspirations relates to the fact that the joint venture has so far been

unable to obtain the necessary consents for us to tie back the 2019 Lincoln Crestal well to the Aoka Mizu. The combination of these challenges at GWA had a materially negative effect on the share price.

“The 2019 GWA wells formed part of the fully-carried first phase of the programme with Spirit Energy, which also included the purchase of long-lead items and engineering work for a future well tie-back to the Aoka Mizu, gas export related modifications and debottlenecking. None of this work could have taken place in 2019 without the transaction with Spirit Energy, and we are delighted to have delivered this first phase at no capital cost to Hurricane.

“Whilst otherwise poised to move forward with the next phase of the work programme with Spirit Energy, in light of constraints on achieving regulatory consent to tie back the 2019 Lincoln Crestal well to the Aoka Mizu, and disappointing well results on Warwick, we remain in discussions with our partner on the timing and nature of next steps for the GWA, which also now faces additional headwinds from the macroeconomic environment. Nonetheless, we are in a strong financial position; we enjoy low operating costs at the Lancaster EPS, and continue to generate positive operating cash flow, even at today’s low oil prices. Our intention is to ensure that we will be optimally positioned to take the next steps on the GWA and/or Lancaster when the business impact of COVID-19 dissipates and macroeconomics permit; and we are mindful of the need for capital discipline at this challenging time.”

2019 Full year results summary

Financial results (unaudited)

- Revenue for the period of \$170.3 million (2018: nil)
- Statutory profit after tax of \$58.7 million (2018: loss after tax of \$60.9 million)
- Underlying profit before tax* of \$30.0 million (2018: underlying loss before tax of \$16.7 million)
- Unrestricted cash position of \$156.6 million at 31 December 2019 (31 December 2018: \$83.0 million)

Operational developments – Lancaster Early Production System

- Lancaster Early Production System first oil achieved on 4 June 2019, following introduction of hydrocarbons on 11 May 2019
- Lancaster produced at an average of approximately 12,900 barrels of oil per day from introduction of hydrocarbons to end of 2019, at an average cash production cost* of \$21.8 per barrel
- Hurricane sold over 2.9 million barrels of oil across seven cargoes in 2019
- Overall system availability on the Lancaster Early Production System has exceeded 90%
- Initial key observations from data collected are:
 - Well performance is better than initially expected with individual wells sustaining production rates of over 10,000 barrels of oil per day
 - A 10-metre water zone in the 205/21a-7Z well has been identified which is interpreted as perched water. Whilst water cut has increased over time, such behaviour is consistent with the perched water model. To date, water cut has not impacted on production guidance
 - The wells exhibit a high degree of interference between each other

- As production continues the wells are experiencing increasing pressure support from the reservoir

Operational developments – Greater Warwick Area

- Three well 2019 drilling campaign carried out in partnership with Spirit Energy using the Transocean Leader semi-submersible rig, delivered on budget
- Hurricane fully carried under terms of 2018 farm-in by Spirit Energy
- ‘Lincoln Crestal’ well (205/26b-14)
 - Drilled to a total depth of 1,780 metres TVDSS, including a 720 metre horizontal section of fractured basement reservoir and successfully flow tested
 - Maximum stable flow rate of c. 9,800 stb/d on electrical submersible pumps; average rate of 4,682 stb/d under natural conditions
 - Lincoln confirmed to contain light, 43° API oil
 - Well to be plugged and abandoned by 22 June 2020, since the GWA partners have been unable to obtain an extension to the terms of the suspension consent or to obtain the other consents required to tie the well back to the Aoka Mizu FPSO
- ‘Warwick Deep’ well (205/26b-13Z)
 - Drilled to a total depth of 1,964 metre TVDSS, including a 712 metre horizontal section of fractured basement reservoir
 - Current analysis indicates that the well intersected a poorly connected section of the fracture network with produced fluids being attributed to a single fracture or series of connected fractures behaving as a single feature. The well did not flow at commercial rates, producing water (943 barrels), comprising drilling fluid and formation water. Oil and gas were also noted but of insufficient volumes to provide any measure of flow rate. Given these results, the well was plugged and abandoned.
 - Gas chromatography analysis indicates the presence of light oil within the basement section. Laboratory measurements of a centrifuged sample of oil from a recovered 1 litre DST oil sample bottle is supportive of the gas chromatography analysis, indicating a light oil with a minimum API of 40°.
- ‘Warwick West’ well (204/30b-4)
 - Drilled to a total depth of 1,879 metres TVDSS, intersecting a 931 metre horizontal section of fractured basement reservoir
 - DST obtained a stable, sustainable rate of 1,300 stb/d on natural flow, after a number of flowing periods at variable rates. This rate is not considered commercial and so the well was plugged and abandoned
 - Initial analysis indicates a light, 43° API oil

Outlook

- The combination of low oil prices and COVID-19 have created an unprecedented economic environment
 - However, at our guided production rate of 18,000 barrels of oil per day (which includes a 90% uptime assumption) cash operating costs are expected to be approximately \$17 per barrel

- Hurricane has been working with its offshore rig, FPSO and aviation contractors to put measures in place to prevent COVID-19 having an impact offshore and limit broader impacts on production operations
- Hurricane holds significant cash balances (\$164.3 million of unrestricted cash as at 18 March 2020) which is forecast to be sufficient to meet obligations and committed costs as they fall due
 - Hurricane is reviewing its forward capital work programme beyond existing commitments, in light of the macroeconomic environment

** Throughout this release, ‘*’ indicates a non-IFRS measure, which management believe are useful in providing additional information on performance and trends. Definitions and reconciliations to the nearest equivalent IFRS measure are provided in Appendix B at the end of the unaudited financial results below.*

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About Hurricane

Hurricane was established to discover, appraise and develop hydrocarbon resources associated with naturally fractured basement reservoirs. The Company’s acreage is concentrated on the Rona Ridge, in the West of Shetland region of the UK Continental Shelf.

