SERICA ENERGY PLC

2018

ANNUAL REPORT AND ACCOUNTS

Company Number: 5450950

EXECUTIVE CHAIRMAN'S STATEMENT

The past year has been pivotal for Serica, a year of real achievement for all stakeholders, employees and shareholders alike and lays the foundations for future growth. Completion of the purchase of operated interests in the Bruce, Keith and Rhum fields from BP (the "BKR fields") together with subsequent transactions to buy additional interests in the Bruce and Keith fields from Total, BHP and Marubeni, has brought very material financial and strategic benefits to the Company and its shareholders. The transactions included a complex restructuring of partnership interests which has enabled production to continue seamlessly to the benefit of the UK as well as to Serica and field partners. We are delighted with the outcome.

Serica is now one of the leading UK Independent companies operating in the UK sector of the North Sea. We operate one of the major offshore facilities, handling up to 50,000 boe/d of gas and liquids production. Plans to improve and extend field performance are in hand, Columbus is now approved for development and, with new investment opportunities continually under review, we are strongly placed to grow and generate value for shareholders.

Although production from the Erskine field was closed for over nine months of last year and production from the BKR fields is only included for the month of December we are reporting strong results for the year. Gross profit for 2018 was up by 31% at US$25.2 million and profit after tax was US$74.7 million, the latter largely influenced by the significant purchase gain that we are required to record on the BKR transactions under IFRS and also by the accelerated utilisation of tax assets.

We continue to see strong levels of production. Serica's net share of production from Erskine and the BKR fields for the first three months of 2019 has exceeded 30,000 boe/d, an approximately fifteen-fold increase over the levels prior to suspension of Erskine production one year earlier. This indicates the impact of the BKR transactions.

This major production increase is generating substantial inward net cash flows. With 37% of our 2019 gas production, adjusted for net cash flow sharing, hedged at a floor of 35p/therm and over 20% of our production in oil, revenue generation is well balanced and robust at the current price deck. Serica's net cash balances at 31 March 2019 have risen to US$92 million, up from US$55 million at the end of December, and give an indication of the cash generating capability of our assets.

We are very proud of the team at Serica which has enabled this to happen and the optimum risk/reward sharing basis on which it was structured, obviating the need for further fund raising and protecting shareholders' interests. Our strong cash flow and operating capabilities provide an enviable platform from which Serica can continue to build for the future. It is a testament to what can be achieved by a small but highly experienced team.

By building up a production base to which we can add value though our own expertise Serica is well on its way to achieving the first steps of its strategic objectives. This commenced with the acquisition of our interest in the producing Erskine field just under four years ago. Although a small beginning this generated material benefit to the Company and continues to do so. The acquisition of the BKR field interests now opens up a whole new dimension and range of opportunity for Serica to broaden its portfolio and participate in the full cycle of upstream activities.

Whilst we are not averse to taking on assets overseas we will be focusing our immediate attention on the North Sea which is going through a period of evolution as major companies restructure their asset portfolios. As an experienced and now fully established North Sea operating company Serica is in a good position to play its part and benefit from these changes. We have opened a new operating base in Aberdeen to handle operations. The team which has joined us from BP to operate the fields and the new employees who have joined us to help manage the operations provide us with the capability to take on new projects and we have both the balance sheet strength with minimal borrowings and the increasing cash resources to do so.

Which brings me to the people. None of this would be possible without the skills of the people involved and the knowledge and experience of those who were responsible for the efficient and safe transfer of operations from BP and who will take the Company forward. I know that shareholders will wish me to thank them.

At the Board we are also seeing changes in parallel with the Company's expanding operations and we will continue to review the optimum Board composition for a Company of Serica's size and responsibilities. We have recently appointed Trevor Garlick and Malcolm Webb as non-executive Directors, both of them joining the Company at the end of November. Trevor's knowledge of the North Sea industry from his time at BP, where he was latterly Regional President of BP's North Sea Business, will be invaluable to us whilst Malcolm brings a deep knowledge of the UK industry gained from his time in the industry and latterly as CEO of Oil & Gas UK. Both bring experience and knowledge complementing that already existing on the Board. We welcome them both.

In summary, Serica has had a remarkable year and now has an enviable portfolio of cash generating assets which have considerable unlocked value. I strongly believe that the Company has the team, the experience, the financial strength and the capability to unlock this value and also build new opportunities for increased returns for the benefit of shareholders. We intend to achieve these objectives both organically and through further asset acquisitions and consolidations which have the potential to utilise our strengths, exploit synergies and build upon our strong operating capabilities.

Our underlying target and focus is to increase shareholder value. We will continually be seeking ways of doing so as our financial position strengthens. This will include the possibility of generating financial returns for shareholders commensurate with our value growth objectives when we feel that the Company has the capacity to do so. I am confident that the Company has the capability and is well on the path to achieving these goals.

Tony Craven Walker
Chairman
16 April 2019

STRATEGIC REPORT

The following Strategic Report of the operations and financial results of Serica Energy plc ("Serica") and its subsidiaries (the "Group") should be read in conjunction with Serica's consolidated financial statements for the year ended 31 December 2018.

References to the "Company" include Serica and its subsidiaries where relevant. All figures are reported in US dollars ("US$") unless otherwise stated. The Company is subject to the regulatory requirements of AIM, a market of the London Stock Exchange in the United Kingdom. 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.

Serica is an independent oil and gas company with production, development and exploration interests in the UK Continental Shelf and exploration interests in Ireland and Namibia.

CEO's REVIEW OF 2018

The word *transformational* is perhaps overused in corporate reports but 2018 was a truly transformational year for Serica. We had finished 2017 with seven employees, net 2P reserves of 3.1 million boe, average net production of less than 2,000 boe/d and cash and deposits of US$34 million. By the end of 2018 the Group had 140 employees, net 2P reserves of 68 million boe, average net production of over 25,000 boe/day and despite completing the major acquisition of the Bruce, Keith and Rhum assets we had grown our cash and deposits to US$55 million. We still hold no debt other than a prepayment facility arranged with BP as part of the BKR Acquisition and our liquidity has remained strong throughout the period.

There were a number of significant events during the year and these illustrate the diversity of Serica's full-lifecycle portfolio of assets

- The completion of the Bruce, Keith and Rhum asset transactions
- The installation of a bypass pipeline to address the historic waxing issues affecting Erskine production leading to a significant reserves upgrade from 3.1 mmboe net 2P reserves (at 1 January 2018) to 5.7 mmboe net 2P reserves (at 1 January 2019)
- The approval of the Columbus Field Development Plan (FDP) leading to the upgrade of 2C contingent resources to 6.2 mmboe of net 2P reserves
- The spud of the fully-carried Rowallan exploration well

Bruce, Keith and Rhum ("BKR")

In November 2017 Serica announced the BKR Acquisition under which Serica UK acquired a 36% interest in the Bruce field, a 34.83% interest in the Keith field and a 50% interest in the Rhum field and associated infrastructure. The deal had an effective date of 1 January 2018.

In August 2018, Serica announced the Total E&P Transaction under which Serica UK acquired a 42.25% interest in the Bruce field and a 25% interest in the Keith field and associated infrastructure. The Total E&P Transaction also had an effective date of 1 January 2018.

In November 2018, Serica announced the BHP Transaction under which Serica UK acquired a 16.0% interest in the Bruce field and a 31.83% interest in the Keith field and associated infrastructure. The BHP Transaction also had an effective date of 1 January 2018.

Later in November 2018, Serica announced the Marubeni Transaction under which Serica acquired a 3.75% interest in the Bruce field and the 8.33% interest in the Keith field and associated infrastructure. The Marubeni Transaction also had an effective date of 1 January 2018.

All four transactions were completed on 30 November 2018 meaning that Serica now has a 50% interest in the Rhum field, a 98% interest in the Bruce field and a 100% interest in the Keith field.

The bulk of the consideration for the transactions was deferred and contingent. Consequently, Serica did not have to raise equity. The combined initial consideration of US$22 million was exceeded by Serica's US$50 million share of the net post-tax cash flows between 1 January 2018 and completion which benefitted from higher than anticipated gas prices in 2018. In addition to these net proceeds of US$28 million received by Serica at completion, further proceeds in excess of US$5 million are expected to fall due to Serica once final completion statements have been agreed.

A completion condition of the sale and purchase agreement under which Serica acquired interests in the BKR fields from BP was replacing the Licence issued to BP by the U.S. government Office of Foreign Assets Control ("OFAC"). This Licence enabled certain U.S. companies and their owned or controlled non-U.S. affiliates to provide goods, services and support to Rhum field operations notwithstanding the 50% participation in the field by Iran Oil Company (U.K.) Limited ("IOC"), which was part of the National Iranian Oil Company group.

On 8 May 2018 the United States announced that it would withdraw from the Iran nuclear deal and re-impose the full range of U.S. primary and secondary sanctions against Iran. Thus, it became apparent that in order to continue Rhum field operations, it would be necessary to address the application of both U.S. primary and secondary sanctions to the field.

On 9 October 2018, Serica announced that a new conditional Licence had been issued by OFAC to BP (as the then operator and 50% owner of Rhum) and Serica (the proposed acquirer of BP's interest and operatorship in Rhum). The Licence allows specified U.S. entities and their owned or controlled non-U.S. affiliates to provide goods, services and support to Rhum operations. OFAC also provided an assurance that any other non-U.S. entities providing goods, services and support involving Rhum are not to be exposed to U.S. secondary sanctions provided that the Licence remains in force. The Licence was contingent upon certain arrangements being put in place in relation to IOC's participation in the Rhum field. This condition was satisfied by the implementation of these arrangements on 2 November 2018.

As was announced by Serica on 9 October 2018, the arrangements implemented in relation to IOC's participation in Rhum involve the following provisions. All benefits accruing from and relating to IOC's interest in the Rhum field are being held in escrow for such period as U.S. sanctions apply. This ensures that neither IOC nor any direct or indirect parent company of IOC will derive economic benefit from the Rhum field during that period. In addition, IOC exercises no decision-making powers in respect of Rhum during the same period. Such powers are being exercised by a management company that operates independently of IOC and Serica.

Since the full re-imposition of U.S. sanctions against Iran on 5 November 2018, BP until 30 November and Serica thereafter, have been able to procure the goods, services and support necessary to maintain Rhum field operations, thereby preserving production from a strategic UK natural resource. The existing Licence issued by OFAC expires on 31 October 2019. Serica will be applying for the renewal of the Licence during this year.

Production levels from the assets have been good. During the early part of 2018 there were production interruptions due to poor weather conditions and also due to a temporary shutdown of the Forties Pipeline System which is used to export liquids from BKR. The FPS interruption was a rare event which the operator, Ineos FPS, was quick to address given the strategic importance of this line which transports to shore over 40% of total UK oil production. Performance was stronger in the second half of the year resulting in an average full-year net production in excess of 24,000 boe/day. During the year Ofgem approved the raising of the National Transmission System ("NTS") entry specification for CO_2 content of gas delivered at the St Fergus Gas Terminal to 5.5%molCO_2 thereby eliminating the need for costly blending gas previously required to offset the relatively higher CO_2 content of Rhum gas.

An independent Competent Person's Report ("CPR") performed by Ryder Scott estimates net combined Bruce, Keith and Rhum 2P Reserves at 1 January 2019 to be 56.9 million boe.

BP had entered into a contract for a rig to carry out the re-entry and re-completion of the previously drilled (but not yet producing) Rhum R3 well. This work was due to commence in May 2018 but BP decided to defer the work due to uncertainty caused by the announcement on 8 May 2018 by the US Government of its withdrawal from the Joint Comprehensive Plan of Action ("JCPOA") and the reintroduction of wider U.S. sanctions on Iran and certain transactions with Iranian entities.

Following the receipt of the OFAC Licence and completion of the BKR Acquisition, Serica has continued the planning for the R3 project and expects to start inspection work on the well this year. Final well planning is in progress and it is likely that the re-entry and re-completion will take place in early 2020. The well is already connected to the necessary infrastructure which will facilitate bringing the R3 well on stream quickly after the operations have been concluded.

Throughout 2018 Serica worked with BP and the relevant authorities to ensure a safe and seamless transition of operatorship. As part of the integration process 114 members of staff transferred across from BP to Serica on 30 November 2018 when the BKR acquisitions completed and Serica assumed operatorship of Bruce, Keith and Rhum. During the year Serica also recruited a further 23 staff members in order to ensure that the team would be fully resourced to handle all aspects of operatorship from day one.

Aberdeen premises were identified, secured and fitted out in order to provide a new high-tech Operational Headquarters for the Company. The centerpiece of this facility is a real-time video and communications link to the control room on the Bruce platform.

The key objectives of the transition process were that there should be no HSE incidents associated with the transition and that there should be no detrimental impact on production. It is to the immense credit of the entire workforce that both of these objectives were fully achieved.

Erskine

Production from the Erskine field was suspended on 16 January 2018 due to a wax build-up in the Lomond to CATS Riser Platform condensate export line. A section of this pipeline had been affected by wax-build up and this had led to reductions in Erskine production over a number of years. Historically the problem has been managed through rate control, periodic soaking of the line with solvents and pigging. However, pigging programmes have historically been limited due to the risk of full blockage. New Lomond operator, Chrysaor Limited, after reviewing the various wax management measures employed in recent years, concluded that the best long-term solution would be to bypass the area of wax build-up by replacing a 26 km section of line, a proposal that Serica fully supported. The line was successfully replaced during the summer of 2018 and Erskine production was restarted at the end of October after the line had been recommissioned.

A regular pigging programme on the new line has been initiated from the start aimed at preventing the wax build-up that has previously proved so difficult to remove.

An independent CPR performed by Netherland Sewell and Associates has taken account of the increase in uptime associated with the bypass pipeline and estimates Net Erskine 2P Reserves of 5.7 million boe in place as at 31 December 2018. This is a significant increase on the 3.1 million boe reported at the end of the previous year.

Net production averaged in excess of 3,000 boe/day during the period from the restart of production until the end of 2018 giving a full year average net production of 650 boe/day. Production in the first three months of 2019 has continued to average in excess of 3,000 boe/day.

Columbus

In Q1 2018 Serica and its partners in the Columbus development concluded the evaluation of two potential offtake routes for Columbus production and selected the Shearwater hub as providing the optimum export route for Columbus gas and liquids. This scheme will utilize a new pipeline to be constructed by the owners of the nearby Arran field. This pipeline, connecting the Arran field to the Shearwater complex, operated by Shell UK, is planned to pass close to Columbus and provides a commercial route for field development.

A Field Development Plan ("FDP") was submitted for approval in June 2018. Peak production is expected to be 7,800 gross boe/day. The Development Area will be drained by a single well, which will be connected to the recently approved Arran-Shearwater pipeline, through which Columbus production will be exported along with Arran field production. When the production reaches the Shearwater platform facilities, it will be separated into gas and liquids and exported via pipelines to terminals onshore. Columbus development timing is dependent on the Arran-Shearwater pipeline being tied into the Shearwater platform in Q3 2020. Columbus start-up is targeted for mid-2021.

OGA approval of the FDP was granted in October 2018. This means that the 2C Contingent Resources previously assigned to Columbus have been upgraded to 2P Reserves. An independent CPR performed by Netherland Sewell and Associates estimates net Columbus 2P Reserves at 31 December 2018 to be 6.2 million boe.

Exploration

The ENI UK Limited ("ENI") operated Rowallan exploration well, 22/19c-7, spudded on 30 December 2018. Serica had a 15% fully carried interest in this well which was drilled to target the gas condensate Rowallan prospect, a significant structural fault and dip-closed trap in the east of Block 22/19c in the Central North Sea. The Ensco 121 heavy duty jack-up rig was used to drill the well.

On 4 April 2019 it was announced that well 22/19c-7, had reached a total depth of 4,641 metres and would be plugged and abandoned. The well encountered a 182 metre section of sandstone and shale, but was not found to be hydrocarbon bearing. The well was high pressure and high temperature and drilled using managed pressure drilling and continuous circulating technology. The well was drilled on time and on budget.

We will now assess the valuable data acquired before deciding the forward plan for the remaining prospects on block 22/19c and adjacent blocks. This result justifies our policy of reducing financial exposure to exploration risk by means of farm-out. In this case we were fully carried and did not pay anything towards the cost of the well.

Serica intends to continue targeting exploration opportunities where an attractive balance can be struck between financial commitment and risked commercial return and therefore participated in three applications for new licences in the UKCS 30th Offshore Licensing Round. All three applications were successful and Serica was awarded four new exploration licence areas

- Rowallan South – Blocks 22/24g (split) and 22/25f (split), Serica Energy (UK) Limited: 20% working interest, operator ENI UK. These blocks lie directly to the south of the Rowallan well, in which Serica holds a 15% interest. The blocks were offered on condition of making a 'drill or drop' decision to enter the next phase.
- Columbus West – Block 23/21b, Serica Energy (UK) Limited: 50% working interest, operator Summit Exploration and Production. The block lies immediately to the west of Serica's Columbus development. The proposed work programme contains further seismic reprocessing with a drill or drop decision.

- Skerryvore/Ruvaal – Blocks 30/12c (part), 30/13c (split), 30/17h, 30/18c and 30/19c (part), Serica Energy (UK) Limited: 20% working interest, operator Parkmead. The blocks lie in the Central North Sea and contain the Skerryvore and Ruvaal prospects 60km south of the Erskine field. The proposed work programme for the Skerryvore licence area includes acquiring and reprocessing 3D seismic data and a contingent well decision. There is a separate licence for the Ruvaal area on block 30/19c with a drill or drop decision.

Opportunities

Serica has established itself as one of the leading independent UKCS operating companies and has assembled a talented and motivated operating team. We intend to use these skills to continue to optimize the value of all of our assets. In particular we aim to extend the field life of the BKR assets by concentrating on enhancing recovery and reducing costs by eliminating unnecessary complexity.

Particular attention is being applied to the Bruce platform where we feel that our focused team can continue to improve the uptime of the facility. The fact that Serica has managed to complete the transactions with the all of the previous Bruce owners is a very important step forward because this will remove any potential partner misalignment issues that could have impacted our ability to extend field life, increase the utilisation of the facilities and maximise economic recovery from the area as a whole. The extensive infrastructure associated with the Bruce field offers significant capacity for third party tiebacks and Serica intends to fully investigate all opportunities to attract new business in this area.

The current corporate growth strategy is to identify and acquire assets where Serica can generate value in order to enhance shareholder returns. This started with the 2015 Erskine acquisition and continued with the 2018 BKR transactions and in each case Serica has demonstrated the ability to unlock value by solving commercial and/or political problems. Serica has now developed a sizable operating capability and will be able to use this to solve operational and/or subsurface problems. Serica is largely debt-free and benefits from the strong cash flow from ongoing operations (Erskine and BKR) which can be deployed for future projects.

Serica is not just a late-life production operator. We aim to expand the portfolio at all stages – exploration, appraisal, development and production. Our operating expertise is based around the Central and Northern North Sea and (coupled with tax synergies) this means that that the search for new opportunities is currently focused on the UKCS. Serica is committed to identifying opportunities based on value rather than volume and will continue to look for assets (preferably operated rather than non-operated) where Serica can add value when the current operator may be unable to do so.

Mitch Flegg
CEO
16 April 2019

REVIEW OF OPERATIONS

Production

Northern North Sea: Bruce Field – Blocks 9/8a, 9/9b and 9/9c, Serica 98%

Serica completed the acquisition of the Bruce field on 30 November 2018 and took over as operator from BP. Serica now operates the field and facilities consisting of three bridge-linked platforms, wells, pipelines and subsea infrastructure. The platforms contain living quarters for up to 168 people, reception, compression, power generation, processing and export facilities and a drilling platform that is currently mothballed. There is also the subsea Western Area Development (WAD) that produces from the edges of the Bruce area. Serica is now responsible for actively maintaining, monitoring, repairing and optimising all equipment, wells and pipelines.

The Bruce field is produced through a combination of platform wells and subsea wells tied back to the platform, with over 20 producing wells in total producing from multiple reservoirs and compartments. Bruce production is predominantly gas which is rich in NGL's. Gas is exported through the Frigg pipeline to the St Fergus terminal, where it is separated into sales gas and NGL's. Oil is exported through the Forties Pipeline System to Grangemouth.

The offshore team is supported onshore by the Serica technical headquarters in Aberdeen which has a live video link to the platform, streaming data and offering seamless communication with the offshore crew. Serica has established a highly skilled asset team consisting of the experienced and knowledgeable former BP staff and newly employed experts covering the full range of engineering and maintenance support. Serica has installed the necessary systems and measures to ensure continued safe and efficient operations.

Serica's 98% field interest and focus on the Bruce asset means that it can identify and implement changes that improve performance swiftly and efficiently. One of the first actions Serica as operator carried out was to change the route the helicopters took from Aberdeen to the platform. The flight path used by the previous operator was via Shetland, which included a change of aircraft and made the journey more prone to delays and cancellations. After a thorough HSE review and risk assessment, Serica changed this to one direct flight from Aberdeen to the platform, which has significantly reduced flight times and increased reliability, meaning people get home in a timely manner at the end of their rota.

Serica is striving to simplify processes to improve efficiency and reduce risk. A new asset integrity management software has been introduced which also delivers safety and risk management. This one system has replaced nine individual IT systems that were previously used. The result is a much more integrated tool that tracks and reports modifications, incidents and actions in one place, giving users the information they require and a live update of risk profiles. There is also a new maintenance management system which is linked to the materials, purchasing and storage system, again simplifying the process and reducing duplication and errors.

Bruce field production in 2018 averaged in excess of 12,000 boe/d of exported oil and gas net to Serica. Production reliability was 89% with a planned maintenance shut down period that coincided with a planned shut-down of the Forties Pipeline System. The latest independent estimate of reserves by Ryder Scott estimated 2P reserves of 21.9 million boe net to Serica as of 1 January 2019.

An annual maintenance shutdown was carried out in 2018 and was completed on time and on budget. During this time the flare system was overhauled to ensure safe and reliable operations going forward. Engine change outs were carried out on two of the compression systems. The engines were replaced with upgraded models of improved design to increase reliability. The oil line to the Forties Unity platform was investigated with an intelligent pig and found to be in excellent condition.

Three wells were brought back on production after repairs to the conductors (pipes connecting the wells from the seabed to the platform) adding to production rates. A further two conductor clamps were added to wells to prevent possible shut-ins. Further conductor work is planned for 2019.

Northern North Sea: Keith Field – Block 9/8a, Serica 100%
Keith is an oil field produced by one subsea well tied back to the Bruce facilities and requires very little maintenance. Keith produces at a relatively low rate but provides a low-cost contribution to the oil export from Bruce. Average Keith production in 2018 was around 800 boe/d. The latest independent estimate of reserves by Ryder Scott estimated 2P reserves of 656,000 boe net to Serica as of 1 January 2019.

Northern North Sea: Rhum Field – Blocks 3/29a, Serica 50%
The Rhum field is a gas condensate field producing from two subsea wells tied into the Bruce facilities through a 44km pipeline. Rhum production is separated into gas and oil and exported to St Fergus and Grangemouth along with Bruce and Keith production. Both wells are capable of producing at high rates, up to 100,000 mmscf/d each of gas in 2018. Rhum gas has a higher CO_2 content than Bruce gas and so is blended with Bruce gas before leaving the offshore facilities. The field has produced at a relatively constant rate and has not shown significant decline. Average Rhum production in 2018 was around 12,000 boe/d net to Serica. The reservoir pressure is actively monitored via a third well (R3) that is not producing and so there is a good understanding of reservoir performance.

