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

## Operations Update

**London, 14 December 2015** - Serica Energy plc (AIM: SQZ), an independent oil and gas company with production, development and exploration licence interests in the UK North Sea and exploration licence interests in Ireland, Morocco and Namibia, is pleased to provide an operations update as follows:

## Highlights:

- Strong performance through end November and early December
- Average production of 3,300boe per day net to Serica in October and November
- Operating costs below US$20/boe at current production rates
- Robust field net income: cash in excess of US$20 million at 30 November 2015, no borrowings
- Maintaining careful control of G&A cost base

**Tony Craven Walker, Serica’s Chairman commented:**
***“During this severe industry downturn Serica has managed to improve its asset mix and its financial resilience, creating a position of strength relative to many of its peers. The Company intends to use this as a platform for further growth, with a focus on development opportunities and extending the life, and therefore reserves, of existing fields in the area surrounding our core asset holdings in the Central North Sea as well as further afield in the UKCS.***

### Overview

Since our last update in September the Erskine field and associated infrastructure have continued to perform strongly, averaging over 3,300 barrels of oil equivalent (boe) per day net to Serica for October and November compared to 3,100 boe per day reported for the period from mid-year to end September. We are encouraged both by six months of strong Erskine field performance and by the uptime achieved for the Lomond processing facilities following the maintenance shutdown during H1 2015. Field net income is robust at current oil and gas prices and continues to strengthen the Company’s cash and working capital position. At 30 November 2015 our cash holdings exceeded US$20 million and, on the basis of projected production rates and realised values, we expect them to continue to grow. Expenditure commitments are minimal and we have no borrowings.

This provides a firm basis from which to pursue Serica’s key objectives: work with Erskine/Columbus area partners to maximise value for all parties, conclude discussions for the Columbus offtake route in preparation for development, and pursue complementary acquisitions both within the immediate area and elsewhere on the UK Continental Shelf. In particular the Company aims to add to its single producing interest when suitable opportunities are identified.

Although exploration necessarily takes a back seat in the current oil and gas environment, carried wells on North Sea blocks 22/19c and 113/27c offer material upside potential at minimal cost, with drilling expected in 2017. We also hold Atlantic margin acreage offshore Ireland and Namibia, offering exciting longer term potential. We continue to look at ways in which we can accelerate activity in these areas. Our strategy remains to explore only where the costs can be mitigated through farm-out, and to contain core G&A costs at the present low level commensurate with the current commodity price environment.

**Production and Operations**

The Erskine field has continued to benefit from strong reservoir capability and improved Lomond facility performance following the extensive maintenance shutdown in 2014/2015. The average daily oil and gas production rate for October and November, net to Serica, was 3,300 boe per day realising revenues of approximately US$7.8 million at an average price of US$39/boe from oil and gas sales (US$46/barrel oil and 34p/therm gas).

December production levels are currently impacted by throughput restrictions in place on the Forties Pipeline System and, more recently, by a temporary shut-down on 9 December to enable inspection work to be undertaken on the Lomond platform through which Erskine production is transported. This is expected to be completed before the end of the month. In the event that the work is not completed in this time-frame, average production for the fourth quarter would be at the reduced level of approximately 2,500 boe per day net to Serica, a 19% reduction on 3Q levels.

Operating costs per boe are highly dependent on production levels and are currently running below US$20 per boe, benefitting from the strong production rates being achieved. They are expected to be US$20 to US$24 per boe through 2016 assuming production rates meet expectations.

Although the Erskine reservoir will be subject to gradual pressure decline, recent peak production rates as high as 4,500 boe per day net to Serica suggest that steady daily production in the range 2,500 to 3,000 boe should be achievable during 2016, outside a planned one-to-two month mid-year maintenance shutdown, including work on the Central Area Transportation System through which Erskine gas is transported. There are no major capital expenditures planned on the Erskine facilities in 2016.

The operators of Erskine and the Lomond facilities continue to work on cost reductions to improve near-term profitability and extend field economic life. This is in line with the goals of the UK Oil and Gas Authority (OGA), which is facilitating collaboration between the producing and development fields in the area, with the aim of improving overall economic returns.

