

Serica Energy Plc (AIM: SQZ)

June 26, 2024

Current price: £1.54

Target: £2.90

Initiating Coverage: Serica Energy Plc

Serica Energy is a ~US800 mm market cap company with >40 mboe/d production and 140 mmboe of 2P reserves in the UK North Sea. The investment case is about value and generous shareholder distributions. The strategy is to maximize the value of two key producing hubs, depending on the UK's tax policy, to develop a third one at Buchan Horst and to grow via M&A. Over the last 2 years, the share price has been negatively impacted by the reduction in UK gas prices and fiscal uncertainty. Serica's dividend yield is now ~15% and the share price appears to more than discount a really "worst case" for the now relative certainty that the tax regime will change. The new management that joined in 2024 is looking to maintain the strong legacy of the firm including through smart M&A across the wider North Sea and the UK. **Our £2.90/sh target price reflects our ReNAV. It implies ~85% upside.**

Stable production. Some tax reliefs required to unlock growth

Under a Labour government, certain tax allowances and relief on investment could be eliminated but the extent of this is not yet clear. Under a "worst case scenario", Serica's 2P reserves underpin stable production of >40 mboe/d until YE27 with growing net cash even after maintaining the dividend at the current level. Reinforcing commitment to the windfall tax sunset date of 2029 whilst retaining balanced capital relief would allow Serica to convert resources into reserves by sanctioning (1) the development of Buchan Horst (~21 mmbbl and ~10 mboe/d), (2) the redevelopment of Kyle (10 mmbbl), (3) the drilling of further infill wells at Bruce (indicatively estimated to be in the region of 20 mmbbl and ~40 mmcf/d) and (4) the development of a discovery following an exploration success at Skerryvore (~36 mmboe). There are no new entrants in the UK and the regulator has increasingly demanding criteria to approve new projects. This leaves Serica in a strong position to benefit from any improvements in the environment to consolidate in the basin.

Key differentiators versus direct peers

Compared to Ithaca, EnQuest and Harbour, Serica has several advantages: (1) stronger balance sheet (YE23 net cash: ~US\$100 mm, peers carry net debt), (2) lower decommissioning liabilities (<US\$2/boe of 2P reserves vs >US\$4/boe), (3) more control on its assets and (3) lower carbon intensity.

Value build-up

Our 2P NAV, assuming a "worst case scenario" under a Labour fiscal regime is ~£1.80/sh. Under that scenario the development of Buchan would not be sanctioned, yet the aggregate shareholder distribution plus net cash at YE27 would be greater than the current market cap. With the preservation of some allowances and the EPL sunset date unchanged, our 2P NAV increases to ~£2.27-2.86/sh and Buchan would be sanctioned (+£0.13-0.35/sh). Developing Skerryvore adds £0.16-0.35/sh, Kyle adds £0.08-0.11/sh and drilling further Bruce infill wells adds £0.18-0.24/sh. Our ReNAV including the risked value of these projects is £2.88/sh.

Rating & target	Old	New	
Target	n.a.	£2.90	
Yield		15%	
Implied total return		103%	
Share data	2023	2024e	2025e
Shares dil., mm	402	403	403
Mkt cap, US\$mm	\$1,166	\$797	\$806
EV, US\$mm	\$1,068	\$674	\$558
Financial Data	2023	2024e	2025e
Gas, mmcf/d	103.0	134.4	116.8
Liquids, bbl/d	20,318	20,525	23,485
Total boe/d (6:1)	40,121	43,706	43,623
CFO, US\$mm	\$99	\$433	\$462
Net capex, US\$mm	\$136	\$276	\$221
Net debt, US\$mm*	(\$98)	(\$123)	(\$248)
CFPS dil., US\$/shr	\$0.25	\$1.17	\$1.24
EPS dil., US\$/shr	\$0.29	\$0.37	\$0.40
Valuation	2023	2024e	2025e
Share price, £/shr	£2.32	£1.54	£1.54
EV/DACF	8.7x	1.5x	1.1x
EV per boe/d (US\$)	\$26,616	\$15,422	\$12,784

Net asset value	
CNAV, £/shr	£2.57
RENAV, £/shr	£2.88
Unrisked NAV, £/shr	£3.44
P/CNAV	0.6x
P/RENAV	0.5x
P/ENAV	0.4x

All figures in US\$ unless otherwise noted
* based on cash rather than working capital

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Table of contents

Equity story and value build-up	5
Navigating uncertainty	7
From minnow to one of the largest UK North Sea independent producers	7
Diversifying the production base with another major acquisition	7
Fiscal worries	8
“Serica 3.0”	8
Current assets	9
Advantageous position compared to UK North Sea peers	14
Balance sheet	15
Decommissioning liabilities	15
Very high WI in all its assets	16
Carbon intensity	17
Valuation and financials	18
Financials	18
Valuation	19
Sensitivity to fiscal regime changes	21
The Bruce Hub	23
The Bruce field	25
Keith	26
Rhum	26

The Triton Hub	28
Bittern	29
Gannet E	30
Guillemot West and North West	32
Evelyn	32
Belinda	33
Kyle development	34
Triton FPSO	35
2024/2025 Triton Fields Activity	35
The Greater Buchan Area	36
Other Assets	38
Erskine	38
Columbus	39
Orlando and Mansell	40
Skerryvore	42
Risk analysis	44
Appendix 1: Senior Management & Board of Directors	45
Appendix 2: Capital structure and main shareholders	46

Figure 1. Financial & operating information

Serica Energy (SQZ LN)		Historical & Auctus Outlook					
		2023	2024e	2025e	2026e	2027e	2028e
Financial & Operating Information							
Commodity Prices							
Brent	US\$/bbl	\$82.99	\$85.52	\$76.22	\$70.00	\$70.00	\$70.00
UK NBP	p/th	GBp114	GBp81	GBp92	GBp90	GBp90	GBp90
UK NBP	US\$/mcf	\$14.26	\$10.43	\$12.02	\$11.70	\$11.70	\$11.70
USD / GBP	US\$/£	\$1.25	\$1.29	\$1.30	\$1.30	\$1.30	\$1.30
Production							
Oil and Liquids	bbl/d	20,318	20,525	23,485	23,039	20,216	16,726
Natural Gas	mmcf/d	103.0	134.4	116.8	124.8	139.7	124.4
Total (6 mcf = 1 boe)	boe/d	40,121	43,706	43,623	44,563	44,305	38,172
% Oil and Liquids	%	51%	47%	54%	52%	46%	44%
Netbacks							
Revenue	US\$/boe	\$61.61	\$66.97	\$69.02	\$64.55	\$63.81	\$63.54
Royalties	US\$/boe	\$0.79	\$0.63	\$0.63	\$0.62	\$0.50	\$0.43
Production & Transport Costs	US\$/boe	\$21.12	\$20.23	\$19.73	\$19.24	\$18.12	\$21.03
Operating Netback	US\$/boe	\$42.49	\$42.66	\$47.80	\$44.59	\$45.19	\$42.08
Taxes	US\$/boe	\$17.85	\$10.57	\$17.49	\$10.29	\$23.13	\$28.11
Cash Flow Netback	US\$/boe	\$9.54	\$28.64	\$30.50	\$30.43	\$24.72	\$12.53
Financials							
Cash Flow from Ops. before tax and							
fin. Costs (CFO)	US\$mm	\$447	\$648	\$728	\$699	\$705	\$560
CFO less current tax	US\$mm	\$243	\$479	\$450	\$532	\$331	\$169
CFO less cash tax and fin. Costs	US\$mm	\$99	\$433	\$462	\$472	\$377	\$151
CFPS - diluted	US\$/shr	\$0.25	\$1.17	\$1.24	\$1.26	\$1.02	\$0.45
EBITDAX	a US\$mm	\$503	\$655	\$735	\$699	\$705	\$560
E&D Capex (incl. decom.)	US\$mm	\$98	\$269	\$221	\$273	\$36	\$0
A&D Capex, Net	US\$mm	\$38	\$8	\$0	\$0	\$0	\$0
Total Net Capex	US\$mm	\$136	\$276	\$221	\$273	\$36	\$0
Total Net Capex/CFO	x	1.4x	0.6x	0.5x	0.6x	0.1x	0.0x
Leverage							
Net Debt	US\$mm	(\$98)	(\$123)	(\$248)	(\$330)	(\$554)	(\$588)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital Structure							
Basic Shares o/s @ YE	mm	391	392	392	392	392	392
Diluted Shares o/s @ YE	mm	402	403	403	403	403	403
Market Capitalization	US\$mm	\$1,166	\$797	\$806	\$806	\$806	\$806
Enterprise Value	US\$mm	\$1,068	\$674	\$558	\$476	\$252	\$218
Dividends & Sustainability							
Dividends	US\$mm	\$111	\$116	\$117	\$117	\$117	\$117
Dividends	£/sh	£0.23	£0.23	£0.23	£0.23	£0.23	£0.23
Dividends	\$/shr	\$0.29	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30
Dividend Yield	%	14.9%	14.9%	14.9%	14.9%	14.9%	14.9%
Share Buybacks	US\$mm	\$0	\$19	\$0	\$0	\$0	\$0
Free Cash Flow	US\$mm	\$1	\$165	\$241	\$199	\$341	\$151
Cash returned to shareholders as % of	%	112.1%	31.2%	25.3%	24.8%	31.1%	77.4%
Cash invested/CFO	%	137%	64%	48%	58%	9%	0%
Performance							
Prod. Per Shr Growth (Y/Y) - dil.	%		-8%	0%	2%	-1%	-14%
PPS Growth (Y/Y) DDA - dil.	b %		-4%	10%	18%	25%	-10%
CFPS Growth (Y/Y) - dil.	%		360%	6%	2%	-19%	-56%
CFPS Growth (Y/Y) DDA - dil.	b %		304%	17%	18%	2%	-54%
ROCE	%		25%	26%	30%	34%	18%
Net Asset Value							
CNAV (Atax) - diluted	£/shr	£2.57					
RENAV (Atax) - diluted	£/shr	£2.88					
Unrisked NAV (Atax) - diluted	£/shr	£3.44					
P/CNAV	x	0.6x					
P/RENAV	x	0.5x					
P/Unrisked NAV	x	0.4x					
Valuation							
Share Price, YE/Current	£/shr	£2.32	£1.54	£1.54	£1.54	£1.54	£1.54
P/CF	x	11.4x	1.7x	1.6x	1.6x	2.0x	4.5x
EV/DACF	x	8.7x	1.5x	1.1x	1.0x	0.6x	1.3x
Target EV/DACF	x	16.2x	#VALUE!	1.1x	-0.7x	-1.4x	-3.4x
EV per boe/d	\$/boepd	\$26,616	\$15,422	\$12,784	\$10,685	\$5,696	\$5,717
Proved Plus Probable		140	124	108	92	92	92
EV per 2P boe	US\$/boe	\$4.82	\$5.42	\$5.14	\$5.17	\$2.74	\$2.37
EV per 2P boe, with FDC	US\$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; b) DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus Advisors, Company Disclosures

**Futures strip as of 25-Jun-24

Equity story and value build-up

The key uncertainty for Serica currently is the fiscal regime in the UK North Sea under a Labour government. If the Labour party wins the upcoming election, a new budget could be announced this autumn. The Labour manifesto already states that the rate of the EPL (Energy Profit Levy - UK windfall tax) would increase from 35% to 38% and remain in place until the end of the new parliament (2029), taking the overall tax rate for upstream oil and gas to 78%. This includes 30% for ring fence corporate tax (RFCT), 10% for supplementary charge (SCT) and 38% for EPL.

More critically, the manifesto states that certain of the existing allowances for investment would be eliminated. There are various allowances in the UK North Sea that apply to different taxes. For SCT purposes (10% tax rate), there is a 62.5% uplift to investment. This means that if a company spends £100 mm (capex) in a given year, it can reduce the taxable base for SCT purposes by £162.5 mm. For EPL purposes (35% tax rate today), the extra allowance is 29%.

Labour's statement regarding the elimination of these investment allowances could be interpreted in various ways. On the one hand, it could mean only the elimination of the investment uplift (62.5% for SCT and 29% for EPL). On the other hand, under a worst case scenario, all capex investment might become non-deductible for EPL purposes. Using the above example of a company investing £100 mm of capex in a given year, none of this amount would be deductible (i.e. zero depreciation of investment) from the taxable base for EPL purposes. Not only would this be entirely contrary to the policy across the rest of the UK economy (non ring fence CT), but this would have drastic consequences for vital investment across the basin and as a result, UK North Sea production would be expected to plummet.

Although we consider this unlikely, this "worst case scenario", combined with the continuation of EPL beyond the current stated sunset date, would lead to a 2P valuation for Serica of £1.82 per share. Under this scenario, we believe that Serica would still take FID on two upcoming development wells at Bruce that continue to have a positive NPV10 but we assume that all the other projects would not be sanctioned (the development of Buchan Horst, the development of further 2C resources and the development of Skerryvore assuming an exploration success). With an increased focus on costs in this scenario, we assume a 10% opex reduction from late 2026 (after the two Bruce infill wells are drilled) and minimal maintenance capex. We also assume UK gas price would be 10% higher than otherwise from late 2025.

Even under this worst case scenario, we forecast that Serica will be able to continue to fund very generous dividend distributions and share buybacks for at least the next four years while growing its net cash position. We forecast that the aggregate shareholder distribution over 2024-2027 plus the company's YE27 net cash will be greater than the current market cap.

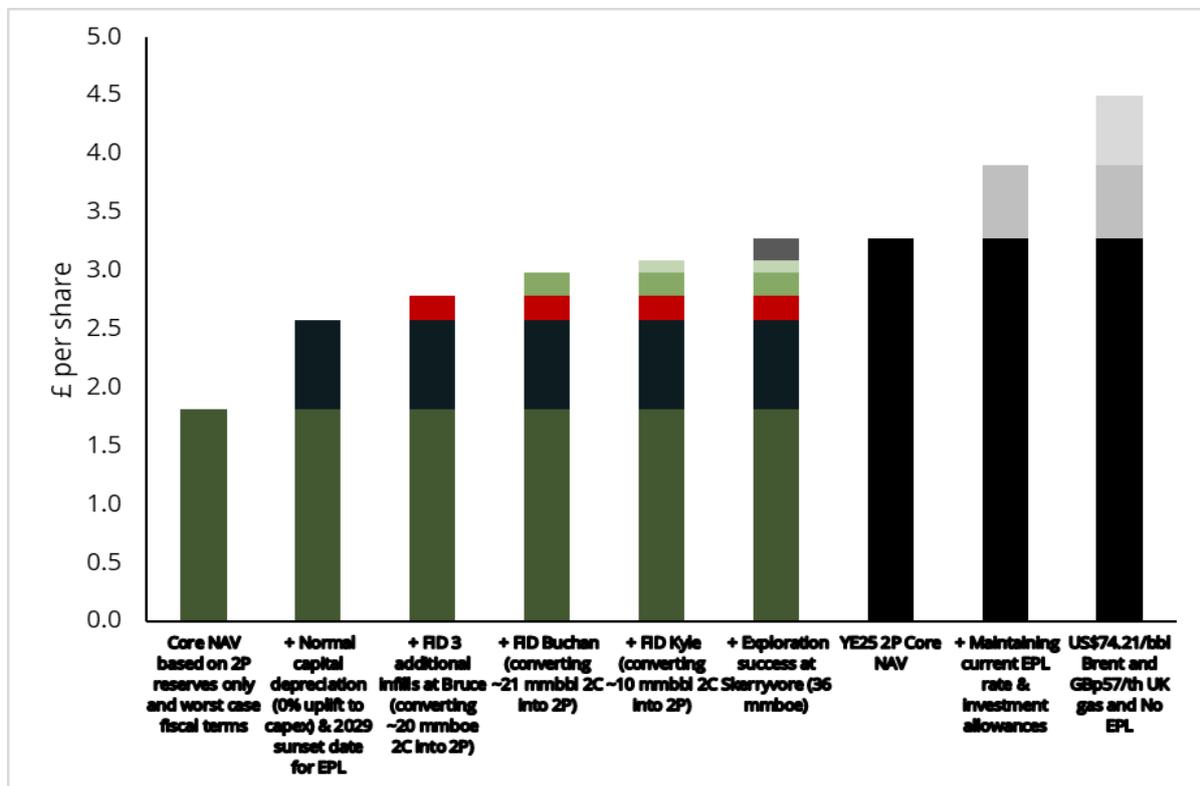
Assuming only the uplift components of capex tax relief are cancelled (i.e. assuming normal depreciation) and the confirmation of 2029 as the sunset date for the EPL, then our 2P NAV increases to £2.58 per share. This would also allow Serica to convert contingent resources into reserves by sanctioning the development of Buchan Horst (+£0.20 per share), Kyle (+£0.10 per share) and the drilling of three further infill wells at Bruce (+£0.21 per share), taking our 2P NAV to £3.09 per share. Success at Skerryvore, that we also expect would be developed in this scenario, would add a further £0.19 per share (£0.07 per share on a risked basis).