The Lancaster field (100% owned by Hurricane) is the UK’s first producing fractured basement field. Hurricane is pursuing a phased development of Lancaster, starting with an Early Production System consisting of two wells tied-back to the Aoka Mizu FPSO. Hydrocarbons were introduced to the FPSO system on 11 May 2019 and the first oil milestone was achieved on 4 June 2019.

In September 2018, Spirit Energy farmed-in to 50% of the Lincoln and Warwick assets, committing to a phased work programme targeting sanction of an initial stage of full field development.

Inside Information

This announcement contains inside information as stipulated under the market abuse regulation (EU no. 596/2014). Upon the publication of this announcement via regulatory information service this inside information is now considered to be in the public domain.

Competent Person

The technical information in this release has been reviewed by Dr Robert Trice, who is a qualified person for the purposes of the AIM Guidance Note for Mining, Oil and Gas Companies. Dr Robert Trice, Chief Executive Officer of Hurricane Energy plc, is a geologist and geoscientist with a PhD in geology and has over 30 years' experience in the oil and gas industry.

Standard

Resource estimates contained in this announcement have been prepared in accordance with the Petroleum Resource Management System guidelines endorsed by the Society of Petroleum Engineers, World Petroleum Congress, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers.

Company Review

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

Lancaster EPS

The Lancaster EPS is at the core of the Company’s strategy, and two highly productive wells are now generating the reservoir data required to clarify the characteristics of this unique fractured basement play, while also generating sufficient cash to fund next steps without further calls on shareholders.

An average of 12,900 barrels of oil per day were produced in 2019 following introduction of hydrocarbons in May, an excellent performance, above expectations for this ramp up period. Since year-end, production has been gradually increased to the target of 20,000 barrels per day.

While well productivities are very encouraging and above expectations, there have been some unanticipated aspects including the presence of a previously unidentified water zone within the productive interval of the 205/21a-7z well. However, this is a pioneering and unprecedented new development, and understandably we have much to learn about the production characteristics of this complex reservoir rock. The Lancaster EPS has been designed with the express objective of obtaining a wealth of reservoir data over an extended period of time, to allow us to draw key conclusions from which to define the potential scale of full field development. More information on the technical results of the EPS will be announced at the Company’s capital markets day on 25 March 2020.

Greater Warwick Area

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

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

Organisational Resources

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

Financial Results

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

Operating costs have been in line with pre-start-up expectations. The overall result was a highly satisfactory financial outcome, with operating cash flow of \$112.2 million and unrestricted cash of \$156.6 million at year end.

Capital Investment

Hurricane has attractive further drilling opportunities both to expand near-term production and reduce uncertainty over the scale of long-term resources that might be exploited in a full field development. However, the operating environment West of Shetland is relatively capital intensive, so the spending required to exploit these opportunities in full is significant, and the time required from commitment to completion is quite long. Decisions about the optimum timing to potentially proceed with these opportunities will take this into account.

Capital Allocation: Risk Management and Priorities

Medium-term production forecasts for the Lancaster EPS will remain subject to a degree of uncertainty until longer term reservoir performance has been evaluated. We have also recently been reminded that we operate in a highly volatile oil price environment, with the Brent oil price down dramatically from an average of about \$65 per barrel during 2019 to a low of less than \$30 per barrel in March 2020. The impact of the coronavirus pandemic on economic activity and hence future oil prices is extremely difficult to predict, and, while every effort is being made with our contractors to minimise risk, the ability to operate offshore with normal levels of efficiency could also be affected.

Considerable caution over the scale and pace of future capital spending commitments is therefore appropriate at the present time. Amplifying the need for a cautious approach, capital markets' appetite for oil and gas investment has drastically reduced in the past 12 months and may worsen further or stay at these levels for the foreseeable future given the macroeconomic environment. We must therefore aim for financial self-sufficiency and make plans to satisfy Convertible Bond repayment obligations crystallising in 2022.

The Board will therefore prioritise existing cash and the allocation of cash flow from operations towards creating a strong balance sheet with an ample cash cushion to absorb downside risks and meet future financial liabilities, before working towards delivering a suitable combination of shareholder returns, and a strictly controlled capital spending programme at the appropriate time in the future. Capital spending will be focussed on licence obligations and drilling options to maximise shareholder value uplift at minimum cost.

Our shareholders have contributed substantial risk capital to bring Hurricane to first oil, and it is a Company priority to deliver a return for their patience and commitment. Future investment decisions will take into account share price performance and the need to preserve and increase value for shareholders.

Corporate Governance and the Board

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

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

Supplementing our annual report this year will be a detailed ESG report. Much of what it describes is a reflection of the way Hurricane has operated for years – safety and the environment have always been at the forefront of our attention internally. We are pleased to describe this in more detail, extend reporting on areas of increased societal

and investor concern, and to formalise our disclosures within the GRI framework. This level of reporting will help us to demonstrate our accountability as the industry aims to reduce negative impacts and support the energy transition.

Financial Review

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

Alongside the progress on the Lancaster field, activity continued on the GWA with the drilling of three wells, which were completed on budget. The majority of the GWA activity was paid for in full by the Group's joint venture partner, Spirit Energy, as per the terms of the farm-out agreement. The first well, Warwick Deep, was not a commercial success, producing a mixture of drilling brine, water, and small amounts of oil and gas. The well was therefore plugged and abandoned, but not before valuable data had been collected from logging and attempting to test the well. The rig then moved on to drill the Lincoln Crestal well, which successfully tested at commercial flow rates. The third well, Warwick West, produced oil at lower rates. Hurricane and Spirit Energy are now using the data from the campaign to help define the optimal appraisal strategy for the GWA.

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

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

Revenue

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

Cost of Sales

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

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

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

Other Profit and Loss

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

Net finance costs were \$21.5 million (2018: \$4.0 million). The majority of this related to the interest charge on the Convertible Bond (\$16.4 million) which, following first oil, could no longer be capitalised. In addition, in the period

interest on lease liabilities were recognised for the first time (\$5.0 million), following the adoption of IFRS 16 on 1 January, and the commencement of the FPSO lease from first oil. These interest costs were partially offset by foreign exchange gains and interest income received.

