

# Serica Energy plc (“Serica” or the “Company”)

## Acquisition of Total E&P’s Interests in Bruce and Keith

**London, 3 August 2018** – Serica Energy plc (AIM: SQZ) is pleased to announce that Serica Energy (UK) Limited (“Serica UK”) has signed a Sale and Purchase Agreement (“SPA”) to acquire further interests in the Bruce and Keith fields and associated infrastructure in the UK North Sea from Total E&P UK Limited (“Total E&P”) (“BK Acquisition”). Under the SPA, Serica UK will acquire a 42.25% interest in the Bruce field and a 25% interest in the Keith field and associated infrastructure (“BK Assets”). The BK Acquisition has an effective date of 1 January 2018 and completion will be subject to completion of the previously announced acquisition of interests in the Bruce, Keith and Rhum fields from BP (“BKR Transaction”). The BK Acquisition is also subject to *inter alia* certain regulatory, government and partner consents with completion targeted for the end of Q3 2018.

### Transaction highlights

Following completion of the BKR Transaction and transfer of operatorship of the Bruce, Keith and Rhum fields to Serica UK, the board believes the BK Acquisition will further strengthen Serica’s position as one of the leading mid-tier independent oil and gas producers on the UK Continental Shelf and will provide incremental benefits to the Company.

- **Further increase in reserves and production**
  - Serica’s pro-forma net 2P reserves as at 1 July 2018 are expected to increase by approximately 11mmboe from approximately 49mmboe<sup>i</sup> post completion of the BKR Transaction to approximately 60mmboe post completion of the BK Acquisition
  - Net production in 1H 2018 from the BK Assets was approximately 4,700boe/d, of which 83% is gas
  - The BK Acquisition is expected to be immediately cash flow and value accretive following completion
- **Structured to mitigate financial risk and maintain balance sheet resilience**
  - Existing net cash resources are not expected to be impacted by the BK Acquisition
  - Bulk of consideration deferred and contingent
  - Initial cash consideration of US\$5 million expected to be funded by Serica UK’s share of net cash flows from the BK Assets between 1 January 2018 and completion of the BK Acquisition
  - Future payments linked to the performance of the BK Assets, allowing both parties to share the benefits of improving field recoveries and production efficiencies
- **Further increased scale in line with strategic growth plans**
  - The BK Acquisition, coupled with transfer of operatorship of the Bruce, Keith and Rhum fields to Serica UK, should enable Serica to unlock increased value from the BK Assets
  - No additional resources will be required. Existing infrastructure and expanded team already being put into place as part of the BKR Transaction
  - The BK Acquisition will further increase Serica’s scale and profile, improve its ability to attract further growth funding and investment opportunities for both organic growth and further acquisitions

## Principal terms of the BK Acquisition

The initial cash consideration for the BK Acquisition is US\$5 million, to be adjusted for working capital, with further cash consideration of US\$15 million to be paid in three instalments of US\$5 million. These instalments are payable subject to continued production from the Rhum field (production of which is transported via the BK Assets) with the instalments payable in three tranches approximately 8, 16 and 24 months following completion of the BK Acquisition. Should Rhum production be interrupted due to the application of US Sanctions limiting Rhum operations, the relevant instalments will be deferred, providing Serica with protection in the event that US Sanctions are imposed more widely than currently anticipated.

Total E&P will also receive a share of pre-tax net cash flow from the BK Assets under a net cash flow sharing deed ("NCFSD") on the same terms as the net cash flow sharing deed entered into as part of the BKR Transaction. Total E&P will receive a share of pre-tax net cash flow from the BK Assets of 60% in 2018 (subject to adjustments made for the period prior to completion of the BK Acquisition), 50% in 2019 and 40% in each of 2020 and 2021. The net cash flow shares are calculated on a monthly basis. No amounts are payable by Serica UK unless this cash flow is positive and amounts are repayable to Serica UK in the event of negative cash flow, up to the amount of prior payments made to Total E&P in the same year. Excess losses in a year are carried forward to be offset against future income. As a constituent part of the calculation of the Monthly Net Cash Flow Payment, Serica shall, subject to the terms of the NCFSD, be entitled to propose the carrying out of Necessary Investment Works and / or Discretionary Investment Works.

Total E&P is retaining liability for the costs of decommissioning facilities and wells already in place. Serica will pay further deferred consideration to Total E&P in respect of 30% of Total E&P's share of future decommissioning costs when due, reduced by the tax relief attributable to Total E&P on such costs. This element of consideration is capped by the amount of cumulative net cash flow received by Serica UK as a result of the BK Acquisition. Deferred consideration will also be payable in respect of the realised value of oil in the Bruce pipeline at the end of field life.

