



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

### Operations Update

**London, 29 January 2018** – 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 interests in Ireland and Namibia, is pleased to provide an operations update.

#### Highlights:

- Significant expansion and diversification of portfolio with planned acquisition of BP’s interests in the Bruce, Keith and Rhum North Sea fields
- Average production of approximately 1,975 boe/d net to Serica from Erskine in 2017
- Tender process underway for drilling rig to commence Rowallan exploration well in H2 2018
- Rig contracted to perform Rhum #3 well intervention
- Robust financial position, with cash balance at year-end standing at US\$34 million while remaining virtually debt-free

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

*"Serica has made major advances in the final quarter of 2017, with the proposed acquisition of the Bruce, Keith and Rhum ("BKR") assets from BP, announced in November. In line with our strategy to expand production, add substantial value and spread risk through an enlarged and diversified portfolio, the acquisition will place the Company among the leading independent UK North Sea operators. This was achieved with no shareholder dilution. The Company remains virtually debt-free and has limited its exposure to downside commodity prices through hedges. We are fully funded in respect of all our capital commitments.*

*2018 promises to be a very active year for Serica. The primary objective is to complete the acquisition of BKR, following which we expect to see substantial production growth. We are also working closely with the Erskine and Lomond operators to improve infrastructure performance downstream of Erskine. We expect to make a decision on the export route for Columbus production during H1 2018. Separately, preparations are advancing for two important wells in our portfolio. On the Rhum field, a rig has been contracted to carry out the Rhum #3 well intervention, which has the potential to add significantly to Serica’s daily production rates. A tender process is also underway to contract a rig to drill the high-impact Rowallan prospect, which will be drilled at no cost to Serica.*

*To support Serica’s expansion, we have made several additions to the management team and are excited to be welcoming the high-quality BP staff that will be transferring across to Serica as part of the BKR transaction.*

*Over the coming months, we will be growing our team in Aberdeen and expect to open a new operational headquarters in the city in summer 2018."*

## **UK North Sea Bruce, Keith and Rhum Fields**

In November 2017, Serica announced the proposed acquisition of BP's interests in the BKR fields in the North Sea and associated infrastructure. Under the terms of the acquisition, Serica will acquire a 36% interest in Bruce, a 34.83% interest in Keith and a 50% interest in Rhum. The transaction was approved by Serica shareholders at a General Meeting held on 18 December 2017. The deal has an effective date of 1 January 2018 and completion of the acquisition is expected to take place in Q3 2018.

Production from BKR was interrupted due to the closure of the Forties Pipeline system in December. Since the restart of operations, reported on 12 January, production rates have routinely been in excess of 20,000 boe/d net to BP. Under the terms of the transaction, Serica will receive 40% of the pre-tax net cash flow for BKR in 2018, rising to 50% in 2019, 60% in 2020 and 2021 and 100% thereafter.

The Rhum operator (BP) has awarded a contract for a rig to carry out the re-entry and re-completion of the previously drilled (but not yet producing) Rhum #3 well. This work will be carried out during Q2 and Q3 this year. The well is already connected to the necessary infrastructure and it is expected that production will commence before the year-end.

Planning for the transition of BKR operatorship from BP to Serica is progressing well and constructive discussions have been held with the BKR joint venture partners, the OGA and other regulatory bodies. The consultation period for BP staff is also underway.

Serica will open a new operational headquarters in Aberdeen to accommodate the staff transferring from BP to Serica, as well as new staff that Serica will recruit for the BKR project.

## **UK North Sea Erskine Field**

Production for 2017 was approximately 1,975 boe/d net to Serica. This fell below the 2,200 boe/d lower end of production guidance for the year, due largely to ongoing waxing problems with the Lomond to Everest condensate line which carries Erskine condensate and the unanticipated shutdown of the Forties pipeline system in December, which affected a large number of North Sea fields.

Production in January 2018 has been restricted by the condensate export pipeline from the Lomond platform experiencing back pressure caused by wax deposits. This was further impacted by a blockage in the line, as announced on 22 January, which occurred during routine pigging operations. A de-blocking operation is underway and the Company and its partners are considering options aimed at delivering a permanent solution for the wax condition.

Notwithstanding the difficulties with downstream export facilities, the wells and reservoirs in Erskine continue to perform as expected, giving encouragement that when the operating efficiency of the Lomond infrastructure improves, Erskine wells are capable of reaching production rates that will help recover production lost due to downtime, as seen in the first half of 2017.

## **UK North Sea Columbus Development**

Serica has continued to work with its partners and neighbouring infrastructure owners in line with the OGA's Maximising Economic Recovery ("MER") initiative. Engineering design work and commercial negotiations are progressing on two alternative offtake routes:

- (i) a subsea development via a future pipeline operated by the Arran field owners tying into the Shell operated Shearwater platform; and
- (ii) drilling an extended reach well from the Chrysaor operated Lomond platform

The Columbus partners intend to make a decision on the optimum route and submit a Field Development Plan by the end of the first half of this year. Depending on the route selected, first production could be as early as 2019 or in the case of the Shearwater option, 2021

## **Exploration**

The site survey for the Central North Sea Rowallan prospect was completed in December 2017. A tender process is underway to contract a drilling rig to commence the exploration well on Rowallan in H2 2018. Long lead items have been ordered in preparation for drilling. Serica is fully carried with a 15% interest in this high-pressure, high-temperature well. The prospect has been independently assessed to contain Best Estimate prospective resources of 19.7 million boe net to Serica.

Serica is seeing increased exploration activity and renewed industry enthusiasm in both Ireland and Namibia. Serica is seeking to identify a farm-in partner to share costs and progress exploration on our licences in these regions.

## **Finance**

At 31 December 2017, Serica had cash balances totalling US\$34.0 million, including term deposits, with no borrowings other than US\$3.9 million drawn to cover the cost of gas price hedges drawn under the prepayment facility provided by BP Gas Marketing, in conjunction with the BKR acquisition. Both oil and gas prices have shown strength in recent months with Brent oil prices reaching levels not seen since late 2014.

The BKR transaction was classified as a reverse takeover under the AIM Rules for Companies and Serica's shares were suspended when the transaction was announced on 21 November 2017. The price at suspension was 27.625p. Since readmission of the shares on 30 November 2017, the price has risen to 85p at the close of business on 26 January 2018, an increase of 208%.

## **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 over 20 years of experience in oil & gas exploration, production and development and is a member of the Society of Petroleum Engineers (SPE) and the Petroleum Exploration Society of Great Britain (PESGB).

## **Regulatory**

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

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## NOTES TO EDITORS

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

In November 2017 Serica announced the proposed acquisition of BP's interests in the Bruce, Keith and Rhum fields in the North Sea and associated infrastructure. Under the terms of proposed acquisition Serica will acquire a 36% interest in Bruce, a 34.83% interest in Keith and a 50% interest in Rhum (collectively the "BKR Assets"). The deal has an effective date of 1 January 2018 and completion of acquisition is expected to take place in the third quarter of 2018.

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

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