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

Exploration Write-off

The extension of the Group's P1368 licence, agreed with the OGA in December 2019, included the condition to relinquish the Whirlwind and Strathmore sub-areas. As a result, an impairment charge of \$66.5 million was recognised in the year, all relating to Whirlwind. The carrying value of Strathmore was previously written off in 2017.

Convertible Bond Fair Value Movement

The accounting for the Convertible Bond (issued in July 2017) required the recognition of an embedded derivative liability related to the equity conversion option. The fair value of the embedded derivative is based on the market value of the quoted Bond at the balance sheet date and equivalent yields on other bonds of a comparable size and maturity. The higher the market value of the Bond (which typically tracks the Company's share price), the more the fair value of the derivative liability increases. Any increase in the liability creates a corresponding non-cash charge in the income statement. See note 5.1 to the financial information for further details.

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

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

Cashflow

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

- Proceeds from crude oil sales of \$170.3 million
- Tax refund relating to R&D tax credits of \$6.2 million
- New shares issued under warrants and rights of \$7.8 million

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

- Remaining development expenditure on the Lancaster EPS of \$52.9 million
- Operating costs for the Lancaster EPS, including \$16.1 million of lease payments for the Aoka Mizu FPSO
- Convertible Bond coupon payments of \$17.3 million

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

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

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

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

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

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

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

Tax

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

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

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

Exploration and Evaluation, and Oil and Gas Assets

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

Following the commencement of production, the Group's charter of the Aoka Mizu FPSO began. Under IFRS 16 this lease was initially recognised on the balance sheet as a right-of-use asset of \$101.3 million (within oil and gas assets) and a lease liability of \$96.4 million. The P&L expense for the FPSO is recognised within depreciation and finance

costs: the lease asset is depreciated on a unit-of-production basis in line with the other EPS assets (and capitalised into crude oil inventory), and the lease liability accrues interest and reduces as the fixed lease payments are made. Because of this, the lease interest costs will be higher in the earlier years of the contract as compared to the end. See notes 2.3 and 5.2 of the financial information for further details.

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

Brexit

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

COVID-19

Hurricane has been closely monitoring the ongoing COVID-19 pandemic as part of its duty of care to its workforce and given the potential risk to operations arising from availability issues relating to key offshore or onshore personnel. Hurricane follows OGUK's Industry Travel Policy for Offshore Installations, and has been working with its offshore rig, FPSO and aviation contractors to put measures in place to prevent the spread of the virus. It has also implemented a temporary business travel ban for its employees and contractors. Furthermore, all onshore employees have the necessary equipment and access allowing them to work at home if required, to mitigate the impact of the current and anticipated government response to the outbreak. However, the potential for operational disruption, in addition to the lower oil price environment, will have an impact on the level of operating cashflow and may have an impact on the Hurricane's forecast capital programme. This has been considered as part of the assessment of going concern and the Group's longer-term prospects below.

Going Concern and Assessment of Longer-term Prospects

The Group ended the year with \$171.4 million of cash and cash equivalents, of which \$156.6 million was unrestricted. Unrestricted cash and cash equivalents at 18 March 2020 was \$164.3 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 committed lease liabilities in respect of the Aoka Mizu FPSO.

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

As part of this assessment, the directors considered a number of scenarios which included downside sensitivities in relation to production rates, operational uptime, oil price, operational costs and foreign exchange rates. Following the

sharp decline in oil prices in March 2020, the base case oil prices utilised for the going concern assessment were \$30 per barrel until the end of the third quarter of 2020, rising to \$40 per barrel in the fourth quarter, and \$50 per barrel flat from January 2021 onwards. A price scenario was also considered using a flat \$30 per barrel assumption through the coming 12 months. Aggregated downside scenarios were also considered, taking into consideration mitigating actions within management's control.

The directors note that should oil prices fall below those assumed above, or production rates fall below the level forecast, the Group would be able to take mitigating action by postponing or cancelling certain capital projects which are currently forecast but not yet sanctioned. In addition, the directors note the emerging risk of COVID-19 at the time of reaching their conclusion on going concern, where the impacts on global oil demand, Lancaster facility uptime and wider society are currently unclear. However, given the large level of cash resources held by the Group, and limited levels of committed expenditure in the coming 12 months, the directors consider that the Group is well placed to withstand a severe downside scenario which could be caused by COVID-19.

Following this review, the directors are satisfied that, taking into consideration reasonably foreseeable downside sensitivities, the Group has adequate resources to continue to operate and meet its liabilities as they fall due for the foreseeable future, a period considered to be at least 12 months from this financial information. For this reason, they continue to adopt the going concern basis for preparing the financial information.

The longer-term prospects of the Group are driven by its strategy and business model whilst factoring in the Group's principal risks and uncertainties.

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

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

The directors have determined that the appropriate period to assess the long-term viability of the business is three years, reflecting the dynamic and flexible nature of the Group.

This period incorporates:

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

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

The range of downside scenarios tested was carefully considered by the directors, factoring in the potential impact, probability of occurrence and effectiveness of the mitigating actions, where appropriate; and was updated to take into account the emerging risk of COVID-19 and its impact on oil supply and demand, uptime assumptions and potential wider impact. The review also considered the minimum daily production rate from the Lancaster EPS that would be required at a given oil price that would allow the Group to cover its operating costs, overheads and debt repayments. The downside scenarios applied to the corporate model, in isolation and in combination, were:

- an oil price assumption of \$30 per barrel (flat) until the end of the third quarter of 2020, rising to \$40 per barrel in the fourth quarter, and \$50 per barrel (flat) from January 2021 onwards; and
- a reduction in the average production rate on the EPS as compared to the planned rate by 25%;

The results of the review demonstrated that the Group would have sufficient liquidity to meet its ongoing liabilities whilst also allowing it to invest in certain capital projects. Subject to being able to refinance the Bond, should that action be required, 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; as under certain downside scenarios, and assuming no other mitigating actions were taken (for example cancelling, postponing or reducing the scope of some capital projects) it is forecast that the Group would not have sufficient cash available to fully redeem the Convertible Bond which falls due in July 2022 without raising additional equity or refinancing the Bond, should the Bonds not convert into Ordinary Shares.

