

# Serica Energy plc

("Serica" or the "Company")

## Results for the year ended 31 December 2015

**London, 19 April 2016** - Serica Energy plc (AIM: SQZ) today announces its financial results for the year ended 31 December 2015. The results are included below and copies are available at [www.serica-energy.com](http://www.serica-energy.com) and [www.sedar.com](http://www.sedar.com).

### Highlights

#### 2015 Financial

- Serica reports its first annual profit since 2009 of US\$6.5 million post-tax after net impairment provisions of US\$8.2 million
- Our 18% Erskine field interest generates significant positive cash flows at current commodity prices
- Operating cashflow of US\$7.6 million and gross profits of US\$16.1 million include seven months of post-acquisition Erskine production
- At 31 December 2015, Serica had US\$21.6 million of cash, grown from less than US\$5.4 million just prior to closing the Erskine acquisition

#### 2015 Operational

##### *Erskine Field*

Our 18% Erskine field interest has exceeded expectations since closing the acquisition:

- Production over 3,000 boe per day net to Serica over the second half of 2015, compared to projected production of 2,100 boe per day
- Actual operating cost below US\$20 per barrel compared to expectations of over US\$30 per barrel when Serica acquired the field interest
- Netherland, Sewell & Associates estimates remaining reserves at 1 January 2016 of 4.2 million boe net to Serica, an increase in excess of 50%
- No near-term capital expenditure programmed
- Field production currently suspended to enable foam cleaning pig to be recovered from the Lomond to Everest condensate line:
  - Targeted mid-April restart pushed back due to wax deposits in the area of the blockage inhibiting pig recovery
  - Progress now being made but full line clearance may take several more weeks
  - Production restart now expected to be deferred until after planned two-month mid-year Lomond maintenance shut down completed

## ***Columbus Field***

Serica's Columbus interest increased from 33.2% to 50% at nominal cost through the acquisition of the SSE and BG interests in the field by remaining partners resulting in:

- An overall increase in contingent resources net to Serica from 5.2 mmboe to 6.2 mmboe
- Improved alignment of remaining Columbus partners that, along with the OGA's 'Maximising Economic Recovery UK' initiative adds fresh impetus to development planning

## ***Exploration***

Serica continues to streamline its exploration portfolio so as to minimise near-term expenditure commitments whilst retaining exciting upside for access once market conditions improve:

- In the UK offshore, carried interests on blocks 22/19c (Rowallan prospect) and 113/22 (Doyle prospect) with drilling targeted for 2017/8
- Extensions to Serica's Irish licence in the Rockall Basin (FEL 1/09) to July 2017 and Namibian licence in the Luderitz Basin to December 2016
- Retained an interest in the Sidi Moussa licence in Morocco with back-in rights should a further well be drilled on the licence

## **Outlook for 2016**

Robust financial position underpins ability to weather current production shutdown and provides basis for future growth:

- Cash resources of US\$24 million at end March with no borrowings or significant capital commitments
- Oil hedges at US\$40 and US\$35 per barrel helped to sustain sales revenues during January/February price trough
- Work continues on identifying efficiencies in the Erskine producing asset and progressing the optimum offtake/development options for Columbus
- Farm-outs and licence extensions assist Serica to maintain exploration upside without overcommitting near-term capital expenditures
- Opportunities sought to build our asset base through acquisitions as larger players rationalise their asset portfolios

**Tony Craven Walker, Serica's Chairman commented:**

***"The Erskine field has exceeded our expectations since its acquisition in June last year, already making a significant contribution to Group cashflow and profits. This has improved our financial resilience leaving us better able to handle issues such as the current production suspension to clear the Lomond to Everest condensate export pipeline as well as putting us in an excellent position to seek new opportunities. The more than 50% upgrade in remaining reserves offers the prospect of healthy revenue generation well into the next decade.***

***Serica is considerably stronger than it was a year ago, notwithstanding the headwinds of the past 18 months which have had a dramatic effect throughout the industry. We must now maintain momentum into 2016 and believe the current climate combined with the fact that we have cash resources and no debt or material commitments, places Serica in a strong position to create further value"***

**Enquiries:**

**Serica Energy plc**

Tony Craven Walker                      tony.cravenwalker@serica-energy.com                      +44 (0)20 7487 7300

**Peel Hunt**

Richard Crichton                      richard.crichton@peelhunt.com                      +44 (0)20 7418 8900  
Ross Allister                      ross.allister@peelhunt.com                      +44 (0)20 7418 8900

**Instinctif Partners**

David Simonson                      david.simonson@instinctif.com                      +44 (0)20 7457 2020  
George Yeomans                      george.yeomans@instinctif.com                      +44 (0)20 7457 2020

**NOTES TO EDITORS**

Serica Energy is an oil and gas exploration and production company with exploration, development and production assets in the UK and Norway and exploration interests in the Atlantic margins offshore Ireland and West Africa. The Company is in partnership with other companies in its licences offshore UK, Ireland, Morocco and Namibia. Further information on the Company can be found at [www.serica-energy.com](http://www.serica-energy.com).

The technical information contained in the announcement has been reviewed and approved by Clara Altobell, Head of Operations at Serica Energy plc. Clara Altobell (MSc in Petroleum Engineering from Imperial College, London) has 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 Company is listed on AIM under the ticker SQZ and is a designated foreign issuer on the TSX. To receive Company news releases via email, please contact [serica@instinctif.com](mailto:serica@instinctif.com) and specify "Serica press releases" in the subject line.

## **FORWARD LOOKING STATEMENTS**

This disclosure contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond Serica Energy plc's control, including: geological, geophysical and technical risk, the impact of general economic conditions where Serica Energy plc operates, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. Serica Energy plc's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, that Serica Energy plc will derive therefrom.

## EXECUTIVE CHAIRMAN'S STATEMENT

Dear Shareholder

Today we are reporting our first annual profit since 2009 - US\$6.5 million post-tax even after net impairment provisions of US\$8.2 million. The large part of this was generated in the second half of 2015 and has been achieved during an unprecedented period of considerable industry uncertainty when many companies are operating under severe financial constraint. The transaction which we completed in mid-2015 to buy a stake in the Erskine field, and subsequent efforts to improve performance in the field and associated infrastructure, are the driving factors behind this performance.

Although we are experiencing current problems caused by a blockage in the pipeline from the Lomond platform through which Erskine liquids are exported, and work to resolve this is still ongoing, Erskine field performance has exceeded expectations since the acquisition and has made a significant financial contribution since the transaction completed last June.

- Our 18% Erskine field interest generates significant positive cash flows at current commodity prices, generating 2015 operating cashflow of US\$7.6 million.
- At the end of March 2016, Serica had US\$24 million in the bank, grown from US\$5.4 million just prior to Erskine completion and US\$21.6 million at year end.
- Oil price hedges at US\$40 and US\$35 per barrel are helping to maintain our income levels in 1H 2016.
- The Company has no borrowings, and with its carried interests, has no exploration obligations or other significant capital commitments.

All this means that Serica is considerably stronger than it was a year ago notwithstanding the headwinds of the past eighteen months. Naturally we would welcome higher commodity prices but we know that this industry is heavily cyclical and an environment where much production worldwide is experiencing monthly operational cash deficit, let alone full cycle cost deficit, cannot be sustained for long. Global oil demand continues to grow and the means to satisfy this at below US\$60 per barrel are diminishing year-by-year as expensive deep water and onshore unconventional production replaces lower cost sources.

I firmly believe there is more scope to add value at the low end of the cycle than the top end and management's job is to deliver such opportunities. These may come in the form of improved use of infrastructure, low cost acquisitions or corporate transactions. None of this is simple to crystallise in a tough financial market but Serica has demonstrated resilience over the past year and this puts us in a good position to do so. In the meantime work continues on lowering both asset and corporate cost bases and getting the best out of our existing operations.

Full details of our operations and finances are contained in the Strategic Report that follows but I would like to highlight some of the most important points here.

Our newly acquired Erskine field interest contributed gross profit of US\$16.1 million from seven months of post-acquisition production. Our accumulated tax losses are expected to be sufficient to offset tax charges on all current and future income from the field. Since completion, the benefit of Erskine to Serica has been enhanced through greatly improved operational reliability and significant cost reductions. Average production over the second half of 2015, at 3,000 boe per day net to Serica, compares to projected production for the period of 2,100 boe per day and gives a strong indication of the potential for ongoing performance if operational reliability can be maintained. Actual operating cost below US\$20 per barrel compares to expectations of over US\$30 per barrel when we acquired the field interest. This has more than offset lower commodity

prices in recent months. We will continue to work with the field operator on targeting further value enhancements through cost reductions and operational efficiencies.

A better than projected sub-surface performance has also resulted in a boost to reserves. An end of year report by independent consultant Netherland, Sewell & Associates, shows a significant increase in expected remaining proven and probable reserves for Erskine. The estimate upon which we based our acquisition economics last year was 3.3 million barrels net to Serica effective June 2015, reducing to 2.7 million barrels at 1 January 2016 after 2H 2015 production is taken into account. Using recent well data and updated economic production cut-off, NSAI now estimates remaining reserves at 1 January 2016 to be 4.2 million boe net to Serica, an increase in excess of 50%.

In March 2016 we reported that BG's Lomond to Everest pipeline, which provides an export route for Erskine condensate, was blocked and that Erskine production had been suspended whilst this blockage was removed. More details on progress to resolve the Lomond to Everest pipeline blockage are provided in the Operations Review which follows. It is important to emphasise that the short term impact of the current production shut-in is not expected to translate into any reduction in recoverable reserves nor significant loss of economic value over the longer term particularly when set against an expectation of rising prices.