Assuming the current UK fiscal terms remain unchanged (only likely under a Conservative government) would add a further £0.47 per share for a total YE25 2P NAV of ~£3.56 per share with a success at Skerryvore adding a further £0.34 per share (total of £3.90 per share).

Counterintuitively, under lower commodity prices below the threshold triggering the Energy Security Investment Mechanism (ESIM) (currently US\$74.2/bbl for Brent and GBp57/th for UK gas), all the new projects would be sanctioned and the value of Serica's share assuming a success at Skerryvore would increase to £4.50 per share, highlighting some of the oddities of the EPL tax.

Our base case assumes a normal depreciation (100% of capex) for all taxes, a tax rate of 38% for EPL and a sunset date for the EPL of 2029.

Figure 2: Value build-up



Source: Auctus

Navigating uncertainty

From minnow to one of the largest UK North Sea independent producers

The precursor entity to Serica Energy listed on the Toronto Stock Exchange in December 2004 as an E&P company focused on Indonesia. The company joined the London AIM market about a year later so is approaching its 20th anniversary on AIM. Over the years, Serica accumulated further assets in Namibia, Morocco and Ireland.

By 2016, under new management, the company had refocused its portfolio on the UK North Sea to create “Serica 2.0”. At that time, the company produced ~3.3 mboe/d from the Erskine field acquired from bp. Serica then grew through astute and well-structured acquisitions of mature assets from much larger companies. Common key features of these transactions were that (1) a significant proportion of the acquisition price was funded by the seller through a mechanism of sharing future cashflow and (2) the decommissioning liabilities remained to a large extent with the sellers.

In November 2017, Serica acquired bp’s interests in Bruce, Keith and Rhum. In August 2018, Serica announced the acquisition of TotalEnergies’ interests in Bruce and Keith and in November of the same year, the acquisition of BHP and Marubeni’s interests in the same fields. Overall, Serica added 23 mboe/d net production and 63.7 mmboe of 2P reserves. This drastically changed the profile of the company, that became, almost overnight, a mid-sized UK North Sea operated producer. Serica’s share price multiplied six-fold in 2018.

By early 2019, net production had increased to >31 mboe/d and the company held >£100 mm in cash by YE19. The spike in gas prices from late 2021, combined with the completion of the repayment of the acquisition consideration to bp, TotalEnergies, BHP and Marubeni boosted further the balance sheet of the company, allowing it to commence dividend payments.

Diversifying the production base with another major acquisition

In August 2022, UK gas prices started to fall as Europe had managed to store sufficient gas during the summer to be able to go through the coming winter. In the context of a difficult equity market for oil and gas companies and with net cash rapidly building-up, some of Serica investors were looking for a very large dividend complemented by a material share buyback programme.

In December 2022, Serica announced a combination with Tailwind Energy to become the third largest independent UK North Sea producer with 40-45 mboe/d production, with almost half of the combined group production being oil (from a negligible amount previously). This transaction balanced the company’s exposure between oil and gas and also reduced the extent of physical asset concentration risk through a second, fully independent, production hub. The 2P reserves of Tailwind were estimated at ~42 mmboe

at YE21, to be added to Serica's reserves of 62 mmbob. The consideration for the acquisition included £58.7 mm in cash, the assumption of Tailwind's £277 mm debt and the issue of shares, thereby materially increasing the market cap of the company. The Tailwind transaction also introduced the global commodity trader Mercuria as a ~25% strategic shareholder of the enlarged group.

Although the acquisition was not well understood by some investors, the subsequent sharp falls in UK gas prices whilst oil prices have remained resilient, has vindicated the strategic logic of the transaction.

Fiscal worries

From 2023, the macro backdrop deteriorated with continued normalization (fall) in the UK gas price and yet the decision of the Conservative led UK government in its Spring 2024 budget to extend the duration of a penalising windfall tax even after the oil and gas pricing environment had returned to normal. Harbour Energy, the UK largest independent producer, decided to minimize its investments in the country to refocus its capital programme on other regions. The increasing likelihood of an anti hydrocarbon Labour party being elected as the next UK government darkened the industry and investors' mood further. The Labour Party has maintained that a "proper windfall tax" should be introduced and its manifesto (published in June 2024) has called for a 78% rate (because it is in line with Norway) and they argue that the existing windfall tax had "loopholes" which has led to their manifesto commitment to "remove overly generous investment allowances". Serica's share price has dropped by >40% over the last 12 months.

"Serica 3.0"

In 1H24, a new CEO and CFO were appointed. With a strong net cash position, Serica increased its FY23 dividend to >£90 mm, which has resulted in a dividend yield of ~15% given the depressed share price. The company also announced a £15 mm share buy back as part of its 2024 shareholder returns in recognition of the oversold share price relative to its intrinsic value. Given the uncertain fiscal environment, the strategy of the company is based on three pillars:

- (1) If the new fiscal terms in the UK remain conducive to value creating investment, the company would deploy capital with its partners to develop the Buchan Horst project, a new hub in the Outer Moray Firth area of the UK North Sea with multiple follow-on opportunities. Serica could also sanction multiple opportunities at its existing two producing hubs including developing 2C contingent resources. Given the increasingly demanding requirements (in terms of proven operating experience and proof of funding) by the NTSA (the regulator) for the approval of new projects and the lack of new entrants in the UK, the competitive landscape is very weak and likely to remain so. Serica is one of the very few companies able to

take advantage of the situation, which is expected to create opportunities (inorganic or organic).

- (2) In the context of "worst case" fiscal terms, the company has the resilience and strength to maintain production with limited capex deployment (in relative terms) on its two existing key hubs for a few years and continue to support shareholder distributions whilst potentially benefitting from opportunistic acquisitions of more challenged companies.
- (3) Should fiscal conditions in the UK remain challenging, and with an increasingly material cash position, Serica will look at acquisitions outside the UK. The new CFO is a former M&A banker and overall the company is supported by a world class M&A team including the former heads of M&A for bp and TotalEnergies on the Board. The company is actively reviewing areas in the North Sea outside of the UK where its offshore operating experience and balance sheet can make a difference.

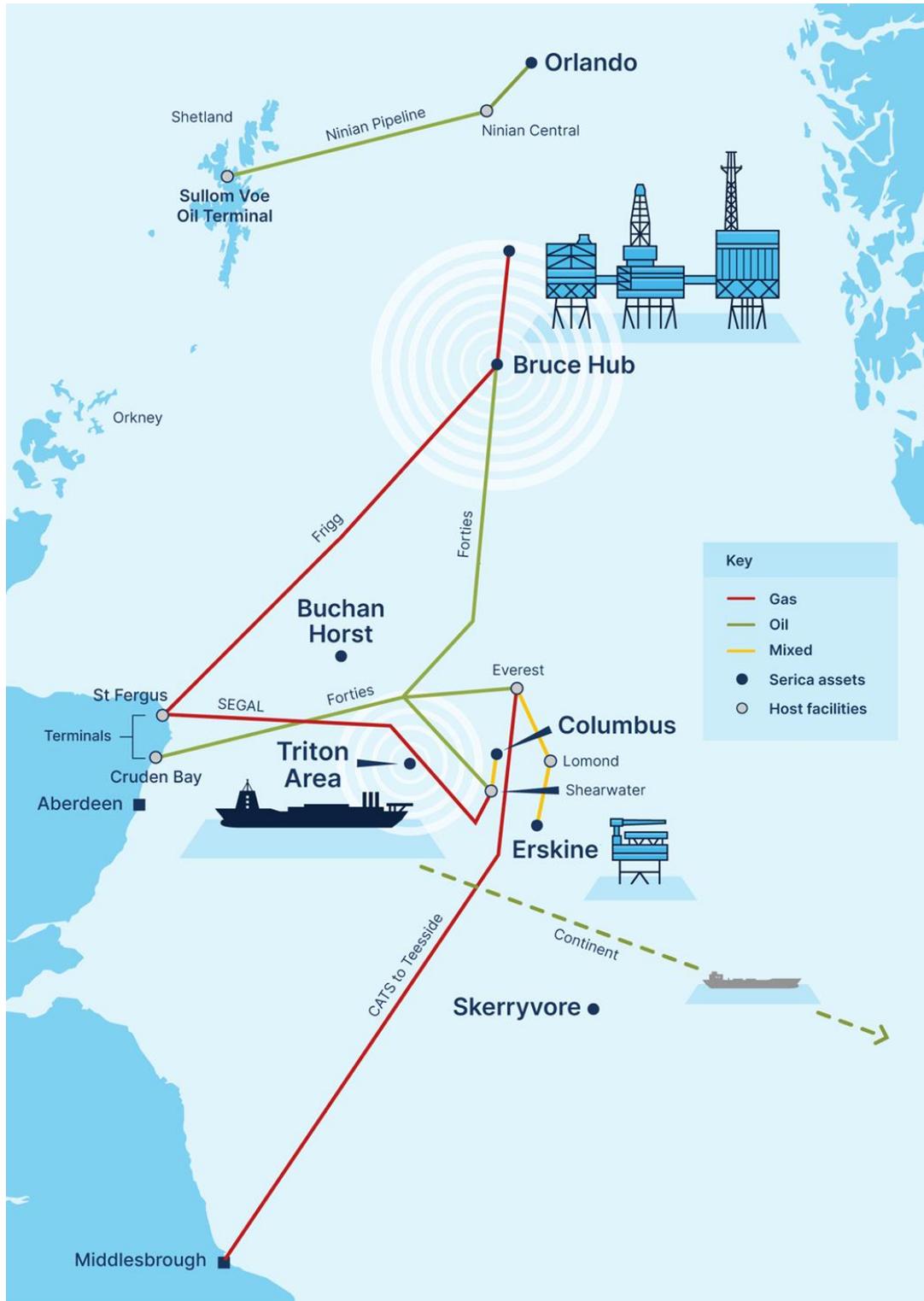
Current assets

Today Serica assets can be classified in four groups:

- The Bruce hub in the Northern North Sea with ~19 mboe/d net production in 2023 and 84 mmboe net 2P reserves. This is mostly a gas condensate hub with the Bruce platform operated by Serica. Production growth is expected in 2026 with the drilling of two important infill wells.
- The Triton hub in the Central North Sea with ~14 mboe/d net production in 2023 and ~49 mmboe net 2P reserves. This is mostly an oil hub processed through the Dana operated Triton FPSO. Most of the drilling programme (and capex) in 2024 and 2025 are focused on Triton. This includes the development of a new field (Belinda).
- The Buchan area with 21-32 mmbbl net contingent resources. This is a new area for Serica arising from the acquisition of 30% WI in the licence in 2024. The Buchan Horst field would be one of the largest developments in the UK. Importantly, it would be based on the re-use of an existing FPSO which will be electrification ready; resulting in a very low carbon foot print. The project is proceeding towards an FDP, but need for further clarity on the fiscal regime is paramount in order to permit the partners to take FID later in the year. Under severe fiscal terms, the project is unlikely to be sanctioned.
- The Other Assets. This includes 7 mmboe of 2P reserves across three assets (Orlando in the Northern North Sea and Erskine and Columbus in the Central North Sea) that produced ~6.9 mboe/d in 2023. These assets are in decline and could cease production by the end of 2026-2028. The high impact Skerryvore exploration well (20% WI) which is a commitment well scheduled to be drilled

by end 2025 (albeit the subsequent development in the event of a discovery will depend on conducive fiscal terms) is also part of this group.

Figure 3. Serica's assets



Source: Company

Figure 4. Serica's licences

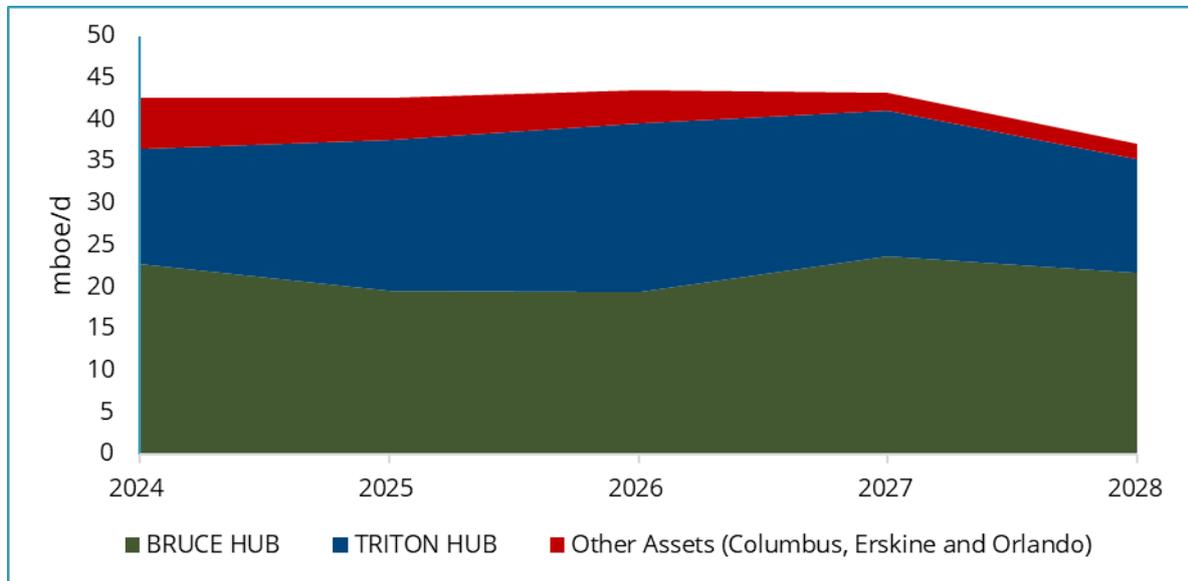
Hub/Group	Location	Licences	Field/discovery	WI	Commitments	WI 2P mmboe	WI 2C mmboe	Prospective Resources mmboe
Bruce	Northern North Sea (NNS)	P090, P209, P276	Bruce (gas and condensate)	98-99%	None - in production	42	21	
		P209	Keith (oil)	100%	None - In production	3		
		P198, P566, P975	Rhum (gas and condensate)	50%	None - in production	39		
Triton	Central North Sea (CNS)	P233, P361	Bittern (oil)	65%	None - in production			
		P1792	Evelyn (oil)	100%	None - in production			
		P13	Gannet E (oil) Guillemot West & North West (oil)	100%	None - in production	49		
Greater Buchan Area	Outer Moray Firth (OMF)	P1792	Belinda (oil)	100%	None - in development None - candidate for			
		P2616	Kyle (oil)	100%	redevelopment	10		
		P2170, P2498	Greater Buchan area (Buchan, J2, Verbiar) (oil)	30%	Candidate for development		20-32	
Operated by others (OBO)	Northern North Sea (NNS)	P1606	Orlando (oil)	100%	None - in production	2		
		P2448	Mansell (oil)	100%	None		8	
		P57, P264	Eiskine (gas)	18%	None - in production	2		
Total	Central North Sea (CNS)	P101, P1314	Columbus (gas)	75%	None - in production	2		
		P2400	Skerryvore*	20%	One exploration well by 2025			26
						140	59-71	26

*. resources estimates by the operator
Source: Company

Source: Company

Under our most likely case scenario (EPL rate of 38%, EPL sunset date of 2029 and normal depreciation of capex with no uplift), the 2P reserves can support production of 41-46 mboe/d until YE27. This excludes the potential addition of Buchan Horst.

