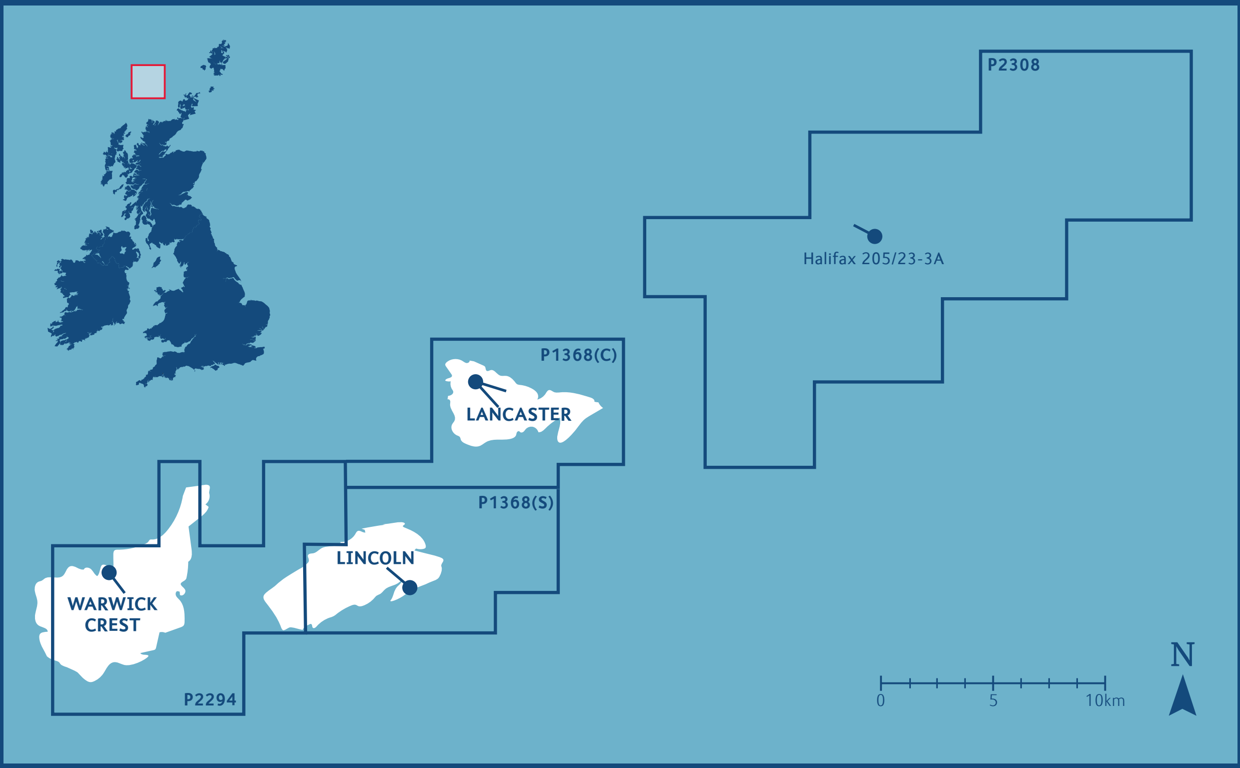
Hurricane

Annual Report and Group Financial Statements 2021

Hurricane developed and operates the UK's first field to produce from a naturally fractured basement reservoir

Our assets



Key figures

Revenue
From 7 cargoes
$240 million

Free cash flow†
Equivalent of $36 per barrel during 2021
$136 million

Statutory profit after tax
$18 million

Production
Average daily rate
10,300 bopd

Crude oil sales
Across 7 cargoes
3.6 MMbbl

Net free cash† at 31 December 2021
$52 million

Net debt† at 31 December 2021
$27 million

Throughout this report, '†' 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.

Strategic Report

Corporate Governance

Financial Statements

A year of profound change

Philip Wolfe
Chairman

Dear Shareholders,

I am very pleased to introduce this Annual Report, the first since I took on the role of Chairman of Hurricane in February 2022, having joined the Board in October 2021.

2021 was a year of profound change for Hurricane as it moved from a focus on ensuring its financial survival to a much more upbeat consideration of its positive options for the future. That process has continued in the first part of this year, at a time when a highly volatile macro environment has heavily impacted the backdrop for oil and gas companies.

Hurricane now stands in a much stronger financial position than at this point twelve months ago, largely as a result of a combination of very good operational performance at the Lancaster field and continuing high oil prices resulting both from the easing of pandemic restrictions and, more recently, the terrible events in Ukraine, where we hope to see a peaceful resolution as soon as possible.

Following a number of Board changes in 2021 and welcoming Juan Morera of Crystal Amber Fund Limited in March this year, the Company is clearly focused on determining its future path built upon firm operational and commercial foundations. As the need for domestic oil and gas supplies has been reinforced by the war in Ukraine, the policy and regulatory environment for Hurricane appears to be moving in a more supportive direction. We continue to engage with all our key stakeholders as we determine the most effective way to create value for investors.

Our priorities, as always, are safe, environmentally responsible and effective operations through our offshore and onshore business activities. I am very pleased to report that in 2021 the Company undertook all production, marine and well operations safely against a challenging COVID-19 backdrop. The focus both offshore and onshore has been to provide a safe working environment throughout the pandemic, with added safeguarding measures where necessary. The Aoka Mizu FPSO at the Lancaster Field has again performed well with excellent uptime. Our production averaged 10,267 barrels of oil per day ("bopd") in 2021, and in the first quarter of 2022 it has been 9,372 bopd, maintaining this strong performance. We have, throughout the year, continued with our commitment to regulatory compliance and improved environmental stewardship; to that end we have been able to cut our 2021 Scope 1 GHG emissions intensity on the Aoka Mizu by over 10%.

Our current position contrasts with the challenging situation Hurricane faced a year ago. As a result of the combined impact of reservoir challenges at the Lancaster field identified in 2020, which saw lower than originally predicted production levels due to the field's well performance and markedly lower oil prices following the emergence of COVID-19, the Board believed there was significant doubt over the Company's ability to repay its $230 million Convertible bond. Therefore, in late 2020, Hurricane commenced engagement with stakeholders, including an ad hoc group of its bondholders (the "Ad Hoc Committee"), to find a way to ensure Hurricane had a viable financial platform on which to operate and potentially invest further based on the Company's anticipated cashflows.

Following those discussions, during the first half of 2021, the Company proposed the implementation of a financial restructuring to its bondholders and shareholders in order to provide the Company and its stakeholders with more financial certainty. Following a hearing at which the views of multiple stakeholders were presented, including shareholders and bondholders, the High Court decided that the restructuring should not be implemented.

In the wake of this decision, the Company's incumbent Chairman, Steven McTiernan, and the other Non-Executive Directors, John van der Welle, Sandy Shaw, Beverley Smith and Dr David Jenkins, resigned from the Board on 29 June 2021. The Board thanks the previous Chairman and the other Non-Executive Directors for their contribution to the Board over their years of service. John Wright and David Craik were appointed to the Board as Non-Executive Directors on 29 June 2021 with Mr Wright assuming the position of Interim Chairman, from which he stood down in February this year. I joined the Board in October 2021 as an Independent Non-Executive Director and was then appointed as Independent Non-Executive Chairman in February 2022, with Mr Wright stepping back to be a Non-Executive Director, and Juan Morera joined as Non-Executive Director in March 2022.

In December 2021, the Company announced the completion of a review, led by the Non-Executive Directors of the Company, of the events leading up to the restructuring plan being rejected by the High Court in June 2021, including decisions made by the Company's previous Board relating to the Company's Convertible bonds and the restructuring plan. The review, having been requested by some shareholders, was overseen by the Non-Executive Directors and carried out by an independent solicitor assisted by leading counsel. The review concluded that the Company's previous Board discharged their fiduciary duties diligently and in good faith during this time to address the fact that there was projected to be a significant shortfall upon maturity of the bond, and they received extensive advice from outside professionals on whom the Company's previous Board could and did properly rely. The review concluded that no further action was necessary, and that time and resources should now be spent on maximising the future value and potential of the Company.

The Company has been focused on improving its financial situation and commencing in September 2021, the Company undertook a number of bond repurchases, repurchasing approximately 66% of its outstanding bonds at an average price of 86 cents in the dollar. These repurchases have reduced the par value of bonds held by third parties to $78.5 million, resulting in a combined net saving of $29.5 million in debt repayment and interest charges. The Board is now confident that the bond will be repaid in full in July 2022, with the Company forecasting to be holding net free cash of at least $60 million following the repayment, assuming oil prices remain at over $90/bbl.

I believe firmly that the challenges of 2021 are behind us, and the Board's focus is now very much on working with the senior management team to determine the strategy that will create most value for our investors and provide a sustainable and exciting future for the business.

A number of options, by no means mutually exclusive, are under review to take the Company forward, whether by further exploitation of our existing portfolio, or entry to other assets within the UKCS, and ultimately with the aim of building an asset base to support capital returns to our investors. The senior management team is focused on identifying the most effective capital allocation to move Hurricane forward.

I look forward to updating stakeholders on our progress in due course and thank you for your continued support.

I would also like to thank my fellow Board members, all of the executive team and staff for their hard work, commitment and resilience during this very challenging time.

Philip Wolfe
Chairman
27 April 2022

Focused on capital discipline and operational performance

Antony Maris
Chief Executive Officer

Introduction

2021 was a challenging year for Hurricane as we considered how best to ensure a sustainable future for the business against a volatile market backdrop, but I am pleased to report that the Company has emerged from a difficult period in a much stronger position than it entered last year, with a solid financial platform coupled with very good operational performance at its Lancaster field. It is a great credit to our team that we have delivered high uptime and output within guidance at Lancaster. We are now able to look forward and are working hard to identify how best to deploy allocate to create value for all our stakeholders.

Operational review

Greater Lancaster Area (GLA)

Operationally, 2021 was focused on managing production from the Company's Lancaster field to maximise output via the Aoka Mizu FPSO whilst also continuing our work to mitigate the impact of water cut and pressure decline in the field's main producing well. Our operational team's work resulted in an average production rate of 10,267 bopd for the period.

The production uptime during the year was an excellent 92.3%, covering all planned and unplanned events. Overall, operational performance at Lancaster was very strong, with the team's clear focus on safety and environmental performance underpinning its approach throughout the year.

Some operational challenges had to be overcome but were dealt with effectively and safely. In early June 2021, the electric submersible pump ("ESP") in the P6 well tripped, which led to Lancaster production being temporarily reduced while the root cause of the trip was investigated. The successful restart of the P6 well was announced on 16 June 2021.

During 2021, seven cargoes of Lancaster oil were lifted, totalling 3.6 MMbbls. Post period end, the 27th and 28th cargoes, totalling approximately another 1.05 MMbbls, have already been lifted in January and March respectively. The next cargo is expected to be lifted in May 2022 by which time Lancaster will have produced over 13 million barrels since start-up.

In June 2021, the Company received approval of the Lancaster Field Development Plan Addendum (the "FDPA") from the Regulator. The FDPA approval, together with associated production, flare, and vent consents, enables production with the bottom hole flowing pressure up to 300 psi below the bubble point pressure of the fluid (1,605 psia at 1,240 metres TVDSS), subject to the Company ensuring that no incremental liberated gas is produced to surface.

The initial consent was for a three-month period from 16 June 2021 to 15 September 2021. Subsequent renewed production, flare, and vent consents were received, and future consents are expected to be issued on an ongoing three-monthly basis subject to compliance with the terms of the FDPA. During December, the well gauge pressure reached and declined below bubble point, in line with the previously guided timing of this occurring between late December 2021 and mid-February 2022. No production issues arising from reaching bubble point have been observed to date. The Company continues to monitor this issue closely and has continued to receive the required consents from the Regulator on a three-monthly basis.

In July 2021, the FPSO underwent a planned maintenance shutdown which was completed safely with production restarting in a timely manner, at an anticipated elevated production rate leading to the average oil rate for August being higher than in previous months. This then returned, as expected, to the trend seen throughout the rest of the year.

In September 2021, the Company provided production guidance for the six-month period 1 October 2021 to 31 March 2022 of 8,500 – 10,000 bopd, based on FPSO production uptime assumption (excluding annual maintenance shutdown) of 96.5% and production from the P6 well alone on artificial lift via ESP. Production during this 6-month period was 9,689 bopd, reflecting continued excellent uptime on the FPSO combined with production rates towards the top of the guided range.

Production guidance for the full calendar year 2022 is 7,500 – 8,600 bopd. This is based on production from the P6 well alone on artificial lift via ESP, an annual maintenance shutdown anticipated to occur during Q3 2022, and overall FPSO production uptime outside of the shutdown window of 96.5%. As of 17 April 2022, Lancaster was producing c.9,150 bopd from the P6 well alone with an associated water cut of c. 43%, in line with guidance.

In June 2021, the Company resolved not to exercise its option to extend the bareboat charter of the Aoka Mizu FPSO for an additional three years to June 2025 as it was deemed at that juncture, from a commercial and fiduciary perspective, not to be in the best interest of the Company or its stakeholders given the significant financial obligations exercising the extension option would have entailed. The initial three-year term was due to expire in June 2022. Hurricane subsequently concluded positive negotiations with Bluewater (Aoka Mizu) B.V. ("Bluewater"), the owner of the Aoka Mizu FPSO, with regards to an alternative extension and announced in March 2022 that it had signed a contract with Bluewater for an extension to the Bareboat Charter beyond the original expiry date of 4 June 2022.

The key terms of the extension are:

1. The charter was extended to cover the remaining economic life of the Lancaster field.
2. Either party can give six months' notice to terminate the charter.
3. The existing day rate and tariff for the vessel remained at $75,000 per day and 8% of revenue respectively.
4. Hurricane agreed to establish a secured deposit account of up to $18.7 million for the benefit of Bluewater to cover the costs associated with the day rate for the six-month notice period and decommissioning in respect of the vessel.

This was an important step forward. It was key that Hurricane and Bluewater found a mutually acceptable deal to enable the Company to continue production beyond repayment of the bond. Based on the current oil price and field performance predictions we forecast this to be at least 18 months from 4 June 2022.

In addition to the charter extension, the Company also announced that it had negotiated with BP Oil International Limited ("BP"), the purchaser of its crude oil, a facility that will allow for cash to be advanced ahead of a lifting, drawing down against oil produced and held in the FPSO's tanks but not yet lifted. This provides the ability to create more frequent cash receipts and assist with the Company's working capital. The facility incurs a financing fee that is only payable if the Company uses it.

Greater Warwick Area (GWA)

The GWA JV (Hurricane 50%, Spirit Energy 50%) has reassessed its understanding of the area, evaluating both the basement and the Mesozoic potential of the licences and has considered all options for further appraisal and routes to possible development. Owing to the disruption caused by the COVID-19 pandemic, an agreement was reached with the Regulator to extend the deadline for commencement of the Lincoln obligation well ("Lincoln Well") from 31 December 2020 to 30 June 2022.

Following the technical re-evaluation and interpretation of the area, the GWA JV further engaged with the Regulator to seek an appropriate extension to the timeframe for this commitment, beyond 30 June 2022. As announced on 17 December 2021, the Regulator had indicated that in the current circumstances it was not content to support a further deferral of the Lincoln Well. As such, the GWA JV elected to suspend further funding towards planning and drilling of the obligation Lincoln Well in 2022 while it continued its discussions with the Regulator.

Efforts to realise value for its equity share of the GWA assets, including the possibility of third-party funding for the drilling of the Lincoln Well, were explored by Hurricane with a significant number of external parties, however, these did not result in formalising any interest to secure third party investment in the GWA assets.

Hurricane has determined that further appraisal and development costs to reach an economic development on Lincoln within acceptable risk and licence timing is not feasible for the Company on a standalone basis. Further to discussions with our JV partner, Spirit Energy, the GWA JV has taken the decision to surrender the Lincoln P1368(S) licence sub area. With access to limited funds, and no reasonable expectation that the Lincoln discovery could generate any meaningful near-term cash realisation in comparison to the other options currently under consideration, voluntarily surrendering the Licence is the right choice. This gives rise to an impairment charge of $54.3 million against the full carrying value of the Lincoln asset in the Company's accounts.

Operational review *continued*

Decommissioning Activities

In July 2021, Hurricane completed the plugging and abandonment ("P&A") of the 205/26b-14 ("Lincoln-14") well, which Hurricane conducted on behalf of the GWA JV. Hurricane contracted the Stena Don semi-submersible rig with the operation completed within both schedule and budget. The GWA JV had a regulatory obligation to P&A the Lincoln-14 well by 31 October 2021, and this obligation was fulfilled in advance of this date.

During November 2021, the Company successfully completed the P&A of the Lancaster 205/21a-4z well for a cost of c.$1 million. $2.2 million of decommissioning security (previously classified as restricted cash) was released back to the Company and used in part to fund this P&A activity.

Subsequent to the year end, in accordance with the provisions of the Petroleum Act 1998 and related guidance, Hurricane and Bluewater submitted for the consideration of the Secretary of State for Business, Energy and Industrial Strategy, a draft Decommissioning Programme for the Lancaster Field FPSO. The draft was published to allow interested parties to be consulted on such decommissioning proposals well in advance of forecast cessation of production operations.

Health and Safety

In 2021, Hurricane recorded one Lost Time Incident, when an offshore technician sustained a hand injury whilst undertaking maintenance activities. The individual made a full recovery. The incident was fully investigated by Bluewater and Hurricane.

The Lost Time Incident Frequency rate for 2021 was 1.71, compared to 1.29 for 2020.

Throughout the year COVID-19 continued to feature highly on Hurricane's risk register. We have continued to work closely with our stakeholders and government authorities to manage the impact of COVID-19 on all aspects of our business during 2021.

Safeguarding measures were put in place to manage the health and safety of offshore personnel. These measures included pre-mobilisation COVID-19 testing, use of face coverings during transit to the FPSO by helicopter, daily COVID-19 health screening on the FPSO and the wearing of face masks offshore, where practicable, to prevent airborne transmission. Our installation operator, Bluewater, has put in place a COVID-19 hazard identification risk assessment aimed at preventing outbreaks of COVID-19 offshore and, if cases occur, managing any outbreaks on the FPSO. Offshore medics have been trained in the use of testing equipment, which has been vital for the early detection, isolation, and repatriation to shore of COVID-19 cases.

Where there have been any suspected or confirmed cases offshore, medics have acted promptly to ensure anyone affected was isolated and treated in conjunction with advice from Bluewater's topside doctor. Dedicated COVID-19 flying arrangements, with attendant paramedics, have been put in place to repatriate suspected or confirmed COVID-19 cases back to shore for further assessment and treatment where necessary. We are pleased to report that COVID-19 did not adversely affect safe operations throughout the year.

ESG and gas export update

In June 2021, Hurricane published its second standalone Environmental, Social and Governance ("ESG") report. The report covered Hurricane's approach to ESG and performance across its operations for the 2020 calendar year. It will publish its third ESG report later this year.

During 2021, our Scope 1 greenhouse gas emissions were 139,584 tonnes CO_2e, or 37.2 kg/bbl on an intensity basis. This compared with 210,884 tonnes CO_2e and 41.5 kg/bbl in 2020. These emissions meet the OEUK Scope 1 definition and include CO_2 as well as other greenhouse gases specified by the Kyoto Protocol. These figures and are based on Intergovernmental Panel on Climate Change's ("IPCC") Fifth Assessment report, whereas previously, Hurricane reported using IPCC's Fourth Assessment report; figures for 2020 have therefore been restated and align with the NSTA's reporting metrics. We believe this provides a more complete picture of our emissions performance and will allow for easier annual comparisons in the future.

On the FPSO there has been a particular focus on optimising power generation following successful FPSO power management system testing and a revision to the FPSO's power generation strategy. This has led to a reduction in power generation emissions of 42,727 tonnes CO_2 in 2020 to 33,208 tonnes CO_2 in 2021.

Currently, associated gas production from the Lancaster EPS is partially used as fuel gas for the Aoka Mizu FPSO, with the remainder flared under the consent within the approved Field Development Plan Addendum. We remain fully cognisant of the increased scrutiny and oversight in this area and are committed to continuing to look at ways of further reducing this figure and our overall environmental footprint in 2022 and beyond where it is economically and commercially viable to do so.

Bond tenders

In September 2021, the Company undertook a bond tender exercise, repurchasing approximately 34% of its outstanding bonds at a price of 78 cents in the dollar. This reduced the par value of bonds held by third parties to $152 million, using $62 million of net free cash, inclusive of accrued interest. The Company completed three further repurchases during December 2021: first it completed the repurchase of a further $15.0 million of its bonds for a total consideration of $14.0 million, including accrued interest; then it repurchased an additional $28.5 million for a total consideration of $27.3 million, including accrued interest; and finally it repurchased an additional $30.0 million in aggregate principal for a total consideration of $29.0 million, including accrued interest. The net effect of these purchases was that by the end of 2021, the nominal value of the Company's outstanding bonds had reduced to $78.5 million, and a total of $29.5 million of savings had been achieved.

Reserves and resources

While the Lancaster field EPS was developed on time and on budget with first production achieved in May 2019, the field has significantly underperformed pre-production expectations. Following the full technical review of the Lancaster field and the Company's wider West of Shetland portfolio in 2020 and the independent assessment of the Company's assets, published in April 2021, additional detailed subsurface and reservoir performance analysis has been ongoing throughout the year.

Hurricane elected to retain ERC Equipoise Limited ("ERCE") to update its Competent Person's Report ("CPR") on the Reserves and Contingent Resources of the Lancaster field, published in April 2022. Their estimates of Lancaster field Reserves and the Contingent Resources are detailed in the tables below. Year on year comparison shows an increase in developed reserves, in part due to the implications of the Lancaster field's performance during 2021 and in part due to high oil price assumptions.

People and operations

I would also like to express my thanks to all our colleagues whose hard work, professionalism and dedication during a challenging year has ensured Hurricane's operational delivery since start-up of the Lancaster field has been first class. Many months of work on the technical review and development options screening has been compressed into a fraction of that time without compromising on rigour or quality.

The health and safety of our onshore colleagues has also been a priority given the home working arrangements put in place in March 2020 to manage the spread of COVID-19. Our onshore staff have primarily been working from home since that time and, where possible, we actively encouraged flexible working recognising that employees may have responsibility for childcare, home schooling, family members as well as other obligations during the pandemic. We have conducted home working assessments to ensure that our staff have the necessary equipment and appropriate working conditions for safe and effective remote working. We have also introduced initiatives to address staff isolation and encourage contact between colleagues while we are working remotely.

Feedback from employee engagement suggested that as we returned to the office, our employees wished to preserve some measure of home working, and we have aimed to achieve this where possible. Our offices reopened on 8 November 2021, with the implementation of a trial hybrid working arrangement requiring two days' office attendance per week. With the resurgence of the COVID-19 Omicron variant, we took the decision to curtail the hybrid working arrangement on 9 December 2021, returning to home working. Following the Government's relaxation of COVID-19 precautionary measure, we reopened the office in February 2022, returning to the earlier hybrid working arrangement. We continue to monitor the prevalence of COVID-19 in the workplace and society at large, in order to ensure we apply suitable safeguarding measures to personnel both onshore and offshore.

Outlook

The Company anticipates that production from Lancaster will be in the range of 7,500 – 8,600 bopd during 2022, including a usual period of scheduled maintenance and uptime of 96.5% outside of the maintenance window. We expect water cut to increase and pressure decline to continue but still see the field as highly cash generative at current commodity prices.

With the expectation that oil prices remain over $90/bbl, post bond repayment we forecast to have over $60 million of net free cash†. Our thoughts are therefore fully focused on building on our position of increasing strength and value. Against the backdrop of our demonstrable operational track record, financial discipline, and the significant rise in oil prices, we are preparing Hurricane for the future. The UK Government's renewed emphasis on security of supply is welcome and we are working hard to identify how best to optimise capital allocation in future activities to build further value for our shareholders, whether through further investment in our existing portfolio, or in new opportunities in the UK oil and gas sector, or both.

Antony Maris
Chief Executive Officer
27 April 2022

Lancaster Reserves and Resources

While the Lancaster field EPS was developed on time and on budget with first production achieved in May 2019, the field has significantly underperformed pre-production expectations. Following the full technical review of the Lancaster field and the Company's wider West of Shetland portfolio in 2020 and the independent assessment of the Company's assets, published in April 2021, additional detailed subsurface and reservoir performance analysis has been ongoing throughout the year.

Hurricane elected to retain ERCE to update its CPR on the Reserves and Contingent Resources of the Lancaster field, published in April 2022. ERCE's work has been prepared in accordance with the June 2018 Petroleum Resources Management System (PRMS) as the standard for classification and reporting with an effective date of 31 December 2021.

ERCE's estimates of Lancaster field Reserves and the Contingent Resources are detailed in the tables below. Year on year comparison shows an increase in developed reserves, in part due to the implications of the Lancaster field's performance during 2021 and in part due to higher oil price assumptions.

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

ERCE's estimates of Reserves for the Lancaster field as of 31 December 2021

	Gross			Net attributable to Hurricane		
(MMbbl)	1P	2P	3P	1P	2P	3P
Developed Reserves (MMbbl)[1]	4.1	5.8	9.1	4.1	5.8	9.1

Notes:

1. In determining the economic Reserves for the Lancaster field, ERCE has assumed a nominal Brent oil price forecasts as of 31 December 2021 of US$75/bbl in 2022, US$71/bbl in 2023, US$69/bbl in 2024 and US$70/bbl in 2025 and constant thereafter in real terms. In line with PRMS guidelines, the nominal oil prices assumed are those forecasts made as at the effective date of the CPR, being 31 December 2021. Prices are escalated at 2.0% per annum inflation

ERCE's estimates of Contingent Resources for the Lancaster field at 31 December 2021

	Gross			Net attributable to Hurricane		
(MMbbl)	1C	2C	3C	1C	2C	3C
Contingent Resources, Development Unclarified[2]	11.3	35.4	86.9	11.3	35.4	86.9

Notes:

2. Contingent Resources, Development Unclarified, assume additional development wells and/or water injection is implemented as part of any further development; and contingent on regulatory consents, funding and execution during the lifetime of the existing Lancaster wells.

A summary of the movements in net attributable 2P Reserves as compared to the previous CPR (effective date of 31 December 2020) is as follows:

	Net attributable 2P Reserves (MMbbl)
At 31 December 2020	7.1
Produced during the year	(3.7)
Change in assumptions and economic life	2.4
At 31 December 2021	5.8

Our Response to COVID-19

COVID-19

During 2021 our occupational health and safety practices across our offshore activities continued to be at the very core of our daily operations and remained aligned with best practice. During the year we continued to assess the likely impact of the COVID-19 pandemic on key offshore and onshore activities to determine how Hurricane's activities could proceed safely.

COVID-19 continued to feature highly on Hurricane's risk register. The nature of the pandemic changed from the prominent Delta variant circulating in society to the emergence of Omicron as a variant of concern. Hurricane contracts the provision of aviation services to the Aoka Mizu FPSO; in consultation with the FPSO Installation Operator and aviation service provider, Bluewater and Bristow respectively, we developed effective COVID-19 risk control measures related to these services, including COVID-19 self-declaration forms, pre-mobilisation PCR testing, and the availability of paramedics to ensure safe repatriation via dedicated flights back to shore of any people having or suspected of having COVID-19. Bluewater has put in place a COVID-19 hazard identification risk assessment aimed at preventing outbreaks of COVID-19 offshore and, if cases occur, managing any outbreaks on the installation. Offshore medics have been trained in the use of testing equipment, which has been vital for the early detection, isolation and repatriation to shore of COVID-19 cases. Where there have been suspected or confirmed cases offshore, medics have acted promptly to ensure anyone affected was isolated and treated in conjunction with advice from Bluewater's onshore doctor. We are pleased to report that COVID-19 did not adversely affect safe operations throughout the year.

Hurricane and Bluewater have kept COVID-19 risk control measures under constant review to ensure alignment with the pandemic steering group guidance supplied by OEUK. We have also ensured that adequate resources have been put in place to manage COVID-19 exposure during the pandemic.

Beginning in October 2021, in advance of the Lancaster 205/21a-4Z P&A programme, we undertook a scoping exercise on the Maersk Forza subsea construction vessel. In conjunction with Petrofac, our Well Operator, we ensured that robust COVID-19 risk control measures were put in place prior to work taking place. These measures included COVID-19 self-declaration forms, pre-mobilisation PCR testing and offshore hazard identification risk assessments. The P&A programme was completed without any suspected or confirmed cases of COVID-19 being recorded.

As advised by the UK and Scottish governments, we continued to allow our office-based staff to work from home during 2021 to protect them from the spread of COVID-19. We also set up a cross-functional 'Return To Office' work group to monitor government guidance, review COVID-19 trends in the general population, and to ensure that any staff returning to our workplaces in Aberdeen and Surrey were able to do so in a safe manner.

In addition, we created a COVID-19 hazard identification risk assessment for our offices, looking at all control measures needed to allow safe working. Alongside this, communication packs containing the latest government advice on office working, along with wellbeing support, were distributed to all staff regularly throughout the year.

As the pandemic continues to pose the risk of unprecedented effects to our operations, supply chains, personnel and the wider economy, further details of COVID-19 as a key risk factor to our business, how it is managed are set out on page 28 within the Principal Risks and Uncertainties section of this report. Further information can be found in our separate Environmental, Social and Governance Report, which will be published shortly after this Annual Report.

Maximising cash flow from Lancaster and targeting new opportunities

The Company's cost savings, combined with a significant rise in oil prices over the past year, has resulted in Hurricane forecasting an ability to repay the outstanding bonds in full in July 2022 and subsequently holding a significant amount of surplus cash. Therefore, our strategy looking forward is to continue to maximise cash flows from the existing Lancaster infrastructure while at the same time identifying the best investment opportunities either within our existing assets, in new assets, or both.

STRATEGY	LINK TO PRINCIPAL RISKS
1. Harvest **Maximise cash flows from the Lancaster field.** Production from the Lancaster P6 well has been very reliable over the past year, with excellent uptime from the EPS. The Company will seek to maximise cash flows from the existing Lancaster infrastructure to enable the new investment opportunities to be considered.	Principal risks B D E F G J K
2. Develop **Convert Contingent Resources to Reserves to maximise value ascribed by the market and industry.** Hurricane's fields and discoveries have been assigned Contingent Resources by third-party Reserves consultant, ERCE. The Company will continue to mature the technical and commercial work required to deliver a viable development plan to target these Contingent Resources and convert them to Reserves. If considered, compared to other opportunities, to have an appropriate risk / reward balance, the Company aims to deliver any such further activity in a cost-effective manner.	Principal risks A B C D E F G I K L
3. Acquire **Seek opportunities to invest in third-party assets to develop and grow value for shareholders.** The Company is looking to grow and diversify its asset portfolio and reduce the production risk associated with single field/single well production. The Company will seek attractive investment opportunities, focused on the UKCS, to invest in and to grow the underlying value of the Company and build a broader base to develop in the future.	Principal risks A C D H I L

Our approach to health, safety and the environment

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

Background to updated business model and strategy

Rising oil prices throughout much of 2021, coupled with the consistent performance of the Lancaster field and significant costs savings, has resulted in the Company reducing its net debt† during the year. The Company finished the year with a net free cash† position of $52 million, and a net debt† position of $27 million. Oil prices in early 2022 have continued to rise but remain highly volatile and there is considerable uncertainty over future prices given near-term supply and demand dynamics and the longer-term impact of the energy transition.

As a consequence of the strong cash position, reliable production and higher oil prices, current financial projections show the Company will be able to repay the outstanding $78.5 million of Convertible bond debt at maturity in July 2022. In addition, post bond repayment and after funding the Bluewater secured deposit account (as part of the FPSO charter extension terms) Hurricane will have a significant cash balance which could be invested in new opportunities on its existing assets and/or new opportunities.

New opportunities and exploring existing upside potential

The Company will continue its technical and commercial work to mature potential further investment opportunities within its portfolio. In particular, the Company has developed plans for a new production well on the Lancaster field which would be drilled into central high of the field. While the incremental Reserves targeted by this well would be modest, it would accelerate production from the field. Given the fixed cost base due to the FPSO, this provides a potentially attractive investment opportunity whilst also providing production resilience through a second production well, directly addressing the significant operational risk of reliance on the 205/21a-6 well alone.

In parallel, Hurricane is evaluating other third-party opportunities within the UKCS to expand and diversify its existing portfolio.

Both the potential development of existing assets and the acquisition of new assets will be carefully assessed considering the risks involved in each case, the necessary funding requirements, and the potential value opportunity for the Company and its shareholders.

Measuring performance

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

i. Performance measures, based on short-term measures intended to drive the progress of the delivery of the Company's strategy, which determined annual bonus awards; and

ii. Milestones, which were longer-term measures designed to support the successful delivery of the Lancaster EPS and monetisation of the Group's assets over a five-year period, and which were to be used to determine the eventual awards under the Value Creation Plan ("VCP") at maturity.

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

The Board continues to track performance against a mix of financial and non-financial measures. The Performance Measures for 2021 in the first half of the year were contingent on the outcome of the proposed financial restructuring which was not sanctioned by the Court in June 2021. Notwithstanding that event, the Company's KPIs will continue to be anchored by a focus on safe and responsible working practices and value creation, alongside the objectives of stakeholder engagement, workforce communication and support.

Risk management and environmental aspects and impacts management form the basis of our decision-making when undertaking business and/or safety critical activities. Hurricane has embedded its risk management processes into business operations to ensure key decisions and risks continue to be kept under review, with corrective measures taken when required.

For our stakeholders

Why we engage with our stakeholders

The delivery of our strategy is reliant on the support and commitment of our stakeholders.

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

Key stakeholder groups

Employees

Why we engage

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

How we engage

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

How the Board engaged

The Board engages with the Company's employees throughout the year, mainly informally and through frequent Group townhalls. Members of the Board informally liaise with employees and enquire and take an interest in their day-to-day roles. In the first six months of the year, as incumbent Chair of the Remuneration and ESG Committee and designated Non-Executive Director for workforce engagement matters, Sandy Shaw carried out informal employee engagement with employees facilitated by video calls.

Shareholders

Why we engage

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

How we engage

During 2021 we mainly interacted with shareholders virtually due to the COVID-19 restrictions. This included the AGM and also the shareholder meeting held as part of the restructuring proposal. While the focus during the first half of 2021 was on addressing our debt and the proposed restructuring, the second half of the year concentrated on cost and debt management with an aim to bridge the debt repayment funding gap. In addition, the Company continued to issue regular operational and financial updates to shareholders.

How the Board engaged

In 2021, the Chairman, CEO and CFO engaged with key shareholders. This was done in person if possible but virtually where COVID-19 restrictions made it necessary. These interactions included a shareholder meeting held as part of the proposed restructuring. Following the Court's decision not to sanction the restructuring the Company continued to seek engagement with certain large shareholders, in relation to the possible future plans for the Company as well as Board appointments.

Bondholders

Why we engage

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

How we engage

Ordinary course engagement with bondholders is in practice the same as for shareholders, in the form of public announcements, direct interaction through meetings (in-person or virtually) and set piece events. Following the material downgrade to Lancaster Reserves and the Contingent Resources across our West of Shetland assets, the Company started engagement in 2020 with an ad hoc committee of its bondholders over the strategic direction and business model of the Company. This engagement continued through the first half of 2021. In the second half of the year the interaction with the bondholders was minimal. During this time the Company undertook a number of bond buybacks reducing the value of the outstanding Convertible bonds.