We have also seen increases in Columbus contingent resources where, following the Erskine transaction, we were able to resolve some partnership issues with Columbus. The rationalisation of ownership within the Columbus field group, with Serica's share increasing from 33.2% to 50%, has improved partner alignment whilst the OGA initiative to encourage co-operation between infrastructure and field owners has given development planning fresh impetus. The change of ownership increased Serica's share in estimated contingent resources attributable to Columbus to 6.2 mmboe based on our new plans for a one-well development which we feel presents a more viable basis for development under current pricing scenarios than the previous two-well development concept. Our Erskine acquisition has also strengthened our presence in the Columbus/Lomond area improving our influence and synergies and the potential for development.

All in all Serica has seen a substantial improvement during 2015 and the year brought real transformation to the Company. Our financial position strengthened progressively through the second half of 2015 with cash resources increasing from US\$5.4 million prior to Erskine completion in June 2015 to US\$21.6 million at the year-end. Reservoir performance for 2016 to date continues to encourage with cash resources at end March standing at US\$24 million with no borrowings or significant capital commitments. Although this will clearly be impacted by the current temporary shutdown to clear the export pipeline, the Company's robust financial position stands it in good stead. The shutdown, however, underlines the risk inherent in relying upon a single producing asset and it is, accordingly, part of our ongoing strategy to look for opportunities to strengthen and broaden our revenue base. The low cost hedging options we took out in October covering 500 barrels of oil per day at US\$40 per barrel and 500 barrels of oil at US\$35 per barrel had already more than paid back by end February and continue to provide cover until the Erskine/CATS maintenance shut down planned in June.

As a result of prudent financial management over recent years we are robust financially and we are not committed to any major capital programmes on any of our assets. This allows us to weather periods when we are not producing and determine the timing of future investments solely on the basis of economic returns and availability of finance. We will prioritise exploration activity, where we can offset drilling costs through cost carries, and field capital where this delivers near-term cash flow. We continue to hold a number of high impact exploration prospects that have the potential to deliver significant upside when the time to drill is right.

Whilst we were able to finally close the Erskine deal in an environment where many thought small companies could no longer achieve such things, the departures of both COO Mitch Flegg and CFO Chris Hearne in May presented our small team with additional challenges. I would like to thank Mitch and Chris for their resolve over many months in bringing the acquisition to conclusion and the remaining team at Serica for delivering a seamless handover. Though our core team, and consequently G&A, is much smaller now we have additional high quality resource to call upon when required.

### **Outlook**

We must now maintain momentum into 2016. This means encouraging further efficiencies on our Erskine producing asset, identifying and progressing the optimum Columbus offtake and development options, maintaining exploration upside without overcommitting funds and building our asset base through acquisition. We cannot control or even predict near-term commodity prices but believe that finance will be available for the right deals and that Serica's strong performance places it in a good position to access that finance.

The current market and changes taking place in the industry can be expected to present attractive acquisition opportunities as larger players rationalise asset portfolios in an effort to reduce costs and smaller underfunded or overleveraged players are forced to raise funds through asset disposals. It is apparent that much of this was deferred last year in the hope of an improvement in commodity prices that did not materialise, adding greater urgency now. Our accumulated tax losses, in addition to sheltering net income from existing assets, may also shelter income from new UKCS acquisitions. Serica is very well placed to benefit from these changes if the right opportunities become available.

Antony Craven Walker  
Executive Chairman  
18 April 2016

## **STRATEGIC REPORT**

The following Strategic Report of the operations and financial results of Serica Energy plc and its subsidiaries (the "Group") should be read in conjunction with Serica's consolidated financial statements for the year ended 31 December 2015.

References to the "Company" include Serica and its subsidiaries where relevant. All figures are reported in US dollars ("US\$") unless otherwise stated.

Although the Company delisted from the Toronto Stock Exchange ("TSX") in March 2015, the Company is a "designated foreign issuer" as that term is defined under Canadian National Instrument 71-102 - Continuous Disclosure and Other Exemptions Relating to Foreign Issuers. The Company is subject to the foreign regulatory requirements of the Alternative Investment Market ("AIM") of the London Stock Exchange in the United Kingdom.

Serica is an oil and gas company with exploration and development activities based in the UK, Ireland, Namibia and Morocco, and an economic interest in an oilfield offshore Norway.



## **REVIEW OF OPERATIONS**

### ***UK Operations***

#### *Erskine Production*

The Erskine Field is a gas and condensate producing field located in the UK Central North Sea. Serica acquired an 18% interest in the field in June 2015. Its partners are Chevron 50% (operator) and BG 32%.

Erskine contributed an average of over 3,000 boe per day net to Serica in the second half of 2015. Field performance since June has been above expectations: production volumes have been lifted by a combination of consistent reservoir performance and high facility uptime whilst costs per barrel have been lowered by a combination of overall cost reductions and higher produced volumes. These factors have contributed to an overall increase in estimated remaining proven and probable reserves.

Erskine produces from Jurassic sandstone and is classed as a High Pressure High Temperature ("HPHT") reservoir. A report by independent consultant Netherland, Sewell & Associates ("NSAI") was published on 13 April 2016. Remaining reserves from 1 January 2016 are estimated to be 4.2 million boe net to Serica and the field is expected to continue production well into the 2020's. Serica has produced approximately 606,000 boe net up to the end of 2015, which, combined with estimated remaining reserves, represents a total of 4.8 million boe, compared to Serica's original estimate at acquisition of 3.3 million boe.

Following an intervention campaign in 2015, all five Erskine wells are available for production. The wells produce into the Erskine platform and flow down a multiphase pipeline to the BG-operated Lomond platform where condensate and gas are separated and exported via separate pipelines. Serica's condensate allocation is delivered and sold as Forties crude at the Cruden Bay terminal and gas is sold at the CATS terminal on Teesside. The 30 kilometre Erskine to Lomond pipeline was thoroughly inspected in 2015 and found to be in good condition.

On 28 February 2016, Erskine production was temporarily suspended during essential maintenance work to enable a foam cleaning device, known as a pig, to be recovered from the BG Lomond to Everest condensate line and to repair a condensate export pump on the Lomond platform.

This work was intended to be complete by mid-April but has been aggravated by wax deposits in the area of the blockage which have been inhibiting recovery of the pig. Efforts to clear the line, whilst offering encouragement, have not yet proved fully successful. Further time is needed to complete this process and to ensure the line is fully cleared of wax. This work is expected to take several more weeks.

A two month maintenance shut-down was already planned on the Lomond platform to start in June corresponding with a one-month shutdown of the CATS system through which Erskine gas is exported. In view of the additional time required to clear the Lomond to Everest pipeline it is now likely that Erskine restart will be deferred until after those programmes have been completed. Erskine should benefit from flush production due to reservoir pressure re-charge once the field restarts with no loss of reserves.

No near-term capital expenditure is budgeted as extensive works were carried out in 2014/2015. Operating costs consist of a share of the processing costs incurred by the Lomond platform and transportation tariffs from the Forties and CATS pipelines, as well as the operator's cost to run the Erskine platform. These costs have fallen due to improvements in efficiency and so enable the field to be profitable at lower oil and gas prices.

The efficiency of the facilities and export route availability during the second half 2015 of around 70% showed a significant improvement compared to historical performance running well below 50% over recent periods. Serica is working with the operators of Erskine and Lomond to improve the performance still further and ensure that the integrity and efficiency of the facilities continue to perform well now and into the future. The current pigging operations on the main condensate export line from Lomond are part of this process.

### *Columbus Development*

The Columbus Field is an undeveloped gas condensate field located in the UK Central North Sea, 8 kilometres north of the Lomond Platform. Following agreement in October 2015, Serica's interest increased from 33.2% to 50% through the acquisition of the SSE and BG interests in the field by remaining partners. The advantages of this acquisition, completed on 2 February 2016, are an increase in contingent resources net to Serica and also greater alignment between partners to select the optimum offtake route.

Four wells have been drilled on Columbus to appraise the extent and capability of the reservoir. The conceptual development plan for Columbus is to tie-back a subsea production well to the Lomond platform, where the fluids would be processed and exported through the same routes as Erskine production. The performance of the Lomond Platform in 2015 has been encouraging for the Columbus partners with greater efficiency leading to a reduction in operating costs thus improving development economics at lower commodity prices and a full integrity study is taking place to determine that performance is sustainable. In the event that Lomond is not deemed a suitable offtake route, a number of other routes are being evaluated.

Independent consultant NSAI carried out a reserves report on the Columbus field for the end of 2015. Under current economic conditions a simplified low-cost development concept using just one well has been assumed, delivering estimated gross contingent resources of 54 bcf of gas and 3.6 mmbbl of liquids. Although this represents a reduction in the estimated recovery factor compared to the two-well concept previously assumed, the increase in Serica's share from 33% to 50% at nominal cost represents an overall increase in contingent resources net to Serica from 5.2 mmboe to 6.2 mmboe. The optimal development concept will be kept under review in the light of future economic conditions.

The improved alignment of the Columbus partners, and the recent performance of the Lomond facilities, combined with the OGA Maximising Economic Recovery UK initiative to bring small fields into development have added fresh impetus to development plans. The OGA are working with infrastructure owners and owners of undeveloped fields to encourage collaboration and work towards mutually beneficial solutions to ensure maximum exploitation of remaining reserves in the UK North Sea and Columbus should benefit from this.

### *Exploration*

#### Central North Sea: Block 22/19c

Block 22/19c is located approximately 20 kilometres to the west of Serica's Columbus field. Serica has a 15% interest in the block and has a full cost carry on this licence up to and including the drilling of an exploration well.

The group has identified significant deep HPHT potential in the Jurassic and Triassic and ENI, operator of the licence, brings considerable experience in HPHT technology.

