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Hurricane Energy PLC
28 March 2019

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Hurricane Energy plc

("Hurricane" or the "Company")

Final Results for the Year Ended 31 December 2018

Hurricane Energy plc, the UK based oil and gas company focused on hydrocarbon resources in naturally fractured basement reservoirs, announces its final audited results for the year ended 31 December 2018.

Dr Robert Trice, Chief Executive of Hurricane, commented:

"We will soon be generating the long-term production data that will enable the Company to plan for full field development of the Greater Lancaster Area (GLA). Initial production is planned to be 17,000 barrels of oil per day, net of anticipated downtime. At this rate we expect to generate significant cash flow - over $200 million in operating cash flow on a full year run-rate basis at a $60/bbl Brent oil price. This will allow us to pursue significant further appraisal and development activities within our Rona Ridge portfolio.

This follows a highly successful 2018, which involved execution of a development programme including the upgrade of the Aoka Mizu FPSO and a significant offshore installation programme. We also welcomed a new partner, Spirit Energy (Spirit), who farmed into 50% of the Greater Warwick Area (GWA) in a transformational deal.

The Spirit farm-in has significantly accelerated activity on the GWA, providing up to $387 million for a phased work programme. This includes the drilling of three wells in 2019 with minimal net cost to Hurricane, targeting first oil from a tie-back to the Aoka Mizu in 2020. The transaction brings forward a potential final investment decision on a full field development on these assets by a number of years. The deal also means we will be able to fund the next phase of appraisal drilling on the GLA and Whirlwind from our own resources, thereby putting Hurricane in a position to achieve maximum optionality and greatest value for our shareholders.

With first oil from the Lancaster EPS and a three well drilling programme on the GLA, we look forward to another exciting period for Hurricane in 2019 as we advance our strategy of de-risking and monetising the substantial resources in our Rona Ridge portfolio."

2018 Results summary

Financial results

- Loss after tax was $60.9 million (2017: $7.0 million) - the majority of which was the non-cash fair value loss of $42.4 million (2017: fair value gain of $10.4 million) on the embedded derivative associated with the Convertible Bond

- The Group finished the year with a closing cash position of $83.0 million in usable funds (including cash and cash equivalents and liquid investments, but excluding restricted cash) (2017: $326.6 million)

- Development cash expenditure on the Lancaster EPS was $205.3 million, including continued upgrade work on the FPSO, well completions and SURF delivery and installation

- Operating expenses were $12.7 million (2017: $14.6 million) with operating cash outflow 46% lower at $4.4 million (2017: $8.1 million)

Operational and corporate developments

- Lancaster EPS delivery on budget and on schedule for first oil in 1H 2019, following completion of substantial FPSO upgrade and offshore installation works

- Transformational farm-in agreement with Spirit for 50% of the GWA
    - Provides up to $387 million for a phased work programme
    - Partners working towards unlocking half a billion barrels of reserves (gross) with initial full field development of the GWA

- Transitioned from exploration and appraisal company to full-cycle exploration, development and, very shortly, production business
    - Expansion in headcount and office space to support the step-up in scope of activity, whilst maintaining corporate culture and without substantial increase in overhead
    - Continued enhancements in corporate governance and disclosure, targeting standards commensurate

with a Premium Listed business

Outlook

- Lancaster EPS expected to produce at net 17,000 barrels of oil per day following initial facilities ramp-up period
    - Production per well of 10,000 barrels of oil per day at long-term uptime assumption of 85%, expected to be achieved 6 months following first oil
    - Expected to generate in excess of $200 million in operating cash flow on a full year run-rate basis at a $60/bbl Brent oil price

- Lancaster EPS is poised to begin generating the reservoir data needed to clarify the ultimate potential of Hurricane's extensive Rona Ridge reserves and resources
    - Period of 6-12 months of steady-state production expected to provide data to support Hurricane's reservoir model and indicate the ultimate potential of the Lancaster reservoir