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

Group Statement of Comprehensive Income

for the year ended 31 December 2019 (unaudited)

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

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

All results arise from continuing operations.

Group Balance Sheet

As at 31 December 2019 (unaudited)

Registered company number: 05245689

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

Group Statement of Changes in Equity

for the year ended 31 December 2019 (unaudited)

	Share capital \$'000	Share premium \$'000	Share option reserve \$'000	Own shares reserve \$'000	Foreign exchange reserve \$'000	Accumulated deficit \$'000	Total \$'000
At 1 January 2018	2,843	813,496	19,477	(323)	(92,659)	(60,378)	682,456
Loss for the period	–	–	–	–	–	(60,911)	(60,911)
Other comprehensive income	–	–	–	–	1,831	–	1,831
Total comprehensive loss for the year	–	–	–	–	1,831	(60,911)	(59,080)
New shares issued under employee share schemes	–	185	–	(136)	–	–	49
Share-based payments	–	–	4,590	79	–	–	4,669
At 31 December 2018	2,843	813,681	24,067	(380)	(90,828)	(121,289)	628,094
Change in accounting policy (note 1.6)	–	–	–	–	–	(410)	(410)
At 1 January 2019	2,843	813,681	24,067	(380)	(90,828)	(121,699)	627,684
Profit for the period	–	–	–	–	–	58,675	58,675
New shares issued under warrants and rights (note 5.4)	39	7,743	–	–	–	–	7,782
New shares issued under employee share schemes (note 5.4)	1	486	–	(393)	–	–	94
Share-based payments	–	–	(3,239)	89	–	–	(3,150)
At 31 December 2019	2,883	821,910	20,828	(684)	(90,828)	(63,024)	691,085

Group Cash Flow Statement

for the year ended 31 December 2019 (unaudited)

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

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

Notes

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.

The address of Hurricane Energy plc's registered office is The Wharf, Abbey Mill Business Park, Lower Eashing, Godalming, Surrey, GU7 2QN. Hurricane Energy plc's shares are listed on the AIM market of the London Stock Exchange.

1.1 Basis of preparation and consolidation

The financial information, which comprises the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes, does not constitute statutory financial statements for the year ended 31 December 2019 or 2018. The financial information for the year ended 31 December 2018 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement made under Section 498 of the Companies Act 2006. The audit of the statutory accounts for the year ended 31 December 2019 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting.

This financial information has been prepared under the historical cost convention (except for derivative financial instruments which have been measured at fair value) in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), and in accordance with the requirements of the AIM Rules.

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

The financial information incorporates the results 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 Energy) 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 information 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 information has been prepared in accordance with the going concern basis of accounting. The use of this basis of accounting takes into consideration the Group's current and forecast financing position, additional details of which are provided in the Company Review and Financial Review above.

1.3 Significant events and changes in the period

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

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

The Group also recognised an impairment charge of \$67 million relating to its Whirlwind exploration and evaluation intangible asset (note 2.4) following the relinquishment of that licence subarea. For further discussion about the Group's performance and financial position, see the Company Review and Financial Review above.

1.4 Foreign currencies and translation

This consolidated financial information is presented in US Dollars, which is the Company's functional and presentation currency, and rounded to the nearest thousand unless otherwise stated. The functional currency is the currency of the primary economic environment in which the Group operates; as a significant proportion of expenditure and all of its current revenue is priced in US Dollars. All entities within the Group, except for dormant entities, have a US Dollar functional currency.

Transactions in foreign currencies are recorded at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated into US Dollars at the exchange rate ruling at the balance sheet date, with a corresponding charge or credit to the income statement.

The principal rates of exchange used were:

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

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

1.5 Restatement and reclassification of comparative information

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

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

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

Movements in joint operation payables and receivables are now presented within cash flows from investing activities (previously cash flows from operating activities) as they primarily relate to exploration and evaluation activities. For the year ended 31 December 2018, this change resulted in an increase in the investing cash

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

1.6 New and amended standards adopted by the Group

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

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

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

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

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

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

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

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

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

- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Annual Improvements to IFRS 2015-2017 Cycle;
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19); and

- IFRIC 23 'Uncertainty over Income Tax Treatments'.

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

1.7 New and amended standards not yet adopted

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

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

1.8 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

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

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

Section 2. Oil and gas operations

Accounting policies applicable to this section as a whole

Commercial reserves

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

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

Critical judgement – recoverability of intangible exploration and evaluation assets

Intangible exploration and evaluation assets are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This judgement is made with reference to the impairment indicators outlined in note 2. The carrying values of the Group's intangible exploration and evaluation assets, alongside any related judgements made in the current year, are set out in note 2.4.

Critical judgement – recoverability of the Lancaster field assets

The asset balance relating to the Lancaster field held within property, plant and equipment is subject to an impairment assessment under IAS 36 'Impairment of Assets', whereby the Group is required to consider if there are any indicators of impairment. The judgement as to whether there are any indicators of impairment takes into consideration a number of internal and external factors, including: changes in estimated commercial reserves; changes in estimated future oil and gas prices; changes in estimated future capital and operating expenditure to develop and produce commercial reserves; and any indications that discount rates likely to be applied by market participants in assessing the asset's recoverable amount may have increased. The Group's long-term oil price assumption used in considering whether indicators of impairment were present was a flat price of \$55 per barrel (2018: \$60 per barrel), being the prevailing price at the balance sheet date.

If an impairment indicator exists, an impairment test, which compares carrying value to the asset's recoverable amount (being the higher of value in use and fair value less cost to sell), is required to be carried out. As a result of taking into account the above factors, the Group has concluded that there have been no indicators of impairment of the Lancaster PP&E asset in the current year.