Figure 5. Production profile

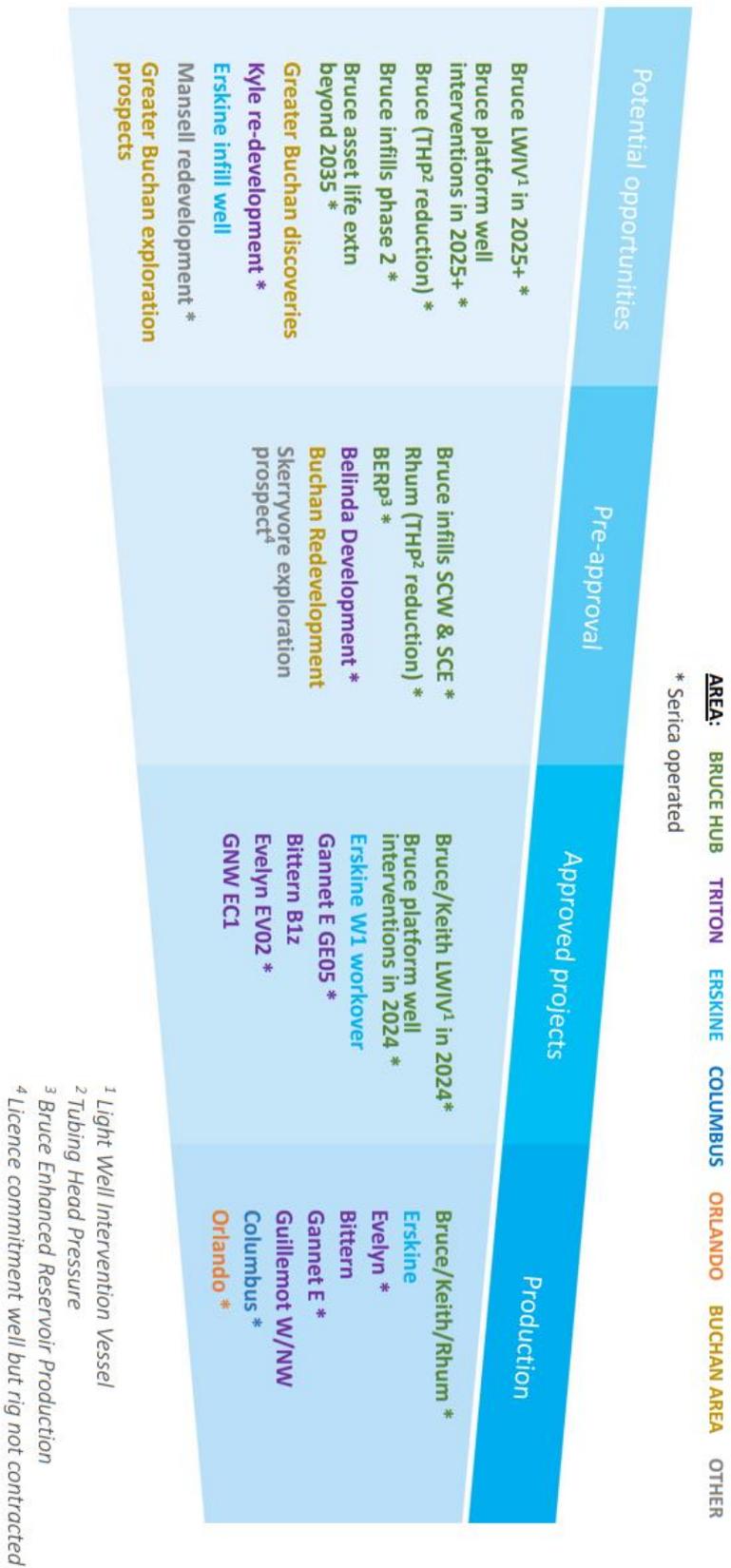


Source: Auctus

Acceptable fiscal terms would also allow Serica to mature further opportunities in its portfolio that could further extend the life of its key hubs and add reserves.

Extending the life of each of the hubs would be a logical opportunity.

Figure 6. Identified opportunities in existing portfolio



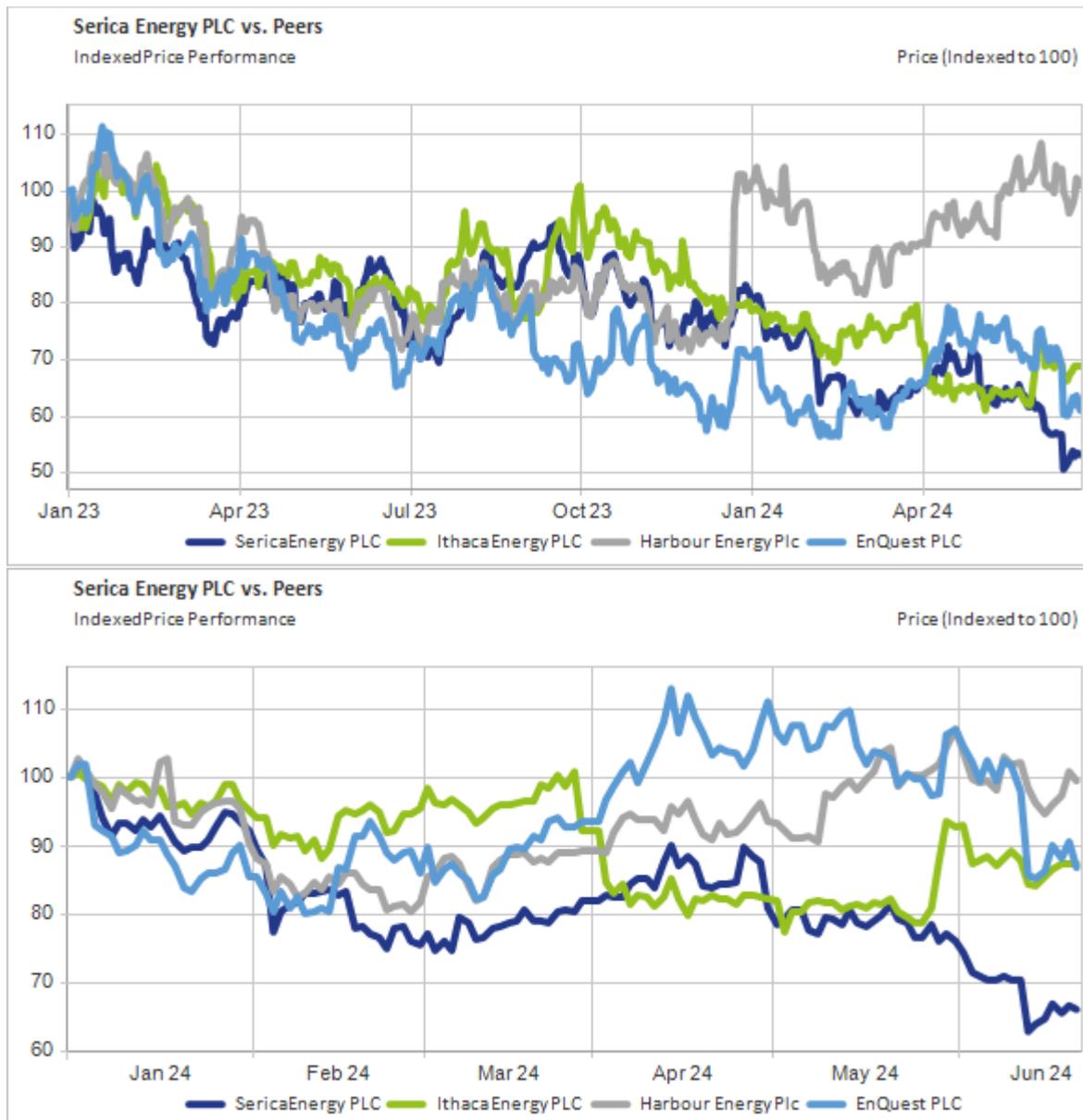
Source: Company

Advantageous position compared to UK North Sea peers

As one of the largest independent operators in the UK North Sea, Serica has only a few publicly listed direct peers: Ithaca Energy, Harbour Energy and EnQuest.

While the share price of Serica has underperformed its direct peers over the last two years, we believe that this is unmerited as Serica has important advantages including (1) better balance sheet, (2) lower decommissioning liabilities, (3) almost 100% interest in nearly all its assets (which simplifies operations) and (4) lower carbon intensity.

Figure 7. Serica, Ithaca, Harbour and EnQuest share price performance



Source: FactSet financial data and analytics

Balance sheet

At YE23, Serica held £263 mm in cash and £213 mm in debt for £50 mm net cash (~US\$62 mm) purely based on cash and debt. In addition, Serica was returned £28 mm of DSA just post year end, leading to an adjusted net debt of ~US\$98 mm. The company also has a US\$525 million Reserve Based Lending (RBL) facility and, in part because their low decommissioning obligations means that they are not constrained by having to post material security in respect of Decommissioning Security Agreements (DSAs), this means that the company has very good liquidity and the firepower to enable growth through M&A on a basis that will not require the issuance of any shares and should therefore be able to be strongly accretive for shareholders.

This compares with net debt of US\$481 mm for EnQuest, US\$200 mm for Harbour and US\$595 mm for Ithaca. The net debt at Ithaca and Harbour are underestimating the reality given the acquisitions these companies are in the process of making. Harbour will also be taking on Wintershall Dea's debt for instance.

Figure 8. Net debt (cash and debt at YE23 only) – Serica and UK North Sea peers

Company	EnQuest	Harbour	Ithaca	Serica
Net debt at YE23 (cash and debt only) - US\$m	481	200	595	-62

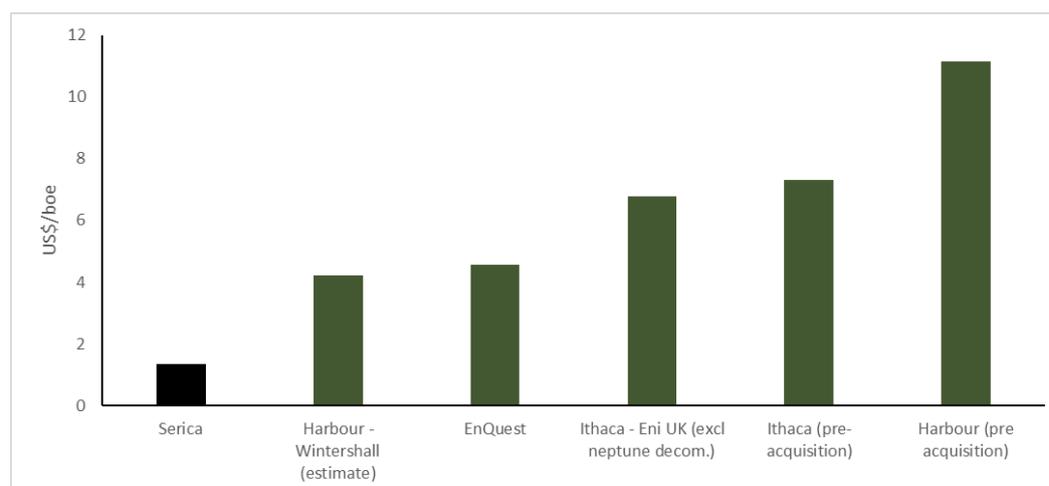
Source: Company YE23 accounts

Decommissioning liabilities

Serica's portfolio has been constructed principally through a series of acquisitions. Serica's transactions to date have been structured so that the retained decommissioning liabilities are minimised. As a result, Serica's decommissioning liabilities are very low. Overall, Serica's decommissioning liabilities are below US\$2/boe of 2P reserves. This compares with our estimates of >US\$4/boe for Harbour (on a proforma basis including US\$2.2 bn of asset retirement provision from the recent acquisition) and ~US\$4.5/boe for EnQuest.

The decommissioning liabilities of Ithaca are more difficult to estimate. As a standalone entity, Ithaca's decommissioning liabilities were ~US\$7.3/boe at YE23. The company announced in 2024 the acquisition of ENI UK that held ~US\$580 mm of decommissioning liabilities at YE22, excluding the assets that ENI had acquired through the acquisition of Neptune Energy in 2023. Neptune's decommissioning provision at YE23 (which excluded Norway and Germany but included other assets not being acquired by Ithaca) was ~US\$787 mm. Overall, and only based on ENI UK liabilities at YE22 (i.e. excluding Neptune), the proforma decommissioning liabilities of Ithaca-ENI UK would be ~US\$2.4 bn, resulting in ~US\$6.8/boe of pro proforma 2P reserves.

Figure 9. Decommissioning liabilities / 2P reserves - UK North Sea peers



Company	2P reserves mmboe	Discounted pre-tax decommissioning liability US\$ mm	Pre-tax decom/2P US\$/boe
Serica	140	189	1.35
Harbour - Wintershall (estimate)	1,479	6,221	4.21
EnQuest	175	801	4.58
Ithaca - Eni UK (excl neptune decor)	354	2,400	6.78
Ithaca (pre-acquisition)	254	1,860	7.32
Harbour (pre acquisition)	361	4,021	11.14

Source: Disclosures by companies

Very high WI in all its assets

Serica has almost 100% WI in nearly all its assets. At the Bruce hub, Serica holds 98% of the Bruce field, 100% of Keith and 50% of Rhum. At the Triton hub, Serica holds 100% in four of its six assets. Serica then holds 18% of Erskine, 50% of Orlando and 75% of Columbus. In the context of a high cost and mature offshore basin, this simple ownership structure is important as it allows Serica to make decisions according to its balance sheet and its strategy rather than having to take into consideration the individual situations of multiple partners. There are often significant commercial complexities that impact many JVs across the UKCS today. This is especially important in mid to late life assets. To a large extent, this does not apply to Serica.

By comparison, Ithaca only holds 100% at Stella and Cambo. The company has interests in 21 fields (37 on completion of the merger with ENI UK).

EnQuest holds 100% of Magnus, 70.5% of Kraken and much smaller interests in Golden Eagle, the Greater Kittiwake Area, Alba and Scolty/Crathes.

Harbour holds 93.75% in Brodgar, 83.5% in Callanish, 100% in Armada, 100% in Everest, 100% in Lomond and 100% in Solan. The company has interests in almost 30 fields in the UK.

Carbon intensity

The decarbonisation strategy of Serica is to reduce CO₂ emissions in line with the UK North Sea Transition Deal which is a 50% basin wide reduction from 2018 to 2030. The principal and practical steps involve reducing energy consumed from fuelling gas compression, reducing flaring and progressively electrifying parts of its infrastructure. Methane emissions at Bruce have already been reduced by 60% since 2019 and 33% since 2022. The amount of flared gas has been reduced by over 50%.

While the comparison with peers is not straightforward given the sometimes different reporting metrics and calculation methodologies (CO₂ emissions are calculated on operated assets), Serica’s Scope 1 carbon intensity at Bruce (Serica’s main operated infrastructure) was only 16.4 kg CO₂/boe in 2023. This compares with 23 kg CO₂/boe for Harbour, 25 kg CO₂/boe for Ithaca and 44.7 kg CO₂/boe for EnQuest. The numbers for Harbour and EnQuest are for Scope 1 and 2 but Serica’s Scope 2 emissions are negligible.

Figure 10. Carbon intensity (operated assets only)

Company	EnQuest	Harbour	Ithaca	Serica	UK average (2022)
Carbon intensity (kgCO ₂ /boe)	44.70	23.00	25.00	16.40	19.80
Comments	Scope 1&2	Scope 1	Scope 1&2	Scope 1 only - Bruce	

Source: Companies

Valuation and financials

Financials

At the end of 2023, Serica held US\$98 mm in net cash (including £28 mm of DSA returned in early 2024). In January 2024, Serica refinanced its debt with a new US\$525 mm Reserve Based Lending (RBL) facility. The facility has a maturity date of YE29 and carries an interest rate of SOFR plus a margin of 3.9% per annum (total of almost 9.5% at current SOFR). The facility agreement also has an uncommitted accordion feature which provides the option for an additional financing of up to US\$525 mm, amounting to total facilities of up to US\$1,050 mm. Because of the low decommissioning obligations, Serica does not have to post material security in respect of Decommissioning Security Agreements (DSAs). This gives a lot of firepower for acquisition.