- Fully-carried three well drilling programme on the GWA in 2019
    - Three 1 km horizontal wells to be drilled and tested by year-end, ahead of tying a single well back to the Aoka Mizu
    - All wells to be suspended with downhole gauges as a means of 'seeing' subsequent GWA well tests and confirming Hurricane's geological model that the GWA is a single supergiant field rather than a number of separate hydrocarbon accumulations
    - First well, Warwick Deep, expected to spud in April 2019

- Hurricane has a clear path to potentially booking over 100 million barrels of 2P reserves during 2020
    - Final investment decision on GWA tie-back will add incremental production from 2020
    - Commercial agreements and decision to proceed with gas export in 2020 is expected to allow an extension to the Lancaster EPS field development plan (FDP) to include the full 10-year contract life of the Aoka Mizu, subject to regulatory approvals
    - Following gas export, debottlenecking is expected to raise Aoka Mizu throughput to 40,000 barrels of oil per day

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About Hurricane

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

The Lancaster field (100%) is Hurricane's most appraised asset, with five wells drilled by the Company to date. It has 2P reserves and 2C contingent resources of 523 million stock tank barrels of oil. The Company is currently proceeding towards the first phase of development of Lancaster, an Early Production System which will be the UK's first basement field development. It involves a two well tie-back to the Aoka Mizu FPSO and is expected to initially produce 17,000 barrels of oil per day (gross production of 20,000 bopd with assumed operating efficiency of 85% following ramp-up). First oil is targeted for 1H 2019.

Hurricane's other assets include Lincoln (50%), Warwick (50%), Halifax (100%), Whirlwind (100%), and Strathmore (100%). Together with Lancaster, these assets have total combined 2P reserves and 2C contingent resources of 2.6 billion barrels of oil equivalent (2.3 billion barrels of oil equivalent net to Hurricane).

In September 2018, Spirit Energy farmed-in to 50% of the Lincoln and Warwick assets, committing to a five-phase work programme targeting sanction of full field development in 2021.

Inside Information

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

Competent Person

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

Standard

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

Chairman's Statement

Dear Shareholders,

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

Delivery of Lancaster EPS

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

It is a huge tribute to Hurricane's management team that this ambitious work programme has so far been completed on budget, and first production continues to be expected within the time frame advised to shareholders. The Lancaster EPS is the cornerstone of Hurricane's strategy to create shareholder value. Production in 2019 will start to deliver the reservoir data needed to clarify the ultimate potential of our extensive reserves and resources on the Rona Ridge. The results from the Lancaster EPS will have a 'read-across' for the whole of the Company's fractured basement play. Cash flow generated from the Lancaster EPS will also provide funding for further activity to continue value uplift.

Spirit farm-in

Whilst prioritising successful execution of the Lancaster EPS project during 2018, in September Hurricane also entered into a transformational farm-in agreement with Spirit Energy (Spirit). The Spirit farm-in provides up to $387 million for a phased work programme leading towards an initial full field development of the Greater Warwick Area (GWA). This starts with a committed three-well appraisal drilling campaign in 2019. The deal enables the accelerated appraisal and development of the GWA, bringing forward a potential final investment decision on a full field development on these assets by a number of years.

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

Step-up in scope of activity

Management responsibilities in 2019 and beyond include satisfying the considerably increased demands of production operations at the Lancaster EPS and, in addition, the drilling operations on behalf of the GWA joint venture with Spirit. In aggregate, this has resulted in a significant step-up in the scope of activities and the Group's organisational structure has been carefully expanded in Eashing and Aberdeen to the extent necessary to deal with these increased demands. This expansion in staffing has been accomplished without dilution of Hurricane's unique entrepreneurial corporate culture, which has seen it pioneer the basement play on the UK Continental Shelf, while delivering the additional skills, resources and depth required.