A Competent Person's Report ("CPR") conducted by NSAI and commissioned by Serica, has assessed the highest ranked prospect, Rowallan, to contain between a P<sub>90</sub> of

40mmboe and a P<sub>10</sub> of 243mmboe of unrisks prospective gross resources. The current low oil price environment has deferred a drilling decision and the exact timing for the drilling of this well is the subject of discussion amongst the partners.

The cost carry and material prospective resources combine to make this a notably low risk, high reward opportunity for Serica.

#### East Irish Sea: Blocks 113/26b and 113/27c - Doyle Prospect

Serica holds a 20% interest in Blocks 113/26b and 113/27c including the Doyle prospect. Doyle is a Triassic gas prospect on a fault and dip closed structure and is ready to drill. Serica has a cost carry on this licence up to and including the drilling of an exploration well subject to a gross cap of £11 million (US\$16.3 million at year end exchange rates).

The OGA has extended the licence to the end of 2016 to allow time for the partnership to formalise the drilling of an exploration well on the Doyle Prospect located in the north of Block 113/27c and extending into 113/22a. The site survey has been completed and Zennor North Sea Limited, formally MPX, has taken over operatorship of the licence.

#### East Irish Sea: Block 113/22a

Serica holds a 20% interest in Block 113/22a which is also operated by Zennor North Sea Limited.

The Doyle prospect in Block 113/27c is believed to extend into Block 113/22a and a 2D seismic acquisition may be conducted to confirm this extension.

#### Central North Sea: Block 15/21g and 15/21a (part) – Spaniards Appraisal

Serica held a 21% interest in the amalgamated area of Block 15/21g and Block 15/21a (part), but after careful review of remaining prospectivity, the decision was taken by the partners to withdraw from these blocks rather than drill an exploration well. Block 15/21g has been relinquished and Block 15/21a (part) is in the process of being transferred to the owners of the adjacent Perth field.

#### Southern North Sea: Blocks 47/2b (Split), 47/3g (Split), 47/7 (Split) & 47/8d (Part)

Serica held a 37.5% interest in these blocks which were operated by Centrica. Although seismic data showed some prospectivity in these blocks and despite their close proximity to the producing York platform, the partnership could not identify an exploration prospect that passed economic hurdles and so the decision was taken to relinquish the licence effective January 2016.

#### East Irish Sea: Block 110/8b

Serica held a 100% interest and operatorship of Block 110/8b. No suitable prospect was found on which to drill an exploration well and so this licence was relinquished on 17 December 2015.

### **Ireland**

#### Frontier Exploration Licence 1/09: Blocks 5/17, 5/18, 5/22, 5/23, 5/27, and 5/28 - Muckish Prospects

In 2015 Serica reached agreement with the Department of Communications, Energy and Natural Resources to extend the licence to July 2017. In return Serica relinquished 61% of the licence, only keeping acreage over the key prospects, and now holds 390 square kilometres and has no outstanding commitments.

Serica undertook further special seismic processing studies in 2015 which reinforced the existing interpretation of the prospects. Further work is planned to integrate released well data in the region, including rock cuttings and oil samples, into our prospect analysis.

Serica is seeking farm-in partners to take advantage of current low drilling costs and drill the Muckish prospect, a large structurally-closed gas condensate prospect in water depth of 1,450 metres. Mean prospective resources for Muckish are estimated to be 1.6 tcf. Recently, drilling costs have reduced greatly and so an exploration well could cost less than US\$40 million. The presence of the Dooish gas condensate discovery drilled in 2002 in an adjacent block proves the hydrocarbon bearing nature of the basin.

#### Frontier Exploration Licence 4/13 - Blocks 11/10, 11/15, 12/1(part), 12/6 and 12/11(part) – Aghla and Derryveagh Prospects

FEL 4/13 covers an area of approximately 925 square kilometres in the same area as the Muckish prospect and contains the Derryveagh, Aghla More (formally Midleton) and Aghla Beg (formally West Midleton) prospects. The names of the prospects were changed because an unrelated prospect also called Midleton was drilled by third parties in the Celtic Sea in 2015.

Aghla More and Aghla Beg are analogous to the proven gas-condensate bearing Dooish discovery lying immediately to the east. The Derryveagh prospect is a Cretaceous fan prospect overlying Aghla More and an exploration well has been designed to penetrate both prospects. There are no remaining significant commitments on this licence and Serica is seeking a partner prior to drilling an exploration well. Combined resources for Derryveagh and Aghla More are 3.8 tcf.

#### Frontier Exploration Licence 01/06: Blocks 27/4 (part), 27/5 (part) and 27/9 (part) - Liffey & Boyne Prospects

Licence FEL 1/06 covers an area of approximately 305 square kilometres in the Slyne Basin off the west coast of Ireland. Serica as operator holds a 50% interest in three blocks which lie some 40 kilometres south of the producing Corrib Field.

The Boyne and Liffey prospects lying in the licence, have been identified with the potential for commercial accumulations. These have the potential for both Triassic gas (Corrib analogue) reserves and Jurassic oil reserves, following the play proven by the Bandon oil discovery well drilled on the licence by Serica. Both prospects are clearly defined structural closures and in medium water depth (300m). Current drilling cost estimates make these an attractive proposition to access low risk exploration.

NSAI in their 2014 CPR attribute P<sub>50</sub> gross unrisked prospective resources for the combined Jurassic and Triassic objectives in Boyne and Liffey of 215 mmboe with a range from a P<sub>90</sub> of 56 mmboe to a P<sub>10</sub> of 824 mmboe.

## **Namibia**

#### Luderitz Basin: Blocks 2512A, 2513A, 2513B and 2612A (part)

Serica has an 85% interest in a Petroleum Agreement covering Blocks 2512A, 2513A, 2513B and 2612A (part) in the Luderitz Basin, offshore Namibia in partnership with The National Petroleum Corporation of Namibia (Pty) Limited and Indigenous Energy (Pty) Limited. The blocks lie in the centre of the basin and cover a total area of approximately 17,400 square kilometres.

This licence offers Serica exciting upside potential in one of the less explored basins offshore West Africa.

The licence contains numerous prospects and leads, the most significant being Prospect B, with a P<sub>10</sub> resource estimate of 1.8 billion barrels. The P<sub>50</sub> best estimate is 622 million barrels. The prospect is a clearly defined giant carbonate structure of Barremian age and measures 700 square kilometre area with a 300 metre vertical closure. Recent drilling in Namibia has proven the presence of excellent quality thick source rock at Barremian/Aptian levels which if mature, as is currently modelled, would charge the prospect with oil. High quality 3D seismic data over the prospect demonstrates external geometries and internal character coincident with a significant build-up of reservoir quality rock.

The licence contains at least six additional leads in shallower levels within canyon-channel turbidite systems and shelf edge prospects, some of which exhibit seismic amplitude (AVO) anomalies that are consistent with hydrocarbon-charged reservoirs. Best estimate (P<sub>50</sub>) of gross unrisked prospective oil resources associated with all the seven identified prospects is 2.3 billion barrels. Serica is seeking a partner to farm-in to the licence in order to drill Prospect B and the Namibian authorities have given Serica an extension to the licence to allow the process to progress.

## **Morocco**

### Sidi Moussa and Fom Draa Petroleum Agreements

#### *Sidi Moussa*

Serica has a 5% working interest in the Sidi Moussa licence on which the partnership drilled the SM-1 well in 2014. The well was drilled to a total depth of 2,825 metres and encountered oil in fractured and brecciated cavernous Upper Jurassic carbonates.

Post-well analysis has identified a follow-on prospect and the operator is considering drilling a second well on the licence. Serica has elected not to participate in this well but has the option to buy back in on agreed terms and will have access to all the well data.

#### *Fom Draa*

In 2015 the partnership elected to relinquish the licence following an assessment of the remaining prospectivity.

## **Norway**

Serica has an economic interest in the potential development of the Vette field (previously known as Bream) dependent upon the level of oil prices prevailing at first production. In December 2015, the previous operator Premier completed the sale of its interest in the field to Det Norske Oljeselskap ASA. In Serica's view, development is unlikely to be commercial at current oil prices. The Company has not been notified of any development plans.

### Group Proved plus Probable Reserves – Unaudited

	Total Oil mmbbl	Total Gas bcf	Total Oil & gas mmboe
At 1 January 2015	-	-	-
Acquisitions (1)	1.9	8.8	3.3
Revisions	0.8	3.8	1.5
Production	(0.3)	(1.8)	(0.6)
At 31 December 2015	<u>2.4</u>	<u>10.8</u>	<u>4.2</u>

(1) – Serica internal estimate at acquisition on 4 June 2015

Proved and probable reserves at 31 December 2015 are based on independent reports prepared by consultants NSAI (for the Erskine Field in the UK North Sea) in accordance with the reserve definitions of the Canadian Oil and Gas Evaluation Handbook. Gas reserves at 31 December 2015 have been converted to barrels of oil equivalent using a factor of 6.0 bcf per mmboe for Western Europe (Erskine field reserves) on the basis of a nominal gas calorific value of 1,000 BTU per cubic foot.

### Group Contingent Resources - Unaudited

	Total Oil mmbbl	Total Gas bcf	Total Oil & gas mmboe
At 1 January 2015	1.5	21.9	5.2
Acquisitions	0.8	11.0	2.6
Revisions (2)	(0.5)	(6.3)	(1.6)
At 31 December 2015	<u>1.8</u>	<u>26.6</u>	<u>6.2</u>

(2) – Revisions relate to a change in field development concept from 2-well to 1-well

At the end of 2014, the directors of Serica believed that in the oil price environment at that time and the lack of agreement on an export route, it was appropriate for Columbus field reserves to be properly considered as Contingent Resources rather than the previous categorisation as Reserves. It was therefore not considered cost effective or necessary to obtain an updated report for Columbus at the end of 2014. The directors continue to believe the categorisation of Contingent Resources is still appropriate as at 31 December 2015.