How the Board engaged

In the ordinary course and given its fiduciary duties, the Board would focus its attention and interactions on shareholders while being kept informed of feedback and sentiment among its bondholders. However, the significant downgrade to the Company's Reserves and Contingent Resources announced during 2020 resulted, by necessity and legal obligation, in the Board's focus switching to engagement with its bondholders, primarily through its financial and legal advisers.

Strategic or business partners

Why we engage
Our strategic and business partners, consisting of Tier 1 contractors and our GWA joint venture partner Spirit, are part of our business and deeply rooted in our operational activities.

How we engage
In some aspects of our work, our partners are fully integrated with our team. Hurricane's Executive Directors maintain a good relationship with their appropriate counterparts.

How the Board engaged
Hurricane's Executive Directors have strong business relationships with senior principals within our partners' organisations, with regular in person or virtual meetings.

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

Contractors and suppliers

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

How we engage
We collaborate and continually work with our contractors and the full supply chain, sharing best practice and seeking out synergies to improve performance. During the year in review, over 95% of our payments to suppliers took place within 30 days of receipt, placing Hurricane among the quicker payers in our industry which promotes a healthy relationship with our suppliers.

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

Regulators

Why we engage
Engagement with our regulators preserves our licence to operate and allows us to influence the direction for future regulation.

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

How the Board engaged
Members of the Board are available to participate in meetings with Regulators, as appropriate.

Local communities

Why we engage
Given the nature of oil and gas supply chains, communities affected by Hurricane's operations are dispersed. Hurricane focusses on the communities geographically closest to its oil and gas operations, the Shetland Islands and Aberdeen, to reinforce supportive local services.

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

How the Board engaged
The Company aims to have regular visits to Shetland to keep key representatives informed of the latest status of our operations. Unfortunately, due to COVID-19, these visits could not take place in 2021. We hope to resume an engagement programme once it is safe to do so.

Section 172

Section 172 Statement (Companies Act 2006)

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

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

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

The Board recognises that balancing the needs and expectations of stakeholders is important, but it often has to make difficult decisions based on competing priorities where the outcome is not positive for all of the Company's stakeholders. Decisions are not taken lightly, and the decision-making process has been structured to enable directors to evaluate the merit of proposed business activities and the likely consequences of its decisions over the short, medium and long term, with the aim of safeguarding the Company so that it can continue in existence, fulfilling its purpose and creating value for stakeholders.

During 2021, the Company engaged in dialogue with certain key stakeholders on certain key strategic matters, including how the Lancaster Reserves downgrade has significantly reduced potential future cash flows from the field, and consequently that the financial projections at the time (given the likely oil prices forecast during the first part of 2021) showed the Company would have had a significant shortfall in its ability to repay its $230 million of Convertible bond debt at maturity in July 2022. The Company developed a business plan which was subsequently discussed with the Ad Hoc Committee. This process resulted in the Company announcing in April 2021 a proposed financial restructuring of its indebtedness, with the intention of providing a stable platform upon which it can continue to operate its business. The proposed financial restructuring was not sanctioned by the Court in June 2021.

As part of our annual ESG Report materiality exercise, we have set out our key stakeholder groups, their material issues, and how the Company and the Board engage on them. Further information on some of the exercises is reported within our 2021 ESG Report.

The Company maintains an active dialogue with its Regulators in carrying out its role as licence operator on its assets. Throughout the year in review and during the period up to the publication of the report key points of engagement were in relation to achieving approval of the Lancaster FDPA on producing below bubble point and on extending the GWA obligation well deadline.

The relationship and engagement with Bluewater, the owner and operator of the Aoka Mizu FPSO, is significant in the context of maximising long-term value in the business. As befits such a strategic relationship, we have multiple points of contact, from our operational staff through to the executive and Board. During 2021, there were many positive interactions, particularly managing and minimising the impact of COVID-19 on offshore operations. There was also senior-level engagement as part of our proposed financial restructuring. Throughout the year, our operational team conducted regular townhalls for Bluewater's employees aboard the FPSO and within their onshore support team, to deliver updates on the Company's progress, the impact of the Lancaster reserve downgrade and lower oil prices and the results of the process to restructure the Company's balance sheet. In addition to the above, the management team also worked extensively with the Bluewater team to negotiate and agree a mutually beneficially extension to the FPSO charter which was ultimately signed in March 2022.

Our employees are also critical to our success. During the year, due to COVID-19, Sandy Shaw, who was the designated Non-Executive Director for workforce engagement matters in the first half of 2021, had to revise her formal engagement schedule to an informal engagement schedule. As part of this role, Sandy informally engaged with staff as part of a wider initiative to maintain regular communication between employees while they were working at home as a result of the COVID-19 pandemic. On these calls, Sandy was able to understand and enquire into the welfare of employees, answer any questions and address any concerns they might have. The feedback received on this initiative has been very positive. Further information on how we engaged with our workforce during the year is reported below and on page 12. Currently engagement with our staff takes place primarily via the townhall communications held by the Executive team.


AOKA MIZU
WILLEMSTAD

A year of recovery and consolidation

Richard Chaffe
Chief Financial Officer

Overview

2021 was a year of recovery and consolidation for Hurricane, benefitting from the continuous rise and recovery in the oil price, but also taking steer from the Court's decision not to sanction the proposed financial restructuring and looking to actively manage the Company's net debt position.

Over 3.5 million barrels of Lancaster crude were sold across seven cargoes, generating over $240 million in revenue thanks to the strong oil prices seen in 2021 compared to 2020. This, combined with a continued focus on low operating costs and excellent production efficiency produced free cash flow† of $135.7 million. Cash capex† was $21.4 million, largely comprising previously committed to long-lead items for future tie-back and gas export works, capitalised G&A relating to potential Lancaster enhancement projects, and decommissioning spend primarily on the Lincoln-14 well, which was completed significantly under budget.

In the second half of the year, Hurricane took steps to actively manage its net debt position, spending $132 million to repurchase and cancel just over two-thirds of the outstanding Convertible bonds, saving $29.5 million in future principal repayments and interest.

Although uncertainties still remain, with oil prices still supportive albeit volatile, and a significantly reduced net debt position, the financial outlook for Hurricane is now significantly improved as we look beyond repayment of the remaining bond debt and towards new opportunities to deliver value.

Proposed financial restructuring

Towards the end of 2020, following the downgrade of our reserves and the suspension of production guidance, the Company was forecasting a shortfall of over $100 million in relation to its ability to fully repay its bonds at maturity. Given the magnitude of this shortfall, Hurricane entered into meaningful discussions with the bondholders regarding the ability to fully repay the Convertible bond debt due in July 2022. This culminated in a proposed financial restructuring, which would have resulted in reduced and restructured bonds, dilution for existing shareholders, but greater certainty over Hurricane's solvency, and a potential solution to drill an additional well on the Lancaster field.

Throughout the process up to the Court sanction hearing, the Group's projections were still showing a significant shortfall in being able to fully repay the Convertible bond. These projections were on the basis of management's production forecasts combined with the best available oil price forecasts, using forward curves and analyst estimates. At the time, none of those forecasts and estimates showed a scenario whereby there would be a full repayment of the bond; it was not an option to ignore those projections and continue operating as usual in the hope that the best available research and estimates on oil price would turn out to be materially incorrect.

As part of the restructuring process production forecasts were provided covering the period from June 2021 onwards. In the period from June 2021 to February 2022, cumulative actual production was only marginally (3%) above these forecasts. The positive change in the financial circumstances of the Company has been brought about mainly by the continued, significant and unexpected rise in oil prices, but also impacted by the cost cutting measures implemented by the Company and the savings from the bond buybacks.

Revenue

Revenue recognised for the year was $240.5 million (2020: $180.1 million), with an average realised price of $67.3/bbl ($35.2/bbl) across 7 cargoes comprising nearly 3.6 million barrels (2020: 12 cargoes comprising 5.1 million barrels). Whilst the average Dated Brent price for the year was $70.9/bbl, under the sales and marketing agreement Hurricane has in place with BP, the sale of Lancaster crude is priced by reference to the average of either the Dated Brent price of first or last five days in the month of lifting (at the buyer's option, declared by the 20th of the month). This arrangement means that the reference Dated Brent price for a cargo is typically lower than the spot price at the time of lifting. The lower number of cargoes reflects not only the declining rate of production, but also, where possible, maximising cargo sizes in 2021 to minimise transportation costs per barrel.

The average netback to the contractual Brent price was $2.7/bbl (2020: $2.9/bbl), representing the discount or premium offered by the refinery purchasing the crude, BP's marketing fee, and the freight and port costs incurred by the buyer in transporting Lancaster crude to its ultimate destination. The excellent FPSO uptime means that Hurricane has continued to sell all cargoes on time, within specification and contractual terms, maintaining our reputation as a reliable producer. This strong reputation helped in Lancaster crude being sold and delivered to two new refineries during 2021. A growing pool of buyers should result in more competitive bids for Lancaster crude and in turn higher overall realised prices received going forward.

The sales arrangement with BP means that Hurricane receives cash for a sale typically within five days of the lifting occurring. With production continuing to naturally decline, the period between liftings will increase. As such, Hurricane has agreed a facility with BP that will allow for cash to be advanced ahead of a lifting, drawing down against oil produced and held in the FPSO's tanks but not yet lifted, to create more frequent cash receipts and assist with the Company's working capital. This facility, which takes effect from end of July 2022, incurs a small financing fee that is only payable if the Company uses it.

Highlights

	2021	2020
Production	**3,748 Mbbl**	5,078 Mbbl
Production rate[1]	**10,300 bopd**	13,900 bopd
Sales volumes	**3,576 Mbbl**	5,112 Mbbl
Revenue	**$240.5m**	$180.1m
Average sales price realised	**$67.3/bbl**	$35.2/bbl
Cash production cost per barrel[†]	**$28.2/bbl**	$17.9/bbl
Free cash flow[†]	**$135.7m**	$74.2m
Free cash flow per barrel	**$36.2/bbl**	$14.6/bbl
Net free cash[†]	**$51.5m**	$111.4m
Net debt[†]	**$27.0m**	$118.6m
Underlying profit/(loss) before tax[†]	**$10.8m**	$(36.0)m
Statutory profit/(loss) after tax	**$18.2m**	$(625.3)m

1. Rounded to nearest 100 bopd.

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

Cost of sales

Total cost of sales was $173.1 million (2020: $179.8 million), including $97.6 million of DD&A (2020: $96.6 million). Cash production costs[†] were $105.8 million (2020: $90.6 million), equivalent to $28.2 per barrel (2020: $17.9/bbl).

Excluding the revenue-linked incentive tariff, cash production costs per barrel increased from $14.6/bbl in 2020 to $22.8/bbl in 2021. This increase per barrel was driven by lower average production rates in 2021 and the contractual increase to the FPSO dayrate from $25,000/day to $75,000/day effective from June 2021. Excluding the incentive tariff, cash production costs per barrel for H2 2021 (a period wholly including the increased dayrate) were $26.8/bbl. With a cost base that is largely fixed, natural decline in production and inflationary cost pressures, we expect cash production costs per barrel to increase during 2022; although we continue to look for cost savings internally and with our key contractors where possible.

Impairment of intangible assets/ GWA licences

During the year, the GWA JV was in engagement with the Regulator on the technical re-evaluation and interpretation of the GWA licence potential, and requested a regulatory amendment of the obligation to drill a well on the Lincoln licence, which must be commenced on or before 30 June 2022, to a later commencement date. The Regulator indicated that it was not content to support a deferral of the obligation well. Following discussions within the JV, the partners elected to continue its plans to suspend further funding towards well planning and drilling of the obligation well on Lincoln in 2022; however, funds continued to be made available in 2022 to further evaluate the area's prospectivity. Whilst meaningful discussions were held during the year between Hurricane and potential third parties to enter into the licence, these did not result in any formalised interest.

Having noted the announcements on 8 December 2020 by Spirit Energy and its largest shareholder, Centrica plc, regarding the strategic focus of its remaining UK assets and the limitation of any further investment in exploration and appraisal, and also taking into account Hurricane's financial circumstances and the related challenges of securing additional funding for the Lincoln obligation well, it was concluded that there was a reasonable prospect that the JV would be unable to either spud the obligation well by the required deadline or to obtain a deferral of the obligation well. In addition, Hurricane determined that further appraisal and development costs to reach an economic development on Lincoln within acceptable risk and licence timing is not feasible for the Company on a standalone basis. As such, in April 2022, the JV voted to voluntarily surrender the P1368(S) licence sub area. In anticipation of this, the carrying value of the Lincoln assets has been fully impaired, resulting in an impairment charge of $54.3 million.

FPSO lease

On 4 June 2021, Hurricane announced that it resolved not to exercise its option to extend the bareboat charter of the Aoka Mizu FPSO for a period of three years from June 2022 to June 2025. For the purposes of accounting for the lease under IFRS 16, the lease term was re-assessed to end in June 2022 (previously June 2025). This has resulted in a write-back of the lease liability and corresponding lease asset. As the latter had previously been impaired to materially less than the liability, the balance was been credited to the Income Statement, resulting in a non-cash gain of $49.1 million.

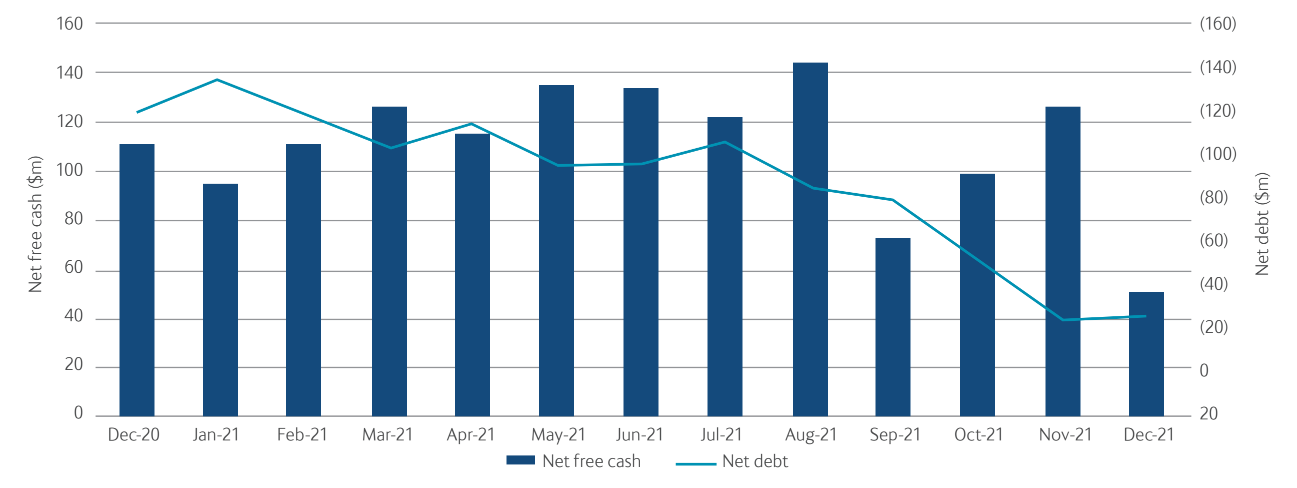
In March 2022, Hurricane announced it had concluded an agreement with Bluewater to extend the charter indefinitely beyond June 2022, with either party being able to give six months' notice to terminate the arrangement. The existing day rate and tariff for the vessel remains at $75,000 per day and 8% of revenue respectively, and a secured deposit account of up to $18.7 million for the benefit of Bluewater has been established to cover the costs associated with the day rate for the six-month notice period and decommissioning in respect of the vessel.

The revised agreement therefore gives Hurricane the opportunity and flexibility to cover production from the Lancaster field for its remaining economic life, which is forecast to be at least 18 months from June 2022.

Convertible bond and debt management

In order to take advantage of the Group's strong cash position and the market price of the Convertible bonds, in September 2021 Hurricane successfully completed a tender programme for the repurchase of some of its bonds, repurchasing $78.0 million of outstanding Convertible bonds for cancellation at a discount of 78% to face value. During December 2021, a series of additional bond repurchase transactions were made, repurchasing an additional $73.5 million of bonds at an average discount of 95% to face value. The total amount of bonds repurchased and cancelled was $151.5 million, for a total cash consideration of $132.0 million (including accrued interest). These buybacks generated a combined net saving of $29.5 million of future principal repayment and interest charges, significantly improving the net debt position and giving the Group clearer line of sight to full bond repayment. At 31 December 2021, $78.5 million of bonds remained outstanding.

Net debt evolution:



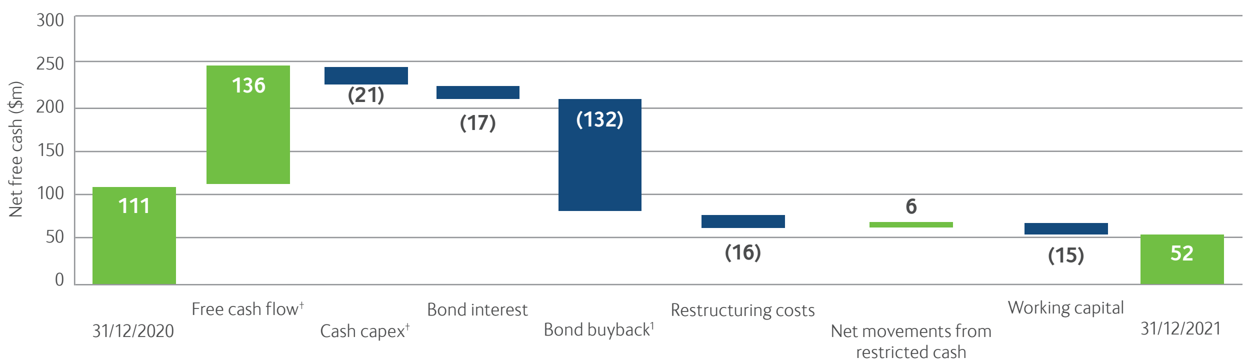
The repurchase of the bonds at a discount gave rise to a gain of $17.2 million (net of transaction costs). The remeasurement of the embedded derivative component of the Convertible bond gave rise to a fair value loss of $1.9 million.

Other profit and loss

Net general and administrative costs ("G&A") before non-cash items increased from $2.9 million in 2020 to $23.6 million in 2021. This increase was primarily due to the significant expenditures incurred on the proposed financial restructuring (see above), and a higher level of G&A costs capitalised or recharged into projects or cost of sales in 2020 as compared to 2021 (see note 3.3 to the Financial Statements). Towards the end of the year, the Group moved to identify cost savings through a right-sizing of headcount (via recruitment freezes and targeted redundancies), partially offset by the cost of retention arrangements put in place for remaining key employees. As at April 2022, excluding Non-Executive Directors, the Group's headcount had reduced to 27 employees, compared to an average of 51 throughout 2021.

Cash flow

Net free cash† bridge



1. Includes transaction costs

† Non-IFRS measure. See Appendix B to the Financial Statements for definition and reconciliation to nearest equivalent statutory IFRS measure(s).

The Group ended the year with $51.5 million of net free cash†, a decrease of $59.9 million from the position of $111.4 million at 31 December 2020.

Free cash flow for the year was $135.7 million (2020: $74.2 million), equivalent to $36.2/bbl (2020: $14.6/bbl), driven by higher average realised Brent prices offset by the step-up in dayrate payable for the Aoka Mizu charter which became effective from June 2021.

Cash capex in the period was $21.4 million, $4.8 million of which was Hurricane's share of decommissioning costs paid in the year. The balance of capex on GLA reflected previously committed to long-lead items for potential additional wells and gas export activity, licences, studies and capitalised timewriting costs scoping production enhancement and development opportunities for the Lancaster field. Cash capex on GWA comprised Hurricane's share of previously committed to long-lead items for a potential Lincoln tie-back, licences and the storage and preservation of JV well spares inventory and tie-back equipment. Given the uncertainty over the timings of future drilling campaigns and well tie-backs, the JV is exploring opportunities and options to realise value from the inventory currently held in storage.

Restricted funds

As of 31 December 2021, the Group held $45.7 million of cash and liquid investments within restricted funds, relating to decommissioning security arrangements and amounts set aside to cover potential early termination fees on the FPSO lease.

Under the FPSO charter the Group was required to hold in reserve and escrow accounts the termination costs of the FPSO lease should the Group wish to terminate the charter early. This balance would have had to increase significantly to $56 million if the Group exercised the charter's extension option to June 2025. Given the Group's financial position and forecasts at the time, combined with the uncertainty over the life of the Lancaster field, it was therefore not appropriate to extend the charter for three years on these terms. As the option was not exercised, the amounts held as restricted funds were able to be released straight line to free cash from between June 2021 and June 2022. The balance classified as restricted cash under this arrangement as at 31 December 2021 was $7.9 million (31 December 2020: $26.5 million). As part of the agreement to extend the FPSO charter, this amount is anticipated to increase to $18.7 million during 2022 and is expected to remain at that level until either party gives six months' notice to terminate the charter.

At the start of the year, the Group held £16.8 million ($22.8 million) in trust as security for its decommissioning liability on the Lancaster field, which includes the cost of abandoning the production wells, subsea infrastructure and related FPSO costs. This security was posted on a post-tax basis. In April 2021, the Regulator formally notified the Group of its intention to request an increase to the amount of decommissioning security for the Lancaster field, so that it is lodged on a pre-tax basis. Following this request, we agreed with the Regulator to place an additional £11.2 million ($15.5 million) of funds into trust. At 31 December 2021, a total of $37.8 million was held in trust as decommissioning security for the Lancaster EPS. Subsequent to the balance sheet date, an additional $7.7 million was placed into Trust following a request from the Regulator as a result of increases to our decommissioning estimates.

Following the abandonment of the Lancaster 205/21a-4z well during the year, $2.2 million of additional decommissioning security related specifically to this activity was released to free cash.

Decommissioning

The Group holds accounting provisions totalling $49.3 million for the anticipated cost of plugging and abandoning the Lancaster P6 and P7z wells, removing the associated subsea infrastructure and related FPSO costs to the Lancaster EPS and FPSO, for which decommissioning security of $37.8 million is held in trust (subsequently increased by an additional $7.7 million in February 2022). Changes in estimates during the year resulted in a non-cash charge of $2.0 million, being those changes in estimate related to the FPSO and fully impaired assets.

During the year, the abandonment of the Lincoln 205/26b-14 well was completed, as required under our licence obligation, at a gross cost of $8.6 million. This was significantly below the previously provided for cost of $13 million, thanks to the hard work of the contracting and operations team, rig contractor, and the joint venture partner support. During the year the suspended Lancaster 205/21a-4z well was also plugged and abandoned at a cost of $1.3 million.

Tax

The Group recognised a total tax charge for 2021 of $0.03 million, all of which related to deferred tax and was non-cash.

During 2021, Hurricane made claims for R&D tax credits in respect of financial years 2019 and 2020, including via the surrender of some brought forward tax losses, being R&D spend related to increasing reservoir understanding of fractured basement and optimising productivity and reserves recovery. Subsequent to the balance sheet date, $4.3 million was received in respect of these claims and will be recognised in 2022.

Tax losses

Due to the nature of the Group's business, it has accumulated significant tax losses since incorporation. The Group has $381.9 million of ring-fenced trading losses and other allowances and supplementary charge losses and investment allowances of $693.0 million, which have no expiry date and would be available for offset against future trading profits, and $328.4 million of capital allowances available against future ring-fenced trading profits. The estimated value of these losses and allowances at prevailing tax rates, including the Group's pre-trading expenditure, future decommissioning costs and non-ring fence losses, is $409.7 million. This is the maximum possible theoretical value and is subject to timing and circumstance; and it is unlikely that all of the potential value would be able to be realised. See note 6.3 in the Financial Statements for further information.

Access to these losses and allowances is likely to be severely restricted at the point at which trading activities end (which would include a permanent cessation of production from the Lancaster EPS). Furthermore, in the event of any corporate transaction, access to the brought forward losses may be restricted if trade was deemed negligible at the point of a change in control or there was deemed to be a major change in the nature or conduct of the entity's trading activities. Other tax losses can only be utilised over a longer period of time, and pre-trading expenditure losses will expire should trade not commence in those entities with pre-trading losses within a certain period of time of those losses originally being incurred. At prevailing oil prices, the Group will continue to utilise its existing ring fence losses as the Lancaster EPS generates taxable profits.

Going concern

The directors have considered both the going concern and longer-term prospects of the Group, including the risks arising from COVID-19; and have a reasonable expectation that the Group will continue in operational existence throughout the going concern period. For further details and analysis, see the Going Concern section of the Strategic Report.

Richard Chaffe
Chief Financial Officer
27 April 2022

Going concern and the Group's longer-term prospects

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this Strategic Report. The Group ended the year with $114.6 million of cash and cash equivalents and liquid investments, of which $68.9 million was unrestricted. After adjusting for working capital items, net free cash[†] at 31 December 2021 was $51.5 million. The Group's most significant long-term liabilities are the remaining $78.5 million of Convertible bonds in issue due in July 2022 (with a coupon of 7.5% payable quarterly in arrears) and committed lease liabilities in respect of the Aoka Mizu FPSO.

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

The Group monitors its capital position and its liquidity risk regularly throughout the year, with cash flow models and forecasts regularly produced and refreshed based on production profiles, latest estimates of oil prices, operating and G&A budgets, working capital assumptions, movements to and from restricted funds, and the Group's debt repayments. Sensitivities are run to reflect different scenarios including changes in reservoir performance, movements in oil price and changes to the timing and/or quantum of capital expenditure projects.

Assessment of going concern

Whilst each of the risks outlined in the Principal Risks section below has a potential impact on the business, the directors focussed on those that are the most critical to the Group's prospects, which are considered to be:

- production delivery risks (risk B);
- FPSO and third-party infrastructure (risk E); and
- oil price volatility (risk K).

The Group's base case going concern assessment assumed the following:

- average Dated Brent oil price of $102/bbl and $89/bbl in 2022 and 2023 respectively;
- no sanctioned capital or development projects;
- continued use of the Aoka Mizu FPSO throughout the assessment period; and
- production from the P6 well alone in line with approved guidance and the production profiles supported by the most recent CPR.

Under the base case scenario, the Group had sufficient liquidity to fully repay the remaining Convertible bonds at their maturity in July 2022 with sufficient headroom thereafter for a period of at least 12 months from the date of this report to fund ongoing working capital requirements.

Sensitivity analyses were also undertaken to reflect the following:

- a reduction to the forecast oil price curve of $20/bbl; and
- a 25% reduction to forecast production rates.

Under the sensitivity cases above, both individually and in aggregate, the Group is projected to have sufficient cash to fully repay the Convertible bonds and to continue operating for a period of at least 12 months.

Reverse stress tests were also prepared to reflect additional adverse reductions in oil price and production to determine at what price or rate each would need to reduce to such that the Group would not have sufficient cash to repay its Convertible bonds in July 2022. These stress tests indicated that a reduction to the forecast oil price curve by $65/bbl, or a reduction to projected production rates by 60%, would result in the Group having insufficient cash to repay the Convertible bond in full in July 2022. In the opinion of management, the likelihood of such a fall in price and/or production rate that would give rise to an inability to fully repay the bonds is unlikely to occur.

Conclusion

As a result of the going concern assessment presented above, the directors have a reasonable expectation that, after also taking into consideration the current macroeconomic situation and uncertainty arising from the COVID-19 pandemic, the Group has adequate resources to continue in operational existence throughout the going concern period.

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

Assessment of the Group's longer-term prospects

The longer-term prospects of the Group are driven by its strategy and business model, as outlined on pages 10 and 11, whilst factoring in the Group's principal risks and uncertainties (pages 22 to 30).

Assessment of the business is performed over a number of different time periods for differing reasons, which include an annual budget cycle (with reforecasts made as appropriate during the year) and a long-term corporate model which incorporates the latest annual budget and provides forecast cash flow detail, where appropriate, on a field-by-field basis along with cash flows incurred and generated at a corporate level. These forecasts take into account the level of unrestricted cash and cash equivalents at the latest practicable date of preparation of this review, together with the forecast cash flow generation from the Lancaster EPS (based on expected production rates and oil prices as outlined above).

Extending the base case assessment (using average Dated Brent oil prices of $82/bbl in 2024 and $78/bbl in 2025), and on the key assumption that neither the Group nor Bluewater exercises their respective termination options over the bareboat charter of the Aoka Mizu FPSO earlier, the Group is projected to continue generating positive cash flows from operations until approximately the third quarter of 2024. The Group intends to use this cash generated to seek attractive investment opportunities, focused on the UKCS, to grow the underlying value of the Company and build a broader base to develop in the future.

As the Group is now able to exit the FPSO charter giving six months' notice incurring no termination penalties, it has additional flexibility should oil price and/or production rate give rise to a significantly shorter than expected remaining economic life of the Lancaster EPS, or factors mean the EPS was operating significantly below break-even level. Furthermore, the Group has placed significant funds in Trust as security to cover estimated decommissioning liabilities for the EPS and FPSO. As such, should operations at the EPS cease earlier than anticipated, the Group is still projected to have material cash balances with which to consider further investment and/or return to shareholders.

How we manage risk

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

All companies carry certain risks and Hurricane is no exception. There are a wide variety of risks associated with upstream oil and gas activities which may impact Hurricane's business. Depending on the nature of the risk, Hurricane may elect to take or tolerate risk, treat risk with controls and mitigating actions, transfer the risk to third parties or terminate risk by ceasing particular activities or operations. The principal risks, and associated risk management activities, are prepared using a bottom-up process starting with the risk and opportunity registers for individual assets and business units which are regularly reviewed and updated. These risk registers include changes to the impact and likelihood of each risk, the mitigating actions for each, a look back at how risks impacted the business, and any emerging risks that are arising as a result of external or internal changes, which are promoted to Principal Risks if necessary. These individual risk registers are consolidated into the Principal Corporate Risk register, and reviewed by senior management, the Executive Directors, Audit and Risk Committee, and the Board. Listed in the following table are the principal risks facing the Group and the actions taken to minimise their likelihood and/or mitigate their impact. The directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

Key changes to risks in the year

The principal risk 'Completion of proposed financial restructuring' previously disclosed is no longer directly relevant, following the proposed financial restructuring not being sanctioned by the Court.

New and amended Principal Risks

- A new principal risk 'Repayment of Convertible bond' was introduced within the Group's interim report published in October 2021. Following the bond repurchases in the second half of 2021 for cancellation and the improved oil price outlook, the Group is now confident it can fully repay the Convertible bond, and as such that principal risk has not been included below.
- Some other risks have been slightly amended and consolidated where they reflect common impacts, owners and mitigations.

Emerging risks

Emerging risks are identified as part of the risk assessment process, being risks whose impacts are not fully known and/or cannot be fully assessed due to their nature. The following has been identified as an emerging risk for the Group:

Tax regime change risk

- There are increased calls for one-off or 'windfall' taxes on the profits of oil and gas entities in the UK, following significant increases in commodity prices during 2021. Although the Group has material brought forward tax losses, a windfall tax may be constructed in such a way to preclude the utilisation of previous tax losses and/or allowances.

Risk		Link to going concern assessment	Link to Strategy and Business Model		
			Harvest	Develop	Acquire
A	Substantial capital and funding requirements to continue longer-term operations			●	●
B	Production delivery risks	●	●	●	
C	Exploration, appraisal and development delivery risks			●	●
D	Geological and reservoir risk		●	●	●
E	FPSO and other third-party infrastructure availability	●	●	●	
F	HSSE and Compliance requirements		●	●	
G	COVID-19		●	●	
H	Litigation				●
I	Joint venture activity			●	●
J	Retention of personnel and expertise		●	●	
K	Oil price volatility	●	●	●	●
L	Climate change and energy transition			●	●

Principal Risks and Uncertainties *continued*

A Substantial capital and funding requirements to continue longer-term operations

In order to convert Contingent Resources into Reserves, significant capital expenditure is required. Uncertainty over oil fundamentals, COVID-19 and other macroeconomic factors may constrain ability to raise finance externally. Reliance on production from the P6 well alone may not provide sufficient cash flow to fund development projects organically.

Change in risk level: No change

Potential impact	Mitigation	Risk movement
• Impairment of oil and gas assets (Lancaster) • Impairment of intangible E&E assets • Inability to replace reserves and replenish portfolio • Loss of value to stakeholders	• Progression of options and seek sanction on development plans where they would further its strategy • Cost and scope of development plans are continuously reviewed in order to achieve maximum return • Active engagement with providers of finance including current and potential shareholders, brokers, banks and other financial institutions • Maintaining large equity interests in its licences, whereby future farm-outs could be pursued as a source of financing	This risk remained at the same level in 2021. • The non-sanction of the proposed financial restructuring means that the Company does not have to seek bondholder approval for investment cases • Higher oil price environment has allowed stronger operating cash generation and active debt management via bond repurchases • However, this is offset by no development activity sanctioned in 2021. With P6 production continuing to decline naturally and an uncertain time remaining on the FPSO charter there is a more limited window to drill and tie-in additional wells to the Aoka Mizu prior to P6 becoming uneconomic

Key

Risk has decreased

No change

Risk has increased

New risk

B Production delivery risks

Unplanned downtime of production facilities (as a result of ESP failure, other mechanical issues, unfavourable weather, availability of personnel, and/or other issues) would result in oil production being lower than anticipated. Reliance on the P6 well alone for production introduces multiple single point failure risks. As part of its most recent FPDA, the Group is required to obtain regulatory consent on a rolling three-month basis to continue producing below bubble point, subject to ongoing reviews of gas liberated from within the reservoir.

Change in risk level:

Potential impact

- Reduced cash flow from operations, which may have impact on ability to repay Convertible bond in full
- Increased cash opex costs per barrel
- Permanent cessation of production if intervention costs prove uneconomic
- Loss of value to stakeholders
- Cessation or choke-back of production if regulatory consents are not renewed or adhered to

Mitigation

- Significant time and resources invested in planning its operations and focusses on minimising the various operational risks to which it is exposed
- Range of third-party service providers and experts used to co-ordinate, plan and deliver production operations
- Contractors are selected based on their demonstrable industry track record and care is taken in nominating an approved installation and pipeline operator to manage the host facilities
- Business interruption insurance in place to mitigate the impact of certain potential production shutdowns, which would typically only include accidental physical loss or damage, or loss of well control
- Contingency built into operational budgets to allow for unexpected delays, the impact of weather, operating cost overruns and unforeseen circumstances
- Consent to produce below bubble point subject to quarterly review of operating procedures, and detailed reservoir monitoring and management plan put in place

Risk movement

The risk has increased in 2021.

- Bubble point was reached in December 2021, and there remains significant uncertainty as to how the well will perform beyond this, along with the risk that gas liberated from the reservoir could be produced which could result in production either being reduced or ceased altogether
- Requirement to obtain rolling quarterly consent to produce below bubble point and monitoring of liberated gas is an increased regulatory requirement on the Group
- The longer P6 continues to run, the higher the likelihood of ESP or other key component failure

Key

Risk has decreased

No change

Risk has increased

New risk

Principal Risks and Uncertainties *continued*

C Exploration, appraisal and development project delivery risks

Exploration, appraisal and development programmes may deliver adverse results due to factors including poor quality (or misinterpretation of) data, failure of offshore vessels/rigs or other crucial equipment, unforeseen problems occurring during drilling or completion works, and delays to offshore operations due to unfavourable weather.

