



Acquisition of BP's Interests in Bruce, Keith and Rhum Fields in the North Sea

Frequently Asked Questions

1. What is Serica buying?

- Serica Energy is buying the Bruce, Keith and Rhum (BKR) package of assets in the UK North Sea from BP
- The BKR fields are predominantly gas/condensate producing. They produced around 18,500 boepd in H1 2017 (source: OGA)
- As a result of this transaction, Serica will become a leading UK mid-tier E&P Company with a strong platform and significant plans for growth and development
- Based on production rates in the first half of 2017, Serica's net production is projected to increase seven-fold to over 21,000 boepd
- Based on new CPRs for the BKR assets and Serica's existing Erskine field interest, Serica's proven and probable reserves are projected to increase sixteen-fold to over 50 mmboe (at 1 January 2018)

2. What is Serica Energy?

- Serica is an established London AIM-listed international oil and gas exploration and production (E&P) company which was formed in 2004
- Serica's main area of activity is offshore UK North Sea but the Company also has exploration assets in the Atlantic Margin off Ireland and offshore Namibia
- In the UK offshore, Serica owns an 18% interest in the producing Erskine field. Serica's share of production from Erskine is expected to be between 2,200 and 2,400 boepd in 2017. As operator and 50% interest holder, Serica is also progressing a development plan for the Columbus field. In 2018, Serica plans to participate in the Rowallan exploration well where it has a fully-carried 15% share
- Serica has drilled 17 wells as operator in places as diverse as the North Sea, Indonesia and the Atlantic Ocean off Ireland and operated one of the largest 3D seismic surveys undertaken offshore Namibia
- Serica's management team comprises experienced individuals with a strong track record of building successful upstream companies and executing projects

3. What is Serica's vision?

- Serica's vision is to build a portfolio of assets, primarily in the UK North Sea, able to deliver sustainable profits and returns to shareholders
- The acquisition of the BKR assets secures a sizeable, diverse production base and an expert, full cycle operating capability. This transaction adds significant value to the Company and provides a platform for future growth
- Serica seeks to be an investor, partner and employer of choice in the upstream oil and gas sector

4. How can Serica manage this significant increase in its portfolio?

- Serica has a strong, experienced senior management team with a track record of successfully growing upstream oil and gas companies
- As part of the transaction with BP, approximately 110 BKR operations team members, including offshore and onshore staff, will be transferred to Serica
- Serica will recruit further staff to supplement the BP staff who will be transferred
- Serica intends to open a new operational headquarters including a centre of excellence in Aberdeen prior to completion
- The large and diverse upstream service sector in the UK enables Serica to procure additional support required

5. What are the oil and gas assets being acquired?

- Serica is acquiring the following field interests:
 - Bruce: 36.00%
 - Keith: 34.83%
 - Rhum 50.00%
- Serica will become the operator of all three fields
- The fields are located in the UK sector of the North Sea, some 390km north east of Aberdeen
- The Bruce platform includes 21 active wells and its facilities comprise three linked platforms: a production, utilities and quarters platform; a drilling platform; and a compression/reception platform. The Bruce facilities are situated in 121 metres water depth, with a maximum POB (People on Board) of 168
- The Keith and Rhum fields are subsea tiebacks to the Bruce compression/reception platform
- Bruce exports gas via the Frigg UK pipeline (5km connection) and oil via the Forties Pipeline System (248km connection)
- Rhum has two producing wells, plus a third well for which a workover is planned in 2018 in order to bring it back into production
- Keith has one producing well

