

**Company's Registered Number: 05245689**

**HURRICANE EXPLORATION PLC**

**Annual Report and Financial Statements  
for the year ended**

**31 AUGUST 2006**

# HURRICANE EXPLORATION PLC

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# HURRICANE EXPLORATION PLC

## DIRECTORS AND ADVISERS

<b>Directors</b>	R C Trice N J Mardon Taylor C A Good
<b>Secretary</b>	Breams Registrars & Nominees Limited
<b>Registered office</b>	52 Bedford Row London WC1R 4LR
<b>Bankers</b>	HSBC Bank plc Landsdowne House 74 High Street Alton Hampshire GU34 1EZ
<b>Auditors</b>	Nexia Smith & Williamson Chartered Accountants 1 Bishops Wharf Walnut Tree Close Guildford Surrey GU1 4RA
<b>Accountants</b>	Smith & Williamson Limited Chartered Accountants 1 Bishops Wharf Walnut Tree Close Guildford Surrey GU1 4RA
<b>Solicitors</b>	Wedlake Bell 52 Bedford Row London WC1R 4LR
<b>Company's registered number</b>	05245689

# HURRICANE EXPLORATION PLC

## CHAIRMAN'S REPORT

The year to 31 August 2006 was very busy.

We accomplished our prime objective of winning nine blocks in the 23<sup>rd</sup> UK Seaward Licensing Round. We drilled our first well, Wellington 1, which constituted our commitment well under the terms of the licence. In addition we accomplished significant detailed technical and planning work on our existing licence which has given us the opportunity to see increased value in our acreage and adjacent blocks, culminating in planning and submitting our 24<sup>th</sup> Round application.

Although declared a dry hole just after our financial year-end, the Wellington 1 well was successfully delivered on time and under budget. This and all of the other achievements noted above have been accomplished by a small highly focused team of five permanent executive staff. It is a credit to the diligence and hard work of everyone involved to have delivered so much in so short a space of time.

We have been well supported by our shareholders over the first two years of Hurricane's existence who have invested in aggregate £10.3 million in that time frame. It is encouraging therefore that, as of 1<sup>st</sup> January 2007, we still have £6.3 million in the bank after meeting all of our share of the costs of the Wellington 1 well on top of meeting the day-to-day running costs of the company.

The main focus of the team is now to work up as many prospects as is possible on our existing acreage, with a view to farming-out, and assessing those parts of the acreage which are least attractive to us and therefore should be relinquished under the terms of our licence. Assuming that we can negotiate satisfactory farm-out terms, we do not envisage the need to come back to shareholders for more funds.

The current year promises to be another very busy year, with the announcement of the 24<sup>th</sup> Round (which must surely be made soon) and, subject to our remaining technical assessment, potentially three prospects on our 23<sup>rd</sup> round licence blocks to farm out.

We have already assembled an interesting acreage position, West of Shetland, and we are looking forward enthusiastically to having the opportunity to test our unique theories on Hurricane's prime objective, namely fractured basement plays.

Charles Good

Chairman

31 January 2007

# HURRICANE EXPLORATION PLC

## CHIEF EXECUTIVE'S REPORT

### Operational Highlights

The focus of our technical work last year was the planning and drilling of our 23<sup>rd</sup> Round licence commitment well, Wellington 1. The well targeted a conventional sandstone prospect which we analysed as having a 30% chance of success before drilling. The well was spudded on 23 August and was plugged and abandoned on 3 September having encountered minor oil shows.

Although this well only showed traces of hydrocarbons, it has nevertheless achieved several objectives. It represented the key licence commitment to the DTI. It has demonstrated Hurricane can organise and facilitate drilling operations West of Shetland and it has demonstrated we are a prudent operator as Wellington was completed on time and significantly under budget. We continue to keep our fixed expenditure as low as possible with five executive members of staff, two of whom are part time and our policy is to access the best talent in the industry on an ad hoc basis to complement our own technical skills as required

Although Wellington was drilled on a conventional target, and is therefore not related to our basement play, the well has given us valuable insight to the geology of the area which will continue to assist us in our decisions as to which parts of our acreage to prioritise for further studies.