Once sanctioned, development projects are subject to various risks including availability of third-party services and manufacturing slots, solvency of major contractors, correct fabrication of key components to specification, incident-free installation operations, installation windows, permits, consents and weather. Problems with any of the above can cause project delays that would impact both the timing for completion of the project, as well as the cost.

Change in risk level:

Potential impact

- Overruns on cost and schedule of projects
- Delay or reduction to oil production and associated anticipated cash flows
- Impairment of oil and gas assets
- Impairment of intangible exploration and evaluation assets
- Adverse impact to current oil production (should development projects be incremental to the existing Lancaster EPS production infrastructure)

Mitigation

- Significant time and resources invested in planning exploration, appraisal and development operations, focussing on minimising the various operational risks
- Range of third-party experts engaged (including independent sub-surface assurance experts) to co-ordinate, plan and deliver exploration, appraisal and development projects
- Contractors selected based on their demonstrable industry track record and care taken in nominating an approved well operator to manage well operations
- Contingency built into all project plans to allow for unexpected delays, the impact of weather, cost overruns and unforeseen circumstances

Risk movement

This risk remained at the same level in 2021.

- No exploration, appraisal or development programmes undertaken or sanctioned in 2021
- However, underlying risks factors have not significantly changed

D Geological and reservoir risk

The geology of the Group's licence areas is highly complex, with the interaction between different reservoirs still being understood, and is generally less well appraised and therefore inherently higher risk than other UKCS. The predicted behaviour of the reservoirs relies on various assumptions, simulations and interpretation techniques, as refined by production data gathered over time, but the risk remains that reservoirs do not perform as forecasted and modelled.

Change in risk level:

Potential impact

- Downgrade of Reserves and Contingent Resources
- Adverse market reaction
- Impairment of oil and gas assets
- Impairment of intangible exploration and evaluation assets

Mitigation

- Appraisal programmes designed to de-risk the assets in the most cost-effective manner while gaining the maximum possible understanding of the geology and reservoir
- Undertaking of various studies (internally and using third-party experts)
- Significant amounts of real-world data (from drilling, well testing and production) gathered to reduce uncertainty
- Close monitoring of data, with modifications made to the production strategy (e.g., planned individual well shut-ins, varying flow rates) to optimise production
- As production data is gathered, reservoir models refined and updated to reflect and incorporate the actual reservoir characteristics, allowing predictive cases to be built which aim to reduce uncertainty and mitigate the risks in future well planning and/or production strategy

Risk movement

This risk remained at the same level in 2021.

- Risks around reserves downgrade were realised in 2021 following the CPR estimate published
- Results of the Group's internal technical reviews were supported by the CPR
- Revised interpretations of Lancaster (including onlapping sandstones, new OWC estimate) will aid understanding of reservoir and give greater confidence in future production forecasts
- Data continues to be gathered from production and incorporated into refined reservoir models

E FPSO and other third-party infrastructure availability

Continued production from Lancaster is dependent on the Aoka Mizu FSPO being available to the Group. The extension terms agreed include break clauses on both sides, meaning the ability to continue production from the Lancaster EPS may not be wholly within the Group's control.

Operations, and the ability to undertake future development programmes, is dependent on availability of rigs, equipment, and offshore services, leased or contracted from third-party providers and suppliers.

Change in risk level:

Potential impact

- Permanent cessation of production if the Group no longer has access to the FPSO
- Loss of value to stakeholders from reduced cash flows
- Acceleration of decommissioning activities
- Impairment of oil and gas assets

Mitigation

- Exploring development opportunities that include the Aoka Mizu to incentivise Bluewater not to explore better options elsewhere
- Minimising use of third-party infrastructure, where appropriate, or aim to ensure that commercial agreements are appropriate to align interests or protect the Group's position
- Use of third-party infrastructure is assessed for development opportunities
- Consideration is given to the extent, nature and commercial arrangements of potential use of third-party infrastructure

Risk movement

This risk has increased in 2021.

- The Group elected not to exercise the extension option in the Aoka Mizu charter in June 2021
- Extension to the charter has subsequently been agreed, but the agreement includes break clauses both at Bluewater's and Group's option

F HSSE and compliance requirements

The Group is exposed to specific risks in relation to HSSE and compliance matters. These risk areas include, but are not limited to, loss of containment of hydrocarbons, accidents on the FPSO, and anti-corruption and bribery legislation.

Change in risk level:

Potential impact

- Reputational damage
- Injuries to workforce
- Harm to the environment
- Physical damage to assets
- Financial or other penalties imposed

Mitigation

- Top-down leadership of the Group's values
- Group-wide corporate compliance training, including implementation of the Group's anti-bribery and corruption procedures (for employees and those under contracting arrangements)
- Regular monitoring of its primary contractors' obligations in connection with Group activities, including undertaking compliance audits, and ensuring there are sufficient resources and competent personnel in place to satisfy such obligations

Risk movement

This risk has remained at the same level in 2021.

- The Group's Lost Time Incident Frequency Rate was 1.71 in 2021 compared to 1.29 in 2020

Key

Risk has decreased

No change

Risk has increased

New risk

Principal Risks and Uncertainties *continued*

G COVID-19

The pandemic continues to pose risk of unprecedented effects to operations, supply chains, personnel and the wider economy.

Change in risk level:

Potential impact

- Disruption or shut-down of production operations as a result of personnel incapacity or limited access to aviation services
- Increased operating costs due to supply chain constraints
- Development delays and cost increases due personnel incapacity and supply chain constraints
- Increase cyber-security vulnerabilities due to greater remote working

Mitigation

- OEUK's Industry Travel Policy for Offshore Installations is followed
- Work closely with offshore rig, FPSO and aviation contractors to put measures in place to prevent the spread of the virus, including confining, treating and evacuating affected employees and contractors where necessary
- Quarantine arrangements in place offshore and services are available to manage repatriation onshore
- Onshore employees have the necessary equipment, system access and additional IT security measures in place allowing them to work remotely

Risk movement

This risk level has decreased in 2021.

- Vaccination programmes have reduced the severity of impact to individuals
- Increased availability of testing
- Revised government and industry guidance have resulted in lower disruption and requirements to self-isolate

H Litigation

The Group is subject to an elevated risk of litigation and regulatory investigation in relation to historic announcements and the proposed financial restructuring which did not obtain Court sanction in 2021.

Change in risk level:

Potential impact

- Finding of liability and requirement to pay redress or criminal or civil penalties, including substantial monetary fines
- Significant increase to D&O premia, or inability to obtain appropriate levels of coverage
- Damage to reputation
- Adversely affect ability to do business in the future
- Vicarious liability and resource distraction

Mitigation

- Procedures, resources and controls in place to enable it to comply with its regulatory obligations, in particular the Market Abuse Regulations and the AIM Rules
- Reasonable care, skill and diligence, exercised at all times
- Advice and guidance obtained from its Nominated Adviser in relation to ongoing disclosure obligations
- Appropriate levels of D&O insurance in place

Risk movement

This risk level has decreased in 2021.

- In May 2021 the FCA's Market Oversight Department requested that the Group provide information in relation to historic announcements and developments in relation to the proposed financial restructuring. Following responses and correspondence, the FCA has confirmed that it will not take any further action
- The Non-Executive Directors have carried out an independent review and concluded that the Company does not need to take further action in relation to the conduct of the Company's previous Board

I GWA Joint Venture activity

There is a risk that joint venture partners are not aligned in their objectives and drivers. Spirit's largest shareholder, Centrica plc, has made announcements regarding the strategic focus of its remaining UK assets and the limitation of any further investment in exploration and appraisal. Following discussions with Spirit, the GWA JV has taken the decision to surrender the Lincoln P1368(S) licence sub area. This may impact future decisions over the remaining licence (P2294) held by the JV partners.

Change in risk level:

Potential impact

- Impairment of intangible exploration and evaluation assets
- Adverse relationship with Regulator if licence commitments not met

Mitigation

- Continuous and regular engagement with partners to ensure that all partners' interests are aligned
- Numerous joint committees are in place (including finance, technical, development and commercial) to facilitate constructive dialogue
- Ongoing business development activities to realise value for its equity share of the GWA assets, including through third-party funding for the drilling of the Lincoln obligation well
- Hurricane Energy plc has issued a parent company guarantee in favour of Spirit Energy in respect of Hurricane GWA Limited's obligations under the joint operating agreement

Risk movement

This risk level has increased in 2021.

- The Group notes the announcements on 8 December 2020 by Spirit Energy and its largest shareholder, Centrica plc, regarding the strategic focus of its remaining UK assets and the limitation of any further investment in exploration and appraisal
- The JV has now taken the decision to surrender the P1368(S) licence

J Retention of personnel and expertise

The Group may not be able to retain key personnel and their knowledge and expertise, and there can be no assurance that the Group will be able to continue to attract and retain all personnel necessary for the operation and development of its business. There is a risk of increased staff turnover due to uncertainty over future strategy and existing employee performance share schemes have lapsed having not met targets. The lack of clarity on the Group's prospects may lead it to being viewed as a less attractive employer, resulting in difficulties replacing key personnel.

Change in risk level:

Potential impact

- Overruns on cost and schedule of projects
- Increased G&A cost due to higher staff turnover and recruitment costs

Mitigation

- Due care taken in recruitment activities to ensure the organisation retains the requisite strategic planning skills
- Remuneration strategy is designed to attract and retain key employees
- Retention arrangements for key management personnel and other staff
- Bonus scheme with targeted KPIs to incentivise employees

Risk movement

This risk has remained the same.

- A retention scheme for all employees was agreed by the Remuneration Committee in Q4 2021
- However, a lack of certainty over the Group's prospects, fallout from the proposed financial restructuring and the Group's strategic direction may result in personnel and their expertise leaving the Group

Key

Risk has decreased

No change

Risk has increased

New risk

Principal Risks and Uncertainties *continued*

K Oil price volatility

Oil prices are volatile and subject to fluctuation in response to relatively minor changes in the supply of, and demand for, oil, market uncertainty, COVID-19, and a variety of additional factors that are beyond the control of the Group. It is not possible to accurately predict the timing and direction of future oil price movements and there is a risk that oil prices may not remain at their current levels.

Change in risk level:

Potential impact

- Adverse impact on operating cash flow
- Impairment of oil and gas assets
- Inability to repay Convertible bond debt
- Restricted access to financing opportunities in sustained low oil price environment

Mitigation

- Economic models are stress tested using varying oil price forecasts
- Investments made if development cases are robust to downside price sensitivity scenarios
- Surplus cash maintained to manage short-term volatility and uncertainty
- Hedging arrangements may be entered into depending on production forecasts, economic outlook, cost of hedging and other capital requirements
- Charter of the Aoka Mizu FPSO provides some mitigation with respect to changes in oil price as a proportion of the lease cost is proportional to the quantity and price of crude oil sold

Risk movement

This risk level has remained the same in 2021

- Oil prices strengthened significantly during 2021, but are still subject to significant volatility
- Concerns around new COVID-19 variants have potential to significantly impact oil price
- Increased volatility means cost of preferred hedging structures (put options) may become prohibitively expensive
- The pricing mechanism within the BP sales and marketing agreement means hedges can only have limited effectiveness

L Climate change and energy transition

Concerns relating to the potential impact of climate change are driving a societal transition towards a low-carbon future. Governments, including in the United Kingdom, are developing their fiscal policy and regulatory frameworks in response to these rising concerns, which could affect the ability of the Group to carry out planned work programmes, the economics of its assets and its cost and availability of capital. This includes, in particular, the NSTA's Net Zero Stewardship Expectation strategy setting out how the oil and gas industry should progress towards zero routine flaring and venting for non-safety reasons and should reduce its greenhouse gas emissions in support of the delivery of the UK's net zero target.

Change in risk level:

Potential impact

- Adverse impact on operating cash flow due to higher carbon credit costs
- Increased difficulty in accessing finance due to reduced appetite for investing in oil and gas industry
- Increased difficulty in obtaining regulatory approval for new or increased offshore production activities
- Stranded assets
- Fluctuating demand for crude oil resulting in volatile commodity prices
- Increased risk of temporary disruption to operations due to increased frequency and intensity of severe weather events caused by climate change
- Restrictions on flaring may result in oil production being reduced

Mitigation

- ESG Committee of the Board established to provide overarching governance and responsibility for its ESG programme
- This Committee considers the potential impact of climate change, and corresponding shifts in the policy and market setting in which the Group operates. In the future, the Board intends to adapt its approach to assessing climate-related financial risks, working towards full alignment with TCFD (Task Force on Climate-related Disclosures) recommendations through the implementation of appropriate governance and risk management processes
- Continue to investigate and implement actions that could reduce its environmental footprint, where it makes commercial and financial sense to do so
- The Group was also an active participant in the UK oil and gas industry's response to the NSTA's strategy review, which in 2021 formally adopted a net zero emissions target for the UKCS.

Risk movement

This risk level has remained the same as 2021.

- The North Sea Transition Deal has given the industry a clearer path for its preparation to a Net Zero future
- However, the impact of recent regulatory decisions and the non-sanctioning of other projects in UKCS has created uncertainty in the sector
- The Group remains not in a position to fund or execute a gas export scheme (which would reduce impact of flaring)

Working responsibly

Our approach to ESG considers the expectations of our key stakeholder groups as well as the material issues for the sector.

In our standalone 2021 ESG Report, which will be published later in 2022, we will follow the Global Reporting Initiative (GRI) Standards (Core option). This guidance has been chosen as it is a broad and well-recognised framework to report against. We made this decision with reference to other standards and considering industry-specific guidance from the International Petroleum Industry Environmental Conservation Association ("IPIECA") and the best practice reporting of peers.

Stakeholder engagement

In the early part of 2021 the Company conducted, with its advisers, a thorough review of the various alternatives to address its financial position regarding its $230 million of Convertible bond debt in July 2022. This included careful consideration of the likely consequences for the Company and all of its stakeholders, including shareholders, of those alternatives.

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

The Company faced challenges with the proposed financial restructuring plans to service bondholder debts, although in the end those plans were not sanctioned by the Court. The Company also had to cope with changes to the overall governance of the Company due to the changes in Board composition during the year.

In June 2021, after stakeholder engagement the incumbent Non-Executive Directors resigned from the Board, resulting in the appointment of new Non-Executive Directors and an Interim Chairman. The new Board of Directors had to embark on the difficult but necessary process of reducing our debt burden and setting up a viable financial platform for the Company, while in parallel delivering production as safely and efficiently as possible.

Thanks to the dedication and hard work of our team, as well as recent stronger oil prices, the impact of our bond buyback strategy and some cost-cutting and regrettably employee redundancies, the possibility of bridging the funding gap for the repayment of bonds is now within reach. Uncertainties remain, but with oil prices still favourable and a significantly reduced net debt position, the financial outlook for Hurricane is now significantly improved. However, the challenge of funding investment in our assets remains in the rapidly emerging Net Zero environment.

Scope and boundaries

When our standalone 2021 ESG Report is issued, it will report on those assets and activities over which we had control in terms of ESG policies and practices throughout 2021. This covers our offshore and logistics operations on the UKCS and our offices in Surrey and Aberdeen.

Identifying our stakeholders

We identify our stakeholders as individuals, groups or bodies who might be significantly influenced or affected by Hurricane's activities, or whose support or participation is required for us to operate, fulfil our strategy and meet our objectives. Our engagement with these major groups is outlined in our strategy and business model on page 12.

Our stakeholder groups include:

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

Identifying our material topics

It is important to understand the most important topics that impact and influence the business, to guide strategy and decision making. During the year, we undertook a desktop review of our relevant material topics and their relative importance for the Company and its stakeholders. In line with GRI guidance, this involved assessing where impacts occur (or are at risk of occurring) and what Hurricane's involvement and influence are. These were then validated through an internal materiality workshop to determine the boundary for reporting purposes.

Our approach to working responsibly

We recognise the importance of material topics, including health and safety, environmental stewardship, our employees, ethical conduct, stakeholder relations and leaving a positive legacy in the communities where we operate. Our daily operations prioritise health and safety and protecting the environment.

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

Our values

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

How we engage with stakeholders on ESG matters

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

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

We seek the input of external stakeholders for our materiality assessment every two years. Further information about our 2021 internal materiality assessment will be found in our standalone ESG Report when it is published later this year.

Environmental, Social and Governance Report *continued*

Sustainability oversight and accountability at Hurricane

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

The Board assesses and monitors sustainability-related risks within its oversight of principal risks. Ethical conduct and anti-fraud practices are also monitored in this forum, in accordance with the Whistleblowing Policy and other business standards. The Group HSSEQ Manager is responsible for recommending policies on health and safety, and environmental issues to the Board.

Our key policies and codes

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

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

Modern slavery statement

Modern slavery is a very low risk for Hurricane, due to our size and the nature of our operations and direct suppliers. However, we are committed to implementing and enforcing effective systems and controls to ensure modern slavery does not take place anywhere in our own business or in any of our supply chains. We expect the same high standards from all of our contractors, suppliers and other business partners. As part of our contracting processes, we expect our suppliers to comply with the Modern Slavery Act 2015.

A copy of our latest modern slavery policy can be found on our website. The policy is reviewed on an annual basis. On-line modern slavery training is completed by all directors, employees and relevant third-party individuals.

Climate change

As an oil exploration and production company, we are conscious of the need to monitor the ways in which the energy transition might affect our business. The Board considers the Company's environmental stewardship including the impact of climate change in its oversight of the Company's strategy. We support the Task Force on Climate-Related Financial Disclosures ("TCFD") and further information is contained in our 2021 ESG report.

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

Our analysis of the risks posed by climate change and energy transition is provided in the principal risks and uncertainty on page 30 and within the standalone 2021 ESG Report when it is published this year.

Board approval of Strategic Report

This Strategic Report was approved by the Board on 27 April 2022 and signed on its behalf by:

Antony Maris
Chief Executive Officer

Corporate Governance

Contents

Board of Directors

Antony Maris
Chief Executive Officer

Age: 61

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

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

Previously, Antony Maris worked in a variety of engineering, commercial and management roles with Consort Resources Limited, LASMO plc, Monument Oil and Gas plc, and Phillips Petroleum. He holds a BSc in Petroleum Engineering from Imperial College London and an MBA from Kingston University.

Antony Maris does not hold any external appointments.

Richard Chaffe
Chief Financial Officer

Age: 44

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

Experience: Richard Chaffe is a Chartered Accountant with over 12 years' experience in the industry in the UK. Before joining Hurricane as Head of Finance, he was Finance Director of the UK subsidiary of EOG Resources Inc., an independent oil and gas exploration and production company with a market value of over $35 billion. Prior to this, he worked for Ernst & Young for nine years, split between client-facing work and working as part of an audit quality team within the London office. He holds a BSc (Hons) in Physics from Durham University.

Richard Chaffe does not hold any external appointments.

Philip Wolfe
Non-Executive Chairman

Age: 53

Tenure: Philip Wolfe was appointed as a director on 14 October 2021 and as the Senior Independent Director. On 8 February 2022, he stepped up to his current role of Non-Executive Chairman, independent on appointment. He will continue as ARC Chair until an independent Non-Executive director is appointed to that role.

Experience: Philip Wolfe has 30 years' experience within the energy and utilities industry as an executive, adviser and corporate financier. He has served as Chief Financial Officer of various private and listed oil and gas companies, including Phoenix Global Resources plc, an AIM quoted oil and gas exploration and production company focused on Argentina. Philip Wolfe's career includes 23 years in investment banking, including as Managing Director, Head of Oil and Gas, EMEA at UBS Investment Bank and Global Head of Oil and Gas at HSBC.

Philip Wolfe holds a BSc (Hons) in Economics from the University of Bristol.

External Appointments: CarbonPay Limited (Director and CFO) since 6 April 2022; Hemspan Limited (Director); Net Zero Carbon Developments Limited (Director); Courtney Park Engineering Limited (Director); and Full Moon Production Limited (Director).

Committee membership:

AR N E

John Wright
Non-Executive Director

Age: 54

Tenure: Alan John Wright ("John Wright") was appointed as a director on 29 June 2021 and is one of the Shareholder Nominee Directors of the Crystal Amber Fund Limited. Following his appointment, he took up the role of Interim Chairman until 8 February 2022 when Philip Wolfe was appointed as Non-Executive Chairman

Experience: John Wright has 25 years' oil and gas experience with a diverse range of E&P and consultancies companies. He has a petroleum engineering background, specialising in commercial roles both in the UK and the USA with CNR, Amerada Hess and BG Group plc before becoming a consultant in 2008. As a consultant he has run multi-discipline teams for various acquisition and reserve determination projects in most regions of the world including West Africa, South East Asia, USA and Europe for both oil and gas, upstream and mid-stream. Since 2015, John Wright has issued technical and commercial guidance to shareholders with regards Hurricane's exploration success and development decisions. John Wright holds a BEng in Engineering and a MSc in Petroleum engineering.

External Appointments:
XMT UK Limited (Director)

Committee membership:

AR N R T E

David Craik
Non-Executive Director

Age: 67

Tenure: David Craik was appointed as a director on 29 June 2021 and is one of the Shareholder Nominee Directors of the Crystal Amber Fund Limited.

Experience: David Craik is a highly experienced petroleum explorer with over 40 years of experience in the industry. He has worked on a wide range of international and UKCS projects and petroleum reservoir systems and has held technical and managerial posts at most levels for exploration companies, including Cluff Oil, Gulf Oil, Blackfriars Oil & Gas, Sun International and British Gas. From 1996 David Craik worked as an independent consultant for upstream clients and since 2015, David Craik, alongside John Wright, has issued technical and commercial guidance to shareholders with regards to Hurricane's exploration success and development decisions.

David Craik holds a BSc in Geology and an MSc in Sedimentology.

External Appointments:
Atlaslocal Limited (Director)

Committee membership:

AR N R T E

Juan Morera
Non-Executive Director

Age: 39

Tenure: Joan Morera Calveras ("Juan Morera") was appointed as a Non-Executive Director on 7 March 2022 following the request received on 8 February 2022 from Crystal Amber Fund Limited. Juan is a Shareholder Nominee Director representing the Crystal Amber Fund Limited.

Experience: Juan Morera is a CFA qualified investment analyst with over ten years' experience, currently working as an Analyst and Assistant Fund Manager at Crystal Amber Advisers. Prior to this he was an Investment Analyst at Wills Towers Watson. Juan Morera holds an MSc in Politics of the World Economy from the London School of Economics and Political Science and a BA in Politics and Public Policy from Universitat Pompeu Fabra, Barcelona.

External Appointments:
Juan Morera has no further external appointments.

Committee membership:

N R

Key to committee membership

- AR Audit and Risk Committee
- R Remuneration Committee
- N Nominations Committee
- E Environmental, Social and Governance Committee
- T Technical Committee
- Committee Chair

Governance Report

Philip Wolfe
Chairman

Introduction from the Chairman

I assumed the role of Non-Executive Chairman on 8 February 2022 having been appointed as an independent Non-Executive Director and the Senior Independent Director on 14 October 2021. My approach towards governance, alongside that of my fellow directors, is that we all recognise the importance and value of sound governance practices and support the principles of appropriate and good corporate governance which underpin Hurricane's operations. In this section we set out the Company's governance arrangements and provide further information on how the Board and the Committees operate.

The year in review has seen considerable change for Hurricane. Earlier in the year, in light of its very challenging financial situation, the Company embarked on a proposed financial restructuring. In June, the Court did not sanction the proposed restructuring and subsequently all of the Non-Executive Directors resigned. In the course of the year the Company's operational performance has been both strong and consistent, and the oil price has steadily improved, increasing 53% over the year. As a result of the positive change in the Company's financial position, it was able to embark upon a bond tender exercise which was successfully completed in September and made further market purchases in December. As we approach the bond repayment date in July 2022, and having signed the Aoka Mizu extension, the Company is in a considerably stronger position than anticipated a year ago and now faces growth opportunities and important strategic decisions to maximise returns to stakeholders.

The Company announced in September 2021 that it would adopt the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Companies Alliance, ("QCA Corporate Governance Code"). In previous years when the Company aspired to a premium listing it had aligned its governance framework to the 2018 UK Corporate Governance Code. Many of the practices and procedures implemented to meet that higher standard remain in place to support the foundation of our Corporate Governance Framework and remain proportional to the risks, scope and complexity of our operations.

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

As Hurricane embarks on its next chapter, having successfully navigated its very significant financial challenges over the past two years, good corporate governance and culture continue to be of the utmost importance, I look forward to engaging with all of our stakeholders, as we seek to create value, operate ethically and responsibly and contribute to the UK's energy security.

Philip Wolfe
Chairman
27 April 2022

Corporate governance statement

Hurricane is listed on AIM and complies with its obligations under the AIM Rules for Companies and its shares are traded under the "HUR" ticker.

This Governance Report incorporates the reports from the Audit and Risk Committee on page 43, the Nominations Committee on page 48, the Directors' Remuneration Report on page 49 and the Directors' Report on page 61.

The Company operates within a Corporate Governance and Regulatory Framework commensurate with the scale and scope of its commercial operations. This framework consists of: effective board and committee processes to ensure leadership, strategic direction and operational effectiveness; effective internal controls both financial and non-financial; and appropriate remuneration and reward policies and procedures.

The Company has adopted the QCA Corporate Governance Code ("QCA Code") and sets out in the following table details of how it meets these governance principles. Where compliance is not achieved in full, detailed explanations have been outlined.

The table below sets out the ten principles and how the Company has applied them, together with further references on where more detailed information can be found in this report and on the website.

The QCA Corporate Governance Code

Governance Principles	Compliance/Application	Further Reference
1. Establish a strategy and business model to promote long-term value for shareholders.	The Group's strategy is considered and approved by the Board of Directors, together with the ongoing monitoring of its delivery and progress against agreed objectives and milestones. The debate carried out by the Board of Directors on the development and evolution of the strategy includes an assessment of how shareholder value will be delivered in the medium to long term.	See page 10 of the Strategic Report to find out more about the strategy and business model.
2. Seek to understand and meet shareholder needs and expectations.	The Board of Directors as part of its routine decision-making process considers how decisions could impact and be received by shareholders and all stakeholders. In determining the needs and expectations of the Company's shareholder base, the Board has held direct dialogue with shareholders (always subject to compliance with legal and regulatory requirements, including Market Abuse Regulations).	See pages 12 to 13 in the Strategic Report and page 42 in the Governance Report for more information on our relations and engagement with shareholders and stakeholders.
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.	All key stakeholders in the business have been identified. As part of the Company's decision-making process, the Board and executive management routinely consider the wider impact of its decisions on employees, shareholders, bondholders, strategic business partners, contractors, suppliers, regulators and local communities in which the Company operates. Hurricane takes its social responsibilities seriously and constantly strives to leave a positive legacy in the communities in which it operates.	See the following sections in the Strategic Report covering Stakeholder Engagement, (see page 12), Section 172 Statement, (page 14) and Working Responsibly, (page 31), all of which demonstrate how we manage and meet our stakeholder and social responsibilities.
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.	The principal risks and uncertainties and the actions required to mitigate against these have all been identified and assessed by the Board of Directors and the members of the Audit Committee and Senior Management. The Board is cognisant that the outlook for the Group and the opportunity for growth in shareholder value must be understood in the context of the industry's associated risks. Significant decisions are deliberated by the Board following robust consideration of any exposure to identified risks, and the associated risk tolerance and appetite. The Corporate Risk Register is prepared using a bottom-up process, starting with the risk registers of individual assets and business units. All registers are regularly reviewed and updated to take account of any changes and likely impact.	See pages 22 to 30 of the Strategic Report on how we embed and manage an effective risk management system throughout the organisation.
5. Maintain the Board as a well functioning, balanced team led by the Chair.	The Board currently comprises a Non-Executive Chairman who was independent on appointment. During the first half of the year the Company fully met its compliance obligations of an independent, balanced board. However, following the challenges mid-year when the Court did not sanction the Company's proposed financial restructuring a number of Board changes were effected resulting in the resignation of the independent Non-Executive Directors on the 29 June 2021 and the immediate appointment of two Shareholder Nominee Non-Executive Directors, David Craik and John Wright (John serving as Interim Chairman). For the remainder of the year in review the balance of the Board remained in a transitional phase until further independent Non-Executive Directors could be appointed. On 14 October 2021 the appointment of Philip Wolfe as an independent Non-Executive Director partially resolved the situation. Since the year end Philip's more recent appointment in February 2022 as Non-Executive Chairman (independent on appointment) has moved the Company forward and the continued development of an independent, balanced, well functioning board is now being led by him. All Non-Executive Directors have service agreements and commit to regular time each month to perform their duties and fulfil their roles.	See pages 39 to 42 of the Governance Report for further information on our Governance Framework, how the Board functions, the number of meetings held and the work carried out by the Board and its committees throughout the year in review.

Governance Report *continued*

The QCA Corporate Governance Code *continued*

Governance Principles	Compliance/Application	Further Reference
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.	The development of the Board and the skillsets of each Board member are assessed in line with the Board's focus on working with the senior management team to determine the strategy that will create most value for investors, and provide a sustainable future. All directors upon appointment have an induction programme and where relevant are given training on their role and fiduciary duties as a director of a listed company. In addition all directors have access to independent advice as required.	See pages 34 and 35 of the Governance Report for further information on the Board's biographies, their training, and access to independent advice and services of the General Counsel and Company Secretary.
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.	Board evaluations both by internal and external facilitation have been carried out by the incumbent chairmen in recent years. The recommendations and feedback have been reported in previous Annual Reports. Following the changes to the Board in 2021 and the recent work, (post the end of the financial year), on evolving and developing the strategy, the Chairman has recently commenced a Board evaluation process to assist in supporting the delivery of this strategy. In parallel, we are seeking to recruit at least two independent Non-Executive Directors with the appropriate experience to augment the skills of the Board. Information on this exercise will be disclosed as appropriate in future reports.	See pages 47, 48 and 49 for the Company's approach to continuous improvement and the evaluation of its Board's performance.
8. Promote a corporate culture that is based on ethical values and behaviours.	The Board and Senior Executive encourage and promote a corporate culture that is based on sound ethical values and behaviour. The Company's policies are endorsed by the Board and encourage practices consistent with fair, safe and ethical corporate values commensurate of working in a regulated environment. There is an internal channel for raising concerns in confidence to support the Code of Ethical Conduct.	See page 31 of the Strategic Report on working responsibly. See pages 39 to 59 of the Governance Report on how we operate and the Remuneration policy. All policies can be found on our website at www.hurricaneenergy.com. We also publish an ESG Report, copies of which can be found on the website.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.	The Board continues to develop and maintain governance structures and processes that are fit for purpose and support good decision-making. Where needed the Board uses external independent advisers to assist with this.	See pages 39 to 59 of the Governance Report for details of the Company's governance framework. Further governance policies and procedures can also be found on the Company website at www.hurricaneenergy.com.
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.	The Board ensures that stakeholder and shareholder engagement is taken into account when decision-making. The Company discloses its performance and clearly sets its governance framework under its reporting obligations as a listed company and regular direct communication is provided through the timely release of regulatory news to the market via the Regulatory News Service, (RNS). Shareholders are encouraged to attend and vote at the Company's Annual General Meeting where they can direct questions to the Company and are able via the Company website to send in questions. During the COVID-19 pandemic hybrid shareholder meetings were facilitated to ensure shareholder participation. In addition, investor communications (which have included Capital Markets Days) are facilitated in conjunction with the Company's Nominated Adviser and PR and Communications Adviser.	See page 42 of the Governance Report and pages 12 to 13 of the Strategic Report detailing the Company's processes on its governance and shareholder and stakeholder engagement.

The roles within the Board

The Chairman

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

The Chief Executive Officer

The CEO's role is to: lead the Group's performance, Executive Directors and senior management, whilst maintaining a dialogue with the Chairman on the important and strategic issues facing the Company; propose strategies, business plans and policies to the Board; implement Board decisions, policies and strategies; lead in the day-to-day running of every part of the business; lead, motivate and monitor the performance of the Company's executive and senior management team, as well as overseeing succession planning for roles of the executives and senior management; and ensure effective leadership of all communication with shareholders and all key stakeholders.

The Chief Financial Officer

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

The Senior Independent Director

Hurricane's Senior Independent Director ("SID") is a Non-Executive Director whose role is to: meet with major institutional shareholders and shareholder representative bodies, to discuss matters that would not be appropriate for discussion with the Chairman or Chief Executive Officer; act as a sounding board for the Chairman and as an intermediary between the Chairman and other directors; and review the Chairman's performance during the year, taking account of feedback from other Board members. During the year in review Dr David Jenkins held the role until 29 June 2021 followed by Philip Wolfe upon his appointment on 14 October 2021. Since 8 February 2022 when Philip Wolfe stepped up to become Chairman, independent on appointment, the role of SID is not fulfilled. This role will be reviewed once further independent Non-Executive Directors are recruited.

The Non-Executive Directors

Independent Non-Executive Directors bring experience and independent judgement to the Board and develop and constructively challenge strategy proposals. Each Non-Executive Director is appointed for an initial three-year term and is presently subject to re-election by rotation at the Annual General Meeting (AGM) in accordance with the Articles of Association, on the basis of one-third of the directors in number being re-elected every year and every director being subject to rotation at least once every three years.

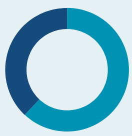
The Company Secretary

The Company Secretary's role is to: advise the Board through the Chairman on governance matters and ensure compliance with all Board procedures and company secretarial matters. The Company Secretary is also responsible for ensuring good information flow between the Board and its committees and between management and the Non-Executive Directors. During the year in review the General Counsel and Company Secretary was Daniel Jankes. He acted as a Secretary to the Board, Audit and Risk Committee, Nominations Committee, ESG Committee, and Remuneration Committee when required. The Company Secretary has direct access to the Chairman and to the committee Chairs.

DIVERSITY

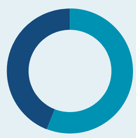
Board gender

- Male: **100%** (2020: 71%)
- Female: **0%** (2020: 29%)



Staff age

- <=50: **62%** (2020: 71%)
- >50: **38%** (2020: 29%)



Staff gender

- Male: **56%** (2020: 55%)
- Female: **44%** (2020: 45%)

As at 31 December 2021

The roles within the Board *continued*

Board composition during the year in review

Currently, the Board is comprised of two Executive Directors (the CEO and CFO), three non-independent shareholder appointed Non-Executive Directors and a Non-Executive Chairman (independent on appointment).

From 29 June 2021 when the previous Non-Executive Directors stepped down, the Board and the Nominations Committee have continued to monitor the size, composition, and skillset of the Board, making further appointments to balance the Board. Details of the Company's search and selection process can be found in the Nominations Committee Report on page 48.

Earlier in the year until 29 June 2021, the Board consisted of a Non-Executive Chairman (independent on appointment), four independent Non-Executive Directors and two Executive Directors.