We forecast that the company will produce ~43.7 mboe/d in 2024, generating ~US\$435 mm of operating cash flow (net of cash tax and financing costs) with ~US\$270 mm of capex plus decommissioning (but excluding capex for the development of Buchan Horst). With >US\$160 mm of free cash flow, the company can fund dividends equivalent to the 2023 level of £0.23 per share plus a £15 mm of share buyback. This assumes 2024 commodity prices of US\$85.5/bbl for Brent and GBp81/th for NBP gas.

Given the uncertainty of the fiscal terms in the UK North Sea with the upcoming general election, we have decided to take a cautious view on tax. The UK fiscal regime for upstream oil and gas is separate from the main corporation tax regime which applies across the rest of the economy and consists of three taxes: ring fence corporate tax (RFCT - 30%), supplementary charge (SCT - 10%) and energy profits levy (EPL - currently 35%). Losses can be carried forward for each of these taxes, albeit that losses created prior to the May 2022 introduction of the EPL cannot be carried forward against the EPL. In addition, there are extra uplift allowances for capex that reduce further the taxable profit base for each tax. At YE23, Serica had losses of ~£920 mm for RFCT purposes, ~£780 mm for SCT and £120 mm for EPL. The aggregate tax loss value of these losses was £395 mm at YE23. Because of the entities in which these losses are held, the existing losses cannot be used on Bruce, Keith and Rhum, but the Buchan farm-in was undertaken in the entity that owns Bruce Keith Rhum as this will be the most tax efficient approach to its development if the fiscal conditions permit.

Our central scenario assumes that, from 01 January 2025, all the existing uplift on capex relief (the investment allowances) will be eliminated (62.5% of SCT and 29% for EPL) but 100% capex depreciation will be retained. We are also increasing the EPL rate from 35% to 38% which is in line with the Labour Party manifesto. With capex of ~US\$220 mm in 2025, with the potential for this to be increased to ~US\$275 mm in 2026 with the drilling of two as yet unsanctioned infill wells at Bruce, our forecast net cash increases to ~US\$330 mm at YE26. This excludes Buchan Horst that would increase capex but also production. With minimal capex in 2027 and 2028, we forecast net cash of >US\$550 mm at YE27. During the period from 2025-2027, we assume that the company continues to

pay annual dividends of £0.23 per share, representing over ~US\$465 mm of aggregate dividend distribution over 2024-2027. Under this scenario, the total net cash at YE27 plus dividend distributions over 2024-2027 would be >US\$1 bn; which is considerably more than the company's current market cap. Maintaining the current level of dividend would suggest a dividend yield of ~15%, one of the highest levels in the sector, which suggests that the stock has been unduly marked down.

We assume relatively modest commodity prices of US\$70/bbl and GBp90/th from 4Q25 with no escalation. This is in line with our assumptions across our research coverage universe.

Valuation

In addition to the above assumptions for tax, we have kept the sunset date for the EPL in 2029 as this is also expressly stated in the Labour manifesto.

Our Core NAV of £2.57 per share therefore already builds in our view of the most likely Labour tax regime and includes the NPV10 (starting in 2025) for each of the company's assets with 2P reserves. We have allocated tax losses to each asset consistent with our understanding of the practicalities of the relevant corporate structure to maximize their use. We add our YE24 forecast net cash and the expected dividend of 2024 and we deduct G&A as a perpetuity (based on 2024) with 65% tax shield given the very high tax in the UK North Sea.

We carry ~9% per year natural decline at Bruce and Triton. We have assumed that net opex at the Bruce and Triton hubs are broadly fixed at respectively ~US\$160 mm per year and ~US\$110 mm per year with decommissioning from mid 2030's. Decommissioning costs at Triton and Bruce are respectively ~£53 mm and ~£20 mm. In addition, Serica would have to pay the previous owners of Triton a total of £64 mm.

The market cap of Serica is currently around ~US\$800 mm. Netting off net cash (leaving ~US\$700 mm valuation for the oil and gas asset), we find that the current share price discounts a cost of equity of 25-30% for the company's 2P reserves.

Our ReNAV of £2.88 per share incorporates the risk value of less certain projects. The decision to develop Buchan Horst or Kyle and to drill further infill wells at Bruce (beyond the wells already included into the 2P reserve category) will depend on there being supportive fiscal terms. We currently carry 60% chance of development for Buchan Horst (FID ready), and 50% for the additional Bruce wells and Kyle (not FID ready yet). Our NPV10% for Buchan Horst assumes gross capex of £900 mm (Serica paying share: 37.5%) with production start-up in early 2027 with a gross production rate of 35 mbb/d (Serica WI share: 30%).

We carry 45% chance of success at the shallower target of Skerryvore (plus 50% chance of being drilled) and 22.5% for the deeper target (also with a further 50% risk of being

developed depending on fiscal terms). We have not attributed any value to Mansell given our understanding of the uncertainties regarding exit route.

Our unrisks NAV is £3.44 per share.

Figure 11. NAV Table

Asset Valuation	2P/2C/P50 (mmboe)	CoS (%)	Unrisks (US\$ mm)	EMV (US\$ mm)	Risks £/Share	Unrisks £/Share	% Total
Net Cash (YE24)			123	123	0.24	0.24	8%
Dividend 2024			116	116	0.22	0.22	8%
G&A			-90	-90	-0.17	-0.17	-6%
Bruce Hub 2P (NNS)	84		523	523	1.01	1.01	35%
Triton Hub 2P (CNS)	49		597	597	1.15	1.15	40%
Other assets							
Orlando 2P (NNS)	2		13	13	0.02	0.02	1%
Columbus 2P (CNS)	2		26	26	0.05	0.05	2%
Erskine 2P (CNS)	2		25	25	0.05	0.05	2%
Total Core NAV			1,332	1,332	2.57	2.57	90%
Buchan area (OMF)							
Buchan main 2C	21		67	40	0.08	0.13	3%
J2 2C	4		12	4	0.01	0.02	0%
Verbier 2C	7		23	8	0.02	0.04	1%
Bruce Hub (NNS)							
Bruce field further infill (3 wells)	20		110	55	0.11	0.21	4%
Kyle redevelopment 2C							
Kyle redevelopment 2C	10		51	26	0.05	0.10	2%
Other assets							
Mansell redevelopment 2C	16		82	0	0.00	0.16	0%
Skerryvore Exploration Mey target (Shallow)	10		33	5	0.01	0.06	0%
Skerryvore Exploration Chalk target (Deep)	21		67	18	0.03	0.13	1%
Total Risks Appraisal & Exploration			446	156	0.30	0.86	10%
Total NAV			1778	1488	2.88	3.44	100%
P/Core NAV				59%			
P/NAV				53%			
P/Unrisks NAV				45%			

Source: Auctus Advisors, Company Disclosures

Sensitivity to fiscal regime changes

The UK fiscal regime is the key area of uncertainty for Serica. The fiscal regime has an impact on the value of production but also importantly the position on capital relief will mean that new development projects would only happen under certain conditions.

In the table below, we show the value of Serica's assets under different scenarios.

- "As expected" is our central scenario. The EPL rate is 38% with a sunset date of 2029. There are no capex uplift allowances for SCT, RFCT and EPL but the taxable profit is normally reduced by 100% of capex. Under this scenario, the Buchan Horst development is also sanctioned.
- "Extreme Fiscal Terms" assumes an EPL rate of 38%, no sunset date for the EPL and no tax relief for EPL purpose (i.e. normal capex depreciation would not reduce the taxable profit for EPL purposes). We also assume no capex uplift for RFCT and SCT (i.e. – normal depreciation). Under this scenario, our view is that no new projects would be sanctioned and Serica will cut costs. We assume 10% opex reduction at Bruce and Triton and minimal maintenance capex from late 2026 after the two infill wells at Bruce (in the 2P reserve case) are drilled. With the assumed fiscal regime causing production in the UK to collapse, we assume UK gas price would be 10% higher than otherwise from late 2025. Even under this scenario, we forecast that the net cash of the company at YE27 plus the aggregate dividends distributed over 2024-2027 is greater than the current market cap.
- "No change" is an optimist scenario that reflects the current fiscal regime.
- Counter-intuitively, the "low commodity price" scenario, is in fact the most optimistic one. The EPL has a mechanism (the so-called Energy Security Investment Mechanism (ESIM)) whereby it falls away below certain commodity prices. The Labour manifesto has confirmed that they would maintain the ESIM. Our low commodity scenario assumes GBp57/th for NBP UK gas prices **and** US\$74.21/bbl for Brent (from 2025), which are the current levels at which there is no EPL. We also assume that the SCT uplift allowance (62.5%) remains in place. Under this scenario, Serica can sanction all its identified projects.

Figure 12. Illustrative government take and cashflow assuming US\$200 mm EBITDA and US\$100 mm capex under various scenarios

	Extreme Fiscal Terms	Expected	No change	Low commodity prices
	EPL = 38%, no depreciation under EPL, no capex uplift for CT and SCT	EPL = 38%, no capex uplift for EPL, CT and SCT	EPL = 35%, 29% capex uplift for EPL and 62.5% for SCT	EPL = 0%, 62.5% capex uplift for SCT
Commodity prices (oil/gas mix: 50/50)	Brent = US\$80/bbl, NBP= 80p/th	Brent = US\$80/bbl, NBP= 80p/th	Brent = US\$80/bbl, NBP= 80p/th	Brent = US\$74.21/bbl, NBP= 57p/th
EBITDA (US\$ mm)	200	200	200	164
CT Calculation				
CAPEX (US\$ mm)	-100	-100	-100	-100
Taxable Profit (US\$ mm)	100	100	100	64
CT (US\$ mm)	30	30	30	19
SCT Calculation				
CAPEX (US\$ mm)	-100	-100	-100	-100
Investment uplift (US\$ mm)	0	0	-63	-63
Taxable Profit (US\$ mm)	100	100	38	2
SCT (US\$ mm)	10	10	4	0
EPL Calculation				
CAPEX (US\$ mm)	0	-100	-100	0
Investment uplift (US\$ mm)	0	0	-29	0
Taxable Profit (US\$ mm)	200	100	71	0
EPL (US\$ mm)	76	38	25	0
TOTAL TAX (CT+SCT+EPL) (US\$ mm)	116	78	59	19
AFTER TAX CF (US\$ mm)	84	122	141	145
FREE CASH FLOW (US\$ mm)	-16	22	41	45

Source: Auctus

Figure 13. Fiscal terms and valuation

Asset Valuation	Extreme Fiscal Terms		Expected		No change		Low commodity prices	
	Unrisked (US\$ mm)	Unrisked £/Share	Unrisked (US\$ mm)	Unrisked £/Share	Unrisked (US\$ mm)	Unrisked £/Share	Unrisked (US\$ mm)	Unrisked £/Share
Financials	149	0.29	149	0.29	149	0.29	149	0.29
Bruce Hub 2P (NNS)	296	0.57	523	1.01	589	1.14	393	0.76
Triton Hub 2P (CNS)	433	0.84	597	1.15	673	1.30	945	1.83
Other assets	66	0.13	64	0.12	69	0.13	87	0.17
Total Core NAV	943	1.82	1,332	2.58	1,479	2.86	1,574	3.04
Buchan area (OMF)	0	0.00	102	0.20	180	0.35	243	0.47
Bruce field further infill (3 wells)	0	0.00	110	0.21	124	0.24	83	0.16
Kyle redevelopment 2C	0	0.00	51	0.10	58	0.11	39	0.07
Skerryvore (risked value)	0	0.00	23	0.04	40	0.08	54	0.17
Total Risked Appraisal & Exploration	0	0.00	286	0.55	402	0.78	419	0.88
Total NAV	943	1.82	1618	3.13	1881	3.64	1993	3.92

Source: Auctus Advisors, Company Disclosures

The Bruce hub

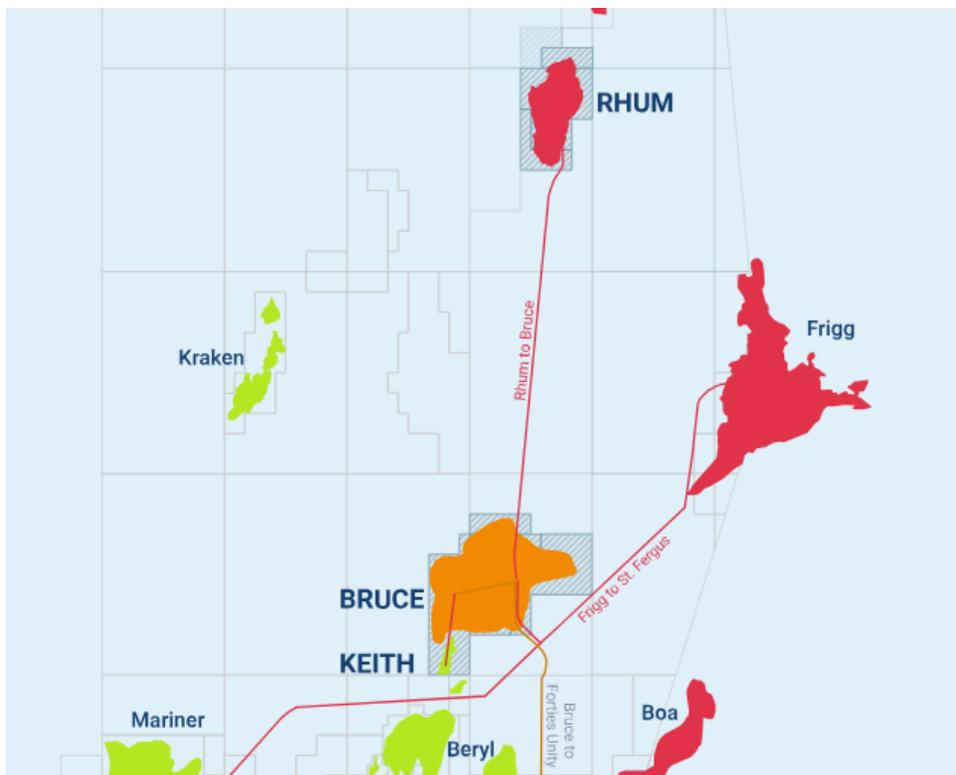
The Bruce hub is the key legacy group of assets of Serica. These predominantly gas and condensate assets were acquired through a series of smart acquisitions from bp, BHP, TotalEnergies and Marubeni.

Serica is owner and operator of the Bruce (WI 98%), Keith (100%) and Rhum (50%) assets, consisting of over 25 wells, three bridge-linked platforms and extensive subsea pipelines and infrastructure that tie-in Rhum, Keith and the Western Area of Bruce to the Bruce facilities.