The R3 well requires intervention work before it can be brought on production. This was not carried out in 2018 due to concerns about secondary sanctions and their impact on contractors. The issue has now been resolved. Serica plans to carry-out investigative work on the well prior to finalising a well workover programme. Rhum production has not been materially constrained to-date by the delay in work on R3.

The latest independent estimate of reserves by Ryder Scott estimated 2P reserves of 34.5 million boe net to Serica as of 1 January 2019.

Central North Sea: Erskine Field – Blocks 23/26a (Area B) and 23/26b (Area B), Serica 18%
Serica holds a non-operated interest in Erskine, a gas and condensate field located in the UK Central North Sea. Serica's co-venturers are Chevron 50% (operator) and Chrysaor Holdings Limited 32%. Erskine fluids are processed and exported via the Lomond platform, which is 100% owned and operated by Chrysaor.

The Erskine field is produced through five production wells over the Erskine normally unmanned platform, transported to Lomond via a multiphase pipeline and processed on the Lomond platform. Then condensate is exported down the Forties Pipeline System via the CATS riser platform at Everest and gas is exported via the CATS pipeline to the CATS terminal at Teeside.

During 2018 a major project was carried out to significantly improve production export reliability for Erskine fluids. Over the last five years the export route for Erskine production has been severely impacted by wax build-up in the condensate export pipeline between Lomond and the CATS riser platform at Everest. The Erskine partnership supported the Lomond operator's proposal to lay a new section of pipeline to bypass the affected section of pipe. Soon afterwards, production was suspended due to a blocked condensate export line. In April after remedial measures to clear the blockage had not succeeded, the Lomond operator Chrysaor made the decision to cease clearance operations and concentrate on accelerating the bypass programme.

The pipeline bypass was completed at the end of September 2018 and production resumed in October 2018. All Erskine wells were brought back on production and production rates regularly exceeded 3,500 boe/day net to Serica. Erskine production for 2018 was only around 650 boe/d net to Serica due to the extended period of shut-in. A high frequency cleaning regime of the condensate export pipeline has been implemented in order to maintain the availability of the export route and improve overall export reliability.

An updated independent audit of the Erskine field confirmed Serica's share of estimated 2P reserves at 5.7 million boe as of 1 January 2019. This is a significant increase in reserves. It arises from a re-evaluation of well decline rates and facility uptime based upon the more stable rates achieved since the resumption of production which has led to an expected extension in economic field life.

Development

Central North Sea: Columbus Development – Blocks 23/16f and 23/21a, Serica 50%

The Columbus gas condensate development is located in close proximity to the Lomond field and has been designated as part of the Lomond Field Area. However, it has separate and independent development approval. Serica is Columbus field operator with partners Tailwind Mistral Limited (25%) and Endeavour Energy UK Limited (25%). The field is located in the Eastern Central Graben, UK Central North Sea and the reservoir is located within the Forties Sandstone.

The Columbus development has been appraised with four wells and is to be developed with a single production well. Serica submitted a Field Development Plan ("FDP) to the OGA in June 2018 and was granted development and production consent in October 2018. Development work started as soon as FDP approval was received. First gas is targeted for 2021.

The Columbus development plan involves tying a single horizontal subsea well into the pipeline planned to be laid between Arran field (which received development approval at a similar time to Columbus) and the Shearwater platform, both operated by Shell. Arran and Columbus fluids will combine in the new pipeline and be produced together through the Shearwater processing facilities, making use of an existing riser which will be available from Q4 2020. Under agreements which have been entered into, the Columbus partners will pay for the tie-in and compensate the Arran owners for some re-routing of the pipeline but will not bear the capital cost of laying a new pipeline to Shearwater. Costs will be recovered by Arran by way of a tariff on production through the pipeline.

Now that the development is proceeding, Columbus resources have been re-classified as reserves. The latest reserves report written by independent reserves auditors Netherland & Sewell Associates Incorporated ("NSAI") ascribed to Serica net 2P reserves of 6.2 million boe within the Columbus development area as of 1 January 2019.

Exploration

Central North Sea: Rowallan Prospect - Block 22/19c, Serica 15%

Block 22/19c is located in the Central North Sea, around 20km west of Columbus. Well 22/19c-7 was spudded on 30 December 2018 by the Ensco 121 drilling rig. The well was targeting high pressure high temperature reservoirs and so managed pressure drilling and continuous circulating technology were used to drill the well.

22/19c-7 was drilled to target the Rowallan Prospect comprising potential condensate targets in the Triassic Skagerrak and the Middle Jurassic Pentland formations. Partners comprise ENI UK Limited (operator – 32%), JX Nippon Exploration and Production (U.K.) Limited (25%), Mitsui E&P UK Limited (20%) and Equinor (8%).

On 3 April 2019 the partnership made the decision to plug and abandon the well after drilling to a total depth of 4,641 metres. The well encountered 182 metres of high pressure high temperature sandstones and shales but did not contain hydrocarbons. The data acquired during the drilling operation will be used to review the remaining prospects on block 22/19c.

Serica was fully carried on all cost associated with this licence and so did not incur any costs in the planning and drilling of the Rowallan exploration well.

Licence Awards in the UK's 30th Offshore Licensing Round
The Company was awarded four licences on the UK Continental Shelf in the UK's 30th Offshore Licensing Round:
- Rowallan South P.2385 – Blocks 22/24g and 22/25f (Serica UK: 20% interest);
- Columbus West P.2388 – Block 23/21b (Serica UK: 50% interest);
- Skerryvore P.2400 – Blocks 30/12c, 30/13c, 30/17h and 30/18c, and Ruuval P.2402 – Block 30/19c (both Serica UK: 20% interest).

P.2358 was acquired as protection acreage in the event of a Rowallan discovery, as the prospect may have extended onto this block. The results of the 22/19c-7 well will be used to revise the interpretation of the prospectivity of this licence before making a drill or drop decision within two years.

Seismic reprocessing is being carried out on Columbus West to identify prospectivity. There is a drill or drop clause on this licence after two years.

The Skerryvore and Ruuval licences are operated by Parkmead. Seismic acquisition is planned to review the prospects in more detail and make a drill or drop decision within three years.

Ireland

Rockall Basin: Frontier Exploration Licences 1/09 and 4/13, Serica 100%
Serica is in talks with the Irish authorities over an acceptable work programme for extending the licences which were due to expire in November 2018 and January 2019. The 4/13 licence contains structural prospects Aghla Beg and Aghla More and the overlying stratigraphic prospect Derryveagh. Studies into the likely lithologies of the prospects showed signs of sedimentary geometries within the Aghla More prospect, but more fractured basement like features in Aghla Beg.

Serica estimates P50 prospective resources for these stacked prospects to be in the order of 4tcf of gas and 250 million barrels of condensate.

Licence 1/09 contains the Muckish prospect, which is a large, structural prospect, analogous to the Dooish discovery. Technical work carried out in 2018 investigated similarities of the geology to the prospects in 4/13 through seismic attribute analysis. The results were inconclusive on the geological characteristics of Muckish, due to seismic noise and volcanic interference, but it did highlight a Cretaceous fan system in the area.

An exploration well that can penetrate Derryveagh and Aghla More is the highest ranked opportunity and Serica is seeking a farm-in partner to join in drilling.

Slyne Basin: Frontier Exploration Licence 01/06, Serica 100%
Serica is in talks with the Irish authorities over an acceptable work programme for extending the licence which was due to expire in December 2018. The licence contains three prospects, Boyne, Achill and Liffey, with oil and gas potential in both the Jurassic and Triassic reservoirs. There is the Bandon oil discovery on block, which was

encountered in the Jurassic sands. In the event of a gas discovery, the licence is ideally positioned for a tie-back to the Corrib subsea manifold.

Serica is seeking to identify a farm-in partner to drill an exploration well on the licence.

Namibia

Luderitz Basin: Blocks 2512A, 2513A, 2513B and 2612A (part), Serica 85%

Serica has extended the first renewal period of the licence to continue until the end of 2019. This licence period does not include a commitment to drill a well. The excellent 3D seismic data has identified giant carbonate prospects as well as large, more conventional Cretaceous fan prospects supported by seismic anomalies.

Serica has engaged specialist help to market the opportunity more widely. A technical review following recent drilling results offshore Namibia has uncovered the potential for a regional seal deposited during the Aptian geological time period. This could explain the absence of hydrocarbons in the recent wells drilled in nearby blocks. This would also benefit the Serica prospects as they are located deeper beneath the Aptian seal, which could form a trap and in prime location for source and migration. Serica hopes to attract a partner to join in drilling an exploration well.

Group Proved plus Probable Reserves – Unaudited

	United Kingdom Oil mmbbl	United Kingdom Gas bcf	Total Oil mmbbl	Total Gas bcf	Total Oil & gas mmboe
At 1 January 2017	2.1	10.4	2.1	10.4	3.8
Revisions	(0.1)	0.6	(0.1)	0.6	-
Production	(0.4)	(2.2)	(0.4)	(2.2)	(0.7)
At 31 December 2017	1.6	8.8	1.6	8.8	3.1
Acquisitions	8.7	293.5	8.7	293.5	57.5
Re-classification	2.6	21.4	2.6	21.4	6.2
Revisions	1.6	8.2	1.6	8.2	3.0
Production	(0.1)	(5.1)	(0.1)	(5.1)	(1.0)
At 31 December 2018	14.4	326.8	14.4	326.8	68.8
Proved developed	9.3	212.0	9.3	212.0	44.6
Probable developed	5.1	114.8	5.1	114.8	24.2
At 31 December 2018	14.4	326.8	14.4	326.8	68.8

Proved and Probable reserves are based on independent reports prepared by consultants Netherland, Sewell & Associates (Erskine and Columbus) and Ryder Scott (Bruce, Keith and Rhum) in accordance with the reserve definitions of the Canadian Oil and Gas Evaluation Handbook.

Gas reserves at 31 December 2017 and 2018 have been converted to barrels of oil equivalent using a factor of 6.0 bcf per mmboe for reporting and comparison purposes; actual calorific value of produced gas may result in a different conversion factor for individual fields.

The resources of the Columbus development in the UK North Sea were classified as Contingent Resources as at 31 December 2016 and 2017.

LICENCE HOLDINGS

The following table summarises the Group's licences as at 31 December 2018.

Licence	Block(s)	Description	Role	%	Location
UK					
P.090	9/9a BRUCE	Bruce Field Production	Operator	99%	Northern North Sea
P.090	9/9a Rest of Block Excluding Bruce (REST)	Development	Operator	98%	Northern North Sea
P.198	3/29a (ALL)	Rhum Field Production	Operator	50%	Northern North Sea
P.209	9/8a BRUCE	Bruce Field Production	Operator	98%	Northern North Sea
P.209	9/8a KEITH	Keith Field Production	Operator	100%	Northern North Sea
P.209	9/8a Rest of Block Excluding Bruce and Keith (REST)	Development	Operator	98%	Northern North Sea
P.276	9/9b BRUCE	Bruce Field Production	Operator	98%	Northern North Sea
P.276	9/9c (ALL)	Bruce Field Production	Operator	98%	Northern North Sea
P.276	9/9b Rest of Block Excluding Bruce Unit (REST)	Development	Operator	98%	Northern North Sea
P.566	3/29b (ALL)	Rhum Field non-unitised production	Operator	100%	Northern North Sea
P.975	3/24b (ALL)	Rhum non-unitised production	Operator	100%	Northern North Sea
P.975	3/29d (ALL)	Rhum non-unitised production	Operator	100%	Northern North Sea
P101	23/21a Columbus	Columbus Development Area	Operator	50%	Central North Sea
P1314	23/16f	Columbus Development Area	Operator	50%	Central North Sea
P57	23/26a	Erskine Field - Production	Non-operator	18%	Central North Sea
P264	23/26b	Erskine Field - Production	Non-operator	18%	Central North Sea
P1620	22/19c	Exploration	Non-operator	15%	Central North Sea
P2385	22/24g, 22/25f	Exploration	Non-operator	20%	Central North Sea
P2388	23/21b	Exploration	Non-operator	50%	Central North Sea
P2400	30/12c, 30/13c, 30/17h, 30/18c	Exploration	Non-operator	20%	Central North Sea
P2402	30/19c	Exploration	Non-operator	20%	Central North Sea

Ireland					
1/06	27/4 (part), 27/5 (part), 27/9 (part)	Exploration	Operator	100%	Slyne Basin
1/09	5/17 (part), 5/18, 5/22 (part), 5/23 (part), 5/27 (part), 5/28 (part)	Exploration	Operator	100%	Rockall Basin
4/13	11/10, 11/15, 12/1 (part), 12/6, 12/11 (part)	Exploration	Operator	100%	Rockall Basin
Namibia					
0047	2512A, 2513A, 2513B, 2612A (part)	Exploration	Operator	85%	Luderitz Basin

FINANCIAL REVIEW

2018 RESULTS

Serica generated a profit for the year of US$74.7 million for 2018 compared to US$17.1 million for 2017. Comparison with the prior year is significantly influenced by two key factors; the shut-in of the Erskine field for most of 2018 to carry out a bypass of the condensate export pipeline; and, the impact of the BKR acquisitions completed on 30 November 2018.

In addition to Erskine operations and normal administrative and corporate costs, Serica's 2018 results include net income from the BKR fields from the completion date of 30 November 2018 plus a bargain purchase gain of US$52.9 million in respect of the acquisition partially offset by expensed BKR transaction and transition costs totalling US$14.4 million. Serica's share of net income from the BKR fields from the effective date of the BKR acquisitions, 1 January 2018, until 30 November is offset against the consideration paid rather than included within operating profit in the income statement. Details of the accounting for the BKR acquisitions are provided in note 26.

Sales revenues

Although the Erskine field, Serica's only producing interest pre-BKR, was shut in for more than nine months of 2018, the impact of one month of production from the BKR assets acquired was still sufficient, in conjunction with strong sales prices, to boost revenues by over 40% compared to 2017. Total product sales volumes for the year comprised approximately 47.1 million therms of gas, 96,000 lifted barrels of oil and 11,400 MT of NGLs. These generated 2018 product sales revenue of US$45.7 million consisting of BKR revenues of US$33.9 million and Erskine revenues of US$11.8 million (2017: US$32.0 million recorded net of a charge of US$1.2 million from movement in liquids overlift/underlift).

BKR revenues for the one month of production comprised gas sales of US$30.9 million at average realised prices of approximately 60.1 pence/therm and NGL sales of US$3.0 million at average realised prices of approximately US$303/MT. Oil sales are booked as revenue when barrels are lifted and title is transferred. As no liftings were recorded in December for Serica's net BKR interests, Serica's net oil allocation of 95,000 barrels from December BKR production increased its oil underlift position as at 31 December 2018 with the corresponding income statement credit classified within cost of sales.

Erskine revenues from approximately two and a half months of production in 2018 comprised gas sales of US$5.2 million (2017: US$12.5 million) at an average realised price of approximately 59.6p/therm (2017: 41.5p/therm), oil sales of US$6.2 million (2017: US$17.2 million) from 95,852 lifted barrels at an average realised price of US$65.2/bbl (2017: US$53.2/bbl) and NGL sales of US$0.4 million (2017: US$3.5 million) at average realised prices of $284/MT.

Gross profit

Gross profit for 2018 was US$25.2 million compared to US$19.3 million for 2017. Overall cost of sales of US$20.5 million compared to US$12.7 million for 2017. This comprised US$17.0 million of operating costs (2017- US$11.0 million) and US$7.8 million of non-cash depletion charges (2017 – US$1.7 million) offset by a US$4.3 million credit for the movement during the year from an opening liquids overlift position to a closing underlift position, (2017 – US$1.2 million debit included within sales revenues). Operating costs include costs of production, processing, transportation and insurance. Depletion charges are based upon the booked acquisition value for the BKR and Erskine transactions allocated on a unit of production basis for the relevant period. The prior year calculation was based upon Erskine costs and production alone. Operating costs of US$7.6 million (2017 – US$11.0 million) and depletion of US$0.4 million (2017 – US$1.7 million) related to the Erskine field whilst operating costs of US$9.4 million and depletion charges of US$7.4 million related to the BKR fields.

Operating profit before net finance revenue, tax and transaction costs
Operating profit for 2018 was US$9.1 million compared to US$14.1 million for 2017. This included BKR transition costs of US$11.7 million (2017 – nil) which comprise the set-up of operations systems and processes prior to taking on operatorship of the BKR assets, the transfer of operations contracts and documentation and the obtaining of necessary approvals from the Oil and Gas Authority. Administrative expenses of US$4.8 million, up from US$2.2 million for 2017, reflected the significant increase in personnel and activity following the signing of the BKR Acquisition agreement in late 2017. Other expense of US$2.1 million for 2018 increased from US$1.4 million for 2017 and principally comprised gas price hedging costs expensed during the respective years plus unrealised losses on hedging instruments still in place at year-end. These costs were offset by a net credit of US$3.1 million comprising a reversal of US$12.5 million of impairment charges previously made against the Columbus development now that development is underway, net of US$9.4 million of write-offs related to the Group's Irish licences for which the Group has no significant ongoing expenditure plans. This compares to write-offs of US$1.6 million in 2017 related to the relinquishment of UK licence P1482 and other minor exploration expenditures.

Pre-licence costs, foreign exchange gains and share-based payment provisions generated 2018 net charges of US$0.6 million compared to a net gain of US$0.1 million in 2017. A reduction in exchange gains reflected general GB£/US$ currency movements whilst an increase in share-based payments largely arose from awards made late in 2017 upon signature of the BKR deal with BP.

Profit before taxation and profit for the year
Profit before taxation was US$59.2 million (2017 – US$10.8 million) after taking into account a bargain purchase gain of US$52.9 million (2017 - nil), BKR transaction costs of US$2.7 million (2017 – US$3.4 million) and net finance charges of US$0.1 million (2017 – US$0.1 million credit).

The bargain purchase gain represents the difference between provisional fair valuations of assets acquired and consideration paid or potentially payable calculated in accordance with applicable accounting standards. Such calculations are complex and involve a range of projections and assumptions related to future costs, production volumes, sales prices, discount rates and tax. The calculations for the BKR acquisitions are further complicated by the structuring of most of the consideration as either contingent upon future asset performance or deferred. The accounting for the acquisition of the transaction assets has only been provisionally determined at this stage, as the accounting standards provide for potential further adjustments to fair value assessments up to twelve months after completion of the acquisitions.

The BKR transaction costs comprise work on documentation related to the re-admission of Serica to AIM upon completion of the acquisitions and other fees associated with the acquisitions. Prior year costs comprised work on the structuring and negotiation of the acquisitions and preparation of the original AIM admission document.

Finance revenue and costs represent interest earned on cash deposits less interest payable mainly on the prepayment facility drawings.

The net deferred tax credit of US$15.5 million largely reflects the accelerated recognition of the Group's historic UK ring fenced tax losses based upon the significant increase in projected income arising from completion of the BKR acquisitions. The prior year credit of US$6.3 million represented a partial release based solely upon utilisation of losses against near-term Erskine production.

Overall, this generated a profit for the year of US$74.7 million increased from US$17.1 million for 2017.

BALANCE SHEET

The balance sheet at 31 December 2018 incorporates a series of adjustments related to the BKR acquisitions. These include accounting for the acquisitions themselves and also significant increases to current and non-current assets and liabilities reflecting higher overall levels of business activity. In addition, receipt of Columbus FDP approval in October 2018 has led to a reclassification of costs from exploration and evaluation to property, plant and equipment.

The reduction of exploration and evaluation assets from US$53.4 million in 2017 to US$4.1 million in 2018 principally reflects the reversal of a Columbus asset impairment provision followed by the reclassification of total pre-development costs to-date to property, plant and equipment. The Columbus impairment provision of US$12.6 million made in prior periods was reversed in 2018 following the receipt of development approval and other operational developments in the year. Development approval also means that total Columbus costs of US$54.3 million were reclassified to property, plant and equipment. In addition, costs of US$1.9 million were incurred during 2018 on general exploration activities whilst US$9.4 million relating to the Group's Irish licences was written off as the Group has no plans to commit further significant expenditures on these licences.

Property, plant and equipment increased from US$7.6 million to US$475.9 million during 2018. In addition to the reclassification of US$54.3 million of Columbus costs from exploration and evaluation assets, the increase includes a fair value attributed to the BKR assets calculated as US$416.5 million. The BKR transactions are classified as business combinations and calculations of fair value are carried out in accordance with applicable accounting standards. As described above, such valuations involve a series of judgements and assumptions on all key components of the calculations and are provisional until twelve months following acquisition. The structuring of the BKR acquisitions, with most of the consideration being either contingent upon future asset performance or deferred, creates an ongoing link between the value generated from the assets acquired and consideration ultimately paid.

An inventories balance of US$7.1 million at 31 December 2018 (2017 – US$0.5 million) includes materials and spare parts transferred with the BKR assets. Trade and other receivables increased from US$2.3 million in 2017 to US$66.4 million in 2018 with the new balance including trade receivables of US$39.4 million (2017 – US$1.2 million), other BKR receivables of US$7.8 million (2017 – US$nil), US$7.5 million of recoverables from JV partners (2017 – US$0.1 million) and US$8.6 million of liquids underlifted at year end (2017 – nil). The increase in trade receivables, which mainly comprise sales revenues due, reflected the general increase in Group production and sales levels. Other receivables comprise sunk costs recoverable through joint venture arrangements and BKR consideration outstanding after final calculations of net cash flow due to Serica arising during the pre-completion period. Liquids underlifted comprise volumes of oil and NGLs awaiting lifting by product buyers at year end.

The derivative financial asset of US$2.7 million in 2017 represented the fair value of gas price put options covering the period from 1 January 2018 to 30 June 2020. After taking account of the expiry of 2018 puts and revaluation of remaining puts at end 2018 pricing, the book value has been reduced to US$0.2 million. The year-end cash and cash equivalent balances plus term deposits totalled US$54.9 million (2017 – US$34.0 million).

The increase in current trade and other payables to US$49.2 million at 31 December 2018 from US$7.8 million in 2017 represents significant accruals and creditors following completion of the BKR acquisitions. It also includes Erskine operating expenditures due and remaining pipeline bypass costs at the end of 2018. Current provisions of US$2.4 million (2017 – US$2.2 million) represent certain contingent liabilities related to savings in field operating costs that may fall due under the Erskine acquisition agreement.

Financial liabilities of US$115.0 million (2017 - nil) within current liabilities and US$209.5 million (2017 – US$3.8 million) within non-current liabilities comprise amounts projected to be paid under the BKR agreements. The current element comprises US$20.2 million (2017 - US$3.8 million in non-current financial liabilities) of total drawings under the prepayment facility with BP plus amounts of US$94.8 million estimated to fall due under the net cash flow sharing arrangements over the course of 2019. Amounts identified as currently due under both the prepayment facility and the net cash flow sharing arrangements, are directly related to production volumes and sales prices actually achieved over the year. The non-current element comprises further contingent and deferred amounts the bulk of which are also directly related to future asset volume and price performance.

Non-current financial liabilities of US$3.8 million in 2017 represented drawings under the gas prepayment facility with BP to cover gas price puts which increased to US$20.2 million in 2018 following further drawings under the facility of GB£12.8 million at BKR completion and are now recognised as current liabilities.