Total E&P is retaining a 1% interest in the Bruce field on completion of the BK Acquisition. Under the terms of the SPA, Total E&P has the option for a specified period of time to assign this residual interest to Serica UK on the same terms as the BK Acquisition save for the initial cash consideration being US\$1 and there being no further cash consideration payable in respect of Rhum production or deferred consideration in respect to oil in the Bruce pipeline.

Completion of the BK Acquisition is conditional *inter alia* on:

- Completion of the BKR Transaction;
- Relevant third-party consents;
- OGA approvals;
- HMRC approval; and
- The execution of certain decommissioning documents.

The BK Acquisition also contains customary warranties in relation to the BK Assets from Total E&P for a transaction of this nature.

### **Mitch Flegg, Chief Executive of Serica Energy, commented:**

"We are delighted to have reached agreement with Total E&P to increase our stakes in the Bruce and Keith fields to 78.25% and 59.83% respectively. This further acquisition, following on from the BKR Transaction and coupled with the transfer of operatorship of the Bruce, Keith and Rhum fields to Serica UK, places us in a strong position to unlock increased value from the assets and benefit from economy of scale. This is exactly in line with the Government's intention to maximise the economic recovery of assets in the North Sea, and we believe that both of these acquisitions will benefit our shareholders, partners and employees."

"This acquisition is a logical next step for us. It provides us with further scale, builds on our asset base and moves us closer towards our objective of being a highly efficient, profitable mid-tier operator focused on the UK North Sea, where we believe there is plenty of potential for further growth. For our shareholders we

are building considerable additional value whilst protecting our balance sheet through another innovatively structured deal that benefits both parties."

"Completion of the transaction with Total E&P is anticipated to take place immediately after completion of the BKR Transaction with BP which requires certain regulatory consents, including a Licence from the US Office of Foreign Assets Control ("OFAC") relating to ongoing operations on the Rhum field. We and BP are actively engaged in advance stage discussions with both UK and US governments to provide the basis on which the necessary Licence consents can be obtained and thereby enable continuing operations on the Rhum field after expiry of the existing OFAC Licence. As the BKR Assets make a significant and important contribution to UK offshore gas production we are seeking to ensure that an appropriate Licence will be granted and are working closely with all parties to this end."

## **Background to and reason for the BK Acquisition**

In November 2017 Serica announced the BKR Transaction under which Serica UK will acquire interests in the Bruce, Keith and Rhum fields in the North Sea and associated infrastructure from BP. Under the terms of the BKR Transaction Serica UK will acquire a 36% interest in Bruce, a 34.83% interest in Keith and a 50% interest in Rhum. The deal has an effective date of 1 January 2018. Completion of the BKR Transaction is targeted to take place at the end of Q3 2018.

The BKR Transaction was deemed a reverse takeover and an admission document was published and shareholders approved the BKR Transaction at a General Meeting of the Company on 18 December 2017. There are still a number of conditions precedent which need to be satisfied ahead of completion of the BKR Transaction. As part of the BKR Transaction, operatorship of the Bruce, Keith and Rhum fields will be transferred from BP to Serica, along with approximately 110 BP staff.

The BK Acquisition presents Serica with an opportunity to further increase its reserve and production base by assuming a greater interest in assets already well known to the Company and its shareholders. As seen previously, the BK Acquisition is also structured in a way that minimises downside risk and dilution for shareholders, whilst also maintaining the Company's balance sheet resilience.

## **About the BK Assets**

The net 2P Reserves attributable to the BK Assets as at 1 July 2018 are estimated to amount to approximately 11mboe. These reserves will provide a significant addition to the estimated 2P Reserves of approximately 49mboe attributable to Serica (assuming completion of the BKR Transaction) reported at the time of the BKR announcement.

The Bruce field was discovered in June 1974 and is located in the UK Northern North Sea, 350 km northeast of Aberdeen at a water depth of 122 metres and with an area of approximately 75 km<sup>2</sup>. Field development was approved in 1990 and production started in 1993. Production is primarily gas with associated condensate and NGLs. The field produces from 11 reservoir units, separated by faulting and has had a cumulative production since 1993 of over 3tcf. To date there are over 60 well penetrations in the field with 21 producing wells.