In addition to all the work on the Wellington 1 prospect, we also shot over 2,000 kilometres of new 2D seismic. We currently plan to shoot the remainder of our seismic survey this summer.

I am also pleased to report that our Australian partners, Sunshine Oil plc, are fully supportive of our activities and despite the great distance separating our two companies, we have developed efficient lines of communication and we look forward to continuing our work successfully with them in the coming year.

### Current year operations

In the current year we are spending the bulk of our time on further technical work with the objective of bringing our existing leads to drillable prospect status. A key element of this work is the interpretation of our new 2D seismic which, at the time of writing this report, we are waiting to be processed. When completed, we will be able to undertake interpretation over the coming year. Integral to this appraisal of the licensed acreage is our ongoing efforts to complete our work on our fractured basement prospect with the view of establishing the best location for an exploratory well on what was always our main objective on our 23<sup>rd</sup> Round application. In addition we are continuing to assess our options for the proven hydrocarbon accumulation at Strathmore.

At the time of writing we are still awaiting the outcome of our application in the 24<sup>th</sup> Round, which if granted will further enhance our acreage position in our principal area of interest.

It is encouraging to note that the DTI believe that the West of Shetland represents a potential 17% of the UK's remaining oil and gas reserves. In an attempt to accelerate the realisation of this prospectivity the DTI has commissioned a West of Shetlands task force to look at getting the right infrastructure in place to capitalise this area of growing significance. The aim of the Task Force is to determine whether a collective solution can be found to put the right infrastructure in place to facilitate development and exploration of this area.

# HURRICANE EXPLORATION PLC

## **CHIEF EXECUTIVE'S REPORT - continued**

Should the Task Force recommend a solution in its 2007 spring report there will exist a real opportunity for Hurricane to upgrade the perceived value of some of our smaller targets either as standalone prospects or as part of a larger collective volume. I believe therefore that Hurricane is well placed to take advantage of the growing West of Shetlands potential.

Robert Trice

31 January 2007

## **FINANCE DIRECTOR'S REPORT**

The results for the year show an operating loss of £3,918,260, before interest received on our cash deposits in the year of £265,886, giving an overall loss of £3,652,374. Of the operating loss, £3,480,336 related to our share of drilling the Wellington 1 well and other exploration expenditure on the license blocks, the balance of £437,924 being the costs of running Hurricane for the year.

In June 2006 we undertook a further fund raising at £1.50p per Ordinary Share to raise £3.3 million gross, in order to support our application for our 24<sup>th</sup> Round application for five further blocks, which was submitted to the DTI in June 2006.

It is gratifying that the total cost of our 50% of Wellington 1 was just under £3million, against budget of £3.8 million. This has meant that our financial resources remain strong - we finished the calendar year with £6.3 million in cash as of 1 January 2007.

Nicholas Mardon Taylor

31 January 2007

# HURRICANE EXPLORATION PLC

## DIRECTORS' REPORT

The directors present their report and the accounts for the year ended 31 August 2006.

### Activities

The principal activity of the company is oil and gas exploration.

### Review of business

During the year, the company achieved its prime objective of winning nine blocks in the 23<sup>rd</sup> UK Seaward licensing round. A first exploration well, Wellington 1, was drilled in August 2006, fulfilling the DTI licence commitment. Although declared a dry hole, Wellington 1 has demonstrated the company's abilities as a prudent operator as the well was completed on time and under budget.

In addition to the Wellington prospect, the company began work on a major seismic survey, with over 2,000 kilometres of new 2D data acquired.

Fixed overhead costs have been kept as low as possible; the substantial progress made in the year has been achieved with only five executive members of staff, two of whom are part time. The company's policy is to maintain tight controls on recurring expenditure, accessing the best talent in the industry on an ad hoc basis when required.

### Future developments

The Wellington 1 well has provided valuable insight into the geology of the licence area which has assisted in prioritisation of further technical work. Interpretation of new seismic data is also under way which will facilitate appraisal of the company's licensed acreage, in particular to complete work on our fractured basement prospect.

The company has applied for further blocks West of Shetland in the 24<sup>th</sup> Seaward Licensing Round, where the outcome is still awaited. If granted, this would further enhance the company's acreage position in our principal area of interest.