Asset	Serica WI	Partners
Bruce field	98%	bp, TotalEnergies
Keith	100%	
Rhum	50%	IOC (UK) Limited

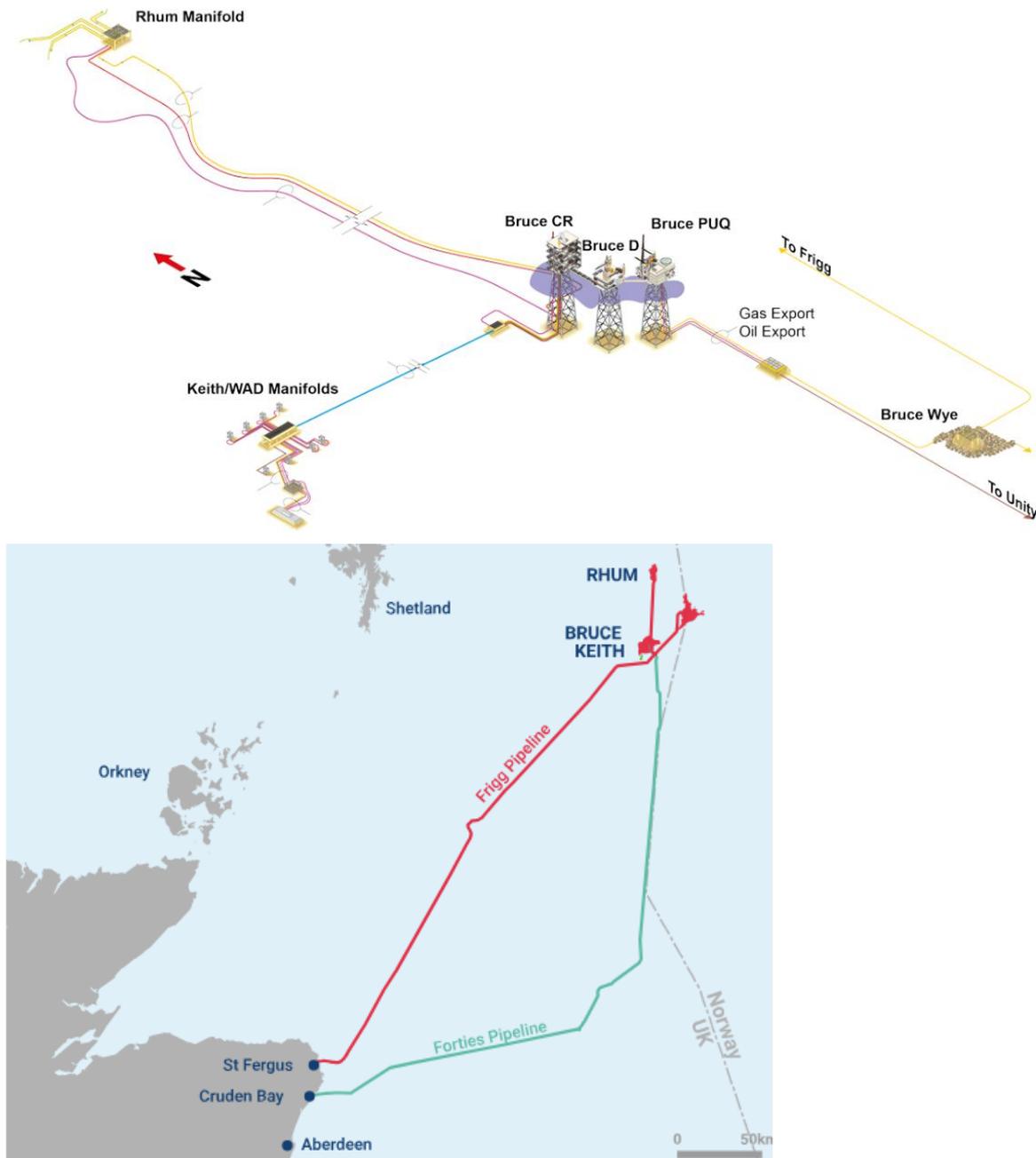
The Bruce complex is located 340 km to the northeast of Aberdeen in the UK Sector of the Northern North Sea. The platform has a maximum capacity of 440 mmcf/d and 70 mbbbl/d of oil. The gas is exported through the Frigg pipeline to the St Fergus terminal, where it is separated into sales gas and NGLs. Oil is exported through the Forties Pipeline System to Grangemouth.

Figure 14. The Bruce Area



Source: Company

Figure 15. Bruce, Keith ad Rhum infrastructure



Source: Company

Major works were undertaken on the Bruce platform during an extended summer outage in 2023. The extensive maintenance campaigns focused on improving integrity and reliability to help underpin the plans to extend Bruce production to 2035 and beyond. As a result of this long maintenance period, the Bruce complex is expected to be shut down for only a week during the summer of 2024 (versus a typical shutdown period of ~ 6

weeks) with this short shutdown necessitated by the maintenance shutdown of the Forties pipeline which is oil export route for Bruce.

The Bruce Keith & Rhum Area represents the single largest contributor to net 2P reserves that were estimated at 84 mmboe at YE23 with FY23 net production of ~20 mboe/d.

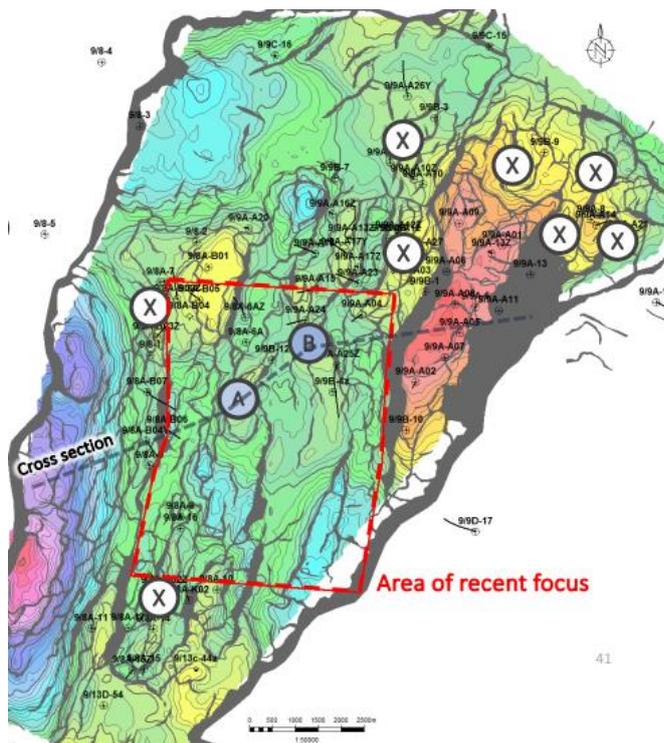
The Bruce field

The Bruce field was discovered in 1974 and started production in 1993. The field produced ~6.5 mboe/d net to Serica in 2023. The net 2P reserves for the field were estimated at 41.7 mmboe at YE23.

While the near term activities will consist in (1) a light well intervention vessel (LWIV) campaign in April and May to workover wells and bring online incremental production; and (2) additional well interventions in 2H24 (total of 8 wells in 2024), more important investments are planned in 2026 to 2027 with the drilling of two new infill wells (total cost of ~£200 mm including subsea infrastructure) targeting the South Central and West areas that have not been drained yet. This could add ~40 mmcf/d production. The booking of the 2P reserves associated with these two wells was the main driver of the 13.5 mmbbl 2P reserves addition at the field in 2023 (before netting off the FY23 production).

Serica has identified three further potentially undrained areas of the field with net contingent resources indicatively estimated to be in the region of ~20 mmboe. Sanctioning the drilling of these wells will depend on the results of the first two wells and the details of the new fiscal regime in the UK.

Figure 16. Bruce structure map and opportunities



Source: Company – A&B: initial infill wells included in 2P reserves, X: additional infill wells with contingent resources

Keith

Keith is an oil field produced by one subsea well tied back to the Bruce facilities. The well has been shut-in since 2022 due to a fault in the electrical supply. During 2023 the Keith subsea control module was changed out to allow the LWIV intervention which has now been successfully completed and production will be restored in July 2024. This could add ~400-500 boe/d production to Serica.

The net 2P reserves were estimated at 3.2 mmboe at YE23. These reserves are based upon the 2023 activities and planned programme in 2Q24.

Rhum

The Rhum field is a HP/HT gas condensate field producing from three subsea wells tied into the Bruce facilities through a 44 km pipeline. The field was discovered in 1977 but started production only in 2005. Rhum production is separated into gas and oil and exported to St Fergus and Grangemouth along with Bruce and Keith production. Rhum gas has a higher CO₂ content than Bruce gas and so is blended with Bruce gas before leaving the offshore facilities. Rhum is a strategic UK gas asset with significant upside potential. The Rhum field produces almost 5% of the total UK gas production.

FY23 average production was ~12,490 boe/d net to Serica. The field is estimated to hold 39.2 mmboe 2P reserves net to Serica at YE23.

The Triton hub

The Triton hub is the key area for investment and near-term growth in 2024/25 with an exciting ongoing programme of multiple development wells and the development of a new field (Belinda) recently sanctioned. Serica's interest in this area came from its acquisition of Tailwind Energy. This area is mostly oil rather than gas.

The Triton Area consists of eight producing oil fields developed via common infrastructure in the UK Central North Sea, located approximately 190 km east of Aberdeen in water depths of approximately 90 m.

Serica has working interests in five of the producing fields, as well as the Belinda field (production due to commence in 2026) and the Kyle Redevelopment opportunity.

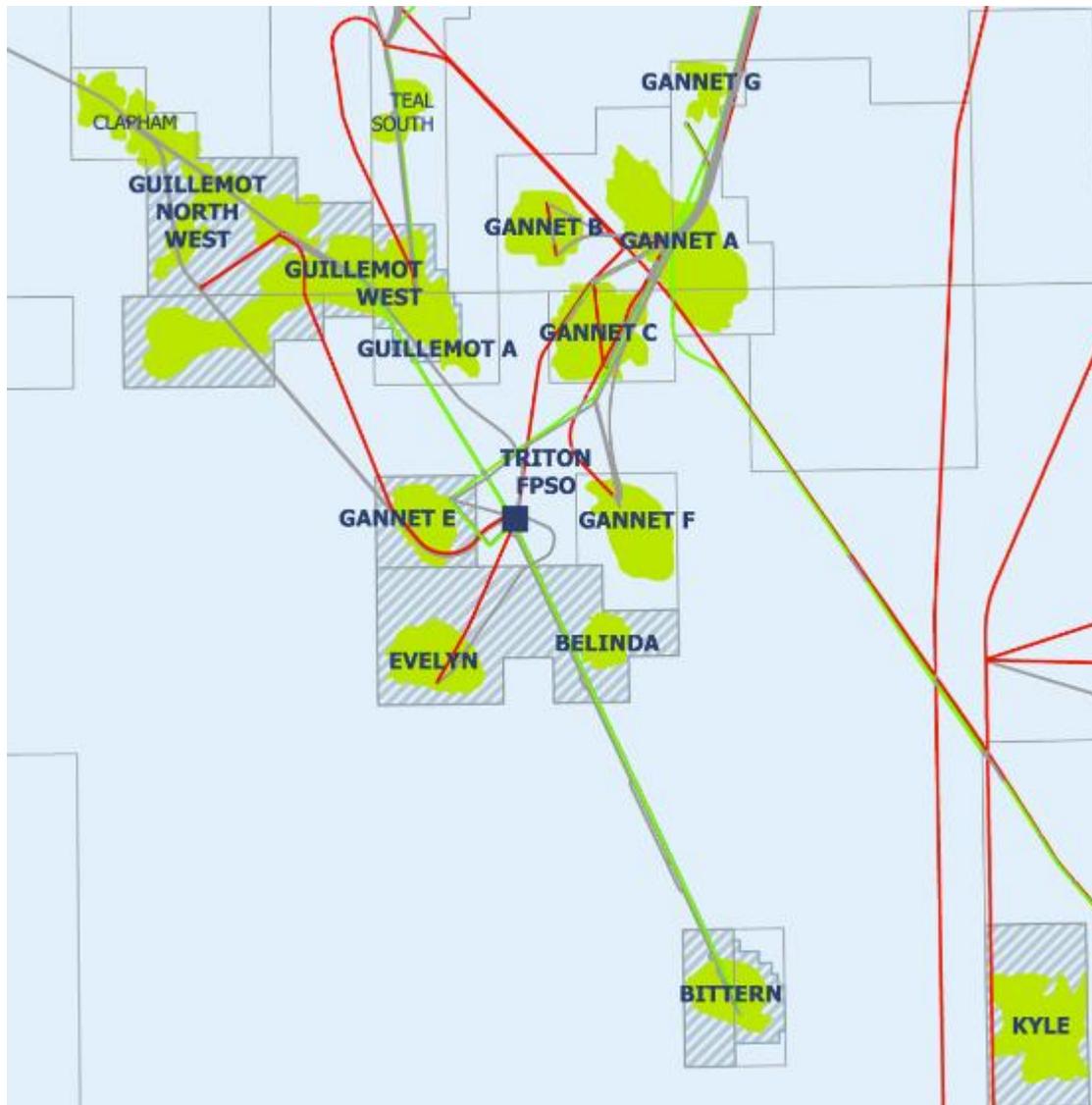
Asset	Serica WI	Partners
Bittern Field	64.43%	Dana Petroleum (op) 32.95%, Waldorf 2.42%
Gannet E Field	100% (op)	
Guillemot West and North West Fields	10%	Dana Petroleum (op) 90%
Evelyn Field	100% (op)	
Belinda Field	100% (op)	
Kyle Redevelopment	100% (op)	

The Triton FPSO is the infrastructure and export hub for the Triton Area Fields. The vessel was a new-build, double hull tanker that was fabricated in 1997 and installed in 2000. The FPSO is operated by Dana Petroleum (52% interest). Serica has a 46% interest, with the balance being held by Waldorf.

From the date of completion of the Tailwind acquisition on 23 March to 31 December 2023, Serica's average net share of the Triton Area production was 13,120 boe/d.

At YE23, the Triton Area contained 49.2 mmboe of 2P reserves, net to Serica

Figure 17. Triton Area Fields



Source: Company

Bittern

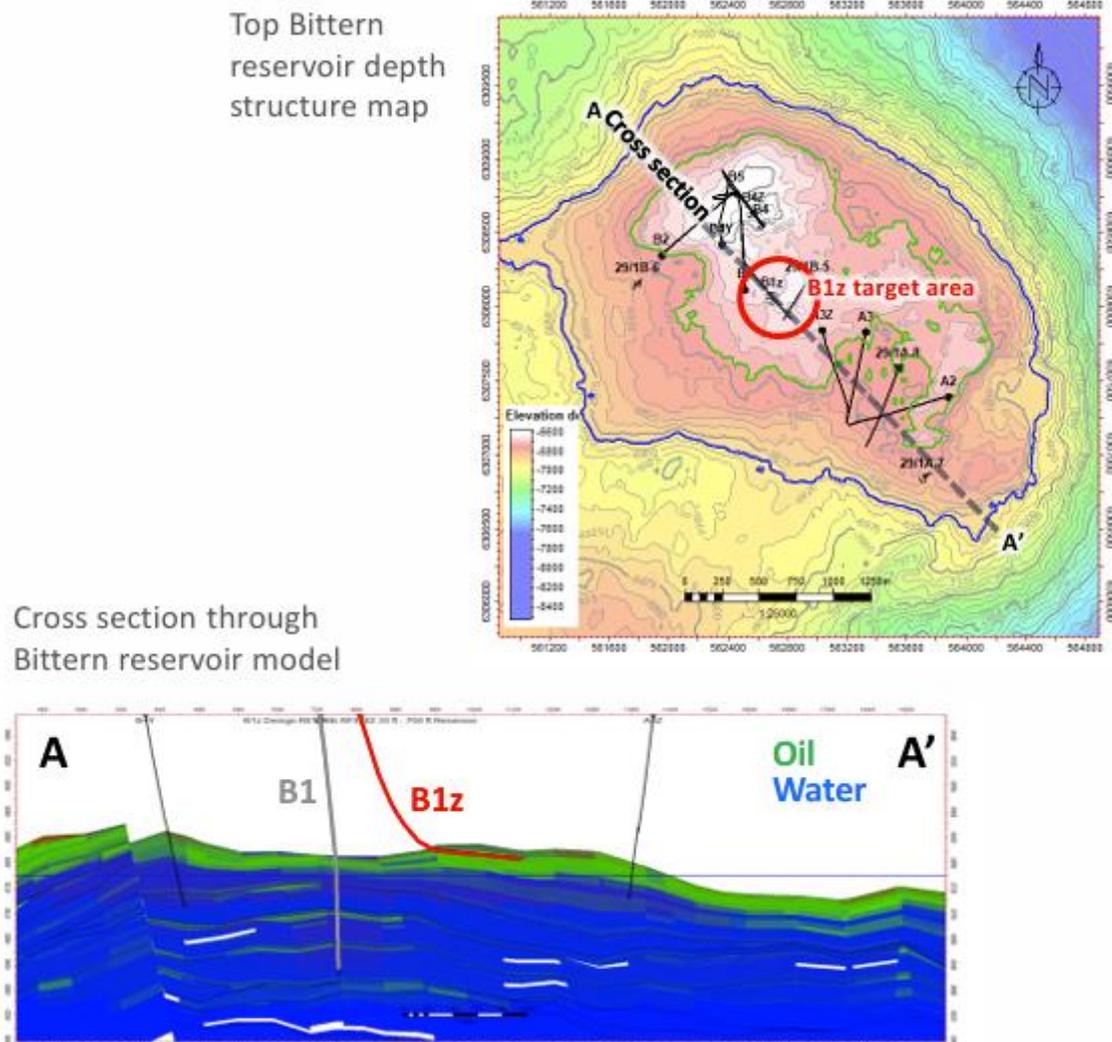
The Bittern Field is located 22 km south-east of the Triton FPSO. The field was discovered in 1996 and has been developed through five production wells and two water injection wells via a subsea tie-back to the FPSO. First production was in April 2000.