Independent consultant NSAI carried out a reserves report on the Columbus field for the end of 2015.

During 2015 Serica increased its share in the Columbus field from 33% to 50% which is reflected by acquisitions in the table above. Under current economic conditions and reduced product prices a simplified low-cost development concept using just one well has been assumed delivering estimated gross contingent resources of 54 bcf of gas and 3.6 mmbbl of liquids. Although this represents a reduction in estimated recovery factor compared to the two-well concept previously assumed, the combination of this with an increased equity interest represents an overall increase in contingent resources net to Serica from 5.2 mmboe to 6.2 mmboe. The optimal development concept will be kept under review in the light of future economic conditions.

## LICENCE HOLDINGS

The following table summarises the Company's licences as at 31 December 2015.

<b>Block(s)</b>	<b>Description</b>	<b>Role</b>	<b>% at</b>	<b>Location</b>
			<b>31/12/15</b>	
<b>UK</b>				
22/19c	Exploration	Non-operator	15%	Central North Sea
23/16f	Columbus Field - Development planned	Operator	50%	Central North Sea
23/26a, 23/26b Erskine Field	Production	Non-operator	18%	Central North Sea
47/2b (split)	Exploration	Non-operator <sup>(1)</sup>	37.5%	Southern North Sea
47/3g (split)	Exploration	Non-operator <sup>(1)</sup>	37.5%	Southern North Sea
47/7 (split)	Exploration	Non-operator <sup>(1)</sup>	37.5%	Southern North Sea
47/8d (part)	Exploration	Non-operator <sup>(1)</sup>	37.5%	Southern North Sea
113/26b	Exploration	Non-operator	20%	East Irish Sea
113/27c	Exploration	Non-operator	20%	East Irish Sea
113/22a	Exploration	Non-operator	20%	East Irish Sea
<b>Ireland</b>				
27/4 (part)	Exploration	Operator	50%	Slyne Basin
27/5 (part)	Exploration	Operator	50%	Slyne Basin
27/9 (part)	Exploration	Operator	50%	Slyne Basin
5/17	Exploration	Operator	100%	Rockall Basin
5/18	Exploration	Operator	100%	Rockall Basin
5/22	Exploration	Operator	100%	Rockall Basin
5/23	Exploration	Operator	100%	Rockall Basin
5/27	Exploration	Operator	100%	Rockall Basin
5/28	Exploration	Operator	100%	Rockall Basin
11/10	Exploration	Operator	100%	Rockall Basin
11/15	Exploration	Operator	100%	Rockall Basin
12/1 (part)	Exploration	Operator	100%	Rockall Basin
12/6	Exploration	Operator	100%	Rockall Basin
12/11 (part)	Exploration	Operator	100%	Rockall Basin
<b>Namibia</b>				
2512A	Exploration	Operator	85%	Luderitz Basin
2513A	Exploration	Operator	85%	Luderitz Basin
2513B	Exploration	Operator	85%	Luderitz Basin
2612A (part)	Exploration	Operator	85%	Luderitz Basin
<b>Morocco</b>				
Sidi Moussa	Exploration	Non-operator	5%	Tarfaya-Ifni Basin

(1) Interest relinquished in January 2016.

## **GLOSSARY**

bbbl	barrel of 42 US gallons
bcf	billion standard cubic feet
boe	barrels of oil equivalent (barrels of oil, condensate and LPG plus the heating equivalent of gas converted into barrels at a rate of 6,000 standard cubic feet per barrel)
CPR	Competent Persons Report
FEED	Front End Engineering Design
HPHT	High pressure high temperature
mmscf	thousand standard cubic feet
mmbbl	million barrels
mmboe	million barrels of oil equivalent
mmscf	million standard cubic feet
mmscfd	million standard cubic feet per day
OGA	Oil and Gas Authority
P <sub>10</sub>	A high estimate that there should be at least a 10% probability that the quantities recovered will actually equal or exceed the estimate
P <sub>50</sub>	A best estimate that there should be at least a 50% probability that the quantities recovered will actually equal or exceed the estimate
P <sub>90</sub>	A low estimate that there should be at least a 90% probability that the quantities recovered will actually equal or exceed the estimate
Proved Reserves	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.
Probable Reserves	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.
Possible Reserves	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
Reserves	Estimates of discovered recoverable commercial hydrocarbon reserves calculated in accordance with the Canadian National Instrument 51-101
Contingent Resources	Estimates of discovered recoverable hydrocarbon resources for which commercial production is not yet assured, calculated in accordance with the Canadian National Instrument 51-101
Prospective Resources	Estimates of the potential recoverable hydrocarbon resources attributable to undrilled prospects, calculated in accordance with the Canadian National Instrument 51-101
TAC	Technical Assistance Contract
tcf	trillion standard cubic feet



## **FINANCIAL REVIEW**

Group profit after tax of US\$6.5 million for 2015 compares to a loss of US\$36.1 million for 2014. This turnaround reflects the inclusion of Erskine net income from completion of the acquisition in June and the much lower level of E&E asset impairments and write-offs of US\$8.2 million compared to US\$30.0 million in 2014. Gross profit of US\$16.1 million (2014 – nil) reflected the contribution from seven months of Erskine production.

Although commodity prices continued to fall during the second half of the year the effect was partially counterbalanced by strong well performance, improved offtake facility uptime and reduced operational costs. The combined effect of these has rendered gross profit robust at current prices whilst a programme of corporate cost cutting has delivered further benefits at the operating cost level.

### **Erskine acquisition**

In June 2015 the Company completed the acquisition of an 18% interest in UK blocks 23/26a (Area B) and 23/26b (Area B) containing the Erskine Field, from BP.

Under the terms of the transaction, the base cash consideration to BP amounted to US\$11.1 million in cash plus 13.5 million Serica new Ordinary Shares (the "Consideration Shares"), a number reduced from the original 27 million shares due to the impact of certain interim period adjustments. 25% of the cash consideration was settled at completion with the remaining 75% payable in three equal tranches on 1 July 2016, 1 July 2017 and 1 July 2018 respectively.

The net cash of US\$9 million received by Serica at completion resulted from the impact of certain working capital and interim period adjustments between 1 January 2014, the Effective Date of the transaction, and the completion date. This included receipts from 55,000 bbls of oil pre-sold at prices averaging US\$100/bbl which were then satisfied through volumes produced from Erskine in June and July.

The Consideration Shares allotted to BP on completion of the transaction rank pari passu with existing Serica Ordinary Shares. BP has agreed to hold the shares as an investment for a period not less than one year with any subsequent sales subject to standard orderly market provisions.

Provision for decommissioning at the end of field life has been provided for on the basis that Serica's estimate of decommissioning costs relating to the asset acquired will be met by BP, on an inflation adjusted basis, with Serica being responsible for any costs above a fixed 18% net level of £31.32 million. The terms of the Sale and Purchase Agreement also provide for certain future contingent payments to be made by Serica in the event that operating costs for the field fall below certain levels.

The transaction provides Serica with an immediate and long term cash flow stream, is tax efficient for the Company, accelerating recovery of past tax losses in the UK, and is in line with Serica's strategy to unlock the value of its existing assets and build a platform from which it can generate future growth.

Up to 60% of the gas is purchased by SSE on formula contract prices and the balance is sold in the market at monthly average spot prices. All of the oil is sold at monthly average spot prices.

Field production is still expected to generate good cash flow in 2016, even if oil prices remain at current levels. Although the impact of the current production interruption will be kept under review, assuming steady ongoing production through the second half of 2016, we expect operating costs to be in the order of US\$20 per boe or below.

## Results from operations

### Income statement – continuing operations

Serica generated a gross profit of US\$16.1 million from its retained 18% interest in the Erskine Field, reflecting performance from the date of completion, 4 June 2015, to the year end, 31 December 2015.

#### *Sales revenues*

The Company currently generates all its sales revenue from the Erskine field in the UK North Sea. Revenue is earned from gas, oil and NGL product streams.

In the period from 4 June to 31 December 2015, net Erskine field gas production averaged 8.6 mmscf per day together with average condensate production of 1,462 barrels per day. The 2015 gas production was sold at prices averaging US\$5.1 per mscf and generated US\$9.1 million of revenue net to Serica. NGL products are derived from associated gas production and earned revenue of US\$1.1 million net to Serica.

Condensate production in the period was initially allocated against the overlift position inherited at acquisition. The oil sales recorded in 2015 from lifted barrels of oil were US\$10.4 million at an average realised price of US\$44.5/bbl.

Sales revenues also include US\$3.4 million arising from the significant reduction in oil overlift (from 55,000 barrels at the acquisition date of 4 June to 14,000 barrels at the year end) and butane and propane overlift positions.

#### *Cost of sales and depletion charges*

Cost of sales is driven by production from the Erskine field and will typically comprise field operating costs and a depletion charge against the asset's net book amount.

The overall 2015 charge of US\$7.9 million comprised direct field operating costs of US\$6.6 million and non-cash depletion of US\$1.3 million. Depletion charges principally represent the costs of Erskine acquisition spread over the estimated remaining commercial life of the field. The increase in estimated remaining reserves arising from the NSAI report has reduced depletion costs per barrel compared to previous estimates.

The US\$ reported value of any movements in product over/underlift have been classified within revenue.

#### *Other expenses and income*

The Company generated a profit before tax from continuing operations of US\$4.3 million for 2015 compared to a loss before tax of US\$35.6 million for 2014.