Non-current provisions of US$28.8 million have been made in respect of decommissioning liabilities for the Bruce and Keith interests acquired from Marubeni. These were not subject to the same contingent and deferred consideration arrangements as those field interests acquired from BP, Total E&P and BHP respectively under which decommissioning liabilities were retained by the vendors with Serica liable to pay deferred consideration equivalent to 30% of the actual costs of decommissioning net of tax recovered by them. No provision is included for decommissioning liabilities related to Erskine as these are retained by BP up to a cap which is not projected to be exceeded.

Overall net assets have increased from US$102.3 million in 2017 to US$177.8 million in 2018.

The increase in share capital from US$229.3 million to US$229.6 million arose from shares issued following the exercise of share options whilst the increase in other reserve from US$20.8 million to US$21.3 million arose from share-based payments.

CASH BALANCES AND FUTURE COMMITMENTS

Current cash position and price hedging

At 31 December 2018 the Group held cash and cash equivalents of US$53.6 million (2017 – US$28.3 million) plus term deposits of US$1.3 million (2017 – US$5.7 million). The main element of the net increase arose upon BKR completion when Serica received US$50.0 million of net revenues and working capital adjustments less US$21.6 million of upfront consideration and also drew GB£12.8 million (US$16.3 million) under a gas prepayment facility with BP. Serica also settled the outstanding US$2.8 million tranche of Erskine consideration on 29 June 2018.

Other significant cash movements during the year included BKR transition and transaction costs of US$17.1 million (2017 – US$1.9 million), US$1.8 million of exploration asset expenditure (2017 – US$1.9 million) and US$5.2 million of Erskine capital costs (2017 – US$0.1 million). Serica's share of BKR post-tax income for the eleven months prior to completion is included within the cash inflow from business combinations. Net cash income from the BKR assets for the remaining month post completion was received after year-end and consequently is not included in the closing cash balances.

At 31 December 2018 Serica held gas price puts covering volumes of 240,000 therms per day for 2019 and 160,000 therms per day for 1H 2020 all at a floor price of 35 p/therm with no upside price restrictions.

Field and other capital commitments
Following completion of the condensate export line bypass there are no further capital commitments on the Erskine producing field and net production revenues are expected to cover all ongoing field expenditures.

There are no significant current capital commitments on the BKR producing fields though plans to carry out work on the Rhum R3 well are in hand with work expected to be carried out in early 2020. Net revenues from Serica's share of income from the fields, after net cashflow sharing payments, is expected to cover Serica's retained share of ongoing field expenditures and contingent or deferred consideration due under the respective acquisition agreements. These include GB£16 million due to BP upon a successful outcome from the Rhum R3 workover and amounts of up to GB£7.7 million also due to BP in respect of each of 2019, 2020 and 2021 dependent upon achievement of certain Rhum field production and gas price levels., In addition, amounts of US$5 million are due to Total E&P on each of 31 July 2019, 31 March 2020 and 30 November 2020. Further deferred contingent consideration amounts will fall due to each of BP, Total E&P and BHP representing 30% of their respective shares of the actual costs of decommissioning the BKR field facilities in existence on 30 November 2018 at completion, net of tax relief.

OTHER

Asset values and impairment
At 31 December 2018, Serica's market capitalisation stood at US$423.1 million based upon a share price of 125.5 pence which exceeded the net asset value of US$177.8 million. By 15 April the Company's market capitalisation was US$409.5 million. Management has carried out a thorough review of the carrying value of the Group's assets and determined that no significant write-downs are required.

BKR asset acquisitions

On 30 November 2018 Serica completed the four BKR acquisitions. These comprised:

- 36% in Bruce, 34.83333% in Keith and 50% in Rhum plus operatorship of each field from BP Exploration Operating Company Limited ("BP"). Initial consideration, paid at completion, was GB£12.8 million with contingent payments of GB£16 million due in relation to the outcome of future work on the Rhum R3 well and up to a total GB£23.1 million, split equally over the years 2019, 2020 and 2021, due in relation to Rhum field performance and sales prices in respect of the three years. In addition, Serica will pay contingent consideration related to net cash flows from the assets acquired from BP as set out below. As part of the gas sales arrangements, BP Gas Marketing Limited provided a gas prepayment facility of up to GB£16 million that was fully drawn to cover the cost of gas price puts and the initial consideration. Amounts due to BP are secured over the interests in the assets acquired from them.

- 42.25% in Bruce and 25% in Keith from Total E&P UK Limited ("Total E&P"). Initial consideration was US$5 million with three further instalments of deferred consideration of US$5 million each, due on 31 July 2019, 31 March 2020 and 30 November 2020. In addition, Serica will pay contingent consideration related to net cash flows from the assets acquired from Total E&P as set out below.

- 16% in Bruce and 31.83333% in Keith from BHP Billiton Petroleum Great Britain Limited ("BHP"). Initial consideration was GB£1 million. In addition, Serica will pay contingent consideration related to net cash flows from the assets acquired from BHP as set out below.

- 3.75% in Bruce and 8.33334% in Keith from Marubeni Oil and Gas (UK) Limited ("Marubeni"). Initial consideration was US$1 million payable to Serica with no contingent or deferred consideration.

In addition, Serica will pay contingent cash consideration to BP, Total E&P and BHP calculated as a percentage (60% in 2018, 50% in 2019 and 40% in each of 2020 and 2021) of net cash flows resulting from the respective field interests acquired. Amounts arising up to completion were adjusted for notional tax at prevailing rates and offset against initial consideration. Amounts arising after completion will be paid by Serica pre-tax with such amounts to be offset by Serica against its own tax liabilities.

Each of BP, Total E&P and BHP will retain liability, in respect of the field interests Serica acquired from each of them, for all the costs of decommissioning those facilities that existed at the date of completion. Serica will pay deferred contingent consideration equal to 30% of actual future decommissioning costs, reduced by the tax relief that each of BP, Total E&P and BHP receives on such costs.

In the case of the Marubeni Transaction, Serica took on responsibility for decommissioning liabilities for these interests but without any contingent or deferred cash consideration.

Net cash flow sharing with BP, Total E&P and BHP is being settled on a monthly basis starting in January 2019 and no other contingent or deferred consideration payments have yet fallen due.

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, to carry insurance, where both available and cost effective, and to retain adequate working capital.

Prior to the BKR acquisitions, Serica carried significant exposure to a single production stream and held limited cash resources. The main response was to look for additional revenue streams whilst, in the meantime, working with the operators of the Erskine field and Lomond offtake facilities to identify production risks and mitigate where possible. In parallel, the Company minimised non-core expenditures and utilised oil and gas hedging instruments, setting price floors to protect cash flow margins from severe price falls.

In addition to the diversification of revenue streams delivered by the four BKR acquisitions and associated cash receipts upon completion, the continuing net cash flows from its greatly increased production levels are enabling Serica to build a strong working capital reserve. This is available to respond to a range of risks including production interruptions, severe commodity price falls and unexpected costs. To supplement this the Company carries business interruption insurance to meet estimated field operating costs over sustained periods of production shut-in, where caused by events covered under such policies. The Company will also seek cost effective opportunities to add to its existing 35 pence per therm gas price puts which currently cover an estimated 37% of the Company's retained share of projected 2019 gas production.

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

Investment Returns: Management seeks to invest in a portfolio of exploration, development and producing acreage delivering returns to shareholders through acquisitions of producing assets to which it can add further value and through 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 lowering investor support and obstructing fundraising	• Management regularly communicates its strategy to shareholders • Focus is placed on building a diverse and resilient asset portfolio capable of offering prospectivity throughout the business cycle
Management's decisions on capital allocation may not deliver the expected successful outcomes	• Rigorous analysis is conducted of all investment proposals • Investments are spread over a range of areas and risk profiles
Each asset carries its own risk profile and no outcome can be certain	• Management aims to avoid over-exposure to individual assets, to identify the associated risks objectively and mitigate where practical

Operations: Operations may not go according to plan leading to damage, pollution, cost overruns or poor outcomes.	
Production may be interrupted generating significant revenue loss whilst costs continue to be incurred	• Business interruption cover is carried when cost effective • The Company seeks to diversify its sources of income
Equipment may fail and wells may experience a loss of control causing delays and/or environmental damage	• The Group retains fully trained and experienced personnel and contractors • The planning process involves risk identification and establishment of mitigation measures • Equipment is subject to regular inspection and monitoring • Appropriate insurances are retained
Third party offtake routes may experience restrictions or interruptions and full availability may depend upon sustained production from other fields in the system	• The Group aims to diversify its exposure to offtake routes where possible though all of its oil production currently uses the FPS system • The Group carries business interruption cover

Resource estimates may be misleading and exceed actual reserves recovered	• The Group deploys qualified personnel • Regular third-party reports are commissioned • A prudent range of possible outcomes are considered within the planning process

Personnel: The Group relies upon a pool of experienced and motivated personnel to conduct its operations and execute successful investment strategies	
Risks	**Mitigation**
Key personnel may be lost to other companies	• The Remuneration Committee regularly evaluates incentivisation schemes to ensure they remain competitive • The Group seeks to build depth of experience in all key functions to ensure continuity
Personal safety may be at risk in demanding operating environments, typically offshore	• A culture of safety is encouraged throughout the organisation • Responsible personnel are designated at all appropriate levels • The Group maintains up-to-date emergency response resources and procedures
Staff and representatives may find themselves exposed to bribery and corrupt practices	• Group policies and procedures are communicated to personnel regularly • Management reviews all significant contracts and relationships with agents and governments

Political and commercial environment: World share and commodity markets and political environments continue to be volatile	
Risk	**Mitigation**
Sanctions imposed by the U.S. government may threaten continuing production from the Rhum field	• An OFAC Licence has been obtained which has enabled continuing production from Rhum
The OFAC Licence must be renewed annually	• Serica intends to initiate the renewal process well in advance of the specified date
Volatile commodity prices mean that the Group cannot be certain of the future sales value of its products	• Planning and forecasting considers downside price scenarios • Oil and gas floor price hedging may be utilised where deemed cost effective

	• Price mitigation strategies may be employed at the point of major capital commitment
Funding to support investment and field development programmes may not be available at reasonable cost	• Serica seeks to apply a flexible approach to funding and maintain a range of financing options

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.

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, the development of production facilities and delivery of hydrocarbons. 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 and on SEDAR at www.sedar.com

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

On behalf of the Board
Mitch Flegg
Chief Executive Officer

16 April 2019

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.

DIRECTORS' REPORT

The Directors of the Company present their report and the Group financial statements of Serica Energy plc ("Serica" or the "Company") for the year ended 31 December 2018.

Principal Activities

The principal activity of the Company and its subsidiary undertakings (the "Group") is to identify, acquire, explore and subsequently exploit oil and gas reserves. Its current activities are located in the United Kingdom, Ireland and Namibia.

Business Review and Future Developments

A review of the business and the future developments of the Group is presented in the Strategic Report (including a Chief Executive Officer's Report, a Review of Operations and Financial Review) and Chairman's Statement (all of which, together with the Corporate Governance Statement, are incorporated by reference into this Directors' Report).

Results and Dividends

The profit for the year was US$74,717,000 (2017: US$17,103,000).

The Directors do not recommend the payment of a dividend (2017: US$nil).

Financial Instruments

The Group's financial risk management objectives and policies are discussed in note 24.

Events Since Balance Sheet Date

There have been no events since the balance sheet date that require disclosure.

Directors and their Interests

The following Directors have held office in the Company since 1 January 2018 to the date of this report:

Antony Craven Walker
Neil Pike
Ian Vann
Mitch Flegg
Trevor Garlick (appointed 30 November 2018)
Malcolm Webb (appointed 30 November 2018)

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Class of share	**Interest at end of year**	**Interest at start of year (or date of appointment if later)**
Antony Craven Walker (1)	Ordinary	7,357,694	7,357,694
Neil Pike (2)	Ordinary	505,000	505,000
Ian Vann	Ordinary	267,935	267,935
Mitch Flegg	Ordinary	184,445	184,445
Malcolm Webb	Ordinary	44,681	-
Trevor Garlick	Ordinary	-	-

1. 6,448,810 ordinary shares were held by Antony Craven Walker and 908,884 by Rathbones (pension funds).

2. 190,000 ordinary shares were held by Romayne Pike in her ISA and 185,000 ordinary shares by Luska Limited.

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of other Group companies.

No rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year except as indicated below:

Details of share awards that have been granted to certain Directors under the Serica Energy plc Share Option Plan 2005 ("Serica 2005 Option Plan") are included in note 28 to the Financial Statements. Details of share awards made during 2018 and up to 15 April 2019 under the Serica Energy plc Long Term Incentive Plan (the "LTIP") are also included in note 28.

Auditor

A resolution to reappoint Ernst & Young LLP, as auditor will be put to the members at the annual general meeting.

Disclosure of information to auditors

The directors who were members of the Board at the time of approving the Directors' Report are listed above. So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that he is obliged to take as a director in order to made himself aware of any relevant audit information and to establish that the auditor is aware of that information.

On behalf of the Board

Mitch Flegg
Director
16 April 2019

CORPORATE GOVERNANCE STATEMENT

Chairman's Corporate Governance Statement:

As Chairman of the Company, I have a keen interest in ensuring that an effective and focused Board leads the business and builds upon its successes to date. Strong corporate governance helps underpin the foundations of a solid and successful business. The Board is committed to ensuring good corporate governance, from executive level and throughout the operations of the business.

Following the requirement by AIM that all AIM listed companies would comply with a recognised corporate governance code by 28 September 2018, the decision was made by the Company that it would adopt the Quoted Companies Alliance Corporate Governance Code 2018 (the 'QCA Code'). The directors believe the QCA code to be the most appropriate recognised corporate governance code for the Company.

As Chairman, it is my duty to ensure that good standards of governance are delivered and fed down throughout the organisation. The Board is supportive of embracing the highest level of corporate governance possible and works to instil a culture across the Company which delivers strong values and behaviours.

The importance of engaging with our shareholders underpins the essence of the business, ensuring that there are opportunities for investors to engage with both the Board and executive team.

In November 2018, the Company announced the completion of the acquisition of interests in the Bruce, Keith & Rhum fields from BP ('BKR'), which is transformational for the Company and firmly places the Company as one of the leading 'mid-tier' independent exploration and production companies operating in the UKCS.

As the Company embeds the acquisition of BKR, as Chairman I will work with the Board to build upon the existing values that are in place and ensure that good corporate governance continues to be present within the organisation and delivered throughout the business, ensuring that we grow with foundations of integrity and strong principles for the benefit of all stakeholders.

Antony Craven Walker
Executive Chairman

Quoted Companies Alliance Corporate Governance Code

QCA Code Principle	Disclosure	
1	**Establish a strategy and business model which promote long-term value for shareholders** Explain the Company's business model and strategy, including key challenges in their execution (and how those will be addressed).	The Company operates in the upstream oil and gas exploration, development and production sector and is therefore exposed to political, operational, commercial, product pricing and hazard risk. The Company's strategy is to maintain a portfolio of properties and risk diversity which enables it to manage the risks, the financial capacity and the growth opportunities in the business. It does this both by an active programme of acquisition and divestment to balance risk and potential whilst also seeking to optimise operating costs and procedures to improve performance and by identifying where new technologies can enhance value. The Company strives to maintain a forward looking, professional and safety conscious culture in all that it does as this also provides essential checks and balances and underpins a value creative environment to the benefit of all stakeholders.
2	**Seek to understand and meet shareholder needs and expectations.** Explain the ways in which the Company seeks to engage with shareholders. This should include information on those responsible for shareholder liaison or specification of the point of contact for such matters.	The Company engages with its shareholders through regulatory news flow, providing financial results on a half yearly basis, operational updates to maintain information on overall performance, additional news flow when there is a material deviation from the operational updates, releases relating to matters of material importance to the Company's business and releases of a regulatory nature. The Company maintains an informative and regularly updated web-site at www.serica-energy.com through which shareholders can

		obtain copies of the Company's annual report, interim report and other regulatory documents and regulatory news service releases. The web-site includes copies of all presentations made from time to time to analysts, shareholders and the general market and includes a facility under which shareholders may submit questions or make comments relating to the Company's business. Whenever possible the Company endeavours to respond to enquiries. The Company's annual general meeting is a regular opportunity for shareholders to meet with the Company and receive a corporate presentation. There is also an opportunity for shareholders to ask questions after the presentation, during the formal business of the meeting and informally following the meeting. The Chairman and the CEO are together responsible for shareholder liaison and a listening board for shareholders. In all communications with shareholders and the general market the Company maintains strict compliance with the requirements of the AIM Rules and Market Abuse Regulations. Further information can be found on the Company's website https://www.serica-energy.com/RNS https://www.serica-energy.com/financial-reports https://www.serica-energy.com/presentations
3	**Take into account wider stakeholder and social responsibilities and their implications for long term success**	

	Explain how the business model identifies the key resources and relationships on which the business relies.	The Company's business model and strategy are and in Disclosure 1 above. The acquisitions of operated interests in the Bruce, Keith and Rhum fields and associated infrastructure in the UK North Sea, completed on 30 November 2018, and the earlier acquisition in mid-2015 of a non-operated interest in the Erskine field are good examples of the business model in action and have brought material benefit to the Company and its shareholders. The resources acquired in these transactions, which are transformational for the Company, relied upon executive experience and industry relationships for identification and had characteristics which lent themselves to the generation of new value under the Company's management. Further information relating to the acquisition of operated interests in Bruce, Keith and Rhum can be found on the Company's website https://www.serica-energy.com/about-the-deal The Company maintains assets in both the UK and overseas. In the current environment and given the synergies relating to the Company's existing assets the directors believe that the UKCS will continue to provide opportunities in the near term to grow the business and provide the basis to add further shareholder value.
	Explain how the Company obtains feedback from stakeholders and the actions that have been generated as a result of this feedback (e.g. changes to inputs or improvements in products).	The Company engages with its key stakeholders through various channels depending upon who they are and values the feedback it receives from them. These stakeholders include shareholders, suppliers, customers, regulators and the Company's employees. The Company takes every opportunity to ensure that where possible the views of its stakeholders are

		considered and acted upon when these are believed likely to bring material benefit to the success and integrity of the Company's business activities.
4	**Embed effective risk management, considering both opportunities and threats, throughout the organisation.** Describe how the board has embedded effective risk management in order to execute and deliver strategy. This should include a description of what the board does to identify, assess and manage risk and how it gets assurance that the risk management and related control systems in place are effective.	 The Company's approach to the management and identification of risk is set out in the Business Risks and Uncertainties section of the Financial Review contained in the 2018 annual report on page 23. The Company encourages a culture of risk awareness and management at all levels throughout the Company. Strategic risks are regularly reviewed by the Board and, at executive level, the Company employs outside advisors to assess and advise on risk when it is felt additional third-party expertise is required. Through the HSE and Audit Committees the Board maintains a full and active awareness of operational and financial risks and the assurances that effective control systems are in place.
5	**Maintain the Board as a well-functioning, balanced team led by the Chair** Identify those Directors who are considered to be independent; where there are grounds to question the independence of a Director, through length of service or otherwise, this must be explained.	 The Board currently has an Executive Chairman, a Chief Executive Officer (CEO) and four non-executive Directors. All Directors have extensive and complementary skills, knowledge and experience covering all facets of the business which requires both entrepreneurial and custodian oversight and all are considered independent in terms of character and judgement. The Board is aware of the need to maintain and build upon this balance of backgrounds and to maintain a diversity of talent through succession planning as the Company further develops and the needs of its business grows. During the two-year period when the Company was being repositioned and prior to the

		appointment of Mitch Flegg as Chief Executive Officer in November 2017 all executive functions of the Board were undertaken by Antony Craven Walker acting as the Chairman and sole executive Director. Whilst this phase is now complete the Company continues to build and consolidate its position in the sector. The Board believes that during this period it is in the Company's best interests for Antony Craven Walker to continue for the time being as Executive Chairman in order to provide continuity and ongoing strategic support to the Chief Executive Officer. Neil Pike, Senior Independent Director, and Ian Vann have been non-executive Directors of the Company for over ten years and therefore could be considered not to be independent due to length of service. However, both have made a major contribution as non-executive Directors during a period of material transformation for the Company and continue to provide valuable insight, independent advice and views as the Company develops its strategy and plans for succession evolve in parallel. Due to their length of service they stand for re-election at every AGM whilst they continue to serve on the Board. Trevor Garlick and Malcolm Webb joined the Board as non-executive Directors in November 2018. Both Trevor Garlick and Malcolm Webb are considered to be independent. For full background refer to "Board Composition" on page 43 of the 2018 annual report.
	Describe the time commitment required from directors (including non-executive directors as well as part-time executive directors).	The executive Directors are expected to devote substantially the whole of their time to their duties with the Company. The non-executive Directors have a lesser time commitment. It is anticipated that non-executive Directors will each dedicate 12 days a year in addition to their duties as Board members.