A number of well interventions and a sidetrack of the B2 well were successfully executed between 2019 and 2022.

Operations to sidetrack the B1 well commenced in April 2024 and are expected to conclude in 3Q24. The sidetrack is targeting residual crestal oil by drilling a horizontal

sidetrack from the B1 well which ceased production in 2019 due to high water cut. Operations are also ongoing to invest in and improve the Bittern water injection capacity.

Figure 18: B1z sidetrack (AKA B6)



Source: Company

During 2023, production from Bittern averaged ~ 4,000 boe/d net to Serica.

Gannet E

The Gannet E Field, discovered in 1982, is situated 2.5 km west of the FPSO. The field was developed via three production wells and initially tied back to the Gannet Alpha platform, with first production in 1998.

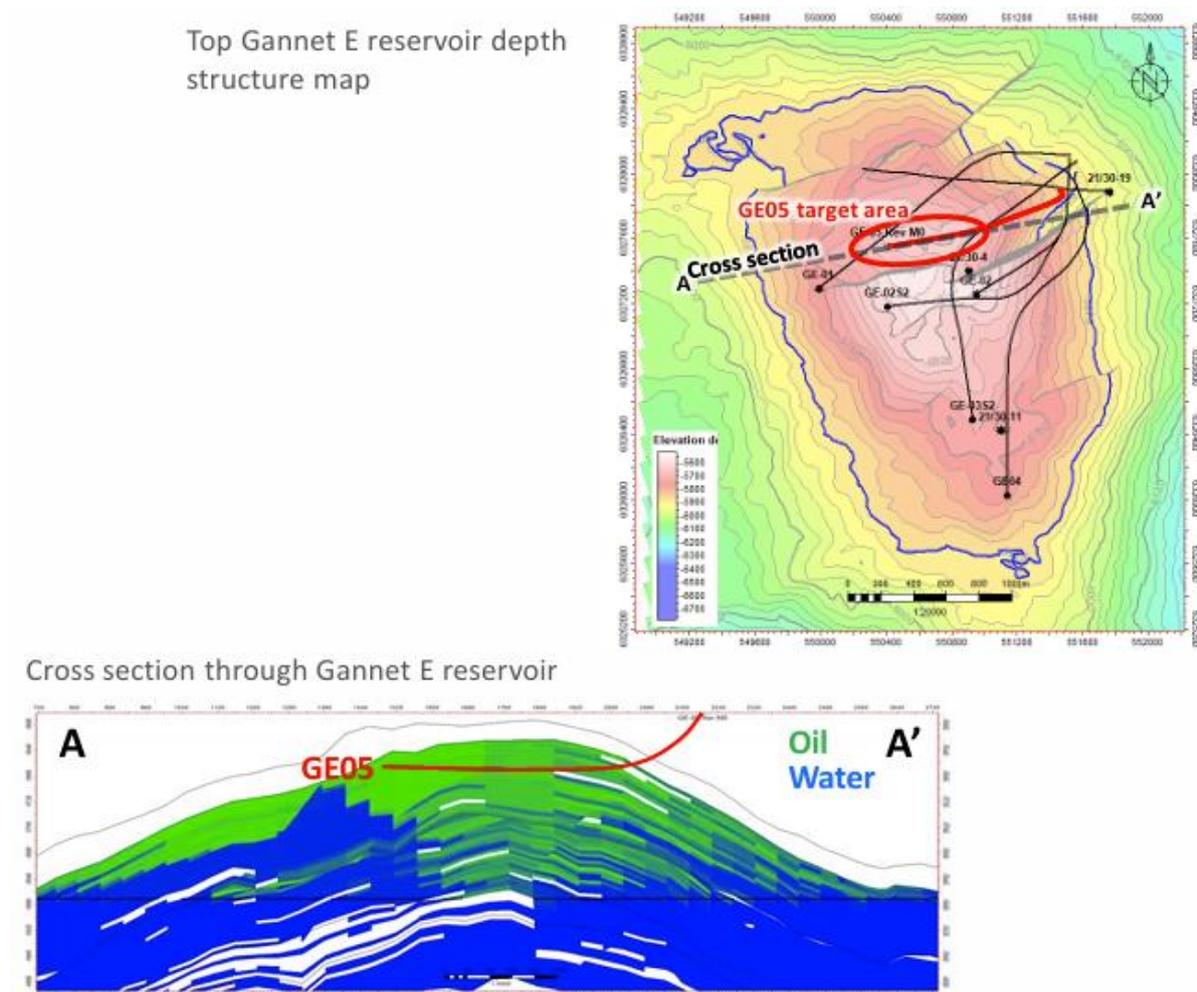
The field was shut-in between 2011 and 2018 due to a pipeline leak. The redevelopment of the field, comprising the replacement of the installed subsea facilities with a new

tieback to the FPSO, including a new pipeline, gaslift line and umbilical, was completed in 2018 and the three production wells were brought back online in 4Q18.

Subsequently, a fourth production well was drilled in 2022 and brought on stream in February 2023, with initial oil rates exceeding 10,000 boe/d.

A fifth Gannet E well has been sanctioned and will be drilled in 2024. This well, GE05, is a new well from surface with a short tie-in. The well is targeting cretal volumes that are not being accessed by the existing wells.

Figure 19: GE05 infill well



Source: Company

Production during 2023 from Gannet E averaged 6,100 boe/d net to Serica.

Guillemot West and North West

The Guillemot West and North West Fields were discovered in 1983 and 1985 respectively and are located approximately 10 km NW of the FPSO. The fields were developed in conjunction with the Bittern Field with production commencing in April 2000.

A total of 11 horizontal wells have been drilled across the two fields (6 at Guillemot West and 5 at Guillemot North West). An infill well is planned on the Guillemot North West Field in 2024.

Net production from the two fields averaged 250 boe/d in 2023.

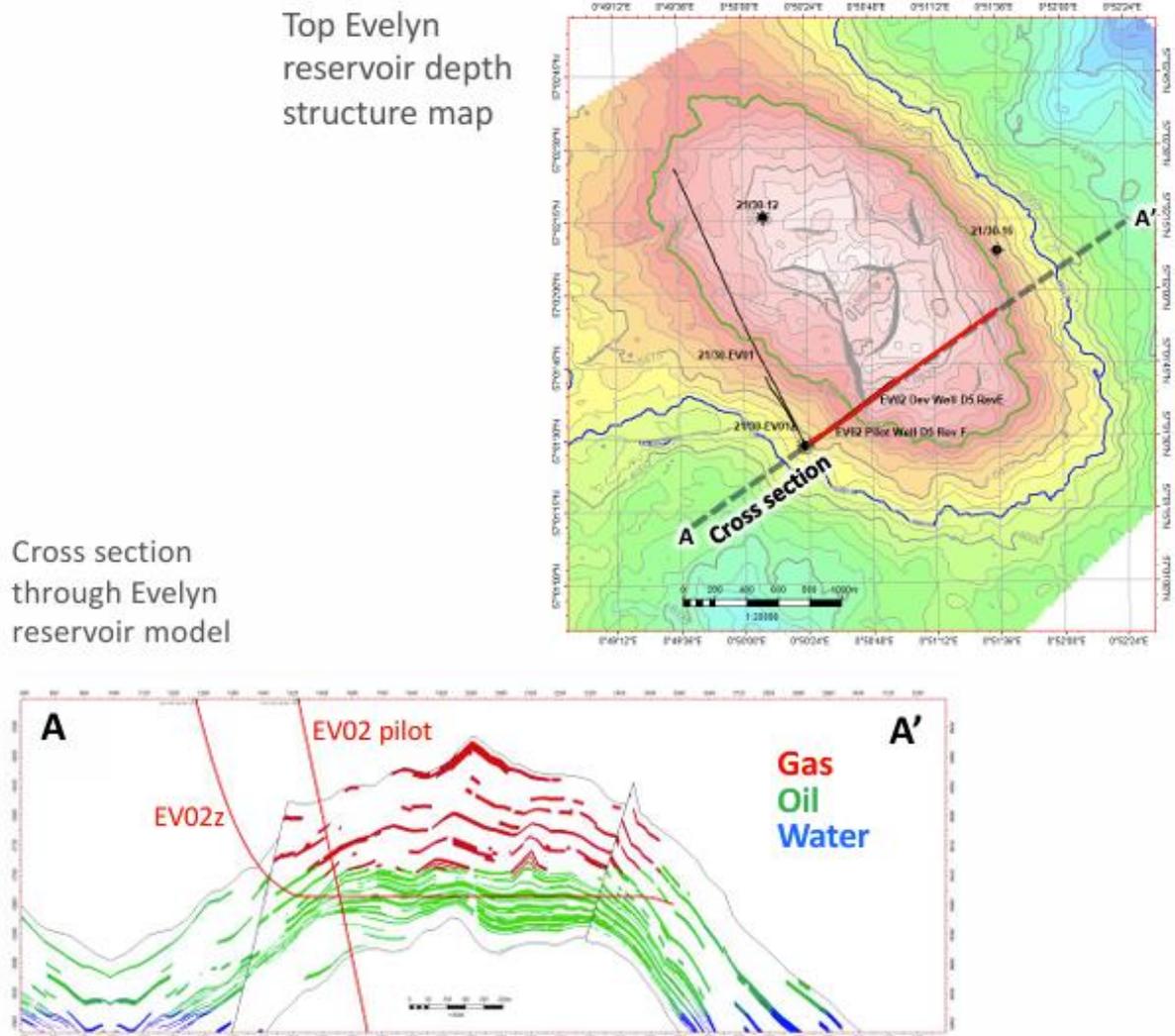
Evelyn

Evelyn was originally discovered in 1984 and is located around 7 km SW of the FPSO. A Field Development Plan was submitted in 2020 and was approved by the NSTA in early 2021.

In 2021, one horizontal development well (EV-01z) was drilled and was tied back to the FPSO during summer 2022. Production commenced in September 2022.

Due to the strong performance of the EV-01z well, a second well, EV-02, is planned to be drilled in the south of the field in late 2024 before tie-in in early 2025. The well, EV-02z, will be drilled from a new surface location with a short subsea tie-in following the drilling of a pilot hole to optimize positioning of the production well.

Figure 20: EV02 well



Source: Company

During 2023, production averaged 3,800 boe/d (Serica 100%).

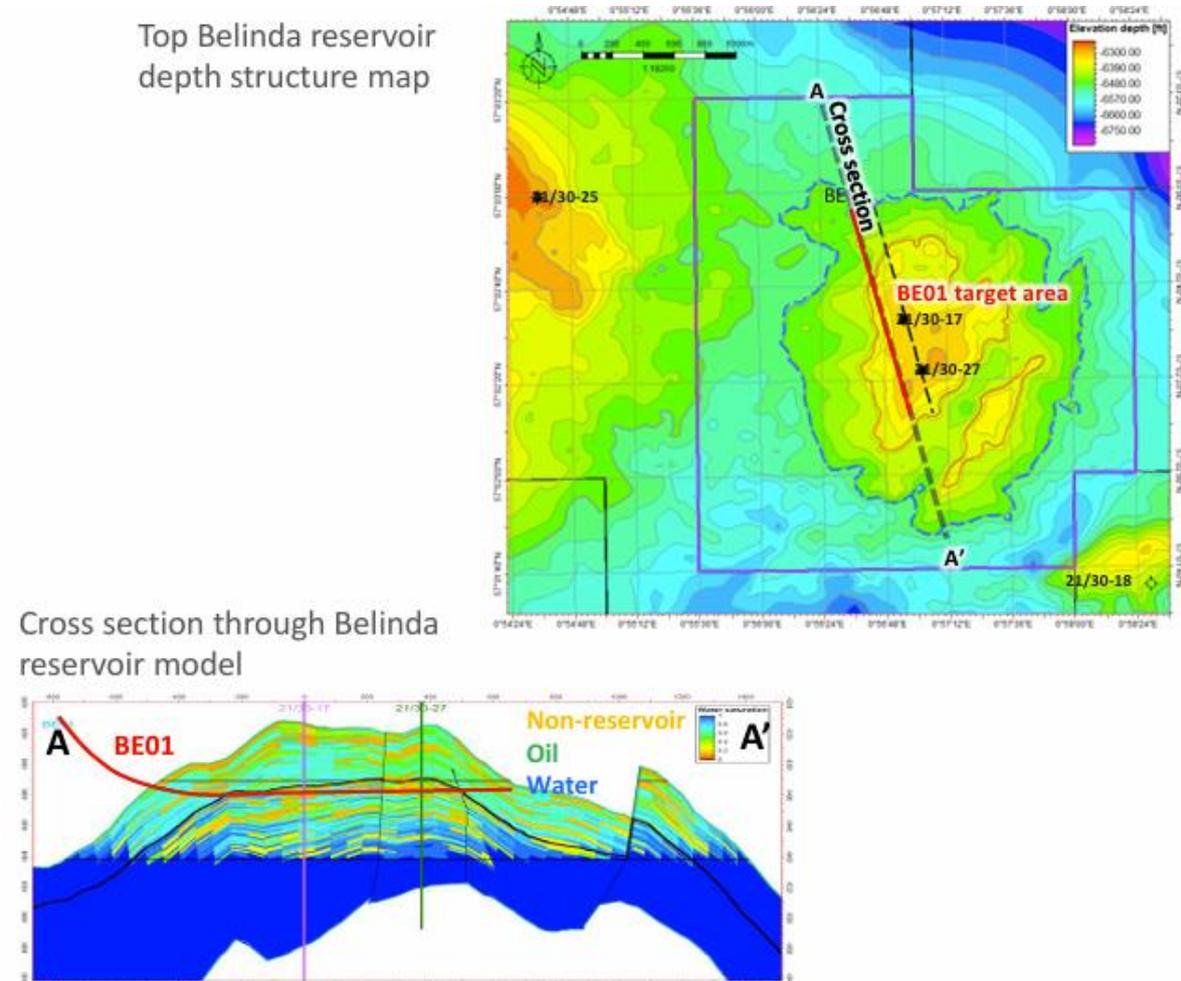
Belinda

The Belinda field is approximately 6 km SE of the FPSO. The field was discovered in 1990 and appraised in 2016.

In April 2024 Serica took FID on the Belinda development and the FDP was approved by the NSTA in May 2024 the final such approval prior to the calling of the UK General Election. Serica proposes to use the COSLInnovator semi-submersible drilling rig to drill the Belinda development well during 1H25 as part of the current ongoing Triton Area drilling campaign.

Production from Evelyn has de-risked the Belinda development and the new horizontal well, BE01, will target the best reservoir section identified by the existing wells on the field.

Figure 21: BE01 well



Source: Company

Kyle Redevelopment

Kyle is a previously producing oilfield, located 20 km southeast of the Triton FPSO, which has been shut-in since 2020 due to the decommissioning of the Banff FPSO host facility.

It presents a potential redevelopment opportunity with a single horizontal well tied-back to the Triton FPSO via Bittern, similar to other Triton tie-backs.

The licence was awarded in the 33rd round and Serica has no decommissioning liabilities arising from the previous field development. Technical work is in progress. The field is estimated to hold ~10 mmboc 2C contingent resources net to Serica.

Triton FPSO

During 2023, the FPSO operator, Dana Petroleum, carried out an extended shutdown on Triton during which time critical maintenance works integral to the life extension of the FPSO up to and beyond 2030, as well as repairs and upgrades, were carried out.