Pre-licence expenditure of US\$0.1 million for 2015 has fallen from the 2014 charge of US\$0.5 million due to a reduced level of activity on new business in the year as the Company has increased its focus on its existing UK Central North Sea asset portfolio. Pre-licence costs included direct costs and allocated general administrative costs incurred on oil and gas activities prior to the award of licences, concessions or exploration rights.

The aggregate E&E asset impairment charge of US\$8.2 million in 2015 is largely comprised from: a US\$3.7 million partial write-off of costs on its Slyne licence in Ireland; relinquished asset write offs from the York (US\$3.1 million) and Darwen North (US\$0.3 million) licences in the UK; a US\$5.8 million partial impairment of costs on its P1482 licence in the UK; offset by a US\$4.9 million pre-tax impairment reversal recorded against E&E assets related to the Columbus field asset.

Impairments on the Slyne and P1482 (containing the Doyle prospect) licences represent the write-off of the cost of wells drilled in 2009 and 2010 respectively which are not considered to hold remaining economic potential.

The partial impairment reversal recorded against Columbus book amounts has arisen from revised economic evaluations. The Company increased its interest in the asset in the year from 33.2% to 50% for nominal consideration. Incremental economic value attributed to the increased holding in the asset has more than offset the use of lower hydrocarbon prices in management's estimation of future discounted cash flows of the asset leading to an overall gain.

The aggregate E&E asset impairment charge in 2014 was largely comprised from asset write offs from the Sidi Moussa (US\$7.4 million) and Fom Draa (US\$5.0 million) licences in Morocco, and a US\$17.5 million pre-tax impairment recorded against E&E assets related to the Columbus field asset.

Other minor asset write-offs in 2015 and 2014 included costs from relinquished licences and obsolete inventory amounts.

Administrative expenses of US\$2.7 million for 2015 decreased from US\$4.3 million for 2014. Following the recent severe drop in oil prices and consequent impact upon the financial resources available to companies such as Serica, management has reviewed all of its expenditure commitments and reduced its personnel, office and other costs substantially effective 1H 2015. The Company expects savings achieved during the course of 1H 2015 to give further benefit in 2016. The underlying benefit in £ sterling overhead reduction in 2015 has also been positively impacted on reported US\$ charges by the weaker average £ sterling exchange rate in 2015 against 2014.

Finance costs of US\$0.2 million were incurred in 2015 comprising minor levels of interest accruing on the long term liability payable to BP and hedging costs for the Q4 2015 period.

The income statement deferred taxation credit of US\$2.4 million arose from the recognition of a corresponding deferred tax asset on the Erskine field interest.

#### Income statement - discontinued operations

Following the cessation of production and the decommissioning of the Kambuna field facilities in the second half of 2013, the financial results of the Kambuna field business segment are disclosed within 'discontinued operations' in the financial statements and separate from the results of the retained core business segments.

This discontinued operation has no significant further activity and generated a loss of US\$0.3 million in 2015 which comprised a final assessment for asset write offs and minor operator expense as residual matters are closed out.

#### **Balance Sheet**

During 2015, the total carrying value of investments in E&E assets decreased by US\$6.0 million from US\$57.8 million to US\$51.8 million. This decrease consisted of the significant net impairment charge noted above of US\$8.2 million, offset by US\$2.2 million of additions in the year.

Activity on the Company's exploration portfolio has been reduced in the year given the focus on the producing Erskine asset. In Africa, US\$0.3 million was incurred in respect of the Luderitz basin licence interests in Namibia. US\$0.2 million was incurred in the UK on the Greater York asset, Columbus development and other exploration licences. In Ireland, US\$0.7 million was incurred on exploration work on the Rockall licences and US\$0.2 million on the Slyne interest.

The property, plant and equipment balance of US\$8.9 million as at 31 December 2015 entirely comprises the net book amount of the Erskine asset acquisition costs capitalised on completion of the transaction on 4 June net of depletion charges to-date.

Trade and other receivables at 31 December 2015 totalled US\$4.2 million, an increase of US\$1.8 million from the 2014 balance of US\$2.4 million. The 2015 balance includes US\$3.2 million from December oil, gas and LPG sales earned from the Erskine field.

Cash and cash equivalents increased from US\$9.9 million to US\$21.6 million during the year. Serica received net cash of US\$9 million from BP in June, which resulted from the impact of certain working capital and interim period adjustments between 1 January 2014, the Effective Date of the Erskine transaction, and the completion date. This cash inflow was partially offset by cash payments of US\$1.8 million to settle liabilities from the 2H 2014 well drilled in Morocco, other E&E costs on work across the portfolio in the UK, Ireland and Namibia, and ongoing administrative costs and corporate activity. Cash receipts from Erskine field sales commenced in July 2015 and have significantly boosted cash resources in the post-acquisition period to December 2015.

Short term trade and other payable liabilities totalled US\$9.6 million at 31 December 2015. This balance comprises capital and operational expenditure liabilities for the Erskine interest, the US\$2.9 million (including accrued interest) short-term tranche of Erskine consideration payable to BP on 1 July 2016, and a US\$0.2 million non-cash overlift liability reflects the year end overlift position of oil and two NGL products for the Erskine field. The 2014 year-end balance of US\$4.0 million included creditors and accruals of US\$2.0 million from the Sidi Moussa well drilling in Morocco, which was settled in 2015.

Long term liabilities of US\$5.6 million as at 31 December 2015 comprise two of the three tranches of outstanding consideration payable to BP following the acquisition of the Erskine producing asset. The aggregate outstanding sum is payable in three equal tranches of US\$2.8 million plus accrued interest on 1 July 2016, 1 July 2017 and 1 July 2018 respectively.

No provision for decommissioning liabilities for the Erskine field is recorded as at 31 December 2015 as the Company's current estimate for such costs is under the agreed capped level to be funded by BP.

## **Cash balances and future commitments**

### Current cash position, capital expenditure commitments and other obligations

At 31 December 2015, the Group held cash and cash equivalents of US\$21.6 million. The Company continues to build its cash resources and cash balances had increased to US\$24 million as at 15 April 2016 following the receipt of February 2016 sales revenue.

At 31 December 2015 the Group held oil price options covering 500 bbls per day at US\$40/bbl and 500 bbls per day at US\$35/bbl covering the period up to 31 May 2016 when the summer CATS transportation system maintenance shut-in is due to commence.

### Erskine field commitments

Net revenues from the Erskine field are expected to cover ongoing field expenditures as well as the three remaining tranches of US\$2.775 million (excluding interest) cash consideration payable to BP on 1 July 2016, 2017 and 2018 respectively.

Management believe these are sufficient resources to meet the current committed programme for 2016 but remains conscious that a single field income stream exposes it to operational and infrastructure risks and the consequent need for adequate working capital to cover associated fluctuations in revenue. The field has a history of intermittent production performance prior to the remedial work undertaken and operational expenditure continues during periods of field shut-down when no revenue is earned.

### Non-Erskine commitments

The Group has no significant exploration commitments.

In the UK East Irish Sea, the Group's carry on the exploration well on the Doyle prospect is subject to a cap although no overrun is currently forecast. The Group has no significant commitments on its other exploration licences.

The Company will continue to give priority to the careful management of existing financial resources. Although a key objective for the Group is to get the Columbus development back on track, the Group would seek to use alternative means of finance to fund its share of development costs.

### **Other**

#### Asset values and Impairment

At 31 December 2015 Serica's market capitalisation stood at US\$30.6 million (£20.7 million), based upon a share price of £0.0785, which was exceeded by the net asset value at that date of US\$74.2 million. By 15 April 2016 the Company's market capitalisation had increased to US\$42.0 million. Management conducted a thorough review of the carrying value of the Group's assets and determined that no significant write-downs were required other than those noted above.

## Business Risk and Uncertainties

Serica, like all companies in the oil and gas industry, operates in an environment subject to inherent risks and uncertainties. The Board regularly considers the principal risks to which the Group is exposed and monitors any agreed mitigating actions. The overall strategy for the protection of shareholder value against these risks is to retain a broad portfolio of assets with varied risk/reward profiles, to apply prudent industry practice in all operations, to carry insurance where available and cost effective, and to retain adequate working capital.

The principal risks currently recognised and the mitigating actions taken by the management are as follows:

<b>Investment Returns:</b> Management seeks to raise funds and then to generate shareholder returns through investment in a portfolio of exploration, development and producing acreage leading to the discovery and exploitation of commercial reserves. Delivery of this business model carries a number of key risks.	
Risk	Mitigation
Market support may be eroded obstructing fundraising and lowering the share price	<ul style="list-style-type: none"> <li>• Management regularly communicates its strategy to shareholders</li> <li>• Focus is placed on building an asset portfolio capable of delivering regular news flow and offering continuing prospectivity</li> </ul>
General market conditions may fluctuate hindering delivery of the Group's business plan	<ul style="list-style-type: none"> <li>• Management aims to retain adequate working capital to ride out downturns should they arise</li> </ul>
Management's decisions on capital allocation may not deliver the expected successful outcomes	<ul style="list-style-type: none"> <li>• Rigorous analysis is conducted of all investment proposals</li> <li>• Operations are spread over a range of areas and risk profiles</li> </ul>
Each asset carries its own risk profile and no outcome can be certain	<ul style="list-style-type: none"> <li>• Management aims to avoid over-exposure to individual assets and to identify the associated risks objectively</li> </ul>