Corporate governance and the Board

I was pleased to be asked to become Chairman of the Board, effective 1 May 2018. Dr David Jenkins, who had acted as Interim Chairman from November 2017, returned to his previous role as Senior Independent Director on this date. David's stewardship of the Company was exemplary during that period, and I have been most grateful for his continued guidance during my transition into the Company.
John van der Welle has also been a huge support as an independent non-executive director, acting as Chair of the Audit and Risk Committee and also Chair of the Listing and Governance Committee (LGC).

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

To make further progress towards meeting the highest standards of governance, levels of disclosure in this year's Annual Report will be further enhanced. The Nominations Committee also began to take the steps required to achieve a more appropriate balance to the Board, starting with the appointment of an additional independent non-executive director. Sandy Shaw was appointed to the Board in January 2019, and we are fortunate to benefit from her extensive and highly relevant legal, commercial and transactional experience in the oil and gas industry, especially in the UK. Although the Company is now well placed to meet the requirements of a Premium Listing, the Board continues to evaluate the benefits and timing of a Premium Listing whilst focussing its efforts on commissioning the Lancaster EPS and successful delivery of the 2019 drilling campaign on the GWA.

Acknowledgements

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

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

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

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

Steven McTiernan
Chairman

Chief Executive Officer's Review

Introduction

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

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

The primary purpose of the Lancaster EPS is to obtain reservoir data to enable the Company to plan for full field development, principally on the Greater Lancaster Area (GLA), but the data gathered will also inform our GWA development. Having spent 2017 and 2018 raising capital and executing the workstreams for the Lancaster EPS, the balance of 2019 will be spent gathering dynamic reservoir data to benchmark our reservoir model and validate the substantial resources across the GLA, while generating cash. Coupled with our three well, fully carried appraisal drilling campaign on the GWA, 2019 should prove to be another exciting year for Hurricane.

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

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

The Spirit farm-in to the GWA partially addressed the capital availability issue in 2019 and will, in the longer term, address our constrained human resources as we hand over operatorship to Spirit for full field development of the

GWA. This farm-in has significantly accelerated appraisal activity. We expect the first of a fully carried three well campaign to spud in April 2019. The three well drilling and testing programme is planned to be completed by the end of the year, ahead of tying a single well back to the Aoka Mizu. With the installation and completion phase scheduled for the summer of 2020, we expect first oil from the GWA in the fourth quarter.

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

Greater Lancaster Area

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

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

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

Spirit farm-in to GWA

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

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

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

Hurricane's geological model for the GWA has been informed by the drilling and testing results from the GLA, Whirlwind and Lincoln wells. As a consequence, Hurricane believes that the seismically mapped faults that subdivide the GWA into the Lincoln and Warwick volumes represent high permeability features rather than reservoir barriers. It is therefore anticipated that the GWA will be proven to be a single supergiant field rather than a number of separate hydrocarbon accumulations. In order to test this geological model, all three of the wells in the 2019 programme are planned to be suspended with downhole gauges which should provide a means of 'seeing' subsequent GWA well tests. Furthermore, the planned single well tie-back will provide the option to undertake interference testing which, when combined with a further three horizontal production wells, will inform the GWA joint venture's planning for the initial stage of GWA full field development.

Corporate growth

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

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

Basement plays

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

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

The increased basement awareness resulting from this recent industry promotion and co-operation has demonstrated that understanding the differences between basement reservoirs is as important as understanding the numerous similarities. Of central importance is that the basement play typically comprises large easily mapped structures within which the natural fracture network has been enhanced through tectonics and sub-aerial weathering processes. The presence of basement opportunities within otherwise well-known petroleum systems represents a significant under-exploited play, and offers the oil industry an as-yet unquantified material upside close to established infrastructure.

Regional environment

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

The recent stability of the UK tax regime and the relative stability (at its mid-point at least) of the oil price has helped encourage this M&A activity. A number of participants believe that there is a lot more to come. This commercial backdrop offers a potentially fertile environment for Hurricane to pursue its strategy of attracting a field development partner for its Lancaster field.