### Results for the year and dividends

The loss for the year after taxation was £3,652,374 (2005: profit of £5,324). The directors do not recommend the payment of a dividend.

### Directors and their interests

The following directors have held office since 1 September 2005,

R C Trice

N J Mardon Taylor

J W Hudleston

C A Good

(resigned 3 April 2006)

(appointed 26 April 2006)

# HURRICANE EXPLORATION PLC

## DIRECTORS' REPORT

The interests of the directors of the company, including beneficial interests, in the shares of the company at 31 August 2005 or date of appointment if later, and 31 August 2006 are stated below:

	31 August 2006	Ordinary shares of 1p each On appointment	31 August 2005
R C Trice	2,350,000	-	2,350,000
N J Mardon Taylor	114,285	-	88,200
C A Good	1,016,114	889,100	-

### Directors share options

Details of directors' share options at the beginning and end of the year are as follows:

	<u>Tranche</u>	<u>As at 1 September 2005</u>	<u>Granted</u>	<u>Exercised</u>	<u>Lapsed</u>	<u>As at 31 August 2006</u>	<u>Exercise price</u>
R C Trice	22/02/06	-	130,000	-	-	130,000	£1.00
N J Mardon Taylor	22/02/06	-	100,000	-	-	100,000	£1.00

The share options of R C Trice include options over 30,000 shares held by his spouse.

The share options are on the ordinary 1p share capital of the company and vest, assuming continued holding of office or employment within the company, 3 years after the date of grant. The options include a clause whereby they may also be exercised within a 3 month period of sale or listing of the company. The share options lapse 10 years after the date of grant.

### Policy on payment of creditors

The company's policy for all suppliers is to fix terms of payment when entering into a business transaction, ensure that the supplier is aware of those terms and to abide by the agreed terms of payment.

The number of trade creditor days for the year ended 31 August 2006 was 85. This figure, which has been calculated under the methodology in the Companies Act, is distorted as the majority of purchases in the year were made in July and August. All trade creditors as at 31 August 2006 had been settled by 30 September 2006.

### Financial instruments

The main risks arising from the Company's financial instruments are set out in note 16 to the accounts.

# **HURRICANE EXPLORATION PLC**

## **DIRECTORS' REPORT**

### **Key performance indicators**

Given the early stage nature of the company's development activities, the company's directors are of the opinion that analysis using Key Performance Indicators is not necessary for an understanding of the nature of development, performance or position of the business.

### **Statement of directors' responsibilities**

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the accounts;
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. 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.

### **Disclosure of information to the auditors**

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 available information of which the company's auditors were 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 company's auditors were aware of that information.

### **Auditors**

During the year our auditors, Nexia Audit Limited, changed their name to Nexia Smith & Williamson Audit Limited and now trade as Nexia Smith & Williamson.

In accordance with section 385 of the Companies Act 1985, a resolution to re-appoint Nexia Smith & Williamson will be proposed at the next Annual General Meeting.

### **Approved by the board of directors and signed on behalf of the board**

N J Mardon Taylor  
**Director**  
31 January 2007

# Nexia Smith & Williamson

## Independent auditors' report to the shareholders of Hurricane Exploration Plc

We have audited the accounts of Hurricane Exploration Plc for the year ended 31 August 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 17. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

### Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We state in our report whether in our opinion the information given in the Directors' Report is consistent with the accounts. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

### Opinion

In our opinion: the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 August 2006 and of its loss for the year then ended; the accounts have been properly prepared in accordance with the Companies Act 1985, and the information given in the Directors' Report is consistent with the accounts.

**Nexia Smith & Williamson**  
Chartered Accountants  
Registered Auditors

31 January 2007

1 Bishops Wharf  
Walnut Tree Close  
Guildford,  
GU1 4RA

# HURRICANE EXPLORATION PLC

## PROFIT AND LOSS ACCOUNT for the year ended 31 AUGUST 2006

	Notes	Year ended 31 August 2006 £	11 month period ended 31 August 2005 £
Turnover	2	-	6,900
Cost of sales		-	-
<b>Gross profit</b>		-	6,900
Administrative expenses		(3,918,260)	(48,070)
<b>Operating loss</b>		(3,918,260)	(41,170)
Interest receivable and similar income		265,886	46,494
<b>(Loss)/profit on ordinary activities before taxation</b>	3	(3,652,374)	5,324
Tax on loss on ordinary activities	6	-	-
<b>Retained (loss)/profit for the financial year/period</b>	12, 13	(3,652,374)	5,324

All of the company's operations are classed as continuing.