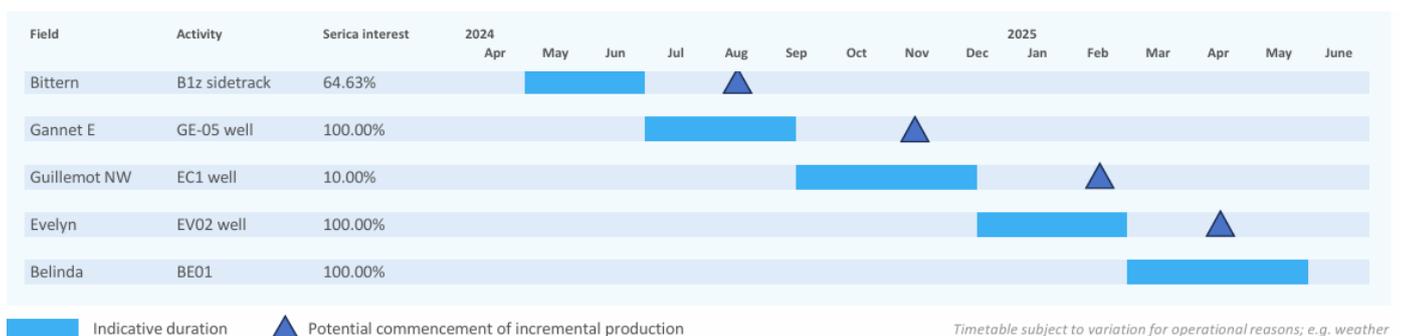
2024/2025 Triton Fields Activity

A planned four well programme on the current producing fields is already underway.

The programme comprises the Bittern B1z sidetrack, which commenced in April 2024, and will be followed by the Gannet E fifth development well, an infill well on Guillemot North West and a second production well at Evelyn.

Following this, the Belinda development well is expected to be drilling in early 2025.

Figure 22. Triton Area 2024/25 Drilling



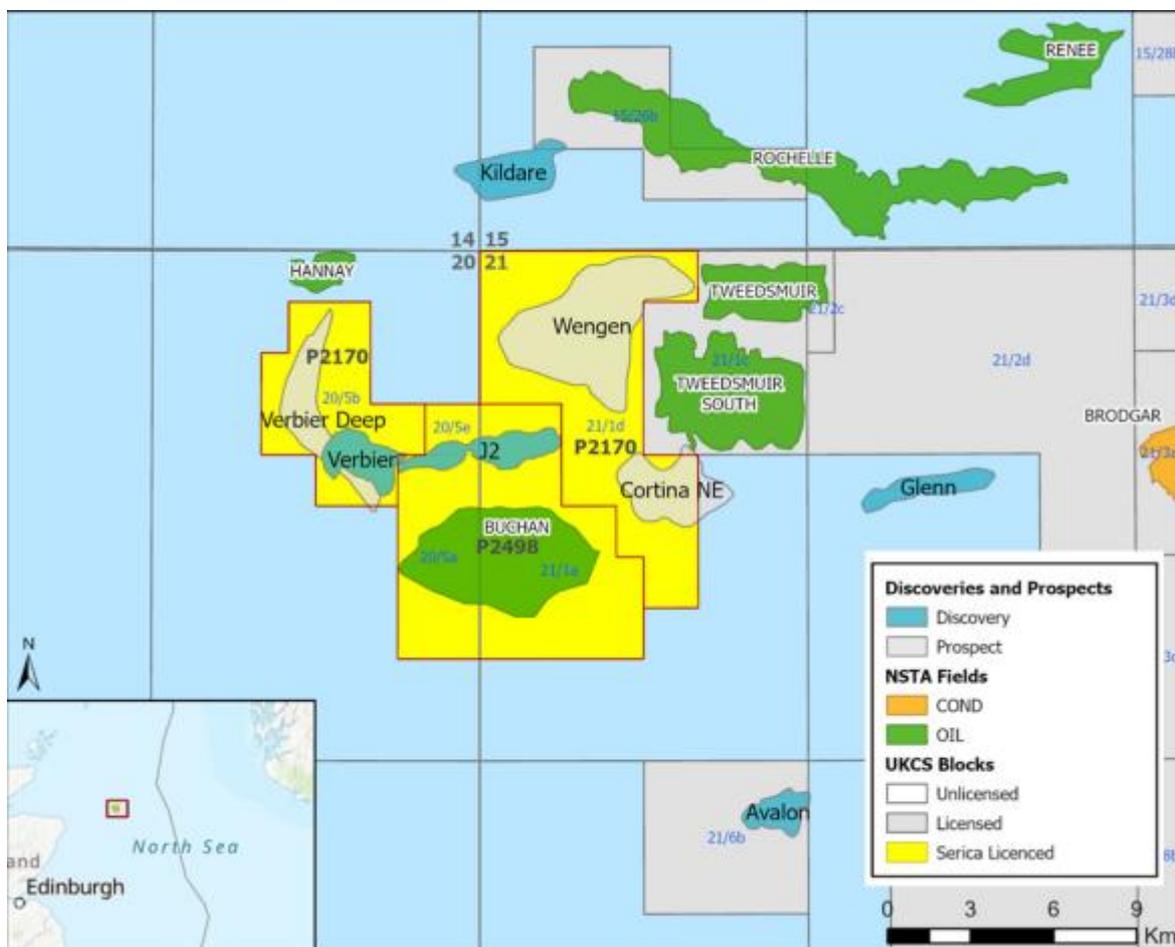
Source: Company

The Greater Buchan Area

This is a key growth project for Serica. Serica acquired 30% WI in the Greater Buchan Area (GBA) from Jersey Oil and Gas (20% WI residual interest) with NEO Energy as operator (50% WI). The GBA encompasses several oil and gas accumulations in the Outer Moray Firth area 150 km north east of Aberdeen.

The largest of these accumulations is the Buchan Horst field which produced for over thirty years, ceasing production in 2017 owing to the end of the useable life of the floating production facility.

Figure 23. The Greater Buchan Area



Source: Company

The FDP submitted to the NSTA for the development of the area assumes a new production hub located at the Buchan Horst field utilising the FPSO vessel currently operating on the UK Western Isles fields. This is planned to come off station in the second half of 2024. The combination of reusing an existing FPSO combined with the works to be undertaken to ensure that the vessel is electrification ready, should lead to a very low carbon intensity of only ~10 kg CO₂/bbl (5.8 kg CO₂/bbl according to Jersey).

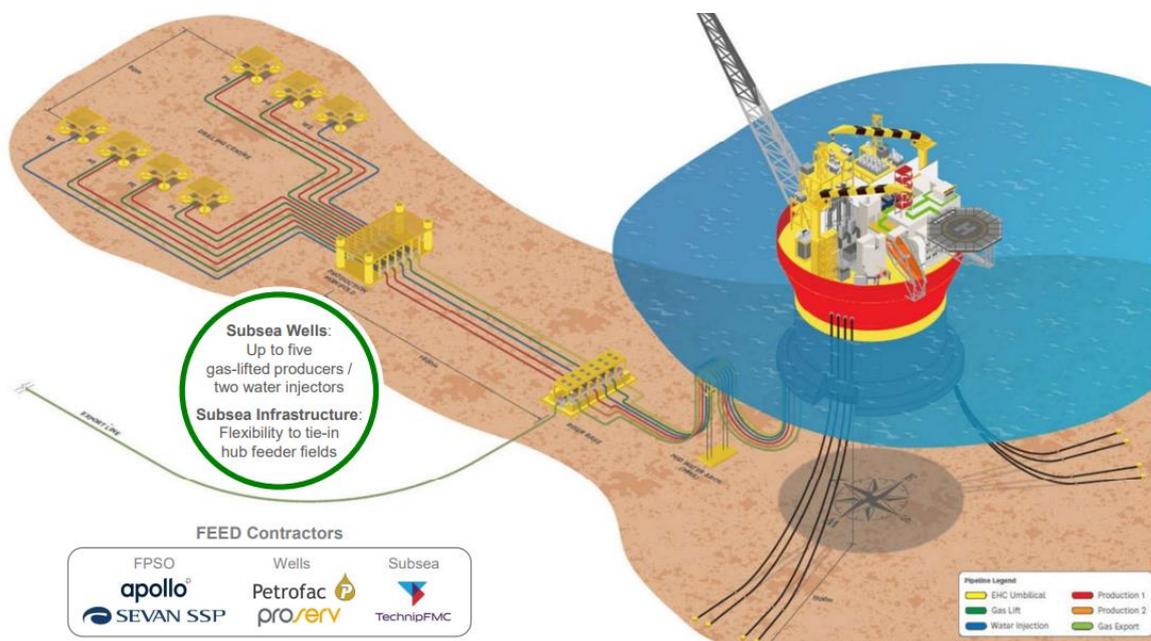
A phased development is envisaged involving the development of the Buchan Horst field in Phase 1 and the possible development of the J2 and Verbier discoveries in Phase 2.

The Buchan Horst field alone is estimated to hold ~ 70 mmboe 2C light oil contingent resources (~21 mmboe net to Serica), making it the third largest development on the UKCS. According to Jersey, Verbier contains 24 mmboe gross contingent resources (7.2 mmboe net to Serica) while J2 could hold 12 mmboe (3.6 mmboe net to Serica).

The project's gross capex is estimated at £850-950 mm (Serica share of costs is 37.5%) and deliver peak production of ~35 mboe/d (10.5 mboe/d net to Serica) with first oil as early as late 2026. The development would include up to five gas lift producers and two water injectors. There are other discoveries and prospects in close proximity which may provide additional tie-back opportunities to the FPSO. Jersey indicates potential >100 mmboe of gross prospective resources in the area. This includes the Wengen, Cortina NE and Verbier Deep prospects.

Because this is a new development with important upfront capex, the economics of the project are highly sensitive to fiscal terms. The sanctioning of this project (which could take place later this year) will depend on what fiscal terms are ultimately enacted by a new government, especially as they relate to capital relief.

Figure 24. Developing Buchan Horst



Source: Company

Other Assets

Serica's Other Assets include assets in decline with minimal investment that are not produced through Serica's key hubs. This group of assets also includes an interest in a high impact exploration well.

Erskine (Central North Sea)

Serica holds 18% WI non-operated interest in Erskine, a gas and condensate field located in the UK Central North Sea. Erskine is one of Serica's earliest assets in the UK North Sea.

Serica's co-venturers are Ithaca Energy 50% (operator) and Harbour Energy 32%.

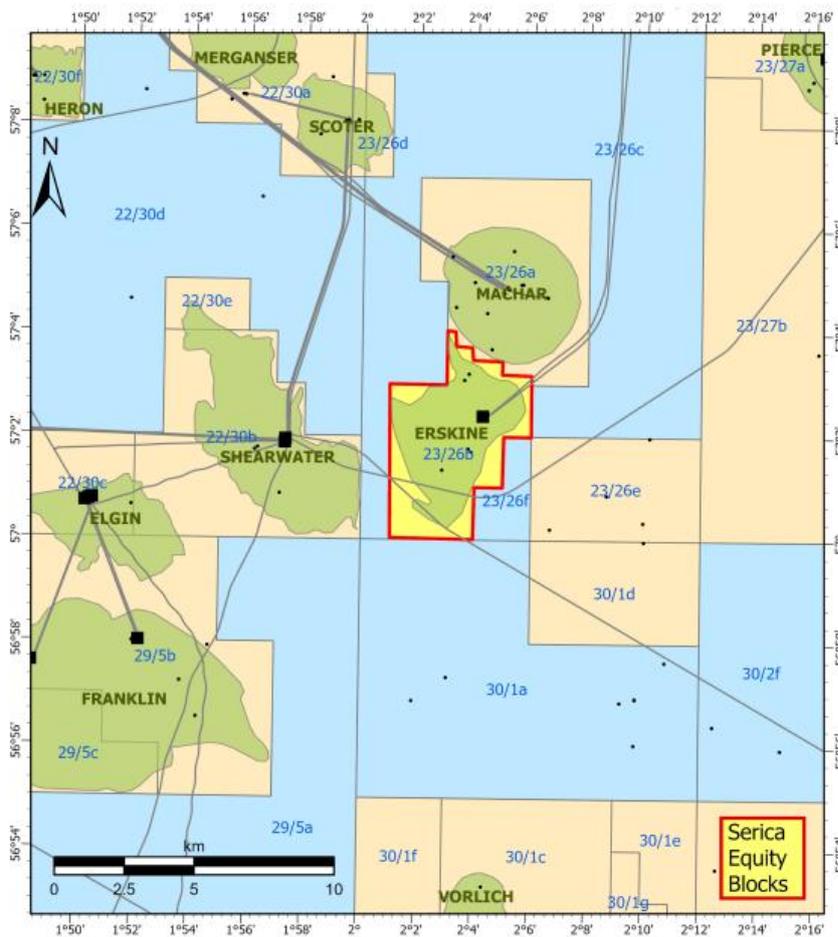
The Erskine field has five production wells and produces oil and gas over the Erskine normally unattended platform. Erskine production is transported via a multiphase pipeline and processed on the Lomond platform which is 100% owned and operated by Harbour.

Condensate is then exported down the Forties Pipeline System via the CATS riser platform at Everest and gas is exported via the CATS pipeline to the terminal at Teesside.

Erskine production levels in 2023 averaged 1,325 boe/d net.

The field was estimated to hold 2P reserves of 2.2 mmbob at YE23 net to Serica.

Figure 25. Erskine



Source: Company

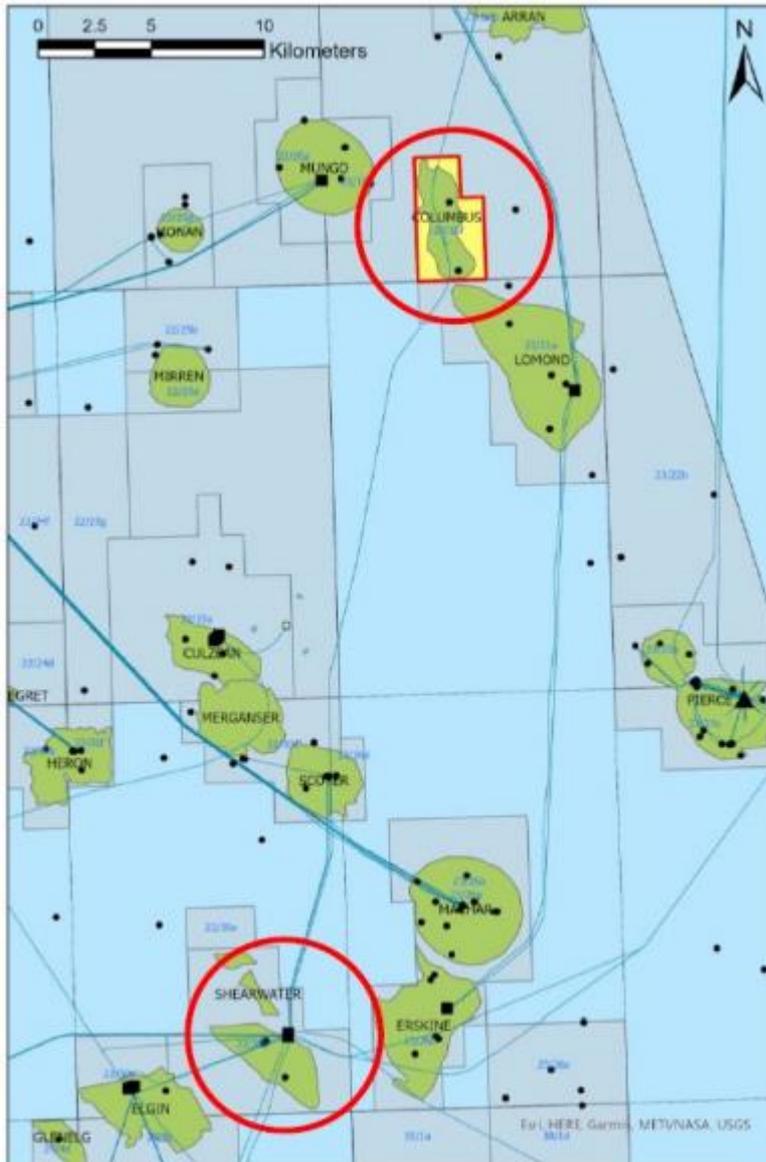
Columbus (Central North Sea)

Columbus is one of the early UK North Sea assets held by Serica. Serica holds 75% WI (as they acquired the 25% stake previously held by Tailwind as part of the Tailwind acquisition) and Serica is the operator with Waldorf Production holding the balance. Waldorf has announced a sale of its interest to Capricorn, but this transaction remains subject to NSTA consent. The Columbus field development consists of a single horizontal well which runs along the central axis of the reservoir and was drilled in the spring of 2021 with production commencing in November 2021. Columbus is a gas condensate field.