	Include the number of meetings of the board (and any committees) during the year, together with the attendance record of each director.	Full details of the number of Board and Committee meetings held and the attendance record of each of the Directors is provided in the 2018 annual report on page 46.
6	**Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities** Identify each director. Describe the relevant experience, skills and personal qualities and capabilities that each director brings to the board (a simple list of current and past roles is insufficient); the statement should demonstrate how the board as a whole contains (or will contain) the necessary mix of experience, skills, personal qualities (including gender balance) and capabilities to deliver the strategy of the company for the benefit of the shareholders over the medium to long-term. Explain how each director keeps his/her skillset up-to-date.	 Information on each of the Directors is provided in the 2018 annual report on pages 42-43 The Board of directors covers a wide range of experience and skills. To meet the requirements of an independent upstream oil and gas exploration, development and production company these experience and skills must cover financial, legal, operational and technical knowledge experience of risk management and growth in the independent sector and of public markets. Each of the directors on the Board, both executive and non-executive, have considerable experience and all have demonstrated skills which are complementary, independent and sufficient to cover all of the requirements of the Board. As the Company continues to grow its asset base and to refresh the Board the Nominations Committee maintains oversight of the Company's requirements to ensure that the make-up of the Board is kept in line with the Company's needs and provides a mix of experience, skills, personal qualities and capabilities appropriate to the task. These include full consideration to maintain a healthy diversity where this is possible, including gender diversity. For background history of each of the directors refer to pages 42-43 of the 2018 annual report. The Board as a whole has significant experience both within the industry and in public and financial markets. The Board receives support and advice from its Nomad on AIM requirements as and when required and each

		director is encouraged to discuss any matter of interest with the Company's professional advisors.
	Where the board or any committee has sought external advice on a significant matter, this must be described and explained.	During 2018 the Company used a number of external professional advisers in relation to the transactions implemented during the year (the BKR transactions). Advice was also received from the Company's professional advisors and Nomad in relation to the documentation and procedures necessary to meet the AIM reverse take-over requirements for implementation of the transactions. The Reserves Committee, a sub-committee of the Audit Committee, engages independent reserves auditors to provide an independent competent persons report on the Company's end of year reserves.
	Where external advisers to the board or any of its committees have been engaged, explain their role.	Details of the Company's advisors can be found on the website https://www.serica-energy.com/aim-rule-26
	Describe any internal advisory responsibilities, such as the roles performed by the company secretary and the senior independent director, in advising and supporting the board.	The directors have access to the Company's Nomad, company secretary, lawyers and auditors and are able to obtain advice from other external bodies as and when required. The Company Secretary helps keep the Board up to date on areas of new governance and liaises with the Company's lawyers and Nomad on areas of AIM requirements. The Company Secretary has communication with both the Chairman and CEO and is available to other members of the Board if required. The Senior Independent Director helps ensure that impartiality is maintained.
7	**Evaluate board performance based on clear and relevant objectives, seeking continuous improvement** Include a high-level explanation of the board performance effectiveness process.	During 2018 the Company has undergone a significant

		transformation from a small independent North Sea producer to a material mid-tier North Sea operator producing from several offshore fields. This has required evolution at the Board level as well as at executive level. The make-up of the Company's Board of Directors has kept pace with these changes with the introduction of new experience and skill-sets complementing those already on the Board. By this means the Board is continuing to refresh and enhance its performance.
	Where a board performance evaluation has taken place in the year, provide a brief overview of it, how it was conducted and its results and recommendations. Progress against previous recommendations should also be addressed.	Due to the significant and transformational transactions undertaken by the Company during 2018 and the changes to the Board during the course of the year no Board evaluation took place in 2018. It is intended that a Board evaluation process be put in place to be implemented during the course of 2019 and future years. For further information see 'Board Evaluation' on annual report pages 46-47.
	Include a more detailed description of the board performance evaluation process/cycle adopted by the Company. This should include a summary of: • The criteria against which board, committee and individual effectiveness is considered; • How evaluation procedures have evolved from previous years, the results of the evaluation process and action taken or planned as a result; and • How often board evaluations take place.	As cited above, due to significant transactions undertaken by the company during 2018 and changes to the Board, no Board evaluation process took place during 2018.
	Explain how the Company approaches succession planning and the processes by which it determines board and other senior management appointments, including any links to the board evaluation process.	Succession planning is undertaken by the Nominations Committee working together with the Chairman and the Board. See page 47 of the 2018 annual report.
8	**Promote a corporate culture that is based on ethical values and behaviour**	

	Include in the Chair's corporate governance statement how the culture is consistent with the company's objectives, strategy and business model in the strategic report and with the description of principal risks and uncertainties. The statement should explain what the board does to monitor and promote a healthy corporate culture and how the board assesses the state of the culture at present. Explain how the board ensures that the Company has the means to determine that ethical values and behaviours are recognised and respected	The corporate culture of the Company is established from the Board of directors and communicated to the Company through the Chief Executive Officer through a regular series of internal meetings with senior management. By this means the Company's strategy, objectives and approach to health, safety, environmental and diversity issues are communicated to all employees with the Board maintaining full oversight. The Company operates a full feed-back system directly to the Chairman, Chief Executive Officer or Senior Independent Director which provides the mechanism to enable the Company to become aware of any deviation from the Company's ethical values.
9	**Maintain corporate structures and process that are fit for purpose and support good decision-making by the board** Describe the roles and responsibilities of the chair, chief executive and any other directors who have specific individual responsibilities or remits (e.g. for engagement with shareholders or other stakeholder groups). Describe the roles of any committees (e.g. audit, remuneration and nomination committees) setting out any terms of reference and matters reserved by the board for its consideration. Describe which matters are reserved for the board	 Information can be found on the Company's website https://www.serica-energy.com/aim-rule-26 2018 annual report pages 44-45 Further information relating to the Company's Committees can be found on the Company's website https://www.serica-energy.com/board-committees The Company's terms of reference are retained by the Company Secretary and are currently being refreshed following the Company's recent transformation. The following matters are a summary of the matters which require the approval of the Board. Strategy and Plans: responsibility to supervise the formulation of

		strategic direction, plans and priorities for the Company; approve capital expenditure budgets and related operating plans; approve material divestitures and acquisitions; Financial and Corporate Issues: responsibility to take steps to ensure implementation and integrity of the Company's internal control and management information systems; approval of financial statements and approve the release thereof by management; Identification and Management of Risks: responsibility to ensure that management has identified the principal risks of the Company's business and implemented appropriate strategies to manage the risks; Policies and Procedures: responsibility to monitor compliance with all significant policies and procedures by which the Company is operated; Oversight of Communications and Public Disclosure: ensuring that the Company has in place effective, accurate and timely disclosure and communication processes with shareholders and financial, regulatory and other recipients; Corporate Governance Matters: review of the Company's overall corporate governance arrangements; Other: Empowered to retain, oversee, compensate and terminate independent advisors to assist the Board in its activities
	Describe any plans for evolution of the governance framework in line with the Company's plans for growth	Following the recent transactions undertaken by the Company, as business grows and Committee member changes have been made, the Company plans to focus on succession planning and Board evaluation during 2019. Each Committee chairman also plans to refresh each Committee terms of reference which shall reflect the

		Company's plans for growth.
10	**Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders** Describe the work of any board committees undertaken during the year. Include an audit committee report (or equivalent report if such committee is not in place). Include a remuneration committee report (or equivalent report if such committee is not in place). If the company has not published one or more of the disclosures set out under Principles 1-9, the omitted disclosures must be identified and the reason for their omission explained.	 Refer to 2018 annual report detailing each committee report at pages 47-54 Refer to 2018 annual report: page 47 Refer to 2018 annual report: page 51 The Company has published all of the disclosures set out under Principles 1-9 and has not omitted any disclosures.

BOARD OF DIRECTORS/PROFILES

Antony Craven Walker – Executive Chairman

Antony Craven Walker, Executive Chairman, started his career with BP in 1966 and has been a leading figure in the British independent oil industry since the early 1970s. Mr Craven Walker founded two British independent oil companies, Charterhouse Petroleum, where he held the post of Chief Executive, and Monument Oil and Gas, where he held the post of Chief Executive and later became Chairman. Mr Craven Walker was also a founder member of BRINDEX (Association of British Independent Oil Exploration Companies). Mr Craven Walker was appointed non-executive Chairman of the Company in 2004 and following the retirement of the then Chief Executive in April 2011, initially acted as interim Chief Executive. With effect from 1 June 2015, he took the role of Executive Chairman following the departure of two Executive Directors. Under his direction the Company embarked upon its strategy to refocus on the North Sea and build a strong production base. Mr Craven Walker's experience in the oil and gas and public market sectors gives him the skills necessary to provide the services of Executive Chairman as the Company continues to develop its business strategy.

Mitch Flegg – Chief Executive Officer

Mitch Flegg, Chief Executive officer has over 35 years of experience in the upstream oil and gas industry, including positions at Shell and Enterprise Oil. Mr Flegg first joined the Company in 2006 and was responsible for all drilling and development operations. He was promoted to the position of Chief Operating Officer in March 2011 and appointed to the Board in September 2012. Mr Flegg left the Company in May 2015 to become CEO of Circle Oil Plc. Mr Flegg re-joined the Board on 21 November 2017 as Chief Executive Officer on the announcement of the BKR transaction. Mr Flegg's background and experience ensures that the Company is effectively led to achieve the Company's long-term strategic goals to become a leading producer and operator.

Neil Pike – Senior Independent Non-Executive Director

Neil Pike, Senior Independent non-Executive Director joined the Company as a director in 2004. Mr Pike has been involved in the global petroleum business as a financier since joining the energy department at Citibank in 1975. Mr Pike remained an industry specialist with Citibank throughout his career until he joined the Company and was closely involved in the development of specialised oil field finance. Latterly he was responsible for Citibank's relationships with the oil and gas industry worldwide. Mr Pike with his financial background provides the experience required as chairman of the Audit Committee to challenge the business internally and also the Group's auditors.

Ian Vann – Non-Executive Director

Ian Vann, Non-Executive Director joined the Board in 2007. Mr Vann was employed by BP from 1976 and directed and led BP's global exploration efforts from 1996 until his retirement in January 2007. Mr Vann was appointed to the executive leadership team of the Exploration & Production Division of BP in 2001, initially as Group Vice President, Technology and later as Group Vice President, Exploration and Business Development. Mr Vann's industry background provides the Board with the necessary expertise to review and challenge decisions and opportunities presented both within the formal arena of the boardroom and as called upon when needed by the executives. Mr Vann chairs the Company's Remuneration Committee.

Trevor Garlick – Non-Executive Director

Trevor William Garlick, Non-Executive Director joined the Board on 30 November 2018, on completion of the BKR transactions. Mr Garlick started his career in 1982 with Marathon Oil International, before joining BP in 1986, where he worked for 30 years, latterly as Regional President for BP in UK and Norway from 2010 until his retirement in 2016. Mr Garlick was the Operator's Chair of the industry association, Oil & Gas UK, from 2014 to 2016 and is currently a director of Opportunity North East Limited and Vice Chairman of the Oil & Gas Technology Centre. As a newly appointed non-executive to the Board, Mr Garlick brings a wealth of experience and a fresh pair of eyes to the business. Mr Garlick chairs the Company's Health, Safety and Environment Committee and the Reserves Committee.

Malcolm Webb – Non-Executive Director

Malcolm Webb, Non-Executive Director joined the Board on 30 November 2018, on completion of the BKR transactions. Mr Webb started his career with Burmah Oil Company in 1974, before joining the British National Oil Corporation in 1976 and Charterhouse Petroleum in 1981, as a solicitor working in various legal roles. Between 1986 and 1999, Mr Webb worked in the Petrofina SA Group in various senior management roles, leaving as Managing Director of Fina plc. In 2001, Mr Webb joined the UK Petroleum Industry Association as Director General and between 2004 and 2015 served as Chief Executive to the industry association, Oil & Gas UK. Mr Webb's industry background, together with his corporate and legal experience provides the Board with the expertise to review and challenge decisions and opportunities presented. Mr Webb chairs the Company's Nominations Committee.

BOARD COMPOSITION

The composition of the Board changed during 2018 with the appointment of two non-Executive Directors, Malcolm Webb and Trevor Garlick on 30 November 2018 at the time of the announcement of the acquisition of BP's interests in the BKR assets. This was an important step in strengthening the Board and bringing the governance structure of the Board in line with the requirements of the QCA Code and general good governance.

As at 31 December 2018, the Board of the Company consisted of the Executive Chairman, the Chief Executive Officer and four non-executive Directors. Neil Pike, a senior independent Non-Executive director along with the other non-Executive Directors helps assist with the independence required given the Company has an Executive Chairman. All the non-Executive directors are independent in character and judgement and have the range of experience and calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group.

The Board believes that there is an adequate balance between the Non-Executive and Executive directors, both in number and in experience and expertise, to ensure that the Board operates independently of executive management. There is no formal Board performance appraisal system currently in place, but the Nominations Committee considers this as part of its remit.

CORPORATE GOVERNANCE FRAMEWORK

The Board of Directors acknowledge the importance of corporate governance, believing that the QCA Code provides the company with the right framework to maintain a strong level of governance.

The Board retains full and effective control over the Company. The Company holds regular Board meetings at which financial, operational and other reports are considered and, where appropriate, voted on. The Board is responsible for the Group’s strategy, performance, key financial and compliance issues, approval of any major capital expenditure and the framework of internal controls. The matters reserved for the Board include, amongst others, approval of the Group’s long term objectives, policies and budgets, changes relating to the Group’s management structure, approval of the Group’s annual report and accounts and ensuring maintenance of sound systems of internal control.

There is a clearly defined organisational structure with lines of responsibility and delegation of authority to executive management. The Board is responsible for monitoring the activities of the executive management. The Chairman has the responsibility of ensuring that the Board discharges its responsibilities. In the event of an equality of votes at a meeting of the Board, the Chairman has a second or casting vote.

The Company is committed to a corporate culture that is based on sound ethical values and behaviours and it seeks to instil these values across the organisation as a whole. The Company promotes its commitment through its public statements on its website, in its report and accounts and internally through its communications to its employees and other stakeholders.

The Company has a zero-tolerance approach to bribery and corruption and has adopted an anti-bribery policy to protect the Group, its employees and those third parties with which the Company engages. An online training session is being organised by the Company to be rolled out to all employees to ensure compliance with the anti-bribery policy.

The Company has adopted a whistleblowing policy–which enables employees to raise any concerns that they may have in confidence with the Chairman, CEO or the Senior Independent Director.

BOARD COMMITTEES AND STRUCTURE

The Board has established a Nominations Committee, an Audit Committee, a Reserves Committee, a Remuneration and Compensation Committee and a Health, Safety and Environmental Committee. All Committees are committed to report back to the Board following a Committee meeting.

<u>Nominations Committee</u>

The Nominations Committee is responsible for monitoring the effectiveness of the Board and its Committees, proposing to the Board new nominees for election as directors determining successor plans and for assessing directors on an ongoing basis.

The Committee met twice during 2018 and will meet as required during the next financial year.

The Nominations Committee is comprised of the Executive Chairman and two independent Non-Executive Directors. The Committee is chaired by Malcolm Webb and its other members are Antony Craven Walker and Neil Pike.

<u>Audit Committee</u>

The Audit Committee meets regularly and consists of three members, all of whom are Non-Executive Directors. The Committee's purpose is to assist the Board's oversight of the integrity of the financial statements and other financial reporting, the independence and performance of the auditors, the regulation and risk profile of the Group and the review and approval of any related party transactions. The Audit Committee may hold private sessions with management and with the external auditor without management present.

The Audit Committee met four times in 2018 and proposes to meet at least three times during the next financial year. The Committee is chaired by Neil Pike and the other members are Ian Vann and Trevor Garlick.

Reserves Committee

The Reserves Committee is a sub-committee of the Audit Committee. The Committee's purpose is to review the reports of the independent reserves auditors pursuant to Canadian regulations which require that the Board discuss the reserves reports with the independent reserves auditors or delegate authority to a reserves committee comprised of at least two non-Executive Directors. The Committee is chaired by Trevor Garlick and its other members are Ian Vann and Mitch Flegg. The Committee met once in 2018 and typically meets once a year prior to publication of the annual results.

Remuneration and Compensation Committee

The Remuneration and Compensation Committee meets regularly to consider all material elements of remuneration policy, share schemes, the remuneration and incentivisation of Executive Directors and senior management and to make recommendations to the Board on the framework for executive remuneration and its cost. The role of the Committee is to keep under review the remuneration policies to ensure that Serica attracts, retains and motivates the most qualified talent who will contribute to the long-term success of the Company.

The Committee met five times in 2018 and proposes to meet at least twice during the next financial year. In addition, written resolutions of the Committee are passed from time to time particularly in relation to routine matters such as the allotment of shares pursuant to share option exercises as well as to record formally decisions of the Committee reached outside the scheduled meetings.

The Committee is composed of three non-Executive Directors all of whom are independent. The Committee is chaired by Ian Vann and its other members are Neil Pike and Malcolm Webb

Health, Safety and Environmental Committee

The Health, Safety and Environmental Committee is responsible for matters affecting occupational health, safety and the environment, including the formulation of a health, safety and environmental policy.

The Committee met twice during 2018 and proposes to meet at least three times during the next financial year. The Committee is chaired by Trevor Garlick and its other members are Ian Vann and Mitch Flegg.

Directors' attendance at meetings

The Board generally has one scheduled Board meeting every month over the course of the financial year with informal discussions scheduled as required. Additional meetings are held depending upon opportunities or issues to be dealt with by the Company from time to time. The Non-Executive Directors hold informal meetings during the course of the year at which members of management are not in attendance.

The Directors' attendance at scheduled Board meetings and Board committees during 2018 is detailed in the table below:

Director	Board	Audit	Remuneration and Compensation	Nominations	HSE	Reserves
A Craven Walker (Chairman)	15*	1^	2^	1	2	-
N Pike	15	4*	5	2*	-	-
I Vann	15	4	5*	2	2*	1*
M Flegg	15	-	4^	2^	2^	-
M Webb (2) (5)	1	-	-	*	-	-
T Garlick (3) (6)	1	-	-	-	*	*
Total meetings	**15**	**4**	**5**	**2**	**2**	**1**

Notes:

1. The Chairman, CEO and Non-Executive directors attended a number of meetings of Committees of which they were not members during the course of the year at the invitation of the Committee chairman.
2. Malcolm Webb was appointed to the Board on 30 November 2018.
3. Trevor Garlick was appointed to the Board on 30 November 2018.
4. On 20 December 2018, changes were made to the composition of the Company's Committees.
5. Malcolm Webb was appointed to the Nominations Committee on 20 December 2018 replacing Neil Pike as chairman whilst Ian Vann stood down as a member of the Nominations Committee. Malcolm Webb was also appointed as a member of the Remuneration Committee on 20 December 2018.
6. Trevor Garlick was appointed to the HSE Committee and Reserves Committee on 20 December 2018 replacing Ian Vann as chairman. Trevor Garlick was also appointed to the Audit Committee on 20 December 2018.

* Chairman
^ Invitee

BOARD OBJECTIVES/ACTIVITIES

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions. The effectiveness of the Board, director and senior management appointments and the Company's succession planning, will be evaluated on a regular basis.

BOARD EVALUATION

The Board considers that its effectiveness and the individual performance of its directors is vital to the success of the Company.

The Board considers that it functions effectively and the need for formal Board evaluation has not been considered necessary to date.

The Company currently conducts an informal Board self-evaluation process on an ad hoc basis. However, it is recognised that with the expansion of the Board in parallel with the expansion of the Company's activities and the need to meet the requirements of the QCA Code a more formal process will be necessary. The Company will introduce a structure to set clear targets and objectives for improving and monitoring performance of an enlarged Board and will introduce a formal evaluation for all Board members to monitor their individual contribution and commitment.

The evaluation process will set out criteria against which Board, Committee and individual effectiveness is measured.

The directors have a wide knowledge of the Company's business and understand their duties as directors of a company quoted on AIM. The directors have access to the Company's Nominated Adviser, auditors and solicitors as and when required. These advisors are available to provide formal support and advice to the Board from time to time and do so in accordance with good practice. The directors are also able, at the Company's expense, to obtain advice from external advisers if required.

The Board is mindful of the need for succession planning. The Board previously disclosed its intention to appoint two further Non-Executive Directors and was pleased to announce the appointments of Mr Trevor Garlick and Mr Malcolm Webb effective from 30 November 2018. The Nominations Committee will continue to meet and monitor the requirements for succession planning and Board appointments to ensure that the Board is fit for purpose. If external training or assistance with recruitment is required by the Committee, this will be made available.

The Nominations Committee is mindful of the Board's performance and composition together with the performance of individual directors and senior management.

Audit Committee Report

The Audit Committee (the 'Committee') is a standing committee of the Board of the Company and is comprised of three Non-Executive directors.

An important part of the role of the Committee is its responsibility for reviewing and monitoring the effectiveness of the Group's financial reporting, internal control policies, and procedures for the identification, assessment and reporting of risk. The latter two areas are integral to the Group's core management processes and the Committee devotes significant time to their review. The Audit Committee is also responsible for overseeing the relationship with the external auditor.

An essential part of the integrity of the financial statements lies around the key assumptions and estimates or judgments to be made. The Committee reviews key judgments prior to publication of the financial statements at both the end of the financial year and at the end of the six month interim period, as well as considering significant issues throughout the year. In particular, this includes reviewing any subjective material assumptions within the Group's activities to enable an appropriate determination of asset valuation, provisioning and the accounting treatment thereof. The Committee reviewed and was satisfied that the judgments exercised by management on material items contained within the Report and Financial Statements are reasonable.

The Board has engaged Ernst & Young (EY) to act as external auditors and they are also invited to attend Committee meetings, unless they have a conflict of interest. During the year, the Committee met four times and the members attendance record at Committee meetings during the financial year is set out in the Corporate Governance at page 46.

The Audit Committee has considered the Group's internal control and risk management policies and systems, their effectiveness and the requirements for an internal audit function in the context of the Group's overall risk management system. The Committee is satisfied that the Group does not currently require an internal audit function; however, it will continue to periodically review the situation.

The external auditors, EY, were appointed during the financial year. The Serica Group fee to EY for the financial year to 31 December 2018 is GB£222,000. The Audit Committee shall undertake a comprehensive review of the quality, effectiveness, value and independence of the audit provided by EY each year, seeking the views of the wider Board, together with relevant members of the Committee.

Whilst EY have been the Company's auditors for fourteen years, the Committee are comfortable that EY's audit remains independent. A new audit partner has been allocated to the Company which further demonstrates the independence of the audit provided by EY.

Responsibilities

The Committee reviews and makes recommendations to the Board on:

- any change in accounting policies
- decisions requiring a major element of judgement and risk
- compliance with accounting standards and legal and regulatory requirements
- disclosures in the interim and annual report and financial statements
- reviewing the effectiveness of the Group's financial and internal controls
- any significant concerns of the external auditor about the conduct, results or overall outcome of the annual audit of the Group
- any matters that may significantly affect the independence of the external auditor

Neil Pike
Chairman of the Audit Committee
16 April 2019

Reserves Committee Report

The Reserves Committee (the 'Committee') is a sub-committee of the Audit Committee, a standing committee of the Board of the Company and is comprised of two Non-Executive directors and an Executive director.

The Committee composition changed in December 2018 with the appointment of Trevor Garlick as a director of the Company. The Committee now comprises of Trevor Garlick (Non-Executive director), Ian Vann (Non-Executive director and previous chairman of the Committee) and Mitch Flegg (Executive director of the Company).

The Committee's purpose is to review the reports of the independent reserves auditors. This requires that the Board discuss the reserves reports with the independent reserves auditors or delegate authority to a reserves committee comprised of at least two non-Executive Directors. The Committee meets at least once a year prior to approval of the annual results.

2018

- Evaluated the effectiveness of the Group's technical processes and standards.
- Reviewed the results of management and independent audits of the Group's reserves and resources and advised the Audit Committee of the Company and, where appropriate, the Board of its conclusions in respect of the same.

2019 looking forward

- Refresh the Committee Terms of Reference in assisting the Board in the Company's compliance with legal and regulatory requirements.
- Review the Company's procedures for providing information to the qualified reserves evaluator or auditor who reports on reserves data.

- Meet with management and the qualified reserves evaluator or auditor, to review the reserves data and the auditor's annual reserves report.
- Determine whether any restrictions affect the ability of the qualified reserves evaluator or auditor to report on reserves data without reservation.
- Review and recommend to the Board for approval the content and filing of the Company's annual statement of reserves data and other oil and gas information.

Trevor Garlick
Chairman of the Reserves Committee
16 April 2019

Nominations Committee Report

The Nominations Committee is a standing committee of the Board of the Company comprised of two Non-Executive Directors and one Executive Director.

The Committee's membership changed at the beginning of 2019 and now comprises Malcolm Webb (Non-Executive director and Committee Chairman), Neil Pike (Non-Executive director) and Antony Craven Walker (Executive Chairman of the Company).
Prior to 28 February 2019, the Committee was named the Corporate Governance & Nominations Committee. However, the Board has decided that corporate governance should be the clear responsibility of the Board under the leadership of the Chairman of the Company. Accordingly, the Committee has been renamed the Nominations Committee and given new Terms of Reference focussed on matters relating to the composition and effectiveness of the Board.

The Role of the Committee

The Committee is responsible for:-

- Reviewing the structure, effectiveness and performance of all members of the Board and of all Board Committees.
- The recruitment and training of directors, including independent Non-Executive directors.
- Maintaining an effective succession plan for the Board, its Committees and the senior executives of the Company.

Independence of Non-Executive Directors.

The Committee and the Board are satisfied that each Non-Executive director serving at the end of the year remains independent and continues to have sufficient time to discharge their responsibilities to the Company. Neil Pike and Ian Vann have served on the Board for over ten years. Their ongoing contribution is integral to the Company's governance during a period of major transition, which includes plans for succession. Whilst they continue to serve on the Board they stand for re-election at the Company's Annual General Meetings and are considered to be providing independent advice and oversight in both character and judgement.