Name	Role	Independent	Period of service as at 31 Dec 2021	Date of appointment	Date of resignation
Executives					
Antony Maris	CEO	No	1 yr 4 mths	21 August 2020	—
Richard Chaffe	CFO	No	1 yr 6 mths	5 June 2020	—
Non-Executives					
John Wright	Non-Executive Director (interim Chairman)*	No	6 mths	29 June 2021	—
David Craik	Non-Executive Director**	No	6 mths	29 June 2021	—
Philip Wolfe	Non-Executive Director***	Yes	2.5 mths	14 October 2021	—
Steven McTiernan	Non-Executive Chairman	On appointment	3 yrs 2 mths	1 May 2018	29 June 2021
Dr David Jenkins	Senior Independent Director	Yes	8 yrs 3 mths	8 March 2013	29 June 2021
John van der Welle	Independent Non-Executive Director	Yes	8 yrs 3 mths	8 March 2013	29 June 2021
Sandy Shaw	Independent Non-Executive Director	Yes	2 yrs 6 mths	3 January 2019	29 June 2021
Beverley Smith	Independent Non-Executive Director	Yes	2 yrs 6 mths	20 December 2019	29 June 2021

Note:

* Shareholder Nominated Director representing the Crystal Amber Fund Limited. John Wright held the role of Interim Chairman from 29 June to 8 February 2022.

** Shareholder Nominated Director representing the Crystal Amber Fund Limited.

*** Appointed as an independent Director on 14 October 2021 and stepped up to Non-Executive Chairman on 8 February 2022.

Board function and activities during the year

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

The Board's responsibilities are documented in a formal schedule/Terms of Reference and include: the development of strategy including exploration, appraisal and development activity; acquisition and divestment policy; the approval of all major capital expenditure/major contracts; the Group's capital structure; the consideration of significant financing matters, insurance levels, controls and all financial reporting; oversight and review of principal risks and uncertainties; oversight of independent assurance of policies and procedures; Board membership and appointments; Board and senior management remuneration; key regulatory and corporate governance matters (including ESG policies). The Board is assisted by five principal committees: Audit and Risk, Nominations, ESG, Technical and Remuneration. Each committee is responsible for dealing with matters within its own terms of reference.

During the year in review, the Board addressed the following matters:

- the proposed financial restructuring of the Group including a bond re-tendering exercise and overseeing an independent review of the financial restructuring programme declined by the High Court in June 2021;
- COVID-19 impact and risk mitigation;
- strategy, including production stabilisation and review of all potential future development options, performance measures and milestones;
- corporate governance, legal, regulatory and compliance – including policies, Board composition, Board evaluation and training, workforce engagement, internal controls and risk management, and engagement with our Regulators;
- risk and rewards – including corporate risk review;
- operations – including infrastructure, exploration, HSE, reservoir development and management;
- financial management – including financial statements, planning, budgeting and financing, contract negotiation and performance monitoring; and
- Environmental Social and Governance – including ESG annual work programme, reporting requirements review, and a review of the Board Composition following the resignation of the Chairman and four Non-Executive Directors in June 2021.

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

The Company Secretary role is to ensure that all Board papers and presentation materials are circulated in advance of each Board meeting and that the minutes of meetings and Board resolutions are circulated following each meeting. The Company Secretary's role is also to ensure that there is a good flow of information between the Board and its committees and between management and the Non-Executive Directors.

The Board and the Executives continue to be supported by an Environmental, Social and Governance (ESG) Committee and a Technical Advisory Committee. During the year in review David Craik was the Chair of both of these informal committees.

The following table shows the Directors' attendance at scheduled Board Meetings of all directors who served during the year in review:

Name	Role	Meetings Attended
Antony Maris	Executive Director	●●●●●●●●●●●●●●●●●●●●●
Richard Chaffe	Executive Director	●●●●●●●●●●●●●●●●●●●●●
Steven McTiernan*	Independent Non-Executive Chairman	●●●●●●●●●●●
Dr David Jenkins*	Independent Non-Executive Director (SID)	●●●●●●●●●●●
John van der Welle*	Independent Non-Executive Director	●●●●●●●●●●●
Sandy Shaw*	Independent Non-Executive Director	●●●●●●●●●●●
Beverley Smith*	Independent Non-Executive Director	●●●●●●●●●●●
John Wright**	As Interim Chairman during the year in review	●●●●●●●●●●
David Craik**	Non-Executive Director	●●●●●●●●●●
Philip Wolfe***	As Independent Non-Executive (SID)	●

● Meetings attended

Note:

* Until resignation date on 29 June 2021.

** From appointment date on 29 June 2021.

*** From appointment date on 14 October 2021.

Board induction and training

The Company operates an induction and ongoing training programme for all directors as required. Following the appointment of the Shareholder Nominated Non-Executive Directors a training session, led by the Company's legal and financial advisers, was held to outline the statutory and regulatory duties of directors of listed public companies. These processes are reviewed and enhanced as appropriate. All members of the Board have access to the Company Secretary and to appropriate professional development courses to support them in meeting their obligations and duties.

Independent advice

The Board has adopted a policy whereby directors and Board committees have access to independent advice as well as to the services of the General Counsel and Company Secretary. The procedure allows any director to take independent professional advice at the Company's expense on any matter in the furtherance of their duties and responsibilities regarding shareholder and stakeholders, liquidity, financing, and potential insolvent trading. In 2021 the Board made extensive use of Dentons and Ashurst LLP as its independent advisers regarding directors' duties and responsibilities in relation to the financial restructuring proposals.

Directors' and officers' (D&O) liability insurance

The Company provides its directors and officers with the benefit of appropriate insurance, which is reviewed annually. In addition, directors and officers have received an indemnity from the Company against:

(a) any liability incurred by or attaching to the director or officer in connection with any negligence, default, breach of duty, or breach of trust by them in relation to the Company or any associated company; and

(b) any other liability incurred by or attaching to the director or officer in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to/or in connection with their duties, powers or office, other than certain excluded liabilities including to the extent that such an indemnity is not permitted by law.

Conflicts of interest

Every director has a duty to avoid a conflict between their personal interests and those of the Company and, where there is a conflict, disclose conflicts and potential conflicts to the Chairman and the Company Secretary as and when they arise. The provisions of Section 175 of the Companies Act 2006 and the Company's Articles of Association permit the Board to authorise situations identified by a director in which he or she has, or may have, a direct or indirect interest that conflicts, or may conflict, with the interests of the Company. As part of a director induction process, a newly appointed director completes a questionnaire that requires him or her to disclose any conflicts of interest to the Company.

Conflicts of interest *continued*

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

Election of directors

In accordance with the Articles of Association, each director appointed by the Board during the year shall be subject to election at the next AGM following their appointment. John Wright, David Craik, Philip Wolfe and Juan Morera will offer themselves for election at the 2022 AGM.

Re-election of directors

At each AGM, at least one-third of the directors eligible for rotation must retire from office and be subject to re-appointment by shareholders. Each director must retire at the third AGM following their last appointment or re-appointment in a general meeting. The director due to retire by rotation, pursuant to the Company's Articles of Association, at the AGM in 2022 is Antony Maris.

Other external directorships

In line with the Executive Directors' service contracts, Executive Directors must seek permission to take on any external directorships. Likewise, in order to ensure that the time constraints are not over stretched and to avoid 'overboarding', the Non-Executive Directors raise with the Board any matters relating to them taking up other external appointments before committing to such appointments.

Political donations

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

Communication with shareholders and stakeholders

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

During the proposed financial restructuring process, the Company continued to provide shareholders with operational and financial updates through the Regulatory News Service. In particular, shareholders were notified that the Company was engaging with its bondholders in order to address its debt profile and that the outcome of these discussions risked dilution to existing shareholders from a possible restructuring and/or partial equitisation of the Convertible Bonds. This process led to the proposed financial restructuring of the Convertible Bonds announced by the Company on 30 April 2021 and a court convened plan meeting for all shareholders to vote on the proposed financial restructuring was held on 11 June 2021. The outcome of the court hearing was announced on 28 June 2021.

In the normal course of business, the CEO and CFO are available to shareholders in investor meetings and at public events. The Chairman and Senior Independent Director are also available to shareholders, if communication through the normal channels fails to resolve a matter, or if it is felt inappropriate to discuss the matter involved with the CEO and/or CFO.

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

Meetings with key shareholders continued to take place during the reporting year. Unfortunately, as a result of COVID-19, shareholders were unable to meet and question the Board in person at the AGM in June 2021, however a hybrid meeting was convened which allowed shareholders to participate and ask questions.

Shareholders and stakeholders are kept informed of the progress and performance of the Group through its corporate reporting. This information and other significant announcements of the Group are released to the Regulatory News Service of the London Stock Exchange and are also made available on the Company's website. The Group is conscious of the need to ensure that smaller shareholders are not disadvantaged so video webcasts or speaker notes are made available after key events for those shareholders not present. Further information of how we engage with stakeholders can be found on pages 12 and 13.

Annual General Meeting (AGM)

The AGM is due to take place on 29 June 2022 at 11.00a.m. Information about the format of the AGM can be found in the Notice of Meeting. Voting on the resolutions will generally be conducted by a poll and the voting results will be announced through the Regulatory News Service of the London Stock Exchange and also made available on the Company's website. In line with the Companies Act 2006 and best practice, the Company now supplies information such as notices of meetings, forms of proxy and the Annual Report and Group Financial Statements via its website.

Registered shareholders are notified by email or post when new information is available on the website. The Company will endeavour to send hard copy communications to those shareholders who request it. Shareholders may at any time revoke a previous instruction to receive hard copies or electronic copies of shareholder information.

At the 2021 AGM, voting on the resolutions was as follows:

Resolution 1, voted against by 74.41%, a resolution to receive the Annual Report and Group Financial Statements, which was an advisory resolution. Resolution 2, voted against by 78.23%, a resolution to re-appoint Deloitte LLP as the Company's auditors, following which the Company appointed new external auditors. Resolution 3, a resolution to elect Richard Chaffe as a director of the Company, was passed with a majority of 61.18%. Resolution 4, a resolution to elect Antony Maris as a director of the Company, was passed with a majority of 61.49%.

The Board engaged with shareholders on the outcome of the voting which saw a significant vote against resolutions 1 and 2. Shareholders outlined that their concerns were a result of the Company's proposed restructuring plan which had failed to gain a court sanction.

Audit and Risk Committee Chair's Report

Philip Wolfe
Audit and Risk Committee Chair

Meetings and membership

Meeting attendance in 2021

Name	Attendance[1]	Independence
John van der Welle[2]	●	Yes
Dr David Jenkins[2]	●	Yes
Sandy Shaw[2]	●	Yes
John Wright[3]	●●	No
David Craik[3]	●●	No
Philip Wolfe[4]	●	Yes

Note:

1. Three meetings were held during the year in review.
2. John van der Welle, David Jenkins and Sandy Shaw resigned from the Board on 29 June 2021 and therefore did not attend any meetings after this date.
3. John Wright and David Craik were appointed to the Board and the Committee on 29 June 2021.
4. Philip Wolfe was appointed to the Board on 14 October 2021. The attendance reflects the number of meetings attended in the capacity of Non-Executive Director and Chairman of the Committee.

I am pleased to present my first report of the Audit and Risk Committee for the year ended 31 December 2021, which also includes the Committee's activities since year end to date. This report covers:

- the role of the Committee;
- circumstance and process around which the Group's new external statutory auditor was appointed; and
- activities during the year (including new activities arising during the year).

2021 was a year of change and challenge for the Committee. Following the proposed financial restructuring the resignations and appointments to the Board resulted in a change in composition of the Committee, and there were significant areas of judgement and challenge arising from the proposed restructuring, in addition to appointing PKF Littlejohn LLP ('PKF') as the new statutory external auditor under time-pressured conditions.

However, thanks to the consistent and strong operational performance and to a greater extent the considerable recovery in oil prices through 2021 some of these judgements, including going concern are less challenging.

Since March 2013 until his resignation from the Board and Committee on 29 June 2021, the Audit and Risk Committee was chaired by John van der Welle, who had recent and relevant financial experience (as an Official List and AIM E&P company director). At the start of the year, membership of the Audit and Risk Committee included John van der Welle (Chair), Dr David Jenkins and Sandy Shaw. Following the resignation of those Board members on 29 June 2021, John Wright and David Craik were appointed to the Committee, with John Wright assuming the position of interim Chair. Philip Wolfe was appointed to the Board on 14 October 2021 and subsequently assumed the role of permanent Chair of the Committee, with John Wright remaining as a member. Philip Wolfe is the individual on the Committee deemed to have relevant recent financial experience (under the QCA Code). The Company Secretary acts as Secretary to the Committee. The Committee is considered, as a whole, to have the required competence relevant to the oil & gas sector in which the Company operates. Hurricane's Board currently does not have more than two independent Non-Executive Directors, due to the appointment of the Shareholder Nominee Directors, therefore the Committee's composition does not currently meet best practice guidelines under the QCA Code. Upon the appointment of further independent Non-Executive Directors it is anticipated that there will be a new Committee Chair in 2022.

The Committee met three times during 2021, and once to date in 2022. Attendance of the Committee members in 2021 is shown on this page. The Committee has the right to request other Executive Directors and senior management to attend its meetings. Other advisers of the Group also attend meetings if requested by the Committee. The external auditor is requested to attend the meetings on an ad hoc basis, and they have direct access to the Chair of the Committee.

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

Principal responsibilities of the Committee

During the reporting year and again in April 2022, the terms of reference of the Committee were reviewed and updated to reflect best practice and all Corporate Governance requirements, as well as the Financial Reporting Council (FRC) 2016 Guidance on Audit Committees, the FRC 2014 Guidance on Risk Management and Internal Control and the FRC Revised Ethical Standard. The principal responsibilities of the Committee are as follows:

- monitor the integrity of the Financial and Narrative Statements of the Company including results and other announcements of financial performance;
- review significant financial reporting issues and judgements;
- review and, where necessary, challenge the consistency of accounting policies and whether appropriate accounting standards have been used;
- review the contents of the Annual Report and Group Financial Statements and advise the Board on whether it is fair, balanced and understandable and provides the information necessary for shareholders and stakeholders to assess the Group's position, performance, business model and strategy;
- review the effectiveness of the Company's internal controls (including the Company's internal financial controls) and risk management systems;
- consider the need for an internal audit function and make a recommendation to the Board;
- review the Company's whistle-blowing system and procedures for detecting fraud and make recommendations to the Board;
- review the Company's procedures for the prevention of bribery and receive reports on non-compliance;

Audit and Risk Committee Chair's Report *continued*

Principal responsibilities of the Committee *continued*

- oversee the relationship with the external auditor, assessing its independence and objectivity, and approval of auditor remuneration including the level of audit and non-audit fees;
- review and make recommendations to the Board on the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- review and approve the annual audit plan, and review the effectiveness and findings of the audit; and
- report to the Board on the proceedings of the Committee and make recommendations to the Board on any area within the Committee's remit.

At its meeting in May 2021 the Committee reviewed the 2020 Annual Report and Group Financial Statements, including discussing with Deloitte their audit findings report. In addition, the Committee considered the effectiveness of the audit, the independence and objectivity of the external auditor and management's update to the Committee on the effectiveness of internal controls. As regards the Company's risk management system, the corporate risk register and the corresponding principal risks and uncertainties facing the business as disclosed in the 2020 Annual Report were considered. The Committee reviewed and approved its report for inclusion in the 2020 Annual Report. The Committee also considered whether the Company should implement an internal audit function and approved a new policy on the provision of non-audit services by the external auditor. Finally, a review of the Committee's terms of reference was also undertaken, including recommending amendment in relation to the Company's whistle-blowing system.

The Committee met in October 2021 primarily to consider the 2021 Interim Financial Statements, including the external auditor's review findings report. In addition, the Committee considered the effectiveness of the auditor's review. As regards internal controls, the Committee approved management's proposal for the Company's Internal Controls Review programme which supports the assurance of the Company's internal financial controls including an external review of internal financial controls to be conducted by Grant Thornton. The Committee reviewed management's annual corporate compliance report, covering a variety of legal, regulatory and other areas which form part of the Company's compliance programme. Finally, the Committee reviewed its arrangements for the provision of ongoing education to its members.

At the Committee's meeting held in December 2021, the main items considered were the Company's updated corporate risk register and associated principal risks, the proposed plan for the external audit of the 2021 Annual Report and Group Financial Statements from the Company's new external auditor, and the effectiveness of the Company's internal financial controls. In addition, the Committee considered a technical accounting and corporate governance update provided by PKF.

The Committee met in April 2022 to review the 2021 Annual Report and Group Financial Statements, the key accounting and disclosure issues relating thereto, and PKF's audit findings report. Further information on the key areas of focus in this review is given in the next section below. In addition, the Committee considered the effectiveness of the audit, the independence and objectivity of the external auditor, the Company's policy on the provision of non-audit services by the external auditor, the effectiveness of internal controls (including a review of Grant Thornton's report covering their review of the Company's internal financial controls), and considered, and whether an internal audit function was needed. The corporate risk register, corresponding principal risks and procedures for identifying emerging risks facing the business as disclosed in the 2021 Annual Report were considered. The Committee also reviewed and approved its report for inclusion the 2021 Annual Report. Finally, the Committee noted, inter alia, the progress of the external review of its effectiveness undertaken as part of the external board evaluation and reviewed the committee's terms of reference.

Audit tender and appointment of new external auditor

At the Company's Annual General Meeting, held on 30 June 2021, the Resolution to re-appoint Deloitte LLP as the Company's external statutory auditor was not passed (albeit with only c.10% of those shares entitled to vote voting against the Resolution). Removing the incumbent auditor at that time meant that the Company was at risk of not being able to publish its subsequent financial reports to the market; due to the constructive and statutory obligations the Company is under to have its interim and annual reports audited. If those reports were not published on time, the Company would have had its shares suspended by AIM.

The Company subsequently engaged with its largest shareholders and Deloitte LLP, but were unable to come to an arrangement that would involve continuity of the incumbent auditor. The Company therefore commenced a 'fast-track' audit tender process. Given the nature of the committee at the time, the committee delegated the audit tender process to a selection panel, comprised of the CEO, CFO, General Counsel, interim committee Chair and a senior representative from the Company's Finance function.

The tender process comprised submission of a written proposal, and interview with the selection panel. The selection criteria for the audit tender comprised:

- how well the tendering audit firm understands Hurricane's business, issues and wider industry;
- the tendering audit firm's experience in providing audit and other services to other AIM-listed and/or E&P companies;
- experience of the tendering audit firm's partner and proposed team members;
- ability of the tendering audit firm to be flexible and reactive on timings and changes to reporting timetables and requirements.
- the tendering audit firm's proposed audit approach and methodology;
- ability of the tendering audit firm to provide value for money;
- technical expertise of the tending audit firm and access to resources and industry authorities; and
- the tendering audit firm's FRC Annual Audit Quality Inspection Results.

Whilst fees were considered by the panel as part of the proposals, the Company was under no obligation to accept the lowest offer submitted.

Following completion of the evaluation, the selection panel recommended to the Board the appointment of PKF; the panel being of the opinion that PKF had put forward a strong audit team with suitable skills and experience to provide robust and rigorous challenge to management during the audits. The Board duly selected PKF as Hurricane's auditor for the financial year ended 31 December 2021. Their re-appointment will be subject to the approval of shareholders at the 2022 Annual General Meeting.

ACTIVITIES DURING THE YEAR

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

May 2021

- **Financial Performance** – Reviewed the Group's financial performance, significant financial reporting issues, accounting policies, standards and judgements, and the external auditor's audit findings report on the Group Financial Statements for the year ended 31 December 2020.
- **Narrative Reporting** – Reviewed the content of the 2020 Annual Report and Group Financial Statements ensuring it was fair, balanced and understandable and contains the necessary information for shareholders and stakeholders to assess the Group's position, performance, business model and strategy; including disclosures around the proposed financial restructuring.
- **Risk Management System/Internal Controls** – Reviewed the effectiveness of internal controls and the corporate risk register and considered the need for an internal audit function. Considered the macro and micro risks associated with COVID-19.
- **External Audit Effectiveness** – Reviewed the effectiveness of the external audit process.
- **Relationship with External Auditor** – Reviewed auditor independence and recommended the re-appointment of the auditor to the Board.
- **Committee Governance** – Reviewed the Committee's annual work programme, reviewed the findings of the annual evaluation survey of the Committee's effectiveness. Reviewed the terms of reference against the 2018 Code.

October 2021

- **Financial Performance** – Reviewed the Group's 2021 Interim Financial Statements and the external auditor's half year review findings report.
- **External Auditor's Review Effectiveness** – Reviewed the effectiveness of the external auditor's review process, including the new auditor's procedures in gaining comfort over opening balances and comparatives, and their review of the predecessor auditor's files.
- **Risk Management System/Internal Controls** – Received an update on the corporate risk register and associated principal risks facing the Group. Reviewed the corporate compliance programme/report and approved the proposal for Grant Thornton to undertake an Internal Controls Review.
- **Committee Governance** – Reviewed the Company's Non-Audit Services Policy in line with the FRC's Revised Ethical Standard, reviewed the Committee's annual work programme and ongoing programme of education.

December 2021

- **External Audit Effectiveness** – Agreed PKF's external audit plan, including their assessment of the significant accounting risks and judgemental areas expected within the 2021 Annual Report.
- **Relationship with External Auditor** – Reviewed PKF's audit fees proposal.
- **Narrative Reporting** – Received an update from PKF on recent FRC publications and guidance on Annual Reporting matters.
- **Committee Governance** – Reviewed the Committee's annual work programme and ongoing programme of education.

Principal responsibilities of the Committee *continued*

2021 Annual Report and financial reporting

As regards the 2021 Annual Report and Group Financial Statements, the areas of focus for the Committee included the Group's going concern and viability disclosures in the Financial Statements; impairment of intangible exploration and evaluation assets; consistency of application of accounting policies; ongoing compliance with relevant financial reporting standards; AIM and legal requirements; the appropriateness of assumptions and judgements for items subject to estimates and the clarity and completeness of disclosures in the Financial Statements.

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

The Committee considered in particular the following major Financial Statement items that require significant judgement and contain key sources of estimation in the preparation of the 2021 Financial Statements:

Going concern

The assessment of whether the Group can continue as a going concern is a recurring matter which forms the basis of preparation of the Group's Financial Statements. Management prepares a detailed report for consideration and challenge by the Committee and the external auditor, supported by cash flow projections for the Group derived from the corporate cash flow model developed by management. The main assumptions made in the 2021 year-end cash flow forecasts which support the going concern basis were operational and production performance and oil price; which in turn support the conclusion that the remaining Convertible Bond debt can be repaid in July 2022 in full. These key judgements and estimates made by management were challenged and assessed by the committee. The Committee was satisfied that under the base case presented the Group would be able to continue in operational existence throughout the going concern period. The Committee has reviewed the going concern statement on pages 20 and 21 and concluded it was fair and balanced.

New accounting issues arising in the year

Re-assessment of the Aoka Mizu FPSO lease term

The Committee received a paper from management outlining the accounting implications under IFRS 16 following the Group's decision not to exercise its option to extend the Bareboat Charter of the Aoka Mizu FPSO for a period of three years from June 2022 to June 2025. The Committee noted that due to the previous impairment to the right-of-use asset, the reduction in lease term gave rise to a gain in the Income Statement, and that, due to the remaining length of the lease the impact of the discount rate to the calculations was immaterial. The Committee agreed with management that, at the balance sheet date, the requirements to further re-assess the lease term based on proposed extension terms had not been met and therefore no further adjustments were required.

Repurchase of Convertible Bonds

The Committee received a paper from management outlining the accounting for the repurchase and cancellation of a significant proportion of the Group's Convertible Bonds at a discount. The Committee agreed with management's treatment of the transaction and application of the derecognition criteria under IFRS 9, the substance of the underlying calculations, and the presentation and disclosure of the amounts within the Financial Statements.

Recurring accounting issues

Impairment assessment of oil and gas assets

The Committee agreed with management that sufficient impairment triggers had arisen that required an impairment test of the Lancaster oil and gas assets under IAS 36 Impairment of Assets. Management presented to the Committee cash flow forecasts, including various risks and sensitivities, supported by oil production. It also examined the discount rate used by management to discount the cash flows to present value and concluded that the rate was appropriate. The Committee challenged management's methodology, and were satisfied that no impairment was necessary; and also that there was not sufficient indicators to support a reversal of previous impairments.

Recoverability and impairment of exploration and evaluation (E&E) assets

The Committee reviewed management's accounting paper on the matter, and reviewed and considered the status of each E&E asset, including likelihood of exploration licences being renewed upon expiry, future plans for drilling and other technical work, and the availability of funding for these activities, including the status of the Group's joint venture partner and the obligation to drill a well on the P1368(S) licence by 30 June 2022. The Committee agreed with management that, at the balance sheet date, on balance it was likely the P1368(S) licence would be surrendered and as such the carrying value of capitalised exploration and evaluation expenditure attributable to this licence should be fully impaired.

Other financial reporting matters

The Committee also considered other judgements and areas of estimation that had an impact on the Financial Statements; the disclosure and application of accounting policy around tax R&D credits, alternative performance measures; recognition and measurement of deferred tax assets; the assumptions used in determining the valuation of the Convertible Bond; and the estimates and assumptions used in calculating decommissioning provisions. The Committee agreed with management's treatment in each case.

Internal control and risk management

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

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

The Board and management

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

Organisational structure and authorisation procedure

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

Risk assessment

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

The corporate risk register (the "Register") provides a consistent method for managing and reporting risks across the Group and ensures that significant risks are understood and visible to senior management, as well as to the Board. The Register sets out the top risks as defined by management. The Register, which also sets out mitigating controls and actions, has been reviewed and assessed by the Committee and the Board. During the year, the Committee and the Board carried out a review of the Company's Register to ensure that it accurately reflects the risks faced by the Company in this new phase of its life. The Committee, in the review of the Register, also recognised the risks surrounding the potential impact of climate change and energy transition.

A summary of the principal risks and uncertainties facing the Group, and how the risks have changed in the period, as well as the procedures in place to identify emerging risks, is provided on pages 22 to 30.

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

Financial and management reporting

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

Reviewing and monitoring the effectiveness of internal controls

The internal control framework is based on the Board's assessment of risk. The effectiveness of the internal control system is monitored by executive management. All exceptions are reported and reviewed by the Committee. At its October 2021 meeting, it was agreed that there should be a further external review of the Company's key internal financial controls to be undertaken by Grant Thornton, who had previously undertaken such a review in 2020. This was conducted in the fourth quarter of 2021, with the outcome reported to the Committee at its April 2022 meeting.

The review concluded that there were well-designed and operated financial controls in place, and that priority findings raised in the 2020 review had been addressed by management. The 2021 review identified some areas which it recommended should be strengthened, and work is underway to address these, taking into account the changes in headcount and activity of the Company over the period and expectations for the future.

Internal audit

Due to the relative simplicity of the Company's business, and the number of full-time employees, it has not historically been considered necessary to have a separate internal audit function in order to provide the Board with assurance on controls and risks. During the year, the Committee reviewed again the need for an internal audit function. Due to the Company's situation and the additional assurance support provided by Grant Thornton referred to above, the Committee recommended to the Board that the lack of internal audit does not impact the Company's assurance workstream and the work of the external auditor and therefore a separate internal audit function is not yet needed. The Committee believes that adequate internal assurance exists regarding internal controls and their effectiveness, including reliance on the structured annual external reviews being undertaken as outlined above.

External auditor

The Committee regularly monitors and approves the services provided to the Group by its external auditor (PKF Littlejohn LLP).

An evaluation of the effectiveness of the external audit process is usually carried out annually, taking into account the views of the relevant senior management and the Committee members. During the year in review, this evaluation took the form of formal and informal feedback from senior management, Committee members and the CFO. The conclusion of the evaluations was that the process was effective and areas for improvement were discussed with the external auditor to continually enhance the effectiveness of the audit process in future years.

The Committee maintains an ongoing oversight of the external audit appointment. At the AGM shareholders are requested to authorise the directors to appoint and agree the remuneration of the external auditor.

Deloitte LLP was first appointed as the external auditor in August 2010 following a tender process. Following the shareholder vote against re-appointment of Deloitte LLP in June 2021, the Company appointed PKF Littlejohn LLP as its new external auditor in August 2021 (see above). Going forward, the Committee will consider the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 which require entities listed on regulated markets to carry out a competitive tender at least every ten years. The lead audit partner is Joseph Archer, whose audit of the 2021 Annual Report and Financial Statements will be the first year in that role.

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

Non-audit fees

During the year, the fees payable to the current auditor for non-audit-related services were $25,000, with fees payable to the current auditor for audit services of $143,000. The non-audit services related to the interim financial statements half year review. Further details of the fees for audit and non-audit services provided by the external auditors are disclosed in note 7.1 to the consolidated Financial Statements.

The Committee recognises that, for smaller companies, it is cost effective to procure certain non-audit services from the external auditor but there is a need to ensure that provision of such services does not impair, or appear to impair, the auditor's independence or objectivity. The Company's non-audit services policy formalises this arrangement, whereby the committee has pre-approved the external auditor to provide certain permitted services providing that the fees do not individually or cumulatively exceed $30,000 and are not subject to contingent fee arrangements.

All other non-audit services are subject to individual approval from the Committee. The Committee was satisfied throughout the year that Deloitte LLP's and PKF's objectivity and independence were in no way impaired by the nature of non-audit work undertaken or other factors including the level of non-audit fees charged.

Effectiveness

An evaluation of the effectiveness of the Committee under its previous composition was conducted via an external evaluation process, in February 2021 with the results reported to the Board. This process concluded that the Committee had continued to function well in 2020-2021 and was effective in terms of its focus, expertise and use of time and that it had been provided with sufficient resources to carry out its duties. It is intended that future reviews are undertaken to provide assurance that the Committee remains effective and any future recommendations and feedback will be disclosed in future Annual Reports as appropriate.

Philip Wolfe
Audit and Risk Committee Chair
27 April 2022

Nominations Committee Chair's Report

Philip Wolfe
Nominations Committee Chair

Having assumed the role of Chairman I am pleased to present the Report of the Nominations Committee for the year ended 31 December 2021.

The Company through the Nominations Committee continues to reinforce its commitment to appointing and developing its leadership team to effectively manage the Company's assets and adapt strategy in light of significantly changed technical understanding and volatile economic and financial conditions during the year

Principal responsibilities of the Committee:

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

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

Code compliance and diversity

Earlier in the year under the Chairmanship of Steven McTiernan the Company reported on a voluntary basis against the provisions of the 2018 UK Corporate Governance Code and until 29 June 2021 met the Provision 17 of the 2018 Code, whereby the Committee should consist of a majority of independent directors. Following the resignation of all of the Non-Executive Directors on 29 June 2021 and the subsequent appointment of the two Shareholder Nominated Non-Executive Directors on 29 June 2021, the Committee was not independent. The Company adopted the QCA Code in September 2021 and the balance of the committee remains without independence until further independent Non-Executives are recruited.

During the first half of the year some 29% of Board positions were held by women, close to compliance with Hampton-Alexander Review FTSE 350 targets. However, for the remainder of the year this ratio was impacted by the resignation of all Non-Executive Directors on 29 June 2021 and the subsequent appointment of the Shareholder Nominated Directors. The Company and the work of the Nominations Committee remain committed to and support the principles of promoting diversity in the widest sense and fully support the aspirations set out in the Davies Report regarding 'Women on Boards'. When seeking to appoint any new director to the Board, notwithstanding the foregoing, all Board appointments will be made on merit.

Hurricane also continues to work towards gender diversity in the broader leadership team. For the year ending 31 December 2021, the percentage of women in senior management (reporting directly to the Executive Directors) was 29%.

Board succession planning

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

When the Shareholder Nominated Non-Executive Directors were appointed to the Board on 29 June 2021 the Board commenced its search for a further independent Non-Executive Director, completing one phase of its search and selection process with the appointment of Philip Wolfe in October 2021.

Meeting attendance

The Committee formally met twice during the year under review. Attendance of the Committee members is shown below. When members are unable to attend the meeting, they provide feedback to the Chair on the matters discussed in advance of the meeting. Other Non-Executive Directors and the General Counsel and Company Secretary are regularly in attendance at the meetings.

Meetings held during the year in review

2

Meeting attendance in 2021

Name	Attendance[1]	Independence
Steven McTiernan[1]	●●	Yes
John van der Welle[1]	●●	Yes
John Wright[2]	—	No
David Craik[2]	—	No
Philip Wolfe[2]	—	Yes

ACTIVITIES DURING THE YEAR

March 2021

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

April/May 2021

- Considered and approved the Nominations Committee Report within the Corporate Governance Section of the 2021 Annual Report and Accounts.

July–Oct 2021

- Shortlisted, interviewed and recommended a shortlist of candidates for independent Non-Executive role.

Note:

1. At the start of the year, membership of the Nominations Committee included Steven McTiernan (Chair), and John van der Welle.
2. From July 2021 no formal Committee meetings were held, the work of the Committee was contained within regular Board meetings.

Evaluation of the Committee's performance

In the early part of 2021 an evaluation was carried out by an external facilitator, TEB. Board members were interviewed by TEB to discuss the effectiveness of the Committee. From the responses provided, it was confirmed that the Committee, and other Board members who are not members of the Committee but had participated in meetings, felt that the Committee was fulfilling its terms of reference effectively. A review of the effectiveness of the current committee has commenced and upon completion in mid 2022, a relevant disclosure will be made as appropriate.

Appointment and re-appointment review

For the 2022 AGM, all three directors appointed within the year will submit themselves for election, as well as Juan Morera who was appointed to the Board in March 2022 post the end of the financial year, in addition Antony Maris will retire by rotation and submit himself for re-election. Non-Executive Directors are normally appointed for an initial term of three years, which is reviewed and may be extended by two or more further three-year terms. Biographical details of all directors can be found on pages 34 and 35.

Philip Wolfe
Nominations Committee Chair
27 April 2022

John Wright
Remuneration Committee Chair

Hurricane's Remuneration Report for the year ended 31 December 2021 is outlined below and is split into:

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

The Board remains committed to transparency and, through this report, aims to continue to provide information to shareholders and other stakeholders about the details of Hurricane's remuneration policies and how they underpin the Group's operations and strategy. This Annual Statement gives an overview of the Directors' Remuneration Policy; how it was implemented in the year under review (2021); how we plan to implement it in 2022; and a summary of the key activities of the Remuneration Committee during the reporting year.

Committee compliance

In the first part of the year the Committee reported against the 2018 UK Corporate Governance Code, however as announced in September 2021 the Company has now aligned its reporting to the QCA Code which it believes to be more appropriate to the Company's scope and scale of operations going forward. From 1 January to 29 June 2021 Sandy Shaw (an independent Non-Executive) held the Committee Chair and Dr David Jenkins and John van der Welle (two independent Non-Executive Directors) served as members of the Committee. From July to December 2021 John Wright and David Craik (two Shareholder Nominated Directors) served as members. Philip Wolfe, an independent Non-Executive Director joined the committee upon his appointment in October 2021 and chaired the Committee until the year end. In February 2022 Philip stepped up to become Chairman of Hurricane Energy plc and John Wright was appointed the Committee Chair.

Hurricane's current Remuneration Policy is structured to link rewards to the delivery of short-term Performance Measures and long-term Milestones. During the year, given the planned financial restructuring, the committee were due to review the Company's remuneration philosophy and structure in light of the Company's objectives, strategy and plans and ensure the Remuneration Policy aligns and supports the strategic direction of the business. The PSP and the VCP schemes, based on the same milestones and hurdles did not vest in the year and the Committee commenced its work on exploring policies to incentivise and retain staff.