The Keith field lies 6.8 km to the southwest of the Bruce field in a water depth of 120 meters and has been developed as a subsea tie-back to the Bruce complex. The Keith field was confirmed as a separate field to Bruce after drilling in 1987 and first came on production in 2000, with a second phase of development in 2002. No further capital programmes are planned on Keith as the field is in the final stages of its producing life. Subject to completion of the BK Acquisition, Serica UK intends to continue production from its single well as long as economically viable, but the well is currently scheduled to cease production in 2019.

Wet gas from the Bruce and Keith fields is processed at the Bruce complex and then transported via a 6 km spur line through the Frigg pipeline to St. Fergus for Natural Gas Liquids extraction. Dry gas is delivered as part of a commingled gas stream at St. Fergus into the National Transmission System. NGLs are extracted at St. Fergus and transported via a 12-inch diameter, 22 km pipeline to Cruden Bay. The condensate is separated

at the Bruce complex then exported via a 24-inch diameter line, 254 km to the Forties Unity platform. The liquids are then transported via the 36-inch diameter Forties pipeline 240 km to Cruden Bay, then overland to Grangemouth.

The BK Assets include the Bruce field facilities which comprise three bridge-linked platforms. There is a production platform housing a crew of up to 168 with production and utilities equipment. The second platform is a drilling platform, with the third platform hosting reception and compression facilities.

The BK Assets being acquired generated an operating profit before interest, taxation, depletion and amortisation of US\$33.8 million for the year ended 31 December 2017 based on unaudited financial information extracted from the Total E&P accounting records.

### Summary of Assets (as of 1 July 2018)

Net 2P Reserves	Serica Energy	BKR	BK	Enlarged Group
Oil & Liquids (mmbbls)	1.58	4.57	2.57	8.73
Gas (mmscf)	8,781	235,782	42,960	287,523
Combined (mmboe)	3.05	46.24	11.1	60.38

### Impact on Serica

#### ***The BK Acquisition is structured to control risk and minimise Shareholder dilution***

The BK Acquisition has been structured primarily on a deferred cash/contingent consideration basis, leaving Serica UK with a relatively small initial consideration of US\$5 million which is expected to be funded from Serica UK's share of net cash flow from the BK Assets during the period from 1 January 2018 to completion of the BK Acquisition. The Directors expect to be able to meet the future deferred cash and contingent consideration payable from Serica UK's share of the net cash flows from the BK Assets following completion of the BK Acquisition with the level of future payments linked to the performance of the BK Assets thereby allowing both parties to share the benefits of improving field recoveries and production efficiencies.

#### ***Maintains the Company's Balance Sheet resilience***

The consideration structure with its emphasis on future payments related to asset performance will assist Serica in maintaining its balance sheet resilience with net cash resources and limited borrowings. The Company's only borrowings at completion of the BK Acquisition are expected to be drawings under the prepayment facility provided by BP in respect of the BKR Transaction. In addition, the arrangements on decommissioning, under which Total E&P is retaining all of the decommissioning liabilities of existing facilities, will assist Serica in maintaining financial capability to support its future operations.

#### ***The BK Acquisition is expected to be cash flow and value accretive***

The BK Acquisition is expected to be immediately cash flow and value accretive post-completion of the BK Acquisition. Based on 2018 production rates, Serica's net production would increase by approximately 4,700boe/d as a result of the BK Acquisition. Based on the BKR CPR and the Serica CPR, pro-forma net 2P Reserves per Serica share are anticipated to increase by around 21%.

#### ***Efficient use of tax pool***

Serica UK is expected to be able to optimise the value of its pool of carried forward UK tax allowances by accelerating their use against taxable profits from the Bruce and Keith fields. The value of the pool stood at approximately US\$146.5 million at 1 January 2018.

#### ***Increased scale***

The Directors believe that scale is important in the international oil and gas industry. The BK Acquisition will further increase Serica's prominence and profile, improving its ability to attract new investment funding when required. This increased scale places the Company in a strong position to grow both organically through application of technology and operational efficiencies and inorganically through further acquisitions.

## Analyst Conference Call

A conference call for analysts will be held at 10:00, Friday 3 August 2018. To participate in this call, please contact [serica@instinctif.com](mailto:serica@instinctif.com) for dial-in details.

## Technical Information

The technical information contained in the announcement has been reviewed and approved by Clara Altobell, VP Technical at Serica Energy plc. Clara Altobell (MSc in Petroleum Engineering from Imperial College, London) has over 20 years of experience in oil & gas exploration, production and development and is a member of the Society of Petroleum Engineers (SPE) and the Petroleum Exploration Society of Great Britain (PESGB).