There were no gains or losses in either period other than those included in the above profit and loss account.

# HURRICANE EXPLORATION PLC

## BALANCE SHEET as at 31 AUGUST 2006

	Notes	31 August 2006 £	31 August 2005 £
<b>Fixed assets</b>			
Intangible assets	7	166,351	58,572
		<hr/>	<hr/>
<b>Current assets</b>			
Debtors	8	305,026	389,246
Cash at bank and in hand		9,511,353	108,485
Cash at bank – restricted	9	-	6,647,916
		<hr/>	<hr/>
		9,816,379	7,145,647
<b>Creditors:</b> amounts falling due within one year, including convertible debt	10	(3,160,436)	(6,590,380)
		<hr/>	<hr/>
<b>Net current assets</b>		6,655,943	555,267
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		6,822,294	613,839
		<hr/>	<hr/>
<b>Net assets</b>		6,822,294	613,839
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital and reserves</b>			
Called up share capital	11	155,033	66,600
Share premium	12	10,314,311	541,915
Profit and loss account	12	(3,647,050)	5,324
		<hr/>	<hr/>
<b>Shareholders' funds</b>	13	6,822,294	613,839
		<hr/> <hr/>	<hr/> <hr/>

The accounts were approved by the Board of Directors on 31 January 2007 and were signed on its behalf by:

R C Trice  
**Director**

N J Mardon Taylor  
**Director**

# HURRICANE EXPLORATION PLC

## CASH FLOW STATEMENT for the year ended 31 AUGUST 2006

	Notes	Year ended 31 August 2006 £	11 Month period ended 31 August 2005 £
<b>Net cash (outflow) from operating activities</b>	1	(165,520)	(374,366)
<b>Returns on investments and servicing of finance</b>			
Interest received		236,819	6,494
Finance costs		-	(68,970)
<b>Net cash inflow/ (outflow) from returns on investments and servicing of finance</b>		236,819	(62,476)
<b>Taxation</b>			
Corporation tax paid		-	-
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		(602,847)	(268,398)
Payments to acquire tangible fixed assets		-	-
Receipts from sales of intangible fixed assets		-	209,826
<b>Net cash (outflow) for capital expenditure and financial investment</b>		(602,847)	(58,572)
<b>Cash (outflow) before financing</b>		(531,548)	(495,414)
<b>Financing</b>			
Issue of ordinary share capital		3,300,000	249,925
Funds introduced in advance of share issues		-	6,643,300
Loans introduced, converted to ordinary shares		-	358,590
Expenses paid in connection with share issue		(13,500)	-
<b>Net cash inflow from financing</b>		3,286,500	7,251,815
<b>Increase in cash in the year/period</b>	2,3	2,754,952	6,756,401

# HURRICANE EXPLORATION PLC

## NOTES TO THE CASH FLOW STATEMENT for the year ended 31 AUGUST 2006

1.	<b>Reconciliation of operating profit to net cash outflow from operating activities</b>	<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	Operating (loss)	(3,918,260)	(41,170)
	Decrease/(increase) in debtors	113,287	(349,246)
	Increase in creditors	159,117	16,050
	Amount written off intangible fixed assets	3,480,336	-
		<hr/>	<hr/>
	Net cash (outflow) from operating activities	(165,520)	(374,366)
		<hr/>	<hr/>
2.	<b>Analysis of net funds</b>	<b>1 September 2005</b>	<b>Cash flow 31 August 2006</b>
		<b>£</b>	<b>£</b>
	Net cash:		
	Cash at bank and in hand, including restricted amounts subscribed in advance of share issues and held on deposit against letter of credit	6,756,401	9,511,353
		<hr/>	<hr/>
		<hr/>	<hr/>
3.	<b>Reconciliation of net cash flow to movement in net funds</b>	<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	Increase in cash in the year	2,754,952	6,756,401
		<hr/>	<hr/>
	<b>Movement in net funds in the year</b>	2,754,952	6,756,401
	Opening net funds	6,756,401	-
		<hr/>	<hr/>
	<b>Closing net funds</b>	9,511,353	6,756,401
		<hr/>	<hr/>