People

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

Dr Robert Trice
Chief Executive Officer

Operational Review

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

I am delighted to report good progress throughout the year, with the Lancaster EPS project on schedule and on budget at the time of writing. Crucially, we did so with strong health and safety performance despite over 2 million man-hours being expended across the project in 2017-18 by Hurricane and its contractors and subcontractors.

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

FPSO and turret mooring system

We started the year in review with the Aoka Mizu having recently arrived at Drydocks World, Dubai, for its upgrade and life extension works. This thorough refurbishment is designed to give the Aoka Mizu a fresh ten-year lifespan with a degree of futureproofing built-in. Following sea trials, which commenced before the end of September, sail-away was announced on 15 October 2018. Whilst the added greenwater protection and new paint works are clearly evident, these do not do justice to the scale of the overhaul carried out in the intervening period. By way of example, 40km of new cabling was installed onto the vessel. We are now carrying out the engineering work to deliver a GWA single well tie-back, reinstatement of gas compression, and debottlenecking of production capacity up to 40,000 bopd by the end of 2020.

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

Well completions

The offshore phase of the Lancaster EPS development commenced with installation of the Enhanced Horizontal Xmas Trees on the Lancaster 6 and 7Z wells. The Far Superior offshore construction vessel was used to carry out this operation, making opportune use of vessel availability. Well completions themselves were carried out to plan using Transocean's Paul B. Loyd Jr rig. This operation included installation of dual-pod Electrical Submersible Pumps (ESPs) in each well. The Lancaster EPS will determine the extent to which ESPs are required to enhance natural flow to target production levels. Crucially, they will also provide significant data to improve reservoir understanding, which is the core purpose of the Lancaster EPS.

Offshore installation

Offshore, the focus was on the SURF and mooring installation campaign: flowlines, umbilical, manifolds and turret mooring system buoy. The preparation for these works included moving over 6,000 boulders away from the pipeline and mooring line corridors and concluded with the covering of the flowlines and umbilical with over 30,000 tonnes of rock as protection from the ongoing fishing activities and observed environmental conditions. The mooring system utilises 12 chain and wire lines, each anchored to a mooring pile driven into the seabed. The SURF and mooring system was successfully installed by TechnipFMC, one of our Tier 1 contractors, and its subcontractor SBM Offshore in the middle of 2018. The buoy, having been delivered from Dubai to Lerwick, was successfully installed in early August, connecting it to the mooring system and SURF. Rock protection was completed in the last quarter of 2018 meaning the system was then ready for the arrival of the Aoka Mizu.

Hurricane had highlighted the offshore installation phase of the Lancaster EPS development as being key to delivery of first oil in the first half of 2019. These operations needed to take place during the summer weather window to provide a system to which the Aoka Mizu would be able to hook-up. The budget for the Lancaster EPS had largely been fixed in lump sum contracts, passing a significant proportion of the risk of cost overruns back to contractors. Offshore installation represented the area of greatest retained exposure. Hurricane was fortunate in benefiting from historically good weather in the summer of 2018. Calm conditions prevailed, allowing successful installation of the turret mooring buoy system and SURF.

First oil imminent

The FPSO is now hooked-up to the turret mooring buoy and commissioning work is ongoing prior to first oil. Following issues during initial hook-up attempts, Hurricane and Bluewater made the most of downtime whilst waiting on weather and delivery of replacement components to progress areas of pre-commissioning, where possible. The commissioning and start-up procedures remain critical steps in the overall development. Time will be taken to individually bring each well online in order to maximise reservoir data. We look forward to the announcement of first oil.

Health and safety

Hurricane had permanent representatives onsite at the upgrade yard in Dubai and offshore throughout Lancaster EPS operations. Together with our Tier 1 contractors, we carried out HSSEQ incentive programmes which we believe contributed to an exemplary health and safety record for the year.