The Reserves information extracted from the BKR CPR and the Serica CPR referenced in this announcement has been prepared in accordance with generally accepted petroleum engineering and evaluation principles set forth in standards pertaining to the estimating and auditing of Oil and Gas reserves information promulgated by the SPE (the SPE Standards).

## Regulatory

This announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

## Enquiries

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## Notes to Editors

Serica Energy is an oil and gas exploration and production company with exploration, development and production assets in the UK and exploration interests in the Atlantic margins offshore Ireland and Namibia. Serica holds an 18% non-operated interest in the Erskine field in the UK Central North Sea and a 50% operated interest in the Columbus field scheduled to commence development in 2019.

In November 2017 Serica announced the BKR Transaction under which Serica UK will acquire interests in the Bruce, Keith and Rhum fields in the North Sea and associated infrastructure from BP. Under the terms of the BKR Transaction Serica UK will acquire a 36% interest in Bruce, a 34.83% interest in Keith and a 50% interest in Rhum. The deal has an effective date of 1 January 2018. Completion of the BKR Transaction is targeted to take place at the end of Q3 2018.

The Rhum field is owned under a 50:50 unincorporated joint arrangement between BP and Iranian Oil Company (U.K.) Limited (IOC). In 2015, the US and the EU implemented temporary, limited and reversible relief of certain sanctions related to Iran pursuant to a Joint Comprehensive Plan of Action ("JCPOA"). On 29 September 2017, BP obtained a specific OFAC Licence relating to the ongoing operation of the Rhum field, such licence expiring on 30 September 2018. In May 2018, the U.S. government announced its planned withdrawal from the JCPOA, and tasked the US Office of Foreign Assets Control ("OFAC") with implementing the full re-imposition of both primary and secondary sanctions in respect of Iran by the end of a wind-down period, which, for Rhum, expires on 4 November 2018. BP and Serica are actively engaged in discussions with both UK and US governments with the aim that the Rhum field can continue to operate during this wind-down period and thereafter.

Further information on the Company and the BKR Transaction can be found at [www.serica-energy.com](http://www.serica-energy.com).

The Company is listed on the AIM market of the London Stock Exchange under the ticker SQZ and is a designated foreign issuer on the TSX. To receive Company news releases via email, please subscribe via the Company website.

## Glossary

<b>Term</b>	<b>Meaning</b>
"2P"	proved plus probable reserves;
"bbls"	barrel of 42 US gallons;
"boe"	barrel of oil equivalent;
"boe/d"	barrels of oil equivalent per day;
"BKR CPR"	The competent person's report on the BKR Assets as of 1 June 2017, prepared by Ryder Scott Company, L.P. and published in the Serica admission document;
"Discretionary Investment Works"	Any works or investment on the BK Assets which is not classified as Necessary Investment Works;
"Dry Gas"	Dry Gas is a natural gas containing insufficient quantities of hydrocarbons heavier than methane to allow their commercial extraction or to require their removal in order to render the gas suitable for fuel use;
"Monthly Net Cash Flow Payment"	Monthly payments made subject to the terms of the NCFSD
"mmbbls"	million barrels of oil;
"mmboe"	million barrels of oil equivalents;
"mmscf"	million standard cubic feet;
"Necessary Investment Works"	Any works or investment relating to the above water facilities of the BK Assets which; (i) is necessary in Serica's reasonable opinion to maintain production levels for the Bruce field up to the close of 2021; or (ii) is required to comply with directions from the UK Oil and Gas Authority or Health and Safety Executive;
"NGLs"	natural gas liquids extracted from gas streams;

<b>"possible reserves"</b>	possible reserves are those additional Reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved + probable + possible reserves;
<b>"probable reserves"</b>	probable reserves are those additional Reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved + probable reserves;
<b>"proved reserves"</b>	proved reserves are those Reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves;
<b>"Reserves"</b>	estimates of discovered recoverable commercial hydrocarbon reserves;
<b>"Serica CPR"</b>	The competent person's report on the certain of Serica's assets as of 30 June 2017, prepared by Netherland, Sewell & Associates INC. and published in the Serica admission document; and
<b>"Wet Gas"</b>	Wet Gas is a natural gas containing sufficient quantities of hydrocarbons heavier than methane to allow their commercial extraction or to require their removal in order to render the gas suitable for fuel use.

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<sup>i</sup> Throughout this document reserve figures are taken from the BKR CPR and Serica CPR contained in the Serica Admission Document published on 30 November 2017 updated for production to 1 July 2018.