# HURRICANE EXPLORATION PLC

## NOTES TO THE ACCOUNTS for the year ended 31 AUGUST 2006

### 1. Accounting policies

#### **Accounting convention**

The financial statements are prepared under the historical cost convention, in accordance with applicable Accounting Standards and the Statement of Recommended Practice: Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities published by the Institute of Petroleum on behalf of the U.K. Oil Industry Accounting Committee (“the SORP”).

#### **Turnover**

Turnover represents amounts receivable for oil sales and consultancy services net of VAT and trade discounts and is recognised as the goods and services are provided.

#### **Consortium accounting**

The company’s exploration and development activities are generally conducted as co-licensee in joint operation with other companies. The financial statements reflect the relevant proportions of capital expenditure and operating costs applicable to the company’s interest.

#### **Intangible oil and gas assets**

Intangible oil and gas assets comprise the directly attributable licence acquisition, exploration and appraisal costs relating to unevaluated properties or properties awaiting evaluation.

On appraisal, where commercial reserves are found the net capitalised costs incurred in discovering the field are transferred into a single field cost centre. Where no commercial reserves are found, capitalised costs are considered abortive and are written off on completion of a well.

An impairment test is carried out where circumstances indicate that the net book value of the capitalised costs in each cost centre is not covered by the associated recoverable amount, as outlined in Financial Reporting Standard 11 “Impairment of fixed assets and goodwill”. Impairment losses are recognised in the profit and loss account.

#### **Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold improvements:                      Over the term of the lease

#### **Exploration and development expenditure**

The company follows the successful efforts method of accounting for oil and gas exploration and development activities under which exploration expenditure which is either general in nature or relates to unsuccessful drilling operations is written off. Only costs which relate directly to the discovery and development of specific commercial oil and gas reserves are capitalised and depreciated over the lives of those reserves. The success or failure of each exploration effort is judged on a well by well basis as each potentially hydro-carbon bearing structure is identified and tested.

#### **Deferred taxation**

Deferred taxation is provided on a full provision basis on all timing differences which have arisen but not reversed at the balance sheet date. A deferred tax asset is not recognised to the extent that the transfer of economic benefit in the future is uncertain. Any assets and liabilities recognised have not been discounted.

# HURRICANE EXPLORATION PLC

## NOTES TO THE ACCOUNTS for the year ended 31 AUGUST 2006

### 1. Accounting policies *(continued)*

#### **Convertible debt**

Convertible debt instruments in the form of amounts subscribed in advance of share issues as at 31 August 2005 have been recorded within creditors at their fair value net of issue costs. The comparatives have not been restated to reflect the presentation requirements of FRS 25. Had the presentation requirements been applied to comparative information an adjustment would have been required to allocate this balance between liabilities and equity as appropriate.

#### **Foreign currencies**

Transactions denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are dealt with in the profit and loss account.

#### **Operating leases**

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

### 2. Turnover

Turnover relates to income from consultancy services provided to third parties; this is an adjunct to the principal activity undertaken in the United Kingdom.

3. (Loss)/profit on ordinary activities before taxation	2006	2005
	£	£
Operating (loss)/profit is stated after charging:		
Auditors' remuneration		
-Audit fees	14,000	9,050
-Non audit fees paid to related company of the auditors	2,275	-
Operating lease rentals	16,125	-
Amount written off intangible fixed assets	3,480,336	-
	<hr/>	<hr/>

4. Directors' emoluments	2006	2005
	£	£
All directors:		
Aggregate emoluments	185,667	42,250
	<hr/>	<hr/>

### 5. Employee information

The average number of persons, including directors employed by the company during the year was:

	Number	Number
Cost of sales	3	1
Administration	2	1
	<hr/>	<hr/>
	5	2
	<hr/> <hr/>	<hr/> <hr/>