<b>Operations:</b> Operations may not go according to plan leading to damage, pollution, cost overruns or poor outcomes.	
Risk	Mitigation
The Group's income is currently derived from a single producing field	<ul style="list-style-type: none"> <li>• Efforts are underway to add to producing assets</li> <li>• Management places a priority in building and retaining sufficient working capital</li> </ul>
Individual wells may not deliver recoverable oil and gas reserves	<ul style="list-style-type: none"> <li>• Thorough pre-drill evaluations are conducted to identify the risk/reward balance</li> <li>• Exposure is selectively mitigated through farm-out</li> </ul>
Wells may blow out or equipment may fail causing environmental damage and delays	<ul style="list-style-type: none"> <li>• The Group retains fully trained and experienced personnel</li> <li>• The planning process involves risk identification and establishment of mitigation measures</li> <li>• Emphasis is placed on engaging experienced contractors</li> <li>• Appropriate insurances are retained</li> </ul>

Operations may take far longer or cost more than expected	<ul style="list-style-type: none"> <li>• Management applies rigorous budget control</li> <li>• Adequate working capital is retained to cover reasonable eventualities</li> </ul>
Production may be interrupted generating significant revenue loss	<ul style="list-style-type: none"> <li>• Business interruption cover will be considered when appropriate</li> </ul>
Offtake routes may depend upon a series of facilities and pipelines requiring a balance of throughput from a number of different fields	<ul style="list-style-type: none"> <li>• The Group aims to diversify its sources of income when suitable opportunities can be identified</li> </ul>
Resource estimates may be misleading and exceed actual reserves recovered	<ul style="list-style-type: none"> <li>• The Group deploys qualified personnel</li> <li>• Regular third-party reports are commissioned</li> <li>• A prudent range of possible outcomes are considered within the planning process</li> </ul>

**Personnel:** The Group relies upon a pool of experienced and motivated personnel to identify and execute successful investment strategies

<b>Risks</b>	<b>Mitigation</b>
Key personnel may be lost to other companies	<ul style="list-style-type: none"> <li>• The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive</li> <li>• The Group seeks to build depth of experience in all key functions to ensure continuity</li> </ul>
Personal safety may be at risk in demanding operating environments, typically offshore	<ul style="list-style-type: none"> <li>• A culture of safety is encouraged throughout the organisation</li> <li>• Responsible personnel are designated at all appropriate levels</li> <li>• The Group maintains up-to-date emergency response resources and procedures</li> <li>• Insurance cover is carried in accordance with industry best practice</li> </ul>
Staff and representatives may find themselves exposed to bribery and corrupt practices	<ul style="list-style-type: none"> <li>• Group policies and procedures are communicated to personnel regularly</li> <li>• Management reviews all significant contracts and relationships with agents and governments</li> </ul>

**Commercial environment:** World and regional markets continue to be volatile with fluctuations and infrastructure access issues that might hinder the company's business success

<b>Risk</b>	<b>Mitigation</b>
Volatile commodity prices mean that the company cannot be certain of the future sales value of its products	<ul style="list-style-type: none"> <li>• Budget planning considers a range of commodity prices</li> <li>• Price mitigation strategies may be employed at the point of major capital commitment</li> <li>• Gas may be sold under long-term contracts reducing exposure to short term fluctuations</li> <li>• Oil and gas price hedging contracts may be utilised where viable</li> </ul>

The Group may not be able to get access, at reasonable cost, to infrastructure and product markets when required	<ul style="list-style-type: none"> <li>• A range of different off-take options are pursued wherever possible</li> </ul>
Credit to support field development programmes may not be available at reasonable cost	<ul style="list-style-type: none"> <li>• Serica seeks to build and maintain strong banking relationships and initiates funding discussions at as early a stage as practicable</li> </ul>
Fiscal regimes may vary, increasing effective tax rates and reducing the expected value of reserves	<ul style="list-style-type: none"> <li>• Operations are currently spread over a range of different fiscal regimes in Western Europe and Africa</li> <li>• Before committing to a significant investment the likelihood of fiscal term changes is considered when evaluating the risk/reward balance</li> </ul>

In addition to the principal risks and uncertainties described herein, the Group is subject to a number of other risk factors generally, a description of which is set out in our latest annual information form available on [www.sedar.com](http://www.sedar.com).

### **Key Performance Indicators (“KPIs”)**

The Company’s main business is the acquisition of interests in prospective exploration acreage, the discovery of hydrocarbons in commercial quantities and the crystallisation of value whether through production or disposal of reserves. The Company tracks its non-financial performance through the accumulation of licence interests in proven and prospective hydrocarbon producing regions, the level of success in encountering hydrocarbons and the development of production facilities. In parallel, the Company tracks its financial performance through management of expenditures within resources available, the cost-effective exploitation of reserves and the crystallisation of value at the optimum point. A review of the Company’s progress against these KPIs is covered in the operations and financial review within this Strategic Report.

### **Additional Information**

Additional information relating to Serica, can be found on the Company’s website at [www.serica-energy.com](http://www.serica-energy.com) and on SEDAR at [www.sedar.com](http://www.sedar.com)

The Strategic Report has been approved by the Board of Directors.

On behalf of the Board  
Antony Craven Walker  
Executive Chairman

18 April 2016

### **Forward Looking Statements**

This disclosure contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond Serica Energy plc’s control, including: the impact of general economic conditions where Serica Energy plc operates, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility



and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. Serica Energy plc's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, that Serica Energy plc will derive therefrom.

**Serica Energy plc**  
**Group Income Statement**  
for the year ended 31 December

	<i>Note</i>	<b>2015</b> <b>US\$000</b>	2014 US\$000
<b>Continuing operations</b>			
<b>Sales revenue</b>	4	24,017	-
Cost of sales	5	(7,934)	-
<b>Gross profit</b>		<hr/> 16,083	-
Pre-licence costs		(117)	(512)
Impairment and write-offs of E&E assets	15	(8,186)	(30,019)
Other asset write-offs	15	(170)	(250)
Administrative expenses		(2,705)	(4,296)
Foreign exchange loss		(430)	(235)
Share-based payments	28	9	(337)
<b>Operating profit/(loss) before net finance revenue and tax</b>		<hr/> 4,484	(35,649)
Finance revenue	11	38	26
Finance costs	12	(202)	-
<b>Profit/(loss) before taxation</b>		<hr/> 4,320	(35,623)
Taxation credit for the year	13a)	2,433	-
Profit/(loss) for the year from continuing operations		<hr/> 6,753	(35,623)
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	7	(264)	(453)
<b>Profit/(loss) for the year</b>		<hr/> <hr/> 6,489	(36,076)
<b>Earnings per ordinary share - EPS</b>			
Basic and diluted EPS on continuing operations (US\$)	14	0.03	(0.14)
Basic and diluted EPS on loss for the year (US\$)	14	0.03	(0.14)

**Group Statement of Comprehensive Income**

There are no other comprehensive income items other than those passing through the income statement.

**Serica Energy plc**  
**Registered Number: 5450950**  
**Balance Sheet**  
As at 31 December

	<i>Note</i>	<b>Group 2015 US\$000</b>	2014 US\$000	<b>Company 2015 US\$000</b>	2014 US\$000
<b>Non-current assets</b>					
Exploration & evaluation assets	15	51,814	57,843	-	-
Property, plant and equipment	16	8,894	-	-	-
Investments in subsidiaries	17	-	-	1,350	-
Other receivables	18	-	247	-	-
Deferred tax asset	13d)	2,433	-	-	-
		<u>63,141</u>	<u>58,090</u>	<u>1,350</u>	<u>-</u>
<b>Current assets</b>					
Inventories	19	453	-	-	-
Trade and other receivables	20	4,165	2,352	59,635	58,057
Cash and cash equivalents	21	21,602	9,893	13,730	9,447
		<u>26,220</u>	<u>12,245</u>	<u>73,365</u>	<u>67,504</u>
TOTAL ASSETS		<u>89,361</u>	<u>70,335</u>	<u>74,715</u>	<u>67,504</u>
<b>Current liabilities</b>					
Trade and other payables	22	(9,573)	(3,998)	(548)	(1,167)
<b>Non-current liabilities</b>					
Trade and other payables	23	(5,621)	-	-	-
Provisions	24	-	-	-	-
TOTAL LIABILITIES		<u>(15,194)</u>	<u>(3,998)</u>	<u>(548)</u>	<u>(1,167)</u>
NET ASSETS		<u>74,167</u>	<u>66,337</u>	<u>74,167</u>	<u>66,337</u>
Share capital	26	229,308	227,958	194,036	192,686
Merger reserve	17	-	-	-	-
Other reserve		20,625	20,634	20,625	20,634
Accumulated deficit		(175,766)	(182,255)	(140,494)	(146,983)
TOTAL EQUITY		<u>74,167</u>	<u>66,337</u>	<u>74,167</u>	<u>66,337</u>

Approved by the Board on 18 April 2016

Antony Craven Walker  
Executive Chairman

Neil Pike  
Non-Executive Director

**Serica Energy plc**  
**Statement of Changes in Equity**  
For the year ended 31 December 2015

**Group**

	<i>Note</i>	<b>Share capital US\$000</b>	<b>Other reserve US\$000</b>	<b>Accum'd deficit US\$000</b>	<b>Total US\$000</b>
At 1 January 2014		227,958	20,297	(146,179)	102,076
Loss for the year		-	-	(36,076)	(36,076)
Total comprehensive income		-	-	(36,076)	(36,076)
Share-based payments	28	-	337	-	337
At 31 December 2014		227,958	20,634	(182,255)	66,337
Profit for the year		-	-	6,489	6,489
Total comprehensive income		-	-	6,489	6,489
Share-based payments	28	-	(9)	-	(9)
Issue of ordinary shares	26	1,350	-	-	1,350
At 31 December 2015		229,308	20,625	(175,766)	74,167