The well is connected to the Arran export pipeline through which Columbus products are exported along with Arran field production. When production reaches the Shearwater platform, it is separated into gas and condensate. The gas is exported to St Fergus via the SEGAL line and the condensate to Cruden Bay via the Forties Pipeline System.

Average net production of gas and condensate in 2023 from Columbus was ~2,180 boe/d. The field was estimated to hold 2P reserves of 2.4 mmboe net to Serica's 75% WI at YE23.

Figure 26. Columbus



Source: Company

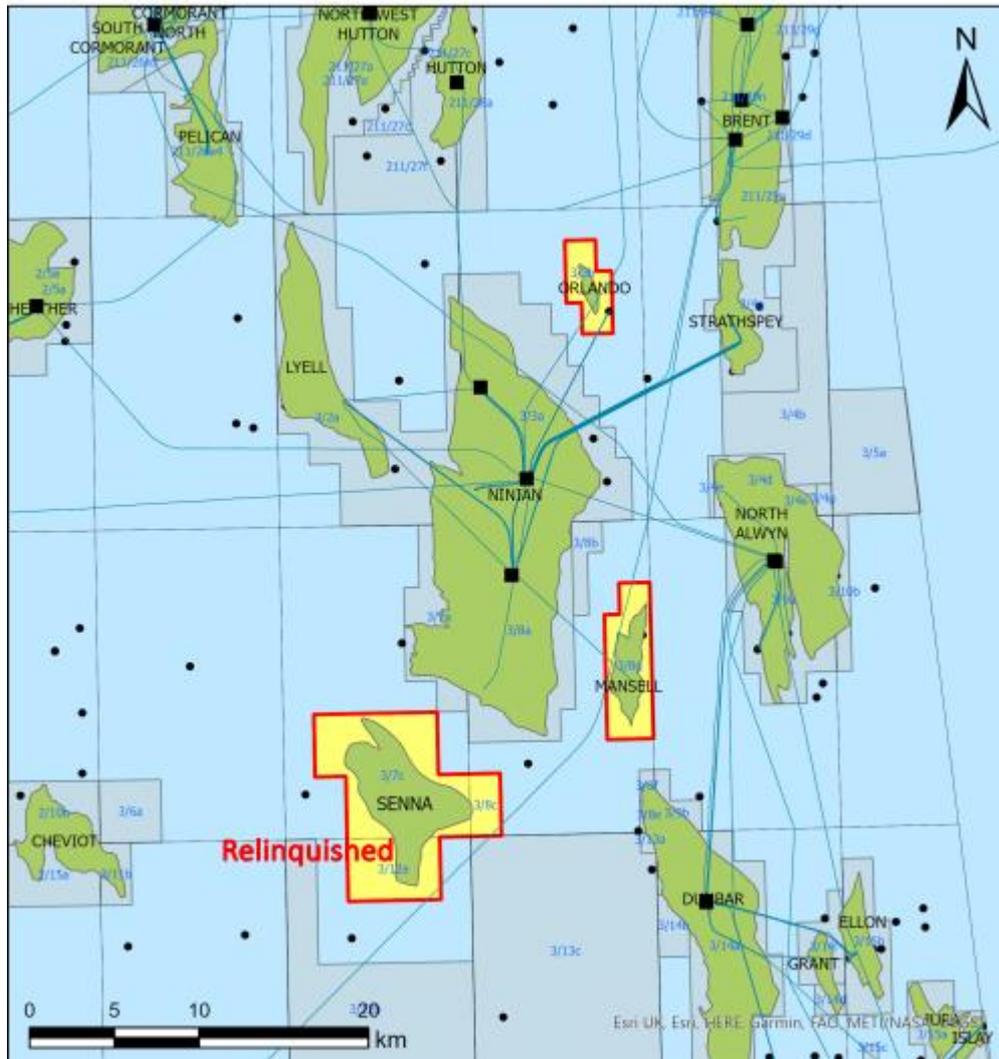
Orlando and Mansell (Northern North Sea)

Orlando is an asset that was part of the Tailwind acquisition. Serica is operator of Orlando (100% WI) which is an oil field producing from a single subsea well tied into the CNR operated Ninian Central facilities through an 11 km pipeline. Orlando production is separated into gas and oil, with oil exported to the Sullom Voe Terminal and gas used by the Ninian operator as fuel on the platform. Orlando was discovered in 1989.

The Orlando well is produced with a dual electric submersible pump system. The field has been producing at very stable rate of 3.5 mboe/d (2023), which is dependent on the reliability of the pumps. The field is most probably expected to cease production in 2026 or 2027 when the Ninian platform will be decommissioned.

The field was estimated to hold net 2P reserves of 2.4 mmboe at YE23.

Figure 27. Orlando



Source: Company

Serica holds 100% WI in Mansell. The Mansell discovery is located in licence P2448 in UKCS Block 3/8g south and east of the Ninian field. Mansell was discovered by well 3/8b-10, drilled by bp in 1985, and developed as a subsea tieback to the Ninian South Platform and produced between 1992 and 1995 (the field was named Staffa at the time).

The field was shut-in in 1995 following waxing-up of the flowline and decommissioned. The Mansell field has 2C contingent resources of 8.3 mmboe net to Serica. An extension of 2 years was awarded by the NSTA in February 2023 to allow sufficient time to evaluate

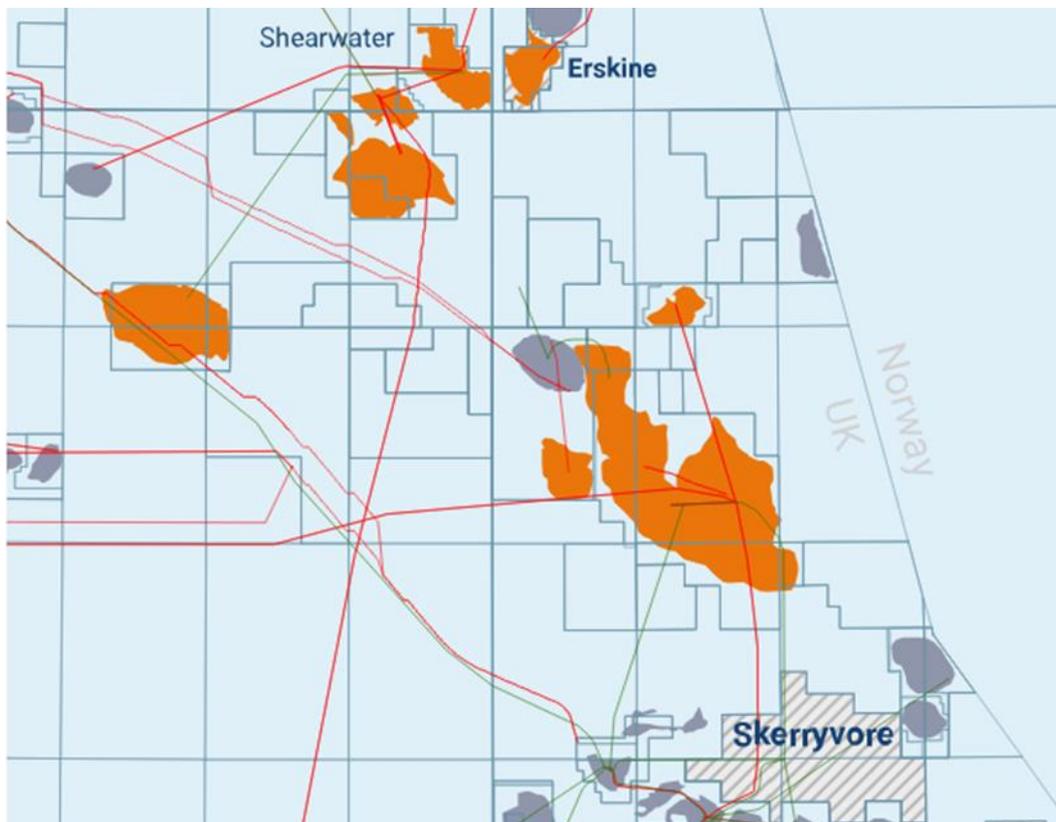
the feasibility and timing of a redevelopment. The field is unlikely to be redeveloped by then as the most likely export route through the Ninian platform is expected cease operations in 2026.

Skerryvore

The Skerryvore prospect lies in the Central North Sea, 60 km south of the Erskine field. The proposed work programme includes drilling an exploration well by the end of September 2025. The development of any potential discovery will depend on the exact nature of the fiscal regime following the UK general election.

Serica has a 20% working interest in the licence area (awarded in the 30th round) and the partners are Parkmead (50%, op) and CalEnergy (30%).

Figure 28. Skerryvore prospect



Source: Company

Prospectivity on the blocks is mapped at the Palaeocene Mey Sandstone and Cretaceous Chalk level, with additional prospectivity within the deeper Jurassic Fulmar play. The Palaeocene Mey and Chalk are proven productive reservoirs in the area at fields and discoveries such as Joanne, Judy, Orion and Flyndre.

The Skerryvore Mey prospect overlies two stacked chalk prospects (Skerryvore Ekofisk and Skerryvore Tor). Parkmead estimates these three stacked prospects have the potential to contain a recoverable 157 mmboe on a P50 basis.

Risk analysis

We have identified the following key areas of risk:

1. Geological risks. The 2024 programme is associated with 2P reserves. However, the targeted reservoirs often consist of thin layers of oil above large aquifers. Positioning the wells in the wrong place would have an impact on flow rates. These risks are partially mitigated by the drilling of a portfolio of wells in the 2024/2025 campaign
2. Fiscal risks. See above.
3. Execution risks. Serica operates in the UK North Sea where costs are high. In addition, the infrastructure is old and prone to unexpected shut down periods. Our forecasts and valuation assume a six week shut down for maintenance on all assets each year from 2025.

Appendix 1: Board of Directors

David Latin: Chairman and Interim Chief Executive Officer

Mr. Latin was appointed to the board of Serica in 2021. He has over 30 years working in the sector with extensive experience from multiple geographies. From 2011 until 2017 he was Senior Vice President for NW Europe, Africa and Australasia for OMV where he had accountability for all business activities across 15 countries. He was CEO and Chair of OMV Norway and Chair of OMV UK which underwent significant growth during the same period. After leaving OMV he led a start-up private equity fund and a VC backed technology start-up. Prior to 2011, he was with bp for almost 20 years in various global and regional roles and between 2001 and 2007 he was responsible for the Bruce-Keith-Rhum business now owned by Serica.

Chris Cox: Chief Executive Officer (from 1 July 2024)

Mr. Cox is becoming CEO of Serica on 1 July 2024. He has over forty years experience in oil and gas in a wide range of roles with Majors and Independents. For the last two decades he has been leading complex multi-asset and multi-country businesses including as CEO of Spirit Energy, Interim CEO at Capricorn Energy and Chairman of Kellas Midstream. He has experience as a non-executive director of both private equity and publicly listed companies, most recently with Nostrum Oil and Gas.

Martin Copeland: Chief Financial Officer

Mr. Copeland was appointed to the board of Serica in February 2024. He has over 30 years' experience in oil and gas financing and advisory roles across a number of investment banks with extensive North Sea transaction and financing experience. He was recently Principal at energy advisory firm Kirk Lovegrove & Co. where he acted as adviser to Tailwind Energy on their sale to Serica in 2023 as well as advising JX Nippon on the sale of their UKCS business to Neo Energy. Prior to that, he led RBC's EMEA energy team where he advised Premier Oil on their reverse takeover by Chrysaor to create Harbour Energy as well as Ithaca Energy on their acquisition by Delek.

Malcolm Webb: Senior Independent Non-executive Director (standing down at 2024 AGM)

Mr. Webb was appointed to the board of Serica in 2018. He joined Burmah Oil in 1974 as a legal adviser. He held senior legal and management roles at the British National Oil Corporation, Charterhouse Petroleum and PetroFina. From 2000 to 2004, he was the Director General of the UK Petroleum Industry Association and from 2004 until his retirement in 2015, he was Chief Executive of Oil & Gas UK (formerly UKOOA).

Kate Coppinger: Independent Non-executive Director

Mrs. Coppinger was appointed to the board of Serica in 2020. Her career includes roles at the Canadian Imperial Bank of Commerce, Harrison Lovegrove and most recently as Managing Director at Standard Chartered in the Oil and Gas team responsible for origination and execution of transactions for European clients. She is a Non-executive director of Star Energy.

Jérôme Schmitt: Independent Non-executive Director

Mr. Schmitt was appointed to the board of Serica in 2022. He has over 30 years' experience in the Energy and Mobility sector, with particular emphasis across Finance, Sustainability and Business streams. His career includes roles as Head of M&A and Chief Sustainability officer at TotalEnergies and Chairman of OGCI Executive Committee until 2021. He developed and financed gas value chain projects in Middle East & Asia and created and led the Net Zero Businesses division of TotalEnergies.

Michiel Soeting: Independent Non-executive Director

Mr. Soeting was appointed to the board of Serica in 2023. He has over 30 years' experience in the audit and financial service sector, 20 of which in oil and gas. He was a former Global Lead partner and Global Head of Energy & Natural Resources at KPMG. He is a Chartered Accountant qualified in both the Netherlands and the United Kingdom.

Robert Lawson: Non-executive Director

Mr. Lawson was appointed to the board of Serica in 2023. He has over 30 years' experience in oil, gas and power businesses including Mergers & Acquisitions, Commodity Trading and Corporate Transformation. He held various roles held at bp over 32 years including Global Head of M&A, Commercial Vice President for bp's Refining & Marketing Segment and was Global Head of Gas & Power Trading. He has been an Executive Vice President and a Group board member of Mercuria Energy since 2023 He has also been a Non-Executive Director of Seacrest Petroleo since September 2023. He is a Senior Independent Director for the British American Football Association.

Guillaume Vermersch: Non-executive Director

Mr. Vermersch was appointed to the board of Serica in 2023. He has over 30 years' experience in Commodity Banking, Finance and Risk Management. His career includes roles at ING Bank and Credit Agricole in Paris and Geneva and as head of the Credit and Finance Risk department of Semptra Oil Trading for Europe and Asia. He has been Group Chief Financial Officer and a Group board member of Mercuria Energy since 2004.

Kaat Van Hecke: Independent Non-executive Director

Mrs. Van Hecke was appointed to the board of Serica in 2023. She has over 25 years' experience in the petrochemicals and oil & gas business. She held positions with ExxonMobil, Shell, OMV and Nostrum in Belgium, The Netherlands, Nigeria, Russia, Austria and Kazakhstan. Her former roles include MD and Senior Vice President OMV Austria E&P (2013-2016) and interim CEO at Nostrum (2019-2020). She is an Independent non-executive director of Glover Gas & Power BV/ Axxela and at Trinity Exploration and Production.

Sian Lloyd Rees: Independent Non-executive Director

Mrs. Lloyd Rees was appointed to the board of Serica in 2023. She has over 30 years' experience in Oil & Gas, IT and the Renewable Energy industries. Her career includes roles at Halliburton Corporation, Oracle Corporation and Aker Group and most recently as UK

MD of Aker Horizons and Mainstream Renewable Power responsible for growing a renewable energy portfolio in offshore wind and hydrogen. She is a Non-executive director and co-chair of OEUK, non-executive director for the Net Zero Technology Centre and non-executive director of Port of Aberdeen.

Appendix 2: Capital structure and main shareholders

Issued shares

Serica has 393,468,408 ordinary shares in issue.

Options

The company has 0.8 mm options outstanding under its 2005 option plan, with a weighted average exercise price of £0.07 per share.

Long term incentive plan (LTIP)

The company has ~6 mm share awards outstanding under the LTIP. These awards are structured as nil-cost options, have a three-year vesting period and are subject to certain performance conditions.

Main shareholders

Figure 29. Main shareholders

Shareholders	%
Mercuria Holdings	24.73%
Mr D and Mrs D. Hardy	7.55%
Blackrock	5.33%
Hargreaves Lansdown, stockbrokers	4.07%
Janus Henderson Investors	3.30%

Source: Company

The Directors of the company hold a total of ~0.38 mm shares, which represent 0.1% of the issued voting rights.

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The research analyst who prepared this research report was Stephane Foucaud, a partner of Auctus.

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