# HURRICANE EXPLORATION PLC

## NOTES TO THE ACCOUNTS for the year ended 31 AUGUST 2006

5.	<b>Employee information</b> <i>(continued)</i>	<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	Staff costs for the above persons were:		
	Wages and salaries	301,083	45,750
	Social security costs	34,656	4,961
	Pension costs	-	-
		<hr/>	<hr/>
		335,739	50,711
		<hr/> <hr/>	<hr/> <hr/>
6.	<b>Tax on profit on ordinary activities</b>	<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
(a)	UK corporation tax at 19%		
	Current	-	-
	Deferred	-	-
		<hr/>	<hr/>
		-	-
		<hr/> <hr/>	<hr/> <hr/>
(b)	Factors affecting tax charge for period	<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	(Loss)/profit on ordinary activities before tax	(3,652,374)	5,324
		<hr/>	<hr/>
	(Loss)/profit on ordinary activities multiplied by small company rate of corporation tax in the UK of 19%	(693,951)	1,012
	Effects of:		
	Expenses not deductible for tax purposes	1,453	1,995
	Capital allowances for period in excess of depreciation	1,324	(8,801)
	Losses carried forward	691,174	5,794
		<hr/>	<hr/>
	Current tax charge for period	-	-
		<hr/> <hr/>	<hr/> <hr/>

# HURRICANE EXPLORATION PLC

## NOTES TO THE ACCOUNTS for the year ended 31 AUGUST 2006

7.	<b>Intangible fixed assets</b>	<b>Exploration expenditure £</b>
	<b>Cost or valuation</b>	
	At 1 September 2005	58,572
	Additions	3,588,115
	Disposals	(3,480,336)
		166,351
	At 31 August 2006	166,351

All exploration expenditure relates to areas covered by the company's licensed acreage West of Shetlands.

Disposals in the above table represent costs relating to the unsuccessful Wellington well, drilled in August 2006. Early stage expenditure in relation to the 24<sup>th</sup> Offshore Licensing Round has also been written off. The balance of expenditure carried forward relates to the cost of seismic data covering currently held licence areas that are still under appraisal.

The directors have fully considered and reviewed the potential value of licence interests. The directors have considered the likely opportunities for realising the value of the company's licences, either by farm out or by the disposal of the assets and have concluded that the likely value is in excess of net book value.

8.	<b>Debtors</b>	<b>2006 £</b>	<b>2005 £</b>
	Other debtors	187,596	307,526
	Prepayments	48,363	41,720
	Accrued income – interest receivable	69,067	40,000
		305,026	389,246
		305,026	389,246
9.	<b>Cash at bank – restricted</b>	<b>2006 £</b>	<b>2005 £</b>
	Amounts subscribed in advance of share issue	-	6,647,916
		-	6,647,916
		-	6,647,916

At 31 August 2005, the Company held funds raised to support its application for interests in exploration blocks in the 23<sup>rd</sup> Offshore Licensing Round. These funds were converted into ordinary shares on 17 September 2005 and were included, net of issue expenses, in other creditors at 31 August 2005 (see note 10).

# HURRICANE EXPLORATION PLC

## NOTES TO THE ACCOUNTS for the year ended 31 AUGUST 2006

10. <b>Creditors:</b> amounts falling due within one year	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Trade creditors	406,221	3,966
Other taxation and social security	19,306	3,722
Other creditors	2,497	294
Other creditors – amounts subscribed in advance of share issue	-	6,574,330
Accruals	2,732,412	8,068
	<hr/>	<hr/>
	3,160,436	6,590,380
	<hr/> <hr/>	<hr/> <hr/>

Amounts of £249,313 and £2,707,722 are included in trade creditors and accruals respectively in relation to amounts payable to PEAK Well Management Limited with respect to the Wellington Well.

Amounts due to PEAK Well Management Limited are covered by a letter of credit issued by the Company's bankers. HSBC Bank plc have secured this letter of credit against £4,500,000 of the Company's bank balances.