Critical judgement – lease term of the Aoka Mizu FPSO

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

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

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

Should additional geological and reservoir information be obtained through operation of a field, underlying economic assumptions change, or the committed duration of the EPS be updated, estimates of recoverable reserves may change which may significantly impact the financial position and performance of the Group. This

could include a significant change in the depreciation charge for oil and gas assets, provisions for decommissioning, the results of any impairment testing performed and the recognition and carrying value of any deferred tax assets.

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

2.1 Revenue

Accounting policy

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

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

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

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

2.2 Cost of sales and inventory

Accounting policy

Crude oil inventories

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

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

Other inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis (for fuel and chemicals) or a specific identification basis (for spares and supplies), including the cost of direct materials and (where applicable) direct labour and a proportion of overhead expenses. Net

realisable value is determined by an estimate of the price that could be realised through resale or scrappage based on its condition at the balance sheet date.

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

Cost of sales

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

Inventory

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

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

2.3 Oil and gas assets

Accounting policies

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

Oil and gas assets – cost

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

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

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

Oil and gas assets – depreciation

Oil and gas properties are depreciated from the commencement of production on a unit-of-production basis. This is the ratio of oil and gas production in the period to the estimated reserves base, which is proved plus probable reserves ('2P reserves'), at the end of the period, plus the production in the period, on a field-by-field

basis. Costs used in the unit-of-production calculation comprise the net carrying amount of capitalised costs, taking into account future development expenditures necessary to bring those reserves into production.

Impairment

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

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

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

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

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

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

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

2.4 Intangible exploration and evaluation assets

Accounting policy

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

Pre-licence costs, which relate to costs incurred prior to having obtained the legal right to explore an area, are charged directly to the income statement within operating expenses as they are incurred.

Once a licence has been awarded, all licence fees and exploration and appraisal costs relating to that licence are initially capitalised in well, field or specific exploration cost centres as appropriate pending determination. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed.

When commercial reserves have been found and a field development plan has been approved, the net capitalised costs incurred to date in respect of those reserves are transferred into a single field cost centre and reclassified as oil and gas properties within property, plant and equipment (subject to an impairment test before reclassification). Subsequent development costs in respect of the reserves are capitalised within oil and gas properties.

If there are indicators of impairment (examples of which include the surrender, expiry or expected non-renewal of a licence; a lack of planned or budgeted substantive expenditure for a particular field; insufficient commercially viable reserves resulting in a discontinuation of development; and data existing which indicates that the carrying amount of an asset is unlikely to be fully recovered either from successful development or sale), an impairment test is performed comparing the carrying value with its recoverable amount, being the higher of value in use (calculated as the estimated discounted future cash flows based on management's expectations of future oil and gas prices, production and costs) and its estimated fair value less costs to sell. Capitalised costs which are subsequently written off are classified as operating expenses.

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

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

Intangible exploration and evaluation assets comprise the Group's share of the cost of licence interests and exploration and evaluation expenditure within its licensed acreage in the West of Shetland area. The directors have fully considered and reviewed the potential value of licence interests, including carried forward exploration and evaluation expenditure. The directors have considered the Group's tenure to its licence interests, its plan for further exploration and evaluation activities in relation to these and the likely opportunities for realising the value of the Group's licences, either by farm-out or by development of the assets.

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

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

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

2.5 Decommissioning provisions

Accounting policy

Provisions for decommissioning are recognised in full when wells have been suspended or facilities have been installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of either the related oil and gas exploration and evaluation asset or property, plant and equipment as appropriate. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to the related asset. The unwinding of the discount on the decommissioning provision is included as a finance cost.

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

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

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

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

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

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

2.6 Joint operations

In September 2018 the Group entered into a joint operation with Spirit Energy to share costs and risks associated with the Greater Warwick Area (GWA) in exchange for granting Spirit Energy a 50% interest in the Group's Lincoln (P1368 South) and Warwick (P2294) licences. The phased work programme includes a planned tie-back of a GWA well to the Aoka Mizu FPSO, together with host modifications to the vessel and a gas export tie-in to the West of Shetland Pipeline System. This work was split across Phase 1 (Hurricane fully carried up to a gross cost of \$180.6 million) and Phase 2 (Hurricane 50% carried up to a gross cost of \$187.5 million), with Phase 2 to commence after a final investment decision on a GWA tie-back to the Aoka Mizu FPSO. As Phase 2 had not yet commenced, all costs incurred from inception to 31 December 2019 in excess of

the \$180.6 million carry (\$4.8 million) were funded on a 50:50 basis. Subsequent to the year end, a revised cost allocation was agreed – see note 7.4.

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

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

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

Further details on the activities and progress of the joint operation are described in the Company Review.

2.7 Commitments

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

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

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

Section 3. Income Statement

3.1 Earnings per share

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

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

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

3.2 Finance income and costs

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

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

3.3 Staff costs

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

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

3.4 Share-based payment expense

Accounting policy

The cost of equity-settled share-based employee compensation arrangements is recognised as an employee benefit expense in the income statement. The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value (excluding the effect of non-market vesting conditions) at the date of grant.

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

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

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

The Group operates a number of share-based payment plans, including several Performance Share Plans (PSPs), the Value Creation Plan (VCP), the Company's HMRC-approved SIP and share option awards. The Group recognised a total credit of \$3.2 million in respect of share-based payments in 2019 (2018: charge of \$4.7 million), primarily as a result of change in non-market based performance assumptions and a longer assumed vesting period for the VCP and some PSPs (see below).

Details of the agreements that have had a material impact on the Group's results are set out below.

3.4.1 PSP awards

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

Under the Hurricane Energy 2013 PSP certain employees, including executive directors, were granted conditional rights to receive Ordinary Shares at nil cost. The share awards vest based on the Group meeting certain Milestones over the next two years.

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

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

3.4.2 Share options

There are two tranches of share options that remain outstanding at 31 December 2019. Both tranches vested either on or before IPO. All other share options and long-term incentive plan awards were replaced by the PSP. As at 31 December 2019 the number of options that remained outstanding was 780,000 (2018: 780,000). The weighted average exercise price for these options was £0.55 (2018: £0.55). All outstanding options are exercisable. The options outstanding at 31 December 2019 had a weighted average remaining contractual life of one year (2018: one year).