6. What are the terms of the deal?

- Serica will pay BP £12.8 million in cash on completion of the transaction. This amount will be adjusted for cash flow from the BKR assets between the economic date of 1 January 2018 and the completion date, which is expected to be in mid-2018. Consequently, Serica may receive cash from BP on completion
- In addition to the firm consideration, Serica will pay BP further cash consideration dependent on the performance of the BKR assets. The components of this additional consideration are as follows:
 - BP to share in net cash flow from the BKR fields from 2018 until 2021 according to a sliding scale: 60% in 2018; 50% in 2019; and 40% in both 2020 and 2021
 - A payment of £16 million payable in 2019 (or later) contingent on the Rhum R3 well achieving certain production targets
 - A further contingent payment of up to £23.1 million payable in three annual instalments (of up to £7.7 million per year) from 2019 to 2021. The final amount payable will be reduced if Rhum field production and the price achieved for sales of Rhum gas do not meet agreed levels
 - Serica to pay deferred consideration equivalent to up to 30% of BP's post-tax decommissioning costs. This amount is capped at Serica's share of net cash flows arising from the transaction
- Serica will carry out the decommissioning of the BKR assets, but BP will pay for Serica's share of all the costs of decommissioning the existing facilities. Serica will be responsible for its share of the costs of decommissioning any facilities installed after acquisition of the assets

7. When will the assets and staff transfer to Serica?

- The economic date of the Acquisition is 1 January 2018
- The assets and staff will transfer on the date of legal completion of the transaction. This is expected to be in mid-2018

8. How is Serica financing the acquisition?

- Serica is not proposing to raise any additional funds in order to finance the transaction
- Based on current projections, Serica expects that between the economic date of the Acquisition (1 January 2018) and the completion date (expected mid-2018), the BKR assets will generate positive net cash flow that will more than offset the firm consideration payable on completion
- Future contingent and deferred consideration is dependent on the future performance of the assets and will be paid out of net cash flow from the assets

9. Why is Serica buying the assets?

- This transaction builds on the Company's core activities in the UKCS and achieves several key objectives:
 - Added value – the assets provide scope for increasing the recovery of reserves and improving operating performance
 - Diverse production base – Serica will have production from four fields rather than one currently
 - Creation of an in-house operating capability – this will increase the Company's influence over its own performance and to widen the scope of acquisition opportunities it can consider in the future
 - Larger scale – Serica will become a leading UK mid-tier E&P company attracting more opportunities as an attractive partner and counter-party

10. How will Serica add value to the BKR assets?

- Serica's primary goal is to extend the life of the fields
- Serica aims to achieve this through a variety of activities:
 - A recompletion of Rhum R3 in 2018
 - Expanding upon work which BP and its partners have already commenced on the Bruce field to stimulate wells and thereby extend production
 - Production and cost efficiency – we will be continuing the existing efforts of BP and its partners to increase uptime and to optimise costs in order to reduce operating cost on a per barrel basis

11. What will happen to current BP staff working on the BKR assets?

- The transfer of the BKR operations team is a key part of the overall transaction for Serica. The Company regards the staff being transferred as a significant asset both in terms of safely and efficiently exploiting the BKR fields and contributing to the growth of the Company generally. Serica has no plans for workforce reductions on taking control of the assets
- BP will now enter the appropriate consultation process with all affected employees. This will conclude before the transaction completes and staff are transferred to employment by Serica
- BP and Serica will comply with applicable TUPE regulations
- Serica has committed to exceed TUPE regulations by guaranteeing to match BP staff's existing remuneration and incentive packages for a period of at least one year from completion of the transaction

12. What safety commitments is Serica making?

- HSE is central to Serica's core values. The Company seeks to provide a safe and healthy working environment and rigorously observes health and safety standards, laws and regulations in the countries in which it operates
- Serica ensures that employees and consultants receive appropriate training and guidance to enable them to carry out their tasks in a safe and competent manner
- Serica acts with care and sensitivity towards the local environment in which it operates
- Serica encourages employees and stakeholders to report to management any aspect of the Company's business or operations which an employee or stakeholder considers to be not in compliance with Serica's high standards

13. How will this deal benefit the wider North Sea community?

- This transaction is a further example of the trend of newer independent operators taking over existing fields in the North Sea with the focus and commitment to prolong their productive lives through investment and identifying areas for improved efficiencies. This benefits the service sector, the wider economy in North East Scotland and Government revenue
- The agreement between BP and Serica is testimony to the ability of upstream companies of contrasting nature to fashion agreements that balance risk and thereby facilitate future investment
- This transaction and the plans of Serica are consistent with the objectives of the UK Government's Maximising Economic Recovery (MER) strategy for the UKCS