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
11. <b>Called up share capital</b>		
<b>Authorised</b>		
100,000,000 ordinary shares of 1p each	1,000,000	1,000,000
	<hr/>	<hr/>
<b>Allotted, called up and fully paid</b>		
15,503,264 (2005: 6,659,964) ordinary shares of 1p each	155,033	66,600
	<hr/> <hr/>	<hr/> <hr/>

On 17 September 2005 the company issued 6,643,300 1p ordinary shares with an aggregate nominal value of £66,433 for total cash consideration of £6,643,300. This cash was generated to support the Company's application for interests in Exploration Blocks in the 23<sup>rd</sup> Offshore Licensing Round. The amount was received prior to 31 August 2005 and was included in other creditors, net of issue expenses of £68,970 (see notes 9 and 10).

On 26 July 2006 the company issued 2,200,000 1p ordinary shares with an aggregate nominal value of £22,000 for total cash consideration of £3,300,000.

# HURRICANE EXPLORATION PLC

## NOTES TO THE ACCOUNTS for the year ended 31 AUGUST 2006

### 11. Called up share capital (continued)

#### Share options

On the 22 February 2006 the company granted share options, under an EMI scheme, over 360,000 ordinary 1p shares to employees of the company at an exercise price of £1.00 per share. The options normally vest 3 years after the date of grant and are due to lapse 10 years after the date of grant. The options vest early upon either sale, restructuring or listing of the company. Under these circumstances the options must be exercised within 3 months of the vesting event.

12. Reserves	Share premium account £	Profit and loss account £	Total £
At 1 September 2005	541,915	5,324	547,239
On shares issued in the year	9,772,396	-	9,772,396
Retained loss for the period	-	(3,652,374)	(3,546,374)
	<hr/>	<hr/>	<hr/>
At 31 August 2006	10,314,311	(3,647,050)	6,773,261
	<hr/>	<hr/>	<hr/>

During the year transaction costs on the issue of shares accounted for as a deduction from the share premium account total £82,470.

13. Reconciliation of movements in Shareholders' funds	2006 £	2005 £
(Loss)/profit for the financial year	(3,652,374)	5,324
New shares issued (net)	9,860,829	608,515
	<hr/>	<hr/>
Movement in shareholders' funds	6,208,455	613,839
Opening shareholders' funds	613,839	-
	<hr/>	<hr/>
Closing shareholders' funds	6,822,294	613,839
	<hr/>	<hr/>

# HURRICANE EXPLORATION PLC

## NOTES TO THE ACCOUNTS for the year ended 31 AUGUST 2006

### 14. Capital commitments

	2006 £	2005 £
Contracted but not provided for	508,751	758,333

On 3 May 2005, the company entered into a contract to purchase technical consultancy services over a three year period commencing on 1 July 2005. These costs as incurred are capitalised as exploration expenditure. The amount disclosed as a capital commitment is 50% of the actual contractual commitment. The remaining 50% of the contract value is rechargeable to Sunshine Gas Limited under a joint operating agreement.

### 15. Financial commitments

At 31 August 2006 the company had annual commitments under non-cancellable operating leases as follows:

	2006 £	2005 £
Land and buildings between 1 and 2 years	21,500	-

### 16. Financial assets and liabilities

The activities of the Company are funded out of working capital and do not include the use of derivatives or other financial instruments other than cash and term deposits. The company also has financial instruments in the form of short term debtors and creditors which arise in the normal course of business and are not discounted, offered as security or pledged in any way.

The main risks arising from the Company's financial instruments are interest rate risk and, to an immaterial extent, foreign currency risk. Operations during the year were financed through cash resources derived from shareholder subscriptions.

The financial assets of the Company are cash at bank and bank deposits. All of these are Sterling denominated and attract interest rates that vary with UK bank base rate.

### 17. Related party transactions

A joint operating agreement exists between the company and Sunshine Oil Plc. Sunshine Oil plc is a wholly owned subsidiary of Sunshine Gas Limited, a Company of which J. W. Hudleston is a director and shareholder. Costs totalling £793,030 (2005: £283,178) were recharged to Sunshine Gas Limited, and at the balance sheet date £246,543 (2005: £283,178) was owed from Sunshine Gas Limited to the company.

The liabilities of Sunshine Gas Limited in respect of its 50% share of costs in respect of the Wellington joint venture have been settled directly with Peak Well Management Limited.