The first tranche of 301,500 share options was granted in January 2011 at an exercise price of £1.00. 21,500 of these share options lapsed in 2017, with the remaining 280,000 lapsing in December 2020. The second tranche of 500,000 share options was granted in July 2019 at an exercise price of £0.30. These options lapse in December 2020.

3.4.3 Value Creation Plan

In November 2016 the Group introduced the VCP for employees and executive directors, involving the issue of 840 Growth Shares in Hurricane Group Limited (a Group subsidiary).

The fair value of the VCP as at the grant date was calculated as \$24.5 million, of which \$9.3 million had been charged to the grant date under the terms of the PSP awards which it replaced. The fair value was calculated using a simulation model with the following key assumptions: (i) share price volatility of 68%; (ii) risk-free rate of 0.62%; (iii) dividend yield of 0%; (iv) life of five years; and (v) share price at grant date of £0.34. The Group has revised its assessment of the non-market-based performance conditions attached to the awards, and now assumes a vesting period which runs to expiry of the VCP's five-year term, which is November 2021 (the previous assumption was that the awards would vest upon a maturity event in January 2021), and assumed a decrease in the maximum payout that could be achieved for each award.

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

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.

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

Liquid investments are defined as short-term investments in fixed-term deposit accounts of between 3 and 12 months' maturity. Funds held in liquid investments may be contractually restricted to be used only for certain payments or transactions.

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

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

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

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

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

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

4.2 Trade and other receivables

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

The carrying amounts of trade and other receivables are considered to be materially equivalent to their fair values and are unsecured. Joint operation receivables represent expenses incurred by the Group as operator

of the joint operation which will be recovered from the Group's joint operation partner. Amounts billed to the joint operation partner accrue interest at LIBOR and are generally due for settlement within ten days.

4.3 Trade and other payables

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

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

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

4.4 Financial risk management

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

The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes. Other than the financial instruments referred to below, the Group's significant financial instruments are cash and cash equivalents (note 4.1), trade payables (note 4.3), trade receivables (note 4.2) and borrowings (note 5.1).

The Group considers the carrying value of all its financial assets and liabilities to be materially the same as their fair value with the exception of the Convertible Bond. The Convertible Bond's carrying value at the balance sheet date was split between the host debt contract at amortised cost with a carrying value of \$206.6 million and the embedded derivative with a fair value of \$36.3 million. As at the balance sheet date, the fair value of the entire instrument based on the exchange traded value (categorised as Level 1 of the fair value hierarchy) was \$272.2 million (2018: \$297.6 million).

4.4.1 Market risk

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

Foreign currency risk

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

The Group undertakes transactions denominated in currencies other than its functional currency (which is the US Dollar). For transactions denominated in Pounds Sterling, the Group manages this risk by holding Sterling against actual or expected Sterling commitments to act as an economic hedge against exchange rate movements. From time to time, the Group enters into foreign exchange swaps to hedge specific future payments in other currencies; no such swaps were entered into or matured in the current year. The Group has not designated any financial instruments as hedging instruments or hedged items.

The Group's cash and cash equivalents and liquid investments are mainly held in US Dollars and Pounds Sterling. At 31 December 2019, 83% of the Group's cash and cash equivalents and liquid investments were held in US Dollars (2018: 28%).

A 10% increase in the strength of Sterling against the US Dollar would cause an estimated increase of \$1.8 million (2018: \$5.6 million increase) on the profit after tax of the Group for the year ended 31 December 2019, with a 10% weakening causing an equal and opposite decrease. The impact on equity is the same as the impact on profit after tax. The exposure to other foreign currency exchange movements is not material.

This sensitivity analysis includes foreign currency denominated monetary items and assumes all other variables remain unchanged. Whilst the effect of any movement in exchange rates upon revaluing foreign currency denominated monetary items is charged or credited to the income statement, the economic effect of holding Pounds Sterling against actual or expected commitments in Pounds Sterling is an economic hedge against exchange rate movements.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

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

Other price risk – commodity price risk

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

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

4.4.2 Liquidity risk

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

Financial liabilities of the Group comprise trade payables (note 4.3), lease liabilities (note 5.2) and the Convertible Bond (note 5.1). The maturity analysis of financial liabilities is shown in note 5.3.

The Group manages its liquidity risk by maintaining adequate cash and cash equivalents to cover its liabilities as and when they fall due. Consideration of the Group's current and forecast financing position is provided in more detail within the going concern section of the Directors' 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.

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 estimated equivalent bond yield applied to the debt component. The fair value calculations and related sensitivities for the embedded derivative are disclosed below.

In July 2017 the Group raised \$230 million (gross) from the successful placement of the Convertible Bond. The Convertible Bond was issued at par and carries a coupon of 7.5% payable quarterly in arrears. The Convertible

Bond is convertible into fully paid Ordinary Shares with the initial conversion price set at \$0.52, representing a 25% premium above the placing price of the concurrent equity placement, being £0.32 (converted into US Dollars at USD/GBP 1.30). The number of potential Ordinary Shares that could be issued if all the bonds were converted is 442,307,692 (assuming conversion at the initial conversion price of \$0.52). The impact of these potential Ordinary Shares on diluted earnings per share is shown in note 3.1. Unless previously converted, redeemed or purchased and cancelled, the Convertible Bond will be redeemed at par on 24 July 2022. The Convertible Bond contains a covenant relating to a restriction on incurrence of indebtedness. This restriction shall not apply in respect of:

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

The conversion feature of the bonds is classified as an embedded derivative as the bonds can be settled by the Group in cash and hence does not meet the 'fixed for fixed' criteria outlined in IAS 32 for recognition as an equity instrument. It has therefore been measured at fair value through profit and loss. The amount recognised at inception in respect of the host debt contract was determined by deducting the fair value of the conversion option at inception (the embedded derivative) from the fair value of the consideration received for the Convertible Bond. The debt component is then recognised at amortised cost, using the effective interest method, until extinguished upon conversion or at maturity. The effective interest rate applicable to the debt component is 13.5%.