Evaluation of the Committee's performance

In the early part of 2021 an evaluation was carried out by an external facilitator, TEB. Committee members were interviewed by TEB to discuss the effectiveness of the committee. From the responses provided, it was confirmed that the committee, and other Board members who are not members of the committee but had participated in meetings, felt that the committee was fulfilling its terms of reference effectively. A review of the effectiveness of the current committee has commenced and upon completion in mid-2022, a relevant disclosure will be made as appropriate.

Shareholder engagement during the year

The Committee continually works to ensure that our core values are embedded within the individual's performance criteria. The Board has always sought to ensure that incentive structures help deliver shareholder objectives and has been committed to open and constructive dialogue with shareholders on appropriate mechanisms to achieve this.

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

Bringing our workforce on the journey with us

The Board seeks to ensure that the Company's incentive structures support the delivery of stakeholder objectives and aligns with Company culture. To achieve this, the Board and Committee remain committed to engaging in open and constructive dialogue with both employees and shareholders on appropriate mechanisms to achieve this.

ACTIVITIES DURING THE YEAR

January 2021

- Reviewed the Group Remuneration Policy for the previous year.
- Discussed the achievement of bonus targets for the previous year.
- Discussed the bonus targets for the 2021 annual bonus scheme Performance Measure scorecard metrics.
- Reviewed the annual operation of SIP and the Performance Share Plan (PSP) and paused awards under these schemes.
- Reviewed the results from the internal evaluation of the Committee.

May 2021

- Approved the bonus targets for the 2021 annual bonus scheme Performance Measure scorecard metrics.
- Approved the 2021 Directors' Remuneration Report.

November 2021

- Reviewed the Remuneration Policy underpinning Group strategy.
- Reviewed and approved the introduction of a discretionary Retention Payment Scheme for Executive Directors and employees.

During the early part of the year (in line with the requirements of the 2018 Code) to 'gather the views of the workforce', during the year, and recognising the constraints of COVID-19 in regard to face-to-face meetings, Sandy Shaw informally engaged with and met staff via video call. During those meetings, there was an opportunity to talk about staff welfare, working practices, support and the Company. Since July 2021 during the transitional phase of the Company all workforce engagement has been carried out by regular management updates and Townhall style briefings and meetings led by the CEO and CFO and senior executives.

John Wright
Remuneration Committee Chair
27 April 2022

Remuneration Committee composition

From January to June 2021 the Remuneration Committee was chaired by Sandy Shaw and had two further independent Non-Executive Directors, Dr David Jenkins and John van der Welle. The Committee's composition during the early part of the year conformed to the Code provisions. From 29 July 2021 John Wright and David Craik were members of the Committee and from 14 October 2021 Philip Wolfe an independent Non-Executive Director joined the Committee as Chair. Following the year end of the financial year Philip Wolfe on 8 February 2022 assumed the role of company Chairman and stepped down as Committee chair and John Wright became the Committee chair.

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

Meetings and Membership

Meeting attendance in 2021

Name	Attendance[1]	Independence
Sandy Shaw[2]	●●	Yes
Dr David Jenkins[2]	●●	Yes
John van der Welle[2]	●●	Yes
John Wright[3]	●	No
David Craik[3]	●	No
Philip Wolfe[4]	●	Yes

Notes:

1. Three meetings were held during the year in review.
2. Attendance until their resignations on 29 June 2021.
3. Attendance following appointments on 29 June 2021.
4. Attendance following appointment on 14 October 2021.

The Committee held three scheduled meetings during the year under review as well as ad hoc telephone conferences. The attendance of the Committee members is shown above. Members of the Committee, during the year under review, consulted with all relevant parties internally, and the relevant Executive Directors were invited to attend Committee meetings as appropriate. No individual was present during discussions relating to his or her own remuneration

Role

The Committee's primary objectives are to:

- ensure that reward packages (including salary, benefits, bonus and pension entitlements, and participation in share and other incentive schemes) for Executive Directors and key senior management are competitive in order to recruit, attract and retain the best talents to deliver the Group's strategic priorities;
- ensure that these reward packages are directly linked to the achievement of performance targets in pursuit of the strategy; and
- align the interests of the directors with those of shareholders and stakeholders.

The committee determines the framework and policy for the remuneration of the Executive Directors and is responsible for reviewing them annually for appropriateness and relevance. It is also responsible for determining the specific elements of the Executive Directors', and senior managers' (including the Company Secretary's), remuneration, their contractual terms and their compensation arrangements. The committee also reviews the framework and policy for remuneration for all staff to ensure that it is fairly and appropriately administered and ensures the alignment of incentives and rewards with culture, taking these into account when setting the policy for Executive Director remuneration. The staff bonus 'pool' depends on corporate performance against performance targets in pursuit of strategy and, allocation is undertaken by the Executive Directors against staff performance appraisals. In recognition of a very challenging year bonus payments were agreed by the Committee and awarded to employees and to the Executive Directors who received an 11% cash bonus award.

Committee terms of reference

As part of its annual review process, the Committee reviews its terms of reference and makes recommendations to the Board for approval. The terms of reference explain the Committee's role and the authority delegated to it. The Committee's terms of reference were last reviewed on 15 January 2021 to ensure that they continue to be fit for purpose for the Company. A copy of the revised terms of reference can be found on Hurricane's website at www.hurricaneenergy.com. The Committee recognises the importance of ensuring that all Board members are aware of the Committee's activities and the Committee Chair reports back to the Board after each meeting.

Independent advisers

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

The Committee received advice from PwC on remuneration-related matters including the Policy review, the benchmarking exercise on the remuneration of the Executive Directors and the other consultancy advice received. PwC received total fees (based on hours spent) of £52,000. The Committee remains satisfied that the advice it received in the year was independent and objective. PwC is a founding member of the Remuneration Consultants Group and voluntarily operates under its Code of Conduct in its dealings with the Committee.

Payment for remuneration advisers

Entity	**Amounts paid 2021 £'000**	Amounts paid 2020 £'000
PwC	**25**	52
Dentons	**1**	22
Total	**26**	74

Implementing the Directors’ Remuneration Policy in 2021 and 2022

Performance Measures are determined by the Committee each year and may vary to ensure that they promote the Company’s business strategy and shareholder and stakeholder value. The Committee always ensures it takes into consideration the complexity of the business, market and economic competitiveness, the increased responsibilities of the Executive Directors and the salary levels for the wider workforce when setting the remuneration of the Executive Directors. During 2021, the remuneration packages for Executive Directors consisted of a base salary, benefits (such as pension, private medical and dental cover), and participation in a discretionary retention payment scheme and a cash bonus award. The Company’s long-term incentive plans (the VCP and PSP) awards lapsed during the year, furthermore there was no annual participation in the Company’s SIP.

Policy area	Opportunity	How we implemented the Policy during the year	How we plan to implement the Policy in 2022
Retention Payment Scheme A discretionary cash retention payment, payable in arrears at the end of each relevant quarter. It is subject to malus and clawback conditions.	The retention payment scheme can be withdrawn at the Company’s discretion giving 3 months’ notice.	For the year in review, the first quarter of the retention payment scheme commenced on 1 November 2021. For the executives the quarterly payment was calculated as 33% of the base salary paid during the quarter.	The committee will continue to review the scheme during the year in line with the business and strategic direction and in conjunction with any proposed shared-based incentive plans.
Annual bonus The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework. Malus and clawback provisions apply.	Any bonus awarded to the executives is entirely discretionary and may at the Company’s discretion be paid to the executive as a combination of shares and cash.	For the year in review, there was a cash bonus award made to the executives of approximately 11% of base salary.	The committee will continue to review the policy (including the bonus opportunity) during the year in line with the business and strategic direction. When determining the outcomes for bonuses, if and where appropriate, the committee will use its discretion to make any adjustments necessary to ensure the outcomes are fair and reasonable in light of the Company’s performance.
Share-based incentive plans VCP, PSP and SIP.	The VCP is a long-term scheme, incentivising achievement of the Company’s strategy, only paying out after five years or earlier upon a maturity event. The 2017 PSP is a scheme for staff, based on parallel performance metrics to the VCP. The SIP, which is open to all employees, encourages and deepens share ownership by employees.	The directors did not participate in an LTIP during the year and the SIP scheme did not operate in 2021.	No VCP awards vest if Milestones and share price hurdles are not met. The VCP and 2017 PSP did not vest on its maturity in November 2021. To date in 2022 the SIP has not operated. The committee continues to consider the appropriate remuneration and retention tools for Executive Directors and key employees. This will be included in a new Policy when finalised.

Salary

The Committee ensures it takes into consideration the complexity of the business, market and economic competitiveness, the increased responsibilities of the Executive Directors and the salary levels for the wider workforce when setting the remuneration of the Executive Directors. There will be no changes to other benefits nor pension arrangements over this period. See page 53 for more information of the remuneration received by the Executive Directors during the year.

Current directors	Amounts paid in 2021 £’000	**Annual salary for 2022 £’000**
Antony Maris	325	**338**
Richard Chaffe	270	**281**

A detailed table of remuneration for all directors (single figure remuneration) is outlined on page 53.

Directors' Remuneration Report *continued*

Annual Report on Remuneration *continued*

Benefits and pension

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

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

In 2021, Hurricane contributed to the workplace personal pension schemes for all employees. Executive Directors received a cash allowance in lieu of pension.

Performance Measures for annual bonus award in respect of 2021

2022 performance measures and targets

Annual performance continues to be measured against a set of agreed key corporate performance measures, which included aspects of ESG and also personal targets. The performance measures for 2022 are contingent on the outcome of being able to repay the outstanding bonds in full in July 2022 and subsequently holding a significant amount of surplus cash, as well as supporting measures which continue to maximise cashflows from the existing Lancaster infrastructure while at the time identifying the best investments opportunities either within our existing assets, in new assets, or both. Notwithstanding, the Company's KPIs continue to be anchored by a focus on safe and responsible working practices.

Payments for loss of office (audited information)

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

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

Alistair Stobie and Robert Trice were not eligible to participate in the annual bonus plan for 2020 nor 2021. Alistair Stobie and Robert Trice are participants in the Company's VCP scheme and were treated as good leavers under the VCP. The VCP scheme did not vest in November 2021. Robert Trice held 225,000 share options as at the date of his departure. The share options did not reach the relevant hurdle point of £1.00 and lapsed on 31 December 2020.

Payments to past directors

There were no payments made in 2021 to past directors other than those disclosed above.

Non-Executive Directors' remuneration

The fees payable to the Non-Executive Directors are determined by the Board, taking into account the time commitment required, the responsibilities assumed and comparative market rates. No director plays a part in any discussion about their own remuneration. No changes were made during the year to the Non-Executive Directors' letters of appointment. Beverley Smith received a temporary employment contract for her role as Interim CEO in 2020. The terms of the employment contract ceased when she returned to her Non-Executive role. Fee arrangements for Non-Executive Directors are set out below. Details of the directors' remuneration in 2021 are set out in the directors' remuneration table below. No other changes are proposed to the Company's overall approach to the payment of fees to Non-Executive Directors.

Current fees payable to Non-Executive Directors[1]

Annual fee (Chairman)[1]	£90,000
Annual fee (Non-Executive Director)	£60,000
Additional annual fee (Senior Independent Director)	£10,000
Additional annual fee (Audit and Risk Committee Chair)	£10,000
Additional annual fee (Remuneration Committee Chair)	£10,000
Additional annual fee (Nominations Committee Chair)	£10,000
Additional annual fee (ESG Committee Chair)	£10,000
Additional annual fee (Technical Committee Chair)	£10,000

Note:

1. As the Chairman of the Company fulfils the role of Chair of the Nominations Committee, the additional fee of £10,000 is not included in the Chairman's remuneration. At the beginning of the year the Annual Fee for the Chairman was £150,000 which was reduced to £90,000 on 29 June 2021 when John Wright assumed the role of Interim Chairman.

Directors' single figure remuneration for the year ended 31 December 2021 (audited information)

	Fixed pay					Variable pay					
						Bonus		Other			
	Base salary/fee £'000	Taxable benefits[1] £'000	Pension contributions and payments in lieu of pensions £'000	Retention payment[2] £'000	Total fixed pay £'000	Cash £'000	Shares £'000	LTIP[8] £'000	SIP £'000	Total variable pay £'000	Total fixed and variable pay £'000
Year ended 31 December 2021											
Antony Maris	325	2	33	18	378	37	—	—	—	37	415
Richard Chaffe	270	5	27	15	317	31	—	—	—	31	348
Steven McTiernan[3,4]	112	—	—	—	112	—	—	—	—	—	112
Dr David Jenkins[3]	52	—	—	—	52	—	—	—	—	—	52
John van der Welle[3]	53	—	—	—	53	—	—	—	—	—	53
Sandy Shaw[3]	61	—	—	—	61	—	—	—	—	—	61
Beverley Smith[3]	55	—	—	—	55	—	—	—	—	—	55
David Craik[5]	35	—	—	—	35	—	—	—	—	—	35
John Wright[6]	45	—	—	—	45	—	—	—	—	—	45
Philip Wolfe[7]	17	—	—	—	17	—	—	—	—	—	17
	1,025	7	60	33	1,125	68	—	—	—	68	1,193

Notes:

1. Taxable benefits include a voluntary package of benefits to Executive Directors including optional enrolment in healthcare, dental, travel insurance and critical illness cover.
2. Under the discretionary retention payments scheme, in place for all employees and Executive Directors, a discretionary cash retention payment is payable in arrears at the end of each relevant quarter, the first quarter commencing on 1 November 2021. It is subject to malus and clawback conditions.
3. The total base salary for these Non-Executive Directors reflects their time in the role up until their resignations effective 29 June 2021. The amounts includes PILON payments made of £37,000 to Steven McTiernan, £17,000 to Dr David Jenkins, £17,000 to John van der Welle, £17,000 to Beverly Smith and £20,000 to Sandy Shaw.
4. The annual fee payable to Steven McTiernan as Chairman was £150,000.
5. David Craik joined the Board on 29 June 2021 and was appointed Chair of both the ESG and Technical Committees.
6. John Wright joined the Board on 29 June 2021 as Interim Chairman.
7. Philip Wolfe joined the Board on 14 October 2021 as Senior Independent Director and was appointed Chair of the Audit and Risk Committee.
8. Richard Chaffe was the only director participant in LTIPs during the period (being the VCP and 2017 PSP). Richard Chaffe was awarded 40 Growth Shares under the VCP and 3,230,000 Category A, 2017 PSP shares shortly after he joined the business in 2016. The VCP and PSP schemes lapsed unvested during 2021 as the performance criteria were not met.

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

Directors' Remuneration Report *continued*

Annual Report on Remuneration *continued*

Directors' single figure remuneration for the year ended 31 December 2021 (audited information) *continued*

Notes:

1. Roy Kelly joined on 10 May 2016; 100% of Non-Executive Director fees were paid to Kerogen Capital. On 8 June 2020, the Company announced that Roy Kelly resigned from his director role. He was replaced by Dr Alan Parsley. A total fee of £25,000 was paid to Kerogen Capital from January to June 2020.
2. Sandy Shaw joined the Board on 3 January 2019 and was appointed Chair of the Remuneration Committee on 1 April 2019 and was appointed Chair of the ESG Committee on 17 November 2020. The November and December remuneration for the role of Chair of the ESG Committee was paid in January 2021.
3. Beverley Smith joined the Board on 20 December 2019 and received a pro-rated fee of £1,800. On 8 June 2020, the Company announced that Beverley Smith was appointed Interim CEO. She received remuneration of £127,000 for her role as interim CEO from 8 June to 11 September and £46,000 for her role as Non-Executive Director from (1 January to 8 June and 11 September to 31 Dec). The remuneration for the role of Chair of the Technical Committee from 11 September 2020 was paid in January 2021.
4. Taxable benefits include a voluntary package of benefits to Executive Directors including optional enrolment in healthcare, dental, travel insurance and critical illness cover.
5. The Company announced the resignation of Alistair Stobie from his role as CFO and director of Hurricane Energy plc on 27 February 2020. The total remuneration paid to Alistair Stobie during his time as CFO and director of the Company is reflected above. Payments following his stepping down as a director are set out above in the section "Payments for loss of office". The Company's SIP is subject to standard leaver provisions. Following resignation, Alistair Stobie forfeited a total of 77,009 Matching and Free Shares.
6. The bonus paid in 2019 for Dr Robert Trice and Neil Platt were delivered two thirds' cash and one third in shares (both subject to tax).
7. The VCP was implemented in November 2016 when the Group awarded 840 Growth Shares in Hurricane Group Limited (a Group subsidiary) to Executive Directors and certain employees. To participate in the VCP, the participants made a one-off contribution and were awarded a total of 840 Growth Shares. Out of the 840 Growth Shares, the Executive Directors as at the date of implementation (Dr Robert Trice, Alistair Stobie and Neil Platt) were each awarded 140 Growth Shares. Vesting of the VCP awards is dependent on the Group achieving Milestones including exceeding a hurdle of £0.55 per share average price for a three-month period beforehand. Alistair Stobie, Robert Trice and Neil Platt's VCP, upon vesting, will be pro-rated for time in employment. Due to the adverse operational performance from the Lancaster field during 2020, coupled with the COVID-19 impact on oil prices, and the proposed financial restructuring, the VCP did not vest on expiry in November 2021.
8. Dr Alan Parsley replaced Roy Kelly as the Kerogen Capital representative on the Board. 100% of Non-Executive Director fees were payable to Alan Parsley rather than Kerogen Capital. For the periods from appointment to resignation, Alan Parsley waived any fees due.
9. The total remuneration paid to Robert Trice during his time as CEO and director of the Company is reflected above. Payments following his stepping down as a director are set out above in the section "Payments for loss of office". The Company's SIP is subject to standard leaver provisions. Following resignation, Robert Trice forfeited a total of 62,317 Matching and Free Shares. The Company at its discretion is able to clawback the 2019 cash bonus and bonus shares up to three years from the date of award.
10. The total base salary reported for Neil Platt reflects his role as COO from 1 January to 6 July 2020.
11. Richard Chaffe is currently the only director participant in the VCP and 2017 PSP. Richard Chaffe was awarded 40 Growth Shares under the VCP and 3,230,000 Category A, 2017 PSP shares shortly after he joined the business in 2016. Due to the adverse operational performance from the Lancaster field during 2020, coupled with the COVID-19 impact on oil prices, and the failed financial restructuring, the VCP and 2017 PSP did not vest on expiry in November 2021.

Share awards held under long-term incentive plans as at 31 December 2021 (audited information)

There were no share awards held under long term incentive plans as at 31 December 2021.

Share Incentive Plan awards during the year (audited information)

The Company operates a HMRC approved SIP annually to encourage and deepen share ownership in the Company. SIP Share awards are included in the table of directors' interests in Ordinary Shares which can be found in the table below. However in light of the macro economic environment and the decline in the Company's share price in 2020/21, the committee made the decision that it was in the best interest of the staff and the Company to temporarily suspend the 2021 SIP operations until there was clarity on the direction of the business.

Directors' interests in Ordinary Shares (audited information)

All directors are encouraged to hold shares in the Company. A minimum shareholding requirement for Executive Directors of 200% of salary, to be achieved within five years, was introduced in March 2019. The requirement can be satisfied using shares vesting from long-term incentives/shares awarded as part of a bonus and will be tested by the committee. As a result of the management changes which took place during the year, the five-year period will begin from the date of their appointment. Further details on the minimum shareholding requirement can be found in the Directors' Remuneration Policy on page 57. At 31 December 2021, the directors' interests, all of which were beneficial interests, in the Ordinary Shares of the Company (including all SIP Shares held and those of connected persons) were as follows:

Beneficial holdings	Total number of shares held as at 31 Dec 2021	Total SIP Shares in Hurricane Energy plc, held by the SIP Trustee	Number of shares held as at 31 Dec 2020
Antony Maris	169,084	—	169,084
Richard Chaffe[1]	140,558	96,261	140,558
David Craik[2, 3]	188,450	—	—
John Wright[2]	Nil	—	—
Philip Wolfe[2]	Nil	—	—

Note:

1. The total number of shares for Richard Chaffe includes his 96,261 SIP shares.
2. These Non-Executive Directors joined the business in June 2021 and October 2021 respectively and currently do not hold shares as individuals. John Wright and David Craik are Shareholder Nominee appointees for the Crystal Amber Fund Limited (which, as at 31 December 2021, held 574,000,000 shares).
3. David Craik is a Shareholder Nominee appointee for the Crystal Amber Fund Limited and has a beneficial interest in 188,450 shares.

CORPORATE GOVERNANCE

Vesting of long-term incentive plans

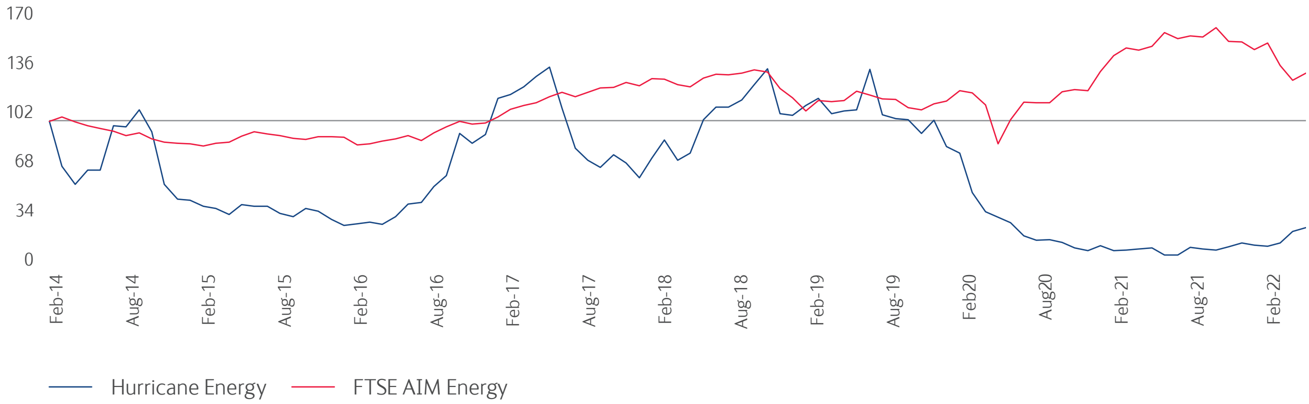
No long-term incentive plan awards vested in 2021. The Group had previously operated the 2013 PSP; however, following the review in 2016, the Group introduced the VCP. Employees and Executive Directors receiving awards under the VCP were required to forfeit any 2013 PSP plan awards. Although certain VCP Milestones were achieved, the VCP did not vest on maturity in November 2021 and the plan has now lapsed.

Furthermore, no long-term incentive plan awards were granted to the Executive Directors during the financial year in review (2021).

Performance graph

The graph below illustrates the Company's total shareholder return (TSR) performance, compared with the FTSE AIM All-Share Energy index, since the Company's IPO. The index was selected because it is considered to be an appropriate index for relevant sectoral comparison. The index used for this illustration has changed as compared to the prior year, as the comparator previously used (the FTSE AIM Oil & Gas index) no longer exists.

Value of £100 invested at Hurricane IPO



CEO's remuneration

The single total remuneration figure earned by the Chief Executive Officer in the past five years is shown below. It is presented showing the remuneration for Dr Robert Trice during this five-year period and then to Antony Maris who succeeded him as CEO in 2020.

The single total remuneration figure earned by Antony Maris in 2021 is shown below.

Robert Trice

	Salary £'000	Total remuneration £'000	Bonus awarded as a % of salary %	Percentage of multi-year awards vested which could have vested from achievement of performance targets %
2021	—	—	—	—
2020	185	202	—	—
2019	400	604	40%	—
2018	375	605	50%	—
2017	375	572	41%	—

Antony Maris

	Salary £'000	Total remuneration £'000	Bonus awarded as a % of salary %	Percentage of multi-year awards vested which could have vested from achievement of performance targets %
2021	**325**	**415**	**11**	—
2020*	117	129	—	—
2019	—	—	—	—
2018	—	—	—	—
2017	—	—	—	—

Note:

* Antony Maris joined the business on 21 August 2020. The remuneration reported in 2020 reflects his period of employment as a director of the Company in 2020.

Directors' Remuneration Report *continued*

Annual Report on Remuneration *continued*

Annual percentage change in remuneration of directors and employees

As required by The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, which implement Articles 9a and 9b of European Directive 2017/828/EC1 (commonly known as the Revised Shareholder Rights Directive or SRD), the table below shows a comparison of the annual change of each individual director's pay to the annual change in average employee pay commencing the year ended 31 December 2021.

Change in pay between the year ended 31 December 2020 and 31 December 2021

		Base salary/fees % change	Bonus % change	Benefit % change
Executive Directors	Antony Maris[1]	178%	100%	100%
	Richard Chaffe[1]	71%	100%	74%
Non-Executive Directors	Steven McTiernan[2]	(25%)	—	—
	David Jenkins[2]	(25%)	—	—
	John van der Welle[2]	(24%)	—	—
	Sandy Shaw[2]	(14%)	—	—
	Beverley Smith[2]	(70%)	—	—
	David Craik	-%		
	John Wright	-%		
	Philip Wolfe	-%		
Average pay of employees		1%	66%	(5%)[3]

Note:

1. The significant increase in Antony Maris and Richard Chaffe's remuneration in 2021 is as a result of them only being employed as Directors for a portion of 2020 and for the entirety of 2021; and no bonus paid to either Director in respect of 2020.
2. The significant decrease in Steven McTiernan, David Jenkins, John van der Welle, Sandy Shaw and Beverly Smith's remuneration is due to them leaving office on 29 June 2021. Details about the Board changes in 2021 can be found in the Governance Report on page 40.
3. The reduction in benefits for employees is due to a reduction in premiums not a reduction in benefits provided.

Relative importance of employee pay

	Total remuneration paid to employees		Distributions to shareholders	
	$'000	% change	$'000	% change
2021	**11,713**	**1%**	**Nil**	—
2020	11,658	(14%)	Nil	—

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

Statement of voting

As an AIM-quoted company, Hurricane has not, to date, put its Remuneration Report nor Remuneration Policy to a shareholder vote in a general meeting and does not plan to do so at its forthcoming AGM in 2022.

This Remuneration Report was approved by the Board on 27 April 2022 and signed on its behalf by:

John Wright
Remuneration Committee Chair
27 April 2022

Directors' Remuneration Policy framework

Following industry practice and best practice corporate governance guidelines, Hurricane's Executive Directors' Remuneration Policy has been comprised of fixed and variable annual compensation to drive delivery of near-term targets, with an additional overarching long-term incentive plan to maintain a longer-term focus on generating value for shareholders and stakeholders. A significant proportion of each Director's total remuneration package is structured to link rewards to the attainment of performance targets, both short-term and long-term.

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

- a formal recruitment policy for incoming Executive Directors;
- clear treatment of leavers on termination of employment;
- malus and clawback provisions in the annual bonus; and
- alignment between management, shareholder and stakeholder interests through a minimum shareholding requirement for Executive Directors of 200% of salary, to be achieved within five years. In light of the management changes which took place during the year, the countdown of the five-year period will begin from the date of their appointment, so that the hurdle must be met by or before five years' time i.e. by June and August 2025 for the new CFO and CEO respectively. The Committee will keep compliance under review during the period.

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

Further details of the policy framework is outlined on pages 51 and 52 of the Annual remuneration report.

2021 Remuneration Policy

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

Legacy share awards

There are no legacy share awards.

Shareholding requirement

Executive Directors are required to build a minimum shareholding, equivalent in value to 200% of salary, within five years. The requirement can be satisfied using shares vesting from long-term incentives and shares purchased on behalf of employees by the Company in lieu of cash bonus. Shares purchased by the directors will be monitored by the committee during the period and tested by the committee at the end of the five-year period beginning from the date of their appointment.

Remuneration Committee discretion

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

- selection of participants;
- timing of grant and vesting of awards;
- size of awards (subject to the Policy limits);
- choice of measures, weightings and targets;
- determining level of pay-out or vesting based on an assessment of performance and to override formulaic outcomes where appropriate;
- determining whether and, if so, the proportions at which the bonus will be payable in cash, deferred cash, shares or deferred shares and the terms applying to such shares and deferrals;
- treatment of awards on termination of employment and change of control;
- adjustment of awards in certain circumstances, e.g., changes in capital structure;
- adjustment of performance conditions in exceptional circumstances; and
- application of malus and/or clawback.

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

Directors' Remuneration Report *continued*

Remuneration Policy *continued*

Performance Measures and target setting

The committee agrees an annual balanced Corporate scorecard of Performance Measures and target weightings. Performance Measures used under the annual bonus and long-term incentives are selected annually to reflect the Group's main short- and long-term objectives and reflect both financial and non-financial priorities, These will typically include a mix of strategic, financial, operational and personal metrics with a link to health, safety and ESG performance. Performance Measures are set to be stretching but achievable, taking into account a range of internal and external reference points, having regard to the particular strategic priorities and economic environment in a given year.

Recruitment policy for Executive Directors

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

Where appropriate and necessary to facilitate the recruitment of an individual, the committee may consider using other remuneration tools and may exercise discretion, as appropriate, to make awards using a different structure.

Diversity and inclusion

Hurricane supports and respects the benefits of having diversity within its workforce and further information on Hurricane's commitment to diversity and inclusion can be found in the Nominations Committee Report on page 48 and in the Environmental and Social Governance sections of the Strategic Report.

Directors' service contracts and termination policy

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

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

The Executive Directors' Service Agreements each include the ability for the Group, at its discretion, to pay basic salary only in lieu of any unexpired period of notice. Payments may be made as either a lump sum or in equal monthly instalments until the end of the notice period at the discretion of the Group and Executive Directors will be expected to mitigate their loss. The Executive Director's entitlement to pay in lieu ceases immediately on the date on which the Executive Director accepts an offer of alternative employment or engagement. The Committee will seek to ensure that there are no unjustified payments for failure. For the current Executive Directors, where the appointment is terminated by reason of the executive's death, redundancy, injury, ill health or disability, the Executive Director shall be entitled to participate in such bonus scheme arrangements of the Company applicable to directors of the Company, in line with the Company's bonus policy. Any bonus awarded to the executives is entirely discretionary and may at the Company's discretion be paid to the executive as a combination of shares and cash.

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

Richard Chaffe agreed to become employee shareholder as he meets the status requirement under Section 205A(1) of the Employment Rights Act 1996, relinquishing certain statutory rights in relation to statutory redundancy, unfair dismissal, flexible working, and the right to return to work on eight weeks' notice during adoption leave.

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

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

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

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

External appointments

The Executive Directors are restricted under the terms of their Service Agreements from assuming any responsibilities or duties in any person without written Board consent. The Board may agree to such external appointments at its discretion, provided that any such external appointments do not and are unlikely to interfere with the Executive Director's duties to the Group. The Policy is for the individual to retain any fee earned in relation to an external appointment.

Chairman and Non-Executive Directors' fees and letters of appointment

Fees for the Chairman are determined by the Remuneration Committee, and fees for Non-Executive Directors are determined by the Chairman and Executive Directors.

Element	Link to strategy	Operation	Maximum limit	Performance assessment
Fees	To recruit and retain Non-Executive Directors of a suitable calibre for the role and duties required.	Fees are normally reviewed annually, taking into account the time commitment required, the responsibilities assumed and comparative market rates. Fees are paid in monthly instalments and may be paid in cash and/or arrangements can be made for net cash proceeds after all deductions to be used to purchase shares in the Company. The Chairman receives a total annual fee in respect of Board duties. Non-Executive Directors receive an annual Board fee, and may receive additional fees for extra responsibilities undertaken, such as for chairing a committee or for the role of Senior Independent Director. The Company retains the flexibility to pay fees for the membership of committees. In exceptional circumstances, fees may also be paid for additional time spent on the Company's business outside of normal duties. Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon. Non-Executive Directors do not participate in any variable remuneration or receive any benefits.	Details of the current fee levels are set out in the Annual Report on Remuneration on page 52. The fee levels are subject to the maximum limits set out in the Articles of Association.	Not applicable.

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

Consideration of employment conditions elsewhere in the Company

In making decisions on Executive Director remuneration, the committee considers pay and conditions of other employees across the Company, and considers any informal feedback received. The Company does not formally consult with employees on executive remuneration as the size and scope of Hurricane's operations at this stage in its development would make any consultation process ineffectual.

Differences in Remuneration Policy for Executive Directors compared to other employees

The Company's Remuneration Policy for all employees, similar to the remuneration policy for Executive Directors, incentivises everyone to deliver on the strategic direction and create value for all shareholders. All employees are eligible to participate in the Company's annual bonus scheme and SIP, with a voluntary package of benefits available. From time to time, they are also invited to participate in long-term incentive plans. Pension arrangements are aligned across all employees including Executive Directors.

Dilution

The Company has, at all times, complied with the dilution limit contained within the rules of each share plan (principally an aggregate limit of 10% of the issued share capital of the Company in any ten-year period), and the Committee reviews the position before any proposed grant to ensure this limit is not breached.

As at 31 December 2021, there were no share options or other awards outstanding under the Company's performance share schemes, and those options and awards in place at 31 December 2020 equated to less than 1.5% of the issued Ordinary Shares of the Company at that point. Existing shares that could be awarded under the employee SIP share schemes will be satisfied by shares currently held by the SIP Trust.

Shareholder views

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

This section of the report has been prepared on a voluntary basis taking cognisance of the remuneration reporting requirements of Premium Listed companies whilst striking a balance between best practice corporate governance and its application for AIM listed companies.

Directors' Report

Company registration

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

Principal activity and area of operation

The principal activity of the Group is to discover, appraise and develop hydrocarbons from naturally fractured basement reservoirs on the UK Continental Shelf. Details of the principal joint operation of the Group as at 31 December 2021 are shown in note 2.6 to the Group Financial Statements, and details of the principal subsidiary undertakings of the Group as at 31 December 2021 are shown in note D to the Company Financial Statements. The Group's operations are based in the UK with a focus on the West of Shetland.

Directors

The directors who held office during the 2021 financial year and up to the date of this report are listed on pages 34, 35 and 40.

Insurance and indemnities

The Company maintains D&O liability insurance in respect of legal action that might be brought against its directors and officers. More information of the D&O liability insurance can be found on page 41. The indemnity was in force throughout the tenure of each director during the last financial year and is currently in force.

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

Engagement with employees and stakeholders

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

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team meetings, formal workforce engagement meetings and one-to-one meetings. More information on how we have engaged with our employees and stakeholders can be found on pages 12 and 13.

The Board recognises the importance of considering all stakeholders in its decision-making, as set out in Section 172 of the Companies Act and is committed to engaging effectively and working constructively with all of our stakeholders. To date, this has the positive impact of promoting the success of the Company as a whole. The Company's Section 172 Statement can be found on page 14.