2018

In 2018 the Committee led the process of searching for additional directors to be appointed on the completion of the acquisition of the Bruce, Keith & Rhum fields ('BKR'). The Committee progressed conversations with several potential candidates before recommending the appointments of Malcolm Webb and Trevor Garlick to the Board, subject to the necessary nominated advisor checks and completion of BKR on 30 November 2018.

2019 looking forward

The Committee, which has so far met twice in 2019, will pay particular attention to Board structure and succession planning this year, whilst of course continuing to discharge all its other responsibilities.

"Board composition is a key focus for the Nominations Committee, with a view to ensuring the Board has the right skills and experience to direct the Company in the successful execution of its strategy".

Malcolm Webb

Chairman of the Nominations Committee
16 April 2019

Health, Safety and Environment Committee Report

The Health, Safety and Environment Committee ('Committee') is responsible for matters affecting occupational health, safety and environment, including the formulation of a health, safety and environment policy.

The Committee composition changed towards the end of 2018 with the appointment of Trevor Garlick as a director of the Company. The Committee now comprises of Trevor Garlick (Non-Executive director), Ian Vann (Non-Executive director and previous chairman of the Committee) and Mitch Flegg (Chief Executive Officer of the Company).

Due to the Company's recent acquisition of equity in and the operatorship of the Bruce, Keith & Rhum fields, the Committee shall play a far more active role given the size and transformation of the Company.

During the year under review, the Committee met twice to discuss matters pertaining to Health Safety and Environmental ('HSE') issues. The Committee is primarily focused on ensuring that the HSE policies are adopted and applied across the Group.

2018 Review

- The Committee continued to meet during the year to review the on-going HSE procedures.
- The Committee met on two occasions during the year.
- Reportable HSE incidents occurred over the year were reviewed.
- Approved the Corporate Major Accident Prevention Policy to recommend to the Board.
- Reviewed and assisted with the submission of the Safety Case Regulation requirements relating to the Bruce field.

2019 Looking Forward

- Ensure HSE Policies set the right direction
- Ensure Leadership is proactively engaged in HSE management.
- Further Development of HSE and Risk Management Plans.
- New HSE organisation is to be put in place with clear accountabilities
- Quarterly HSE Committee meetings to take place during 2019
- HSE performance is to be measured, benchmarked and linked to the Company bonus scheme.

- Committee meetings during 2019 will focus on: Evaluating HSE performance against industry standards, monitoring maintenance plan delivery, HSE Plan delivery, acting on Regulator feedback, major risk and major accident management and understanding lessons; Non-operated asset HSE performance and employee communications.

"The Committee will help ensure that the Company continues to operate its assets safely. The Committee's main role is to assure the Board that that the Company has plans in place to maintain and improve a strong health, safety and environmental culture. This is a key part of the Company's strategy".

Trevor Garlick
Chairman of the Health and Safety and Environment Committee
16 April 2019

Remuneration Committee Report

The Remuneration and Compensation Committee (the "Committee") is a standing committee of the Board of the Company and is comprised of three Non-Executive directors.

The purpose of the Committee is to assist the Board in discharging its oversight responsibilities relating to the attraction, compensation, evaluation and retention of Executive directors and key senior management employees, in particular the Chief Executive Officer and Executive Chairman. The Committee aims to ensure that the Company has the right skills and expertise needed to enable the Company to achieve its goals and strategies and that fair and competitive compensation is awarded with appropriate performance incentives.

The Committee comprises three Non-Executive directors whose names and profiles are set out in the Board and Committees section of this Annual Report. The Committee held five meetings during 2018. Members' attendance records are disclosed in the Corporate Governance Report contained in this Annual Report.

Consideration by the Directors of matters relating to Directors' remuneration

The Committee is responsible for making recommendations to the Board regarding the framework for the remuneration of the Executive Directors and other members of Executive Management. The Committee works within its terms of reference, and its role includes:

- Determining and agreeing with the Board, the Remuneration Policy for all Executive directors and under guidance of the Executive directors, other members of Executive Management Team.
- Ensuring Executive remuneration packages are competitive.
- Determining whether annual bonus payments should be made and approving levels for individual executive directors
- Determining each year whether any awards/grants should be made under the incentive schemes and the value of such awards.
- Considering any new long-term incentive scheme awards and performance criteria.
- Agreeing directors' service contracts and notice periods.

The Company is committed to maintaining an open and transparent dialogue with Shareholders on all aspects of Remuneration within the Group.

Summary of work undertaken during 2018

- The Committee reviewed the 2018 employee salary increases along with the 2018 bonus scheme.
- The Committee undertook work in connection with ensuring compliance with the Transfer of undertakings (Protection of Employment) Regulations prior to and after the Company's acquisition of Bruce, Keith and Rhum ('BKR'); which included:
    - Reviewing the remuneration packages for BP employees to gauge how the Company would provide transferring BP employees with alterative benefits of equivalent value to those benefits that BP provided;
    - Recommending to the Board the appointment of Link Asset Services to administer the various Company's share schemes;
    - Recommending to the Board the adoption of the Serica Energy 2018 Share Save Scheme ('SAYE Scheme');
    - Considering how options would be satisfied under the SAYE Scheme for recommendation to the Board;
    - Recommending to the Board the appointment of a trustee in order to provide a mechanism for agreeing with trustees how they would satisfy option granted under the SAYE Scheme and the Company's existing Long-Term Incentive Plan ('LTIP');
    - Agreeing how transferring BP employees would be provided with the opportunity to contribute to the Company's existing Share Incentive Plan ('SIP') whilst ensuring that the SIP was equivalent in value to the scheme enjoyed by those BP employees prior to the completion to BKR;
    - Agreeing how transferring BP employees would be provided with awards in place of the awards received under the BP Share Value Plan;
    - Considering and agreeing the type of LTIP awards to be granted to transferring BP employees along with the timing and grant of the LTIP awards, including the lapsed portion of the 2018 SVP award;
    - Recommending to the Board to grant retention LTIP awards to transferring BP employees;
    - Considering and agreeing an alternative benefit to those transferring BP employees who were members of a defined benefit pension arrangement.
- Considering and agreeing bonus compensation to employees in light of their contribution to the completion of the BKR acquisitions.

Executive Directors' service contracts.

The commencement date and notice period of the Executive Director service contracts are set out below:

Director	Commencement Date	Notice period
Antony Craven Walker	1 July 2015	6 months from Executive 12 months from Company
Mitch Flegg	21 November 2017	6 months from Executive 12 months from Company

Executive Remuneration

The table below sets out the remuneration and breakdown for each Executive director paid for the 2018 financial year.

	Antony Craven Walker	**Mitch Flegg**
Salary	£315,000	£270,000
Annual Bonus	£157,500	£135,000
Benefits	£16,201	NIL
Pension	NIL	£27,000
TOTAL	£488,701	£432,000

Mr Craven Walker has waived his entitlement to Illness and Medical Insurance, Pension contribution and participation in the SIIP.

ADDITIONAL DETAILS

Share Option Plans
The Company operates three discretionary incentive share option plans: the Serica Energy Plc Long Term Incentive Plan (the "LTIP"), which was adopted by the Board on 20 November 2017 which permits the grant of share-based awards, the 2017 Serica Energy plc Company Share Option Plan ("2017 CSOP"), which was adopted by the Board on 20 November 2017, and the Serica 2005 Option Plan, which was adopted by the Board on 14 November 2005. Awards can no longer be made under the Serica 2005 Option Plan, however, options remain outstanding under the Serica 2005 Option Plan. The LTIP and the 2017 CSOP together are known as the "Discretionary Plans".

The Discretionary Plans will govern all future grants of options by the Company to Directors, officers, employees and certain consultants of the Group. The directors intend that the maximum number of ordinary shares which may be utilised pursuant to the Discretionary Plans will not exceed 10% of the issued ordinary shares of the Company from time to time in line with the recommendations of the Association of British Insurers. The objective of the Discretionary Plans is to develop the interest of directors, officers, employees and certain consultants of the Group in the growth and development of the Group by providing them with the opportunity to acquire an interest in the Company and to assist the Company in retaining and attracting executives with experience and ability.

Long Term Incentive Plan
The following awards have been granted to certain directors and employees under the LTIP, these were deemed to be granted on 30 November 2017 under IFRS 2 in accordance with the 30 November 2017 Admission Document.

Director/Employees	**Total number of shares granted subject to Deferred Bonus Share Awards**
Antony Craven Walker	225,000
Mitch Flegg	225,000
Employees below Board level (in aggregate)	575,000
	1,025,000

Deferred Bonus Share Awards involve the deferral of bonuses into awards over shares in the Company. They are structured as nil-cost options and may be exercised up until the fifth anniversary of the date of grant. These awards vested on 31 January 2019 and were not subject to performance conditions; however, they were conditional on completion of the BKR Acquisition, subject to the Board determining otherwise.

Director/Employees	**Total number of shares granted subject to Performance Share Awards**
Antony Craven Walker	1,500,000
Mitch Flegg	1,500,000
Employees below Board level (in aggregate)	2,250,000
	5,250,000

Performance Share Awards have a three-year vesting period and are subject to performance conditions based on average share price growth targets to be measured by reference to dealing days in the period of 90 days ending immediately prior to expiry of a three-year performance starting on the date of grant of a Performance Share Award. Performance Share Awards are structured as nil-cost options and may be exercised up until the tenth anniversary of the date of grant deemed to be on 30 November 2017 under IFRS 2 in accordance with the 30 November 2017 Admission Document. They were not subject to completion of the BKR Acquisition.

Non-Executive Directors

2019 Non-Executive Director fees

Non-Executive Directors	**Chair/Director Fees (£)**	**Committee Chairman Fees (£)**
Neil Pike	40,000	10,000
Ian Vann	40,000	10,000
Malcolm Webb*	40,000	10,000
Trevor Garlick*	40,000	10,000

*appointed to the Board on 30 November 2018

Ian Vann

Remuneration Committee Chairman
16 April 2019

Environmental and Social Governance

Serica's sustainability efforts are a natural and integrated part of its operations and a proof of the Company's commitment to provide a safe, reliable and responsible operating environment for all its stakeholders.

Our approach

As an oil and gas exploration and production company, we recognise the significance of sustainability for our business, and strive for continuous improvements aimed at promoting sustainable development. In doing so, we guide ourselves by industry-relevant CSR values and principles which are embedded in our strategy, management processes and business operations.

Our operations are controlled via a management system comprising a set of policies and guidelines, which help us monitor, evaluate and improve our daily activities, internal control systems and procedures. Serica's Board of Directors assesses the Company's sustainability practices and performance, and ensures that the necessary resources are in place to support that vision.

The key policies and guidance in place are:

- Code of Business Conduct
- Health, Safety and Environment (HSE) Policy
- Personnel Handbook
- Anti-Corruption and Bribery Policy
- Whistle Blowing Policy
- Share-dealing Policy

Our People

For Serica employee management is about providing a healthy and productive atmosphere to each member of its team. In 2018, the Company's staff structure was transformed with 114 employees transferring from BP to the new Serica team, following the landmark acquisition of BKR interests. To facilitate this transition and encourage integration, we put in place all requirements needed for a safe and efficient transfer of operations, including the opening of new offices in Aberdeen and the creation of 23 new jobs. The newly formed multi-disciplinary team is already delivering exceptional results and is at the heart of our potential for growth.

We believe that success will be delivered by creating a working environment of mutual respect and trust where shared goals, roles and responsibilities are clear and personal accountability is a matter of professional pride. We invest time to train, support and motivate our personnel to build the atmosphere of confidence, shared values and responsibility that will bring prosperity to employees and shareholders alike.

HSE

The safety of our employees and operations always comes first in our business and we continue to improve our standards and procedures to maintain healthy and harmless working environment. One of our priorities on assuming operatorship of the newly acquired assets was to initiate engagement sessions with key industry bodies such as the Offshore Petroleum Regulator for Environment & Decommissioning (OPRED) and the Health and Safety Executive (HSE) in order to facilitate consultation on health and safety related matters and further improve our standards to meet industry requirements. We will continue to work hard to invest in these important relationships.

We believe that engagement and collaboration are essential to reducing the impacts of our activities and mitigating risks. Serica is committed to providing guidance and training to its offshore personnel in order to ensure safe work practice, supported by required skills, sustainability awareness and efficient communications. In doing so, we have engaged with an expert in oil and gas workforce engagement, Step Change in Safety (SCiS), to improve our employees' Major Accident Hazard awareness. We are also proud to be an early adopter of the new International Association of Oil and Gas Producers (IOGP) Life Saving Rules and signatories to the Industry Search and Rescue (ISAR) helicopter service. These engagements have helped us establish appropriate operating procedures to ensure effective delivery on our policies, and we strive to further improve our practices in this area.

Environment

Serica will do all in its power to protect the environment and minimise the impact of our assets, supporting such industry initiatives as Aberdeen Marine Logistics Alliance, designed to maximise efficiency and reduce marine logistics costs through the sharing of vessels wherever possible.

The Company is supportive of other environmental drivers such as fuel efficiency. One of our first moves on taking operatorship of the BKR assets was to switch crew transport to direct flights from Aberdeen to Bruce on Sikorsky's most advanced civil aircraft, the S-92, delivering significant fuel efficiency and improving the travel experience of our personnel.

Business ethics

By establishing strong corporate governance policies, we are ensuring that Serica's core values and standards of business conduct align with the interests of all stakeholders. By adopting and implementing clear procedures and allocating responsibilities across the managing team, we strive to ensure significant progress towards achieving international best practice in the area of risk assessment and management.

The Board of Directors plays a fundamental stewardship role in ensuring that the Company directs its activities in a manner that enables all stakeholders to thrive. The set of policies and procedures, set out by the Board, governs the standards and behaviours of our personnel wherever they are at work. The Company's leadership is wholly committed to work with transparency and integrity, taking personal responsibility for individual actions and corporate behaviours.

This approach covers our work with our own employees, as well as third parties, giving guidance to the way we manage our supply chain. As one of the UK oil & gas industry's major businesses, Serica is highly conscious of the part we play in the local economy. Currently, over 90% of our contracts are serviced by UK suppliers, and almost 70% of these are in the North East of Scotland. We strive to encourage transparency and accountability in our engagement processes with all of our suppliers.

On behalf of the Board

AMBA Secretaries Limited

16 April 2019

Directors' responsibilities statement in relation to the Group and Company financial statements

The Directors are responsible for preparing the Strategic Report, the Director's Report and financial statements in accordance with applicable United Kingdom law and regulations and those International Financial Reporting Standards as adopted by the European Union.

Company law requires the directors to prepare financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under United Kingdom company law the directors have elected to prepare the Parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and the profit or loss of the Group for that period.

In preparing those Group and Company financial statements the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Group and Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance; and
- state whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the Group and Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements and, having a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, will continue to adopt the going concern basis in preparing the accounts.

Independent Auditor's report to the members of Serica Energy plc

Opinion

In our opinion:

- Serica Energy plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Serica Energy plc which comprise:

Group	**Parent company**
Group balance sheet as at 31 December 2018	Balance sheet as at 31 December 2018
Group income statement for the year then ended	Statement of changes in equity for the year then ended
Group statement of comprehensive income for the year then ended	Statement of cash flows for the year then ended
Group statement of changes in equity for the year then ended	Related notes 1 to 31 to the financial statements including a summary of significant accounting policies
Group statement of cash flows for the year then ended	
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

Separate opinion in relation to IFRSs as issued by the IASB as explained in Note 1 to the Financial Statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the Financial Statements comply with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Accounting for business combination • Assessment of commercial reserves and its impact on the financial statements
Audit scope	• We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further three components. • The components where we performed full or specific audit procedures accounted for 100% of Profit before tax, 100% of Revenue and 100% of Total assets.
Materiality	• Overall group materiality of $1,430k which represents 1% of the Group's equity.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit Committee</th></tr>
<tr><td>Accounting for business combination

Refer to the Accounting policies (page 70); and Note 26 of the Consolidated Financial Statements (page 108)

During 2018, the Group completed a transaction whereby Serica acquired a 98% interest in the Bruce and Keith fields and a 50% interest in the Rhum field for a combination of cash, deferred and contingent consideration. This transaction falls under the scope of IFRS 3 Business Combinations.

This acquisition has been accounted for using the acquisition method where the Group has performed a provisional purchase price allocation (“PPA”) exercise as disclosed in Note 26 to the financial statements, and subsequently allocated it to the assets acquired and liabilities assumed at the acquisition date at fair values. As a result, the Group has recognised a bargain purchase of $52,938k.

The Group employed a valuations expert to provide support with respect to the determination of the fair values of the assets acquired and liabilities assumed.

Significant judgement has been exercised by management in establishing the initial estimates of the fair values of the</td><td>Our procedures focused primarily on the risks relating to the valuation model, assumptions and judgements associated with the estimation of the fair value measurements. These included:

• reading the purchase agreements to obtain an understanding of the transactions and the key terms;

• making enquiries of management and those who participated in the preparation of the model to understand the terms of the contracts and obtained an understanding of the process and identified key controls;

• assessing the valuation model, the cash flow forecasts, and the key assumptions used in the calculation of the asset’s fair value;

• using our internal valuation specialists to assist us in reviewing management’s valuation methodologies and assessing the external key assumptions and inputs used in measuring the fair value of the net identifiable assets and the contingent consideration payable. This included price curves, inflation rates, exchange rates and discount rate;

• using our modelling team to audit the integrity of the models used in the valuations;

• assessing the valuation of the contingent consideration by evaluating the timing and appropriateness of the inputs, and ensured these were applied consistently in accordance with the contractual agreements;

• involving our internal specialists to review the related deferred taxes arising</td><td>At the April 2019 meeting of the Audit Committee, we confirmed that we had audited the accounting for the business combination and were satisfied that management had followed a robust process in completing the exercise and that it reflected appropriately the facts and circumstances that existed at the acquisition date.

We concluded that the values of the net assets acquired, deferred tax and the contingent and deferred consideration at the date of acquisition and at the year end, reported in the financial statements are appropriate; as well as the disclosures made in relation to such assumptions.</td></tr>
</table>

identifiable assets and liabilities acquired, together with the resulting bargain purchase as well as deferred tax arising on the acquisition. There is also a high level of estimation involved in determining the contingent element of the consideration which is based on a share of future cashflows from the fields. Given this, we believe that the accounting for the business combination as a whole, carries significant risk of material misstatement.	from the business combination, and to review the underlying assumptions; • assessing the competence of both management's internal and external specialists and the objectivity and independence of external specialists, to consider whether they were appropriately qualified to carry out the valuation; • confirming consistency of assumptions with other areas of the financial statements; and • assessing the adequacy of the related disclosures in Note 26 to the financial statements.	
Assessment of commercial reserves and its impact on the Financial Statements *Refer to note 2 accounting policies section "Use of judgement and estimates and key sources of estimation uncertainty" (page 71);* The estimate of oil and gas reserves and resources has a significant impact on the Financial Statements, particularly impairment testing; depreciation, depletion and amortization ('DD&A') charges; and valuation of assets acquired as part of the business combination. The estimation of oil and natural gas reserves and resources is a significant area of judgement due to the technical uncertainty in assessing quantities. Reserves and resources are also a fundamental indicator of the future potential of the group's performance.	We carried out the following procedures: • confirming our understanding of the group's controls over their certification process for technical and commercial experts who are responsible for reserves and resources estimation; • assessing the competence and objectivity of these experts, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation; • obtaining confirmation directly from Netherland, Sewell and Associates Inc (NSAI) and Ryder Scott that they are independent from Serica and have performed their procedures under the Canadian Oil & Gas Evaluation Handbook ("COGEH") standards; • assessing the rationale for any differences between the reserves estimates provided by Ryder Scott and management's own estimates used in the accounting for the PPA and subsequent DD&A charges relating to the assets acquired; • confirming that any material changes in reserves and resources were made in the appropriate accounting period; • validating that the reserves and resources estimates were included appropriately as key inputs within the group's financial statements, including; the reserves used in the PPA model, calculation of recoverable amount for Columbus asset, preparation of the cash flow forecasts for the assessment of the	We did not identify any exceptions as a result of our audit procedures. We consider the commercial reserves updates have been correctly included in the financial statement calculations, and consider the disclosures in the Financial Statements to be appropriate.

	going concern assumption, the determination of the deferred tax asset and as accounting for DD&A.	

In the prior year, our auditor’s report included a key audit matter in relation to ‘Recoverability of the Exploration and Evaluation assets’. We removed this in the current year as the asset profile of the company has changed significantly in 2018 and the company now holds only one active exploration and evaluation asset, with the key asset being reclassified to development assets.

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements we selected 5 components, which represent the principal business units within the Group.

Of the five components selected, we performed an audit of the complete financial information of two components (“full scope components”) which were selected based on their size or risk characteristics. For the remaining three components (“specific scope components”), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The components where we performed audit procedures accounted for 100% (2017: 100%) of the Group’s Profit before tax, 100% (2017: 100%) of the Group’s Revenue and 100% (2017: 98%) of the Group’s Total assets.

For the current year, the full scope components contributed 100% (2017: 100%) of the Group’s Profit before tax, 100% (2017: 100%) of the Group’s Revenue and 99% (2017: 86%) of the Group’s Total assets.

The specific scope component contributed 0% (2017: 0%) of the Group’s Profit before tax, 0% (2017: 0%) of the Group’s Revenue and 1% (2017: 12%) of the Group’s Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

For the remaining components, we performed other procedures, including analytical review, testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

There were no significant changes in our scoping as compared to the prior year. We have performed full scope and specific procedures in 2018 on the same five components that were classified as full and specific scope in 2017. Related audit procedures at these components have not significantly changed.

Involvement with component teams
All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $1,430 thousand (2017: $550 thousand), which is 1% (2017: 5%) of equity (2017: profit before tax). We believe that, in the current year, equity is the most appropriate measurement basis compared to profit before tax as, although profits are a principle consideration of the users of the financial statements, the current year profits are influenced to a large extent by the bargain purchase gain arising from the business combination and costs incurred by the Group in completing the deal over a 12-month period to 30 November 2018 The increase in materiality compared to the prior year is a result of the increase in the net assets of the Group by 39%.

We determined materiality for the Parent Company to be $6,600 thousand (2017: $5,110 thousand), which is 5% (2017: 5%) of equity. We use equity as the basis for materiality as the purpose of the Parent Company is to hold investments in its subsidiaries.