**Company**

	<b>Share capital US\$000</b>	<b>Merger reserve US\$000</b>	<b>Other reserve US\$000</b>	<b>Accum'd deficit US\$000</b>	<b>Total US\$000</b>
At 1 January 2014	192,686	-	20,297	(89,915)	123,068
Loss for the year	-	-	-	(57,068)	(57,068)
Total comprehensive income	-	-	-	(57,068)	(57,068)
Share-based payments	-	-	337	-	337
At 31 December 2014	192,686	-	20,634	(146,983)	66,337
Profit for the year	-	-	-	6,489	6,489
Total comprehensive income	-	-	-	6,489	6,489
Share-based payments	-	-	(9)	-	(9)
Issue of ordinary shares	1,350	-	-	-	1,350
At 31 December 2015	194,036	-	20,625	(140,494)	74,167

**Serica Energy plc**  
**Cash Flow Statement**

For the year ended 31 December

	<b>Group</b>	2014	<b>Company</b>	2014
<i>Note</i>	<b>2015</b>	US\$000	<b>2015</b>	US\$000
	<b>US\$000</b>		<b>US\$000</b>	
<b>Operating activities:</b>				
Profit/(loss) for the year	6,489	(36,076)	6,489	(57,068)
Adjustments to reconcile loss for the year to net cash flow from operating activities:				
Taxation credit	(2,433)	-	-	-
Net finance costs/(income)	164	(26)	53	(26)
Depletion and amortisation	1,341	-	-	-
Oil and NGL overlift reduction	(3,407)	-	-	-
Other asset write-offs	170	250	-	-
Impairment and write-offs of E&E assets	8,186	30,019	-	-
Impairment of loans and investments	-	-	(8,043)	54,521
Share-based payments	(9)	337	(9)	337
Other non-cash movements	431	235	443	165
(Increase)/decrease in trade and other receivables	(2,137)	2,856	273	608
(Increase)/decrease in inventories	(369)	42	-	-
(Decrease)/increase in trade and other payables	(865)	(688)	(586)	208
<b>Cash inflow/(outflow) from operations</b>	<b>7,561</b>	<b>(3,051)</b>	<b>(1,380)</b>	<b>(1,255)</b>
Taxation paid	-	-	-	-
<b>Net cash in/(outflow) from operations</b>	<b>7,561</b>	<b>(3,051)</b>	<b>(1,380)</b>	<b>(1,255)</b>
<b>Investing activities:</b>				
Interest received	11	26	10	26
Purchase of E&E assets	(3,957)	(12,967)	-	-
Cash inflow arising on asset acquisition	16	8,874	-	-
Funding provided from/(to) Group subsidiaries	-	-	6,345	(14,618)
<b>Net cash flow from investing activities</b>	<b>4,928</b>	<b>(12,941)</b>	<b>6,355</b>	<b>(14,592)</b>
<b>Financing activities:</b>				
Gross proceeds from issue of shares	26	-	-	-
Fees from issue of shares	-	-	-	-
Finance costs paid	(254)	-	(249)	-
<b>Net cash flow from financing activities</b>	<b>(254)</b>	<b>-</b>	<b>(249)</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>27</b>	<b>12,235</b>	<b>(15,992)</b>	<b>4,726</b>
Effect of exchange rates on cash and cash equivalents	27	(526)	(177)	(443)
Cash and cash equivalents at 1 January	27	9,893	26,062	9,447
Cash and cash equivalents at 31 December	27	<b>21,602</b>	<b>9,893</b>	<b>13,730</b>
		<b>9,447</b>		<b>9,447</b>

## **Serica Energy plc**

### **Notes to the Financial Statements**

#### **1. Authorisation of the Financial Statements and Statement of Compliance with IFRS**

These are not the statutory accounts of the Company prepared in accordance with the Companies Act. The Group's and Company's financial statements for the year ended 31 December 2015 were authorised for issue by the Board of Directors on 18 April 2016 and the balance sheets were signed on the Board's behalf by Antony Craven Walker and Neil Pike. Serica Energy plc is a public limited company incorporated and domiciled in England & Wales. The principal activity of the Company and the Group is to identify, acquire and subsequently exploit oil and gas reserves. Its current activities are located in the United Kingdom, Ireland, Namibia and Morocco. The Company's ordinary shares are traded on AIM.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2015. The Company's financial statements have been prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Company for the year ended 31 December 2015 and as applied in accordance with the provisions of the Companies Act 2006. The Group's financial statements are also prepared in accordance with IFRS as issued by the IASB. The principal accounting policies adopted by the Group and by the Company are set out in note 2.

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The profit dealt with in the financial statements of the parent Company was US\$6,489,000 (2014: deficit US\$57,068,000).

On 1 September 2005, the Company completed a reorganisation (the "Reorganisation"), whereby the common shares of Serica Energy Corporation were automatically exchanged on a one-for-one basis for ordinary shares of Serica Energy plc, a newly formed company incorporated under the laws of the United Kingdom. In addition, each shareholder of the Corporation received beneficial ownership of part of the 'A' share of Serica Energy plc issued to meet the requirements of public companies under the United Kingdom jurisdiction. Under IFRS this reorganisation was considered to be a reverse takeover by Serica Energy Corporation and as such the financial statements of the Group represent a continuation of Serica Energy Corporation.

#### **2. Accounting Policies**

##### **Basis of Preparation**

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2015.

The Group and Company financial statements have been prepared on a historical cost basis and are presented in US dollars. All values are rounded to the nearest thousand dollars (US\$000) except when otherwise indicated.

##### **Going Concern**

The Directors are required to consider the availability of resources to meet the Group's liabilities for the foreseeable future. The financial position of the Group, its cash flows and capital commitments are described in the Financial Review above.

At 31 December 2015 the Company held net current assets of US\$16.6 million including cash resources of US\$21.6 million with no borrowings outstanding. The Erskine asset acquisition in early June 2015 has brought to Serica a producing interest capable of generating robust continuing cash flow at current oil and gas prices. Existing resources plus Erskine revenues are expected to be sufficient to cover ongoing Erskine costs and the outstanding instalments of the acquisition price plus other operational, technical and administrative costs in the short to medium term.

Since acquisition in June 2015, Erskine field production capability has been above expectations. However, in prior years production has been intermittent due largely to poor downstream infrastructure performance which the recent shut-in was designed to address. Mindful of the risks of reliance on revenues from a single field, which are underlined by the current shutdown caused by pigging problems, management will seek to continue building Group cash reserves so as to improve its financial resilience. The strategy is to restrict near-term spend on administrative costs and exploration licences, only committing to exploration drilling where the costs are substantially carried by third parties. The Company's costs of the exploration well on 22/19c will be carried by a third party as will the bulk of the subsequent Doyle well.

Management continues to seek new business opportunities to add shareholder value and, where these can offer attractive returns, appropriate financing structures will be investigated. When the final decision to proceed with the Columbus development is made, the Group would consider a range of alternative means of finance to fund its share of development costs.

After making enquiries and having taken into consideration the above factors, the Directors have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

### **Use of judgement and estimates and key sources of estimation uncertainty**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes could differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognised in the financial statements are: the assessment of commercial reserves, the impairment of the Group and Company's assets (including oil & gas development assets and Exploration and Evaluation "E&E" assets) and share-based payment costs.

#### Assessment of commercial reserves

Management is required to assess the level of the Group's commercial reserves together with the future expenditures to access those reserves, which are utilised in determining the amortisation and depletion charge for the period and assessing whether any impairment charge is required. The Group employs independent reserves specialists who periodically assess the Group's level of commercial reserves by reference to data sets including geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Group's assets. In addition the Group undertakes its own assessment of commercial reserves and related future capital expenditure by reference to the same datasets using its own internal expertise.

### Impairment

The Group monitors internal and external indicators of impairment relating to its intangible and tangible assets, which may indicate that the carrying value of the assets may not be recoverable. The assessment of the existence of indicators of impairment in E&E assets involves judgement, which includes whether management expects to fund significant further expenditure in respect of a licence and whether the recoverable amount may not cover the carrying value of the assets. For development and production assets judgement is involved when determining whether there have been any significant changes in the Group's oil and gas reserves.

The Group determines whether E&E assets are impaired at an asset level and in regional cash generating units ('CGUs') when facts and circumstances suggest that the carrying amount of a regional CGU may exceed its recoverable amount. As recoverable amounts are determined based upon risked potential, or where relevant, discovered oil and gas reserves, this involves estimations and the selection of a suitable pre-tax discount rate relevant to the asset in question. The calculation of the recoverable amount of oil and gas development and production properties involves estimating the net present value of cash flows expected to be generated from the asset in question. Future cash flows are based on assumptions on matters such as estimated oil and gas reserve quantities and commodity prices. The discount rate applied is a pre-tax rate which reflects the specific risks of the country in which the asset is located.

Management is required to assess the carrying value of investments in subsidiaries in the parent company balance sheet for impairment by reference to the recoverable amount. This requires an estimate of amounts recoverable from oil and gas assets within the underlying subsidiaries (see note 17).

### Deferred tax assets

Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable profits in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise deferred tax assets could be impacted.

### Share-based payment costs

The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgments relating to the continuing participation of employees (see note 28).

## **Basis of Consolidation**

The consolidated financial statements include the accounts of Serica Energy plc (the "Company") and its wholly owned subsidiaries Serica Holdings UK Limited, Serica Energy Holdings B.V., Serica Energy (UK) Limited, Serica Glagah Kambuna B.V., Serica Sidi Moussa B.V., Serica Foum Draa B.V., Serica Energy Slyne B.V., Serica Energy Rockall B.V., Serica Namibia B.V., Serica Energy Corporation, Asia Petroleum Development Limited, Petroleum Development Associates (Asia) Limited and Petroleum Development Associates Lematang Limited. Together these comprise the "Group".