Results for the year and dividend

The Profit of the Group for the year was $18,236,000 (2020: loss of $625,325,000). The directors do not recommend the payment of a dividend.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Group Strategic Report. The financial position of the Group, its cash flows, and liquidity position are described in the Chief Financial Officer's Review and set out in the Group Financial Statements. Further details of the Group's commitments and maturity analysis of financial liabilities are set out in note 2.7 and 5.3 respectively of the Group Financial Statements. In addition, notes 4.4 and 5.8 to the Group Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The directors have a reasonable expectation that, after taking into account reasonably possible changes in trading performance, and the current macroeconomic situation and uncertainty arising from the COVID-19 pandemic, the Group has adequate resources to continue in operational existence for the foreseeable future, including taking into account the ability to repay the remaining Convertible Bonds due in July 2022. Thus, they continue to adopt the going concern basis of accounting in preparing the Financial Statements. Further details are provided in Going Concern section of the Group Strategic Report on pages 20 and 21.

Certain information in the Strategic Report

The following items are set out in the Strategic Report on pages 1 to 32: particulars of important events affecting the Group which have occurred since 31 December 2021; an indication of future strategy and outlook; engagement with our creditors and stakeholders during the year; and our sustainable strategy. Financial risk management objectives, the use of financial instruments, non-cash impairments and the impairment of our intangible assets; Convertible Bond accounting and the exposure of the Group to price, credit, liquidity and cash flow risks are outlined in the Group Financial Statements.

Directors' Report *continued*

Streamlined energy and carbon reporting disclosure

Hurricane's GHG emissions and recorded energy usage are reported in line with the Streamlined Energy and Carbon Reporting framework for the period 1 January 2021 to 31 December 2021.

Metric	Source	2020	2021
Scope 1 GHG emissions (CO_2e)	Aoka Mizu FPSO and offshore logistics chain	210,800	**139,584**
Scope 2 CO_2 emissions (CO_2e)[1]	Office emissions from energy consumption (Eashing & Aberdeen)	84	**88**
Total Scope 1 and Scope 2 emissions		210,884	**139,672**
Scope 1 emissions intensity (kg CO_2e per bbl oil)	Aoka Mizu FPSO and offshore logistics chain	41.5	**37.2**
Scope 1 energy use (TJ)	Aoka Mizu FPSO combustion activities only (excludes logistics chain)	3,162	**2,124**
Annual UK energy use[2] (kWh)		878,198,998	**590,058,795**

Notes:
1. Scope 2 emissions reported only as CO_2e, no other GHGs were included for scope 2.
2. Energy use includes combustion of gas or fuel consumption for transport purposes, and purchases of electricity for own use for transport purposes.

Methodology

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

The scope and methodology of the Company's reporting changed in 2020 to include the six major GHGs targeted by the Kyoto Protocol (including Scope 1 CO_2e emissions from the Company's offshore logistics chain) to align with the OGUK's definition of Scope 1 emissions. As Hurricane only has rigs on short-term hire, they are excluded from the Company's Scope 1 emissions in line with OEUK guidance. We believe this provides a more complete picture of the Company's emissions performance and will enable easier annual comparisons in the future. The methodology used to calculate the Company's emissions will be reported in our standalone 2020 ESG report, which will be issued later this year.

GHG emissions are reported in tonnes of gases emitted and in CO_2e, using Global Warming Potentials from Intergovernmental Panel on Climate Change's (IPCC) Fifth Assessment Report. Previously, Hurricane reported using Global Warming Potentials from the IPCC's Fourth Assessment Report, so figures for 2019 and 2020 have been restated where relevant. This change was made to align with the NSTA's reporting metrics.

We believe this provides a more complete picture of our emissions performance and will allow for easier annual comparisons in the future.

Energy efficiency

The decrease both in absolute emissions and emissions intensity has been due in part to declining production but also due to a strong focus on operational efficiency, by optimising production operations to reduce flaring where possible, minimising diesel usage for power generation and sharing of logistics support services with other assets.

Subsequent events

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

Annual General Meeting (AGM)

The Company's AGM will be held on 29 June 2022. The Notice of Annual General Meeting, which will be circulated to all shareholders, contains information on the format of the meeting and details of the resolutions to be proposed at the meeting.

Rights and obligations of Ordinary Shares

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

Significant direct and indirect holders of securities

As at 31 December 2021 and 27 April 2022, the Company had been advised of the following significant direct and indirect interests in the issued Ordinary Share capital of the Company:

Name of shareholder	Percentage notified as at 31 Dec 2021	Change in percentage notified as at 27 April 2022
Crystal Amber Fund Limited	28.82%	**0.08%**
Kerogen Capital	15.99%	—

Exercise of rights of shares in employee share schemes

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

Restrictions on voting deadlines

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

Political donations
No political donations were made in 2021.

Auditor
PKF Littlejohn LLP has indicated its willingness to be re-appointed as the auditor for the Company and a resolution proposing its re-appointment will be put to shareholders at the 2022 AGM.

Disclosure of information to the auditor
In the case of each person who was a director at the time this report was approved:

- so far as that director was aware there was no relevant information of which the Group's auditor was unaware; and that director had taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Group's auditor was aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Directors' responsibilities
The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors are required to prepare the Group Financial Statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and have elected to prepare the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the company and of the profit or loss of the group for that period.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

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

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

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

Responsibility statement
We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This Directors' Report and Responsibility Statement was approved by the Board on 27 April 2022 and signed on its behalf by:

Antony Maris
Chief Executive Officer

Philip Wolfe
Chairman

Financial statements

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Independent Auditor’s Report

to the members of Hurricane Energy plc

Opinion

We have audited the financial statements of Hurricane Energy Plc (the ‘parent company’) and its subsidiaries (the ‘group’) for the year ended 31 December 2021 which comprise the Group Statement of Comprehensive Income, Group Balance Sheet, Group Statement of Changes in Equity, Group Cash Flow Statement, notes to the Group financial statements, including significant accounting policies, Company Balance Sheet, Company Statement of Changes in Equity and notes to the Company financial statements including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and of the parent company’s affairs as at 31 December 2021 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors’ assessment of the group’s and parent company’s ability to continue to adopt the going concern basis of accounting included:

- obtaining management’s cash flow forecasts for the going concern period being twelve months from the anticipated date of signing the financial statements;
- holding discussions with management to understand the going concern model including the key inputs used and sources of these inputs;
- challenging management on the appropriateness of key assumptions and judgements used including going concern position and long-term viability based on multiple scenarios with key consideration to the inputs used;
- considering the inherent risks to the group’s business model and performed an analysis of how those risks might affect the group’s financial resources or ability to continue operations over the going concern period; and
- checking and ensuring the integrity of going concern model.

The risks that we considered most likely to affect the financial resources or ability to continue as a going concern were the changes to the oil price, increase in production downtime, uncontrolled inflation in expenses and operating cash flows and failure to meet the projected production forecasts. We considered and audited these factors through a review of the application of reasonably foreseeable downside scenarios.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group’s or parent company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report *continued*

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

	Group financial statements	Parent financial statements
Overall materiality	US $1,600,000	US $500,000
Performance materiality	US $960,000	US $300,000
Basis of materiality	c. 1.8 % of gross assets and c. 8.8 % of profit before tax	c. 0.5 % of gross assets and c. 4.4 % of profit before tax
Rationale	For audits of listed entities, profit before tax is typically used as the benchmark of the financial statements as that is primarily what users of the financial statements focus on. The benchmark also provides an indication of the Group's ability to settle their debts. In addition, investors' value is generated through the strength of its oil and gas assets as well as exploration and evaluation assets, investors will also be interested in the updated reserve estimate of the Lancaster field which is an evidence that balance sheet should also be the basis from which materiality is determined.	

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between US $19,000 and US $1,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above US $80,000 as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Our approach to the audit

As part of designing out audit, we determined materiality and assessed risk of material misstatement in the financial statements. In particular, we looked at areas involving significant accounting estimate and judgment by the directors and considered future events that are inherently uncertain such as the carrying value of inventory. We also addressed the risk of management override of controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We noted that the group has made significant convertible bond repurchases as well as impairments to its intangible exploration and evaluation assets during the year. Both of these areas are inherently complex and require a significant amount of judgement by management. We reviewed and assessed the accounting treatment of repurchases of the convertible bond in September and December 2021 and ensured compliance of the covenants. Furthermore, we reviewed and ensured that the related disclosures in the financial statements was sufficient and appropriate. Our work relating to the intangible assets is detailed below.

A full scope audit was performed on the complete financial information of all four components. The group and component audits were performed in London by PKF Littlejohn LLP. This gave us appropriate evidence for our opinion on the group and parent company financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our scope addressed this matter
Carrying value of Oil and Gas assets (Note 2.3)	

The oil and gas assets recorded on the balance sheet are the producing Lancaster field. First oil from Early Production System ('EPS') was achieved in 2019 and on a no further activity basis, production is expected to continue until the economic limit is reached (c. mid 2024 based on current forecast and oil prices).
 	
Management are required by IAS 36 to assess whether there are potential indicators of impairment of the group's oil and gas assets at each reporting date and, if potential indicators of impairment are identified, management are required to perform a full assessment of the recoverable value of the oil and gas assets in accordance with IAS 36.
 	
A non-cash impairment charge of USD $519.1m was recognised against the Lancaster oil and gas assets in the 2020 consolidated financial statements. This was following the downward revision of estimated reserves, following the shut-in of well P7z, in the April 2021 ERC Equipoise Ltd (ERCE) Competent Person Report (CPR) and:
› the uncertainty in the outlook for oil prices
› the non-sanction of the proposed financial restructuring in June 2021 and
› the decision not to extend the lease of the Aoka Mizu FPSO beyond June 2022
 	
Given the uncertainty in the future production profiles and the volatility in oil price, there is a risk that management may not adequately identify all impairment indicators as outlined in IAS 36.
 	
In addition, the value in use calculation is subject to significant judgements and estimates made by management.
	We performed testing of the valuation of oil and gas assets and critically assessed the key assumptions and estimates made. The procedures performed are summarised below:
	› Confirmed that group has good title to the applicable licences.
	› Obtained management's impairment paper to assess the appropriateness of their conclusions relating to the indicators of impairment at year end.
	› Obtained the impairment model and with the use of our internal data analytics experts, performed data integrity and mechanical checks on the model.
	› Challenged management's assessment of the impairment indicators in relation to oil and gas assets, taking into consideration of those outlined in IAS 36.
	› Assessed the competence and objectivity of the CPR experts and satisfied ourselves that they were appropriately qualified to carry out the reserves estimation.
	› Through a discussion held with the CPR experts, we obtained an understanding of the data, method, and key assumptions applied in arriving at their conclusion.
	› Reviewed the latest CPR and challenged the inputs against the carrying value of oil and gas assets.
	› Reviewed and critically challenged the impairment model, focussing on the appropriateness of estimates with reference to empirical data and external evidence with specific emphasis on the following assumptions:
	  › oil prices
	  › reserves and production profiles
	  › operating cost assumptions based on latest budgets, contracts and information from key suppliers
	  › the extension to the Aoka Mizu FPSO charter lease and
	  › discount rate
	› With the use of our internal valuation experts we reperformed the WACC calculation received from management and assessed the reasonableness of key inputs such as the market value of equity, market value of debt, cost of equity (Ke), and cost of debt (Kd) against market related data.
	› Ensured the presentation and disclosures in the financial statements are sufficient and in accordance with requirements of IAS 36 and IAS 1.
	
	Based on the procedures performed, we found management's assessment of the carrying value of producing oil and gas assets to be supported by the underlying models and the judgements and estimates applied reasonable.

Independent Auditor's Report *continued*

to the members of Hurricane Energy plc

Key audit matters *continued*

Key Audit Matter	How our scope addressed this matter
Carrying value of Exploration and Evaluation assets (Note 2.4)	
The group carries exploration expenditure on its balance under the "successful efforts" methodology in accordance with IFRS 6. The exploration and evaluation assets recognised are in respect of following licences: › P2308 Halifax › P1368 (south) Lincoln › P2294 Warwick Management are required to assess by reference to IFRS 6, whether there are potential indicators of impairment of the group's exploration and evaluation assets at each reporting date and, if potential indicators of impairment are identified, management are required to perform a full assessment of the recoverable value of the exploration and evaluation assets in accordance with IFRS 6. The carrying value of exploration and evaluation assets relates predominately to the Lincoln licence. Given the following circumstances: › the group's potential inability to self-fund the well commitment and a lack of an indication from a third-party to fund the well commitment › the low likelihood of the North Sea Transition Authority (NSTA) to approve of a deferral of the commitment well and › the group's joint venture partner; Spirit Energy's lack of future funding for oil development Management considered that, at the balance sheet date, it was highly likely that the licence would have to be relinquished and the carrying value impaired. As a result, a non-cash impairment charge of USD $54.2m was recognised against the Lincoln exploration and evaluation assets in the 2021 consolidated financial statements. There is a risk that the capitalisation of exploration expenditure is not in accordance with IFRS 6 and may not be fully recoverable.	We performed testing of the valuation of exploration and evaluation assets and critically assessed the key assumptions and estimates made. The procedures performed are summarised below: › Confirmed that group has good title to the applicable licences. › Reviewed capitalised costs and considered the appropriateness of their capitalisation under IFRS 6. › Challenged management's assessment of the impairment indicators in relation to exploration and evaluation assets, taking particular consideration of those outlined in IFRS 6. › Reviewed the relevant CPR and challenged the inputs against the net present value of exploration and evaluation assets. › Reviewed management's impairment assessment and challenged all key assumptions and sensitivities to reasonably possible changes. › Ensured the presentation and disclosures in the financial statements are sufficient and in accordance with requirements of IFRS 6. Based on the procedures performed, we found management's assessment of the carrying value of exploration and evaluation assets to be supported by the underlying models and the judgements and estimates applied reasonable.

Key audit matters *continued*

Key Audit Matter	How our scope addressed this matter
Going concern (Note 1.2)	
When preparing financial statements, those charged with governance should satisfy themselves as to whether the going concern basis is appropriate. ISA (UK) 570 "Going concern" specifically requires the auditor to conclude on: whether a material uncertainty related to going concern exists; the appropriateness of the Directors' use of the going concern assumption in the preparation of the financial statements; and the appropriateness of any relevant disclosures in the financial statements. Under the latest management cash flow model, which is highly dependent on the oil price and production rate, while some uncertainty still remains, management are confident that the remaining convertible bond (due in July 2022) can be repaid whilst leaving sufficient working capital to manage daily operations.	We reviewed the appropriateness of the going concern assumption and critically assessed the key assumptions and inputs to the model used to support the assumptions. The procedures performed are summarised below: › Obtained management's cash flow forecasts for the going concern period being from the date of signing the financial statements to 30 April 2023. With the use of our internal data analytics experts, performed data integrity and mechanical checks on the going concern model. › Agreed the March 2022 cash position used in the cash flow forecast to the management accounts and bank statements. › Confirmed the extension of the Bluewater FPSO lease term, and confirmed the production rates used agreed to those provided by ERC Equipoise Ltd. › Held discussions with management to understand the going concern model including the key assumptions and judgments included within the model. › Obtained managements stress testing analysis and considered whether such scenarios, including significant reductions in oil prices and production rates were appropriate. › Compared previous forecasts/budgets to actual performance to assess the reliability of such forecasts/budgets. › Obtained information relating to the January and March 2022 liftings and assessed the actual liftings (barrels lifted, oil price obtained and cash inflows received and expected) against the assumptions included in the model. › Considered the inherent risks to the group's business model and analysed how those risks might affect the group's financial resources or ability to continue operations over the going concern period. › Assessed the impact that COVID-19 has had thus far and may continue to have on the group and ensured adequate disclosure has been made in the financial statements in respect of COVID-19 and its impacts. › Ensured sufficient disclosure is made in the financial statements. Based on the procedures performed, we consider management's use of the going concern assumption to be reasonable and the related disclosures appropriate.

Independent Auditor's Report *continued*

to the members of Hurricane Energy plc

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Auditor's responsibilities for the audit of the financial statements *continued*

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

- We obtained an understanding of the group and parent company and the sector in which they operate to identify laws and regulations that could reasonably be expected to have a direct effect on the financial statements. We obtained our understanding in this regard through discussions with management, industry research, application of cumulative audit knowledge and experience of the sector.
- We determined the principal laws and regulations relevant to the group and parent company in this regard to be those arising from:
  - Companies Act 2006
  - AIM Rules
  - Disclosure and Transparency Rules
  - Quoted Companies Alliance
  - The Bribery Act 2010
  - Anti Money Laundering Legislation
  - Health and Safety Law
  - UK tax legislation
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the group and parent company with those laws and regulations. These procedures included, but were not limited to:
  - Making enquires of management
  - Reviewing the Board minutes throughout the year and post year end
  - Ensuring adherence to the terms within the exploration permits, including environmental conditions
  - Reviewing the legal ledger account
  - Obtaining confirmations from legal advisors
  - Reviewing general ledger transactions and performing a detailed review of the Group's consolidation entries, and investigating any that appear unusual with regards to nature or amount to corroborative evidence
  - Reviewing RNS announcements
- We also identified the risks of material misstatement of the financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, that the potential for management bias was identified in relation to the revenue recognition, the impairment of oil and gas assets and exploration and evaluation assets and we addressed this by challenging the assumptions and judgements made by management when auditing these significant accounting estimates.

As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to: the testing of journals; reviewing accounting estimates for evidence of bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business. Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Joseph Archer (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor
15 Westferry Circus, Canary Wharf, London E14 4HD
27 April 2022

FINANCIAL STATEMENTS

Group Statement of Comprehensive Income

for the year ended 31 December 2021

	Notes	**Year ended 31 Dec 2021 $'000**	Year ended 31 Dec 2020 $'000
Revenue	2.1	**240,540**	180,083
Cost of sales	2.2	**(173,125)**	(179,816)
Gross profit		**67,415**	267
General and administrative expenses	3.3	**(26,749)**	(4,229)
Gain on revision of lease term	5.2	**49,125**	—
Impairment of oil and gas assets	2.3	**—**	(519,152)
Change in decommissioning estimates on fully impaired assets	2.5	**(1,972)**	—
Impairment of intangible exploration and evaluation assets and exploration expense written off	2.4	**(54,280)**	(47,945)
Operating profit/(loss)		**33,539**	(571,059)
Finance income	3.2	**27**	2,696
Finance costs	3.2	**(30,656)**	(38,160)
Net gain on repurchase of Convertible Bonds	5.1	**17,201**	—
Fair value (loss)/gain on Convertible Bond embedded derivative	5.1	**(1,901)**	35,431
Profit/(loss) before tax		**18,210**	(571,092)
Tax	6.1	**26**	(54,233)
Total comprehensive profit/(loss) for the year		**18,236**	(625,325)

		Cents	Cents
Earnings per share – basic and diluted	3.1	**0.92**	(31.43)

All results arise from continuing operations.

Group Balance Sheet

for the year ended 31 December 2021
Registered company number: 05245689

	Notes	31 Dec 2021 $'000	31 Dec 2020 $'000
Non-current assets			
Intangible exploration and evaluation assets	2.4	**3,830**	55,390
Oil and gas assets	2.3	**98,296**	208,027
Other non-current assets	7.2	**1,373**	2,605
Deferred tax assets	6.2	**104**	78
Liquid investments	4.1	**37,783**	22,811
		141,386	288,911
Current assets			
Inventory	2.2	**27,488**	11,285
Trade and other receivables	4.2	**2,591**	14,524
Cash and cash equivalents	4.1	**76,792**	143,703
		106,871	169,512
Total assets		**248,257**	458,423
Current liabilities			
Trade and other payables	4.3	**(18,843)**	(16,356)
Lease liabilities	5.2	**(13,880)**	(18,479)
Convertible Bond liability	5.1	**(77,373)**	—
Convertible Bond embedded derivative	5.1	**(27)**	—
Decommissioning provisions	2.5	**—**	(15,466)
		(110,123)	(50,301)
Non-current liabilities			
Lease liabilities	5.2	**(1,910)**	(78,842)
Convertible Bond liability	5.1	**—**	(216,034)
Convertible Bond embedded derivative	5.1	**—**	(885)
Decommissioning provisions	2.5	**(49,346)**	(45,675)
		(51,256)	(341,436)
Total liabilities		**(161,379)**	(391,737)
Net assets		**86,878**	66,686
Equity			
Share capital	5.4	**2,885**	2,885
Share premium		**822,458**	822,458
Share option reserve	5.5	**23,321**	21,443
Own shares reserve	5.6	**(845)**	(923)
Foreign exchange reserve	5.7	**(90,828)**	(90,828)
Accumulated deficit		**(670,113)**	(688,349)
Total equity		**86,878**	66,686

The Financial Statements of Hurricane Energy plc were approved by the Board and authorised for issue on 27 April 2022. They were signed on its behalf by:

Antony Maris
Chief Executive Officer

Group Statement of Changes in Equity

for the year ended 31 December 2021

	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 2020	2,883	821,910	20,828	(684)	(90,828)	(63,024)	691,085
Loss for the period	—	—	—	—	—	(625,325)	(625,325)
New shares issued under employee share schemes (note 5.4)	2	548	—	(445)	—	—	105
Share-based payments	—	—	615	206	—	—	821
At 31 December 2020	2,885	822,458	21,443	(923)	(90,828)	(688,349)	66,686
Profit for the period	—	—	—	—	—	**18,236**	**18,236**
Share-based payments	—	—	**1,878**	**78**	—	—	**1,956**
At 31 December 2021	**2,885**	**822,458**	**23,321**	**(845)**	**(90,828)**	**(670,113)**	**86,878**

Group Cash Flow Statement

for the year ended 31 December 2021

	Notes	Year ended 31 Dec 2021 $'000	Restated Year ended 31 Dec 2020 $'000
Cash flows from operating activities			
Operating profit/(loss)		**33,539**	(571,059)
Adjustments for:			
Depreciation of property, plant and equipment	2.3	**98,100**	97,136
Impairment of oil and gas assets	2.3	**—**	519,152
Change in decommissioning estimates on fully impaired assets	2.5	**1,972**	—
Impairment of intangible exploration and evaluation assets and exploration expense written off	2.4	**54,280**	47,945
Gain on lease remeasurement	5.2	**(49,125)**	—
Impairment of other right-of-use assets	7.2	**719**	—
Share-based payment charge	3.4	**1,955**	821
Purchase of derivative financial instruments	4.4	**—**	(3,420)
Expenditure on proposed financial restructuring		**15,903**	1,550
Decommissioning spend	2.5	**(4,824)**	(2,108)
Operating cash flow before working capital movements		**152,519**	90,017
Movement in receivables		**579**	159
Movement in payables		**5,356**	(10,352)
Movement in crude oil, fuel and chemicals inventories	2.2	**(11,410)**	1,946
Net cash inflow from operating activities		**147,044**	81,770
Cash flows from investing activities			
Interest received		**27**	1,227
Increase in liquid investments		**(15,530)**	(22,811)
Expenditure on oil and gas assets		**(6,618)**	(23,396)
Expenditure on other fixed assets		**(2)**	(69)
Expenditure on intangible exploration and evaluation assets		**(2,782)**	(35,269)
Movement in spares and supplies inventories	2.2	**(4,793)**	(3,286)
Net cash used in investing activities		**(29,698)**	(83,604)
Cash flows from financing activities			
Repurchases of Convertible Bond principal for cancellation	5.1	**(130,346)**	—
Transaction costs	5.1.1	**(1,311)**	—
Convertible Bond interest paid	5.1	**(17,372)**	(17,250)
Lease repayments	5.2	**(18,596)**	(9,658)
Interest and other finance charges paid		**(34)**	(15)
Expenditure on proposed financial restructuring		**(15,903)**	(1,550)
New shares issued under employee share schemes		**—**	105
Net cash used in financing activities		**(183,562)**	(28,368)
Decrease in cash and cash equivalents		**(66,216)**	(30,202)
Cash and cash equivalents at beginning of year	4.1	**143,703**	171,434
Net decrease in cash and cash equivalents		**(66,216)**	(30,202)
Effects of foreign exchange rate changes		**(695)**	2,471
Cash and cash equivalents at end of year	4.1	**76,792**	143,703

The presentation of certain comparative lines has been restated – see note 1.3.

Notes to the Group Financial Statements

for the year ended 31 December 2021

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 on the UK Continental Shelf.

1.1 Basis of preparation and consolidation

The Financial Statements have been prepared under the historical cost convention (except for derivative financial instruments which have been measured at fair value) in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and in accordance with the requirements of the AIM Rules.

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

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

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

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

The Group's joint arrangement with Spirit Energy Limited (Spirit) is accounted for as a joint operation (where the parties have rights to the assets and obligations for the liabilities of that arrangement). As such, in relation to its interests in the joint operation, the Group recognises its assets, liabilities, revenues and expenses of the joint operation, including its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the Financial Statements under the relevant headings. Details of this joint operation are set out in note 2.6.

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

1.2 Going concern

The Financial Statements have been prepared in accordance with the going concern basis of accounting. The forecasts and projections made in adopting the going concern basis take into account forecasts over oil prices, production rates, operating and G&A expenditure, committed and sanctioned capital expenditure, and the remaining Convertible Bond principal amount due in July 2022. In addition, sensitivity and reverse stress test analyses have been considered. Further details on the going concern assessment undertaken are outlined in the Going Concern section of the Strategic Report.

1.3 Significant events and changes in the period

The financial performance and position of the Group was significantly affected by the following events and changes during the year:

- a significant increase in revenue versus the previous year due to a strong recovery in crude oil prices, with the average realised sales price increasing from $35.2/bbl to $67.3/bbl (note 2.1);
- the incurrence of $15.9 million of legal and professional costs (for advisers engaged by the Group, bondholders and shareholders) related to the proposed financial restructuring of the Group, originally announced in April 2021, but ultimately not sanctioned by the Court in June 2021;
- a reduction in lease liabilities, right-of-use assets and a non-cash lease remeasurement gain arising from the decision made in June 2021 not to extend the bareboat charter of the Aoka Mizu FPSO beyond June 2022 (notes 2.3 and 5.2);
- the placing of an additional £11.2 million of cash into restricted funds following a formal request by OPRED to increase the amount of decommissioning security for the Lancaster field (note 4.1);
- a significant reduction in Convertible Bond debt and gain on repurchase of Convertible Bonds recognised in the Income Statement following the repurchase of $151.5 million of bonds for cash consideration of $130.3 million (note 5.1.1); and
- the recognition of an impairment charge of $54.3 million in respect of the Lincoln asset following the decision by the Group and its joint operation partner to relinquish the P1368(S) licence (note 2.4.1).

Amounts relating to the proposed financial restructuring incurred in the prior year have been reclassified from operating activities to financing activities within the Cash Flow Statement and note 4.1 in order to align with the current year classification.

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

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

1.4 Foreign currencies and translation

These consolidated Financial Statements are presented in US Dollars, which is the Company's functional and presentation currency, and rounded to the nearest thousand unless otherwise stated. The functional currency is the currency of the primary economic environment in which the Group operates, as a significant proportion of expenditure and all of its current revenue is priced in US Dollars. All trading entities within the Group have a US Dollar functional currency.

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

The principal rates of exchange used were:

US Dollar/Pounds Sterling	31 Dec 2021	31 Dec 2020
Year-end rate	**1.35**	1.35
Average rate	**1.38**	1.28

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

1.5 New and amended standards adopted by the Group

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became 'UK-adopted International Accounting Standards', with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards (for its consolidated Financial Statements) on 1 January 2021. This change constitutes a change in accounting framework; however, there is no impact on recognition, measurement or disclosure in the period reported as a result of this change.

The Group has applied new accounting standards, amendments and interpretations for the first time:

- COVID-19-Related Rent Concessions – amendments to IFRS 16; and
- Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The Group also applied the following amendments early:

- Annual Improvements to IFRS Standards 2018-2020; and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to IAS 12.

The adoption of the changes and amendments above has not had any material impact on the disclosure or on the amounts reported in the Financial Statements, nor are they expected to significantly affect future periods.

1.6 New and amended accounting standards not yet adopted

A number of other new and amended accounting standards and interpretations have been published that are not mandatory for the Group's financial year ended 31 December 2021, 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.

1.7 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

- identification of impairment indicators for Lancaster field oil and gas assets (note 2.3);
- identification of impairment indicators for intangible exploration and evaluation assets (note 2.4); and
- recognition of deferred tax assets (section 6).

The assessment of lease term of the Aoka Mizu (note 5.2) is no longer considered to be a critical judgement as, at the balance sheet date, the Group had no contractual rights to any extension options beyond the non-cancellable period of the lease (expiring in June 2022). However, in estimating future cash flows of oil and gas assets for the purposes of impairment testing, and estimating hydrocarbon Reserves and Contingent Resources, management have made the assumption that there would be an extension to the lease under terms similar to those agreed in March 2022, reflecting the advanced status of negotiations with the lessor at the balance sheet date. The presumption of going concern (note 1.2) is no longer considered to be a critical judgment as management believe there is appropriate certainty in the Group being able to fully repay the remaining Convertible Bonds due in July 2022 and have sufficient liquidity thereafter to cover ongoing working capital requirements. Further details on the going concern assessment undertaken are outlined in the Going Concern section of the Strategic Report.

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

1.7 Critical accounting judgements and key sources of estimation uncertainty *continued*

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

- estimated future cash flows of oil and gas assets used for impairment testing (note 2.3);
- estimation of hydrocarbon Reserves and Contingent Resources (section 2); and
- estimation of future taxable profits against which to recognise deferred tax assets (section 6).

The valuation of the Convertible Bond embedded derivative (note 5.1) is no longer considered to contain key sources of estimation uncertainty as it is now not considered that reasonably possible changes to any assumptions or estimates underlying its valuation would cause a material adjustment to carrying amount of assets or liabilities within the next financial year.

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

Climate change and the transition to a low carbon economy were considered in preparing these consolidated Financial Statements. In particular, the energy transition is likely to impact future oil and gas prices which in turn may affect the recoverable amount of the Group's oil and gas assets. The estimate of future cash flows from oil and gas assets, which includes management's best estimate of future oil prices, is considered a key source of estimation uncertainty. In developing these price assumptions, consideration was given to a range of forecasts, including a number that were described as being consistent with achieving the 2015 COP 21 Paris Agreement goal to limit temperature rises to well below 2 degrees Celsius (the 'Paris compliant scenarios'). Further details of the key assumptions in this area have been provided in note 2.3.1, including sensitivity analysis outlining the impact on the impairment charge of using higher or lower oil price assumptions to management's best estimate of oil prices. The oil price forecast used in the impairment assessment (disclosed in note 2.3.1) is estimated to be broadly equivalent to the Paris compliant scenarios; however, under current forecasts and with no further investment, the Group's oil and gas assets are likely to be fully depreciated within three years, during which timeframe it is expected that global demand for oil will remain robust. Accordingly, the impact of climate change on expected useful lives of the Group's current assets is not considered to be a significant judgement or estimate.

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

Section 2. Oil and gas operations

Accounting policies applicable to this section as a whole

Commercial Reserves

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

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

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

Hydrocarbon Reserves and Contingent Resources are those hydrocarbons that can be economically extracted from the Group's oil and gas assets. The Group's Reserves and Contingent Resources have been estimated based on information compiled by independent qualified persons, using standard recognised evaluation techniques. Inputs provided by management to the independent qualified persons include geological and reservoir information (as updated from data obtained through operation of a field), operating costs and decommissioning estimates. These inputs are challenged by the independent qualified persons and validated against analogue reservoirs, actual historical reservoir and production performance, and the costs of running and decommissioning similar fields and installations.

Changes to Reserves estimates 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 remaining proved plus probable Reserves (2P Reserves) at 31 December 2021 in respect of the Lancaster EPS was independently assessed in April 2022 as being 5.8 MMbbl.

Section 2. Oil and gas operations *continued*

2.1 Revenue

Accounting policy

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

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

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

	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
Oil sales	**240,540**	180,083
Revenue from contracts with customers	**240,540**	180,083
Cargoes sold	**7**	12
Sales volumes (thousand bbl)	**3,576**	5,112
Average sales price realised ($/bbl)	**$67.3/bbl**	$35.2/bbl

2.2 Cost of sales and inventory

Accounting policy

Crude oil inventories

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

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

For other inventories, cost is determined on a weighted average basis (for fuel and chemicals) or a specific identification basis (for spares and supplies), including the cost of direct materials and (where applicable) direct labour and a proportion of overhead expenses. Items are classified as spares and supplies inventory where they are either standard parts, easily resalable or available for use on non-specific campaigns, and as oil and gas assets or intangible exploration and evaluation assets where they are specialised parts intended for specific projects. Net realisable value is determined by an estimate of the price that could be realised through resale or scrappage based on its condition at the balance sheet date.

Included within cost of sales are costs relating to emissions trading schemes. Provision is made at the end of each period for the cost of allowances required to cover carbon emissions made in the emission reporting period to date. The estimated cost of allowances required is based on the weighted average cost per unit of emissions expected to be incurred for the compliance period, calculated as the carrying amount of any allowances held plus the cost of meeting the expected shortfall (using the market price at the balance sheet date), divided by the expected total number of units of emissions for the compliance period. The provision is held on the balance sheet within trade and other payables until settled by the delivery of emissions certificates. Allowances granted free of charge are held at nil cost, with any gain on sale of free allowances granted recognised at the time of sale.

Section 2. Oil and gas operations *continued*

2.2 Cost of sales and inventory *continued*

Cost of sales

	Note	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
Operating costs		**65,688**	65,107
Depreciation of oil and gas assets – owned	2.3	**94,200**	84,756
Depreciation of oil and gas assets – leased	2.3	**3,405**	11,828
Movement in crude oil inventory		**(10,622)**	1,733
Variable lease payments	5.2	**20,454**	16,392
		173,125	179,816

Inventory

	31 Dec 2021 $'000	31 Dec 2020 $'000
Crude oil	**13,313**	2,691
Fuel and chemicals	**2,124**	1,336
Spares and supplies	**12,051**	7,258
	27,488	11,285

The amount of crude oil inventory recognised as an expense in the year was $140.6 million (2020: $155.2 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 directly attributable staff and related overhead expenditure, which is allocated via the Group's time writing process, capitalised borrowing costs and the cost of provisions for future restoration and decommissioning.

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

Oil and gas assets – depreciation

Oil and gas properties are depreciated from the commencement of production on a unit-of-production basis. This is the ratio of oil production in the period to the estimated Reserves base, which is the best estimate of proved plus probable Reserves (2P Reserves), at the end of the period, plus the production in the period. Costs used in the unit-of-production calculation comprise the net book values of producing assets, taking into account future development expenditures necessary to bring those Reserves into production. Where the carrying value of oil and gas assets has been impaired by using an expected cash flow approach, the equivalent expected future development costs and expected Reserves and Contingent Resources base are taken into account when determining the depreciation rate.