During the course of our audit, we reassessed initial materiality and updated its calculation for the actual financial results of the year.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely $1,070 thousand (2017: $400 thousand). We have set performance materiality at this percentage after taking into account the Group's history of misstatements, our ability to assess the likelihood of misstatements and the effectiveness of the internal control environment.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $750 thousand to $1,070 thousand (2017: $200 thousand to $450 thousand).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $70 thousand (2017: $28 thousand), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 27, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 57, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Use of our report

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Woodward (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
16 April 2019

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

	Note	**2018** **US$000**	2017 US$000
Continuing operations			
Sales revenue	4	45,747	31,966
Cost of sales	5	(20,543)	(12,668)
Gross profit		25,204	19,298
Other expense		(2,120)	(1,426)
Pre-licence costs		(283)	(303)
Impairment and write-offs of E&E assets	14	3,121	(1,612)
Administrative expenses		(4,802)	(2,244)
Foreign exchange gain		150	511
Share-based payments	27	(483)	(98)
BKR transition costs	26	(11,690)	-
Operating profit before net finance revenue, tax and transaction costs		9,097	14,126
Bargain purchase gain on BKR acquisitions	26	52,938	-
BKR transaction costs	26	(2,720)	(3,386)
Finance revenue	10	271	246
Finance costs	11	(373)	(138)
Profit before taxation		59,213	10,848
Taxation credit for the year	12a)	15,504	6,255
Profit for the year		74,717	17,103
Earnings per ordinary share - EPS			
Basic EPS on profit for the year (US$)	13	0.28	0.06
Diluted EPS on profit for the year (US$)	13	0.27	0.06

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

		Group		Company	
		2018	2017	**2018**	2017
	Note	**US$000**	US$000	**US$000**	US$000
Non-current assets					
Exploration & evaluation assets	14	4,054	53,413	-	-
Property, plant and equipment	15	475,896	7,640	-	-
Investments in subsidiaries	16	-	-	134,034	1,350
Deferred tax asset	12d)	-	16,209		-
		479,950	77,262	134,034	1,350
Current assets					
Inventories	17	7,071	453	-	-
Trade and other receivables	18	66,376	2,274	109,811	83,269
Derivative financial asset	19	176	2,670	-	-
Term deposits	20	1,273	5,698	1,273	1,350
Cash and cash equivalents	20	53,614	28,279	25,099	18,712
		128,510	39,374	136,183	103,331
TOTAL ASSETS		608,460	116,636	270,217	104,681
Current liabilities					
Trade and other payables	21	(49,174)	(7,825)	(4,099)	(2,385)
Financial liabilities	22	(114,997)	-	-	-
Provisions	23	(2,353)	(2,234)	-	-
Non-current liabilities					
Financial liabilities	22	(209,459)	(3,825)	-	-
Provisions	23	(28,839)	(456)	-	-
Deferred tax liability	12d)	(25,864)	-	-	-
TOTAL LIABILITIES		(430,686)	(14,340)	(4,099)	(2,385)
NET ASSETS		177,774	102,296	266,118	102,296
Share capital	25	229,586	229,308	194,314	194,036
Merger reserve	16	-	-	112,174	-
Other reserve		21,296	20,813	21,296	20,813
Accumulated deficit		(73,108)	(147,825)	(61,666)	(112,553)
TOTAL EQUITY		177,774	102,296	266,118	102,296

The profit for the Company was US$163,061,000 for the year ended 31 December 2018 (2017: profit of US$17,103,000). In accordance with the exemption granted under section 408 of the Companies Act 2006 a separate income statement for the Company has not been presented.

Approved by the Board on 16 April 2019

Antony Craven Walker
Executive Chairman

Mitch Flegg
Chief Executive Officer

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

Group

	Note	**Share capital US$000**	**Other reserve US$000**	**Accum'd deficit US$000**	**Total US$000**
At 1 January 2017		229,308	20,715	(164,928)	85,095
Profit for the year		-	-	17,103	17,103
Total comprehensive income		-	-	17,103	17,103
Share-based payments	28	-	98	-	98
At 31 December 2017		229,308	20,813	(147,825)	102,296
Profit for the year		-	-	74,717	74,717
Total comprehensive income		-	-	74,717	74,717
Share-based payments	28	-	483	-	483
Issue of share capital	25	278	-	-	278
At 31 December 2018		229,586	21,296	(73,108)	177,774

Company	**Share capital US$000**	**Merger reserve US$000**	**Other reserve US$000**	**Accum'd deficit US$000**	**Total US$000**
At 1 January 2017	194,036	-	20,715	(129,656)	85,095
Profit for the year	-	-	-	17,103	17,103
Total comprehensive income	-	-	-	17,103	17,103
Share-based payments (note 28)	-	-	98	-	98
At 31 December 2017	194,036	-	20,813	(112,553)	102,296
Profit for the year	-	-	-	163,061	163,061
Total comprehensive income	-	-	-	163,061	163,061
Share-based payments (note 28)	-	-	483	-	483
Issue of share capital (note 25)	278	-	-	-	278
Transfers	-	112,174	-	(112,174)	-
At 31 December 2018	194,314	112,174	21,296	(61,666)	266,118

Serica Energy plc
Cash Flow Statement
For the year ended 31 December

	Note	**Group 2018 US$000**	2017 US$000 *restated	**Company 2018 US$000**	2017 US$000 *restated
Operating activities:					
Profit for the year		74,717	17,103	163,061	17,103
Adjustments to reconcile profit for the year to net cash flow from operating activities:					
Taxation credit		(15,504)	(6,255)	-	-
BKR transition and transaction costs		14,410	3,386	-	-
Bargain purchase gain on BKR acquisitions		(52,938)	-	-	-
Net finance costs/(income)		102	(108)	(271)	(246)
Depreciation and depletion		7,803	1,710	-	-
Oil and NGL over/underlift		(4,306)	1,163	-	-
Impairment and write-offs of E&E assets		(3,121)	1,612	-	-
Unrealised and realised hedging losses		2,494	1,133	-	-
Write-back of loans and investments		-	-	(164,961)	(17,909)
Share-based payments		483	98	483	98
Other non-cash movements		(150)	(406)	105	(302)
Cash outflow on BKR transition/transaction		(17,083)	(1,867)	-	-
Increase in financial assets		-	(3,803)	-	-
(Increase)/decrease in trade and other receivables		(46,477)	4,110	(862)	(671)
Decrease/(increase) in inventories		35	(52)	-	-
Increase/(decrease) in trade and other payables		25,784	(291)	1,683	1,905
Net cash (out)/inflow from operations		(13,751)	17,533	(762)	(22)
Investing activities:					
Interest received		271	246	271	246
Purchase of E&E assets		(1,803)	(1,855)	-	-
Purchase of property, plant and equipment		(5,570)	(72)	-	-
Cash inflow from business combination	26	28,384	-	-	-
Cash outflow arising on asset acquisitions	21	(2,775)	(2,775)	-	-
Changes in term deposits		4,425	(5,698)	77	(1,350)
Receipts from Group subsidiaries		-	-	6,584	5,358
Net cash flow from investing activities		22,932	(10,154)	6,932	4,254
Financing activities:					
Proceeds from borrowings	22	16,338	3,803	-	-
Proceeds from issue of shares	25	278	-	278	-
Finance costs paid		(258)	(135)	-	-
Net cash flow from financing activities		16,358	3,668	278	-
Net increase/(decrease) in cash and cash equivalents	26	25,539	11,047	6,448	4,232
Effect of exchange rates on cash and cash equivalents	26	(204)	639	(61)	414
Cash and cash equivalents at 1 January	26	28,279	16,593	18,712	14,066
Cash and cash equivalents at 31 December	26	53,614	28,279	25,099	18,712

* changes in term deposits have been reclassified from financing to investing activities

Serica Energy plc

Notes to the Financial Statements

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

The Group's and Company's financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 16 April 2019 and the balance sheets were signed on the Board's behalf by Antony Craven Walker and Mitch Flegg. Serica Energy plc is a public limited company incorporated and domiciled in England & Wales with its registered office at 48 George Street, London, W1U 7DY. 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, and Namibia. 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 2018. 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 2018 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$163,061,000 (2017: profit US$17,103,000).

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 2018.

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 2018 the Company held cash and term deposits of US$54.9 million which had increased to approximately US$92 million by the end of March 2019. The bulk of contingent and deferred consideration due under the BKR acquisition agreements is related to future successful field performance and consequently will be either reduced or deferred in the event of production interruptions or lower net cash generation.

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 judgements 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: determining the fair value of property, plant and equipment on a business combination, determining the fair value of contingent consideration, decommissioning provisions, 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 the recoverability of deferred tax assets.

<u>Determining the fair value of property, plant and equipment on business combination</u>
The Group determines the fair value of oil and gas assets acquired in a business combination based on the discounted cash flows at the time of acquisition based on management's assessment of proven and probable reserves reflecting risks applicable to the assets acquired. The estimated future cash flows attributable to the asset are discounted to their present value using a discount rate that reflects the market assessments of the time value of money and the risks specific to the asset at the time of acquisition. In calculating the asset fair value, the Group will apply oil and gas price assumptions representing management's view of the medium and long-term pricing (see note 26).

<u>Determining the fair value of contingent consideration on BKR acquisitions</u>
The Group determines the fair value of contingent consideration payable based on discounted cash flows at the time of the acquisition calculated for each separate component of the contingent consideration. The same models and assumptions are used in the calculation of the fair value of property, plant and equipment arising on the business combination. Any cash flows specific to the contingent consideration also reflect applicable commercial terms and risks (see note 22).

<u>Decommissioning provision</u>
Amounts used in recording a provision for decommissioning are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to decommissioning are likely to differ in practice. To reflect the effects due to changes in legislation, requirements and technology and price levels, the carrying amounts of decommissioning provisions are reviewed on a regular basis. The effects of changes in estimates do not give rise to prior year adjustments and are dealt with prospectively. While the Group uses its best estimates and judgement, actual results could differ from these estimates (see note 23).

<u>Assessment of commercial reserves</u>
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 data sets using its own internal expertise. In estimating the fair values associated with the BKR business combination, including the contingent consideration payable, and the depletion charge for 2018, management has applied its own assessment of proven and probable reserves reflecting risks applicable to the assets required.

Assessment of the recoverable amount of intangible and tangible assets
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 licence performance obligations can be met within the required regulatory timeframe, 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 16).

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. The most significant variable behind the increased deferred tax asset recognised in 2018 from 2017 is the acquisition of the further producing oil and gas assets in November 2018 which have generated a significant increase in management's estimate of future cash flows and taxable income expected to be sheltered by available tax losses. To the extent that actual events differ significantly from estimates, the ability of the Group to realise deferred tax assets could be impacted.

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 Energy Slyne B.V., Serica Energy Rockall B.V., Serica Energy 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.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred to the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

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. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

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 management's assessment of proved and probable reserves, reflecting risks applicable to the specific assets. 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.

<u>Decommissioning</u>

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.

<u>Underlift/Overlift</u>

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'). Following the adoption of IFRS 15 'Revenue from Contracts with Customers', movement in liquids over/underlift is classified in cost of sales with effect from 1 January 2018. Movements during an accounting period had previously been adjusted through revenue, such that gross profit was 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 and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through profit or loss, and fair value through other comprehensive income (OCI).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus transaction costs (in the case of a financial asset not at fair value through profit or loss). Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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 de-recognised 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 are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group's financial liabilities currently include interest bearing loans and borrowings, and trade and other payables. All financial liabilities are recognised initially at fair value. 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.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The Group's fair value estimate in respect of contingent consideration that may be payable following the acquisition of its interest in the Erskine Field is capitalised as an asset acquisition cost. In determining fair value it is necessary to make a series of assumptions to estimate future operating costs and other variables. Accordingly, the fair value is categorised as Level 3 in the fair value hierarchy.

Leases

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

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods or services. 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. The Group has concluded that is is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

The sale of crude oil, gas or condensate represents a single performance obligation, being the sale of barrels equivalent on collection of a cargo or on delivery of commodity into an infrastructure. Revenue is accordingly recognised for this performance obligation when control over the corresponding commodity is transferred to the customer. The normal credit term is 15 to 45 days upon collection or delivery.

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.

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').

<u>Equity-settled transactions</u>

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 Group has adopted and applied the following standards that are relevant to its operations for the first time for the annual reporting period commencing 1 January 2018:

- IFRS 9 - Financial Instruments; and
- IFRS 15 – Revenue from Contracts with Customers

<u>IFRS 9 Financial Instruments</u>

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment under the 'expected credit loss' ('ECL') model and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group has adopted the new standard on the required effective date and applied the modified approach which has resulted in no required adjustment to retained earnings.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance, if applicable, based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

The Group has performed an impact assessment for the application of IFRS 9 based on currently available information. The Group's receivables have a good credit rating and there has been no noted change in the credit risk of receivables in the year, therefore the Group does not believe that the new ECL impairment methodology has a material impact on the valuation of financial assets. The Group's impact assessment has indicated no changes to amounts previously recognised and therefore there are no adjustments to opening retained earnings.

<u>IFRS 15 Revenue from Contracts with Customers</u>

IFRS 15 was issued in May 2014 and amended in April 2016. It establishes a single comprehensive model that will apply to revenue arising from contracts with customers. IFRS 15 superseded the previous revenue recognition guidance including IAS 18 Revenue and related interpretations when it became effective, for annual periods beginning on or after 1 January 2018.

Although IFRS 15 does not generally represent a change from Serica's current practice, the accounting for certain contracts, such as those for underlifts and overlifts, was identified as an area of change. Movements in liquids overlift/underlift previously disclosed in sales revenue (see note 4) has been classified in cost of sales with effect from 1 January 2018.

There are no other new or amended standards or interpretations effective for the first time for periods beginning on or after 1 January 2018 that had 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 is currently assessing the impact of these standards and intends to adopt them when they become effective.

Standard	***Effective year commencing on or after***
IFRS 16 - Leases	1 January 2019

IFRS 16 Leases

IFRS 16 Leases, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessors and lessees. It replaces the previous leases standard IAS 17 Leases and is effective from 1 January 2019. Under the new standard all lease contracts, with limited exceptions, are recognised in financial statements by way of right of use assets and corresponding lease liabilities. Compared with the existing accounting for operating leases, it will also impact the classification and timing of expenses and consequently the classification between cash flow from operating activities and cash flow from financing activities.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. Lessees will be required to recognise separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current accounting under IAS 17 i.e. lessors continue to classify leases as finance or operating leases.

During 2018, the Group has performed an impact assessment for the application of IFRS 16. This assessment is based on currently available information and will be subject to changes arising from further reasonable and supportable information being made available to the Group in 2019. Serica does not currently have material lease contracts and therefore the impact of the adoption of the new standard at 1 January 2019 is not expected to be material. The Group continues to assess its accounting processes, controls and policies on an ongoing basis.

The Group will adopt the new standard on the required effective date using the modified retrospective method. The Group will apply the practical expedient to grandfather the definition of a lease on transition. It will therefore apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17. Contracts which have not been considered or identified as a lease will continue to be accounted for in line with their historical treatment. The Group will also elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value.

3. Segment Information

The Group's business is that of oil and gas exploration, development and production. The Group's reportable segments are based on the location of the Group's assets.

The following tables present revenue, profit and certain asset and liability information regarding the Group's geographical reportable segments for the years ended 31 December 2018 and 2017. Costs associated with the UK corporate centre are included in the UK reportable segment.

Year ended 31 December 2018

	UK US$000	Ireland US$000	Africa US$000	Total US$000
Revenue	45,747	-	-	45,747
Continuing operations				
Depletion	(7,803)	-	-	(7,803)
Other expenses	(19,995)	-	-	(19,995)
Pre-licence costs	(283)	-	-	(283)
E&E asset impairment/write-offs	12,564	(9,443)	-	3,121
BKR transition costs	(11,690)	-	-	(11,690)
Operating and segment profit/loss	18,540	(9,443)	-	9,097
Bargain purchase gain on BKR acquisition	52,938	-	-	52,938
BKR transaction costs	(2,720)	-	-	(2,720)
Finance costs	(373)	-	-	(373)
Finance revenue	271	-	-	271
Profit before taxation	68,656	(9,443)	-	59,213
Taxation credit for the year	15,504	-	-	15,504
Profit after taxation	84,160	(9,443)	-	74,717

	UK US$000	Ireland US$000	Africa US$000	Total US$000
Other segment information:				
Property, plant & equipment	475,896	-	-	475,896
Exploration and evaluation assets	95	-	3,959	4,054
Other assets	109,745	7	-	109,752
Unallocated assets				18,758
Total assets	585,736	7	3,959	608,460
Segment liabilities	(430,382)	(163)	(141)	(430,686)
Total liabilities	(430,382)	(163)	(141)	(430,686)
Capital expenditure 2018:				
Property, plant & equipment	5,233	-	-	5,233
Exploration and evaluation assets	995	542	266	1,803

Year ended 31 December 2017

	UK US$000	Ireland US$000	Africa US$000	Total US$000
Revenue	31,966	-	-	31,966
Continuing operations				
Depletion	(1,710)	-	-	(1,710)
Other expenses	(14,215)	-	-	(14,215)
Pre-licence costs	(301)	(2)	-	(303)
E&E asset impairment/write-offs	(1,593)	-	(19)	(1,612)
Operating and segment profit/loss	14,147	(2)	(19)	14,126
BKR transaction costs	(3,386)	-	-	(3,386)
Finance costs	(138)	-	-	(138)
Finance revenue	246	-	-	246
Profit/(loss) before taxation	10,869	(2)	(19)	10,848
Taxation credit for the year	6,255	-	-	6,255
Profit/(loss) after taxation	17,124	(2)	(19)	17,103

	UK US$000	Ireland US$000	Africa US$000	Total US$000
Other segment information:				
Property, plant & equipment	7,640	-	-	7,640
Exploration and evaluation assets	40,818	8,902	3,693	53,413
Other assets	29,919	87	-	30,006
Unallocated assets				25,577
Total assets	78,377	8,989	3,693	116,636
Segment liabilities	(14,027)	(280)	(33)	(14,340)
Total liabilities	(14,027)	(280)	(33)	(14,340)
Capital expenditure 2017:				
Exploration and evaluation assets	272	-	-	272
Property, plant & equipment	763	697	395	1,855

Unallocated assets comprise cash on deposit.
Information on major customers is provided in note 4.

4. Sales Revenue

	2018 **US$000**	2017 US$000
Gas sales	36,046	12,463
Oil sales	6,247	17,177
NGL sales	3,454	3,489
Movement in liquids overlift/underlift *	-	(1,163)
	45,747	31,966

Gas sales revenue in 2017 and 2018 arose from one key customer, all oil sales revenue in 2017 and 2018 was from one key customer, and NGL sales in 2018 were made to four (2017: three) customers.

*following the adoption of IFRS 15 'Revenue from Contracts with Customers', movement in liquids over/underlift is classified in cost of sales with effect from 1 January 2018.

5. Cost of Sales

	2018 **US$000**	2017 US$000
Operating costs	17,046	10,958
Depletion (see note 15)	7,803	1,710
Movement in liquids overlift/underlift *	(4,306)	-
	20,543	12,668

* following the adoption of IFRS 15 'Revenue from Contracts with Customers', movement in liquids over/underlift is classified in cost of sales with effect from 1 January 2018.

6. Analysis of Expenses by Function

	2018 **US$000**	2017 US$000
Administrative	4,802	2,244
Net impairment reversal and E&E write-offs (see note 14)	(3,121)	1,612
Other	2,776	1,316
	4,457	5,172

7. Group Operating Profit

	2018	2017
	US$000	US$000
This is stated after charging:		
Operating lease rentals (minimum lease payments):		
- Land and buildings	265	73
- Other	-	-
Total lease payments recognised as an expense	265	73

Depreciation, depletion and amortisation expense

Depreciation of other property, plant and equipment totalled US$nil in 2018 (2017: US$nil).

Depletion of oil and gas properties is classified within cost of sales.

8. Auditor's Remuneration

	2018	2017
	US$000	US$000
Audit of the Group accounts	227	100
Audit of the Company's accounts	40	31
Audit of accounts of Company's subsidiaries	15	11
Total audit fees	282	142
	US$000	US$000
Other fees to auditor:		
Corporate transaction services	357	540
Other assurance fees	43	23
	400	563

Fees paid to Ernst & Young LLP and its associates for non-audit services are not disclosed in the individual accounts of the Company as Group financial statements are prepared which are required to disclose such fees on a consolidated basis.

9. Staff Costs and Directors' Emoluments

a) Staff Costs

	2018 **US$000**	2017 US$000
Staff costs		
Wages and salaries	6,361	1,496
Social security costs	701	190
Other pension costs	187	66
Share-based long-term incentives	483	98
	7,732	1,850

The average number of persons employed by the Group during the year was 22 (2017: 6), with 7 in management functions (2017: 4), 13 in technical functions (2017: 1) and 2 (2017:1) in finance and administrative functions.

The average number of persons employed by the Company during the year was 7 (2017: 6), with 6 in management functions (2017: 4), nil in technical functions (2017: 1) and 1 (2017:1) in finance and administrative functions.

Staff costs for key management personnel:		
Short-term employee benefits	1,462	791
Post-employment benefits	36	4
Share-based payments	230	46
	1,728	841

b) Directors' Emoluments

The emoluments of the individual Directors were as follows. Other than fees paid to Jeffrey Harris in US$, all sums are paid in £ sterling but are converted at an exchange rate of £1=US$1.335 (2017: £1=US$1.288) to US$ being the reporting currency for the purposes of the Company's accounts.

	2018 Salary and fees US$000	2018 Bonus US$000	2018 Pension US$000	2018 Benefits in kind US$000	**2018 Total US$000**	2017 Total US$000
A Craven Walker	421	210	-	22	653	512
M Flegg (1)	361	180	36	-	577	44
N Pike	67	-	-	-	67	52
I Vann	67	-	-	-	67	52
T Garlick (2)	5	-	-	-	5	-
M Webb (3)	5	-	-	-	5	-
J Harris (4)	-	-	-	-	-	47
	926	390	36	22	1,374	707

Note (1) Cash in lieu of pension.

Note (2) Trevor Garlick was appointed on 30 November 2018.

Note (3) Malcolm Webb was appointed on 30 November 2018.

Note (4) Jeffrey Harris resigned on 20 November 2017.

	2018	2017
Number of Directors securing benefits under defined contribution schemes during the year	1	1
Number of Directors who exercised share options	-	-

	US$000	US$000
Aggregate gains made by Directors on the exercise of options	-	-

The Group defines key management personnel as the Directors of the Company. There are no transactions with Directors other than their remuneration as disclosed above and those described in Note 31.

10. Finance Revenue

	2018	2017
	US$000	US$000
Bank interest receivable	271	246
Other finance revenue	-	-
Total finance revenue	271	246

11. Finance Costs

	2018	2017
	US$000	US$000
Interest payable on BKR Facility	272	22
Interest payable on Erskine acquisition consideration	55	113
Other interest payable	6	3
Unwinding of discount on decommissioning provisions (note 23)	40	-
Total finance costs	373	138

12. Taxation

		2018	2017
		US$000	US$000
a)	Tax (credited)/charged in the income statement		
	Charge for the year	-	-
	Adjustment in respect of prior years	-	-
	Total current income tax charge	-	-
	Deferred tax		
	Origination and reversal of temporary differences in the current year	-	-
	Adjustment in respect of prior years	(15,504)	(6,255)
	Total deferred tax credit	(15,504)	(6,255)
	Tax credit in the income statement	(15,504)	(6,255)

b) Reconciliation of the total tax (credit)/charge

The tax in the income statement for the year differs from the amount that would be expected by applying the standard UK corporation tax rate for the following reasons:

	2018	2017
	US$000	US$000
Accounting profit before taxation	59,213	10,848
Statutory rate of corporation tax rate in the UK of 40% (2017: 19.25%)	23,685	2,088
Impact of higher tax rates on ring fence profits	-	2,634
Expenses not deductible for tax purposes	1,314	1,417
Unrecognised tax losses	490	82
Exploration write-offs	2,361	-
Bargain gain on BKR acquisitions	(21,175)	-
Utilisation of tax losses not previously recognised	(8,105)	(6,218)
Different foreign tax rates	1,430	(3)
Adjustment to reflect tax rate changes	-	-
Recognition of losses not previously recognised	(15,504)	(6,255)
Tax credit reported in the income statement	(15,504)	(6,255)

c) Recognised and unrecognised tax losses

The Group's deferred tax assets at 31 December 2018 are recognised to the extent that taxable profits are expected to arise in the future against which tax losses and allowances in the UK can be utilised. In accordance with IAS 12 Income Taxes, the Group assessed the recoverability of its deferred tax assets at 31 December 2018 with respect to ring fence losses and allowances.