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

	Debt component \$'000	Derivative component \$'000	Total \$'000
Carrying value at 1 January 2018	191,102	28,622	219,724
Cash interest paid	(17,250)	–	(17,250)
Fair value losses	–	42,385	42,385
Interest charged	24,512	–	24,512
Carrying value at 31 December 2018	198,364	71,007	269,371
Cash interest paid	(17,250)	–	(17,250)
Fair value gains	–	(34,691)	(34,691)
Interest charged	25,490	–	25,490
Carrying value at 31 December 2019	206,604	36,316	242,920
Fair value at 31 December 2018	225,700	71,007	296,707
Fair value at 31 December 2019	235,852	36,316	272,168

The embedded derivative component of the Convertible Bond has been assessed to be a Level 3 financial liability, as the fair values are determined by a valuation technique that uses one key input that is not based on observable market data, being equivalent bond yield. The equivalent bond yield was estimated by taking an

average yield of non-convertible bonds in issue from similar oil and gas E&P companies, adjusting for the size, duration and remaining time to maturity of the Convertible Bond. This bond yield was then used to estimate the value of the debt component, taking into account the remaining cash coupon payments, the maturity date of July 2022 and the repayment amount of \$230 million. The fair value of the embedded derivative was then calculated by deducting the estimated fair value of the debt component from the quoted market value of the Convertible Bond.

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

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

In the prior year, the valuation technique was based on a simulation model, using estimated share price volatility and the price of one Hurricane Energy plc Ordinary Share as the key inputs. Volatility was calculated as a blended average of the trading history of the Group's own shares and shares in a relevant peer group for a period of six months prior to the measurement date. The fair value calculation at 31 December 2018 used a share price volatility assumption of 30.1% and the price of one Hurricane Energy plc Ordinary Share as at the year end of £0.442.

5.2 Leases

Accounting policy

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

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

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

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

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

Leases of low-value items (such as office equipment) and short-term leases (where the lease term is 12 months or less, which include the rental of drilling rigs) are expensed on a straight-line basis to the income

statement or capitalised into intangible exploration and evaluation assets and/or oil and gas assets in accordance with the relevant Group accounting policy. Variable lease payments linked to the sale of crude oil are recognised within cost of sales when the associated sale occurs.

The Group does not have any activities as a lessor.

Previous accounting policy for leases

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

Critical judgement – lease term of the Aoka Mizu FPSO

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

Lease liabilities

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

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

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

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

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

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

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

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

5.3 Maturity analysis of financial liabilities

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

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

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

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

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

5.4 Share capital

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

The Company has one class of Ordinary Share, which has a par value of £0.001. The Company does not have an authorised share capital.

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

5.5 Share option reserve

The share option reserve arises as a result of the expense recognised in the income statement to account for the cost of share-based employee compensation arrangements (see note 3.4).

5.6 Own shares reserve

The own shares reserve represents the cost of Ordinary Shares in Hurricane Energy plc purchased and held by the Group's SIP Trust to satisfy the Group's SIP administered by Global Shares Trustee Company Limited.

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

5.7 Foreign exchange reserve

The foreign exchange reserve arose from the change in the Company's functional and presentation currency from Pounds Sterling to US Dollars on 1 January 2017. In 2018 a Group subsidiary entered voluntary liquidation. The foreign exchange reserve balance of that subsidiary (\$1.8 million) was recycled to profit and loss as, upon appointment of the liquidator, the entity was deemed to be fully disposed.

5.8 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group is not subject to any externally imposed capital requirements.

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

Section 6. Taxation

Accounting policy

Current and deferred tax, including UK corporation tax and overseas corporation tax, are provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using a balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except in relation to goodwill or the initial recognition of an asset as a transaction other than a business combination. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

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

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

6.1 Tax credit for the year

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

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

6.2 Deferred tax

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

6.3 Factors which may affect future tax charges

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

It is estimated that a reduction in the assumed long-term oil price used in the forecast taxable profit amount by \$15 per barrel (to a flat price of \$40 per barrel) would decrease the deferred tax asset recognised by \$26 million, and a reduction to \$35 per barrel (flat) or below would reduce the deferred tax asset to nil. The oil price assumption used in management's downside price scenario in assessing the Group's ability to continue as a going concern (which is \$30 per barrel until the end of the third quarter of 2020, rising to \$40 per barrel in the fourth quarter, and \$50 per barrel flat from January 2021 onwards) supports the recognition of the deferred tax assets in full.

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

Section 7. Other disclosures

7.1 Auditor's remuneration

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

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

7.2 Other non-current assets

Accounting policy

Fixed assets, other than oil and gas assets, are depreciated so as to write off the cost, less estimated residual value, of the asset on a straight-line basis over their useful lives of between two and five years.

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

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

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

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

7.3 Related parties

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

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

The above transactions include \$84,000 paid to Kerogen Capital (2018: \$73,000), which is a related party of the Company because of the size of its shareholding and the provision of key management personnel services to the Company. No amounts were outstanding at either period end.

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

There is no ultimate controlling party of the Group.

7.4 Subsequent events

7.4.1 SIP award

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

7.4.2 Revised GWA cost allocation agreement

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

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

7.4.3 Oil price movements

In March 2020, oil prices declined sharply due to supply and demand factors, which include the impact of the COVID-19 pandemic and increases in Saudi Arabian production. Should oil prices continue to decline further and/or remain at these current lower levels for an extended period of time, this would reduce the level of operating cashflow generated by the Group from its producing assets and could lead to a potential impairment of assets. The impact of reducing operating cash flow generation has been considered as part of the Group's going concern assessment as discussed in the Financial Review above. The lower oil price environment may also have an impact on the Group's forecast capital programme; either potentially delaying certain projects due to lack of available free cash or cancelling entirely as they are no longer forecast to be viable.