Impairment

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

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

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

Section 2. Oil and gas operations *continued*

2.3 Oil and gas assets *continued*

	Note	Leased $'000	Owned $'000	Total $'000
Cost				
At 1 January 2020		101,347	757,424	858,771
Additions		—	23,652	23,652
Changes to decommissioning estimates	2.5	474	3,482	3,956
At 31 December 2020		101,821	784,558	886,379
Additions		—	**4,572**	**4,572**
Remeasurement of lease liability	5.2	**(18,212)**	—	**(18,212)**
Changes to decommissioning estimates	2.5	**1,961**	**1,514**	**3,475**
At 31 December 2021		**85,570**	**790,644**	**876,214**
Depreciation and impairment				
At 1 January 2020		(8,210)	(54,406)	(62,616)
Depreciation charge for the year		(11,828)	(84,756)	(96,584)
Provision for impairment		(60,166)	(458,986)	(519,152)
At 31 December 2020		(80,204)	(598,148)	(678,352)
Depreciation charge for the year		**(3,405)**	**(94,200)**	**(97,605)**
Changes to decommissioning estimates expensed		**(1,961)**	—	**(1,961)**
At 31 December 2021		**(85,570)**	**(692,348)**	**(777,918)**
Carrying amount at 31 December 2020		21,617	186,410	208,027
Carrying amount at 31 December 2021		—	**98,296**	**98,296**

Oil and gas assets held under leases comprise solely the Aoka Mizu FPSO bareboat charter, which commenced in May 2019. During the year, this lease term was reassessed, resulting in a decrease in the leased asset value to nil (see note 5.2). Subsequent to the balance sheet date, the Group agreed an extension to the charter (see note 7.4.2).

The total amount of depreciation charged to oil and gas assets and other fixed assets was $98.1 million (2020: $97.1 million).

Section 2. Oil and gas operations *continued*

2.3 Oil and gas assets *continued*

2.3.1 Impairment of oil and gas assets

Critical judgement – identification of impairment indicators for oil and gas assets

The asset balance relating to the Lancaster field held within property, plant and equipment is subject to an impairment assessment under IAS 36 Impairment of Assets, whereby the Group is required to consider if there are any indicators of impairment. The judgement as to whether there are any indicators of impairment takes into consideration a number of internal and external factors, including: changes in estimated commercial Reserves; significant adverse changes to production versus previous estimates of management; changes in estimated future oil and gas prices; changes in estimated future capital and operating expenditure to develop and produce commercial Reserves; the market capitalisation of the Group falling and remaining significantly below the net book value of assets; and any indications that discount rates likely to be applied by market participants in assessing the asset's recoverable amount may have increased.

If an impairment indicator exists, an impairment test, which compares carrying value to the asset's recoverable amount (being the higher of value in use and fair value less cost to sell), is required to be carried out.

Critical judgements and key source of estimation uncertainty – estimated future cash flows of oil and gas assets used for impairment testing

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

In making these estimates, a judgement was made in respect of assuming that an extension to the Aoka Mizu lease would be agreed, allowing Lancaster EPS operations to continue until such time as the estimated economic limit was reached (June 2024 based on the forecasts for production, oil price and operating costs).

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

The triggers for the impairment test were the non-sanction of the proposed financial restructuring in June 2021, and the decision not to extend the lease of the Aoka Mizu FPSO beyond June 2022. The recoverable amount was determined based on management's best estimate of value in use, using key assumptions, judgements and estimates as outlined below.

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

- production forecasts in line with those included in the 2022 ERCE CPR; and
- Dated Brent oil price assumptions (in real terms) of $76/bbl average for 2022, $70/bbl in 2023 and $67/bbl in 2024 (being forecasts of future oil prices extant as at 31 December 2021, as required by IAS 36);
- operating cost assumptions based on latest budgets, contracts and information from key suppliers;
- an extension to the Aoka Mizu FPSO charter allowing production to continue until June 2024 (being the estimated economic limit for the P6 well alone based on the forecasts for production, oil price and operating costs as outlined above), and an assumption that neither party exercises their respective termination option that would result in an end to the charter prior to that point; and
- a pre-tax real discount rate of 9.0%.

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

The results of the impairment test were that no impairment charge was necessary; although this was subject to the key judgement that it would be possible to agree an alternative extension to the bareboat charter beyond June 2022 until such time as, based on management's forecast of production rates, operating costs and oil prices, production became uneconomic.

Section 2. Oil and gas operations *continued*

2.3 Oil and gas assets *continued*

2.3.1 Impairment of oil and gas assets *continued*

The estimated impairment charge that would be recognised as a result of changes to some of these key estimates and assumptions made (in isolation) is as follows:

	Impairment charge $'000
Oil price assumption:	
$5/bbl decrease to price curve	—
$10/bbl decrease to price curve	**20.2**
Forecast production rates:	
5% decrease	—
10% decrease	**5.8**
Cessation of production and FPSO charter end date	
October 2022	**14.1**
December 2022	**3.6**
December 2023	—

The sensitivities disclosed are considered in isolation and a result of changing only one variable.

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

The triggers for the prior period impairment charges were the downward revision of estimated recoverable reserves as a result of the Technical Review and updated CPR, the decline in oil prices across the first half of 2020 and the market capitalisation of the Group falling below its net assets. The charge was allocated pro-rata to owned and leased assets based on their respective carrying values pre-impairment.

2.4 Intangible exploration and evaluation assets

Accounting policy

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

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

Once a licence has been awarded, all licence fees and exploration and appraisal costs relating to that licence are initially capitalised in well, field or specific exploration cost centres as appropriate pending determination. These costs include directly attributable staff and related overhead expenditure, which is allocated to assets via the Group's timewriting process. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial Reserves have been established or the determination process has not been completed.

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

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

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

Notes to the Group Financial Statements *continued*

for the year ended 31 December 2021

Section 2. Oil and gas operations *continued*

2.4 Intangible exploration and evaluation assets *continued*

	Note	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
At 1 January		**55,390**	75,874
Additions		**5,235**	25,623
Provision for impairment and exploration expenditure written off	2.4.1	**(54,280)**	(47,476)
Changes to decommissioning estimates	2.5	**(2,515)**	1,369
At 31 December		**3,830**	55,390

Intangible exploration and evaluation assets represent the Group's share of the cost of licence interests and exploration and evaluation expenditure within its licensed acreage in the West of Shetland area, which comprise Lincoln (on licence P1368(S)), Warwick (licence P2294) and Halifax (licence P2308).

Additions during the period primarily comprised licence fees, geological and other subsurface studies undertaken, long-lead items ordered in previous years for potential future development activity and capitalised timewriting costs.

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

Critical judgement – identification of impairment indicators for intangible exploration and evaluation assets
Intangible exploration and evaluation assets are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This judgement is made with reference to the impairment indicators outlined in note 2.4 above.

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

An impairment charge of $54.3 million has been recognised against the full carrying amount of exploration and evaluation expenditure attributable to the Lincoln asset on licence P1368(S). The Group and its joint operation partner, Spirit Energy, had a regulatory obligation to commence drilling a well on the P1368(S) licence (the 'obligation well') by 30 June 2022. During the year, the joint operation partners engaged with the Regulator on the technical re-evaluation and interpretation of the licence potential and requested a regulatory amendment of the obligation well to a later commencement date. The Regulator indicated, as part of its considerations, that it was not content to support a deferral of the obligation well unless the joint operation partners satisfy the Regulator that they will be able to fund the obligation well in a timely manner. In December 2021, given the respective partners financial circumstances and related challenges of securing additional funding for the Lincoln obligation well, the joint operation partners elected to continue plans to suspend further funding towards well planning and drilling of the Lincoln obligation well in 2022. In April 2022, the joint operation partners agreed to voluntarily surrender the P1368(S) licence (see note 7.4.3).

In 2020, following the finalisation of the 2021 CPR, provision for impairment of $35.4 million was recognised against the full carrying amount of exploration and evaluation expenditure attributable to the Halifax licence, as the CPR did not attribute any Reserves or Contingent Resources to Halifax, and the Group has no plans or budgets for substantive expenditure on further exploration or evaluation on this licence. $12.1 million of exploration and evaluation expenditure was also written off, comprising the Group's share of standby costs for the Paul B Loyd Jr rig, which was on hire but not used for any drilling campaigns during 2020.

Section 2. Oil and gas operations *continued*

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. Where the related asset is fully impaired, the corresponding adjustment is recognised in profit and loss. The unwinding of the discount on the decommissioning provision is classified within finance costs.

		Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
At 1 January		**61,141**	55,673
Net new provisions and changes in estimates		**(1,921)**	7,459
Utilised in year		**(9,894)**	(2,108)
Unwinding of discount	3.2	**20**	117
At 31 December		**49,346**	61,141
Of which:			
Current		—	15,466
Non-current		**49,346**	45,675
		49,346	61,141
Restricted funds held in respect of decommissioning:			
Restricted cash	4.1	—	2,244
Liquid investments	4.1	**37,783**	22,811
		37,783	25,055

The provisions for decommissioning relate to 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 provision has been classified as non-current in line with the assumptions made for impairment testing of oil and gas assets, which assumes a cessation of production of the Lancaster field and expected incurrence of decommissioning costs in June 2024; being the estimated point at which the EPS becomes uneconomic absent any incremental development. Estimated costs are discounted at a rate of 0.67%.

Changes in estimates in the period have arisen from change in the assumed discount rate, changes in foreign exchange rates, increases to the assumed inflation rate and refined estimates to the expected costs and timing of decommissioning the EPS and FPSO; and actualisation of provisions for the Lincoln and Lancaster 4Z wells.

Of the total net new provisions and changes in estimates, $2.5 million was recorded as non-cash reductions to intangible exploration and evaluation assets, $1.5 million as non-cash additions to oil and gas assets, $2.5 million credited to receivables due from the Group's joint operation partner and $1.6 million charged directly to the Income Statement (as they related to changes in estimates on fully impaired assets and right-of-use assets).

The utilisation of provisions during the period related to the plugging and abandonment of the Lincoln-14 well, and the Lancaster 4Z wells.

Section 2. Oil and gas operations *continued*

2.6 Joint operations

In September 2018 the Group entered into a joint operation with Spirit to share costs and risks associated with the Greater Warwick Area (GWA) in exchange for granting Spirit a 50% interest in the Group's P1368(S) and P2294 licences. The phased work programme was intended to comprise a planned tie-back of a GWA well to the Aoka Mizu FPSO, together with host modifications to the vessel and a gas export tie-in to the West of Shetland Pipeline System (WOSPS). Hurricane was fully carried up to a gross cost of $180.6 million for the first phase of this activity, with costs in excess of the carry amount having been shared on a 50:50 basis.

With effect from 6 March 2020, a new cost allocation framework was implemented whereby the joint operation builds-out only the equipment and materials required for a single-well tie-back to the Aoka Mizu FPSO. These long-lead items are currently being held in storage and preserved pending such time until the joint operation sanctions the tie-back of a well to the Aoka Mizu FPSO, with the required regulatory consents to do so. As part of this framework, the Group can elect to continue to build-out long-lead items related to the tie-in of the Aoka Mizu FPSO to the WOSPS on a sole risk basis as part of GLA activities.

Subsequent to the balance sheet date, the joint operation agreed to surrender the P1368(S) licence – see notes 2.4.1 and 7.4.3.

The Group currently acts as operator of the joint operation and will continue to do so until such time as full field development workstreams commence.

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

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

2.7. Commitments

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

	31 Dec 2021 $'000	31 Dec 2020 $'000
Contractual commitments in respect of oil and gas assets	**1,201**	9,089
Contractual commitments in respect of exploration and evaluation assets	**821**	3,888

Commitments shown above are net of amounts expected to be funded by the Group's joint operation partner.

Section 3. Income Statement

3.1 Earnings per share

	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
Profit/(loss) attributable to holders of Ordinary Shares in the Company used in calculating basic earnings per share (being profit/(loss) after tax)	**18,236**	(625,325)
Add back impact of:		
Convertible Bond – interest expense	—	—
Convertible Bond – fair value gain	—	—
Profit/(loss) attributable to holders of Ordinary Shares in the Company used in calculating diluted earnings per share	**18,236**	(625,325)

	Number	Number
Weighted average number of Ordinary Shares used in calculating basic earnings per share	**1,989,927,148**	1,989,607,524
Potential dilutive effect of:		
Convertible Bond	—	—
Weighted average number of Ordinary Shares and potential Ordinary Shares used in calculating diluted earnings per share	**1,989,970,937**	1,989,607,524

	Cents	Cents
Basic earnings per share	**0.92**	(31.43)
Diluted earnings per share	**0.92**	(31.43)

The potential impact of the conversion feature included within the Convertible Bond was antidilutive as their conversion to Ordinary Shares would have increased earnings per share in 2021. The impact of the VCP and PSP awards (see note 3.4) was antidilutive in 2021 because market-based conditions for both schemes was not met at any point throughout the year.

The effect of the conversion feature included within the Convertible Bond, the VCP and PSP share awards and other share options outstanding in 2020 were antidilutive as the Group incurred a loss.

3.2 Finance income and costs

	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
Interest income on cash, cash equivalents and liquid investments	**27**	1,227
Net foreign exchange gains	—	1,469
Finance income	**27**	2,696
Convertible Bond interest expense (note 5.1)	**(24,810)**	(26,680)
Interest on lease liabilities (note 5.2)	**(4,412)**	(7,702)
Fair value losses on oil price derivatives	—	(3,420)
Other interest expense and bank charges	**(217)**	(241)
Net foreign exchange losses	**(1,197)**	—
Unwinding of discount on decommissioning provisions (note 2.5)	**(20)**	(117)
Finance costs	**(30,656)**	(38,160)
Net finance costs	**(30,629)**	(35,464)

Notes to the Group Financial Statements *continued*

for the year ended 31 December 2021

Section 3. Income Statement *continued*

3.3 General and administrative expenditure

	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
Wages and salaries	9,939	10,001
Social security costs	1,226	937
Defined contribution pension costs	689	720
Staff costs	11,854	11,658
Non-staff costs	22,958	7,409
Gross general and administrative expenditure before recharges	34,812	19,067
Capitalised into oil and gas assets	(3,025)	(3,499)
Capitalised into intangible exploration and evaluation assets	(3,456)	(7,121)
Included within cost of sales	(4,752)	(5,591)
Net general and administrative expenditure before non-cash items	23,579	2,856
Non-cash general and administrative costs:		
Net share-based payment charge (note 3.4)	1,956	821
Depreciation of other fixed assets and other right-of-use assets	495	552
Impairment of other right-of-use assets	719	—
General and administrative expenditure	26,749	4,229

	Number	Number
Average number of employees	55	62

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

3.4 Share-based payments

Accounting policy

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

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

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

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

During 2021, the Group operated a number of share-based payment plans, including several Performance Share Plans (PSPs), the Value Creation Plan (VCP) and the Company's HMRC-approved SIP. The Group recognised a total charge of $2.0 million in respect of share-based payments in 2021 (2020: charge of $0.8 million).

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

There were no performance-based share awards or options outstanding as at 31 December 2021.

3.4 Share-based payments *continued*

3.4.1 PSP awards

	Year ended 31 Dec 2021 Number of awards	Year ended 31 Dec 2020 Number of awards
Outstanding at 1 January	**27,684,850**	29,837,413
Granted	**—**	2,664,220
Forfeited/lapsed	**(27,684,850)**	(4,816,783)
Outstanding at 31 December	**—**	27,684,850

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 were subject to the Group meeting certain Milestones. Some awards had a vesting date of November 2021, in line with the VCP, and others (which were also subject to further market-based conditions) vested in January 2023 (but still would only vest should the VCP also vest in November 2021).

As the VCP did not vest, all PSP awards lapsed unvested during the period. For those PSP awards that had a vesting date after November 2021 an accelerated charge of $0.3 million was recognised in 2021.

3.4.2 VCP awards

In November 2016, the Group introduced the VCP for employees and Executive Directors, involving the issue of 840 Growth Shares in Hurricane Group Limited (a Group subsidiary). The awards vesting were subject to the Group meeting certain Milestones, with the vesting period being from grant date to the expiry of the VCP's five-year term (November 2021). Although certain Milestones were met over the term, the share price hurdle target of £0.55 at expiry was not met, and therefore all VCP awards lapsed unexercised upon expiry.

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. Upon derecognition, the difference between the consideration paid to extinguish the liability and the carrying value of the liability at time of derecognition is recognised as a gain in the Income Statement, net of any direct transaction costs.

Financial liabilities are classified at FVTPL when the financial liability is either held for trading or it is designated at FVTPL. A financial liability is classified as held for trading if it has been incurred principally for the purpose of repurchasing it in the near term or is a derivative that is not a designated or effective hedging instrument.

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

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derivatives (other than embedded derivatives)

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the Income Statement immediately. The Group does not currently designate any derivatives as hedging instruments.

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

Other derivatives are presented as current assets or current liabilities.

4.1 Cash and cash equivalents and liquid investments

Accounting policy

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

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with three months or less remaining to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

Liquid investments are defined as short-term investments in fixed-term deposit accounts of between 3 and 12 months' maturity.

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

Section 4. Cash, working capital and financial instruments *continued*

4.1 Cash and cash equivalents and liquid investments *continued*

	31 Dec 2021			31 Dec 2020		
	Restricted $'000	Unrestricted $'000	Total $'000	Restricted $'000	Unrestricted $'000	Total $'000
Current cash and cash equivalents	**7,934**	**68,858**	**76,792**	28,792	114,911	143,703
Non-current cash and equivalents	—	—	—	—	—	—
Cash and cash equivalents (per Cash Flow Statement)	**7,934**	**68,858**	**76,792**	28,792	114,911	143,703
Liquid investments	**37,783**	—	**37,783**	22,811	—	22,811
Total cash and cash equivalents and liquid investments	**45,717**	**68,858**	**114,575**	51,603	114,911	166,514

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

The movement in restricted and unrestricted cash, cash equivalents and liquid investments is as follows:

	Year ended 31 Dec 2021			Restated Year ended 31 Dec 2020		
	Restricted $'000	Unrestricted $'000	Total $'000	Restricted $'000	Unrestricted $'000	Total $'000
At 1 January	**51,603**	**114,911**	**166,514**	14,843	156,591	171,434
Operating cash flows	—	**147,970**	**147,970**	—	81,770	81,770
Change in Lancaster EPS decommissioning security arrangements	**15,530**	**(15,530)**	—	22,811	(22,811)	—
Capital expenditure and other investing cash flows	—	**(15,095)**	**(15,095)**	—	(60,793)	(60,793)
Financing cash flows	—	**(183,562)**	**(183,562)**	—	(28,368)	(28,368)
Movement in FPSO early termination reserve	**(18,670)**	**18,670**	—	14,807	(14,807)	—
Net release of other restricted funds	**(2,244)**	**2,244**	—	(892)	892	—
Foreign exchange rate changes	**(502)**	**(750)**	**(1,252)**	34	2,437	2,471
At 31 December	**45,717**	**68,858**	**114,575**	51,603	114,911	166,514

The presentation of certain comparative lines has been restated – see note 1.3.

Included within restricted cash and cash equivalents is $7.9 million (2020: $26.5 million) set aside in relation to the Aoka Mizu FPSO bareboat charter. Under the terms of the contract, the Group is required to ring-fence amounts to ensure it could meet its liability to pay an early termination fee to the lessor if the contract was terminated by the Group earlier than the expiry of an option period. Under the current lease, this amount will be released into unrestricted cash on a straight-line basis and be fully released at the expiry of the current lease term. Following the agreement in March 2022 to extend the lease (see note 7.4.2), a secured deposit account of up to $18.7 million will be established and classified as restricted cash.

The $37.8 million restricted liquid investment balance comprises decommissioning security in place for the Lancaster EPS. As part of the original Lancaster Field Development Plan approval, the Group was required to provide security of £16.8 million for its decommissioning liability on the Lancaster field, being the estimated post-tax amount to meet future decommissioning obligations. This security was placed in a decommissioning bond and subsequently released to unrestricted cash during 2019 as the bond conditions were satisfied. Following the downwards revision of Reserves and Contingent Resources in September 2020 and the ongoing uncertainty with regard to oil prices, the bond provider requested that the Company provide cash collateral for 100% of the bond's value. As the Group would derive no benefit from the bond while still paying fees to the bond provider, the decommissioning bond was terminated by mutual agreement and the required security amount was placed back into trust (classified within restricted liquid investments). In June 2021, the Group agreed with the Regulator to place an additional £11.2 million ($15.5 million) into trust, in order to provide security for its decommissioning liability on the Lancaster field on a pre-tax basis.

During 2021, $2.2 million of restricted cash relating to decommissioning security for the suspended Lancaster 205/21a-4z well was released back to the Group following completion of its plug and abandonment.

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Section 4. Cash, working capital and financial instruments *continued*

4.2 Trade and other receivables

	31 Dec 2021 $'000	31 Dec 2020 $'000
Amounts due from joint operation partner	**813**	12,024
Trade receivables	**423**	393
Prepayments	**1,058**	1,644
Other receivables	**297**	463
	2,591	14,524

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

4.3 Trade and other payables

	31 Dec 2021 $'000	31 Dec 2020 $'000
Trade payables	**2,915**	2,748
Other payables	**351**	646
Accruals	**15,577**	12,962
	18,843	16,356

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

Trade and other payables and accruals include the Group's share of joint operation payables, including amounts that the Group settles on behalf of joint operation partners. Accruals include expenditure relating to joint operations incurred by the Group as operator which have yet to be billed to joint operation partners.

4.4 Financial risk management

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

The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes. Other than the financial instruments referred to below, the Group's significant financial instruments are cash and cash equivalents (note 4.1), financial trade and other payables (note 4.3), financial trade and other receivables (note 4.2) and its Convertible Bond debt (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 $77.4 million and the embedded derivative with a fair value of $0.03 million. As at 31 December 2021, the fair value of the entire instrument based on the exchange traded value (categorised as Level 1 of the fair value hierarchy) was $75.5 million (31 December 2020: $103.5 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 or prior year. The Group has not designated any financial instruments as hedging instruments or hedged items.

Section 4. Cash, working capital and financial instruments *continued*

4.4 Financial risk management *continued*

4.4.1 Market risk *continued*

Foreign currency risk continued

The Group's cash and cash equivalents and liquid investments are mainly held in US Dollars and Pounds Sterling. At 31 December 2021, 40% of the Group's cash and cash equivalents and liquid investments were held in US Dollars (2020: 83%).

A 10% increase in the strength of Sterling against the US Dollar would cause an estimated increase of $5.3 million (2020: $1.8 million increase) on the profit after tax of the Group for the year ended 31 December 2021, with a 10% weakening causing an equal and opposite decrease. The impact on equity is the same as the impact on profit after tax. The exposure to other foreign currency exchange movements is not material. This sensitivity analysis includes the impact of retranslating foreign currency denominated monetary items at the balance sheet date, and assumes all other variables remain unchanged. Whilst the effect of any movement in exchange rates upon revaluing foreign currency denominated monetary items is charged or credited to the Income Statement, the economic effect of holding Pounds Sterling against actual or expected commitments in Pounds Sterling is an economic hedge against exchange rate movements.

Interest rate risk

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

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

For the year ended 31 December 2021, a 1% increase in interest rates would have increased the Group's profit after tax by approximately $0.9 million, and a 0.5% decrease would have reduced the Group's profit after tax by approximately $0.5 million, assuming that the amount of cash and cash equivalents at the balance sheet date had been in place for the whole year. The impact on equity would be the same as the impact on profit after tax.

Other price risk – commodity price risk

Commodity risk primarily arises from the sale of crude oil from the Lancaster EPS, as the price realised from the sale of crude oil is determined primarily by reference to quoted market prices in the month of lifting. Crude oil price risk is partially mitigated by a proportion of cost of sales (variable lease payments) being linked to the price of crude oil sold.

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

In June 2020, the Group hedged a portion of its forecast production for the second half of 2020. A total of 1.8 MMbbls (the equivalent of c.10,000 bopd) were hedged with an average strike price of $35/bbl. The options expired on 31 December 2020 out of the money, with the full cost of acquiring the put options of $3.4 million recognised within finance costs and cash flows from operations in the Income Statement and Cash Flow Statement respectively. There were no other commodity price derivative contracts in place or outstanding at the balance sheet date.

4.4.2 Liquidity risk

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

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

The Group manages its liquidity risk by maintaining adequate cash and cash equivalents where possible to cover its liabilities as and when they fall due. Methods of achieving this include utilising receivable factoring to accelerate receipt of cash due from crude oil sales (accelerating from standard payment terms to receipt within two to three working days after lifting), and cash calling amounts in advance from joint operation partners if required.

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.

Customers, banks and joint operation partners are subject to risk assessments using due diligence tools, credit reference agencies, and other publicly available information with regular monitoring to determine if the level of credit risk has changed. For deposits lodged at banks and financial institutions, only those parties with at least investment grade credit ratings assigned by an international credit rating agency are accepted. Similarly, where the Group enters into factoring arrangements to accelerate the receipt of cash from sales of crude oil, only banks with at least investment grade credit ratings are used.

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

Notes to the Group Financial Statements *continued*

for the year ended 31 December 2021

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.

Where debt instruments issued by the Group are repurchased for cancellation, the financial liability is derecognised at the point at which cash consideration is settled. Upon derecognition, the difference between the liability's carrying amount that has been cancelled and the consideration paid is recognised as a gain in the Income Statement, net of any direct transaction costs.

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.

In July 2017 the Group raised $230 million (gross) from the successful placement of the Convertible Bond. The Convertible Bond was issued at par and carries a coupon of 7.5% payable quarterly in arrears. The Convertible Bond is convertible into fully paid Ordinary Shares with the initial conversion price set at $0.52, representing a 25% premium above the placing price of the concurrent equity placement, being £0.32 (converted into US Dollars at a USD/GBP rate of 1.30). The number of potential Ordinary Shares that could be issued if all the Convertible Bonds were converted is 442,307,692 (assuming conversion at the initial conversion price of $0.52). The impact of these potential Ordinary Shares on diluted earnings per share is shown in note 3.1. Unless previously converted, redeemed or purchased and cancelled, the Convertible Bond will be redeemed at par on 24 July 2022. The Convertible Bond is subject to a covenant which imposes a restriction on the incurrence of certain indebtedness. This restriction shall not apply in respect of:

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

Section 5. Capital and debt *continued*

5.1 Convertible Bond *continued*

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

The amounts recognised in the Financial Statements related to the Convertible Bond (which, together with leases as disclosed in note 5.2, are the Group's liabilities arising from financing activities) are as follows:

	Debt component $'000	Derivative component $'000	Total $'000
Carrying value at 1 January 2020	206,604	36,316	242,920
Cash interest paid	(17,250)	—	(17,250)
Fair value gains	—	(35,431)	(35,431)
Interest charged	26,680	—	26,680
Carrying value at 31 December 2020	216,034	885	216,919
Cash interest paid	**(17,372)**	—	**(17,372)**
Cash consideration for repurchase of Convertible Bond principal	**(130,346)**	—	**(130,346)**
Gain on repurchase	**(15,753)**	**(2,759)**	**(18,512)**
Fair value loss	—	**1,901**	**1,901**
Interest charged	**24,810**	—	**24,810**
Carrying value at 31 December 2021	**77,373**	**27**	**77,400**
Fair value at 31 December 2020	102,615	885	103,500
Fair value at 31 December 2021	**75,449**	**27**	**75,476**

5.1.1 Repurchase of Convertible Bonds

During the year, the Group repurchased $151.5 million of nominal Convertible Bond debt for cash consideration of $131.9 million, including accrued interest of $1.6 million. An initial tender offer in September resulted in $78.0 million of Convertible Bonds being repurchased at a cost of $61.7 million including accrued interest of $0.8 million. The average price achieved in this tender was 78%. During December 2021, the Company undertook further buybacks, in various tranches. These transactions resulted in $73.5 million of nominal bonds repurchased at a cost of $70.3 million, including $0.8 million accrued interest. The average price achieved of these tranches was 95%. As at 31 December 2021, the nominal value of Convertible Bonds remaining in issue was $78.5 million.

The net gain on the repurchase of the Convertible Bonds is reconciled as follows:

	$'000
Carrying value of Convertible Bond debt portion derecognised	**146,099**
Carrying value of Convertible Bond derivative portion derecognised	**2,759**
Cash consideration paid	**(130,346)**
Gross gain on repurchase	**18,512**
Transaction costs	**(1,311)**
Net gain on repurchase of Convertible Bonds	**17,201**

Section 5. Capital and debt *continued*

5.1 Convertible Bond *continued*

5.1.2 Embedded derivative valuation

The embedded derivative component of the Convertible Bond is categorised within Level 3 of the fair value hierarchy, as the derivatives themselves are not traded on an active market and their fair values are determined using a valuation technique that uses one key input that is not based on observable market data, being share price volatility.

The key inputs used are share price volatility (calculated as the volatility of one Hurricane Ordinary Share over a period equivalent to the remaining expected term to redemption) and the price of one Ordinary Share at 31 December 2021. In determining the fair value of the embedded derivative, the likelihood of the early redemption option being exercised and the likelihood of a change of control of the Group within the life of the Convertible Bond were considered. The likelihood of each was considered to be nil for the purposes of the valuation.

The fair value calculation at 31 December 2021 used a share price volatility assumption of 117.6% (2020: 118.2%) and the price of one Hurricane Energy plc Ordinary Share as at the balance sheet date of £0.038 (2020: £0.025). Given the remaining time to maturity, it is not considered that there is a significant risk of changes to these assumptions resulting in a material adjustment to the carrying amounts of the embedded derivative within the next financial year.

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. Following previous impairments and reassessment of the lease term, the Aoka Mizu FPSO right-of-use asset is nil and therefore is not being depreciated. Other right-of-use assets are depreciated over the lease term (or useful life, if shorter). Right-of-use assets are subject to an impairment test if events and circumstances indicate that the carrying value may exceed the recoverable amount.

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

Right-of-use assets are presented within property, plant and equipment. Lease liabilities are presented as separate line items on the face of the Balance Sheet. In the Cash Flow Statement, lease repayments (of both the principal and interest portions) are presented within cash used in financing activities, except for payments for leases of short-term and low-value assets and variable lease payments, which are presented within cash flows from operating activities or cash used in investing activities in accordance with the relevant Group accounting policy.

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

The Group does not have any activities as a lessor.

Section 5. Capital and debt *continued*

5.2 Leases *continued*

Lease liabilities

The amounts recognised in the Financial Statements relating to lease liabilities (which are liabilities arising from financing activities) are as follows:

	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
At 1 January	**97,321**	99,186
Remeasurement of lease liability	**(67,337)**	—
Cash payments of principal and interest	**(18,596)**	(9,658)
Interest charged	**4,412**	7,702
Foreign exchange movements	**(10)**	91
At 31 December	**15,790**	97,321
Of which:		
Current	**13,880**	18,479
Non-current	**1,910**	78,842
	15,790	97,321

The Group's main lease is the bareboat charter of the Aoka Mizu FPSO for which 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 and recognised as an expense in the period in which the related sales are made – see note 2.2). Should the Group give notice to terminate the lease (other than by not exercising extension option periods), significant early termination penalties would apply. The Group is required to set aside amounts to cover a portion of these early termination penalties, the balance of which changes over time in line with the contract, and such balances are classified as restricted cash (see note 4.1).

The lease term for the Aoka Mizu FPSO was previously assessed to have been six years from inception of the lease (to June 2025), taking into account extension options and termination arrangements. On 4 June 2021, the Group announced it had resolved not to exercise its option to extend the bareboat charter of the Aoka Mizu FPSO for a period of three years from June 2022 to June 2025. As the Group elected not to exercise an option previously included in its determination of the lease term, the lease term was subsequently reassessed, for IFRS 16 accounting purposes, to be expiring at the end of the contractual period (being June 2022), and therefore the liability remeasured by discounting the revised lease payments. This resulted in a decrease to the lease liability of $67.3 million, decrease to the associated right-of-use asset cost of $18.2 million and a gain of $49.1 million recognised in profit and loss.

The assumption that the bareboat charter can be extended beyond June 2022 is a critical judgement within the assessment of impairment of oil and gas assets (note 2.3.1). Subsequent to the balance sheet date, an extension to the bareboat charter was agreed (see note 7.4.2) to cover an indefinite period with both lessor and lessee having the ability to terminate the lease with six months' notice, with the current fixed and variable lease payment structure remaining in place.

Other charges to the Income Statement in respect of leases during the year included the following:

	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
Depreciation charge of right-of-use assets:		
Oil and gas assets (included within cost of sales)	**3,404**	11,828
Other fixed assets (included within general and administrative expenses)	**364**	340
	3,768	12,168
Provision for impairment of right-of-use assets:		
Oil and gas assets (included within cost of sales)	**—**	60,166
Other fixed assets (included within general and administrative expenses)	**719**	—
	719	60,166
Lease interest (included within finance costs)	**4,412**	7,702
Variable lease payments (included within cost of sales)	**20,454**	16,392

Following a reduction to staff numbers during the year and a move towards hybrid working arrangements, the Group recognised provision for impairment of $0.7 million in respect of one of its office leases.

The total gross cash outflow for leases for the year was $39.1 million.

In 2020, the Group's share of the expense relating to the short-term lease of the Paul B Loyd Jr rig was recognised within write-off of exploration and evaluation expenditure (see note 2.4.1). The expense relating to low-value leases and other short-term leases recognised in the Income Statement was not material.

Notes to the Group Financial Statements *continued*

for the year ended 31 December 2021

Section 5. Capital and debt *continued*

5.3 Maturity analysis of financial liabilities

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

	Less than 6 months $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Total $'000
Trade payables and accruals	**18,843**	—	—	—	—	**18,843**
Convertible Bond interest	**1,472**	**1,472**	—	—	—	**2,944**
Convertible Bond principal	—	**78,515**	—	—	—	**78,515**
Lease liabilities	**13,900**	**441**	**499**	**1,038**	**865**	**16,743**
At 31 December 2021	**34,215**	**80,428**	**499**	**1,038**	**865**	**117,045**

	Less than 6 months $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Total $'000
Trade payables and accruals	16,356	—	—	—	—	16,356
Convertible Bond interest	8,625	8,625	12,938	—	—	30,188
Convertible Bond principal	—	—	230,000	—	—	230,000
Lease liabilities	4,801	13,799	27,877	69,976	1,295	117,748
At 31 December 2020	29,782	22,424	270,815	69,976	1,295	394,292

The maturity analysis for lease liabilities includes only those fixed lease repayments contracted to at the balance sheet date.

5.4 Share capital

	Ordinary Shares	$'000
At 31 December 2019	1,990,228,053	2,883
Shares issued under employee share schemes	1,643,503	2
At 31 December 2020	1,991,871,556	2,885
Shares issued under employee share schemes	—	—
At 31 December 2021	**1,991,871,556**	**2,885**

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

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.

The SIP did not acquire any Ordinary Shares in 2021. In 2020 the SIP acquired 1,643,503 new Ordinary Shares in the Company of £0.001 nominal value at a price of 25.63p/share, all of which were allocated to participants. At 31 December 2021 there were 2,610,286 Ordinary Shares held in the SIP Trust (2020: 3,196,522), with 1,872,498 allocated to participants (2020: 2,921,347).

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.

Section 5. Capital and debt *continued*

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 2021 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 2021 equity attributable to equity holders of the parent was $86.9 million (2020: $66.7 million), whilst unrestricted cash and cash equivalents and liquid investments amounted to $68.9 million (2020: $114.9 million).

Section 6. Taxation

Accounting policy

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

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

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

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

Critical judgement and key source of estimation uncertainty – recognition of, and estimation of future taxable profits against which to recognise, deferred tax assets

Judgement has been applied in determining whether deferred tax assets are recognised on the balance sheet (over and above the extent to which they offset deferred tax liabilities). Estimates of future taxable profits were made using the Group's corporate cash flow model. The cash flows included in the corporate model are predominantly derived from future revenue from the Lancaster EPS arising from the currently producing wells, and future spend on currently unsanctioned capital projects. Estimates of future taxable profits were made using the Group's corporate cash flow model, with key judgements and assumptions consistent with those used in testing the Lancaster assets for impairment (note 2.3.1). The results of the review concluded that there would not be sufficient forecast taxable profits at this time to recognise a deferred tax asset in excess of deferred tax liabilities.