The Group has UK ring fence tax losses of US$139.3 million available as at 31 December 2018 (2017: US$146.5 million) which form part of total UK tax losses of approximately US$170.2 million (2017: US$176.1 million) that are available indefinitely for offset against future trading profits of the companies in which the losses arose. Of this amount US$66.0 million (2017: US$47.8 million) has been set off against taxable temporary differences. The benefit of approximately US$30.9 million (2017: US$87.8 million) of tax losses has not been recognised in these consolidated statements which reflects the extent of the total available UK tax losses that have not either been recognised in the net deferred tax asset or set against a deferred tax liability arising.

d) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2018 **US$000**	2017 US$000
Deferred tax liability:		
Temporary differences on capital expenditure	(190,796)	(19,138)
Deferred tax liability	(190,796)	(19,138)
Deferred tax asset:		
Tax losses carried forward	55,876	35,347
Deductibles under the Net Cash Flow Sharing Deed	97,520	-
Decommissioning liability	11,536	-
Deferred tax asset	164,932	35,347
Net deferred tax (liability)/asset	(25,864)	16,209

Reconciliation of net deferred tax assets/(liabilities)

	2018 **US$000**	2017 US$000
At 1 January	16,209	9,954
Tax income during the period recognised in profit or loss	15,504	6,255
Deferred taxes acquired (see note 26)	(57,577)	-
At 31 December	(25,864)	16,209

The deferred tax in the Group income statement is as follows:

	2018	2017
	US$000	US$000
Deferred tax in the income statement:		
Temporary differences on capital expenditure	5,041	(966)
Temporary difference on future recoverable costs	-	-
Tax losses carried forward	(20,545)	(5,289)
Deferred income tax credit	(15,504)	(6,255)

e) Changes to UK corporation tax legislation

The main rate of UK corporation tax changed from 20% to 19% on 1 April 2017 and will change to 18% on 1 April 2020. The UK Finance Bill 2016 includes a reduction of the UK corporation tax rate to 17% on 1 April 2020. This will replace the 18% UK corporation tax rate that is currently legislated to take effect.

In March 2016 it was announced that the rate of SC would be reduced from 20% to 10% with effect from 1 January 2016. This was substantively enacted on 6 September 2016 and reduced the headline rate of tax to 40% for ring-fenced trading profits.

f) Unrecognised deferred tax liability

In 2018 and 2017 there are no material temporary differences associated with subsidiaries for which deferred tax liabilities have not been recognised.

g) Company

The Company has US$30.4 million (2017: US$ 29.2 million) of UK corporation tax losses which are not recognised as deferred tax assets.

13. Earnings Per Share

Basic earnings or loss per ordinary share amounts are calculated by dividing net profit or loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2018 **US$000**	2017 US$000
Net profit from continuing operations	74,717	17,103
Net profit attributable to equity holders of the parent	74,717	17,103
	2018 **’000**	2017 ’000
Basic weighted average number of shares	264,164	263,679
Diluted weighted average number of shares	275,251	266,724
	2018 **US$**	2017 US$
Basic EPS on profit for the year (US$)	0.28	0.06
Diluted EPS on profit for the year (US$)	0.27	0.06

14. Exploration and Evaluation Assets

Group	Total US$000
Cost:	
1 January 2017	65,734
Additions	1,855
Write-offs	(1,612)
31 December 2017	65,977
Additions	1,803
Write-offs	(9,443)
Transfers to property, plant and equipment (note 15)	(54,283)
31 December 2018	4,054
Provision for impairment:	
1 January 2017	(12,564)
Impairment reversal for the year	-
31 December 2017	(12,564)
Impairment reversal for the year	12,564
31 December 2018	-
Net book amount:	
31 December 2018	4,054
31 December 2017	53,413
1 January 2017	53,170

The impairment reversal net of write-off charges against E&E assets in 2018 was a credit of US$3.1 million (2017: charge of US$1.6 million).

This comprised an impairment reversal of US$12.6 million in respect of the Group's Columbus asset in the UK North Sea partially offset by asset write-off charges against the Group's Irish assets consisting of the Slyne 1/06 Licence (US$3.4 million) and Rockall 1/09 and 4/13 Licences (US$6.0 million).

The full impairment reversal recorded against the Columbus asset book amount in 2018 arose from revised economic evaluations and operational developments in the project. The recoverable post-tax amount of US$68 million for the Columbus asset was determined on a fair value less costs to sell basis ('FVLCS') using a discounted cash flow model which exceeded the Columbus book cost of US$54.3 million. The projected cash flows were extrapolated until 2029 using a 2% growth rate and were adjusted to risks specific to the asset and discounted using a discount rate of 10% (10.5% for previous impairment reversal in 2015). This discount rate is derived from the Group's estimate of discount rates that might be applied by active market participants and is adjusted where applicable to take into account any specific risks relating to the region where the asset is located.

In determining FVLCS it is necessary to make a series of assumptions to estimate future cash flows including volumes, price assumption and cost estimates. The calculation is most sensitive to the following assumptions; discount rates, oil and gas prices, reserve estimates and project risk. There are no reasonably possible changes in any of the above key assumptions that would cause the carrying value of the Columbus asset to materially exceed its recoverable amount.

Serica submitted a Field Development Plan to the OGA in June 2018 and was granted development and production consent in October 2018. Now that the development is proceeding, Columbus resources have been re-classified as reserves and the book costs previously recorded as Exploration and Evaluation assets have been reclassified as Oil and Gas assets within Property, Plant and Equipment.

The 2017 asset write-off figure comprised a US$1.5 million charge following the relinquishment of UK Licence P1482 (containing the Doyle prospect) in 1H 2017, other minor UK asset write-offs and a final minor charge against costs incurred on the Sidi Moussa block in Morocco.

Company

The Company has no E&E assets.

15. Property, Plant and Equipment

Group	Oil and gas properties US$000	Equipment, fixtures and fittings US$000	Total US$000
Cost:			
1 January 2017	11,693	-	11,693
Additions	272	-	272
31 December 2017	11,965	-	11,965
Additions	4,963	270	5,233
Acquisitions (note 26)	416,543	-	416,543
Transfers (note 14)	54,283	-	54,283
31 December 2018	487,754	270	488,024
Depreciation and depletion:			
1 January 2017	2,615	-	2,615
Charge for the year (note 5)	1,710	-	1,710
31 December 2017	4,325	-	4,325
Charge for the year (note 5)	7,803	-	7,803
31 December 2018	12,128	-	12,128
Net book amount:			
31 December 2018	475,626	270	475,896
31 December 2017	7,640	-	7,640
1 January 2017	9,078	-	9,078

BKR asset acquisitions
On 30 November 2018 the Group acquired interests in the Bruce, Keith and Rhum fields resulting in an acquisition of assets (see note 26) at a value of US$416.5 million allocated to property, plant and equipment. Depletion charges in 2018 on the assessed book amount for the BKR assets have been calculated on a unit of production basis based on management's assessment of proven and probable reserves reflecting risks applicable to the assets acquired.

Columbus
Following the approval of the FDP for Columbus and decision for the project to proceed the associated net book cost has been transferred from E&E assets to property, plant and equipment.

Other
Depletion charges on oil and gas properties are classified within 'cost of sales'.

Company
The Company has no property, plant and equipment.

16. Investments

Company – Investment in subsidiaries	**Total US$000**
Cost:	
As at 1 January 2017 and 2018	134,034
Increase in investment	-
As at 31 December 2018	134,034
Provision for impairment:	
As at 1 January 2017 and 2018	(132,684)
Impairment reversal for the year	132,684
As at 31 December 2018	-
Net book amount:	
31 December 2018	134,034
31 December 2017	1,350
1 January 2017	1,350

In the Company financial statements, the cost of the investment acquired on an historic reorganisation in 2005 was calculated with reference to the market value of Serica Energy Corporation as at the date of the reorganisation. As a UK company, under Section 612 of the Companies Act 2006, the Company is entitled to merger relief on its share reorganisation with Serica Energy Corporation, and the excess of US$112,174,000 over the nominal value of shares issued (US$7,475,000) was credited to a merger reserve. The merger reserve is adjusted for any write-down in the value of the investment in subsidiary. Following the impairment charges recorded in 2010 and 2013 against the Company's investment in subsidiary undertakings, all amounts initially credited to the merger reserve were eliminated. The write-back of investment in subsidiary in 2018 has generated a transfer of US$112,174,000 to the merger reserve of those amounts initially eliminated in prior periods.

Management has assessed the carrying value of investments in subsidiaries in the parent company balance sheet for impairment by reference to the recoverable amount. The impairment reversal in 2018 of US$132,684,000 (2017: US$nil) against the carrying value of investments in subsidiaries, and the reduction of US$32,277,000 (2017: US$17,909,000) in provision for impairment against amounts owed by Group undertakings (see note 18) has been made following an increase in value attributed to certain of the oil and gas assets held by the Company's subsidiary undertakings. This has largely been generated following the acquisition of the BKR assets in November 2018, an upgrade to Erskine proved and probable reserves, and operational developments on the Columbus asset during the year.

Details of the investments in which the Group and the Company (unless indicated) hold 20% or more of the nominal value of any class of share capital are as follows:

Name of company:	Holding	Nature of business	**% voting rights and shares held 2018**	% voting rights and shares held 2017
Serica Holdings UK Ltd	Ordinary	Holding	100	100
Serica Energy Holdings BV (i & iii)	Ordinary	Holding	100	100
Serica Energy (UK) Ltd (i)	Ordinary	E&P	100	100
Serica Energy Slyne BV (i & iii)	Ordinary	Exploration	100	100
Serica Energy Rockall BV (i & iii)	Ordinary	Exploration	100	100
Serica Energy Namibia BV (i & iii)	Ordinary	Exploration	100	100
Serica Sidi Moussa BV (i & iii)	Ordinary	Exploration	100	100
Serica Foum Draa BV (i,iii & iv)	Ordinary	Dormant	-	100
Serica Glagah Kambuna BV (i & iii)	Ordinary	Dormant	100	100
Serica Energy Corporation (i & ii)	Ordinary	Dormant	100	100
APD Ltd (i & ii)	Ordinary	Dormant	100	100
PDA Asia Ltd (i & ii)	Ordinary	Dormant	100	100
PDA (Lematang) Ltd (i)	Ordinary	Dormant	100	100
Serica UK Exploration Ltd (i)	Ordinary	Dormant	100	100
Serica Walvis Namibia BV (i,iii & iv)	Ordinary	Dormant	-	100

(i) Held by a subsidiary undertaking
(ii) Incorporated in the British Virgin Islands
(iii) Incorporated in the Netherlands
(iv) Liquidated in 2018

The registered office of the Company’s subsidiaries incorporated in the UK is 48 George Street, London, W1U 7DY.

The registered office of the Company’s subsidiaries incorporated in the Netherlands is Hoogoorddreef 15, 1101 BA Amsterdam, The Netherlands.

The registered office of APD Ltd and PDA Asia Ltd is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The registered office of Serica Energy Corporation is P.O. Box 71, Road Town, Tortola, British Virgin Islands.

17. Inventories

	Group		Company	
	2018	2017	**2018**	2017
	US$000	US$000	**US$000**	US$000
Materials and spare parts	7,071	453	-	-
	7,071	453	-	-

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.

18. Trade and Other receivables

	Group		Company	
	2018	2017	**2018**	2017
	US$000	US$000	**US$000**	US$000
Due within one year:				
Amounts owed by Group undertakings	-	-	108,073	82,380
Trade receivables	39,414	1,208	-	-
Amounts recoverable from JV partners	7,505	100	-	-
Other BKR receivables	7,835	-	-	-
Other receivables	44	152	19	44
Prepayments and accrued income	408	182	336	213
VAT recoverable	2,578	632	1,383	632
Liquids underlift	8,592	-	-	-
	66,376	2,274	109,811	83,269

Trade receivables at 31 December 2018 arose from five (2017: four) customers. They are non-interest bearing and are generally on 15 to 30 day terms.

Other BKR receivables include final consideration amounts due from the BKR acquisitions and deferred BKR transition costs.

None of the Group's receivables are considered impaired and there are no financial assets past due but not impaired at the year end. The Directors consider the carrying amount of trade and other receivables approximates to their fair value.

Management considers that there are no unreasonable concentrations of credit risk within the Group or Company.

At the reporting date the amounts owed by Group undertakings to the Company are disclosed net of an impairment of US$16,847,000 (2017: US$49,124,000) – see note 16.

19. Financial assets

	Group 2018 US$000	2017 US$000	Company 2018 US$000	2017 US$000
Financial assets - current				
Derivative financial instruments	176	2,670	-	-
	176	2,670	-	-

Derivative financial instruments
The Group enters into derivative financial instruments with various counterparties. The gas put option commodity contract with BP (fair value hierarchy level 2) is measured based on a consensus of mid-market values from third party providers based on the Black Scholes model with inputs of observable spot commodities price, interest rates and the volatility of the commodity.

20. Cash and Term Deposits

	Group 2018 US$000	2017 US$000	Company 2018 US$000	2017 US$000
Cash at bank and in hand	36,129	8,400	8,114	4,682
Short-term deposits	17,485	19,879	16,985	14,030
Cash and cash equivalents	53,614	28,279	25,099	18,712
Term deposits	1,273	5,698	1,273	1,350
	54,887	33,977	26,372	20,062

As at 31 December 2018, the cash balance of US$54.9 million contains an amount of US$3.8 million (2017: US$3.1 million) that is secured against a bank guarantee given in respect of operational and capital expenditure to be carried out during 2019 on the Erskine field in the UK. The funds are freely transferrable but alternative collateral would need to be put in place to replace the cash security.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits and term deposits are made for varying periods of between one and ninety-five days depending on the immediate cash requirements of the Group, and earn interest at the respective short to medium term deposit rates. The Group's exposure to credit risk arises from potential default of a counterparty, with a maximum exposure equal to the carrying amount. The Group seeks to minimise counterparty credit risks by only depositing cash surpluses with major banks of high quality credit standing and spreading the placement of funds over a range of institutions.

Financial institutions, and their credit ratings, which held greater than 10% of the Group's cash and short-term deposits at the balance sheet date were as follows:

	S&P credit rating	**Group**		**Company**	
		2018	2017	**2018**	2017
		US$000	US$000	**US$000**	US$000
Barclays Bank plc	A-2	24,917	18,198	6,578	5,663
Lloyds Bank plc	A-1	29,936	15,748	19,794	14,399

For the purposes of the consolidated and Company cash flow statement, cash and cash equivalents exclude term deposits of US$1,273,000 and US$1,273,000 respectively from the above amounts at 31 December 2018 (2017: US$5,698,000 and US$1,350,000).

21. Trade and Other Payables

	Group		**Company**	
	2018	2017	**2018**	2017
	US$000	US$000	**US$000**	US$000
Current:				
Trade payables	5,658	2,202	3,305	1,898
Other payables	15,543	1,838	794	487
Accrued expenses	27,973	-	-	-
Liquids overlift	-	813	-	-
BP consideration liability	-	2,972	-	-
	49,174	7,825	4,099	2,385

Trade payables are non-interest bearing and are generally on 15 to 30 day terms.

Accrued expenses include accruals for operating and capital expenditure in relation the oil and gas assets. The Directors consider the carrying amount of trade and other payables approximates to their fair value.

22. Financial liabilities

	Group		**Company**	
	2018	2017	**2018**	2017
	US$000	US$000	**US$000**	US$000
BKR contingent consideration (note 26)	289,553	-	-	-
BKR deferred consideration (note 26)	14,661	-	-	-
BKR prepayment facility	20,242	3,825	-	-
	324,456	3,825	-	-
Current	114,997	-	-	-
Non-current	209,459	3,825	-	-
	324,456	3,825	-	-

BKR consideration
On 30 November 2018 Serica completed the four BKR acquisitions. These comprised:

- 36% in Bruce, 34.83333% in Keith and 50% in Rhum plus operatorship of each field from BP Exploration Operating Company Limited ("BP"). Initial consideration, paid at completion, was GB£12.8 million with contingent payments of GB£16 million due in relation to the outcome of future work on the Rhum R3 well and up to a total GB£23.1 million due in relation to Rhum field performance and sales prices in respect of 2019, 2020 and 2021.

- 42.25% in Bruce and 25% in Keith from Total E&P UK Limited ("Total E&P"). Initial consideration was US$5 million with three further instalments of deferred consideration of US$5 million each due on 31 July 2019, 31 March 2020 and 30 November 2020.

- 16% in Bruce and 31.83333% in Keith from BHP Billiton Petroleum Great Britain Limited ("BHP"). Initial consideration was GB£1 million.

- 3.75% in Bruce and 8.33334% in Keith from Marubeni Oil and Gas (UK) Limited ("Marubeni"). Initial consideration was US$1 million payable to Serica with no contingent or deferred consideration.

In addition to combined initial, deferred and contingent considerations, Serica will pay contingent cash consideration to BP, Total E&P and BHP calculated as a percentage (60% in 2018, 50% in 2019 and 40% in each of 2020 and 2021) of net cash flows resulting from the respective field interests acquired. Serica will also pay deferred contingent consideration equal to 30% of their respective shares of future decommissioning costs, reduced by the tax relief that each of BP, Total E&P and BHP Billiton receives on such costs.

The aggregate BKR consideration of US$304.2 million is classified as US$94.8 million as current and US$209.4 million as non-current but the bulk of contingent consideration due under the BKR acquisition agreements is related to future successful field performance and consequently will be either reduced or deferred in the event of production interruptions or lower net cash generation.

Fair value measurement of BKR continent consideration
The fair value of the contingent consideration was estimated from a valuation technique using future expected discounted cash flows. This methodology uses several significant unobservable inputs which are categorised within Level 3 of the fair value hierarchy.

The calculations are complex as they are structured with most of the contingent consideration contingent upon future commodity price and economic environment as well as future asset performance. They involve a range of projections and assumptions related to future operating and development costs, production volumes, oil and gas sales prices, discount rates, estimates of future decommissioning expenditure and taxation. Estimated contingent consideration payments have been calculated at a discount rate of 12% and assumed repayment across the remaining 2019-2021 period of the Net Cash Flow Sharing Deed and other operational timelines that trigger payment of consideration.

Given the multiple input variables and judgements used in the calculations, and the inter relationships between changes in these variables, an estimate of a reasonable range of possible outcomes of undiscounted value of the contingent consideration is not considered possible. In isolation, the calculations are most sensitive to assumed oil and gas reserves and production profiles and future natural gas prices. Changes in most of the key assumptions noted above would also impact the fair value of assets/liabilities in addition to the contingent consideration.

A sensitivity analysis to the discount rate used shows a decrease in the discount rate used from 12% to 10% would result in an increase in the fair value of the contingent consideration by US$17.4 million, and an increase from 12% to 14% would result in a decrease in the fair value of the contingent consideration by US$12.4 million.

BKR prepayment facility
Current liabilities of US$20.2 million as at 31 December 2018 (2017: US$3.8 million) represent amounts drawn under the prepayment facility made between Serica and BP Gas Marketing Limited and dated 21 November 2017. Under this facility, BP Gas has agreed to provide for drawings to cover the initial consideration and cost of premiums payable for gas price puts (hedging instruments which set a floor price for certain volumes of gas production) which have been purchased by Serica in conjunction with signing the acquisition agreement. The prepayment facility carries interest at one-month LIBOR plus 4.5% per annum compounded monthly and added to the outstanding amount and has a maximum duration of three years from initial drawings on 21 November 2017. Repayments will commence six months after completion and be based on 35% of Serica's retained share of gas sales revenues from the BKR Assets including any price related hedging gains and after deduction of those proportions due to BP under the Net Cash Flow Sharing Deed.

The total amount is now recorded within current liabilities as repayment is projected to be completed within over the course of 2019 on the basis of current gas production and sales price estimates.

23. Provisions

	Erskine consideration US$000	Decommissioning provision US$000	Total US$000
At 1 January 2017	2,190	-	2,190
Additions during the year	500	-	500
At 31 December 2017	2,690	-	2,690
Acquisitions (note 26)	-	28,799	28,799
Revisions during the year	(337)	-	(337)
Unwinding of discount	-	40	40
At 31 December 2018	2,353	28,839	31,192
Classified as:			
Current	2,353	-	2,353
Non-current	-	28,839	28,839
	2,353	28,839	31,192

Erskine consideration payments
Under the terms of the Erskine acquisition, certain contingent payments may be made by Serica related to savings in field operating costs. The current fair value estimated provision for these amounts is US$2.4 million which has been capitalised as an asset acquisition cost (see note 15). Uncertainties currently exist as to the quantification of any final payment.

Decommissioning provision
Bruce, Keith and Rhum fields
The Group makes full provision for the future costs of decommissioning its production facilities and pipelines on a discounted basis. With respect to the Bruce, Keith and Rhum fields, the decommissioning provision is based on the Group's contractual obligations of 3.75%, 8.33334% and 0% respectively of the decommissioning liabilities rather than the Group's equity interests acquired. The Group's provision represents the present value of decommissioning costs which are expected to be incurred up to 2032 and assumes no further development of the Group's assets. The liability is discounted at a rate of 2% and the unwinding of the discount is classified as a finance cost (see note 11).

Erskine field
No provision for decommissioning liabilities for the Erskine field is recorded as at 31 December 2017 or 2018 as the Group's current estimate for such costs is under the agreed capped level to be funded by BP. This has been fixed at a gross GB£174.0 million (GB£31.32 million net to Serica) with this figure adjusted for inflation.

Company
The Company has no provisions.

24. Financial Instruments

The Group's financial instruments comprise cash and cash equivalents, bank loans and borrowings, accounts payable and accounts receivable. It is management's opinion that the Group is not exposed to significant interest, credit or currency risks arising from its financial instruments other than as discussed below:

> Serica has exposure to interest rate fluctuations on its cash deposits and the BKR facility; given the level of expenditure plans over 2019/20 this is managed in the short-term through selecting treasury deposit periods of one to three months. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise concentration and counterparty risk.
>
> Serica sells oil, gas and related products only to recognised international oil and gas companies and has no previous history of default or non-payment of trade receivables. Where Serica operates joint ventures on behalf of partners it seeks to recover the appropriate share of costs from these third parties. The majority of partners in these ventures are well established oil and gas companies. In the event of non payment, operating agreements typically provide recourse through increased venture shares.
>
> Serica retains certain non-US$ cash holdings and other financial instruments relating to its operations. The US$ reporting currency value of these may fluctuate from time to time causing reported foreign exchange gains and losses. Serica maintains a broad strategy of matching the currency of funds held on deposit with the expected expenditures in those currencies. Management believes that this mitigates most of any actual potential currency risk from financial instruments.

It is management's opinion that the fair value of its financial instruments approximate to their carrying values, unless otherwise noted.

Interest Rate Risk Profile of Financial Assets and Liabilities

The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows:

Group

Year ended 31 December 2018

	Within 1 year	**1-2 years**	**2-5 years**	**Total**
Fixed rate	**US$000**	**US$000**	**US$000**	**US$000**
Short-term deposits	17,485	-	-	17,485
Term deposits	1,273	-	-	1,273
				18,758

	Within 1 year	**1-2 years**	**2-5 years**	**Total**
Floating rate	**US$000**	**US$000**	**US$000**	**US$000**
Cash	36,129	-	-	36,129
BKR facility	(20,242)	-	-	(20,242)
				15,887

Year ended 31 December 2017

	Within 1 year	**1-2 years**	**2-5 years**	**Total**
Fixed rate	**US$000**	**US$000**	**US$000**	**US$000**
Short-term deposits	19,879	-	-	19,879
Term deposits	5,698	-	-	5,698
				25,577

Floating rate	Within 1 year US$000	1-2 years US$000	2-5 years US$000	Total US$000
Cash	8,400	-	-	8,400
BP consideration liability	(2,972)	-	-	(2,972)
BKR facility	-	(3,825)	-	(3,825)
				1,603

The following table demonstrates the sensitivity of finance revenue and finance costs to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on fixed rate short-term deposits and applicable bank loans).