Future phases

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

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

We are also looking ahead for what lies in store for the GLA and look forward to being able to announce next steps for activity following first oil and initial data from the Lancaster EPS. During the course of 2018, the Company significantly added to its team and the breadth of its responsibilities. Many in the core team of consultants who were integral to delivering the Lancaster EPS have joined Hurricane full time. The Company now has skilled integrated teams able to deliver and support the Lancaster EPS, and also the GWA well campaign and tie-back activities. In addition, we have brought in-house contracts, procurement and logistics functions. We can now derive the synergies from providing support to the Aoka Mizu and the drilling rig as well as having greater control over our procurement operations.

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

Neil Platt
Chief Operations Officer

Finance Review

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

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

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

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

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

Use of funds

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

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

Income Statement

The Group's loss after tax for the year was $60.9 million (2017: $7.0 million). The majority of the loss for the year was the non-cash fair value loss of $42.4 million (2017: fair value gain of $10.4 million) on the derivative associated with the Convertible Bond. The Group's operating expenses, foreign exchange losses and finance costs make up the balance of the costs incurred. This was partially offset by interest income received from cash and liquid investments held by the Group during the period.

The decrease in other operating expenses from $14.6 million in 2017 to $12.7 million in 2018 reflects the lower level of corporate activity in the year compared to 2017. The average headcount increased from 21 to 31 over the year, with the majority of the focus on the Lancaster EPS and, in the last quarter of the year, the GWA. Headcount as at 31 December 2018 was 41. This has increased the overall gross staff cost (including share-based payment expense) from

$9.1 million in 2017 to $13.0 million in 2018. However, as a significant portion of these costs are capitalised within projects, the resulting impact within operating costs in the Income Statement is $5.7 million (2017: $6.2 million).

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

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

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

No asset has been recognised in the Financial Statements for a potential deferred tax asset of $31.9 million (2017: $16.1 million) resulting from the effect of carried forward trading losses, after offsetting $184.4 million (2017: $141.2 million) against a deferred tax liability. The directors have concluded it is not appropriate to recognise any of the potential deferred tax asset until the EPS has begun production and hence demonstrated an ability to generate taxable profits.

Exploration and evaluation assets and property, plant and equipment

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

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

Cash and debt

The Group finished the year with a closing cash position of $83.0 million in usable funds (including cash and cash equivalents and liquid investments, but excluding restricted cash). The $230 million in convertible bonds, issued in July 2017, remained outstanding. Under the terms of the Convertible Bond, the first two years of coupon payments were placed in escrow ($34.5 million), of which $21.6 million has been paid out to date. The maturity date of the Convertible Bond is July 2022, although bondholders have the option to convert the bonds to ordinary shares in the Company of £0.001 each (Ordinary Shares) before that time. As at the year end, no bonds had been converted to Ordinary Shares. The initial conversion price on the bonds was set at $0.52, representing a 25% premium to the share price fixed at the time of issue (being £0.32 converted into USD at a rate of $1.30).

The Convertible Bond is recorded on the Balance Sheet and is split between the host debt contract and the embedded derivative related to the equity conversion option. At the Balance Sheet date the fair value of the embedded derivative was $71.0 million and the carrying value of the host debt contract at amortised cost was $198.4 million.

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

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

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

Cash flow

Net cash outflow from operating activities of $4.4 million is a reduction from the $8.1 million in 2017. This decrease is driven by the lower level of corporate activity in the year, with a greater proportion of time and resource spent on both the Lancaster EPS and the GWA activity. The cash expenditure on oil and gas property, plant and equipment of $205.3 million (2017: $85.0 million) was in relation to the Lancaster EPS. Cash expenditure on intangible exploration and evaluation assets in the year of $4.2 million (2017: $180.6 million) was in relation to the Group's non-Lancaster assets.

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

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

IFRS 16 - Leases

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

Office leases

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

Aoka Mizu FPSO

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

Brexit

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

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

Overall, whilst the Group acknowledges that Brexit does present some risks to the business, these risks are manageable and the resulting impact unlikely to materially impact the Group.