All inter-company balances and transactions have been eliminated upon consolidation.



## **Foreign Currency Translation**

The functional and presentational currency of Serica Energy plc and all its subsidiaries is US dollars.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange ruling at the balance sheet date and differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. Exchange gains and losses arising from translation are charged to the income statement as an operating item.

## **Business Combinations and Goodwill**

### Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in administrative expenses.

Goodwill on acquisition is initially measured at cost being the excess of purchase price over the fair market value of identifiable assets, liabilities and contingent liabilities acquired. Following initial acquisition it is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to an impairment test at least annually and more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, or groups of cash generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

## **Joint Arrangements**

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets and obligations for the liabilities, relating to the arrangement.

The Group conducts petroleum and natural gas exploration and production activities jointly with other venturers who each have direct ownership in and jointly control the operations of the ventures. These are classified as jointly controlled operations and the financial statements reflect the Group's share of assets and liabilities in such activities. Income from the sale or use of the Group's share of the output of jointly controlled operations, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transaction will flow to/from the Group and their amount can be measured reliably.

Full details of Serica's working interests in those petroleum and natural gas exploration and production activities classified as joint operations are included in the Review of Operations.

## **Exploration and Evaluation Assets**

As allowed under IFRS 6 and in accordance with clarification issued by the International Financial Reporting Interpretations Committee, the Group has continued to apply its existing accounting policy to exploration and evaluation activity, subject to the specific requirements of IFRS 6. The Group will continue to monitor the application of these policies in light of expected future guidance on accounting for oil and gas activities.

### Pre-licence Award Costs

Costs incurred prior to the award of oil and gas licences, concessions and other exploration rights are expensed in the income statement.

### Exploration and Evaluation (E&E)

The costs of exploring for and evaluating oil and gas properties, including the costs of acquiring rights to explore, geological and geophysical studies, exploratory drilling and directly related overheads, are capitalised and classified as intangible E&E assets. These costs are directly attributed to regional CGUs for the purposes of impairment testing; UK & Ireland and Africa.

E&E assets are not amortised prior to the conclusion of appraisal activities but are assessed for impairment at an asset level and in regional CGUs when facts and circumstances suggest that the carrying amount of a regional cost centre may exceed its recoverable amount. Recoverable amounts are determined based upon risked potential, and where relevant, discovered oil and gas reserves. When an impairment test indicates an excess of carrying value compared to the recoverable amount, the carrying value of the regional CGU is written down to the recoverable amount in accordance with IAS 36. Such excess is expensed in the income statement. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is reversed as a credit to the income statement.

Costs of licences and associated E&E expenditure are expensed in the income statement if licences are relinquished, or if management do not expect to fund significant future expenditure in relation to the licence.

The E&E phase is completed when either the technical feasibility and commercial viability of extracting a mineral resource are demonstrable or no further prospectivity is recognised. At that point, if commercial reserves have been discovered, the carrying value of the relevant assets, net of any impairment write-down, is classified as an oil and gas property within property, plant and equipment, and tested for impairment. If commercial reserves have not been discovered then the costs of such assets will be written off.

### Asset Purchases and Disposals

When a commercial transaction involves the exchange of E&E assets of similar size and characteristics, no fair value calculation is performed. The capitalised costs of the asset being sold are transferred to the asset being acquired. Proceeds from a part disposal of an E&E asset, including back-cost contributions are credited against the capitalised cost of the asset, with any excess being taken to the income statement as a gain on disposal.

### Farm-ins

In accordance with industry practice, the Group does not record its share of costs that are 'carried' by third parties in relation to its farm-in agreements in the E&E phase. Similarly, while the Group has agreed to carry the costs of another party to a Joint

Operating Agreement ("JOA") in order to earn additional equity, it records its paying interest that incorporates the additional contribution over its equity share.

## **Property, Plant and Equipment – Oil and gas properties**

### Capitalisation

Oil and gas properties are stated at cost, less any accumulated depreciation and accumulated impairment losses. Oil and gas properties are accumulated into single field cost centres and represent the cost of developing the commercial reserves and bringing them into production together with the E&E expenditures incurred in finding commercial reserves previously transferred from E&E assets as outlined in the policy above. The cost will include, for qualifying assets, borrowing costs.

### Depletion

Oil and gas properties are not depleted until production commences. Costs relating to each single field cost centre are depleted on a unit of production method based on the commercial proved and probable reserves for that cost centre. The depletion calculation takes account of the estimated future costs of development of recognised proved and probable reserves. Changes in reserve quantities and cost estimates are recognised prospectively from the last reporting date.

### Impairment

A review is performed for any indication that the value of the Group's development and production assets may be impaired.

For oil and gas properties when there are such indications, an impairment test is carried out on the cash generating unit. Each cash generating unit is identified in accordance with IAS 36. Serica's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development or production areas. If necessary, impairment is charged through the income statement if the capitalised costs of the cash generating unit exceed the recoverable amount of the related commercial oil and gas reserves.

### Acquisitions, Asset Purchases and Disposals

Acquisitions of oil and gas properties are accounted for under the acquisition method when the assets acquired and liabilities assumed constitute a business.

Transactions involving the purchase of an individual field interest, or a group of field interests, that do not constitute a business, are treated as asset purchases. Accordingly, no goodwill and no deferred tax gross up arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis. Proceeds from the entire disposal of a development and production asset, or any part thereof, are taken to the income statement together with the requisite proportional net book value of the asset, or part thereof, being sold.

### Decommissioning

Liabilities for decommissioning costs are recognised when the Group has an obligation to dismantle and remove a production, transportation or processing facility and to restore the site on which it is located. Liabilities may arise upon construction of such facilities, upon acquisition or through a subsequent change in legislation or regulations. The amount recognised is the estimated present value of future expenditure determined in accordance with local conditions and requirements. A corresponding tangible item of property, plant and equipment equivalent to the provision is also created.

Any changes in the present value of the estimated expenditure is added to or deducted from the cost of the assets to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. The unwinding of the discount on the decommissioning provision is included as a finance cost.

#### Underlift/Overlift

Lifting arrangements for oil and gas produced in certain fields are such that each participant may not receive its share of the overall production in each period. The difference between cumulative entitlement and cumulative production less stock is 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within debtors ('underlift') or creditors ('overlift'). Movements during an accounting period are adjusted through revenue, such that gross profit is recognised on an entitlement basis.

#### **Property, Plant and Equipment - Other**

Computer equipment and fixtures, fittings and equipment are recorded at cost as tangible assets. The straight-line method of depreciation is used to depreciate the cost of these assets over their estimated useful lives. Computer equipment is depreciated over three years and fixtures, fittings and equipment over four years.

#### **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs and transportation expenses.

#### **Investments**

In its separate financial statements the Company recognises its investments in subsidiaries at cost less any provision for impairment.

#### **Financial Instruments**

Financial instruments comprise financial assets, cash and cash equivalents, financial liabilities and equity instruments.

#### Financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial asset are capitalised unless they relate to a financial asset classified at fair value through profit and loss in which case transaction costs are expensed in the income statement.

The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Financial assets at fair value through profit or loss include financial assets held for trading and derivatives. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost, using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into

account any discount or premium on acquisition over the period to maturity. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with original maturities of three months or less at the date acquired.

#### Financial liabilities

Financial liabilities include interest bearing loans and borrowings, and trade and other payables.

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

#### Equity

Equity instruments issued by the Company are recorded in equity at the proceeds received, net of direct issue costs.

#### **Leases**

Operating lease payments are recognised as an operating expense in the income statement on a straight line basis over the lease term.

#### **Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes. Revenue from oil and natural gas production is recognised on an entitlement basis for the Group's net working interest.

#### **Finance Revenue**

Finance revenue chiefly comprises interest income from cash deposits on the basis of the effective interest rate method and is disclosed separately on the face of the income statement.

#### **Finance Costs**

Finance costs of debt are allocated to periods over the term of the related debt using the effective interest method. Arrangement fees and issue costs are amortised and charged to the income statement as finance costs over the term of the debt.

#### **Borrowing costs**

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost

during construction until such time the assets are substantially ready for their intended use i.e when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amounts capitalised represent the actual borrowing costs incurred. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### **Share-Based Payment Transactions**

Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

#### Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of Serica Energy plc ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. For equity awards cancelled by forfeiture when vesting conditions are not met, any expense previously recognised is reversed and recognised as a credit in the income statement. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the income statement. Estimated associated national insurance charges are expensed in the income statement on an accruals basis.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

### **Income Taxes**

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

Deferred tax is provided using the liability method and tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Provision is made for temporary differences at the balance sheet date between the tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is provided on all temporary differences except for:

- temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future; and
- temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the income statement nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are presented net only if there is a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

### **Earnings Per Share**

Earnings per share is calculated using the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated based on the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all relevant potentially dilutive shares to ordinary shares. It is assumed that any proceeds obtained on the exercise of any options and warrants would be used to purchase ordinary shares at the average price during the period. Where the impact of converted shares would be anti-dilutive, these are excluded from the calculation of diluted earnings.

### **New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, there are no new or amended standards or interpretations adopted during the year that have a significant impact on the financial statements.

### **Standards issued but not yet effective**

Certain standards or interpretations issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

<b>Standard</b>	<b>Effective year commencing on or after</b>
IFRS 9 – Financial Instruments	1 January 2018 *
IFRS 15 – Revenue from Contracts with Customers	1 January 2018 *
IFRS 16 - Leases	1 January 2019 *
Amendments to IAS 16 and IAS 38 – Clarification of Accountable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations	1 January 2016

*\*Not yet endorsed by the EU*