Increase/decrease in interest rate	**Effect on profit before tax 2018 US$000**	Effect on profit before tax 2017 US$000
+0.75%	169	186
-0.75%	(169)	(186)

The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The interest rate profile of the financial assets and liabilities of the Company as at 31 December is as follows:

Company

Year ended 31 December 2018

Fixed rate	Within 1 year US$000	1-2 years US$000	2-5 years US$000	Total US$000
Short-term deposits	16,985	-	-	16,985
Term deposits	1,273	-	-	1,273
				18,258

Floating rate	Within 1 year US$000	1-2 years US$000	2-5 years US$000	Total US$000
Cash	8,114	-	-	8,114

Year ended 31 December 2017

Fixed rate	Within 1 year US$000	1-2 years US$000	2-5 years US$000	Total US$000
Short-term deposits	14,030	-	-	14,030
Term deposits	1,350	-	-	1,350
				15,380

Floating rate	Within 1 year US$000	1-2 years US$000	2-5 years US$000	Total US$000
Cash	4,682	-	-	4,682

Credit risk

The Group's and Company's exposure to credit risk relating to financial assets arises from the default of a counterparty with a maximum exposure equal to the carrying value as at the balance sheet date. Cash and treasury credit risks are mitigated through spreading the placement of funds over a range of institutions each carrying acceptable published credit ratings to minimise counterparty risk.

In addition, there are credit risks of commercial counterparties including exposures in respect of outstanding receivables. The Group's oil and gas sales are all contracted with well established oil and gas or energy companies. Also, where Serica operates joint ventures on behalf of partners it seeks to recover the appropriate share of costs from the third party counterparties. The majority of partners in these ventures are well established oil and gas companies. In the event of non-payment, operating agreements typically provide recourse through increased venture shares. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary.

Foreign currency risk

The Group enters into transactions denominated in currencies other than its US dollar reporting currency. Non-US$ denominated balances, subject to exchange rate fluctuations, at year-end were as follows:

	Group		**Company**	
	2018	2017	**2018**	2017
	US$000	US$000	**US$000**	US$000
Cash and cash equivalents:				
Pounds sterling	44,169	11,416	17,150	7,076
Norwegian kroner	8	9	-	-
Euros	34	31	-	-
Accounts receivable:				
Pounds sterling	49,353	3,619	1,390	676
Trade and other payables:				
Pounds sterling	44,534	7,208	4,013	2,307
Euros	442	443	42	64

The following table demonstrates the Group's sensitivity to a 10% increase or decrease in the US Dollar against the Pound sterling. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in the foreign currency rate.

	Effect on profit before tax	Effect on profit before tax
Increase/decrease in foreign exchange rate	**2018**	2017
	US$000	US$000
10% strengthening of US$ against GB£	4,899	783
10% weakening of US$ against GB£	(4,899)	(783)

Liquidity risk

The table below summarises the maturity profile of the Group and Company's financial liabilities at 31 December 2018 based on contractual undiscounted payments. The Group monitors its risk to a potential shortage of funds by monitoring the maturity dates of existing debt.

Group

Year ended 31 December 2017	Within 1 Year US$000	1 to 2 years US$000	2 to 5 years US$000	Total US$000
Trade and other payables	7,825	-	-	7,825
Financial liabilities	-	4,117	-	4,117

Year ended 31 December 2018	Within 1 year US$000	1 to 2 years US$000	2 to 5 years US$000	Total US$000
Trade and other payables	49,174	-	-	49,174
BKR facility	20,242	-	-	20,242

Company

Year ended 31 December 2018	Within 1 year US$000	1 to 2 years US$000	2 to 5 years US$000	Total US$000
Trade and other payables	4,099	-	-	4,099

Year ended 31 December 2017	Within 1 Year US$000	1 to 2 years US$000	2 to 5 years US$000	Total US$000
Trade and other payables	2,385	-	-	2,385

<u>Commodity price risk</u>

The Group is exposed to commodity price risk. Where and when appropriate the Group will put in place suitable hedging arrangements to mitigate the risk of a fall in commodity prices. All gas production is sold at prices linked to the spot market. The significant majority of oil and NGL production was sold at prices linked to the spot market.

At 31 December 2018, the Group held put options covering 2019 and 1H 2020 daily volumes of 240,000 and 160,000 therms per day respectively, of gas at floor prices of 35 pence per therm.

<u>Fair values of financial assets and liabilities</u>

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, other current liabilities and the non-current financial liability under the BKR prepayment facility approximate their carrying amounts largely due to the short-term maturities of these instruments. As such the fair value hierarchy is not provided.

<u>Capital management</u>

The primary objective of the Group's capital management is to maintain appropriate levels of funding to meet the commitments of its forward programme of exploration, production and development expenditure, and to safeguard the entity's ability to continue as a going concern and create shareholder value. At 31 December 2018, capital employed of the Group amounted to US$198.0 million (comprised of US$177.8 million of equity shareholders' funds and US$20.2 of borrowings), compared to US$106.1 million at 31 December 2017 (comprised of US$102.3 million of equity shareholders' funds and US$3.8 of borrowings).

At 31 December 2018, capital employed of the Company amounted to US$266.1 million (comprised of US$266.1 million of equity shareholders' funds and US$nil of borrowings), compared to US$102.3 million at 31 December 2017 (comprised of US$102.3 million of equity shareholders' funds and US$nil of borrowings).

25. Equity Share Capital

The concept of authorised share capital was abolished under the Companies Act 2006 and shareholders approved the adoption of new Articles of Association at the 2010 Annual General Meeting which do not contain any reference to authorised share capital.

As at 31 December 2018, the share capital of the Company comprised one "A" share of GB£50,000 and 264,757,819 ordinary shares of US$0.10 each. The "A" share has no special rights.

The balance classified as total share capital includes the total net proceeds (both nominal value and share premium) on issue of the Group and Company's equity share capital, comprising US$0.10 ordinary shares and one 'A' share.

Allotted, issued and fully paid: **Group**	Number	Share capital US$000	Share premium US$000	Total Share capital US$000
As at 1 January 2017 and 2018	263,679,040	26,458	202,850	229,308
Shares issued	1,078,780	108	170	278
As at 31 December 2018	264,757,820	26,566	203,020	229,586

Allotted, issued and fully paid: **Company**	Number	Share capital US$000	Share premium US$000	Total Share capital US$000
As at 1 January 2017 and 2018	263,679,040	26,458	167,578	194,036
Shares issued	1,078,780	108	170	278
As at 31 December 2018	264,757,820	26,566	167,748	194,314

70,556 ordinary shares were issued in Q1 2019 and as at 1 April 2019 the issued voting share capital of the Company was 264,828,375 ordinary shares and one "A" share.

26. Business Combination

Acquisition of Bruce, Keith and Rhum interests

On 30 November 2018 Serica completed a transaction to acquire various interests in the Bruce, Keith and Rhum fields in the UK North Sea from BP and three further transactions with Total E&P, BHP and Marubeni to acquire their respective interests in the Bruce and Keith fields.

Completion of these four transactions means Serica now has a 50% interest in the Rhum field, a 98% interest in the Bruce field and a 100% interest in the Keith field.

The combination of transactions is an acquisition of interests in a joint operation under IFRS 11 and, as the activity constitutes a business as defined in IFRS 3 Business Combinations, the acquisitions have been accounted for as a business combination. The consolidated financial statements include the fair values of the identifiable assets and liabilities as at the date of acquisition, and the results of the combined transaction assets for the one month period from the acquisition date.

	Fair value recognised on acquisition US$000
Assets	
Property, plant and equipment (note 15)	416,543
VAT recoverable and other assets	507
Underlift	5,099
Inventory	6,653
	428,802
Liabilities	
Trade and other payables	(19,511)
Deferred tax liability (note 12d)	(57,577)
Provisions (note 23)	(28,799)
	(105,887)
Total identifiable net assets at fair value	**322,915**
Bargain purchase gain arising on acquisitions	**52,938**
Initial consideration received/receivable	34,237
Deferred consideration payable (note 22)	(14,661)
Contingent consideration payable (note 22)	(289,553)
Purchase consideration	**269,977**

The excess of fair value of the net assets acquired over the purchase consideration has immediately been recognised as a bargain purchase gain in the income statement.

Fair value of consideration
The combined base consideration of the four transactions was US$22 million, which was adjusted for interim period and working capital adjustments since the economic date of 1 January 2018, resulting in combined initial consideration received at completion and receivable of US$34 million. The present value of the contingent consideration was

calculated from the future expected cash flows, at a discount rate of 12% and assumed repayment across the 2019-2021 period of the Net Cash Flow Sharing Deed and other operational timelines that trigger payment of consideration.

The bargain purchase gain representing the excess of fair value of the net assets acquired over the purchase consideration has arisen primarily due to the strategic decisions of the sellers to exit these assets due to a variety of factors including operational risks and relatively low materiality for the sellers. These later life assets have significant remaining resources and Serica has the ability to both maximise the value from these assets and share the value with BP, Total E&P and BHP Billiton. Furthermore, the majority of the consideration payable is contingent upon future events and is also subject to the impact of discounting. The gain has been immediately recognised in the income statement. The BKR asset acquisitions consist of four separate transactions with the four different counterparties who report historical financial information under differing financial reporting requirements. Management consider that it is impractical to assess the income statement disclosure impacts in respect of the combined single entity for the 2018 reporting period as though the acquisitions had completed on 1 January 2018.

The initial accounting for the acquisition of the transaction assets has only been provisionally determined at the end of the reporting period. At the date of finalisation of these financial statements, the necessary market valuations and other calculations had not been finalised and they have therefore only been provisionally determined based on the Directors' best estimates. Thus, the fair value of the net asset may be subsequently adjusted, with a corresponding adjustment to the bargain gain on purchase prior to 30 November 2019 (one year after the transaction).

BKR acquisitions and other transition related costs

Significant transition costs of US$11,690,000 and transaction costs of US$2,720,000 were expensed in 2018 on various elements of the four BKR acquisitions which completed on 30 November 2018. These were largely incurred on the significant transition work streams associated with the preparations for the transfer of operatorship of the BKR Assets (US$5.0 million), related IT costs (US$4.0 million), the transfer of documentation and contracts, and general preparation covering all associated processes. Other costs included corporate items incurred on the negotiation and documentation of the transactions and on the AIM Re-admission Document published in November 2018.

BKR transaction costs of US$3,386,000 were expensed in 2017 on the acquisition, announced on 21 November 2017, of the BKR Assets from BP. These were largely incurred on the negotiation and documentation of the transaction and on the AIM Admission Document published on 30 November 2017. It also included other consultancy and advisor fees arising throughout the process.

Change in functional and presentational currency

An entity's functional currency is the currency of the primary economic environment in which the entity operates. In light of the recent developments within the Group's operations following completion of the BKR acquisitions on 30 November 2018, the directors have reassessed the functional currency of both the Company and the Group's main operating subsidiary, Serica Energy (UK) Limited and concluded that the functional currency of these entities is now GBP Sterling.

The BKR acquisitions have brought a significant increase in scale to the business with a significant majority of revenues now earned from gas sales which realise revenue in GBP Sterling, and most of the operator expenditure running the BKR assets is also denominated in GBP Sterling. The date of change in functional currency from US Dollars to GBP Sterling is 30 November 2018, however this will be effective on 1 January 2019 given that the impact between a change on 30 November 2018 compared to 1 January

2019 is considered to be immaterial. It is expected that the 2019 Group and Company financial statements will be presented in GBP Sterling. When the change in presentational currency from US dollars to GBP Sterling takes effect in 2019, it will represent a voluntary change in accounting policy and applied retrospectively with 2018 comparatives restated.

27. Additional Cash Flow Information

Analysis of Group net cash
Year ended 31 December 2018

	1 January 2018 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2018 US$000
Cash	8,400	27,881	(152)	36,129
Short-term deposits	19,879	(2,342)	(52)	17,485
	28,279	25,539	(204)	53,614

Year ended 31 December 2017

	1 January 2017 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2017 US$000
Cash	2,859	5,351	190	8,400
Short-term deposits	13,734	5,696	449	19,879
	16,593	11,047	639	28,279

Analysis of Company net cash
Year ended 31 December 2018

	1 January 2018 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2018 US$000
Cash	4,684	3,471	(41)	8,114
Short-term deposits	14,028	2,977	(20)	16,985
	18,712	6,448	(61)	25,099

Year ended 31 December 2017

	1 January 2017 US$000	Cash flow US$000	Non-cash movements US$000	31 December 2017 US$000
Cash	332	4,248	104	4,684
Short-term deposits	13,734	(16)	310	14,028
	14,066	4,232	414	18,712

28. Share-Based Payments

Share Option Plans

The Company operates three discretionary incentive share option plans: the Serica Energy Plc Long Term Incentive Plan (the "LTIP"), which was adopted by the Board on 20 November 2017 which permits the grant of share-based awards, the 2017 Serica Energy plc Company Share Option Plan ("2017 CSOP"), which was adopted by the Board on 20 November 2017, and the Serica 2005 Option Plan, which was adopted by the Board on 14 November 2005. Awards can no longer be made under the Serica 2005 Option Plan, however, options remain outstanding under the Serica 2005 Option Plan. The LTIP and the 2017 CSOP together are known as the "Discretionary Plans".

A separate plan, the 2016 Serica Energy plc Company Share Option Plan ("2016 CSOP"), was approved for adoption at the Company's AGM in June 2016, but this was terminated with effect from 29 November 2017 following the adoption of two further discretionary plans on 20 November 2017, and there are no outstanding options under the 2016 CSOP.

The Discretionary Plans will govern all future grants of options by the Company to Directors, officers, key employees and certain consultants of the Group. The Directors intend that the maximum number of ordinary shares which may be utilised pursuant to the Discretionary Plans will not exceed 10% of the issued ordinary shares of the Company from time to time in line with the recommendations of the Association of British Insurers.

The objective of these plans is to develop the interest of Directors, officers, key employees and certain consultants of the Group in the growth and development of the Group by providing them with the opportunity to acquire an interest in the Company and to assist the Company in retaining and attracting executives with experience and ability.

Serica 2005 Option Plan
As at 31 December 2018, 6,465,550 options granted by the Company under the Serica 2005 Option Plan were outstanding. All options awarded under the Serica 2005 Option Plan since November 2009 have a three-year vesting period. When awarding options to directors, the Remuneration Committee are required to set Performance Conditions in addition to the vesting provisions before vesting can take place. Of the above options, 2,500,000 of these options were granted to Mr Craven Walker in July 2015 at exercise prices higher than the market price at the time of the grant to establish firm performance targets. These options are set out in the table below:

	Outstanding as at 1/1/18	Outstanding as at 31/12/18	Exercise Price £	Date of grant	Expiry date
A Craven Walker	1,000,000	1,000,000	0.12	17/7/15	16/7/25
A Craven Walker	1,000,000	1,000,000	0.18	17/7/15	16/7/25
A Craven Walker	500,000	500,000	0.24	17/7/15	16/7/25

The Company calculates the value of share-based compensation using a Black-Scholes option pricing model (or other appropriate model for those Directors' options subject to certain market conditions) to estimate the fair value of share options at the date of grant. There are no cash settlement alternatives. The estimated fair value of options is amortised to expense over the options' vesting period. US$483,000 has been charged to the income statement in continuing operations for the year ended 31 December 2018 (2017: US$98,000) and a similar amount credited to the share-based payments reserve, classified as 'Other reserve' in the Balance Sheet. A charge of US$230,000 (2017: US$46,000) of the total continuing operations charge was in respect of key management personnel (defined in note 9). The charge of US$98,000 expensed in 2017 includes an amount of US$50,000 (US$25,000 attributable to key management personnel) in relation to awards that were granted under the LTIP in 2018 and detailed below. This charge was attributable for the December 2017 period as the relevant Directors and employees were considered to be rendering services in consideration for awards that were deemed as granted at that time under IFRS2.

No options were granted in 2017 or 2018 under the Serica 2005 Option Plan.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

Serica 2005 option plan	**2018 Number**	**2018 WAEP GB£**	2017 Number	2017 WAEP **GB£**
Outstanding as at 1 January	8,196,330	0.25	8,466,330	0.28
Exercised during the year	(1,078,780)	0.24	-	-
Expired during the year	(652,000)	0.40	(270,000)	1.036
Outstanding as at 31 December	6,465,550	0.25	8,196,330	0.25
Exercisable as at 31 December	6,465,550	0.25	4,196,330	0.38

The weighted average remaining contractual life of options outstanding as at 31 December 2018 is 4.9 years (2017: 5.6 years).

For the Serica 2005 option plan, the exercise price for outstanding options at the 2018 year-end ranges from GB£0.07 to GB£0.68 (2017: GB£0.07 to GB£1.04).

As at 31 December 2018, the following director and employee share options were outstanding:

Expiry Date	**Amount**	**Exercise cost GB£**
January 2020	1,030,000	785,400
April 2021	50,000	15,685
January 2022	885,550	240,112
October 2022	400,000	116,000
January 2023	200,000	81,750
January 2024	300,000	58,500
June 2025	1,100,000	99,000
July 2025	1,000,000	120,000
July 2025	1,000,000	180,000
July 2025	500,000	120,000
Total	6,465,550	

Long Term Incentive Plan
The following awards have been granted to certain Directors and employees under the LTIP, these were deemed to be granted in November 2017 under IFRS 2.

Director/Employees	**Total number of shares granted subject to Deferred Bonus Share Awards**
Antony Craven Walker	225,000
Mitch Flegg	225,000
Employees below Board level (in aggregate)	575,000
	1,025,000

Deferred Bonus Share Awards involve the deferral of bonuses into awards over shares in the Company. They are structured as nil-cost options and may be exercised up until the fifth anniversary of the date of grant. Vesting of the Deferred Bonus Share Awards was the later of the date of completion of the BKR Acquisition and 31 January 2019. They are not subject to performance conditions; however, they were conditional on completion of the BKR Acquisition, subject to the Board determining otherwise.

Director/Employees	**Total number of shares granted subject to Performance Share Awards**
Antony Craven Walker	1,500,000
Mitch Flegg	1,500,000
Employees below Board level (in aggregate)	2,250,000
	5,250,000

Performance Share Awards have a three-year vesting period and are subject to performance conditions based on average share price growth targets to be measured by reference to dealing days in the period of 90 days ending immediately prior to expiry of a three-year performance starting on the date of grant of a Performance Share Award. Performance Share Awards are structured as nil-cost options and may be exercised up until the tenth anniversary of the date of grant. They were not subject to completion of the BKR Acquisition.

<u>LTIP awards in 2019</u>
In March 2019, the Company granted nil-cost options over a total of 3,784,765 ordinary shares under the LTIP. The award was made to members of the Group's executive team, senior management and employees. The awards included a total of 822,154 ordinary shares for the executive directors and persons discharging managerial responsibilities as follows:

Director/PDMR	**Total number of shares granted subject to Performance Share Awards**
Antony Craven Walker	411,067
Mitch Flegg	411,067
	822,134

These awards are subject to vesting criteria based on absolute share price performance over a three-year period.

29. Commitments under Operating Leases

<u>Operating lease agreements where the Group is lessee</u>
At 31 December 2018 the Group has entered into commercial leases in respect of the rental of office premises and office equipment.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Group		**Company**	
	2018	2017	**2018**	2017
	US$000	US$000	**US$000**	US$000
Not later than one year	525	74	72	74
Later than one year and not later than five years	-	-	-	-
	525	74	72	74

In September 2018, the Group extended its 21 Gloucester Place, London office operating lease with a minimum commitment period until June 2019.

In March 2019 the Group entered into a five-year operating lease at its new registered office, 48 George Street following the expiry of its London office lease at 52 George Street.

30. Capital Commitments and Contingencies

At 31 December 2018, other amounts contracted for but not provided in the financial statements for the acquisition of exploration and evaluation assets amounted to US$nil for the Group and US$nil for the Company (2017: US$nil and US$nil respectively).

The Company also has obligations to carry out defined work programmes on its oil and gas properties, under the terms of the award of rights to these properties. The Company is not obliged to meet other joint venture partner shares of these programmes.

<u>BKR commitments</u>

There are no significant current capital commitments on the BKR producing fields though plans to carry out work on the Rhum R3 well are in hand with work expected to be carried out in 2020. Net revenues from Serica's share of income from the fields, after net cash flow sharing payments, are expected to cover Serica's retained share of ongoing field expenditures and deferred or contingent consideration due under the respective acquisition agreements. These include GB£16 million due to BP upon a successful outcome from the Rhum R3 workover, US$5 million due to Total E&P on each of 31 July 2019, 31 March 2020 and 30 November 2020 and amounts of up to GB£7.7 million due to BP in respect of each or 2019, 2020 and 2021 dependent upon achievement of certain Rhum field production and gas price levels. Further deferred contingent consideration amounts will fall due to each of BP, Total E&P and BHP representing 30% of their retained share of the actual costs of decommissioning the BKR field facilities in existence at completion net of tax relief. In April 2019, Serica has posted cash collateral of approximately GB£12.1 million (US$15.7 million under BKR decommissioning security arrangements in support to the issue of letters of credit required.

<u>Erskine commitments</u>
As at 31 December 2018, the cash balance of US$54.9 million contains an amount of US$3.8 million that is secured against a bank guarantee given in respect of operational and capital expenditure to be carried out during 2019 on the Erskine field in the UK. The funds are freely transferrable but alternative collateral would need to be put in place to replace the cash security.

Other commitments
The Group has no significant exploration commitments.

Other less material minimum obligations include G&G, seismic work and ongoing licence fees in the UK and Namibia.

Other
The Group occasionally has to provide security for a proportion of its future obligations to defined work programmes or other commitments.

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

31. Related Party Transactions and Transactions with Directors

There are no related party transactions, or transactions with Directors that require disclosure except for the remuneration items disclosed in the Directors Report and note 9 above. The disclosures in note 9 include the compensation of key management personnel.

The Company's related parties consist of its subsidiaries and the transactions and amounts due to/due from them are disclosed in the accompanying notes to the Company financial statements.

GLOSSARY

bbl	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 the appropriate rate)
BKR Assets	Bruce, Keith and Rhum fields
CPR	Competent Persons Report
FDP	Field Development Plan
HPHT	High pressure high temperature
mscf	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
NGLs	Natural gas liquids extracted from gas streams
NTS	National Transmission System
OGA	Oil and Gas Authority
Overlift	Volumes of oil or NGLs sold in excess of volumes produced
Underlift	Volumes of oil or NGLs produced but not yet sold
P10	A high estimate that there should be at least a 10% probability that the quantities recovered will actually equal or exceed the estimate
P50	A best estimate that there should be at least a 50% probability that the quantities recovered will actually equal or exceed the estimate
P90	A low estimate that there should be at least a 90% probability that the quantities recovered will actually equal or exceed the estimate
Pigging	A process of pipeline cleaning and maintenance which involves the use of devices called pigs
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
UKCS	United Kingdom Continental Shelf