Going concern

The directors have considered the going concern basis of the Group. Based on their assessment (see details in note 2 of the financial information), the directors have a reasonable expectation that the Group will be able to continue and meet its liabilities as they fall due for the foreseeable future, being twelve months from the date of approval of the financial information.

Alistair Stobie
Chief Financial Officer

Group Statement of Comprehensive Income

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

All results arise from continuing operations.

Group Balance Sheet

	Notes	31 Dec 2018 $'000	31 Dec 2017 $'000

Non-current assets			
Property, plant and equipment	4	**728,171**	445,291
Intangible exploration and evaluation assets	5	**131,526**	126,365
Other non-current assets	6	**24,298**	16,089
Other receivables		**191**	202
		884,186	587,947
Current assets			
Inventory		**4,571**	1,434
Trade and other receivables		**2,565**	4,737
Liquid investments	6	**-**	201,973
Cash and cash equivalents	6	**98,864**	141,956
		106,000	350,100
Total assets		**990,186**	938,047
Current liabilities			
Trade and other payables		**(55,064)**	(28,833)
Derivative financial instruments		**-**	(11)
		(55,064)	(28,844)
Non-current liabilities			
Convertible loan liability	7	**(198,364)**	(191,102)
Derivative financial instruments	7	**(71,007)**	(28,622)
Decommissioning provisions		**(37,657)**	(7,023)
		(307,028)	(226,747)
Total liabilities		**(362,092)**	(255,591)
Net assets		**628,094**	682,456
Equity			
Share capital		**2,843**	2,843
Share premium		**813,681**	813,496
Share option reserve		**24,067**	19,477
Own shares reserve		**(380)**	(323)
Foreign exchange reserve		**(90,828)**	(92,659)
Accumulated deficit		**(121,289)**	(60,378)
Total equity		**628,094**	682,456

Group Statement of Changes in Equity

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

Group Cash Flow Statement

	Notes	Year ended 31 Dec 2018	Year ended 31 Dec 2017
		$'000	$'000
Net cash outflow from operating activities	8	**(4,445)**	(8,088)
Investing activities			
Interest received		**3,152**	885

Decrease/(increase) in liquid investments		**180,642**	(201,973)
Expenditure on property, plant and equipment - oil and gas properties		**(205,319)**	(85,004)
Expenditure on property, plant and equipment - other fixed assets		**(343)**	(58)
Expenditure on intangible exploration and evaluation assets		**(4,217)**	(180,612)
Expenditure on inventory		**(3,137)**	(991)
Net cash used in investing activities		**(29,222)**	(467,753)
Financing activities			
Convertible bond interest paid		**(17,250)**	(4,313)
Bank charges		**(17)**	(15)
Net proceeds from borrowings		**-**	223,095
Additional borrowing transaction costs		**-**	(303)
Net proceeds from issue of share capital and warrants		**49**	313,895
Additional equity issue transaction costs		**-**	(7,976)
Net cash (used in)/from financing activities		**(17,218)**	524,383
Net (decrease)/increase in cash and cash equivalents		**(50,885)**	48,542
Cash and cash equivalents at the beginning of the period		**158,045**	101,482
(Decrease)/increase in cash and cash equivalents		**(50,885)**	48,542
Effects of foreign exchange rate changes		**(5,329)**	8,021
Cash and cash equivalents at the end of the period	6	**101,831**	158,045

Notes to the Consolidated Financial Information

1. General information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017, but is derived from those accounts. A copy of the statutory accounts for 2017 has been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under section 498(2) or (3) of the Companies Act 2006. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS.

2. Significant accounting policies

Basis of preparation

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

Amounts presented in US Dollars and rounded to the nearest thousand unless otherwise stated.

Going concern

The Group has no source of operating revenue prior to first oil from the EPS (currently anticipated to occur in H1 2019) and to date has obtained working capital primarily through equity and debt financing.