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.

Notes to the Group Financial Statements *continued*

for the year ended 31 December 2021

Section 6. Taxation *continued*

6.1 Tax charge for the year

	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
UK corporation tax		
Current tax – current and prior years	—	—
Total current tax	—	—
Deferred tax – current year	**21**	(44,501)
Deferred tax – prior year	**5**	(9,732)
Total deferred tax	**26**	(54,233)
Tax credit/(charge) per Income Statement	**26**	(54,233)
Profit/(loss) on ordinary activities before tax	**18,210**	(571,092)
Profit/(loss) on ordinary activities multiplied by standard combined rate of corporation tax in the UK applicable to oil and gas companies of 40% (2020: 40%)	**(7,284)**	228,437
Effects of:		
Expenses not deductible for tax purposes	**(1,934)**	(4,656)
Income not chargeable for tax purposes	**7,692**	15,138
Items taxed at rates other than the standard rate of 40%	**(2,064)**	(24)
Ring-fence expenditure supplement	**20,560**	22,769
Prior period deferred tax	**5**	(9,732)
Losses not recognised	**(6,687)**	(306,165)
Impact of tax rate change	**25**	—
Chargeable gain	**(10,287)**	—
Total tax credit/(charge) for the year	**26**	(54,233)

The chargeable gain in the period arose as a consequence of the repurchase and cancellation of some of the Group's Convertible Bonds (note 5.1.1) due to crystallisation of the underlying embedded derivative. No cash tax has arisen as a consequence of this chargeable gain.

6.2 Deferred tax

	31 Dec 2021 $'000	31 Dec 2020 $'000
Accelerated capital allowances	**83**	(2,645)
Other timing differences	**21**	16
Tax losses carried forward	—	2,707
Deferred tax asset	**104**	78

A potential deferred tax asset of $291.9 million in relation to tax losses and allowances available to the Group's main trading entity, Hurricane GLA Limited, has not been recognised, as it has been concluded that it is not appropriate to recognise any of this potential deferred tax asset based on an assessment of future taxable profits. There is an additional potential deferred tax asset of $71.9 million, representing pre-trading expenditure not recognised, and includes potential claims for ring-fence expenditure supplement claims. The additional deferred tax asset is calculated primarily at a rate of 40% (31 December 2020: 40%) subject to any required adjustments for supplementary charge tax.

It is estimated that an increase in the long-term oil price curve used in the taxable profits forecast by $10 per barrel would give rise to a deferred tax asset relating to trading activities of $5.2 million.

Section 6. Taxation *continued*

6.3 Factors which may affect future tax charges

The Group has ring-fenced trading losses of $381.9 million at 31 December 2021 (31 December 2020: $468.7 million) and supplementary charge losses and investment allowances of $693.0 million at 31 December 2021 (31 December 2020: $707.8 million), which have no expiry date and would be available for offset against future ring-fenced trading profits. The Group also has unclaimed capital allowances of $328.4 million available to be used against future taxable profits at 31 December 2021 ($383.5 million). In addition, the Group has pre-trading expenditure of $124.9 million which is carried forward at 31 December 2021 and tax relief may be available were trading activities to commence in the pre-trading entities. This pre-trading expenditure could also be uplifted by RFES to $183.5 million.

The value of tax attributes as at 31 December 2021 at the currently prevailing tax rates can be summarised as follows:

	Tax attributes $'000	Tax rate %	Tax value $'000
Ring-fence losses	381,866	30%	114,560
Supplementary charge losses	261,900	10%	26,190
Investment allowance	431,145	10%	43,114
Unclaimed capital allowances	328,435	40%	131,374
Pre-trading expenditure (including RFES)	183,541	40%	73,416
Future decommissioning costs	49,346	40%	19,738
Non-ring-fence losses	5,128	25%	1,282
Value of tax attributes at prevailing tax rates			409,674

Access to these losses and allowances may be severely restricted at the point at which trading activities end (which would include a cessation of production from the Lancaster EPS). Furthermore, in the event of any corporate transaction, access to the brought forward losses may be restricted if trade was deemed negligible at the point of a change in control or there was deemed to be a major change in the nature or conduct of the Group or entity's trading activities.

Oil and gas activity in the UK is subject to corporation tax at a combined rate of 40%, made up of 30% ring-fence corporation tax and 10% supplementary tax charge. The amount of tax loss that is associated with supplementary charge tax is generally lower than ring-fence losses as while interest is deductible for ring-fence corporation tax purposes, it is not deductible for supplementary charge tax. Ring-fence losses are relievable at 30% and supplementary charge tax losses are relievable at 10%. Once adjusted to take into account interest not deductible for supplementary charge the effective rate of relief is 36.9%. Investment allowance is only allowable against supplementary charge tax and attracts relief at 10%, and is available after tax losses have been taken into account.

During the year, the Group made claims for Small and Medium sized Enterprises (SME) R&D Relief ('SME R&D') (in respect of 2019) and Research and Development Expenditure Credit (RDEC) (in respect of 2020). Subsequent to the balance sheet date, the Group received a cash repayment of $3.2 million in respect of the SME R&D claim and $1.4 million in respect of the RDEC. The impact of these claims on the 2022 tax position will be a tax credit of $4.6 million in exchange for a surrender of $21.0 million of ring-fence trading losses.

Section 7. Other disclosures

7.1 Auditor's remuneration

The following is an analysis of the gross fees payable to the Group's auditor, PKF Littlejohn LLP (2020: Deloitte LLP):

	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
Audit services		
Fees payable to the Company's auditors for:		
The audit of the Company's annual accounts	**247**	194
The audit of the Company's subsidiaries	**25**	36
	272	230
Non-audit services		
Other services pursuant to legislation – interim review	**25**	98
Fees payable to previous auditor for audit transition services	**9**	—
	34	98
Total	**306**	328

Fees payable for the audit of the Company's annual accounts for the year ended 31 December 2021 include $104,000 of additional fees paid to Deloitte LLP in respect of the 2020 audit.

Notes to the Group Financial Statements *continued*

for the year ended 31 December 2021

Section 7. Other disclosures *continued*

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 2021 $'000	31 Dec 2020 $'000
Other fixed assets:		
Leased	**1,024**	2,106
Owned	**165**	295
Prepayments and rent deposits	**175**	204
Emission allowances	**9**	—
	1,373	2,605

Other fixed assets held under leases (right-of-use assets) comprise office property leases. During the current year, provision for impairment of $0.7 million was made against one such lease (see note 5.2). There were no additions or disposals to this class of right-of-use asset during the current or prior year.

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

At 31 December 2021, the Group held 43,903 EU emission allowances, carried at cost (being the de minimis conversion cost of international credits granted, plus allowances granted free of charge in respect of emission years 2019 and 2020 in excess of what was required for those periods). These allowances cannot be surrendered to meet the Group's CO_2 emissions liability for 2021 and thereafter (as the Group now operates under the UK emissions trading scheme), although the Group is able to sell or trade the allowances on the open market. The fair value of the allowances held at 31 December 2021 was $4.0 million.

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 2021 $'000	Year ended 31 Dec 2020 $'000
Salaries, fees, bonuses and benefits in kind	**1,960**	1,828
Share-based payment credit	**463**	(308)
	2,423	1,520

All transactions with the directors are detailed in the Remuneration Report.

As of 31 December 2021, Crystal Amber Fund Limited ('Crystal Amber') held 28.82% of the Company's Ordinary Shares, and Crystal Amber have classified its investment in Hurricane as an associate. As such, Crystal Amber are now considered to be a related party of the Group.

In 2020, amounts paid to related parties included $33,000 paid to Kerogen Capital, which was a related party of the Company due to the provision of key management personnel services to the Company. Kerogen ceased providing key management personnel services to the Company during that year.

There is no ultimate controlling party of the Group.

7.4 Subsequent events

7.4.1 Decommissioning security

In February 2022, following a request from the Regulator, the Group placed an additional £5.7 million ($7.7 million) into Trust as additional decommissioning security in respect of the Lancaster EPS. These funds will be classified as restricted liquid investments.

7.4.2 Aoka Mizu charter extension

On 25 March 2022, the Group signed a contract with Bluewater (Aoka Mizu) B.V. ('Bluewater'), the owner of the Aoka Mizu FPSO, for an extension to the Bareboat Charter. Under the terms of the extension, the existing fixed and variable lease payments remain at their current rate and either party can give six months' notice of termination. The Group will also place up to $18.7 million into a secured deposit account (classified as restricted cash) for the benefit of Bluewater to cover the costs associated with the day rate for the six-month notice period and decommissioning in respect of the vessel. The impact of these changes will be reflected in the Group's 2022 Financial Statements.

7.4.3 P1368(S) licence relinquishment

On 27 April 2022, the Group and its joint operation partner agreed to voluntarily surrender licence P1368(S), comprising the Lincoln asset. An impairment charge of $54.3 million has been recognised against the full carrying amount of exploration and evaluation expenditure attributable to the licence (see note 2.4.1).

Company Balance Sheet

as at 31 December 2021
Registered company number: 05245689

	Notes	31 Dec 2021 $'000	31 Dec 2020 $'000
Non-current assets			
Property, plant and equipment	B	**1,065**	2,210
Investments in subsidiaries	D	**63,763**	130,060
Amounts due from subsidiary undertakings	E	**103,043**	104,529
Deferred tax assets		**104**	78
Cash and cash equivalents		**175**	202
		168,150	237,079
Current assets			
Inventory	G	**12,051**	7,258
Trade and other receivables	E	**1,565**	12,803
Cash and cash equivalents	H	**31,580**	81,605
		45,196	101,666
Total assets		**213,346**	338,745
Current liabilities			
Trade and other payables	F	**(5,215)**	(3,956)
Lease liabilities	C	**(397)**	(381)
Convertible Bond liability	I	**(77,373)**	—
Convertible Bond embedded derivative	I	**(27)**	—
		(83,012)	(4,337)
Non-current liabilities			
Lease liabilities	C	**(1,910)**	(2,322)
Convertible Bond liability	I	—	(216,034)
Convertible Bond embedded derivative	I	—	(885)
		(1,910)	(219,241)
Total liabilities		**(84,922)**	(223,578)
Net assets		**128,424**	115,167
Equity			
Share capital		**2,885**	2,885
Share premium		**822,458**	822,458
Share option reserve		**23,321**	21,443
Own shares reserve		**(845)**	(923)
Foreign exchange reserve		**(79,591)**	(79,591)
Accumulated deficit		**(639,804)**	(651,105)
Total equity		**128,424**	115,167

The profit of the Company for 2021 was $11.3 million (2020: loss of $442.4 million), being the total comprehensive profit for the year (2020: total comprehensive loss).

The Financial Statements of Hurricane Energy plc were approved by the Board and authorised for issue on 27 April 2022. They were signed on its behalf by:

Antony Maris
Chief Executive Officer

Company Statement of Changes in Equity

for the year ended 31 December 2021

	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 2020	2,883	821,910	20,828	(684)	(79,591)	(208,718)	556,628
Profit for the period	—	—	—	—	—	(442,387)	(442,387)
New shares issued under employee share schemes	2	548	—	(445)	—	—	105
Share-based payments	—	—	615	206	—	—	821
At 31 December 2020	2,885	822,458	21,443	(923)	(79,591)	(651,105)	115,167
Profit for the period	—	—	—	—	—	**11,301**	**11,301**
Share-based payments	—	—	**1,878**	**78**	—	—	**1,956**
At 31 December 2021	**2,885**	**822,458**	**23,321**	**(845)**	**(79,591)**	**(639,804)**	**128,424**

Notes to the Company Financial Statements

for the year ended 31 December 2021

A. General information

Hurricane Energy plc is a public company, limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006. The Company is the ultimate parent of the Hurricane Energy plc Group whose principal activity is the exploration, development and production of oil and gas reserves on the UK Continental Shelf.

Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100, and as such these Financial Statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The Financial Statements have been prepared under the historical cost convention (except for derivative financial instruments which have been measured at fair value).

The Company has taken advantage of the exemption provided by Section 408 of the Companies Act 2006 not to publish its individual income statement and related notes, and has also taken advantage of the following disclosure exemptions under FRS 101:

- paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined), as equivalent disclosures are included within the consolidated Financial Statements;
- all requirements of IFRS 7 Financial Instruments: Disclosures, where equivalent disclosures are included in the consolidated Financial Statements;
- paragraphs 91 to 99 of IFRS 13 Fair Value Measurement (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- paragraph 38 of IAS 1 Presentation of Financial Statements – the requirement to disclose comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1 (a reconciliation of the number of shares outstanding at the beginning and end of the period);
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment (reconciliations between the carrying amount at the beginning and end of the period); and
  - paragraph 118(e) of IAS 38 Intangible Assets (reconciliations between the carrying amount at the beginning and end of the period);
- The following paragraphs of IAS 1 Presentation of Financial Statements:
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 111 (statement of cash flows information); and
  - 134-136 (capital management disclosures)
- IAS 7 Statement of Cash Flows;
- paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (the requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective); and
- paragraph 17 of IAS 24 Related Party Disclosures (key management compensation), and the other requirements of that standard to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Accounting policies

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

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

Critical accounting judgements and key sources of estimation uncertainty

The critical accounting judgements and key sources of estimation uncertainty used in applying the Company's accounting policies are the recoverability of investments and amounts due from subsidiaries (note D).

Notes to the Company Financial Statements *continued*

for the year ended 31 December 2021

B. Property, plant and equipment

	Leased $'000	Owned $'000	Total $'000
Cost			
At 1 January 2021	2,784	1,378	4,162
Additions	—	2	2
At 31 December 2021	2,784	1,380	4,164
Depreciation			
At 1 January 2021	(677)	(1,275)	(1,952)
Charge for the year	(364)	(64)	(428)
Provision for impairment	(719)	—	(719)
At 31 December 2021	(1,760)	(1,339)	(3,099)
Carrying amount at 31 December 2021	1,024	41	1,065

Owned property, plant and equipment comprises leasehold improvements, fixtures, office equipment and computer hardware. Property, plant and equipment held under leases (right-of-use assets) comprise office property leases.

Following a reduction to staff numbers during the year and a move towards hybrid working arrangements, the Company recognised provision for impairment of $0.7 million in respect of one its office leases.

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

C. Leases

	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
At 1 January	2,703	2,988
Cash payments of principal and interest	(508)	(508)
Interest charged	122	132
Foreign exchange movements	(10)	91
At 31 December	2,307	2,703
Of which:		
Current	397	381
Non-current	1,910	2,322
	2,307	2,703

The total cash outflow for leases for the year was $0.5 million.

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

D. Investments in subsidiaries

Critical judgements and key source of estimation uncertainty – estimated future cash flows used for impairment testing

The Company assesses its investments in subsidiaries in each reporting period to determine whether any indicators of impairment exist. Where indicators exist, a formal impairment test is undertaken to estimate the recoverable amount (which is the higher of fair value less costs of disposal (FVLCD) and value in use (VIU)). The Company uses VIU as the basis of its assessments, using assumptions, judgements and estimates made over expected future cashflows generated by those subsidiaries consistent with those used in the Group's assessment of impairment for oil and gas assets and intangible exploration and evaluation assets (see notes 2.3.1 and 2.4.1 respectively to the Group Financial Statements).

	Year ended 31 Dec 2021 $'000
Cost	
At 1 January	**161,769**
Additions	**366,000**
At 31 December	**527,769**
Provisions for impairment	
At 1 January	**(31,709)**
Provision for impairment made in year	**(432,297)**
At 31 December	**(464,006)**
Carrying amount at 1 January	**130,060**
Carrying amount at 31 December	**63,763**

During the year, the Company released $366.0 million of amounts due from its indirect 100% subsidiary, Hurricane GLA Limited, in consideration for Hurricane GLA Limited issuing $366.0 million of share capital and share premium to the Company. The Company directed Hurricane GLA Limited to issue the share capital to the Company's direct 100% subsidiary, Hurricane Holdings Limited, in consideration for Hurricane Holdings Limited agreeing to issue the Company $366.0 million of share capital and share premium.

The Company subsequently impaired $432.3 million of its investment in Hurricane Holdings Limited. The impairment was undertaken on a value in use basis, with the Company's best estimate of value in use considered to be materially equivalent to the investee's net assets at the balance sheet date.

Details of the Company's investments in subsidiaries held as at 31 December 2021 are presented below, and, unless otherwise noted:

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

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

1. Held indirectly by the Company.

Notes to the Company Financial Statements continued *continued*

for the year ended 31 December 2021

E. Trade and other receivables

	31 Dec 2021 $'000	31 Dec 2020 $'000
Receivables due from joint operation partner	**813**	12,024
Prepayments	**441**	536
Other receivables	**311**	243
	1,565	12,803

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

Critical judgements and key source of estimation uncertainty – recoverability of amounts due from subsidiary undertakings

The Company assesses recoverability of amounts due from subsidiaries in each reporting period using assumptions, judgements and estimates made over expected future cashflows generated by those subsidiaries consistent with those used in the Group's assessment of impairment for oil and gas assets and intangible exploration and evaluation assets (see notes 2.3.1 and 2.4.1 respectively to the Group Financial Statements).

	31 Dec 2021 $'000	31 Dec 2020 $'000
Amounts due from subsidiary undertakings	**103,043**	104,529

During the year, the Company released $151.5 million of amounts due from its 100% subsidiary, Hurricane GLA Limited, as consideration for Hurricane GLA Limited purchasing $151.5 million principal of the Company's Convertible Bonds for cancellation (see note I). $366.0 million of the remaining balance due from Hurricane GLA Limited was subsequently released (see note D).

F. Trade and other payables

	31 Dec 2021 $'000	31 Dec 2020 $'000
Trade payables	**2.914**	2,551
Other payables	**351**	646
Accruals	**1,950**	759
	5,215	3,956

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

Trade and other payables and accruals include the Group's share of joint operation payables, including amounts that the Group settles on behalf of joint operation partners. Accruals include expenditure relating to joint operations incurred by the Group as operator which have yet to be billed to joint operation partners.

G. Inventory

	31 Dec 2021 $'000	31 Dec 2020 $'000
Spares and supplies	**12,051**	7,258
	12,051	7,258

H. Cash, cash equivalents and liquid investments

	31 Dec 2021			31 Dec 2020		
	Restricted $'000	Unrestricted $'000	Total $'000	Restricted $'000	Unrestricted $'000	Total $'000
Current cash and cash equivalents	—	**31,580**	**31,580**	—	81,605	81,605
Non-current cash and equivalents	—	—	—	—	—	—
Cash and cash equivalents	—	**31,580**	**31,580**	—	81,605	81,605
Non-current liquid investments	—	—	—	—	—	—
Total cash and cash equivalents and liquid investments	—	**31,580**	**31,580**	—	81,605	81,605

I. Convertible Bond

	Debt component $'000	Derivative component $'000	Total $'000
Carrying value at 1 January 2020	206,604	36,316	242,920
Cash interest paid	(17,250)	—	(17,250)
Fair value gain	—	(35,431)	(35,431)
Interest charged	26,680	—	26,680
Carrying value at 31 December 2020	216,034	885	216,919
Cash interest paid	**(17,372)**	—	**(17,372)**
Consideration given to subsidiary for repurchase of Convertible Bond principal	**(151,485)**	—	**(151,485)**
Loss/(gain) on cancellation	**5,386**	**(2,759)**	**2,627**
Fair value loss	—	**1,901**	**1,901**
Interest charged	**24,810**	—	**24,810**
Carrying value at 31 December 2021	**77,373**	**27**	**77,400**
Fair value at 31 December 2020	102,615	885	103,500
Fair value at 31 December 2021	**75,449**	**27**	**75,476**

During the year, the Company released $151.5 million of amounts due from its 100% subsidiary, Hurricane GLA Limited, as consideration for Hurricane GLA Limited purchasing $151.5 million principal of the Company's Convertible Bonds for cancellation. Further information on the Company's Convertible Bond is disclosed in note 5.1 to the Group Financial Statements.

J. Other disclosures

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

- Note 2.6 – Joint operations
- Note 3.4 – Share-based payment expense
- Note 5.4 – Share capital
- Note 5.5 – Share option reserve
- Note 5.6 – Own shares reserve

Advisers

Nominated adviser and broker

Stifel Nicolaus Europe Limited
150 Cheapside, London EC2V 6ET
www.stifel.com

Joint broker

Investec
30 Gresham Street, London EC2V 7QP
www.investec.com

Solicitors to Company

Dentons UKMEA LLP
One Fleet Place, London EC4M 7WS
www.dentons.com

Auditor

PKF Littlejohn LLP
15 Westferry Circus, Canary Wharf, London E14 4HD
www.pkf-l.com

Independent competent person

ERC Equipoise Limited
6th Floor Stephenson House, 2 Cherry Orchard Road, Croydon CR0 6BA

Registrar and receiving agent

Computershare Investor Services Plc
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ
www.computershare.co.uk

PR and communications advisers

Vigo Consulting
Sackville House, 40 Piccadilly, London W1J 0DR
www.vigoconsulting.com

Appendix A: Glossary

1C	Denotes low estimate of Contingent Resources
1P	Denotes low estimate of Reserves (i.e., Proved Reserves). Equal to P1
2018 Code	The Financial Reporting Council's UK Corporate Governance Code (2018)
2C	Denotes best estimate of Contingent Resources
2P	Denotes the best estimate of Reserves. The sum of Proved plus Probable Reserves
3C	Denotes high estimate of Contingent Resources
3P	Denotes high estimate of Reserves. The sum of Proved plus Probable plus Possible Reserves
4Z	The suspended 205/21a-4z well on the Lancaster field, plugged and abandoned during 2021
Ad Hoc Committee	A group comprising certain of Hurricane's Bondholders, with whom Hurricane announced, on 30 April 2021, it had entered into a lock-up agreement pursuant to the proposed financial restructuring
AIM	The AIM market of the London Stock Exchange
AGM	Annual General Meeting
Aoka Mizu	The Aoka Mizu FPSO, under lease to the Company from Bluewater
bbl	Barrel
Bluewater	Bluewater Energy Services and affiliates
Bondholder	A holder of one or more the Company's Convertible Bonds
Board	Board of Directors of the Company
bopd	Barrels of oil per day
BP	BP Oil International Limited
bubble point	The pressure at which gas begins to come out of solution from oil within the reservoir
carry	Payment of a partner's working interest share of costs
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash generating unit
CO_2e	Carbon dioxide equivalent
Company	Hurricane Energy plc and/or its subsidiaries
coned	The production of fluids as a result of drawdown pressures during production overcoming the natural buoyancy forces that segregate oil, water and gas
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable owing to one or more contingencies
Contingent Resources, Development Unclarified	A discovered accumulation where project activities are under evaluation and where justification as a commercial development is unknown based on available information
Convertible bond(s)	$230 million 7.5% Convertible bonds issued by the Company in July 2017, of which $78.5 million remain outstanding as at 31 December 2021
COO	Chief Operations Officer
COP 21	The 21st Conference of the Parties to the United Nations Framework Convention on Climate Change
Court	High Court of Justice of England and Wales
COVID-19	Coronavirus
CPR	Competent Persons Report
Crystal Amber	Crystal Amber Fund Limited
Developed Reserves	Reserves that are expected to be recovered from existing wells and facilities. Developed Reserves may be further sub-classified as producing or non-producing
DRR	Directors' Remuneration Report
D&O	Directors and Officers
E&E	Exploration and Evaluation
E&P	Exploration and Production/Exploration and Production company
EPS	Early Production System
ERCE	ERC Equipoise Limited
ESG	Environmental, Social and Governance
ESP	Electrical submersible pump
FDPA	Field Development Plan Addendum

Appendix A: Glossary *continued*

FPSO	Floating production storage and offloading vessel
FRC	Financial Reporting Council
FVLCD	Fair value less costs of disposal
FVTPL	Fair value through profit and loss
G&A	General and Administrative costs
GBP	British Pounds Sterling
GHG	Greenhouse Gas (i.e. Carbon Dioxide, Methane, Nitrous Oxide, Chlorofluorocarbon-12, Hydrofluorocarbon-23, Sulphur Hexafluoride, Nitrogen Trifluoride)
GLA	Greater Lancaster Area, comprising UKCS licences P1368 Central and P2308
GRI	Global Reporting Initiative
Group	Hurricane Energy plc, together with its subsidiaries
GWA	Greater Warwick Area, comprising the Lincoln and Warwick fields located on UKCS licences P1368 South and P2294
HSE	Health, Safety and Environmental
HSEM	Health, Safety and Environmental Management
HSEMS	Health, Safety and Environmental Management System
Hurricane	Hurricane Energy plc, together with its subsidiaries
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
Incoterms	The internationally recognised set of rules which define the responsibilities of buyers and sellers for the delivery of goods under sales contracts
IPIECA	International Petroleum Industry Environmental Conservation Association
IPO	Initial Public Offering
JV	Joint venture
KPI	Key Performance Indicator
LIBOR	London Interbank Offered Rate
LLIs	Long-Lead Items
LTIP	Long term incentive plan
M&A	Mergers and Acquisitions
Milestones	Those KPIs that relate to the VCP – long-term development goals linked to successful delivery of the EPS and monetisation of the Group's assets over a five-year period
Mbbl	Thousand barrels of oil
MMbbl	Million barrels of oil
NSTA	North Sea Transition Authority (formerly Oil and Gas Authority (OGA))
Obligation well	The licence requirement to commence drilling a well on the Lincoln subarea of licence P1368 by no later than 31 December 2020 (subsequently deferred to be no later than 30 June 2022)
Official List	The list of companies listed in the UK maintained by the Financial Conduct Authority (acting in its capacity as the UK Listing Authority)
OGA	Oil and Gas Authority (now known as the North Sea Transition Authority (NSTA))
OEUK	Offshore Energies UK; the oil & gas trade association for the United Kingdom (formerly known as OGUK)
OPRED	Offshore Petroleum Regulator for Environment and Decommissioning
Ordinary Shares	Ordinary shares in the Company of £0.001 each
OWC	Oil water contact
P&A	Plug and abandon
P6	The 205/21a-6 producer well on the Lancaster field
P7z	The 205/21a-7z well on the Lancaster field, currently shut-in
Performance Measures	Those KPIs that relate to annual bonuses – inter-year progress measures, ensuring continued progress towards delivery of the Company's strategy on an annual basis
PILON	Pay in Lieu of Notice
Premium Listing	Listing on the premium segment of a recognised stock exchange
PRMS	Petroleum Resources Management System
PSP	Performance Share Plan

psia	Pounds per square inch (absolute) unit of pressure
QCA	Quoted Companies Alliance
QCA Code	The QCA Corporate Governance Code
R&D	Research & Development
Regulator	The North Sea Transition Authority, the Department for Business Energy and Industrial Strategy, the Offshore Petroleum Regulator for Environment and Decommissioning and/or The Health and Safety Executive
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions
Restructuring Plan	Implementation of the proposed financial restructuring announced by Hurricane on 30 April 2021 with holders of its Convertible Bonds under Part 26A of the Companies Act 2006, but subsequently not sanctioned by the Court
RDEC	Research and Development Expenditure Credit
RFES	Ring fence expenditure supplement
SIP	Share Incentive Plan
SME R&D	Small and Medium sized Enterprises R&D Relief
SONIA	Sterling Overnight Index Average
Spirit Energy	Spirit Energy Limited and affiliates
TEB	The Effective Board LLP
Tier 1 contractors	Hurricane's major direct contractors
TSR	Total Shareholder Return
TVDSS	True Vertical Depth Sub Sea
UKCS	United Kingdom Continental Shelf
USD	United States Dollars
VCP	Value Creation Plan
VIU	Value in use
WOSPS	West of Shetland Pipeline System

Appendix B: Non-IFRS Measures

Accounting policy for non-IFRS measures

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

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

Underlying profit before tax

Underlying profit before tax is defined as profit before tax under IFRS less: fair value gains or losses on the Convertible Bond embedded derivative; fair value gains or losses on unhedged derivative financial instruments; impairment, impairment reversals and write-offs of intangible exploration and evaluation assets and other fixed assets; changes in decommissioning estimates on fully impaired assets; gains or losses on lease remeasurements; gains or losses on repurchase of debt instruments; and gains or losses on disposal of assets or subsidiaries.

Management believes that underlying profit before tax is a useful measure as it provides useful trends on the pre-tax performance of the Group's core business and asset by removing certain non-cash items and transactions within the Income Statement. These are the volatile non-cash impact of the Convertible Bond embedded derivative movement, gains or losses arising from lease remeasurements, write-offs and impairments of assets including movements on decommissioning provisions where assets are fully impaired, accounting gains arising from debt repurchases, and disposals of assets or subsidiaries where they do not reflect the Group's core business.

	Notes	**Year ended 31 Dec 2021 $'000**	Year ended 31 Dec 2020 $'000
Profit/(loss) before tax (IFRS measure)		**18,210**	(571,092)
Add back:			
Fair value loss/(gain) on Convertible Bond embedded derivative	5.1	**1,901**	(35,431)
Fair value loss on unhedged derivative financial instruments	3.2	—	3,420
Impairment and write-off of intangible exploration and evaluation assets	2.4	**54,280**	47,945
Change in decommissioning estimates on fully impaired assets	2.5	**1,973**	—
Impairment of oil and gas assets	2.3	—	519,152
Impairment of other fixed assets and other right-of-use assets	5.2	**719**	—
Gain on revision of lease term	5.2	**(49,125)**	—
Net gain on repurchase of Convertible Bonds	5.1	**(17,201)**	—
Underlying profit/(loss) before tax		**10,757**	(36,006)

Cash production costs

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

Depreciation and movements in crude oil inventory are deducted as they are non-cash accounting adjustments to cost of sales. Fixed lease payments payable for oil and gas assets are added back because, under IFRS 16, the charge relating to fixed lease payments is charged to the Income Statement within both depreciation of oil and gas assets and interest on lease liabilities. They are therefore included within cash production costs as they are considered by management to be operating costs in nature. Fixed lease payments payable for the purposes of this measure are calculated as the day rate charge multiplied by the number of days in the period. Cash production costs (excluding incentive tariff) deduct variable lease payments, as the latter is directly linked to the price of crude oil sold and thus largely outside of management's control. Cash production cost per barrel measures are defined as the relevant cash production cost measure divided by production volumes.

Management believes that cash production costs and cash production costs per barrel (both including and excluding incentive tariff) are useful measures as they remove non-cash elements from cost of sales, assist with cash flow forecasting and budgeting, and provide indicative breakeven amounts for the sale of crude oil.

	Note	Year ended 31 Dec 2021 $'000	Year ended 31 Dec 2020 $'000
Cost of sales (IFRS measure)	2.2	**173,125**	179,816
Less:			
Depreciation of oil and gas assets – owned	2.2	**(94,200)**	(84,756)
Depreciation of oil and gas assets – leased	2.3	**(3,405)**	(11,828)
Movements in crude oil inventory	2.2	**10,622**	(1,733)
Add:			
Fixed lease payments payable on oil and gas assets		**19,638**	9,150
Cash production costs		**105,780**	90,649
Variable lease payments (incentive tariff)	2.2	**(20,454)**	(16,392)
Cash production costs (excluding incentive tariff)		**85,326**	74,257
Production volumes		**3,748 Mbbl**	5,078 Mbbl
Cash production costs per barrel		**$28.2/bbl**	$17.9/bbl
Cash production costs per barrel (excluding incentive tariff)		**$22.8/bbl**	$14.6/bbl

Net free cash and net debt

Net free cash is defined as current unrestricted cash and cash equivalents, plus current financial trade and other receivables (which exclude prepayments) and current oil price derivatives, less current financial trade and other payables.

Management believes that net free cash is a useful measure as it provides a view of the Group's available liquidity and resources after settling all its immediate creditors and accruals and recovering amounts due and accrued from joint operation activities, outstanding amounts from crude oil sales and after settling any other financial trade payables or receivables.

Net debt is defined as net free cash less the nominal value of the Convertible Bond, being the total amount repayable on maturity of the Bond debt in July 2022 (unless previously converted, redeemed or purchased and cancelled).

Management believes that net debt is a useful measure as it aids stakeholders in understanding the current financial position and liquidity of the Group.

	Note	31 Dec 2021 $'000	31 Dec 2020 $'000
Cash and cash equivalents (IFRS measure)	4.1	**76,792**	143,703
Add:			
Trade and other receivables	4.2	**2,591**	14,524
Less:			
Restricted cash and cash equivalents	4.1	**(7,934)**	(28,792)
Prepayments	4.2	**(1,058)**	(1,644)
Trade and other payables	4.3	**(18,843)**	(16,356)
Net free cash		**51,548**	111,435
Nominal value of Convertible Bond	5.1.1	**(78,515)**	(230,000)
Net debt		**(26,967)**	(118,565)

Appendix B: Non-IFRS Measures *continued*

Free cash flow

Free cash flow is defined as net cash inflow or outflow from operating activities per the Cash Flow Statement, excluding decommissioning spend and including fixed lease repayments, adjusted for other items considered by management to be capital rather than operating in nature. Free cash flow per barrel is calculated as free cash flow divided by production volumes for the year.

Management believes that free cash flow is a useful measure as it shows cash generated from ongoing operations and G&A.

	Note	**Year ended 31 Dec 2021 $'000**	Year ended 31 Dec 2020 $'000
Net cash inflow from operating activities (IFRS measure)		**147,044**	81,770
Adjustments:			
Decommissioning spend		**4,824**	2,108
Reallocation of items to cash capex		**2,405**	—
Lease repayments	5.2	**(18,596)**	(9,658)
Free cash flow		**135,677**	74,220
Free cash flow per barrel		**$36.2/bbl**	$14.6/bbl

Cash capex

Cash capex is defined as net cash used in investing activities per the Cash Flow Statement, less cash interest received and movement in liquid investment, plus decommissioning spend and adjusted for other items considered by management to be capital rather than operating in nature. Third-party cash capex is defined as cash capex less general and administrative expenditure capitalised into fixed assets.

Management believes that cash capex and third-party cash capex are useful measures as they show overall expenditure on projects and activities considered capital in nature, with and without the impact of internally capitalised general and administrative costs.

	Note	**Year ended 31 Dec 2021 $'000**	Year ended 31 Dec 2020 $'000
Net cash used in investing activities (IFRS measure)		**29,698**	83,604
Adjustments:			
Interest received		**27**	1,227
Increase in liquid investments		**(15,530)**	(22,811)
Decommissioning spend		**4,824**	2,108
Reallocation of items from free cash flow		**2,405**	—
Cash capex		**21,424**	64,128
Less: capitalised general and administrative expenditure			
Capitalised into oil and gas assets	3.3	**(3,025)**	(3,499)
Capitalised into intangible exploration and evaluation assets	3.3	**(3,456)**	(7,121)
Third-party cash capex		**14,943**	53,508

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Hurricane

Head and Registered Office

Ground Floor
The Wharf
Abbey Mill Business Park
Lower Eashing
Godalming
Surrey
GU7 2QN
UK

T: +44 1483 862 820
F: +44 1483 862 859
E: comms@hurricaneenergy.com

hurricaneenergy.com