Appendix A: Glossary

2C contingent resources	Best case contingent resources under the Society of Petroleum Engineers' Petroleum Resources Management System
2P reserves	Proved plus probable reserves under the Society of Petroleum Engineers' Petroleum Resources Management System
AIM	The AIM market of the London Stock Exchange
Aoka Mizu	The Aoka Mizu FPSO
API	The American Petroleum Institute gravity scale
bbl	Barrel of oil
Bopd	Barrels of oil per day
Carry	Payment of a partner's working interest share of costs
the Code	The Financial Reporting Council's UK Corporate Governance Code
Company	Hurricane Energy plc and/or its subsidiaries
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Convertible Bond	\$230 million of 7.5% convertible bonds issued by the Company in July 2017
COO	Chief Operating Officer
CPR	Competent Persons Report
DST	Drill Stem Testing
E&E	Exploration and Evaluation
E&P	Exploration and Production
EPS	Early Production System
ESG	Environmental, Social and Governance
ESP	Electrical Submersible Pump
FDP	Field Development Plan
FEED	Front End Engineering and Design
FID	Final investment decision
FPSO	Floating production storage and offloading vessel
FVTPL	Fair value through profit and loss
G&A	General and Administrative costs
GLA	Greater Lancaster Area, comprising the Lancaster and Halifax fields located on UKCS licences P1368 Central and P2308
GRI	Global Reporting Initiative
the 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
Hurricane	Hurricane Energy plc and its subsidiaries
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards as adopted by the European Union
IPO	Initial Public Offering
Incoterms	The internationally recognised set of rules which define the responsibilities of buyers and sellers for the delivery of goods under sales contracts

Lookout Period	The three-year period assessed under the LTV assessment
LTV	Long-Term Viability
Mmboe	Million barrels of oil equivalent
OGA	Oil and Gas Authority
OGUK	Oil & Gas trade association for the United Kingdom
OPEC	Organization of the Petroleum Exporting Countries
Ordinary Shares	Ordinary shares in the Company of £0.001 each
Perched water	A volume of formation water not connected to the aquifer
PP&E	Property, Plant and Equipment
Premium Listing	Listing on the premium segment of a recognised stock exchange
PSP	Performance Share Plan
R&D	Research & Development
SIP	Share Incentive Plan
SME	Small and medium-sized enterprises
Spirit Energy	Spirit Energy Limited
stb/d	Stock tank barrels of oil per day
SURF	Subsea umbilical, risers and flowlines
Tier 1 contractors	Hurricane's major direct contractors
TMS	Turret Mooring System
TVDSS	True Vertical Depth Sub Sea
UKCS	United Kingdom Continental Shelf
UOP	Unit of Production
VCP	Value Creation Plan
WOSPS	West of Shetland Pipeline System
Xmas trees	An assembly of valves, spools and fittings used at the head of an oil and gas well

Appendix B: Non-IFRS measures

Accounting policy for non-IFRS measures

Management believes that certain non-IFRS measures (also referred to as 'alternative performance measures') are useful metrics as they provide additional useful information on performance and trends. These measures are used by management for internal performance analysis and incentive compensation arrangements for directors and employees. The non-IFRS measures presented below are not defined in IFRS or other GAAPs and therefore may not be comparable with similarly described or defined measures reported by other companies. They are not intended to be a substitute for, or superior to, IFRS measures.

Definitions and reconciliations to the nearest equivalent IFRS measure are presented below.

Underlying profit before tax

Underlying profit before tax is defined as profit before tax under IFRS, before fair value gains or losses on the Convertible Bond embedded derivative, impairment and write-offs of intangible exploration and evaluation assets, impairment of oil and gas assets and gains or losses on disposal of assets or subsidiaries.

Management believe underlying profit before tax is a useful measure as it provides useful trends on the pre-tax performance of the Group's core business and asset by removing certain items and transactions within the income statement. These are the volatile non-cash impact of the Convertible Bond embedded derivative movement (the valuation of which is largely outwith management's control); and gains or losses arising from write-offs, impairments and disposals of assets which do not reflect the Group core assets and business.

Notes	Year ended 31 Dec 2019 \$'000	Year ended 31 Dec 2018 \$'000
Loss before tax (IFRS measure)	(1,812)	(60,911)
Add back:		

Fair value (gain)/loss on Convertible Bond embedded derivative	5.1	(34,691)	42,385
Write-off and impairment of intangible exploration and evaluation assets	2.4	66,468	–
Loss on liquidation of subsidiary	5.7	–	1,831
Underlying profit before tax		29,965	(16,695)

Cash production costs

Cash production costs are defined as cost of sales under IFRS, less depreciation of oil and gas assets (including right-of-use assets) and accounting movements of crude oil inventory (including any net realisable value provision movements), plus fixed lease payments for leased oil and gas assets.

Depreciation and movements in crude oil inventory are deducted as they are non-cash accounting adjustments to cost of sales. Fixed lease payments for oil and gas assets are added back because, under IFRS 16, the charge relating to fixed lease payments is charged to the income statement within both depreciation of oil and gas assets and interest on lease liabilities. They are therefore included within cash production costs as they are considered by management to be operating costs in nature. Fixed lease payments for the purposes of this measure are calculated as the day rate charge multiplied by the number of days in the period.

Cash production cost per barrel is defined as cash operating costs divided by production volumes.

Management believe that cash production costs, and cash production cost per barrel are useful measures as they remove non-cash elements from cost of sales, assist with cashflow forecasting and budgeting, and provide indicative breakeven amounts for the sale of crude oil.

	Note	Year ended 31 Dec 2019 \$'000
Cost of sales (IFRS measure)	2.2	118,453
Less:		
Depreciation of oil and gas assets – owned	2.3	(54,406)
Depreciation of oil and gas assets – leased	2.3	(8,210)
Movements in crude oil inventory	2.2	4,424
Add:		
Fixed lease payments payable on oil and gas assets		5,761
Cash production costs		66,022
Production volumes (thousand bbl)		3,030
Cash production cost per barrel (\$/bbl)		21.8