The Group ended the year with $123.2 million of cash and cash equivalents and liquid investments, of which $83.0m was unrestricted. The Group also has convertible bond debt which had a carrying value of $198.4m at the year end and has a coupon of 7.5% payable quarterly in arrears. The cash balances are forecast to allow the Group to meet its outstanding trade and other payables of $55.1 million that existed at 31 December 2018, the remainder of the Lancaster EPS pre-operation costs and coupon payments on the convertible bond debt that falls due within one year.

The directors have performed a robust assessment, including a review of the budget for the year ending December 2019 and longer-term strategic forecasts and plans, including consideration of the principal risks faced by the Group. In particular, the directors considered a number of scenarios which included the impact of a delay in first oil from the EPS and, following first oil, downside sensitivities in relation to production rates, operational uptime, oil price, operational costs and foreign exchange rates. An aggregated downside scenario combining the impact of a delay to first oil together with reductions in production rates and oil price was also considered, taking into consideration mitigating actions within management's control. The directors also noted that the majority of 2019 capital commitments were carried by Spirit. The directors identified that the Group's ability to meet its liabilities as they fall due for the next 12 months is dependent on, in particular, first oil on the Lancaster EPS being reached in the first half of 2019, or shortly thereafter. The directors continue to believe that whilst uncertainties exist in this regard that are outside of the Group's control, a number of which are at least partly dependent on weather conditions, a significant delay is unlikely and first oil on the Lancaster EPS is expected to be achieved in the first half of 2019.

Following this review, the directors are satisfied that, taking into consideration reasonably foreseeable downside sensitivities, the Company and the Group have adequate resources to continue to operate and meet their liabilities as they fall due for the foreseeable future, a period considered to be at least 12 months from the date of approving this financial information. For this reason, they continue to adopt the Going Concern Basis for preparing this financial information.

New and amended accounting standards

In the current year, the following accounting standards became effective and have been adopted but have not materially affected either the Group's accounting policies or the amounts reported in this financial information in either the current or prior year:

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

There have been no other material changes to the Group's accounting policies in the current year.

3. Earnings per share and share capital

Earnings per share:

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

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

The effect of the warrants and options outstanding in 2018 and 2017 was antidilutive as the Group incurred a loss. The impact of the conversion feature included within the Convertible Bond (note 7) was also antidilutive in both years.

Shares allotted, called up and fully paid:

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

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

As part of its 2016 fundraising programme, the Group issued warrants to Crystal Amber Fund Limited to subscribe for up to 23,333,333 Ordinary Shares at a price of £0.20 per share. These warrants expire in May 2019. If the warrants are exercised, Kerogen Investments No. 18 Limited is entitled to subscribe for up to such number of Ordinary Shares, also at a price of £0.20 per share, as will result in it holding the same percentage share capital of the Company as it held prior to those warrants being exercised.

4. Property, plant and equipment

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

Charge for the year	-	(42)	(42)
At 31 December 2018	**-**	**(1,041)**	**(1,041)**
Carrying amount at 31 December 2017	445,237	54	445,291
Carrying amount at 31 December 2018	**727,816**	**355**	**728,171**

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

On 24 September 2017 approval was granted for the EPS field development. As a result, $335,856,000 of intangible exploration and evaluation assets were reclassified to property, plant and equipment. Included within that transfer from intangible assets was $4,409,000 of borrowing costs that were previously capitalised within intangible exploration and evaluation assets.

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

5. Intangible exploration and evaluation assets

	Year ended 31 Dec 2018 $'000	Year ended 31 Dec 2017 $'000
At 1 January	**126,365**	302,539
Additions	**4,611**	169,113
Changes to decommissioning estimates	**550**	981
Impairment of intangible exploration and evaluation assets	**-**	(1,971)
Write-off of intangible exploration and evaluation assets	**-**	(8,441)
Reclassification to property, plant and equipment - oil and gas properties	**-**	(335,856)
At 31 December	**131,526**	126,365

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

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

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

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

6. Cash and cash equivalents and liquid investments

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

Current restricted cash and cash equivalents represent amounts held in escrow relating to coupon payments under the terms of the

Convertible Bond and for future expected costs related to the current Lancaster EPS project. The amounts can only be withdrawn on the consent of both the relevant third party and the Company.