Serica intends to commission an updated reserves report which will be available in conjunction with the release of its annual results in April 2016.

## Commodity price exposure

Although the current market forward curve anticipates improving oil prices for 2016, near-term prices continue to show significant volatility. Consequently we took advantage of an early October oil price peak to purchase low-cost hedging options setting US$40.00 and US$35.00 floor prices, each for 500 boe per day on a calendar month basis for the period until June 2016, still well above our projected field break-even level. In addition approximately half of our Erskine gas production to September 2016 is sold under contract at pre-determined prices mitigating the impact of potential spot price volatility.

## Development

In October, the Company announced the acquisition of the southern area of the Columbus Field located in block 23/21a from BG International Limited and SSE E&P UK Limited, increasing Serica's interest in Columbus to 50% and its share of estimated contingent resources to 7.8 million boe*. The remaining Columbus partners are now in a much stronger position to progress the field development and are working closely with the Erskine and Lomond operators to this end. As the operator of Columbus and a full participant in Erskine and related infrastructure, Serica has a key role in on-going work by the Lomond and Erskine operators to reduce cost and extend the life of existing facilities. This will enable both Columbus reserves and additional reserves in the greater Lomond area to be brought on stream in the most commercially effective way. Decisions on the optimum export route for Columbus and the most efficient way of developing the field are likely to be taken later in 2016 when current studies on the infrastructure aspects and commercial discussions have been completed.

*The contingent resources figure has been derived from an independent competent persons report prepared by Netherland, Sewell and Associates Inc.

## Exploration

Although the current low price for crude oil has had a marked effect on exploration projects world-wide and has resulted in project slippages, Serica is continuing to move its exploration prospects forward, whilst also containing cost and risk exposure.

In the Central North Sea, planning is actively underway for the high pressure, high temperature, exploration well in the Rowallan Prospect on block 22/19c (Serica 15%) in preparation for an anticipated summer 2017 spud date. This requires pre-expenditure in 2016 by ENI, the operator, and our partners on a site survey and long lead drilling equipment. Serica is fully carried and will not incur any costs on this licence up to the completion of the well. A successful drilling outcome would have a very material positive impact on Serica, and the Company is encouraged by the progress being made.

In the East Irish Sea, in block 113/27c (Serica 20%), the partners are working towards drilling an exploration well on the Doyle gas prospect, now also scheduled for 2017. Current low rig rates give confidence that the cost to drill the Doyle well will be below the agreed cap of the Serica carry and so no further investment by Serica should be required.

In Namibia and Ireland we continue to pursue ways in which we can unlock the major potential which we believe lies in our blocks, and are engaging with third parties to capitalise on work already undertaken by Serica in those areas - a large US$50 million 3D seismic survey in Namibia (Serica 85%) and an early oil discovery in the Slyne trough offshore Ireland (Serica 50%). To assist us in these efforts, extensions have been granted by the regulatory authorities to Serica's Irish licence in the Rockall Basin (FEL 1/09) to July 2017 and our Namibian licence in the Luderitz Basin to December 2016. Working with the regulatory bodies in this way provides us with more time to find farm-in partners and take advantage of current low rig rates. Opportunities to bring forward drilling in all these areas are being evaluated.

## Outlook

A positive side-effect of the more than halving of oil prices and the reduction in tax rates announced earlier this year has been a renewed focus on capital and operating costs and on better utilisation of existing infrastructure throughout the North Sea. We believe that with imagination and commitment to cut costs and protect existing infrastructure, this will underpin profitability and extend field lives well into the next decade. This gives us added confidence in the future of the sector, the role of smaller companies to extend and enhance production and in our ability to deliver value to our investors despite current market pessimism. Serica is strongly placed to achieve this.

## Technical Information

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 19 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).

**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** | | |
| David Simonson | david.simonson@instinctif.com | +44 (0)7831 347 222 |
| Anca Spiridon | anca.spiridon@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, an economic interest in 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.

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