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

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

7. Borrowings

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

- any indebtedness in respect of the Convertible Bond (Bond Debt);

- any other indebtedness where the aggregate principal amount of such other indebtedness, when combined with the aggregate principal amount of all other indebtedness of the Group from time to time (excluding the Bond Debt), would not cause the total indebtedness of the Group on a consolidated basis to exceed US$45 million (or the equivalent thereof in other currencies at then current rates of exchange); and

- any permitted indebtedness, being:
  - any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease, with respect to the bareboat charter of the Aoka Mizu FPSO;
  - amounts borrowed, or any guarantee or indemnity given with respect to any security, where required by The Oil and Gas Authority or any other applicable regulator, in relation to suspended wells, decommissioning or other related regulatory obligations of the Group; and
  - any amount raised under any transaction, having the commercial effect of borrowing, in respect of the deferral of payment of invoices due to Technip UK Limited (or any of its affiliated companies) in connection with the agreement for the provision of subsea umbilical risers and flowlines and subsea production systems for the Company's operations in the Lancaster Field.

The conversion feature of the Convertible Bond is classified as an embedded derivative as the Convertible Bond 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 relating to the Convertible Bond, being all liabilities arising from financing activities, are as follows:

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

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

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

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

9. Capital commitments

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

10. Subsequent events

Hook-up of FPSO

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

Share incentive plan

On 25 January 2019, Global Shares Trustee Company Limited, trustee of the HMRC-approved Hurricane Energy plc SIP, awarded 815,582 Ordinary Shares to participants in the SIP at a price of £0.46 per share. The SIP award has been satisfied by the issue of 815,582 new Ordinary Shares issued to the SIP Trustee at a subscription price of £0.001 per share (being the nominal value of the shares).

Glossary

Category	Definition	Full form
Units	bopd	Barrels of oil per day
	GBP	British Pounds Sterling
	USD	United States Dollars
Technical terms	2P reserves	Proved plus probable reserves under the Society of Petroleum Engineers' Petroleum Resources Management System
	2C contingent resources	Best case contingent resources under the Society of Petroleum Engineers' Petroleum Resources Management System
	FPSO	Floating production storage and offloading vessel
	SURF	Subsea, Umbilical, Risers, Flowlines
	Xmas trees	An assembly of valves, spools, and fittings used at the head of an oil and gas well
Definitions	AIM	The AIM sub-market of the London Stock Exchange
	Aoka Mizu	Aoka Mizu FPSO
	Bluewater	Bluewater Energy Services and affiliates
	Board	Board of Directors of the Company
	Carry	Payment of a partner's working interest share of costs
	Convertible Bond	$230million of 7.5% convertible bonds issued by the Company in July 2017
	EPS	Early Production System
	FDP	Field Development Plan

GLA	Greater Lancaster Area
Group	Hurricane Energy plc, together with its subsidiaries
GWA	Greater Warwick Area
HSSEQ	Health, Safety, Security, Environmental and Quality
Hurricane	Hurricane Energy plc, together with its subsidiaries
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
LGC	Listing and Governance Committee
Ordinary Shares	Ordinary shares in the Company of £0.001 each
Premium Listed	Listed on the premium segment of a recognised stock exchange
Regulator	Oil and Gas Authority, Department for Business Energy and Industrial Strategy, The Health and Safety Executive
SIP	Share Incentive Plan
Supergiant	Field with 1 billion or more barrels of ultimately recoverable oil (ref: Encyclopaedia Britannica)
Technip	TechnipFMC plc
Tier 1 contractors	Hurricane's major direct contractors

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